

**Garza/Gonzalez & Associates**

CERTIFIED PUBLIC ACCOUNTANTS

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**CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION**  
(A Component Unit of City of Windcrest, Texas)

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

CITY OF WINDCREST  
 ECONOMIC DEVELOPMENT CORPORATION  
 (A Component Unit of City of Windcrest, Texas)

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

PRINCIPAL OFFICERS

SEPTEMBER 30, 2011

President	Tim Maloney
Vice President	Roy E. Wratishaw
Executive Director	Sherry L. Mosier
Directors	Rebekah Parks Sue Alexander Leonard A. Neeper Irv Gerrow Lisa Pepi

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

### Board of Directors

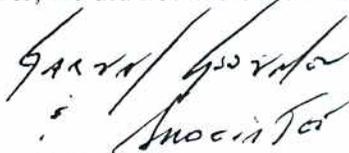
City of Windcrest Economic Development Corporation  
Windcrest, Texas

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



June 15, 2012

**CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the financial performance of the City of Windcrest Economic Development Corporation (Corporation), a component unit of the City of Windcrest (City), provides an overview of the Corporation's financial activity for the fiscal year ended September 30, 2011. It should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- The Corporation's assets exceeded its liabilities by \$353,277 (net assets) at September 30, 2011. Of this amount, \$267,141 is restricted for economic development projects.
- The Corporation's total revenues were \$322,600, while total expenses were \$167,041, thereby increasing the Corporation's net assets by \$155,559.
- The Corporation's outstanding debt balance increased by \$1,600,000 as a result of obtaining a loan from the Texas Leverage Fund from the Office of the Governor for the purpose of building a road for handling the increased traffic within the City.
- The Corporation reported an ending fund balance of \$1,844,050, an increase of \$1,698,029 as a result of the proceeds from the \$1,600,000 loan described above.

**USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as the introduction to the Corporation's basic financial statements which are comprised of three parts: government-wide financial statements, fund financial statements, and notes to financial statements. In addition to the basic financial statements, required supplementary information is also presented.

**Government-Wide Financial Statements** – The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the Corporation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

**CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Both of the government-wide financial statements include functions of the Corporation that are principally supported by sales and use tax revenues (governmental activities).

The government-wide financial statements can be found on pages 9-10.

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

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 near-term inflows and outflows of spendable resources available for current spending, as well as on balances of resources available for spending at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both, the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

As mentioned above, the Corporation maintains one governmental fund, i.e. the general fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and change in fund balance. The Corporation adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 11-14 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 15-25 of this report.

**Required Supplementary Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Corporation's general fund budgetary comparisons. Required supplementary information can be found on page 26 of this report.

**CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Statement of Net Assets**

Table 1 shows all of the assets and liabilities of the Corporation and is presented on the accrual basis of accounting. The total net assets are \$353,277. Of the total net assets \$86,136 (24%) represents its investment in capital assets. Capital assets include buildings and improvements, furniture and equipment, other improvements and construction in progress. The remaining \$267,141 represents resources restricted to fund the Corporation's economic development projects. Noncurrent liabilities represent the amount payable on the loan obtained in the current year in the original issue amount of \$1,600,000 from the Texas Leverage Fund, to fund economic development projects.

**TABLE 1  
CITY OF WINDCREST ECONOMIC DEVELOPMENT CORPORATION  
NET ASSETS**

	2011	Restated 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,797,806	\$ 88,334
Accounts receivable	71,929	58,045
Restricted assets	-	5
Capital assets (net of accumulated Depreciation)	86,136	51,697
Total Assets	<u>\$ 1,955,871</u>	<u>\$ 198,081</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 25,685	\$ -
Interest payable	4,099	-
Due to other funds	-	363
Noncurrent liabilities		
Due within one year	92,322	-
Due in more than one year	1,480,322	-
Total liabilities	<u>1,602,594</u>	<u>363</u>
<b>NET ASSETS</b>		
Invested in capital assets	86,136	51,697
Restricted for economic development projects	267,141	146,021
Total net assets	<u>\$ 353,277</u>	<u>\$ 197,718</u>

**CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Activities**

Table 2 shows all of the revenues and expenses of the Corporation and is also presented on the accrual basis of accounting. Program revenues of the prior year consist of grants and miscellaneous revenues. No such revenue was received in the current year. General revenues consist of the 1/4 cent sales tax the Corporation receives for economic development. The total cost of all projects and services was \$167,041. The Corporation was able to increase the net assets of its governmental activities by \$155,559 by reducing its expenses by \$169,256 over the prior year.

**TABLE 2  
CITY OF WINDCREST ECONOMIC DEVELOPMENT CORPORATION  
CHANGES IN NET ASSETS**

	2011	Restated 2010
<b>REVENUES</b>		
Program revenues	\$ -	\$ 50,000
General revenues	322,536	329,006
Interest Income	64	367
Total revenues	<u>322,600</u>	<u>379,373</u>
<b>EXPENSES</b>		
Administrative	121,992	266,331
Economic Development Projects	9,623	55,816
Depreciation	13,530	14,150
Interest and Fees	21,896	-
Total expenses	<u>167,041</u>	<u>336,297</u>
<b>CHANGES IN NET ASSETS</b>	155,559	43,076
<b>NET ASSETS – BEGINNING (RESTATED)</b>	<u>197,718</u>	<u>154,642</u>
<b>NET ASSETS – ENDING</b>	<u>\$ 353,277</u>	<u>\$ 197,718</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND**

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

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

**CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As of the close of the current fiscal year, the Corporation's governmental fund reported an ending fund balance of \$1,844,050, an increase of \$1,698,029 from the prior year. This increase is due primarily to the Corporation obtaining loan proceeds of \$1,600,000 to fund planned capital expenditures. The entire ending fund balance is restricted for the planned economic development projects.

**BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget amounted to an overall net change in fund balance. The primary changes were as follows:

- Revenue decreased by \$54,000 since a grant previously awarded in the prior year was not awarded in the current year.
- Expenditures and other financing sources increased by \$1,469,274 and \$1,599,500, respectively, as a result of budgeting for the loan acquired to fund future capital expenditures.

At the end of the current fiscal year, actual revenues were more than budgetary estimates by \$22,100 and actual expenditures were less than budgetary estimates by \$1,592,363. Below is a brief summary of the major differences between the final amended budget and actual results for both revenues and expenditures.

- Sales tax revenue exceeded the budget by \$22,536; however, interest earned was \$436 less than the budget.
- Salaries and benefits were reduced as a result of a reduction in force and thus savings were realized.
- Capital expenditures budgeted as a result of the acquisition of loan proceeds were not yet incurred, which resulted in actual expenditures being \$1,550,086 less than the budget. These expenditures will be appropriated for in next year's budget.
- Debt service payments were budgeted as "Principal" instead of "Principal and Interest" and the total payments were \$11,247 less than anticipated.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – The Corporation's investment in capital assets for its governmental activities as of September 30, 2011 amounted to \$86,136 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements, furniture and equipment, and construction in progress. The total increase in the Corporation's investment in capital assets for the current fiscal year was \$34,439, which represents a 67% increase.

Please refer to Note III C (page 21) as presented in the notes to the financial statements for more detailed information on the Corporation's capital asset activity.

**CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Long-Term Debt** – At the end of the current fiscal year, the Corporation had total debt outstanding of \$1,572,810. The loan has a first lien on the Corporation's sales and use-tax revenue.

More detailed information about the Corporation's long-term liabilities is presented in the Note III D (page 22) of the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

**Description of Current and Expected Conditions**

Presently, the Board of Directors is not aware of any significant changes in conditions that would have a significant effect on the financial position or activities of the Corporation in the near future. Next year's budget will provide for the expenditure of \$1,600,000 loan proceeds that will fund the building of a road to handle the increased traffic in the City.

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Corporation's finances and to show the Corporation's accountability to its taxpayers. If you have any questions about this report or need additional financial information, contact the City of Windcrest Municipal Finance Officer.

## **Basic Financial Statements**

***Government-Wide Financial Statements***

CITY OF WINDCREST  
 ECONOMIC DEVELOPMENT CORPORATION  
 Windcrest, Texas

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Primary Government
	Governmental Activities
<b>ASSETS</b>	
Cash and Investments	\$ 1,797,806
Accounts Receivable	71,929
Capital Assets	
Construction in Progress	31,653
Buildings and Improvements, Net	27,248
Furniture and Equipment, Net	7,442
Improvements Other Than Buildings, Net	19,793
Total Assets	\$ 1,955,871
<b>LIABILITIES</b>	
Accounts Payable	\$ 25,685
Interest Payable	4,099
Noncurrent Liabilities:	
Due Within One Year	92,322
Due in More Than One Year	1,480,488
Total Liabilities	1,602,594
<b>NET ASSETS</b>	
Invested in Capital Assets	86,136
Restricted for Economic Development Projects	267,141
Total Net Assets	\$ 353,277

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

CITY OF WINDCREST  
 ECONOMIC DEVELOPMENT CORPORATION  
 Windcrest, Texas

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenue	Net (Expense) Revenue and Changes in Net Assets <u>Primary Government</u> Governmental Activities
<b>Primary Government:</b>			
Governmental Activities:			
Salaries and Benefits	\$ 75,050	\$ -	\$ (75,050)
Administrative	9,236	-	(9,236)
Economic Development Projects	9,623	-	(9,623)
Other	37,706	-	(37,706)
Depreciation on Capital Assets	13,530	-	(13,530)
Debt Service - Interest and Fees	21,896	-	(21,896)
Total Governmental Activities	\$ 167,041	\$ -	(167,041)
General Revenues:			
Sales and Use Taxes			322,536
Interest Income			64
			322,600
Change in Net Assets			155,559
Net Assets—Beginning (Restated)			197,718
Net Assets—Ending			\$ 353,277

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

***Governmental Fund Financial Statements***

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

BALANCE SHEET

SEPTEMBER 30, 2011

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,797,806
Accounts Receivable	<u>71,929</u>
Total Assets	<u><u>\$ 1,869,735</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	
Accounts Payable	<u>\$ 25,685</u>
Total Liabilities	<u>25,685</u>
Fund Balance	
Restricted for Economic Development Projects	<u>1,844,050</u>
Total Fund Balance	<u>1,844,050</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,869,735</u></u>

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

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

<b>Total Fund Balance--Governmental Funds</b>	\$ 1,844,050
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Capital assets used in governmental activities are not financial resources and are therefore not reported in governmental funds. At the beginning of the year, the cost of these assets was \$103,547, as restated, and the accumulated depreciation was (\$51,850). The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.

51,697

Transactions related to current year capital outlays and long-term debt are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, as follows:

- Capital asset additions totaled \$49,914
- Disposition of capital assets was (\$3,295) and related accumulated depreciation was \$1,350
- Issuance of loan payable was (\$1,600,000)
- Principal payments on the loan payable totaled \$27,190
- Interest payable was (\$4,099)

The net effect is to (decrease) net assets. (1,528,940)

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to (decrease) net assets. (13,530)

<b>Net Assets of Governmental Activities</b>	<u>\$ 353,277</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF WINDCREST  
 ECONOMIC DEVELOPMENT CORPORATION  
 Windcrest, Texas

STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGE IN FUND BALANCE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund
<b>REVENUES</b>	
Sales and Use Taxes	\$ 322,536
Interest	64
	322,600
Total Revenues	322,600
<b>EXPENDITURES</b>	
Current	
Salaries and Benefits	75,050
Administrative	9,236
Economic Development Projects	9,623
Other	35,761
Capital Outlay	49,914
Debt Service:	
Principal	27,190
Interest	17,797
	224,571
Total Expenditures	224,571
Excess of Revenues Over Expenditures	98,029
<b>OTHER FINANCING SOURCES</b>	
Proceeds from Loan	1,600,000
Total Other Financing Sources	1,600,000
Net Change in Fund Balance	1,698,029
Fund Balance - Beginning	146,021
Fund Balance - Ending	\$ 1,844,050

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

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**Total Net Change in Fund Balance--Governmental Funds** \$ 1,698,029

Transactions related to current year capital outlays and long-term debt are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, as follows:

- Capital asset additions totaled \$49,914
- Disposition of capital assets was (\$3,295) and related accumulated depreciation was \$1,350
- Issuance of loan payable was (\$1,600,000)
- Principal payments on the loan payable totaled \$27,190
- Interest payable was (\$4,099)

The net effect is to (decrease) net assets. (1,528,940)

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to (decrease) net assets. (13,530)

**Change in Net Assets of Governmental Activities** \$ 155,559

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

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Windcrest Economic Development Corporation (the Corporation) is a nonprofit industrial corporation, with powers of taxation, created pursuant to Section 4B Article 5190.6 of Vernon's Texas Civil Statutes as amended. The Corporation was created on September 25, 1998, to act on behalf of the City of Windcrest (the City) for the promotion, development and enhancement of economic development within the City.

The Corporation is considered to be a governmental entity for the purpose of applying accounting and financial reporting standards. Therefore, its basic financial statements are prepared in conformity with generally accepted accounting principles (GAAP) promulgated by the Government Accounting Standards Board (GASB).

**A. Reporting Entity**

The Corporation is a component unit of the City within the meaning of GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14* and is included in the City's financial statements as a blended component unit since:

- The Board of Directors is comprised of seven (7) members, appointed by City Council.
- The Board has control over and management supervision of all affairs of the Corporation under the guidance and direction of City Council.
- The City Council approves the Corporation's programs and expenditures.

The Corporation does not have any component units.

**B. Government-Wide and Fund Financial Statements**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Corporation's activities. Governmental activities include programs primarily supported by sales and use taxes.

The net assets can be segregated into invested in capital assets, net of related debt; restricted net assets; and, unrestricted net assets.

The Statement of Activities demonstrates how other parties or entities that participate in programs the Corporation operates have shared in the payment of the direct costs. Thus, the purpose is to show the degree to which the direct expenses of a given function are offset by program revenues, if any. Direct expenses are those that are clearly identifiable with a specific function. However, all of the Corporation's activities and programs are funded by general revenues (i.e. sales and use taxes).

The governmental fund financial statements provide reports on the financial condition and results of operations for the Corporation's general fund, which is its only fund.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements use 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 the related cash flows.

Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and expenditures).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the Corporation considers all revenues available if they are collectible within sixty (60) days after year end. Expenditures generally are recorded in the accounting period in which the fund liability is incurred, if measurable. However, debt service expenditures are recorded only when payment is due.

Sales and use tax revenue is recognized under the susceptible to accrual concept since it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measureable until actually received. Interest income is recorded as earned, since it is both measureable and available.

**D. Fund Accounting**

The Corporation reports the general fund as the only governmental fund and it is therefore reported as the major fund. The general fund is the Corporation's primary operating fund that is used to account for all financial resources. Major revenue sources include sales and use tax. Expenditures include all costs associated with the daily operations of the Corporation.

**E. Other Accounting Policies**

**1. Cash and Cash Equivalents**

The Corporation's cash and cash equivalents are considered to be demand deposits, savings accounts, and investments with original maturities of three (3) months or less from the date of acquisition.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. Investments

At September 30, 2011, the Corporation's current investments are comprised of a local government investment pool, which are reflected as cash and cash equivalents.

Texas Local Government Investment Pool ("TexPool"): TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pool is the same as the value of the shares in each pool. Financial information for TexPool can be accessed on the internet (<http://www.texpool.com>).

TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust company, which is authorized to operate TexPool. Administrative and investment services are provided by Federated Investors, Inc., acting on behalf of the Texas Treasury Safekeeping Trust Company. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

3. Capital Assets

Capital assets, which include construction in progress and public improvements, are reported in the governmental activities column in the government-wide financial statements. All costs associated with public improvement projects are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Capital assets, which include construction in progress, buildings and improvements, vehicles furniture and equipment, and improvements other than buildings, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$2,500 or more or an estimated useful life in excess of three (3) years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building Improvements	5 – 50
Improvements Other than Buildings	20 – 50
Vehicles	3 – 10
Furniture and Fixtures	3 – 10

4. Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as non-current liabilities in the statement of net assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

5. Fund Balance

During the year the Corporation implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”. In applying this Statement, the initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable and then identifying other amounts to be classified as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The Corporation uses the following criteria when classifying fund balance amounts:

Nonspendable – amounts not in spendable form or that are legally or contractually required to be maintained intact. The Corporation does not have any amounts in this category at September 30, 2011.

Restricted – amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. At September 30, 2011, all of the Corporation’s fund balance is classified as restricted, in the amount of \$1,844,050.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Committed – amounts that require Board action to be used for a specific purpose. Formal action to commit funds must occur prior to fiscal year end and can only be modified or removed by the same formal action. The Corporation does not have any amounts in this category at September 30, 2011.

Assigned – amounts that do not require Board approval but are intended to be used for a specific purpose, as determined by an official or body to which the Board has delegated authority. These amounts do not meet the criteria to be classified as restricted or committed. The Corporation does not have any amounts in this category at September 30, 2011.

Unassigned – residual amount in the general fund that is available to finance operating expenditures. The Corporation does not have any amounts in this category at September 30, 2011.

6. Spending Order

Fund balance amounts that are restricted, committed, or assigned are considered to have been spent when an expenditure is incurred for the respective purpose. If an expenditure is incurred that meets the criteria for more than one fund balance category, the Corporation relieves fund balance in the following order: restricted, committed, assigned, and then unassigned.

7. Sales and Use Tax

The City's sales and use tax is currently levied at 2.00%. The sales and use tax is used for the promotion and development of new and expanded business enterprises, and is allocated as follows: 1.25% to the City's general fund; .25% to the City's capital projects fund; .25% to the City's crime control and prevention district, which is a special revenue fund; and, .25% to the Corporation. During the year, the Corporation recognized \$322,536 in sales and use taxes.

8. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**II. BUDGETARY INFORMATION**

The Board of Directors adopts an annual operating budget for the Corporation, which is approved by the City Council. Formal budgetary accounting is employed as a management control. The original adopted and final amended budget for revenues and expenditures and a comparison of the actual revenues and expenditures in the accompanying financial statements to the final amended budgeted amount is presented. The budget can be amended by the Board of Directors, subject to City Council approval. Actual expenditures may not legally exceed appropriations at the fund level. At September 30, 2011, although the total budgeted expenditures were not exceeded, three (3) individual line items exceeded their budget.

**III. DETAILED NOTES**

A. Cash and Investments

Cash: At September 30, 2011, cash and cash equivalents are comprised of the following:

	<u>Amount</u>
Demand Accounts	\$ 1,767,951
Investment Pools	<u>29,855</u>
Total	<u>\$ 1,797,806</u>

The Corporation's cash deposits at September 30, 2011 and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held in the name of the City.

*Custodial Credit Risk – Deposits.* The risk that in the event of a bank failure, the Corporation may not be able to recover deposits. The Corporation's deposits are collateralized with pledged collateral held in the name of the City. At September 30, 2011, the Corporation's bank deposits of \$1,767,951 are considered to be exposed to custodial credit risk since collateral is not held in the Corporation's name.

Investments: As of September 30, 2011, the Corporation's investments in Texpool were \$29,855.

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the Corporation's investment policy limits the weighted average maturities of investment pools to less than 12 months. At September 30, 2011, the weighted average of the Texpool investments was 44 days.

*Credit Risk.* In accordance with the Corporation's investment policy, investments in investment pools must be rated at least AAA, AAAM, or its equivalent. At September 30, 2011, the Texpool investment rating was AAAM.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**III. DETAILED NOTES (Continued)**

B. Accounts Receivable

At September 30, 2011, \$71,929 is due from the Texas Comptroller of Public Accounts for collected but unremitted sales and use taxes. This amount is expected to be collected within one (1) year.

C. Capital Assets

Capital asset activity for the governmental activities for the year ended September 30, 2011, was as follows:

	Balance 10/01/10 (Restated)	Additions	Retirements	Balance 09/30/11
<b>Capital Assets Not Being Depreciated:</b>				
Construction in Progress	\$ -	\$ 31,653	\$ -	\$ 31,653
Total Capital Assets, Not Being Depreciated	-	31,653	-	31,653
<b>Capital Assets Being Depreciated:</b>				
Buildings and Improvements	57,430	-	-	57,430
Vehicles	16,368	-	-	16,368
Furniture and Equipment	27,929	-	(3,295)	24,634
Other Improvements	1,820	18,261	-	20,081
Total Capital Assets, Being Depreciated	103,547	18,261	(3,295)	118,513
<b>Less Accumulated Depreciation for:</b>				
Buildings and Improvements	(20,273)	(9,909)	-	(30,182)
Vehicles	(16,368)	-	-	(16,368)
Furniture and Equipment	(15,012)	(3,530)	1,350	(17,192)
Other Improvements	(197)	(91)	-	(288)
	(51,850)	(13,530)	1,350	(64,030)
Total Capital Assets Being Depreciated, Net	51,697	4,731	(1,945)	54,483
Governmental Activities Capital Assets, Net	\$ 51,697	\$ 36,384	\$ (1,945)	\$ 86,136

Depreciation expense of the governmental activities for the current year totaled \$13,530.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**III. DETAILED NOTES (Continued)**

D. Loan Payable

During the year, the Corporation obtained a Texas Leverage Fund (TLF) loan from the Office of the Governor Economic Development and Tourism Division in the amount of \$1,600,000 for the purpose of building a road for handling the increased employment traffic to the Rackspace location in the City. The interest rate is variable based on the federal funds rate plus 3%; the federal funds rate ranged from 0.00%-0.25%. The loan has a first lien on economic development sales and use tax receipts.

A summary of changes in the loan payable for the year ended September 30, 2011 follows:

Description	Final Maturity	Interest Rate Payable	Amount Original Issue	Amount Outstanding 10/01/10	Issued	Retired	Amount Outstanding 09/30/11	Amounts Due within One Year
TLF Loan Payable	4/1/2026	Federal Funds Rate plus 3%	\$ 1,600,000	\$ -	\$ 1,600,000	\$ 27,190	\$ 1,572,810	\$ 92,322

Annual debt service requirements to maturity loan payable follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2012	\$ 92,322	\$ 53,885	\$ 146,207
2013	88,150	46,810	134,960
2014	91,058	43,902	134,960
2015	94,062	40,898	134,960
2016	97,165	37,795	134,960
2017-2021	536,071	138,731	674,802
2022-2026	573,982	44,588	618,570
Total	\$ 1,572,810	\$ 406,609	\$ 1,979,419

Interest expense of the governmental activities for the current year totaled \$21,896, of which \$4,099 was accrued as of year end.

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**III. DETAILED NOTES (Continued)**

E. Retirement Plan

The Corporation provides pension benefits for all of its fulltime employees through the City's non-traditional, joint contributory, hybrid defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplemental information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. The report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.tmr.com](http://www.tmr.com).

The disclosures for plan provisions and contributions to the plan; the required actuarial valuation information; and, required schedule of funding progress are included in the City's Annual Financial Report. The Annual Financial Report can be obtained from the City's Finance Department, 8601 Midcrown, Windcrest, Texas 78239 or from the City's website at [www.ci.windcrest.tx.us](http://www.ci.windcrest.tx.us).

F. Other Post-Employment Benefits

The Corporation also participates in the City's cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The disclosures for plan provisions and contributions to the plan are included in the City's Annual Financial Report. The Annual Financial Report can be obtained from the City's Finance Department, 8601 Midcrown, Windcrest, Texas 78239 or from the City's website at [www.ci.windcrest.tx.us](http://www.ci.windcrest.tx.us).

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**III. DETAILED NOTES (Continued)**

G. Contingencies and Commitments

Litigation

The City and the Corporation filed a lawsuit against a former City Manager alleging various causes of action in the nature of fraud and theft of public funds, which is on hold until certain criminal charges, for which he has been indicted, are resolved. The former City Manager has filed a counterclaim against the City alleging compensation and benefits. The City and the Corporation will vigorously pursue its claims against him and will vigorously defend any claims asserted by him against the City.

The City and the Corporation have also intervened in a claim against a former developer of a revitalization project, to recover funds or property to recoup losses that occurred during the former City Manager's tenure. The former developer has filed a counterclaim against the City alleging compensation and benefits. The City and the Corporation will vigorously pursue its claims against the former developer and will vigorously defend any claims asserted by him against the City.

Commitments

The revitalization and redevelopment of the Walzem Road area includes the redevelopment of Windsor Park Mall (the Mall) for the purpose of providing corporate headquarters to Rackspace U.S., Inc., an internet storage company that plans to relocate a total of 4,500 full-time jobs to the City.

The terms of the agreement call for a long-term direct financing lease to purchase and transfer the Mall to Rackspace U.S., Inc. The Corporation served as a conduit to the transaction and holds title to the Mall in trust for the parties to the transaction, consisting of City of Windcrest, Windcrest Economic Development Company, LLC, (the Developer) and Rackspace U.S., Inc. (the Lessee).

Pursuant to the lease agreement, Rackspace U.S., Inc., advanced \$5,000,000 to the Corporation for the purpose of providing funding to the Developer for infrastructure improvements. The Corporation holds the funds in escrow pending development of the planned infrastructure, at which time the funds will be reimbursed for such infrastructure. The Corporation and the City liability for infrastructure is limited to the amount of the original escrowed funds, including interest earned less other agreed upon costs. As of September 30, 2011 there was a balance of \$1,670,070 of remaining escrowed funds, which are held at Frost Bank by the City.

CITY OF WINDCREST  
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

**III. DETAILED NOTES (Continued)**

The Corporation also serves as a conduit to facilitate the purchase of various tracts of land in the surrounding region commonly referred to as the “180 Acres”, for the purpose of development of multi-family housing, retail, office, restaurant, entertainment facilities, and single-family neighborhoods. The Corporation holds the various tracts of land in trust for the Developer (beneficiary), Buddin Properties, LLC (Buddin). The tracts of land are secured by deeds of trust subject to various liens. The liens do not represent debt of the Corporation or the City, and accordingly, have not been reported in the accompanying financial statements. As of September 30, 2011, outstanding liens on the various tracts of land from the Buddin Properties were \$12,604,692.

H. Restated Net Assets

Beginning net assets reported in the government-wide financial statements were restated, as follows:

Description	Amount
Net Assets – September 30, 2010 (as reported)	\$ 199,468
Correct Furniture and Equipment	<u>(1,750)</u>
Net Assets – September 30, 2010 (as restated)	<u>\$ 197,718</u>

## **Required Supplementary Information**

CITY OF WINDCREST  
ECONOMIC DEVELOPMENT CORPORATION  
Windcrest, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES</b>				
Sales Tax	\$ 300,000	\$ 300,000	\$ 322,536	\$ 22,536
Interest	4,500	500	64	(436)
Other	50,000	-	-	-
<b>Total Revenues</b>	<b>354,500</b>	<b>300,500</b>	<b>322,600</b>	<b>22,100</b>
<b>EXPENDITURES</b>				
Current				
Salaries and Benefits	225,060	100,604	75,050	25,554
Administrative	-	-	9,236	(9,236)
Economic Development Projects	66,300	9,500	9,623	(123)
Other	56,300	50,596	35,761	14,835
Capital Outlay	-	1,600,000	49,914	1,550,086
Debt Service				
Principal	-	56,234	27,190	29,044
Interest	-	-	17,797	(17,797)
<b>Total Expenditures</b>	<b>347,660</b>	<b>1,816,934</b>	<b>224,571</b>	<b>1,592,363</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,840	(1,516,434)	98,029	1,614,463
<b>OTHER FINANCING SOURCES</b>				
Proceeds from Loan	500	1,600,000	1,600,000	-
<b>Total Other Financing Sources</b>	<b>500</b>	<b>1,600,000</b>	<b>1,600,000</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>7,340</b>	<b>83,566</b>	<b>1,698,029</b>	<b>1,614,463</b>
Fund Balance - Beginning	146,021	146,021	146,021	-
Fund Balance - Ending	<u>\$ 153,361</u>	<u>\$ 229,587</u>	<u>\$ 1,844,050</u>	<u>\$ 1,614,463</u>