

**FREEPORT ECONOMIC DEVELOPMENT
CORPORATION
FREEPORT, TEXAS**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2013**

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

FREERPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

Annual Financial Report
For the Year Ended September 30, 2013
Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	7-8
Management's Discussion and Analysis	9-14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	18
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Position.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Governmental Activities Statement of Activities	21
Notes to the Financial Statements.....	23-39
Required Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	42
Other Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service Fund.....	45

FINANCIAL SECTION

Kennemer, Masters & Lunsford

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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, 2013, 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.

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FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis

For the Year Ended September 30, 2013

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, 2013.

Financial Highlights

- In May 2010, the City of Freeport (the "City") took over the operations of the marina. This involved collection of dock fees and payment of operating expenditures, which included operating leases. The City established a separate fund (Special Revenue) to account for these operations, and contracted a manager for the marina operations.
- During the prior year, the City and the Corporation froze the payments of principal and interest and the accrual of interest until such time as the Marina is complete and an agreement of the amount and timing of debt payments can be reevaluated.
- 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 \$ 2,597,289 (net position). Of this amount, \$(3,106,280) is the investment in capital assets, net of related debt. The remaining \$ 508,991 is unrestricted.
- The Corporation's total net position increased by \$ 92,746 during the year ended September 30, 2013. The primary cause of this increase was the stabilization of expenses (related to the substantial completion of the Marina project) and an increase in sales tax revenue.
- As of the close of the current fiscal year, the Corporation's governmental funds reported combined ending unassigned fund balance of \$ 508,991.

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 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.

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis

For the Year Ended September 30, 2013

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 \$ 2,597,289. The Corporation's total net position increased during the year by \$ 92,746.

The following table presents a condensed year end Statement of Net Position for the years ended September 30, 2013 and 2012:

	<u>Governmental Activities</u>	
	September 30,	
	<u>2013</u>	<u>2012</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets:		
Current and other assets	\$ 519,936	\$ 631,826
Capital assets	<u>6,430,169</u>	<u>6,302,938</u>
Total assets	<u>6,950,105</u>	<u>6,934,764</u>
Deferred Outflows of Resources		
Total deferred outflows of resources	<u> </u>	<u> </u>
Total assets and deferred outflows of resources	<u>\$ 6,950,105</u>	<u>\$ 6,934,764</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities:		
Current and other liabilities	\$ 10,945	\$ 120
Long-term liabilities	<u>9,536,449</u>	<u>9,624,679</u>
Total liabilities	<u>9,547,394</u>	<u>9,624,799</u>
Deferred Inflows of Resources:		
Total deferred inflows of resources	<u> </u>	<u> </u>
Net Position:		
Invested in capital assets, net of related debt	(3,106,280)	(3,321,741)
Unrestricted	<u>508,991</u>	<u>631,706</u>
Total net position	<u>(2,597,289)</u>	<u>(2,690,035)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,950,105</u>	<u>\$ 6,934,764</u>

FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis

For the Year Ended September 30, 2013

The General Fund balance decreased by \$ 122,715 during the current year. Other sources and uses included \$ 178,650 in transfer out to the Debt Service Fund; and \$ 205,192 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 \$ 59,028 more than was expected during the year. Additionally, budgeted expenditures were \$ 119,193 more than actual, primarily due to the conclusion of the Marina construction project. The Corporation had an overall favorable budget variance of \$ 179,627.

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, 2013, amounts to \$ 6,430,169 (net of accumulated depreciation). This investment in capital assets includes 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 the moving and completion of the dry stack building. 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>2013</u>	<u>2012</u>
Land	\$ 474,700	\$ 474,700
Land improvements	1,181,862	1,270,371
Permitting costs	1,179,372	1,211,684
Building and docks	3,344,469	2,076,661
Building improvements	211,593	211,404
Machinery and equipment	38,173	9,800
Construction in progress		<u>1,048,318</u>
Total	<u>\$ 6,430,169</u>	<u>\$ 6,302,938</u>

Additional information on the Corporation's capital assets can be found in Note 4 on pages 33 through 34 of this report.

BASIC FINANCIAL STATEMENTS

FREEPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes In Net Position Governmental Activities
Primary Government:			
Governmental Activities:			
Economic development:			
Marina	\$ 273,713	\$	\$(273,713)
Beautification projects	58,363	1,100	(57,263)
City of Freeport debt service Series 2003A	205,192		(205,192)
Interest on long-term debt	90,420		(90,420)
Total governmental activities	\$ 627,688	\$ 1,100	(626,588)
General Revenue:			
Sales tax			719,028
Investment earnings			306
Total general revenues and transfers			719,334
Change in net position			92,746
Net position – beginning			(2,690,035)
Net position - ending			\$(2,597,289)

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, 2013

Total fund balances – governmental funds balance sheet	\$ 508,991
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 \$ 7,307,131 in assets less \$ 876,962 in accumulated depreciation.	6,430,169
Payables for note principal are not reported in the funds.	(8,092,118)
Payables for note interest are not reported in the funds.	<u>(1,444,331)</u>
Net position of governmental activities – statement of net position.	<u><u>\$ (2,597,289)</u></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, 2013

Net change in fund balances – total governmental funds	\$(122,715)
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 capital outlays \$ 338,346 exceeded depreciation \$ 211,115 in the current period.	127,231
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 \$ 88,488.	<u>88,230</u>
Change in net position of governmental activities	<u>\$ 92,746</u>

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

FREERPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2013

INDEX

Note	Page
1. Summary of Significant Accounting Policies	24
2. Deposits, Investments and Derivatives.....	30
3. Sales Tax Revenue	33
4. Capital Assets.....	33
5. Long-Term Debt	35
6. Leasing Operations	38
7. Contingent Liabilities.....	39
8. Evaluation of Subsequent Events.....	39

FREERPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2013

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - continued

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. 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 City does believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2014.

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

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 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, 2013

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 in 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.

FREEPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2013

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, 2013

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, 2013, and holds no direct investments in derivatives at September 30, 2013.

NOTE 3 - SALES TAX REVENUE

The Corporation's revenues consist principally of one-third sales tax collected. In 2013, the Corporation earned \$ 719,028 in sales taxes. At year-end the Corporation reported a receivable from the State for sales tax revenues collected in October and November of \$ 132,675.

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance</u> <u>10-01-12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09-30-13</u>
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land and building	\$ 474,700	\$	\$	\$ 474,700
Construction in progress	<u>1,048,318</u>	<u> </u>	<u>1,048,318</u>	<u>-0-</u>
Total capital assets not being depreciated	<u>1,523,018</u>	<u>-0-</u>	<u>1,048,318</u>	<u>474,700</u>
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	<u>21,776</u>	<u>32,159</u>	<u> </u>	<u>53,935</u>
Total capital assets being depreciated	<u>5,445,767</u>	<u>1,386,664</u>	<u>-0-</u>	<u>6,832,431</u>

(continued)

FREEPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2013

NOTE 4 - CAPITAL ASSETS - Continued

At September 30, 2012, the Corporation acquired an appraisal of fair value considering the decline in the service utility of the Marina Assets. This decline was primarily brought about 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. This evaluation resulted in the write-off of Marina capital asset costs in the amount of \$ 3,403,424 at September 30, 2012.

Depreciation expense was charged to functions/programs of the primary government for the year ended September 30, 2013, as follows:

Governmental Activities:

Non-Marina	\$ 58,363
Marina	<u>152,752</u>
Total depreciation expense - governmental activities	<u>\$ 211,115</u>

NOTE 5 - LONG-TERM DEBT

General Long-Term Debt

Notes Payable City of Freeport (the "City"):

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. Accrued interest on this note at September 30, 2013 was \$ 46,350.

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, 2013 was \$ 1,397,981.

The notes payable at September 30, 2013 are summarized as follows:

Purpose	Interest Rate (%)	Dates			Bonds Outstanding 09-30-13
		Issued	Maturity	Callable	
Consolidated note payable					
City of Freeport	5.00	2006	2012	N/A	\$ 639,208
Note payable					
City of Freeport	4.84	2007	2030	N/A	<u>6,000,000</u>
					<u>\$ 6,639,208</u>

FREERPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2013

NOTE 5 - LONG-TERM DEBT - Continued

General Long-Term Debt - continued

Aggregate maturities of note payables for the five years subsequent to September 30, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 65,320	\$ 97,089	\$ 162,409
2015	<u>1,387,590</u>	<u>51,041</u>	<u>1,438,631</u>
Total	<u>\$ 1,452,910</u>	<u>\$ 148,130</u>	<u>\$ 1,601,040</u>

All Notes Payable:

Aggregate maturities of note payables for the five years subsequent to September 30, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 65,320	\$ 97,089	\$ 162,409
2015	<u>1,387,590</u>	<u>51,041</u>	<u>1,438,630</u>
Total	1,452,910	148,130	1,601,040
Notes payable to City (Frozen)	<u>6,639,208</u>	<u>5,168,991</u>	<u>11,808,199</u>
Total	<u>\$ 8,092,118</u>	<u>\$ 5,317,121</u>	<u>\$ 13,409,239</u>

Changes in Long-Term Payables

Transactions for the year ended September 30, 2013 are summarized as follows:

	<u>Balance 10-01-12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 09-30-13</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
Notes payable (City)	\$ 6,639,208	\$	\$	\$ 6,639,208	\$
Note payable Component of Long-Term Notes Payable:	1,541,140		88,230	1,452,910	65,320
Accrued interest payable	<u>1,444,331</u>			<u>1,444,331</u>	
Total governmental activities	<u>\$ 9,624,679</u>	<u>\$ -0-</u>	<u>\$ 88,230</u>	<u>\$ 9,536,449</u>	<u>\$ 65,320</u>

FREERPORT ECONOMIC DEVELOPMENT CORPORATION
Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2013

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, 2013. The Corporation is involved in the following legal action, and is represented by legal counsel.

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 is set for hearing on June 23, 2014. Additional discovery will likely be conducted once the City's status in the case is resolved and not trial date has been set. We have not formed an opinion that an unfavorable outcome of this litigation is either "probable" or "remote". Consequently, we express no opinion as to the likelihood of an unfavorable outcome or any estimate of the amount or range of potential loss. The EDC intends to defend Briarwood's claims vigorously if this matter cannot be resolved by settlement.

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through September 11, 2014, the date which the financial statements were available to be issued. Through September 11, 2014, 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.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTAL SCHEDULES

FREEMPORT 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, 2013

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
Revenues:				
Total revenues	\$ _____	\$ _____	\$ _____	\$ _____ -0-
Expenditures:				
Debt Service:				
Principal	88,230	88,230	88,230	-0-
Interest	<u>90,420</u>	<u>90,420</u>	<u>90,420</u>	<u>-0-</u>
Total expenditures	<u>178,650</u>	<u>178,650</u>	<u>178,650</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	(<u>178,650</u>)	(<u>178,650</u>)	(<u>178,650</u>)	<u>-0-</u>
Other Financing Sources (Uses):				
Operating transfer in	<u>178,650</u>	<u>178,650</u>	<u>178,650</u>	<u>-0-</u>
Total other financing sources and (uses)	<u>178,650</u>	<u>178,650</u>	<u>178,650</u>	<u>-0-</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>