

GONZALES ECONOMIC DEVELOPMENT CORPORATION

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED MARCH 31, 2011

FLOYD AND GINDLER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
421 ST. JAMES - P.O. BOX 638
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gonzales Economic Development Corporation
P.O. Box 547
Gonzales, TX 78629

We have audited the accompanying statement of financial position of the Gonzales Economic Development Corporation as March 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2011 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2011, on our consideration of Gonzales Economic Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Floyd & Gindler, PC

June 6, 2011

GONZALES ECONOMIC DEVELOPMENT CORPORATION
Statement of Financial Position
As of March 31, 2011
(With Comparative Totals as of March 31, 2010)

	<u>3/31/2011</u>	<u>Comparative Totals 3/31/2010</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 837,759	\$ 569,145
Note receivable	233,053	585,178
Investment in real estate	<u>246,000</u>	<u>-</u>
Total assets	<u><u>1,316,812</u></u>	<u><u>1,154,323</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	2,000	-
Due to City of Gonzales	<u>666</u>	<u>14,396</u>
Total liabilities	<u>2,666</u>	<u>14,396</u>
Net assets:		
Temporarily restricted	<u>1,314,146</u>	<u>1,139,927</u>
Total net assets	<u>1,314,146</u>	<u>1,139,927</u>
Total liabilities and net assets	<u><u>\$ 1,316,812</u></u>	<u><u>\$ 1,154,323</u></u>

The accompanying notes are an integral part of these statements.

GONZALES ECONOMIC DEVELOPMENT CORPORATION
Statement of Activities
For the Year Ended March 31, 2011
(With Comparative Totals as of March 31, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 3/31/2011</u>	<u>Comparative Totals 3/31/2010</u>
Revenues and support:				
Sales tax revenue	\$ -	\$ 481,799	\$ 481,799	\$ 443,096
Interest	-	10,060	10,060	9,079
Transfer from temporarily restricted	<u>317,640</u>	<u>(317,640)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>317,640</u>	<u>174,219</u>	<u>491,859</u>	<u>452,175</u>
Expenses:				
Community development projects	40,172	-	40,172	146,186
Business development	106,803	-	106,803	295,793
Marketing development	22,963	-	22,963	33,493
Management fees	33,000	-	33,000	24,750
Audit fee	2,000	-	2,000	1,800
Legal fees	6,734	-	6,734	2,317
Miscellaneous expense	6,070	-	6,070	2,974
Office and postage expense	3,963	-	3,963	476
Travel and training	6,581	-	6,581	2,872
Bad debt expense	58,072	-	58,072	-
Professional fees	19,506	-	19,506	-
Property taxes	<u>11,776</u>	<u>-</u>	<u>11,776</u>	<u>-</u>
Total expenses	<u>317,640</u>	<u>-</u>	<u>317,640</u>	<u>510,661</u>
Net revenues and support over (under) expenses	<u>\$ -</u>	<u>\$ 174,219</u>	<u>\$ 174,219</u>	<u>\$ (58,486)</u>
Net assets-beginning of year	-	1,139,927	1,139,927	1,198,413
Net assets-end of year	<u>\$ -</u>	<u>\$ 1,314,146</u>	<u>\$ 1,314,146</u>	<u>\$ 1,139,927</u>

The accompanying notes are an integral part of these statements.

GONZALES ECONOMIC DEVELOPMENT CORPORATION
Statement of Cash Flows
For the Year Ended March 31, 2011
(With Comparative Totals as of March 31, 2010)

	<u>3/31/2011</u>	Comparative Totals <u>3/31/2010</u>
Cash provided (used) by operating activities:		
Changes in net assets	\$ 174,219	\$ (58,486)
Adjustment to reconcile to net cash provided (used) by operating activities:		
Bad debt expense	58,072	-
(Increase) decrease in current assets and increase (decrease) in current liabilities		
Accounts payable	2,000	(5,500)
Due to City of Gonzales	<u>(13,730)</u>	<u>(3,294)</u>
Total cash provided (used) by operating activities	<u>220,561</u>	<u>(67,280)</u>
Cash provided (used) by financing activities:		
Loans granted	-	(114,784)
Loan principle forgiven	24,118	-
Principle received on loans	<u>23,935</u>	<u>18,894</u>
Total cash provided (used) by financing activities	<u>48,053</u>	<u>(95,890)</u>
Net increase in cash	<u>268,614</u>	<u>(163,170)</u>
Cash and cash equivalents-beginning of year	<u>569,145</u>	<u>732,315</u>
Cash and cash equivalents-end of year	<u>\$ 837,759</u>	<u>\$ 569,145</u>
Investing activities not effecting sources or uses of cash		
Real estate received in loan foreclosure	\$ 246,000	\$ -

The accompanying notes are an integral part of these statements.

GONZALES ECONOMIC DEVELOPMENT CORPORATION
Notes to Financial Statements
March 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 4B, 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 and is discretely reported in the City's financial statement.

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. 4B of the Development Corporation Act of 1979, as amended. In carrying out this purpose the Corporation collects a ½ cent sales tax on all taxable sales within the City limits of Gonzales. The tax is collected at the State level and remitted to the Corporation via the City monthly.

Significant Accounting Policies

Basis of accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation: The Corporation prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All revenues are restricted to those purposes allowed by Sect. 4B of the Development Corporation Act of 1979, as amended.

Investments: The Corporation reports its investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Cash equivalents: For purposes of the statement of cash flows, the Corporation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Notes receivable: Notes receivable are recorded at their historical cost. 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.

A provision for uncollectible loans has been established to recognize potential losses on loans due to questions of their ultimate collectability. Due to the small number of active loans, the Corporation uses the specific identification method to write off loan amounts

Income taxes: The Corporation is organized as a nonprofit, tax-exempt organization operating under the Internal Revenue Code Section 115.

Restricted Net Assets: Net assets are restricted by state regulations for the state purpose 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. 4B of the Development Corporation Act of 1979, as amended. Spending on qualified projects and operation expenditures release funds from restriction.

Comparative Totals: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended March 31, 2009, from which the summarized information was derived.

Estimates: The preparation of financial in conformity with GAAP requires the use of management's estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2010 are as follows:

	<u>Cost</u>	<u>Carrying Value</u>
American National Bank-Operating account	\$ 128,542	\$ 128,542
American National Bank-Certificates of deposit	138,305	138,305
Lone Star Bank-Certificate of deposit	128,510	128,510
Texpool	442,402	442,402
Total cash and cash equivalents	<u>\$ 837,759</u>	<u>\$ 837,759</u>

NOTE 3: NOTES RECEIVABLE

Activity in notes receivable during the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principle Payments</u>	<u>Principle Forgiven/ Written off</u>	<u>Ending Balance</u>
Sleep Inn-Low Interest	\$ 181,106	\$ -	\$ 19,132	\$ -	\$ 161,974
Sleep Inn-Forgivable	50,000	-	-	10,000	40,000
Cal Collins-Low interest	253,287	-	-	253,287	-
Cal Collins-Forgivable	50,785	-	-	50,785	-
Landmark-Low interest	25,000	-	4,803	-	20,197
Landmark-Forgivable	25,000	-	-	14,118	10,882
Total notes receivable	<u>\$ 585,178</u>	<u>\$ -</u>	<u>\$ 23,935</u>	<u>\$ 328,190</u>	<u>\$ 233,053</u>

The notes from Cal Collins were foreclosed and GEDC took possession of the Lynn Theater. The Theater was placed on the GEDC books as the market value of \$246,000. All costs related to the foreclosure plus any loan amount in excess of the market value of the theater was charged off as bad debt.

NOTE 4: COMMITMENTS

As a part of it normal operations, the Corporation has commitments to fund various projects in accordance with legal restrictions contained in Article 5190.6 Vernon's Ann. Civ. St., Section 4B. At year end, the total amount of committed and unfunded projects is \$600,000..

NOTE 6: CONCENTRATION OF CREDIT RISK

The Corporation maintains accounts (demand and certificates of deposit) at their depository institution in excess of the amount of FDIC coverage. To reduce the risk of loss, the Corporation has their depository institution pledge securities to cover the uninsured deposits. These securities are held in safekeeping at a third party institution. During the year, the Corporations deposits were adequately secured.

NOTE 7: RELATED PARTY TRANSACTIONS

As a normal part of their operations, the Corporation conducts significant amount of business with the City of Gonzales. These transactions fall into two categories:

1. Administrative services for which the Corporation pays the City monthly, and
2. Reimbursements to the City for economic development projects undertaken by the City on behalf of the Corporation.

During the year, the Corporation paid the City \$98,767 for the above items

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Gonzales Economic Development Corporation
PO Box 547
Gonzales, TX 78629

We have audited the financial statements of the Gonzales Economic Development Corporation (a nonprofit organization) as of and for the year ended March 31, 2011, and have issued our report thereon dated June 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Gonzales Economic Development Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Gonzales Economic Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gonzales Economic Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Floyd & Gindler PC.
Floyd and Gindler, PC

June 6, 2011

GONZALES ECONOMIC DEVELOPMENT CORPORATION
Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2011

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting

Material weakness(es) identified?

 Yes

 X No

Reportable condition(s) identified that are not considered to be material weaknesses?

 Yes

 X None reported

Noncompliance material to financial statements noted?

 Yes

 X No

B. Financial Statements Findings

None

GONZALES ECONOMIC DEVELOPMENT CORPORATION
Statement of Corrective Action Taken-Current Year
For the Year Ended March 31, 2011

NONE