



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Financial Statements

ORANGE ECONOMIC DEVELOPMENT CORPORATION

ORANGE, TEXAS

SEPTEMBER 30, 2011

**ORANGE ECONOMIC
DEVELOPMENT CORPORATION**

FINANCIAL REPORT

SEPTEMBER 30, 2011

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FINANCIAL REPORT**

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A PROFESSIONAL CORPORATION

February 8, 2012

Independent Auditors' Report

Board of Directors
Orange Economic Development Corporation
Orange, Texas

We have audited the accompanying financial statements of the governmental activities and the major fund of Orange Economic Development Corporation (the "Corporation"), a component unit of the City of Orange, Texas, as of and for the year ended September 30, 2011, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Orange Economic Development Corporation as of September 30, 2011, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
Orange Economic Development Corporation
Orange, Texas

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 24 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.

Very truly yours,

Edgar, Kiker & Cross

EDGAR, KIKER & CROSS, PC
Certified Public Accountants and Consultants

BDB/mg

Management's Discussion and Analysis

As management of Orange 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 year ended September 30, 2011.

FINANCIAL HIGHLIGHTS

- As of September 30, 2011, the Corporation had net assets (government-wide) of \$2,019,862 and a governmental fund balance (fund level) of \$2,378,550.
- The Corporation's cash and temporary investments balance at September 30, 2011 was \$2,301,752, representing a decrease of \$505,595 from September 30, 2010.
- The Corporation had total revenues for government-wide purposes and fund level purposes of \$1,161,605, for the year ended September 30, 2011.
- The Corporation had total expenses for government-wide purposes of \$325,539, and fund level purposes of \$1,554,517, for the year ended September 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL 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 assets* presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *statement of activities* presents information showing how the Corporation's net assets changed during the most recent fiscal year. All changes in net assets 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation).

The government-wide financial statements present functions of the Corporation that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 10 and 11 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation has only one type of fund, which is the governmental fund.

Governmental funds - are used to account for essentially the same function 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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the 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 financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 10 and 11 of this report.

NOTES TO THE 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 to the financial statements can be found on pages 12 through 22 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Corporation's General Fund budget. Required supplementary information can be found on page 24 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Corporation, assets exceeded liabilities by \$2,019,862 as of September 30, 2011. Of the Corporation's net assets, \$45,754 represents restricted financial resources for debt service payments.

SUMMARY OF STATEMENT OF NET ASSETS As of September 30, 2011 and 2010

	Governmental Activities		Total	
	2010/2011	2009/2010	2010/2011	2009/2010
Current and other assets	\$ 4,230,790	\$ 3,653,215	\$ 4,230,790	\$ 3,653,215
Total Assets	<u>4,230,790</u>	<u>3,653,215</u>	<u>4,230,790</u>	<u>3,653,215</u>
Other liabilities	25,928	144,419	25,928	144,419
Long-term debt	2,185,000	2,325,000	2,185,000	2,325,000
Total Liabilities	<u>2,210,928</u>	<u>2,469,419</u>	<u>2,210,928</u>	<u>2,469,419</u>
Net assets:				
Unrestricted	224,000	446,688	224,000	446,688
Restricted	45,754	83,780	45,754	83,780
Invested in capital assets	1,750,108	653,328	1,750,108	653,328
Total Net Assets	<u>\$ 2,019,862</u>	<u>\$ 1,183,796</u>	<u>\$ 2,019,862</u>	<u>\$ 1,183,796</u>

Net assets of the Corporation, all of which relate to governmental activities, increased by \$836,066. Key elements of the increase are as follows:

CHANGES IN NET ASSETS
For the Years Ending September 30, 2011 and 2010

	Governmental Activities		Total	
	2010/2011	2009/2010	2010/2011	2009/2010
Revenues				
General revenues:				
Sales taxes	\$ 1,154,044	\$ 1,234,779	\$ 1,154,044	\$ 1,234,779
Capital grant/contribution	-	128,250	-	128,250
Investment income	7,561	7,573	7,561	7,573
Miscellaneous	-	200	-	200
Total Revenues	<u>1,161,605</u>	<u>1,370,802</u>	<u>1,161,605</u>	<u>1,370,802</u>
Expenses				
General government	222,828	542,425	222,828	542,425
Amortization	8,569	8,569	8,569	8,569
Interest on long-term debt	94,142	99,575	94,142	99,575
Total Expenses	<u>325,539</u>	<u>650,569</u>	<u>325,539</u>	<u>650,569</u>
Change in Net Assets	836,066	720,233	836,066	720,233
Net Assets (Deficit), Beginning of Year	<u>1,183,796</u>	<u>463,563</u>	<u>1,183,796</u>	<u>1,183,796</u>
Nets Assets, End of Year	<u>\$ 2,019,862</u>	<u>\$ 1,183,796</u>	<u>\$ 2,019,862</u>	<u>\$ 1,904,029</u>

- Sales tax revenue decreased by 6.54%. This was the result of an overall increase in the prior two fiscal years in reported sales within the City of Orange, Texas due to Hurricane Ike in September of 2008.
- Capital grant/contribution decreased from prior year for a loan forgiven (\$128,250) and considered a grant/contribution for the prior fiscal year per donor instructions.
- General government expenses decreased by \$319,597 due to the portion of bond and construction project costs incurred during the past two fiscal years, which were completed in the prior fiscal year.

Governmental Revenues



FINANCIAL ANALYSIS OF THE CORPORATION'S FUND

As previously noted, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation's governmental fund is discussed below:

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

As of September 30, 2011, the Corporation's governmental fund, which consists of the general fund, reported an ending fund balance of \$2,378,550, which is a decrease of \$392,912 from last year's total of \$2,771,462. A major component of the decrease is for various asset additions (see note 4).

CAPITAL ASSETS

The Corporation's investment in capital assets for governmental activities as of September 30, 2011, amount to \$1,750,108. This investment in capital assets includes land purchased solely for the purpose of economic development and construction in progress related to the Downtown Master Plan. All asset acquisitions purchased solely for the purpose of economic development are recorded in the Corporation's governmental activities.

	CAPITAL ASSETS			
	Fiscal Year 2010/2011		Fiscal Year 2009/2010	
	Governmental Activities	Total	Governmental Activities	Total
Construction in Progress	\$ 999,509	\$ 999,509	\$ 239,402	\$ 239,402
Land	750,599	750,599	413,926	413,926
Total Capital Assets	1,750,108	1,750,108	653,328	653,328
Less accumulated				
Depreciation	-	-	-	-
Capital Assets, Net of Depreciation	\$ 1,750,108	\$ 1,750,108	\$ 653,328	\$ 653,328

Capital asset acquisitions not purchased solely for the purpose of economic development will be transferred / assigned to the City of Orange once acquisition occurs. Any bond indebtedness to finance such projects will remain the responsibility of the Corporation. As a result, financial statements subsequent to this activity could reflect a deficit of net assets throughout the life of any bonded indebtedness.

Additional information on the Corporation's capital assets can be found in Note 4 in the notes to the financial statements.

DEBT ADMINISTRATION

As of September 30, 2011, the Corporation had outstanding long-term debt consisting of revenue bonds payable, \$2,185,000.

Long-Term Debt Schedule

	Governmental Activities	
	2010/2011	2008/2009
Revenue bonds payable	\$ 2,185,000	\$ 2,325,000
Total Long-term Debt Payable	<u>\$ 2,185,000</u>	<u>\$ 2,325,000</u>

In fiscal year 2008 the Corporation issued \$2,590,000 in sales tax revenue bonds, series 2007, dated December 1, 2007. The bonds were issued for the purpose of constructing infrastructure necessary to promote or develop new or expanded business enterprises, including particularly the construction of wastewater force mains and lift stations and related appurtenances along the Interstate 10 corridor of the City.

Additional information on the Corporation's long-term debt can be found in Note 6 in the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgeted revenue exceeded actual revenues by \$21,905 primarily due to sales tax revenue budgeted but not collected during the current fiscal year. This was the result of an overall increase in the prior two fiscal years in reported sales within the City of Orange, Texas due to Hurricane Ike in September of 2008.

The Corporation amended the budget during the year to reflect projects that were approved. The original expense budget was increased by \$1,302,657 for additional capital outlay. Actual expenses were under budgeted by \$274,346 primarily due to the fact that some projects were not as far along as originally anticipated.

ECONOMIC FACTORS AND NEXT YEAR BUDGET

The Corporation saw a trend of sales tax revenue returning to a pre-hurricane level during the last two fiscal years. For the fiscal year 2011, sales tax revenue was reduced by 6.54%. It had been anticipated that sales tax revenue collections would return to pre-hurricane levels and the reduction was anticipated. For fiscal year 2012 the Corporation did not anticipate any significant changes to sales tax revenue.

The Corporation did not budget any new capital projects for fiscal year 2012. Fiscal year 2012 will be devoted to bonding and construction of the Downtown Master Plan projects. These projects have been in the planning stages during the last two fiscal years.

In January 2012 the Corporation approved moving ahead with a bond sale on the project. Construction is anticipated to begin in Spring of 2012.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Orange Economic Development Corporation's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Orange Economic Development Corporation: Gail English, Director of Finance, P.O. Box 520, City of Orange, Texas 77631.

BASIC FINANCIAL STATEMENTS

ORANGE ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2011

Assets	General Fund	Adjustments/ Reclasses	Statement of Net Assets
Cash and temporary investments	\$ 2,255,998	-	\$ 2,255,998
Sales tax receivable	82,324	-	82,324
Deferred charges - issuance costs, net	-	96,606	96,606
Restricted assets, temporary:			
Cash and temporary investments	45,754	-	45,754
Capital assets:			
Land	-	750,599	750,599
Construction in Progress	-	999,509	999,509
Total Assets	<u>2,384,076</u>	<u>1,846,714</u>	<u>4,230,790</u>
Liabilities			
Liabilities:			
Accounts payable	3,600	-	3,600
Compensated absences	-	5,573	5,573
Accrued payroll	1,926	-	1,926
Accrued interest payable	-	14,829	14,829
Long-term debt:			
Bonds payable:			
Due within one year	-	145,000	145,000
Due after one year	-	2,040,000	2,040,000
Total Liabilities	<u>5,526</u>	<u>2,205,402</u>	<u>2,210,928</u>
Fund Balance / Net Assets			
Fund Balance (Note 1):			
Restricted for debt service payments	45,754	(45,754)	-
Assigned for various projects	326,841	(326,841)	-
Unassigned	2,005,955	(2,005,955)	-
Total Fund Balance	<u>2,378,550</u>	<u>(2,378,550)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,384,076</u>		
Net Assets:			
Invested in capital assets		1,750,108	1,750,108
Restricted for:			
Debt service payments		45,754	45,754
Unrestricted		224,000	224,000
Total Net Assets		<u>\$ 2,019,862</u>	<u>\$ 2,019,862</u>

The accompanying notes are an integral part of these statements.

ORANGE ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Adjustments/ Reclasses	Statement of Activities
Revenues			
Sales taxes	\$ 1,154,044	-	\$ 1,154,044
Investment earnings	7,561	-	7,561
Total Revenues	<u>1,161,605</u>	<u>-</u>	<u>1,161,605</u>
Expenditures / Expenses			
Current:			
General government	222,662	166	222,828
Capital outlay	1,096,780	(1,096,780)	-
Debt service:			
Principal	140,000	(140,000)	-
Interest	95,075	(933)	94,142
Amortization	-	8,569	8,569
Total Expenditures / Expenses	<u>1,554,517</u>	<u>(1,228,978)</u>	<u>325,539</u>
Change in Fund Balance / Net Assets	(392,912)	1,228,978	836,066
Fund Balance / Net Assets			
Beginning of year	2,771,462	(1,587,666)	1,183,796
End of year	<u>\$ 2,378,550</u>	<u>\$ (358,688)</u>	<u>\$ 2,019,862</u>

The accompanying notes are an integral part of these statements.

**ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Orange Economic Development Corporation (the “Corporation”) have been prepared in accordance with generally accepted accounting principles. The following is a summary of the most significant policies:

The Corporation is a not-for-profit industrial development corporation within the City of Orange, Texas (the “City”), organized pursuant to the provisions of Article 5190.6 of the Texas Revised Civil Statute (the Development Corporation Act of 1979) and governed by Section 4B of the Act. The Corporation was created to promote and expand commerce in the City and to finance development projects of public purpose, which are approved by City Council. State law allows the City to collect sales tax to assist in the promoting and developing activities within the City. The Corporation has been included as a discretely presented component unit in the City’s financial statements. The City Council approves all actions of the Corporation and appoints the seven members of the Board of Directors. Directors are appointed for two year terms, and three of the Directors cannot be employees, officer or members of the City Council.

A. Reporting Entity

The Corporation’s financial statements include all the accounts and activities of the Corporation. Based on considerations prescribed by generally accepted accounting principles, the Corporation is considered a component unit of the City. The City issues its own annual financial report for all the City’s activities including the Corporation.

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 if 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 state and local governments. Although not considered significant in the Corporation’s reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other 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. Based on these considerations, no other entities, organizations or functions have been included in the Corporation’s financial reporting entity.

B. Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way governments prepare and present financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial information.

ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

B. Financial Statement Presentation (continued)

These financial statements include reporting under GASB Statement No. 34, which established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Some of the significant changes of GASB Statement No. 34 include the following:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt), as applicable. Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current or soon thereafter, as is the case with the modified accrual basis of accounting. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report related depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net assets of a government are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Fund Financial Statements - These statements focus on the Corporation's major funds and are prepared using the modified basis of accounting.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units, as applicable. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Corporation had no business-type activities or component units as of and for the year ended September 30, 2011.

The governmental funds financial statements consist of the balance sheet and statement of revenues, expenditures and changes in fund balance. These financial statements have been adjusted to arrive at the government-wide financial statement balances (statement of net assets and statement of activities). Major individual governmental funds are reported as separate columns in the fund financial statements.

ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 flows.

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Revenues accrued include interest earned on investments and income from Corporation operations. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service requirements, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The accounting system is organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which comprise its assets, liabilities, fund equity or deficit, revenues and expenditures.

The Corporation reports the following governmental fund:

General Fund

The General Fund is used to account for all financial transactions of the Corporation. The principal sources of revenue are assessments to taxing authorities and interest earned on investments. Expenditures include all costs associated with the daily operations of the Corporation.

Account Groups:

General Fixed Assets (GFA) – The general fixed assets account group is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. No depreciation is recorded on general fixed assets.

General Long-term Debt – Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year.

ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Temporary Investments

The Corporation classifies investments, which have a remaining maturity of one year or less, at the date of purchase as “money market investments” in accordance with Governmental Accounting Standards Board Statement No. 31 (GASB 31). GASB 31 defines “money market investments” as short-term, highly liquid debt instruments including commercial paper, banker’s acceptances and U.S. Treasury and agency obligations. The Corporation values its “money market investments” at fair value.

F. Restricted Assets

Certain resources set aside for their repayment, are classified as restricted assets of the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. 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. The costs of normal maintenance repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Buildings are depreciated using the straight-line method over a 20 year useful life.

H. Debt Obligations

In the government-wide financial statements, debt obligations are reported as liabilities in the governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize debt costs during the current period. The face amount of new debt is reported as other financing sources. Debt repayments are reported as debt service expenditures.

I. Fund Balance (Governmental Fund)

As of these financial statements, the City has adopted GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

I. Fund Balance (Governmental Fund) – (continued)

Restricted fund balance – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance – amounts constrained to specific purposes by the Corporation itself, using the highest level of decision-making authority (i.e., Council). To be reported as committed amounts cannot be used for any other purpose unless the Corporation takes the same highest level action to remove or change the constraint.

Assigned fund balance – the portion of fund balance that the Council and management of the Corporation intend to use for specific purposes.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

When the government incurs expenditure for purposes for which various fund balance classifications can be used, it is the government’s policy to use restricted fund balance first, then assigned fund balance, then unassigned fund balance, and finally committed fund balance. The Corporation establishes (and modifies or rescinds) fund balance commitments by passage of a resolution and formal action of the Council. This is done through adoption and amendment of the budget.

The fund balance as of September 30, 2011 includes the following classifications:

	<u>Source</u>
Restricted - debt service	\$ 45,754
Assigned - various projects (below)	326,841
Unassigned	<u>2,005,955</u>
Total General Fund - Fund Balance	<u>\$ 2,378,550</u>

Assigned fund balance consists of the following projects:

Orange retail development plan	\$ 79,015
Riverfront park project - professional services	148,750
Downtown master plan project - architectural services	37,145
Riverfront property purchase	50,000
Infrastructure improvements project	8,280
Orange boat ramp project	3,651
	<u>\$ 326,841</u>

ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Estimates

The preparation of financial statements in conformity with U.S. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

K. Federal Income Tax Status

The Corporation qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code; therefore, no provision for federal income taxes is made in the financial statements.

NOTE 2 - 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 assets

The governmental fund balance sheet includes an adjustments column to arrive at the government-wide statement of net assets balances. Amounts reported in the statement of net assets are different because:

Governmental fund balance as reported on the balance sheet for governmental funds.	\$ 2,378,550
When capital assets that are to be used in governmental funds are purchased, the costs of those assets are reported as expenditures in governmental funds. However, the Statements of Net Assets includes those capital assets among the assets of the Corporation as a whole.	1,750,108
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details are as follows:	
Bonds payable	(2,185,000)
Less: Deferred charges for issuance costs, net	96,606
Accrued interest payable	(14,829)
Compensated absences	(5,573)
Total Net Assets	<u>\$ 2,019,862</u>

ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

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 an adjustments column to arrive at changes in net assets as reported in the government-wide statement of activities. Amounts reported in the statement of activities are different because:

Net change in fund balance for governmental fund	\$ (392,912)
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Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government wide financial statements. The net effect of removing the current year capital outlays is to increase net assets.	1,096,780
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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.	(166)
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Interest expense on long-term liabilities of governmental debt are not due and payable in the current period and accordingly are not reported as current period expenditures. Accrued interest expense on the long-term debt of the governmental activities is reported in the Statement of Activities.

Accrued interest on notes payable - prior year	15,762
Accrued interest on notes payable - current year	(14,829)

The issuance of long-term debt 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. Neither transaction, however, has any effect of net assets. Also, governmental finds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details are as follows:

Amortization of bond issuance costs	(8,569)
Principal paid	<u>140,000</u>

Change in net assets of governmental activities	<u><u>\$ 836,066</u></u>
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ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3- CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments consist of a checking account and government securities with a remaining maturity of one year or less. The carrying amounts for cash and temporary investments balances, which approximate fair values, at September 30, 2011, are as follows:

Restricted Assets

Certain resources set aside for their repayment, are classified as restricted assets of the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Of the total \$2,301,752 cash and temporary investments, cash that is restricted at September 30, 2011 is \$45,754.

Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the Corporation's deposits is required to be held in the Corporation's name by the trust department of a bank other than the pledging bank (the Corporation's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the Corporation during the year.

The Corporation's deposits in banks at year-end were entirely covered by federal depository insurance or by acceptable collateral held by the Corporation's agent in the Corporation's name.

Investment Policies

Applicable state laws and regulations allow the Corporation to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school Corporation, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the Corporation's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds. Balances in checking in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at September 30, 2011.

As of September 30, 2011, the Corporation had the following investments:

	Fair Value (Level One Input)	Weighted Average Maturity (Days)
U.S. Government Agency Notes	\$ 699,986	5
Investments classified as cash equivalents	(699,986)	
Total Investments per Statement of Net Assets	<u>\$ -</u>	

**ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 3- CASH AND TEMPORARY INVESTMENTS (continued)

Interest Rate Risk

In accordance with its investment policy, the Corporation manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation.

Credit Risk - Investments

In accordance with its investment policy, the Corporation minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. All of the Corporation's U.S. Agency investments are insured, registered, or the Corporation's agent holds the securities in the Corporation's name; therefore the Corporation is not exposed to custodial credit risk.

NOTE 4 - CAPITAL ASSETS

	Balance October 1, 2010	Additions	Deletions	Adjustments/ Transfers	Balance September 30, 2011
Capital assets					
Land	413,926	336,673	-	-	750,599
Construction in progress	239,402	760,107	-	-	999,509
Less accumulated depreciation	-	-	-	-	-
Total Capital Assets, Net	<u>413,926</u>	<u>1,096,780</u>	<u>-</u>	<u>-</u>	<u>1,750,108</u>

Total Depreciation Expense - Governmental Activities \$ -

Current year additions to land include the following: Purchase of property (\$20,185) and the costs necessary to get the land ready for use in the Downtown Master Plan (\$316,488). See note 8.

Current year additions to construction in progress include the following: Architect/design fees, survey/geoanalytical costs, and professional fees for the Downtown Master Plan (\$760,107). See note 8.

NOTE 5 - SALES TAXES

The Corporation's revenues consist principally of a 1/2 cent sales tax, which was approved by voters for the purpose of economic development activities and costs associated with promoting and enhancing economic and industrial development. For the year ended September 30, 2011, the Corporation earned \$1,154,044 in sales taxes and had an ending receivable balance of \$82,324.

ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 – LONG TERM DEBT

Sales Tax Revenue Bonds

In fiscal year 2008 the Corporation issued \$2,590,000 in sales tax revenue bonds, series 2007, dated December 1, 2007. The bonds were issued for the purpose of constructing infrastructure necessary to promote or develop new or expanded business enterprises, including particularly the construction of wastewater force mains and lift stations and related appurtenances along the Interstate 10 corridor of the City. The bonds are special obligations of the Corporation, payable from and secured by a lien on and pledge of the proceeds of a ½ of 1% sales and use tax levied within the City for the benefit of the Corporation. The bonds are payable beginning on August 1, 2008 and each February 1 and August 1 thereafter, until maturity (August 1, 2023) or prior redemption. Interest ranges from 4% to 4.2%.

Revenue bond debt service requirements to maturity for these bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2012	145,000	88,975	233,975
2013	150,000	83,175	233,175
2014	160,000	77,175	237,175
2015	165,000	70,775	235,775
2016	170,000	64,175	234,175
2017 - 2021	955,000	212,809	1,167,809
2022 - 2023	440,000	27,930	467,930
	<u>\$ 2,185,000</u>	<u>\$ 625,014</u>	<u>\$ 2,810,014</u>

The following is a summary of changes in the general long-term debt group of accounts for the year ended September 30, 2011:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011
Revenue bonds payable	2,325,000	-	140,000	2,185,000
Total Long-Term Debt	<u>2,325,000</u>	<u>-</u>	<u>140,000</u>	<u>2,185,000</u>

NOTE 7 – COMMITMENTS

Other Commitments

Certain projects related to the Downtown Master Plan were approved as of the end of the fiscal year. The amount committed but not yet expended as of the end of the year is \$326,841.

ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 – DOWNTOWN MASTER PLAN

The City of Orange is located along the banks of Sabine River and the proximity to water has been viewed as a valuable development tool that needed to be developed. The current City Downtown Master Plan took the development to the next phase and preliminary design and development work on a downtown outdoor destination was started in fiscal year 2010.

On January 3, 2012, the City of Orange Economic Development Corporation approved a resolution expressing the intent to finance a portion of the Downtown Master Plan projects. The amount approved not to exceed was \$5,650,000.

On January 3, 2012, the City of Orange Economic Development Corporation approved a resolution to use \$545,500 of the reserves existing as of September 30, 2011, for the Downtown Master Plan.

On January 3, 2012, the City of Orange Economic Development Corporation approved a resolution to enter into a contract with the Stark Foundation. It is anticipated that \$500,000 will be received from the Stark Foundation over a two year period to help defray costs for the downtown master plan.

On January 3, 2012, the City of Orange Economic Development Corporation approved a resolution to proceed with the alternate project bids in the amount of \$1,091,000. The alternates are to be funded from a use of reserves and Stark Foundation funding. The reserves will be a 50% split between the Economic Development Corporation and Hotel Occupancy Tax reserves.

The projects and the current costs are 1) the base bid on the riverfront bank stabilization, boardwalk and riverfront park in the amount of \$5,087,000 and 2) the alternate bids for the performance pavilion structure, pavilion lighting and landscaping in the amount of \$1,091,000.

NOTE 9 – SUBSEQUENT EVENTS

On January 3, 2012, the City of Orange Economic Development Corporation and the City Council of the City of Orange, Texas approved a resolution expressing the intent to finance a portion of the Downtown Master Plan projects. The maximum to be borrowed is \$5,650,000 in sales tax revenue bonds held by the Corporation. See note 8.

On January 3, 2012, the City of Orange Economic Development Corporation approved a resolution to use \$545,500 of the reserves existing as of September 30, 2011, for the Downtown Master Plan.

On January 3, 2012, the City of Orange Economic Development Corporation approved a resolution to enter into a contract with the Stark Foundation. It is anticipated that \$500,000 will be received from the Stark Foundation over a two year period to help defray costs for the downtown master plan.

On January 3, 2012, the City of Orange Economic Development Corporation approved a resolution to proceed with the alternate project bids in the amount of \$1,091,000. The alternates are to be funded from a use of reserves and Stark Foundation funding. The reserves will be a 50% split between the Economic Development Corporation and Hotel Occupancy Tax reserves.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Sales taxes	\$ 1,175,000	\$ 1,175,000	\$ 1,154,044	\$ (20,956)
Miscellaneous	-	10	-	(10)
Investment earnings	8,500	8,500	7,561	(939)
Total Revenues	<u>1,183,500</u>	<u>1,183,510</u>	<u>1,161,605</u>	<u>(21,905)</u>
Expenditures				
Current:				
General government	213,253	214,053	222,662	(8,609)
Capital outlay	76,578	1,379,235	1,096,780	282,455
Debt service	235,575	235,575	235,075	500
Total Expenditures	<u>525,406</u>	<u>1,828,863</u>	<u>1,554,517</u>	<u>274,346</u>
Change in Fund Balance	658,094	(645,353)	(392,912)	252,441
Fund Balances				
Beginning of year	2,771,462	2,771,462	2,771,462	-
End of year	<u>\$ 3,429,556</u>	<u>\$ 2,126,109</u>	<u>\$ 2,378,550</u>	<u>\$ 252,441</u>

The accompanying notes are an integral part of this statement.

**ORANGE ECONOMIC DEVELOPMENT CORPORATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Budgets and Budgetary Accounting

Annual budgets are adopted by the Corporation and approved by Orange City Council using the same basis of accounting as for financial reporting purposes. Encumbrance accounting is not utilized.

Expenditures may not legally exceed budget appropriations. The Corporation's Board and City Council must approve expenditure requests, which would require an increase in budget appropriations, through a formal budget amendment.

The budget is typically adopted in the summer and is later amended as appropriate by the Board. Unused budget appropriations lapse at year-end.