

**FREERPORT ECONOMIC DEVELOPMENT
CORPORATION
FREERPORT, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2014

**KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

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FREERPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

Annual Financial Report
For the Year Ended September 30, 2014
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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566

El Campo Office:
201 W. Webb
El Campo, Texas 77437

Houston Office:
10850 Richmond Ave., Suite 135
Houston, Texas 77042

Independent Auditor's Report

Basic Financial Statements Accompanied by Required
Supplementary Information and Supplementary Information

To The Board of Directors
Freeport Economic Development Corporation
Freeport, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Freeport Economic Development Corporation (the "Corporation"), component unit of the City of Freeport (the "City") as of and for the year ended September 30, 2014, 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

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 opinions.

www.kmandl.com – Email: kmkw@kmandl.com

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Corporation, as of September 30, 2014, and the respective changes in financial position 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 management's discussion and analysis and budgetary comparison information on pages 9-14 and 42 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The other supplemental schedule was presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Kennemer, Masters & Kingford, LLC

Certified Public Accountants
Lake Jackson, Texas 77566
June 17, 2015

FREERPORT ECONOMIC DEVELOPEMNT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

As management of the Freeport 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, 2014.

Financial Highlights

- Subsequent to September 30, 2014, on November 18, 2014 the City of Freeport approved a resolution forgiving any and all indebtedness to the City of Freeport, Texas by the Freeport Economic Development Corporation. The total amount forgiven was \$ 8,083,539 (\$ 6,639,208 in principal and \$ 1,444,331 in accrued interest). This gain has been reported at September 30, 2014.
- Additionally, on November 18, 2014, the City of Freeport and The Freeport Economic Development Corporation entered into a settlement of the lawsuits Freeport Economic Development Corporation v. Hiram Walker Royall, Freeport Waterfront Properties, L.P., Freeport Marina, L.P., Freeport Marina, GP, LLC, Briarwood Holdings, LLC., and Briarwood Capital Corporation Cause No. 55780 in the 239th Brazoria County District Court; Consolidated with Briarwood Holdings, LLC v. City of Freeport Economic Development Corporation and City of Freeport; Cause No. 54864 in the 239th Brazoria County District Court (the "Lawsuit"). The settlement effectively calls for the Corporation to give up its interest in the Marina assets on February 1, 2015, which resulted in the asset impairment loss of \$ 6,110,930. This loss has been reported at September 30, 2014.
- The liabilities and deferred inflows of resources of the Corporation exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$ 424,931 (net position). Of this amount, \$(1,232,533) is the investment in capital assets, net of related debt. The remaining \$ 808,142 is unrestricted.
- The Corporation's total net position increased by \$ 2,172,898 during the year ended September 30, 2014. The primary cause of this increase was the forgiveness of debt from the City of Freeport noted above.
- As of the close of the current fiscal year, the Corporation's governmental funds reported combined ending unassigned fund balance of \$ 808,142.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Although the Corporation is not a political subdivision or a political corporation under state law, under GAAP it is treated as a governmental unit. This report also contains other supplementary information in addition to the basic 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 position* presents information on all of the Corporation's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between the two reported as *net position*. Over time, increases or decreases in net

FREERPORT ECONOMIC DEVELOPEMNT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

position 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 position changed during the fiscal year. All changes in net position are reported when 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 the future fiscal periods.

The government-wide financial statements show the functions of the Corporation that are supported by sales tax and investment earnings. The activities of the Corporation include general administration and interest due on long-term debt. The Corporation has no business-type activities.

The government-wide financial statements can be found on pages 16 through 17 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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation consists only of governmental funds.

- **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 current sources and uses 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 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 Corporation's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds 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 two individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Debt Service Fund, all of which are considered to be major funds.

The Corporation adopts annual appropriated budgets for all of its governmental funds. A budgetary comparison statement has been provided for the General Fund in the required supplementary information section to demonstrate compliance with this budget.

The same type of budgetary comparison is presented for the Debt Service Fund in the other supplemental information section to demonstrate compliance with these budgets.

FREEPORT ECONOMIC DEVELOPEMNT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

The basic governmental fund financial statements can be found on pages 18 through 21 of this report.

Notes to the Financial Statements. The notes 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 23 through 39 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 budget to actual comparisons of the General Fund. Required supplementary information can be found on page 42 of this report.

The other supplemental information is presented following the required supplementary information. This individual statement is found on page 45 of this report.

Government-wide Financial Analysis

The liabilities and deferred inflows of resources of the Corporation exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$ 424,391. The Corporation's total net position increased during the year by \$ 2,172,898.

The following table presents a condensed year end Statement of Net Position for the years ended September 30, 2014 and 2013:

	<u>Governmental Activities</u>	
	September 30,	
	<u>2014</u>	<u>2013</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets:		
Current and other assets	\$ 821,203	\$ 519,936
Capital assets	<u>125,032</u>	<u>6,430,169</u>
Total assets	<u>946,235</u>	<u>6,950,105</u>
Total assets and deferred outflows of resources	<u>\$ 946,235</u>	<u>\$ 6,950,105</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities:		
Current and other liabilities	\$ 13,061	\$ 10,945
Long-term liabilities	<u>1,357,565</u>	<u>9,536,449</u>
Total liabilities	<u>1,370,626</u>	<u>9,547,394</u>
Net Position:		
Invested in capital assets, net of related debt	(1,232,533)	(3,106,280)
Unrestricted	<u>808,142</u>	<u>508,991</u>
Total net position	<u>(424,391)</u>	<u>(2,597,289)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 946,235</u>	<u>\$ 6,950,105</u>

FREEPORT ECONOMIC DEVELOPEMNT CORPORATION

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Analysis of the Corporation's Operations. The following table provides a summary of the Corporation's operations for the years ended September 30, 2014 and 2013. Governmental activities increased net position by \$ 2,172,898.

	<u>Governmental Activities</u>	
	September 30,	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 925	\$ 1,100
General Revenues:		
Sales tax	856,515	719,028
Investment earnings	122	
Miscellaneous	<u>916</u>	<u>306</u>
Total revenues	<u>858,478</u>	<u>720,434</u>
Expenses:		
Economic Development:		
Administration	101,303	60,972
Marina	6,322,198	212,741
Beautification projects	58,363	58,363
City of Freeport debt service series 2003A	204,688	205,192
Interest on long-term debt	<u>82,567</u>	<u>90,420</u>
Total expenses	<u>6,769,119</u>	<u>627,688</u>
Increase (decrease) in net position before special items	(5,910,641)	92,746
<i>Special Item</i> – Gain on forgiveness of debt	<u>8,083,539</u>	
Increase in net position	2,172,898	92,746
Net position – beginning	(<u>2,597,289</u>)	(<u>2,690,035</u>)
Net position - ending	\$(<u>424,391</u>)	\$(<u>2,597,289</u>)

Financial Analysis of the City's Funds

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Corporation's governmental funds 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, unreserved fund balance may serve as a useful measure of an entity's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Corporation's governmental funds reported combined ending unassigned fund balances of \$ 808,142.

FREEPORT ECONOMIC DEVELOPEMNT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

The General Fund balance increased by \$ 299,151 during the current year. Other sources and uses included \$ 177,912 in transfer out to the Debt Service Fund; and \$ 204,688 in contributions out to the City of Freeport for the payment of debt service on Series 2003A bonds.

The Debt Service fund balance remained at zero, as transfers in equaled debt service expenditures for the note payable to First State Bank of Louise.

General Fund Budgetary Highlights

Actual sales tax revenue was \$ 156,515 more than was expected during the year. Additionally, budgeted expenditures were \$ 41,489 more than actual, primarily due to the conclusion of the Marina construction project. The Corporation had an overall favorable budget variance of \$ 220,674.

Additional information on the Corporation's General Fund budgetary highlights can be found in the required supplementary information on page 42 of this report.

Capital Assets

The Corporation's investment in capital assets for its governmental activities as of September 30, 2014, amounts to \$ 125,032 (net of accumulated depreciation). This current investment in capital assets includes land improvements, while prior investment in capital assets included land, land improvements, permitting costs, building and docks, building improvements, machinery and equipment, and construction in progress.

Major capital asset event during the current year was write-off of Marina capital assets in the amount of \$ 6,110,930 as a result of a lawsuit settlement resulting in the assets impairment. On November 18, 2014, the Corporation agreed to a settlement of a lawsuit that transferred the Marina assets to outside interests. See Note 4, 5, 7 and Note 8 for additional information.

Major capital asset events during the prior fiscal year included the write-off of Marina capital asset costs in the amount of \$ 3,403,424 as a result of asset impairment. This adjustment was identified based on an appraisal of the fair value at September 30, 2012 considering the decline in the service utility of the Marina assets. This situation was primarily created by lengthy construction delays resulting from disagreements and legal actions regarding the acquisition of property as well as limitations of financing for the final portions of the Marina construction.

	<u>Governmental Activities</u>	
	September 30,	
	<u>2014</u>	<u>2013</u>
Land	\$	\$ 474,700
Land improvements	125,032	1,181,862
Permitting costs		1,179,372
Building and docks		3,344,469
Building improvements		211,593
Machinery and equipment		<u>38,173</u>
Total	\$ <u>125,032</u>	\$ <u>6,430,169</u>

Additional information on the Corporation's capital assets can be found in Note 4 on pages 33 through 35 of this report.

FREERPORT ECONOMIC DEVELOPEMNT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

Debt Administration

At the end of the prior fiscal year, the Corporation had notes outstanding to the City of Freeport for \$ 6,639,208. Of this amount, \$ 639,208 is a consolidated loan received in 2006, and the remaining \$ 6,000,000 represents the 2007 loan from the City of Freeport for start-up costs for the Marina project. In addition, the Corporation borrowed \$ 1,750,000 from the First State Bank of Louise to provide funds for the Marina project. Sales taxes collected by the Corporation are being used to service the debt payments for the new loan as well as the debt service required to service the City of Freeport's Series 2003A Bonds, in the form of a contribution to the City.

Long-Term Debt Outstanding

	<u>Governmental Activities</u>	
	September 30,	
	<u>2014</u>	<u>2013</u>
Notes payable – City of Freeport	\$	\$ 6,639,208
Note payable	1,357,265	1,452,910
Components of Long-term Debt:		
Accrued interest payable		<u>1,444,331</u>
Total	<u>\$ 1,357,265</u>	<u>\$ 9,536,449</u>

On November 18, 2014, the City of Freeport forgave the entire debt of the Corporation in the amount of \$ 8,083,539 (\$ 6,639,208 in principle and \$ 1,444,331 in accrued interest). See Note 4, 5, 7 and Note 8 for additional information. Additional information regarding the Corporation's debt outstanding can be found in Note 5 to the basic financial statements on pages 35 through 36 of this report.

Economic Factors and Next Year's Budgets and Rates

The Corporation is dependent on a one-half cent sales tax that is received for ongoing operations, supplements for capital asset costs funded primarily by bond proceeds and debt service costs on bonds outstanding.

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Finance, 200 West Second Street, Freeport, Texas, 77541, or call (979) 233-3526.

BASIC FINANCIAL STATEMENTS

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

STATEMENT OF NET POSITION

September 30, 2014

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets:	
Cash and cash equivalents	\$ 670,625
Receivables from other governments	150,578
Capital Assets (Net of Accumulated Depreciation):	
Land improvements	<u>125,032</u>
Total assets	<u>946,235</u>
Deferred Outflows of Resources:	
Total deferred outflows of resources	<u> </u>
Total assets and deferred outflows of resources	<u>\$ 946,235</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities:	
Accounts payable	\$ 11,129
Accrued wages	1,932
Noncurrent Liabilities:	
Due within one year	<u>1,357,565</u>
Total liabilities	<u>1,370,626</u>
Deferred Inflows of Resources:	
Total deferred inflows of resources	<u> </u>
Net Position:	
Invested in capital assets; net of related debt	(1,232,533)
Unrestricted	<u>808,142</u>
Total net position	<u>(424,391)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 946,235</u>

The notes to the financial statements are an integral part of this statement.

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes In Net Position Governmental Activities
Primary Government:			
Governmental Activities:			
Economic development:			
Administration	\$ 101,303	\$ 925	\$(100,378)
Marina	6,322,198		(6,322,198)
Beautification projects	58,363		(58,363)
City of Freeport debt service - Series 2003A	204,688		(204,688)
Interest on long-term debt	<u>82,567</u>		<u>(82,567)</u>
Total governmental activities	<u>\$ 6,769,119</u>	<u>\$ 925</u>	<u>(6,768,194)</u>
General Revenue:			
Sales tax			856,515
Investment earnings			122
Miscellaneous			916
Special item – Gain on forgiveness of debt			<u>8,083,539</u>
Total general revenues			<u>8,941,092</u>
Change in net position			2,172,898
Net position – beginning			<u>(2,597,289)</u>
Net position - ending			<u>\$(424,391)</u>

The notes to the financial statements are an integral part of this statement.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Cash and temporary investments	\$ 670,625	\$	\$ 670,625
Receivables from other governments	<u>150,578</u>	<u></u>	<u>150,578</u>
Total assets	<u>821,203</u>	<u>-0-</u>	<u>821,203</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u></u>	<u></u>	<u>-0-</u>
Total assets and deferred outflows of resources	<u>\$ 821,203</u>	<u>\$ -0-</u>	<u>\$ 821,203</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 11,129	\$	\$ 11,129
Accrued payroll and employee benefits	<u>1,932</u>	<u></u>	<u>1,932</u>
Total liabilities	<u>13,061</u>	<u>-0-</u>	<u>13,061</u>
Deferred Inflows of Resources:			
Total deferred inflows of resources	<u></u>	<u></u>	<u>-0-</u>
Fund Balance:			
Unassigned	<u>808,142</u>	<u></u>	<u>808,142</u>
Total fund balances	<u>808,142</u>	<u>-0-</u>	<u>808,142</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 821,203</u>	<u>\$ -0-</u>	<u>\$ 821,203</u>

The notes to the financial statements are an integral part of this statement.

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION**

September 30, 2014

Total fund balances – governmental funds balance sheet	\$	808,142
Amounts reported for <i>governmental activities</i> 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. Capital assets include \$ 1,232,321 in assets less \$ 1,107,289 in accumulated depreciation.		125,032
Payables for note principal are not reported in the funds.	(<u>1,357,565</u>)
Net position of governmental activities – statement of net position.	\$	<u>(424,391)</u>

The notes to the financial statements are an integral part of this statement.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:			
Sales tax	\$ 856,515	\$	\$ 856,515
Investment income	122		122
Miscellaneous	<u>1,841</u>		<u>1,841</u>
Total revenues	<u>858,478</u>	<u>-0-</u>	<u>858,478</u>
Expenditures:			
Current:			
Economic development	345,295		345,295
Capital outlay	36,120		36,120
Debt Service:			
Principal		95,345	95,345
Interest		<u>82,567</u>	<u>82,567</u>
Total expenditures	<u>381,415</u>	<u>177,912</u>	<u>559,327</u>
Excess of revenues over (under) expenditures	<u>477,063</u>	<u>(177,912)</u>	<u>299,151</u>
Other Financing Sources (Uses):			
Transfers in		177,912	177,912
Transfers out	<u>(177,912)</u>		<u>(177,912)</u>
Total other financing sources (uses)	<u>(177,912)</u>	<u>177,912</u>	<u>-0-</u>
Net changes in fund balance	299,151	-0-	299,151
Fund balance – beginning	<u>508,991</u>		<u>508,991</u>
Fund balance - ending	<u>\$ 808,142</u>	<u>\$ -0-</u>	<u>\$ 808,142</u>

The notes to the financial statements are an integral part of this statement.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Net change in fund balances – total governmental funds	\$ 299,151
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation \$ 230,327 exceeded capital outlays \$ 36,120 in the current period.	(194,207)
Asset impairment adjustments based on unexpected decline in the service utility of capital assets, such as the Marina, the cost is reported as an expense in the governmental activities statement of activities. These asset impairment adjustments are not reported in the governmental funds.	(6,110,930)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. These amounts were for notes payable in the amount of \$ 95,345.	95,345
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds. This is the forgiveness of debt owed to the City of Freeport in the amount of \$ 8,083,539 (\$ 6,639,208 for notes payable and \$ 1,444,331 for accrued interest payable).	<u>8,083,539</u>
Change in net position of governmental activities	\$ <u>2,172,898</u>

The notes to the financial statements are an integral part of this statement.

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FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

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FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

In 1999, the City of Freeport (the "City") authorized the creation and approved the Articles of Incorporation and the Bylaws of the Freeport Economic Development Corporation (the "Corporation"). The Articles of Incorporation were filed with the Office of the Secretary of State of Texas on December 20, 1999. The Corporation, a nonprofit corporation, organized under Section 4B of the development Corporation Act of 1979 was created to act on behalf of the City in the promotion and financing of projects so as to promote the public welfare. State law allows the City to collect sales tax to assist in the promoting and developing activities of the City. The Corporation has been included as a discretely presented component unit in the City's financial statements. The City Council approves the budget of the Corporation and appoints the members of the Board of Directors of the Corporation.

Reporting Entity

The Corporation's financial statements include all the accounts and activities of the Corporation. Based on criteria prescribed by generally accepted accounting principles, the Corporation is considered a component unit of the City of Freeport. As such, the financial statements of the Corporation are also included in the separately issued Annual Financial Report of the City of Freeport.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the 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 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. 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 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information on all of the activities of the Corporation. As a general rule, the effect of interfund activity within the Corporation has been eliminated from the government-wide financial statements. The amounts between the City and the Corporation are not eliminated. The governmental activities of the Corporation are normally supported through sales taxes and interest earnings.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program or general revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. The Corporation does not receive any program revenues as defined by generally accepted accounting principals. Sales taxes, although required to be used for economic development activities, and other revenues reported in the statement of activities are not included in program revenues but are reported instead as *general revenues*.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - continued

Separate financial statements are provided for governmental funds. The Corporation does not have any fiduciary or proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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. Sales taxes are recognized as revenues in the year when the transactions giving rise to the sales taxes occur.

General revenues include sales taxes and interest earnings received by the Corporation.

When both restricted and unrestricted resources are available for use, the Corporation will use restricted resources first, then unrestricted resources as they are needed.

Governmental fund 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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

Sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period in both the government-wide and individual fund financial statements.

The Corporation reports the following major governmental funds:

The *general fund* is used to account for all financial transactions except those required to be accounted for in another fund. The principal sources of revenue are sales taxes and interest earnings. Expenditures consist of all costs associated with the daily operations of the Corporation and certain capital expenditures.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

The *debt service fund* accounts for the accumulation of resources for the periodic payment of general long-term debt principal and interest of the governmental funds.

New Pronouncements

GASB No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", was issued December 2010. This statement is effective for periods beginning after December 15, 2011. This statement was implemented and did not have an impact on the Corporation's financial statements.

GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. This statement is effective for periods beginning after December 15, 2011. This statement was implemented and did not have an impact on the Corporation's financial statements.

GASB No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statements No. 53", was issued June 2011. This statement is effective for periods beginning after June 15, 2011. This statement was implemented and did not have an impact on the Corporation's financial statements.

GASB No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. This statement is effective for periods beginning after December 15, 2012. This statement was early implemented during the current year and did not have an impact on the Corporation's financial statements, although it did reclassify items previously recorded as assets and liabilities within the Corporation's financial statements as outflow and inflows of resources.

GASB No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62", was issued March 2012. This statement was implemented and did not have an impact on the Corporation's financial statements. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. This statement was implemented and did not have an impact on the Corporation's financial statements. This statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The management of the Corporation does believe that the implementation of this statement will have a material effect on the financial statements of the Corporation. This statement is effective for periods beginning after June 15, 2014.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - continued

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. The management of the Corporation does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation. This statement is effective for periods beginning after December 15, 2013.

GASB Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees", was issued April 2013. This statement was implemented and did not have an impact on the Corporation's financial statements. This statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 69", was issued November 2013. The management of the Corporation does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 72, "Fair Value Measurement and Application", was issued February 2015. This statement enhances the transparency and comparability of fair value measurements and disclosures in the state and local governments' financial statements. The management of the Corporation does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation. This statement is effective for periods beginning after June 15, 2015.

Budgetary Data

The Corporation prepares and adopts an appropriated budget on its General Fund and Debt Service Fund. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

The Corporation Board prepares an annual budget for the Corporation for the ensuing fiscal year. The Board reviews, considers and revises the proposed new budget for the forthcoming fiscal year, prior to the end of the current fiscal year. The budget, as adopted, must set forth the appropriations for services, functions and activities of the Corporation, and shall meet all fund requirements provided by law and required by bond covenants. Once approved by the Board, the budget is approved by the City of Freeport City Council along with the City's budget.

The Corporation performs budget reviews during the year by which budget requirements are re-evaluated and revisions are recommended for the Corporation's Board to approve. Total expenditures may not legally exceed budgeted appropriations. Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by the Board and City Council through a formal budget amendment. One revision to the budget was made during the year. The Corporation reported no funds with expenditures over appropriations.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is utilized. Encumbrances outstanding at year-end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. There were no outstanding encumbrances at September 30, 2014.

Cash and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Corporation. In accordance with GASB Statement 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools”, investments are stated at fair value. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements, and other such securities or obligations as allowed in the Public Funds Investment Act (PFIA) as amended and approved by the Corporation’s Board. The Corporation’s management believes it complied with the requirements of the PFIA and the Corporation’s investment policies required by the PFIA. The Finance Director of the City of Freeport manages the Corporation’s cash and investments.

Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets, which include improvements and construction in progress, are reported in the applicable governmental activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Land improvements	10 - 60 Years
Permitting costs	40 Years
Building and docks	15 - 40 Years
Building improvements	12 - 30 Years
Machinery and equipment	10 Years

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

The Corporation's Board meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The Corporation's Unassigned General Fund Balance is maintained to provide the Corporation with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board. Fund Balance of the Corporation may be committed for a specific source by formal action of the Board. Amendments or modifications of the committed fund balance must also be approved by formal action by the Board. When it is appropriate for fund balance to be assigned, the Board has delegated authority to the President of the Board. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

The Corporation implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the Corporation's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

Net position represents the differences between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net position, as presented in the government-wide Statement of Net Position, are reported when constraints placed on the use of net position are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

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 tax is made in the financial statements. Additionally, the Corporation is not a private foundation under provisions of the Internal Revenue Code.

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The Corporation classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, as reported on the combined balance sheet at September 30, 2014 are as follows:

	<u>Unrestricted</u>
Cash and Temporary Investments:	
Financial Institution Deposits:	
Demand deposits	\$ 418,550
State Treasury Investment Pool:	
Texpool	<u>252,075</u>
Total cash and temporary investments	<u>\$ 670,625</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. The Corporation's deposits are within a consolidated bank account in the City of Freeport's name. At September 30, 2014, the carrying amount of the Corporation's cash, savings, and time deposits was \$ 418,550. The financial institutions balances were \$ 702,747 at September 30, 2014. Financial institution balances of \$ 702,747 were covered by collateral pledged in the City of Freeport's name.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the City depository must have a bond or in lieu thereof, deposited or pledged securities with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

Investments

The Corporation's deposits and investments are invested pursuant to the investment policy, which is approved by the Corporation's Board. The Corporation has adopted the City of Freeport's Investment policy and relies on the City of Freeport's Investment Committee to monitor and report on a quarterly basis. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it addresses the priorities of preservation of capital, liquidity, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The Corporation's investment policy (same as the City of Freeport) and types of investments are governed by the Public Funds Investment Act (PFIA). The Corporation's management believes it complied with the requirements of the PFIA and the Corporation's investment policy.

The City of Freeport's Investment Committee submits an investment report each quarter to the City of Freeport's Council, which contains Corporation Board members. The report details the investment positions of the City and Corporation, as well as the compliance of the investment portfolio's as they relate to both the investment strategy and policy approved by City of Freeport's Council, the Corporation's Board, and Texas State law.

The Corporation is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificates of deposit of commercial banks;
2. U.S. Treasury Securities maturing in less than three (3) years;

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

3. Short-term obligations of U.S. Government Agencies which are guaranteed by the full faith and credit of the United States of America as to principle and interest;
4. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency Securities in accordance with a master repurchase agreement approved by the Investment Committee;
5. Eligible investment pools authorized by the City Council;
6. Other securities or obligations approved by the Investment Committee and authorized by the Local Government Code, Sections 2256.006 and 2256.016.

The Corporation participates in one Local Government Investment Pool (LGIP): Texpool. The State Comptroller oversees Texpool with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller.

The Corporation invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a) 7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At September 30, 2014, Texpool had a weighted average maturity of 48 days. Although the Texpool portfolio had a weighted average maturity of 48 days, the Corporation considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the Corporation's investments are insured, registered, or the City of Freeport's agent holds the securities in the City's name; therefore, the Corporation is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the Corporation at September 30, 2014.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ <u>252,075</u>	48
	\$ <u>252,075</u>	48

Credit Risk – As of September 30, 2014, the LGIP (which represent 100% of the Corporation's portfolio) is rated AAAM by Standard and Poor's.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

Interest rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Corporation's Investment Policy the Corporation avoids over-concentration of assets in a specific maturity sector, limiting of average maturities of operating fund investments to one year, and avoiding over-concentrated assets in specific instruments other than U.S. Treasury Securities and insured or collateralized certificates of deposit.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The Corporation made no direct investments in derivatives during the year ended September 30, 2014, and holds no direct investments in derivatives at September 30, 2014.

NOTE 3 - SALES TAX REVENUE

The Corporation's revenues consist principally of one-third sales tax collected. In 2014, the Corporation earned \$ 856,515 in sales taxes. At year-end the Corporation reported a receivable from the State for sales tax revenues collected in October and November of \$ 150,578.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2014 was as follows:

	<u>Balance</u> <u>10-01-13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09-30-14</u>
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land and building	\$ 474,700	\$	\$ 474,700	\$ -0-
Construction in progress				-0-
Total capital assets not being depreciated	<u>474,700</u>	<u>-0-</u>	<u>474,700</u>	<u>-0-</u>
Capital Assets, Being Depreciated:				
Land improvements	1,686,915	36,120	1,004,038	718,997
Permitting costs	1,292,463		1,147,061	145,402
Buildings and docks	3,558,128		3,253,910	304,218
Building improvements	240,990		198,442	42,548
Machinery and equipment	<u>53,935</u>		<u>32,779</u>	<u>21,156</u>
Total capital assets being depreciated	<u>6,832,431</u>	<u>36,120</u>	<u>5,636,230</u>	<u>1,232,321</u>

(continued)

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 4 - CAPITAL ASSETS - Continued

	Balance 10-01-13	Additions	Retirements	Balance 09-30-14
Less Accumulated Depreciation For:				
Land improvements	\$ 505,053	\$ 88,912	\$	\$ 593,965
Permitting costs	113,091	32,311		145,402
Buildings and docks	213,659	90,559		304,218
Building improvements	29,397	13,151		42,548
Machinery and equipment	15,762	5,394		21,156
Total accumulated depreciation	876,962	230,327	-0-	1,107,289
Total capital assets being depreciated, net	5,955,469	(194,207)	5,636,230	125,032
Governmental activities capital assets, net	\$ 6,430,169	\$(194,207)	\$ 6,110,930	\$ 125,032

Capital assets activity for the year ended September 30, 2013 was as follows:

	Balance 10-01-12	Additions	Retirements	Balance 09-30-13
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land and building	\$ 474,700	\$	\$	\$ 474,700
Construction in progress	1,048,318		1,048,318	-0-
Total capital assets not being depreciated	1,523,018	-0-	1,048,318	474,700
Capital Assets, Being Depreciated:				
Land improvements	1,686,915			1,686,915
Permitting costs	1,292,463			1,292,463
Buildings and docks	2,216,571	1,341,557		3,558,128
Building improvements	228,042	12,948		240,990
Machinery and equipment	21,776	32,159		53,935
Total capital assets being depreciated	5,445,767	1,386,664	-0-	6,832,431
Less Accumulated Depreciation For:				
Land improvements	\$ 416,544	\$ 88,509	\$	\$ 505,053
Permitting costs	80,779	32,312		113,091
Buildings and docks	139,910	73,749		213,659
Building improvements	16,638	12,759		29,397
Machinery and equipment	11,976	3,786		15,762
Total accumulated depreciation	665,847	211,115	-0-	876,962
Total capital assets being depreciated, net	4,779,920	1,175,549	-0-	5,955,469
Governmental activities capital assets, net	\$ 6,302,938	\$ 1,175,549	\$ 1,048,318	\$ 6,430,169

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 4 - CAPITAL ASSETS - Continued

On November 18, 2014, the Freeport Economic Development Corporation entered into a settlement of the Lawsuit regarding the Marina. The settlement effectively calls for the Corporation to give up its interest in the Marina assets on February 1, 2015, which resulted in the asset impairment loss of \$ 6,110,930 at September 30, 2014. This loss has also been reported in the Corporations financial statements at September 30, 2014. See Notes 5, 6, 7 and 8 for additional information.

Depreciation expense was charged to functions/programs of the primary government for the year ended September 30, 2014, as follows:

Governmental Activities:

Non-Marina	\$ 58,363
Marina	<u>171,964</u>
Total depreciation expense - governmental activities	<u>\$ 230,327</u>

NOTE 5 - LONG-TERM DEBT

General Long-Term Debt

Notes Payable:

During prior years, the Corporation borrowed funds from the City in connection with the acquisition of land and preliminary construction plans for the Marina project. During the year ended September 30, 2007, the FEDC and the City consolidated these loans in the amount of \$ 734,090 with a 5.00% interest rate. No payments of principal or interest have been paid since September 30, 2008. The remaining principal and accrued interest on this note at September 30, 2014 was \$ 639,208 and \$ 46,350, respectively. This loan and accrued interest was forgiven by the City of Freeport on November 18, 2014. See Notes 6, 7 and 8 for additional information.

During the year ended September 30, 2007, the Corporation borrowed \$ 6,000,000, with an interest rate of 4.84%, in additional funds from the City to finance the continued development of the Marina project, which is located in the City. The Corporation is a component unit of the City. No payments have been made since the inception of the note. Accrued interest on this note at September 30, 2014 was \$ 1,397,981. This loan and accrued interest was forgiven by the City of Freeport on November 18, 2014. See Notes 4, 6, 7 and 8 for additional information.

On February 11, 2010, the Corporation borrowed \$ 1,750,000, with an interest rate of 6.00% from the First State Bank of Louise, Texas. The loan is secured by the Corporation's sales tax remittance guaranty and subordination agreement. These proceeds are to be utilized for the Marina project. The note calls for fifty-nine (59) monthly payments of \$ 14,764.44 and one (1) balloon payment on March 1, 2015 of \$ 1,335,972.79. Current requirements for principal and interest expenditures accounted for in the Debt Service Fund were \$ 88,230 and \$ 90,420, respectively. Accrued interest on this note at September 30, 2014 was \$ -0-.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 5 - LONG-TERM DEBT - Continued

General Long-Term Debt - continued

The note payable at September 30, 2014 is summarized as follows:

Purpose	Interest Rate (%)	Dates			Bonds Outstanding 09-30-14
		Issued	Maturity	Callable	
Note payable - First State bank of Louise	6.00	2010	2015	N/A	\$ <u>1,357,565</u>
					\$ <u>1,357,565</u>

Notes payable transactions for the year ended September 30, 2014 are summarized as follows:

	2014
Notes payable, October 1,	\$ 8,092,118
Maturities	(95,345)
Forgiveness of debt	(6,639,208)
Notes payable, September 30,	\$ <u>1,357,565</u>

Aggregate maturities of note payables for the five years subsequent to September 30, 2014 are as follows:

	Principal	Interest	Total
2015	\$ <u>1,357,565</u>	\$ <u>41,679</u>	\$ <u>1,399,244</u>
Total	\$ <u>1,357,565</u>	\$ <u>41,679</u>	\$ <u>1,399,244</u>

This note, scheduled for a balloon payment in 2015, was approved to be refinanced on November 18, 2014.

Changes in Long-Term Payables

Transactions for the year ended September 30, 2014 are summarized as follows:

	Balance 10-01-13	Additions	Payments/ Reductions	Balance 09-30-13	Due Within One Year
Governmental Type Activities:					
Notes payable (City)	\$ 6,639,208	\$	\$ 6,639,208	\$ -0-	\$
Note payable	1,452,910		95,345	1,357,565	1,357,565
Component of Long-Term Notes Payable:					
Accrued interest payable	<u>1,444,331</u>		<u>1,444,331</u>	<u>-0-</u>	
Total governmental activities	\$ <u>9,536,449</u>	\$ <u>-0-</u>	\$ <u>8,178,884</u>	\$ <u>1,357,565</u>	\$ <u>1,357,565</u>

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 6 - LEASING OPERATIONS

Operating Leases - Lessee

The Corporation is involved in two operating leases as lessee. These leases are for land to be utilized for the Marina project. On February 8, 2007, the Corporation approved two leases for land required for the subsequent lease of the Marina project. These leases were effective on September 1, 2007 and expire on August 31, 2047, or forty years, with no payment in the first year. Lease #1, with Freeport Waterfront Properties, L.P., calls for a monthly payment of from \$ 5,833.33 to \$ 15,516.75 with increases in five year increments. Lease #2, with Briarwood Holdings, LLC, calls for a monthly payment of from \$ 3,041.67 to \$ 8,088.23 with increases in five year increments. These leases were tied to sub-leases as part of the Marina project, however since the sale of the Marina has been cancelled, those leases are no longer in force.

During the year ended September 30, 2013, lease #2, with Briarwood Holdings, LLC, was adjusted due to the fact that a portion of the land for the Marina project was sold to the City of Freeport instead of Briarwood Holdings, LLC. The adjusted monthly payment is from \$ 1,828.75 to \$ 6,422.56 with increases in five year increments.

On November 18, 2014, the Corporation agreed to a settlement effectively calling for the Corporation to give up its interest in the Marina assets on February 1, 2015, which includes payment of the land leases to that date. As of February 1, 2015, the Corporation will no longer have access to this land or the liability of the lease. See Notes 4, 5, 7 and 8 for additional information.

Minimum future rentals to be paid on noncancelable leases, as of September 30, 2014, for each of the next five years and in the aggregate are as follows:

	<u>Land Lease #1</u>	<u>Land Lease #2</u>	<u>Total</u>
2015	\$ <u>33,542</u>	\$ <u>9,143</u>	\$ <u>42,685</u>

Gross rental expenditures for operating leases for the year ended September 30, 2014 were \$ -0-. The City of Freeport took on the operations of the Marina docks and incurred lease expenditures of \$ 122,279. The combined expenditures between the Corporation and the City were \$ 122,279. As of September 30, 2014, the Corporation retains its liability for the payment of this lease.

NOTE 7 - CONTINGENT LIABILITIES

The Corporation is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the Corporation at September 30, 2014. The Corporation is involved in the following legal action, and is represented by legal counsel.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 7 - CONTINGENT LIABILITIES - Continued

Cause No. 55780 styled *Briarwood Holdings, LLC v. Freeport Economic Development Corp.* in the 239th Judicial District Court, Brazoria County, Texas (consolidated with *Freeport Economic Development Corp v. Hiram Walker Royall, et al*, in the 239th District Court of Brazoria County, Texas. Plaintiff Briarwood Holdings, LLC) (“Briarwood”) alleges that the Freeport Economic Development Corporation (“EDC”) and the City of Freeport agreed to sell Briarwood a certain tract of land for \$ 200,000. The alleged agreement was in connection with the development by the EDC of a Marina. Briarwood brings a claim of specific performance, asking the Court to require the EDC to sell the property to Briarwood for \$ 200,000. Briarwood also alleges common law and statutory fraud and seeks damages. The EDC denies that any agreement to sell the property was made. The EDC also alleges that Briarwood’s claims are barred by the Statute of Frauds, and fraudulent inducement. The EDC further alleges that Briarwood’s unclean hands bar Briarwood from any and all equitable relief it seeks, including any remedy of specific performance that would require the EDC or the City of Freeport to convey the property to Briarwood. The City of Freeport, which is also a defendant in this case, filed a plea to the jurisdiction, arguing that Briarwood’s claims against the City should be dismissed because the City enjoys sovereign immunity. On December 1, 2011 the Court entered an order denying the City’s plea to the jurisdiction: the City then appealed. On March 19, 2013, the First Court of Appeals reversed the trial court’s denial of the City’s plea to the jurisdiction but allowed Briarwood to re-plead in an effort to state a claim against the City. Briarwood, together with two affiliate entities Freeport Waterfront Properties, L.P. and Freeport Marina, L.P. (collectively, the Briarwood Plaintiffs”) filed a Third Amended Original Petition on November 8, 2013. In that petition, the Briarwood Plaintiffs allege additional claims against the EDC for breaches of two ground leases related to the Marina, including claims for back rent. Freeport Waterfront Properties, L.P. (“FWP”) also alleges that the EDC is trespassing on property owned by FWP, which the EDC is utilizing as a parking lot. The Briarwood Plaintiffs seek specific performance, unspecified damages, and attorneys’ fees. The EDC has filed claims against Briarwood Plaintiffs. The EDC alleges that Freeport Marina, L.P. breached a Development Agreement dated February 8, 2007 and a Marina Lease of the same date. The EDC also brings claims against the Briarwood Plaintiffs for fraud, fraudulent inducement and statutory fraud. The City has filed a second plea to the jurisdiction and motion for summary judgment, which was set for hearing on June 23, 2014.

Subsequently, the Corporation and the City of Freeport entered into a settlement of these lawsuits (the Lawsuit”). The settlement calls for the Corporation to relinquish all Marina assets including specific land utilized by the Marina operations. Further, the Corporation agrees to make payment of specific land operating leases until February 1, 2015, and give up all rights to those properties along with the liabilities. See Note 6, Leasing Operations.

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2014

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through June 17, 2015, the date which the financial statements were available to be issued. Subsequent to September 30, 2014, on November 18, 2014 the City of Freeport approved a resolution forgiving any and all indebtedness to the City of Freeport, Texas by the Freeport Economic Development Corporation. The total amount forgiven was \$ 8,083,539 (\$ 6,639,208 in principal and \$ 1,444,331 in accrued interest). This gain has been reported in the financial statements of the Corporation at September 30, 2014. Additionally, on November 18, 2014, the City of Freeport and The Freeport Economic Development Corporation entered into a settlement of the Lawsuit regarding the Marina. The settlement effectively calls for the Corporation to give up its interest in the Marina assets on February 1, 2015, which resulted in the asset impairment loss of \$ 6,110,930. This loss has also been reported in the Corporations financial statements at September 30, 2014. Through February 2, 2015, the City of Freeport has continued to perform the operation of the Marina wet slip docks, which includes the payment of the operating leases as described in Note 6, Leasing Operations.

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REQUIRED SUPPLEMENTARY INFORMATION

FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 700,000	\$ 700,000	\$ 856,515	\$ 156,515
Investment income			122	122
Miscellaneous			1,841	1,841
Total revenues	<u>700,000</u>	<u>700,000</u>	<u>858,478</u>	<u>158,478</u>
Expenditures:				
Current:				
Economic development	417,904	417,904	345,295	72,609
Capital Outlay	<u>5,000</u>	<u>5,000</u>	<u>36,120</u>	<u>(31,120)</u>
Total expenditures	<u>422,904</u>	<u>422,904</u>	<u>381,415</u>	<u>41,489</u>
Excess (deficiency) of revenues over expenditures	<u>277,096</u>	<u>277,096</u>	<u>477,063</u>	<u>199,967</u>
Other Financing Sources (Uses):				
Operating transfers out	<u>(198,619)</u>	<u>(198,619)</u>	<u>(177,912)</u>	<u>20,707</u>
Total other financing sources (uses)	<u>(198,619)</u>	<u>(168,619)</u>	<u>(177,912)</u>	<u>20,707</u>
Net change in fund balance	78,477	78,477	299,151	220,674
Fund balance - beginning	<u>508,991</u>	<u>508,991</u>	<u>508,991</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 587,468</u>	<u>\$ 587,468</u>	<u>\$ 808,142</u>	<u>\$ 220,674</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL SCHEDULES

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FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL – DEBT SERVICE FUND**

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Total revenues	\$ _____	\$ _____	\$ _____	\$ _____ -0-
Expenditures:				
Debt Service:				
Principal	100,000	100,000	95,345	4,655
Interest	<u>98,619</u>	<u>98,619</u>	<u>82,567</u>	<u>16,052</u>
Total expenditures	<u>198,619</u>	<u>198,619</u>	<u>177,912</u>	<u>20,707</u>
Excess (deficiency) of revenues over expenditures	(<u>198,619</u>)	(<u>198,619</u>)	(<u>177,912</u>)	<u>20,707</u>
Other Financing Sources (Uses):				
Operating transfer in	<u>198,619</u>	<u>198,619</u>	<u>177,912</u>	(<u>20,707</u>)
Total other financing sources and (uses)	<u>198,619</u>	<u>198,619</u>	<u>177,912</u>	(<u>20,707</u>)
Net change in fund balance	-0-	-0-	-0-	-0-
Fund balance - beginning	_____	_____	_____	_____ -0-
Fund balances - ending	<u>\$ _____ -0-</u>	<u>\$ _____ -0-</u>	<u>\$ _____ -0-</u>	<u>\$ _____ -0-</u>

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