

**FREERPORT ECONOMIC DEVELOPMENT  
CORPORATION**  
FREERPORT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2007

**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, 2007*

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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  
(979) 297-4075 Fax: (979) 297-6648  
(800) 399-4075

Houston Office:  
10850 Richmond Avenue, Suite 250  
Houston, Texas 77042  
(713) 974-3030 Fax: (713) 974-3513

## Independent Auditors' Report

Unqualified Opinions on Basic Financial Statements  
Accompanied by Required Supplementary Information,  
Along with Other Schedules

November 16, 2007

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Freeport Economic Development Corporation (FEDC), Freeport, Texas as of and for the year ended September 30, 2007, which collectively comprise the FEDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of FEDC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Freeport Economic Development Corporation, Freeport, Texas as of September 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

[www.kmkwllc.com](http://www.kmkwllc.com) – Email: [kmkw@kmkwllc.com](mailto:kmkw@kmkwllc.com)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007 on our consideration of the FEDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund on pages 9 through 14 and 38 are not 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.

The accompanying Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – Capital Projects Fund on page 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.

*Kennebec, Masters & Hurdford, LLC*



# **FREEMPORT ECONOMIC DEVELOPMENT CORPORATION**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2007*

As management of the Freeport Economic Development Corporation (FEDC), we offer readers of the FEDC's financial statements this narrative overview and analysis of the financial activities of the FEDC for the fiscal year ended September 30, 2007.

## **Financial Highlights**

- In prior years, the Freeport Economic Development Corporation (the "FEDC") provided services entirely or, almost entirely, to the City of Freeport (the "City") or otherwise exclusively or almost exclusively benefited the City even though it did not provide services directly to it and was reported as a blended component unit. However, during the year ended September 30, 2007, the FEDC began construction and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City is no longer able to report the FEDC as a blended component unit and has currently reported the FEDC as a discretely component unit.
- The assets of the FEDC exceeded its liabilities at the close of the most recent fiscal year by \$ 1,414,545 (net assets). Of this amount, \$ 1,488,535 is the excess of cash over liabilities in the capital projects fund. The remaining \$ 73,990 (net deficit) is a result of general fund operations.
- The FEDC's total net assets decreased by \$ 544,292.
- As of the close of the current fiscal year, the FEDC's governmental funds reported combined ending fund balances of \$ 5,064,699. \$ 5,138,689 of this total amount is reserved for construction.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the FEDC's basic financial statements. The FEDC'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 FEDC 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 FEDC's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the FEDC's net assets changed during the fiscal year. All changes in net assets 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, 2007*

The government-wide financial statements show the functions of the FEDC that are supported by sales tax and investment earnings. The activities of the FEDC include general administration and interest due on long-term debt. The FEDC 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 FEDC, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The FEDC consist 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 FEDC'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 FEDC's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenue, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The FEDC maintains two individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenue, Expenditures, and Changes in Fund Balances for the General Fund and the Capital Projects Fund, all of which are considered to be major funds.

The FEDC 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 comparisons are presented for the capital projects fund in the other supplemental information section to demonstrate compliance with these budgets.

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 36 of this report](#).

# FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis  
For the Year Ended September 30, 2007

**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 38](#) of this report.

The other supplemental information is presented following the required supplementary information. This individual statement is [found on page 40](#) of this report.

## Government-wide Financial Analysis

With the significant changes resulting from the reporting of the FEDC as a discretely presented component unit rather than a blended component unit, the FEDC is not presenting comparable columns in the various comparisons and analyses for the prior year. A comparative analysis of government-wide data will be presented in future years when the information is comparable and available.

The assets of the FEDC exceeded its liabilities at the close of the most recent fiscal year by \$1,414,545. The FEDC's total net assets decreased during the year by \$544,292. Management anticipates the current and future fiscal year's financial position will reflect a deficit of net assets through the life of the outstanding debt.

The following table presents a condensed year end Statement of Net Assets:

	<u>Governmental Activities</u> <u>September 30</u> <u>2007</u>
Current and other assets	\$ 5,827,188
Capital assets	<u>3,424,810</u>
Total assets	<u>9,251,998</u>
Current and other liabilities	762,489
Long-term liabilities	<u>7,074,964</u>
Total liabilities	<u>7,837,453</u>
Net Assets:	
Invested in capital assets, net of related debt	1,488,535
Unrestricted	<u>( 73,990)</u>
Total net assets	<u>\$ 1,414,545</u>

**Analysis of the FEDC's operations.** The following table provides a summary of the FEDC's operations for the years ended September 30, 2007. Governmental activities decreased net assets by \$544,292.

## **FREEPORT ECONOMIC DEVELOPMENT CORPORATION**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2007*

	<u>Governmental Activities</u> <u>September 30</u> <u>2007</u>
Revenues:	
Program Revenues:	
Operating grants and contributions	\$ 6,166
General Revenues:	
Sales tax	620,833
Investment earnings	<u>69,685</u>
Total revenues	<u>696,684</u>
Expenses:	
General government and administration	694,198
Interest on long-term debt	<u>340,874</u>
Total expenses	<u>1,035,072</u>
Increase in net assets before contributions and transfers	( 338,388)
Contributions	<u>( 205,904)</u>
Increase in net assets	( 544,292)
Net assets - beginning	<u>1,958,837</u>
Net assets - ending	<u>\$ 1,414,545</u>

### **Financial Analysis of the City's Funds**

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

**Governmental funds.** The focus of the FEDC's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the FEDC'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 FEDC's governmental funds reported combined ending fund balances of \$ 5,064,699. \$ 5,138,689 of this total amount is reserved for construction.

The General Fund balance decreased by \$ 777,583 during the current year. Other uses in the amount of \$ 205,904 were contributions out to the City of Freeport.

The Capital Projects fund balance increased \$ 5,138,689 during the current year, which was primarily due to \$ 6,000,000 in loan proceeds from the City of Freeport.

# **FREEPORT ECONOMIC DEVELOPMENT CORPORATION**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2007*

## **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget resulted in a \$ 113,000 increase in revenues and a \$ 152,855 net change in transfers.

Actual sales tax revenue was \$ 95,833 above what was expected during the year. Additionally, investment earnings were \$ 13,839 above budgeted amounts. Finally, budgeted grant revenues were considerably less than what was budgeted due to the FEDC not receiving a state grant in the current year. The FEDC did have an overall favorable variance in total expenditures of \$ 238,333.

Additional information on the FEDC's budgetary highlights can be found in the required supplementary information on [page 38 of this report](#).

## **Capital Assets**

The City of Freeport's investment in capital assets for its governmental activities as of September 30, 2007, amounts to \$ 3,424,810 (net of accumulated depreciation). This investment in capital assets includes improvements and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Freeport Economic Development Corporation - Marina Startup.
- Freeport Economic Development Corporation - Trico Relocation.
- Freeport Economic Development Corporation - Phase II Landscaping, City 25% match.

	<u>Governmental Activities</u> September 30 <u>2007</u>
Improvements	\$ 32,283
Construction in progress	<u>3,392,527</u>
Total	<u>\$ 3,424,810</u>

Additional information on the FEDC's capital assets can be found in [Note 5 on pages 33 through 34](#) of this report.

# **FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2007*

## **Debt Administration**

At the end of the current fiscal year, the SEDC had notes outstanding to the City of Freeport for \$ 6,734,090. Of this amount, \$ 734,090 is a consolidated loan received in 2006, and the remaining \$ 6,000,000 represents the new loan with the City of Freeport for start-up costs for the marina project. Sales taxes collected by the FEDC are being used to service the debt payments.

	<u>Governmental Activities</u> September 30 <u>2007</u>
Note from City of Freeport, 2007	\$ 6,000,000
Note from City of Freeport, 2006	<u>734,090</u>
Total	<u>\$ 6,734,090</u>

Additional information regarding the FEDC's debt outstanding can be found in [Note 6 to the basic financial statements on pages 34 through 35](#) of this report.

## **Economic Factors and Next Year's Budgets and Rates**

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

The FEDC is currently operating under its 2008 budget adopted and passed by the Board of Directors. The 2008 budget is dependent on sales taxes for ongoing operations.

## **Request for Information**

This financial report is designed to provide a general overview of the FEDC'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**

# FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## STATEMENT OF NET ASSETS

September 30, 2007

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 5,690,727
Receivables from other governments	111,461
Other receivables	25,000
Capital Assets (Net of Accumulated Depreciation):	
Improvements	32,283
Construction in progress	<u>3,392,527</u>
Total assets	<u>9,251,998</u>
Liabilities:	
Accounts payable	313,120
Judgment payable	446,651
Accrued wages	2,718
Noncurrent Liabilities:	
Due within one year	435,756
Due in more than one year	<u>6,639,208</u>
Total liabilities	<u>7,837,453</u>
Net Assets:	
Invested in capital assets; net of related debt	1,488,535
Unrestricted	<u>( 73,990)</u>
Total net assets	<u>\$ 1,414,545</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, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes In Net Assets</u> Governmental Activities
Primary Government:			
Governmental Activities:			
General government and administration	\$ 694,198	\$ 6,166	\$( 688,032)
Interest on long-term debt	<u>340,874</u>	<u>          </u>	<u>( 340,874)</u>
Total governmental activities	<u>\$ 1,035,072</u>	<u>\$ 6,166</u>	<u>( 1,028,906)</u>
General Revenue:			
Sales tax			620,833
Investment earnings			69,685
Contributions to primary government			<u>( 205,904)</u>
Total general revenues and transfers			<u>484,614</u>
Change in net assets			( 544,292)
Net assets – beginning (restated)			<u>1,958,837</u>
Net assets - ending			<u>\$ 1,414,545</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, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and temporary investments	\$ 392,134	\$ 5,298,593	\$ 5,690,727
Receivables from other governments	111,461		111,461
Other receivables	<u>25,000</u>		<u>25,000</u>
Total assets	<u>\$ 528,595</u>	<u>\$ 5,298,593</u>	<u>\$ 5,827,188</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 153,216	\$ 159,904	\$ 313,120
Judgment payable	446,651		446,651
Accrued wages	<u>2,718</u>		<u>2,718</u>
Total liabilities	<u>602,585</u>	<u>159,904</u>	<u>762,489</u>
Fund Balance:			
Reserved For:			
Construction		5,138,689	5,138,689
Unreserved:			
Undesignated	<u>( 73,990)</u>		<u>( 73,990)</u>
Total fund balances	<u>( 73,990)</u>	<u>5,138,689</u>	<u>5,064,699</u>
Total liabilities and fund balances	<u>\$ 528,595</u>	<u>\$ 5,298,593</u>	<u>\$ 5,827,188</u>

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

**FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

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

September 30, 2007

Total fund balances – governmental funds balance sheet	\$ 5,064,699
<b>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 3,435,374 in assets less \$ 10,564 in accumulated depreciation.	3,424,810
Payables for bond principal and other long-term debt are not reported in the funds.	( 6,734,090)
Payables for bond interest are not reported in the funds.	( <u>340,874</u> )
Net assets of governmental activities – statement of net assets.	\$ <u><u>1,414,545</u></u>

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

**FREEPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

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

For the Year Ended September 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:			
Sales tax	\$ 620,833	\$	\$ 620,833
Grant revenue	6,166		6,166
Investment income	23,839	45,846	69,685
Miscellaneous	<u>78,275</u>	<u>          </u>	<u>78,275</u>
Total revenues	<u>729,113</u>	<u>45,846</u>	<u>774,959</u>
Expenditures:			
Current:			
Administration	673,214		673,214
Miscellaneous	6,376		6,376
Capital outlay	589,622	907,157	1,496,779
Debt Service:			
Principal	<u>31,580</u>	<u>          </u>	<u>31,580</u>
Total expenditures	<u>1,300,792</u>	<u>907,157</u>	<u>2,207,949</u>
Excess of revenues over (under) expenditures	<u>( 571,679)</u>	<u>( 861,311)</u>	<u>( 1,432,990)</u>
Other Financing Sources (Uses):			
Proceeds from loan		6,000,000	6,000,000
Contributions to primary government	<u>( 205,904)</u>	<u>          </u>	<u>( 205,904)</u>
Total other financing sources (uses)	<u>( 205,904)</u>	<u>6,000,000</u>	<u>5,794,096</u>
Net changes in fund balances	<u>( 777,583)</u>	<u>5,138,689</u>	<u>4,361,106</u>
Fund balance - beginning (restated)	<u>703,593</u>	<u>          </u>	<u>703,593</u>
Fund balance - ending	<u>\$( 73,990)</u>	<u>\$ 5,138,689</u>	<u>\$ 5,064,699</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, 2007

Net change in fund balances – total governmental funds	\$	4,361,106
 <b>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</b>		
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 \$ 1,496,779 exceeded depreciation \$ 1,730 in the current period.		1,495,049
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 assets. These amounts were for general obligation bonded debt for \$ 31,580.		31,580
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 expenditures in governmental funds. This is the change in accrued interest on long-term debt of \$ 340,874.	(	340,874)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net assets. Long-term proceeds in the governmental fund were \$ 6,000,000.	(	6,000,000)
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 expenditures in governmental funds. This is the basis in assets retired in the amount of \$ 91,153 (original cost of assets of \$ 95,615 less accumulated depreciation of \$ 4,462).		<u>91,153</u> )
Change in net assets of governmental activities	\$(	<u>544,292</u> )

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

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**FREEPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

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# FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### 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 "FEDC"). The Articles of Incorporation were filed with the Office of the Secretary of State of Texas on December 20, 1999. The FEDC, 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 FEDC has been included as a discretely presented component unit in the City's financial statements. The City Council approves the budget of the FEDC and appoints the members of the Board of Directors of the FEDC.

#### Reporting Entity

The FEDC's financial statements include all the accounts and activities of the FEDC. Based on criteria prescribed by generally accepted accounting principles, the FEDC is considered a component unit of the City of Freeport. As such, the financial statements of the FEDC 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 FEDC 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 FEDC's financial reporting entity.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report financial information on all of the activities of the FEDC. As a general rule, the effect of interfund activity within the FEDC has been eliminated from the government-wide financial statements. The amounts between the City and the FEDC are not eliminated. The governmental activities of the FEDC 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 FEDC 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 are reported instead as *general revenues*.



# FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Government-Wide and Fund Financial Statements - continued

Separate financial statements are provided for governmental funds. The FEDC 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 FEDC.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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 FEDC 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 FEDC and certain capital expenditures.

# FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

The *capital projects fund* is used to account for the expenditure of long-term debt proceeds and other resources used for the acquisition of designated capital assets.

#### New Pronouncements

In April of 2004, the GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)". This Statement provides uniform financial reporting for OPEB plans and supersedes the interim guidance included in Statement No. 26. As the government does not have an OPEB, this Statement will not have an effect on the financial statements.

In May of 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1". This statement improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. As the government is not required to present a statistical section, this Statement did not have an effect on the financial statements.

GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. As the government does not have an OPEB, this Statement will not have an effect on the financial statements.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the government's financial statements.

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. This statement is effective for periods beginning after June 15, 2005. This statement was implemented during the year ended September 30, 2006 and did not have a material effect on the financial statements.

# FREERPORT ECONOMIC DEVELOPMENT CORPORATION

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## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - continued

GASB No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", was issued September 2006. This statement provides guidance for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement is effective for periods beginning after December 15, 2006. The statement was implemented and did not have an impact on the FEDC's financial statements.

GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", was issued November 2006. This statement provides guidance for pollution remediation obligations. This statement is effective for periods beginning after December 15, 2007. The management of FEDC does not believe that the implementation of this statement will have a material effect on the financial statements of the FEDC.

GASB No. 50, "Pension Disclosures", was issued May 2007. This statement provides guidance for financial reporting by pension plans and by employers that provide defined benefit and contribution plans. This statement is effective for periods beginning after June 15, 2007. The management of FEDC does not believe that the implementation of this statement will have a material effect on the financial statements of the FEDC.

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of FEDC does not believe that the implementation of this statement will have a material effect on the financial statements of the FEDC.

#### Budgetary Data

The FEDC prepares and adopts an appropriated budget on its General Fund and Capital Projects 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 FEDC Board prepares an annual budget for the FEDC 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 FEDC, 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.

# FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Budgetary Data - continued

The FEDC performs budget reviews during the year by which budget requirements are re-evaluated and revisions recommended for the FEDC's Board to approve and changes required. 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. Revisions to the budget were made during the year. The FEDC did not have any expenditures over appropriations.

#### 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, 2007.

#### 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 City. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. 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 City's Council. The City's management believes it complied with the requirements of the PFIA and the City's investment policies.

#### 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 includes 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.

# FREERPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Capital Assets - continued

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:

Buildings	10-20 Years
Improvements	6-20 Years
Equipment	5-15 Years
Vehicles	5 Years

#### Fund Balance

Reservations of fund balance represent those portions of fund balance legally segregated for a specific use and include amounts reserved for future debt service and construction activities. Unreserved fund balance represents fund balance that can be used for any lawful purpose of the FEDC as described in the enabling legislation.

#### Net Assets

Net assets represent the differences between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the government or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

#### Federal Income Tax Status

The FEDC qualifies as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code; therefore, no provision for federal income tax is made in the financial statements. Additionally, the FEDC is not a private foundation under provisions of the Internal Revenue Code.

### NOTE 2 - RESTATEMENT OF FUND BALANCE/NET ASSETS

During the year ended September 30, 2007, the FEDC initiated transactions that changed its reporting status with the City of Freeport ("City"). In prior years, the FEDC provided services entirely or, almost entirely, to the City or otherwise exclusively or almost exclusively benefited the City even though it did not provide services directly to it. During the year ended September 30, 2007, the FEDC began construction and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City is no longer able to report the FEDC as a blended component unit and has currently reported the FEDC as a discretely component unit. As a result, the FEDC's net assets and fund balance have been restated to reflect the elimination of the City as of September 30, 2007. In addition, \$ 16,728 in additional fixed assets was not previously included. Also, sales tax receivables totaling \$ 71,081 was not previously recorded. This amount accounts for the November 2006 receipts as indicated on the State's website, plus the difference between what was recorded as receivable at September 30, 2006 and the October 2006 receipts.

**FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

NOTE 2 - RESTATEMENT OF FUND BALANCE/NET ASSETS - Continued

The beginning net assets and fund balance of the FEDC in the statement of activities and balance sheet has been restated as follows:

Net assets at September 30, 2006	\$ 2,636,698
Notes payable to the City	( 765,670)
Additional fixed assets	16,728
Increase sales tax receivables and revenues	<u>71,081</u>
Restated net assets at September 30, 2006	<u>\$ 1,958,837</u>

Fund balances (General Fund) have been restated as follows:

Fund balance at September 30, 2006	\$ 632,512
Increase sales tax receivables and revenues	<u>71,081</u>
Restated fund balance at September 30, 2006	<u>\$ 703,593</u>

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The FEDC 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, 2007 are as follows:

	<u>Unrestricted</u>
Cash and Temporary Investments:	
Financial Institution Deposits:	
Demand deposits	\$ 151,558
State Treasury Investment Pool:	
Texpool	<u>5,539,169</u>
Total cash and temporary investments	<u>\$ 5,690,727</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. The FEDC's deposits are within a consolidated bank account in the City's name. At September 30, 2007, the carrying amount of the FEDC's cash, savings, and time deposits was \$ 151,558. The financial institutions balances were \$ 151,558 at September 30, 2007. Bank balances of \$ 151,558 were covered by collateral pledged in the City's name.

# **FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

## **NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

### **NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued**

#### **Deposits - continued**

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 FEDC's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. 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 City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

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

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

**FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

1. Fully insured or collateralized certificate of deposit of commercial banks;
2. U.S. Treasury Securities maturing in less than three (3) years;
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 City participates in one Local Government Investment Pools (LGIPs): 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 City 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, 2007, Texpool had a weighted average maturity of 35 days. Although Texpool portfolio had a weighted average maturity of 35 days, the City 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 FEDC's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the FEDC is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the FEDC at September 30, 2007.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ <u>5,539,169</u>	<u>1</u>
	\$ <u>5,539,169</u>	<u>1</u>



# FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments - continued

Credit Risk – As of September 30, 2007, the LGIPs (which represent approximately 100% of the FEDC's portfolio) are rated AAAM by Standard and Poor's.

Interest rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy the City 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 FEDC made no direct investments in derivatives during the year ended September 30, 2007, and holds no direct investments in derivatives at September 30, 2007.

### NOTE 4 - SALES TAX REVENUE

The FEDC's revenues consist principally of one-third sales tax collected. In 2007, the FEDC earned \$ 620,833 in sales taxes. At year-end the SEDC reported a receivable from the State for sales tax revenues collected in August and September of \$ 111,461.

### NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2007 was as follows:

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Governmental Activities:					
Capital Assets, Not Depreciated:					
Land	\$ 87,964	\$	\$	\$ 87,964	\$ -0-
Construction in progress	<u>1,674,240</u>	<u>1,496,779</u>	<u>221,508</u>	<u></u>	<u>3,392,527</u>
Total capital assets not being depreciated	<u>1,762,204</u>	<u>1,496,779</u>	<u>221,508</u>	<u>87,964</u>	<u>3,392,527</u>
Capital Assets, Being Depreciated:					
Improvements	<u>272,006</u>	<u></u>	<u>( 221,508)</u>	<u>7,651</u>	<u>42,847</u>
Total capital assets being depreciated	<u>272,006</u>	<u>-0-</u>	<u>( 221,508)</u>	<u>7,651</u>	<u>42,847</u> (continued)

**FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

**NOTE 5 - CAPITAL ASSETS** - Continued

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/07</u>
Less Accumulated Depreciation For:					
Improvements	\$ <u>13,296</u>	\$ <u>1,730</u>	\$ _____	\$ <u>4,462</u>	\$ <u>10,564</u>
Total accumulated depreciation	<u>13,296</u>	<u>1,730</u>	<u>-0-</u>	<u>4,462</u>	<u>10,564</u>
Total capital assets being depreciated, net	<u>258,710</u>	<u>( 1,730)</u>	<u>( 221,508)</u>	<u>3,189</u>	<u>32,283</u>
Governmental activities capital assets, net	\$ <u>2,020,914</u>	\$ <u>1,495,049</u>	\$ <u>-0-</u>	\$ <u>91,153</u>	\$ <u>3,424,810</u>

Depreciation expense was charged to functions/programs of the primary government as follow:

Governmental Activities:	
Administration	\$ <u>1,730</u>
Total depreciation expense - governmental activities	\$ <u>1,730</u>

**NOTE 6 - LONG-TERM DEBT**

**General Long-Term Debt**

During the fiscal year, the FEDC received a \$ 6,000,000 loan from the City to finance the development of the marina. During the prior years, the FEDC has received additional money in connection with the acquisition of land and preliminary construction plans for the marina as well. For the year ended September 30, 2006, the City consolidated these loans in the amount of \$ 734,090.

The notes payable at September 30, 2007 is summarized as follows:

<u>Purpose</u>	<u>Interest Rate (%)</u>	<u>Dates</u>			<u>Bonds Outstanding 09/30/07</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Note from City of Freeport 2007	4.84	2007	2030	n/a	\$ 6,000,000
Consolidated note from City of Freeport 2006	5.00	2006	2012	n/a	<u>734,090</u>
					\$ <u>6,734,090</u>

# FREEPORT ECONOMIC DEVELOPMENT CORPORATION

Freeport, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2007

### NOTE 6 - LONG-TERM DEBT - Continued

#### General Long-Term Debt - continued

Notes payable transactions for the year ended September 30, 2007 is summarized as follows:

	2007
Notes receivable, October 1, Loans	\$ 734,090 <u>6,000,000</u>
Notes outstanding, September 30,	\$ <u>6,734,090</u>

Aggregate maturities of note payables for the five years subsequent to September 30, 2007 are as follows:

	Principal	Interest	Total
2008	\$ 94,882	\$ 26,506	\$ 121,388
2009	302,039	319,349	621,388
2010	107,048	314,340	421,388
2011	112,304	309,084	421,388
2012	117,817	503,571	621,388
2013-2017	903,755	1,596,245	2,500,000
2018-2022	1,457,447	1,042,553	2,500,000
2023-2027	1,853,793	646,207	2,500,000
2028-2030	<u>1,785,005</u>	<u>124,270</u>	<u>1,909,275</u>
Total	\$ <u>6,734,090</u>	\$ <u>4,882,125</u>	\$ <u>11,616,215</u>

#### Changes in Long-Term Payables

Transactions for the year ended September 30, 2007 are summarized as follows:

	Balance 10/01/07	Additions	Payments	Balance 09/30/07	Due Within One Year
Governmental Type Activities:					
Notes payable	\$ 734,090	\$ 6,000,000	\$	\$ 6,734,090	\$ 94,882
Component of Long-Term Payable:					
Accrued interest payable	<u>                    </u>	<u>340,874</u>	<u>                    </u>	<u>340,874</u>	<u>340,874</u>
Total governmental activities	\$ <u>734,090</u>	\$ <u>6,340,874</u>	\$ <u>-0-</u>	\$ <u>7,074,964</u>	\$ <u>435,756</u>

# **FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

## **NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2007

### **NOTE 7 - CONTINGENT LIABILITIES**

The FEDC 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 FEDC at September 30, 2007.

The FEDC was involved in Cause No. C1032662; Western Shellfish v. FEDC; in the County Court at Law No. 2 of Brazoria County, Texas. On May 16, 2007, the court awarded Western Shellfish the sum of \$ 65,652.25, which includes \$ 3,261.42 in postjudgment interest from the date of judgment to the date of filing the cash bond. The FEDC was also involved in Cause No. C10326624 Western Seafood v. FEDC; in the County Court at Law No. 3 of Brazoria County, Texas. On May 11, 2007, the court awarded Western Seafood the sum of \$ 380,998.97, which includes \$ 19,333.90 in postjudgment interest from the date of judgment to the date of filing the cash bond. At September 30, 2007, there is a judgment payable set-up of \$ 446,651. The FEDC has appealed the judgments and the City of Freeport has executed supersedeas bonds to secure the payments of the judgments. If the FEDC were unable to pay the judgments, the City of Freeport would be liable to the plaintiffs for the judgment amounts.

***REQUIRED SUPPLEMENTARY INFORMATION***

**FREERPORT 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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 525,000	\$ 525,000	\$ 620,833	\$ 95,833
Grant revenue	675,000	675,000	6,166	( 668,834)
Investment income	10,000	10,000	23,839	13,839
Miscellaneous	<u>268,500</u>	<u>381,500</u>	<u>78,275</u>	<u>( 303,225)</u>
Total revenues	<u>1,478,500</u>	<u>1,591,500</u>	<u>729,113</u>	<u>( 862,387)</u>
Expenditures:				
Current:				
Administration	132,625	132,625	673,214	( 540,589)
Miscellaneous	25,000	25,000	6,376	18,624
Capital outlay	1,200,000	1,200,000	589,622	610,378
Debt Service:				
Principal			31,580	( 31,580)
Interest	<u>181,500</u>	<u>181,500</u>		<u>181,500</u>
Total expenditures	<u>1,539,125</u>	<u>1,539,125</u>	<u>1,300,792</u>	<u>238,333</u>
Excess (deficiency) of revenues over expenditures	<u>( 60,625)</u>	<u>52,375</u>	<u>( 571,679)</u>	<u>( 624,054)</u>
Other Financing Sources (Uses):				
Contributions to other governments			( 205,904)	( 205,904)
Operating transfers in		78,725		( 78,725)
Operating transfers out	<u>( 205,904)</u>	<u>( 437,484)</u>		<u>437,484</u>
Total other financing sources (uses)	<u>( 205,904)</u>	<u>( 358,759)</u>	<u>( 205,904)</u>	<u>152,855</u>
Net change in fund balances	<u>( 266,529)</u>	<u>( 306,384)</u>	<u>( 777,583)</u>	<u>( 471,199)</u>
Fund balance - beginning (restated)	<u>703,593</u>	<u>703,593</u>	<u>703,593</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 437,064</u>	<u>\$ 397,209</u>	<u>\$( 73,990)</u>	<u>\$( 471,199)</u>

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

***OTHER SUPPLEMENTAL SCHEDULE***

**FREERPORT ECONOMIC DEVELOPMENT CORPORATION**

Freeport, Texas

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND**

For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ _____	\$ _____	\$ <u>45,846</u>	\$ <u>45,846</u>
Total revenues	<u>-0-</u>	<u>-0-</u>	<u>45,846</u>	<u>45,846</u>
Expenditures:				
Capital outlay	<u>6,000,000</u>	<u>6,000,000</u>	<u>907,157</u>	<u>5,092,843</u>
Total expenditures	<u>6,000,000</u>	<u>6,000,000</u>	<u>907,157</u>	<u>5,092,843</u>
Excess (deficiency) of revenues over expenditures	<u>( 6,000,000)</u>	<u>( 6,000,000)</u>	<u>( 861,311)</u>	<u>5,138,689</u>
Other Financing Sources:				
Proceeds from loan	<u>6,000,000</u>	<u>6,000,000</u>		<u>( 6,000,000)</u>
Operating transfers in	<u>_____</u>	<u>_____</u>	<u>6,000,000</u>	<u>6,000,000</u>
Total other financing sources and (uses)	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>-0-</u>
Net change in fund balances	<u>-0-</u>	<u>-0-</u>	<u>5,138,689</u>	<u>5,138,689</u>
Fund balances - beginning	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>-0-</u>
Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,138,689</u>	<u>\$ 5,138,689</u>



**OVERALL COMPLIANCE  
AND  
INTERNAL CONTROLS 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  
(979) 297-4075 Fax: (979) 297-6648  
(800) 399-4075

Houston Office:  
10850 Richmond Avenue, Suite 250  
Houston, Texas 77042  
(713) 974-3030 Fax: (713) 974-3513

## Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Basic Financial Statements in Accordance with  
*Governmental Auditing Standards*

November 16, 2007

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeport Economic Development Corporation (the "FEDC") as of and for the year ended September 30, 2007, which collectively comprise the FEDC's basic financial statements and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the FEDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FEDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FEDC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the FEDC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the FEDC's financial statements that is more than inconsequential will not be prevented or detected by the FEDC's internal control.

[www.kmkwllc.com](http://www.kmkwllc.com) – Email: [kmkw@kmkwllc.com](mailto:kmkw@kmkwllc.com)

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

1. Inadequate design of internal control over preparation of financial statements. The FDEC has engaged a licensed certified public accounting firm to both prepare and audit the FDEC's annual financial report. The FDEC ensures the quality of its annual financial report by engaging a qualified audit firm with particular expertise in governmental audits and reading a preliminary draft of the report. The FDEC does not have specific controls in place to separately review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements. Although it is common within a small governmental unit, an audit firm cannot be considered part of its client's internal control by professional standards currently in affect.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, we considered the above deficiency to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FEDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have performed tests designed to verify the FEDC's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2007, no instances of noncompliance were found.

This report is intended for the information of the Board and FEDC's management and is not intended to be and should not be used by anyone other than these specified parties.

*Kennemer, Masters & Hurdford, LLC*