

LOCKHART ECONOMIC DEVELOPMENT CORPORATION

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lockhart Economic Development Corporation
308 West San Antonio Street
Lockhart, Texas 78644

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of the Lockhart Economic Development Corporation, as of September 30, 2015 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 15 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.

Management has omitted the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information

ABIP, PC

Certified Public Accountants
San Antonio, Texas

March 1, 2016

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

ASSETS	
Cash and Cash Equivalents	\$ 1,003,019
Sales Tax Receivable	125,031
Other Receivables	35,599
Inventory, at Cost	<u>674,522</u>
Current Assets	1,838,171
Land	264,857
Building and Improvements, net	<u>1,934,462</u>
Noncurrent Assets	<u>2,199,319</u>
Total Assets	<u>\$ 4,037,490</u>
LIABILITIES	
Accounts Payable	\$ 10,000
Due Within One Year	55,979
Due in More Than One Year	<u>1,114,579</u>
Total Liabilities	<u>1,180,558</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	1,028,761
Restricted for Economic Development	<u>1,828,171</u>
Total Net Position	<u>\$ 2,856,932</u>

The accompanying notes are an integral part of these financial statements.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015

Expenditures/Expenses	<u>\$ 536,520</u>
Revenues:	
General Revenues:	
Sales Tax	739,528
Lease Income	145,280
Interest	1,906
Miscellaneous	<u>152,050</u>
Total Revenues	<u>1,038,764</u>
Change in Net Position	502,244
Net Position:	
Beginning of the Year	<u>2,354,688</u>
End of the Year	<u>\$ 2,856,932</u>

The accompanying notes are an integral part of these financial statements.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
BALANCE SHEET
SEPTEMBER 30, 2015

	<u>General Fund</u>
Assets	
Cash and Cash Equivalents	\$ 1,003,019
Sales Tax Receivable	125,031
Other Receivables	35,599
Inventory, at Cost	<u>674,522</u>
Total Assets	<u>\$ 1,838,171</u>
Liabilities	
Accounts Payable	\$ 10,000
Fund Balance	
Nonspendable	674,522
Restricted for Economic Development	<u>1,153,649</u>
Total Fund Balance	<u>1,828,171</u>
Total Liabilities and Fund Balance	<u>\$ 1,838,171</u>

The accompanying notes are an integral part of these financial statements.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2015

Total Fund Balance -Total Governmental Funds (page 5)	\$ 1,828,171
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,199,319
Long-term liabilities consisting of bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,170,558)</u>
Total Net Position of Governmental Activities (page 3)	<u>\$ 2,856,932</u>

The accompanying notes are an integral part of these financial statements.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
 STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2015

	General Fund
Revenues:	
General Revenues:	
Sales Tax	\$ 739,528
Lease Income	145,280
Interest	1,906
Miscellaneous income	152,050
Total Revenues	1,038,764
Expenditures:	
Current	
Economic Development	459,100
Debt Service	90,948
Total Expenditures	550,048
Change in Fund Balance	488,716
Fund Balance - Net Assets:	
Beginning of the Year	1,339,455
End of the Year	\$ 1,828,171

The accompanying notes are an integral part of these financial statements.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2015

Net Change in Fund Balances-Governmental Funds (page 7)	\$ 488,716
Amounts reported in governmental activities and in the Statement of Activities are different because:	
Acquisition of capital assets is recorded as an expenditure in the funds, but are reported as an asset in the Statement of Net Position	-
Capital assets are not recorded in government funds and therefore are not depreciated. However, in the Statement of Activities these assets are depreciated over their estimated useful lives. This is the amount of 2014 depreciation.	(40,701)
Loan proceeds are reported as an other resource in the funds, but as a liability in the Statement of Net Position	-
The repayment of principal on debt consumes current financial resources and is expended in the governmental funds, but is a reduction of the liability and does not affect the Statement of Activities.	<u>54,229</u>
Change in Net Position of Governmental Activities (page 4)	<u>\$ 502,244</u>

The accompanying notes are an integral part of these financial statements.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. FINANCIAL REPORTING ENTITY

On June 26, 1996, the Lockhart Economic Development Corporation (LEDC), a nonprofit corporation, was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6, Section 4B. The purpose of the LEDC is to develop, implement, provide, and finance projects for the City of Lockhart. The City Council appoints directors of the LEDC. LEDC receives all proceeds from the 0.50% sales tax adopted in 1996 for economic development in Lockhart. LEDC meets the criteria of a discretely presented component unit of the City and is presented as a governmental fund type in the City's general purpose financial statements.

Under the Act, the Board of Directors consists of seven members appointed by and who service at the pleasure of the City Council of the City of Lockhart, Texas ("City") for two year terms.

LEDC may enter into any project authorized by the Act including, but not limited to such projects as promotion and development of new and expended business enterprises, job training centers, infrastructure improvements, public safety, municipal buildings, civic centers, recreation facilities, and other related facilities.

The financial statements of the LEDC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. These financial statements present the financial position and results of operations of LEDC only and are not intended to present fairly the financial position, results of operations, or cash flows of the proprietary fund types and nonexpendable trust funds of the City as a whole in conformity with generally accepted accounting principles.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net assets and statement of activities. Government-wide statements report information on all of the activities of LEDC. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash revenue types, which have been accrued, revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Governmental fund level financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends.

Sales taxes associated with the current fiscal year are considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items received by the government are considered to be measurable and available only when the cash is received by LEDC.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, if any, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental fund:

The General Fund is the general operating fund of LEDC and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources are sales taxes. Expenditures are for economic development.

3. BASIS OF ACCOUNTING

Government fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when 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. Expenditures are recorded when the related fund liability is incurred.

4. BUDGET

LEDC adopts an annual operating budget which is approved by City Council. The budget can be amended by the Board of Directors, subject to City Council approval.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date of three months or less.

6. FUND BALANCE

LEDC adopted GASB 54. Governmental Accounting Standards Board Statement Number 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement provides guidance for fund balance categories and classifications and governmental fund type definitions. GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes. Five categories of cash balances were created and defined by GASB 54. These five categories are as follows:

- Non-spendable – These funds are not available for expenditures based on legal or contractual requirements. An example might be inventories and prepaid expenditures.
- Restricted – These funds are governed by externally enforceable restrictions.
- Committed – Fund balances in this category are limited by the government’s highest level of decision making (in this case the LEDC Board of Directors). Any changes of this designation must be done in the same manner that it was implemented. For example, if funds are committed by resolution, the commitment could only be released with another resolution.
- Assigned – For funds to be assigned, there must be an intended use which can be established by the LEDC Board of Directors or an official delegated by the Board.
- Unassigned – This classification is the default for all funds that do not fit into the other categories.

Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. LEDC’s policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year.

7. USE OF 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 expenses during this reporting period. Actual results could differ from those estimates.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

NOTE B - CASH AND CASH EQUIVALENTS

LEDC's funds are required to be deposited and invested under the terms of the depository contract. The depository bank deposits for safekeeping and trust with LEDC's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. ANALYSIS OF SPECIFIC DEPOSIT AND INVESTMENT RISKS

GASB Statement No. 40 requires a determination as to whether LEDC was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. City investment policy follows state guidelines. LEDC policy allows investments in certificates of deposit with banks in Texas, investments in U.S. Treasuries and Agencies, and investment pools that invest in obligations of the United States or its agencies and instrumentalities to name a few.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in LEDC's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in LEDC's name.

At year-end and per City policy all funds were in LEDC's name and collateralized with securities that maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service. LEDC was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. All City funds are in the external investment pool as allowed by LEDC's investment policy, and the investment pool invests in hundreds of authorized securities that minimize concentrations of credit risk. At year-end, LEDC was not exposed to concentration of credit risk.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

NOTE B - CASH AND CASH EQUIVALENTS (CONTINUED)

1. ANALYSIS OF SPECIFIC DEPOSIT AND INVESTMENT RISKS (CONTINUED)

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair market value of an investment. At year-end, LEDC was not exposed to interest rate risk due to investment in an external investment pool as authorized by LEDC's investment policy.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. LEDC's policy does not allow investment in foreign currency. At year end LEDC was not exposed to foreign currency risk.

NOTE C - CAPITAL ASSETS

Governmental capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 264,857	\$ -	\$ -	\$ 264,857
Capital assets being depreciated:				
Buildings and improvements	2,035,053	-	-	2,035,053
Less accumulated depreciation for:				
Buildings and improvements	(59,890)	(40,701)	-	(100,591)
Total capital assets being depreciated, net	<u>1,975,163</u>	<u>(40,701)</u>	<u>-</u>	<u>1,934,462</u>
Governmental activities capital assets, net	<u>\$ 2,240,020</u>	<u>\$ (40,701)</u>	<u>\$ -</u>	<u>\$ 2,199,319</u>

NOTE D - LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2015 were comprised of the following issues:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Amount Due Within One Year
Note Payable, First Lockhart National Bank	\$ 249,762	\$ -	\$ (15,482)	\$ 234,280	\$ 16,153
Note payable, Sage Capital	<u>975,025</u>	<u>-</u>	<u>(38,747)</u>	<u>936,278</u>	<u>39,826</u>
	<u>\$ 1,224,787</u>	<u>\$ -</u>	<u>\$ (54,229)</u>	<u>\$ 1,170,558</u>	<u>\$ 55,979</u>

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

NOTE D - LONG-TERM DEBT (CONTINUED)

Future note payments are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 55,979	\$ 34,969	\$ 90,948
2017	57,788	33,160	90,948
2018	59,659	31,289	90,948
2019	61,593	29,355	90,948
2020-2024	339,352	115,388	454,740
2025-2029	330,404	59,381	389,785
2030-2034	265,783	17,636	283,419
	<u>\$ 1,170,558</u>	<u>\$ 321,178</u>	<u>\$ 1,491,736</u>

NOTE E - RISK MANAGEMENT

LEDC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. LEDC contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by LEDC is generally limited to the contribution amounts. During the past three years, no settlements have exceeded insurance coverage.

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2015

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Budget Positive (Negative)</u>
Revenues:			
General Revenues:			
Sales Tax	\$ 646,465	\$ 739,528	\$ 93,063
Lease income	149,580	145,280	(4,300)
Interest	2,500	1,906	(594)
Miscellaneous income	<u>-</u>	<u>152,050</u>	<u>152,050</u>
Total Revenues	<u>798,545</u>	<u>1,038,764</u>	<u>240,219</u>
 Expenditures:			
Current			
Economic Development	1,310,642	459,100	851,542
Debt Service	<u>90,948</u>	<u>90,948</u>	<u>-</u>
	1,401,590	550,048	851,542
 Change in Net Assets	(603,045)	488,716	1,091,761
 Fund Balance:			
Beginning of the Year	<u>1,339,455</u>	<u>1,339,455</u>	<u>-</u>
End of the Year	<u>\$ 736,410</u>	<u>\$ 1,828,171</u>	<u>\$ 1,091,761</u>

LOCKHART ECONOMIC DEVELOPMENT CORPORATION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

- A. The Board adopts an “appropriated budget” on a Generally Accepted Accounting Principles (GAAP) basis. At a minimum, LEDC is required to present the original and final amended budgets for revenues and expenditures as compared to actual.