

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

(A component unit of the City of Lake Dallas)

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

SEPTEMBER 30, 2010

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

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MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

**HANKINS, EASTUP, DEATON,
TONN & SEAY**
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Dallas Economic Development Corporation
Lake Dallas, Texas

Members of the Board:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lake Dallas Economic Development Corporation (the "Corporation") as of and for the year ended September 30, 2010, which collectively comprises the Corporation's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on them based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 Corporation as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated January 6, 2011, on our consideration of the Corporation's internal control over financial reporting and our tests of 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 the results of that testing, and not to provide an opinion on 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and the budget information on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 6, 2011

MANAGEMENT'S DISCUSSION & ANALYSIS

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**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

As management of the Lake Dallas Economic Development Corporation, we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the Corporation's basic financial statements.

Financial Highlights

- The assets of the Corporation exceeded its liabilities at September 30, 2010 by \$312,929. All of this amount is available to meet the Corporation's objective of promoting economic development.
- The Corporation's total net assets increased by \$41,779.
- As of September 30, 2010, the Corporation's governmental funds reported combined ending fund balances of \$227,015, an increase of \$123,055 in comparison with the beginning of the year. \$226,490 of this amount is available for spending at the Corporation's discretion (*unreserved fund balance*).

Overview of the Financial Statements

The management discussion and analysis are intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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, increase or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of activities presents information showing how the Corporation's net assets changed during the most recent period. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

**LAKE DALLAS ECONOMIC
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

In the Statement of Net Assets and the Statement of Activities, the Corporation is divided between two kinds of activities:

- **Governmental activities.** All of the Corporation's basic services are reported here. Primarily sales taxes finance those services.
- **Business-type activities.** The Corporation may charge a fee to customers to help it cover all or most of the cost of certain services it provides. The Corporation had no business-type activities during the current period.

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. Fund financial statements provide detailed information about the most significant funds, not the Corporation as a whole. Some funds are required to be established by state law or bond covenants. However, the Board of Directors may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the Corporation are considered governmental funds.

Governmental Funds. All of the Corporation's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at period-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Corporation's general operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The Corporation maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Corporation does not currently have any fiduciary funds.

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 funds financial statements.

**LAKE DALLAS ECONOMIC
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information highlighting budgetary information for the general fund.

Government-wide Financial Analysis

The Corporation's combined net assets were \$312,929 as of September 30, 2010. The Corporation first implemented GASB Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*, for fiscal year 2004. The following analysis presents both current and prior year data and discusses significant changes in the accounts. This analysis focuses on the net assets (Table 1) and general revenues (Table 2) and changes in net assets (Table 3) of the Corporation's governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2009	2010
Current and other assets	\$109,106	\$227,160
Capital assets	<u>518,535</u>	<u>388,535</u>
Total assets	<u>627,641</u>	<u>615,695</u>
Long-term liabilities outstanding	351,345	302,621
Other liabilities	<u>5,146</u>	<u>145</u>
Total liabilities	<u>356,491</u>	<u>302,766</u>
Net assets:		
Invested in capital assets, net of related debt	167,190	85,914
Unrestricted	<u>103,960</u>	<u>227,015</u>
Total net assets	<u>\$271,150</u>	<u>\$312,929</u>

**LAKE DALLAS ECONOMIC
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

The following table provides a summary of the Corporation's operations for the years ended September 30, 2009 and 2010:

Table 2
Changes in Net Assets

	Governmental Activities	
	2009	2010
Revenues:		
Program revenues:		
Charges for services	\$ -	\$ -
General revenues:		
Sales taxes	253,404	248,317
Interest earnings	<u>357</u>	<u>122</u>
	<u>253,761</u>	<u>248,439</u>
Expenses:		
Administration	45,294	41,943
Economic Development	83,829	199,584
Debt Service-Interest	<u>25,888</u>	<u>22,519</u>
	<u>155,011</u>	<u>264,046</u>
Transfers in (out)	6,944	40,633
Special item-gain on sale of land	-	16,753
Change in net assets	105,694	41,779
Net assets – October 1 (beginning)	<u>165,456</u>	<u>271,150</u>
Net assets – September 30 (ending)	<u>\$271,150</u>	<u>\$312,929</u>

Financial Analysis of the Government's Funds

Governments Funds. The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the period.

As of the end of the current period, the Corporation's governmental funds reported combined ending fund balances of \$227,015, an increase of \$123,055 in comparison with the beginning of the period. \$226,490 of this amount constitutes unreserved fund balance, which is available for spending at the Corporation's discretion.

General Fund Budgetary Highlights

During the current year, the Board of Directors of the Corporation did not amend the budget for the General Fund.

The original budget projected that the activity for the year would increase available fund balance by \$68,500. The available fund balance for the general fund actually increased in the amount of \$123,055. Proceeds from an anticipated property sale were greater than expected.

**LAKE DALLAS ECONOMIC
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

Capital Asset and Debt Administration

Capital Assets. The Corporation's investment in capital assets for its governmental activities as of September 30, 2010 amount to \$388,535. The only capital asset activity during the current year was the sale of a tract of land. At September 30, 2010, the investment in capital assets consists of one tract of land purchased in a prior fiscal year.

Long-term Debt. At the end of the current period, the Corporation's long-term debt consisted of a bank loan with an outstanding total balance of \$302,621. This balance is a decrease of \$48,724 or 13.8 percent below the prior year balance, due to continued monthly payments on the bank loan.

Additional information on the Corporation's long-term debt can be found in Note 3 of this report.

Economic Factors and Next Year's Budgets

With the drop off of sales tax revenues over the last two years, the Economic Development Corporation has been hampered in its efforts to promote business development in the City. By the end of Fiscal Year 2010 the sales tax revenues began to stabilize and in fact would have been equal to the previous year had not the State made an \$18,000 refund. It is expected that sales tax receipts for existing businesses will begin the climb to levels achieved in FY 2009. The Corporation also sold two properties this year, the former DeWeese property to Daniels AC and half of the Swisher Road property to Swisher Courts. These two sales allowed the Corporation to pay off the mortgage on the Swisher Road property (both sides) and pay \$200,000 in incentive grants to Daniels AC and Swisher Courts. (An additional \$96,000 is owed to Daniels AC.)

Prospects for FY 2011 are better due to three major projects, the Daniels AC project, an 11,000 square foot building to house Daniels AC, plus three other commercial tenants is a welcome addition although not much is expected in increased sales tax from this business expansion. The Corporation also participated in the redevelopment of the Sonic Drive-in that has turned out to be a wonderful change to the Main Street landscape. Throughout the year the Corporation met with and renegotiated its deal with Swisher Courts (60,000 square foot indoor volleyball and basketball plus sports restaurant) as the construction loan changed, finally settling on the property in December. In December the Corporation also entertained a request for an incentive grant from Z Flooring for two new 6,000 square foot buildings to house their business. These two businesses project retail sales that will bring an additional \$20,000 to the Corporation.

The Corporation has only one parcel left for sale and that is the southern piece that Swisher Courts has under contract and plans to build an indoor soccer/football venue once the first phase is completed and revenues being generated. This parcel of land is totally free and clear to the Corporation since the proceeds from the sale of the northern piece paid off the note. The Corporation has only two grants to be paid during this year--\$146,000 to Daniels (partially paid already in this fiscal year) and \$150,000 to Z Flooring. By the end of this fiscal year, even if sales tax revenues don't rebound, the Corporation will be showing a reserve balance in excess of \$200,000 unless some unknown worthwhile project comes along requesting a grant.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

Requests for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lake Dallas Economic Development Corporation, 212 Main St., Lake Dallas, Texas, 75065.

BASIC FINANCIAL STATEMENTS

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**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 157,824
Receivables:	
Sales taxes	19,141
Due from City of Lake Dallas	49,670
Prepaid Expense	525
Capital Assets:	
Land	<u>388,535</u>
Total Assets	<u>615,695</u>
LIABILITIES	
Due to City of Lake Dallas	145
Noncurrent Liabilities:	
Due within one year	48,724
Due in more than one year	<u>253,897</u>
Total Liabilities	<u>302,766</u>
NET ASSETS	
Invested in Capital Assets, net of related debt	85,914
Unrestricted Net Assets	<u>227,015</u>
Total Net Assets	<u>\$ 312,929</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 41,943	\$ -	\$ -
Economic Development	199,584	-	-
Debt Service – Interest	<u>22,519</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>264,046</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 264,046</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL REVENUES:

Taxes:
Sales taxes
Interest Earnings
Transfers in (net)
Special item – Gain on sale of land
Total General Revenues
 Change in Net Assets
 NET ASSETS, October 1 (beginning)
 NET ASSETS, September 30 (ending)

The accompanying Notes are an integral part of this statement.

Net (Expense) Revenue and
Change in Net Assets

Governmental
Activities

\$ (41,943)
(199,584)
(22,519)
(264,046)

(264,046)

248,317
122
40,633
16,753
305,825

41,779

271,150

\$ 312,929

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and Investments	\$157,824	\$157,824
Receivables:		
Sales taxes	19,141	19,141
Due from City of Lake Dallas	49,670	49,670
Prepaid Costs	<u>525</u>	<u>525</u>
Total Assets	<u>\$227,160</u>	<u>\$227,160</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Current Liabilities:		
Due to City of Lake Dallas	\$ 145	\$ 145
Total Current Liabilities	<u>145</u>	<u>145</u>
Fund Balance:		
Reserved for Prepaid Costs	525	1,255
Unreserved and Undesignated	<u>226,490</u>	<u>226,490</u>
Total Fund Balance	<u>227,015</u>	<u>227,015</u>
Total Liabilities and Fund Balance	<u>\$227,160</u>	<u>\$227,160</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

Total Fund Balances – Governmental Funds \$227,015

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the end of the year, capital assets consisted of one tract of land with a cost of \$388,535. In addition, long-term liabilities consisting of a bank loan of \$351,345 are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the balances for capital assets and long-term debt in the governmental activities is to increase net assets.

85,914

Net Assets of Governmental Activities \$312,929

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues:		
Sales tax	\$248,317	\$248,317
Interest income	<u>122</u>	<u>122</u>
Total Revenues	<u>248,439</u>	<u>248,439</u>
Expenditures:		
Economic development grants	80,493	80,493
Marketing	12,992	12,992
Infrastructure	43,307	43,307
Shop Lake Dallas campaign	2,315	2,315
Staff services	36,000	36,000
Legal and audit fees	2,500	2,500
Dues and memberships	1,625	1,625
Travel and training	1,620	1,620
Professional services	60,477	60,477
Other expenditures	198	198
Debt Service:		
Principal	48,724	48,724
Interest	<u>22,519</u>	<u>22,519</u>
Total Expenditures	<u>312,770</u>	<u>312,770</u>
Excess of Revenue Over Expenditures	<u>(64,331)</u>	<u>(64,331)</u>
Other Resources (Uses):		
Proceeds from sale of land	146,753	146,753
Transfers in	43,857	43,857
Transfers out	<u>(3,224)</u>	<u>(3,224)</u>
Total Other Resources (Uses)	<u>187,386</u>	<u>187,386</u>
Net Change in Fund Balance	123,055	123,055
Fund Balance – October 1 (beginning)	<u>103,960</u>	<u>103,960</u>
Fund Balance – September 30 (ending)	<u>\$227,015</u>	<u>\$227,015</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Total Net Change in Fund Balances – Governmental Funds	\$ 123,055
Current period long-term debt principal payments are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements. The net effect of including the debt principal payments is to increase net assets.	48,724
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The net effect of removing the basis of a tract of land sold during the current fiscal year is to decrease net assets.	<u>(130,000)</u>
Change in Net Assets of Governmental Activities	<u>\$ 41,779</u>

The accompanying Notes are an integral part of this statement.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lake Dallas Economic Development Corporation (the "Corporation") are presented in accordance with generally accepted accounting principles applicable to state and local governmental units as set forth by the Governmental Accounting Standards Board ("GASB").

In fiscal year 2004, the Corporation implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, GASB Statement No. 38, *Certain Financial Statement Disclosures*, which changes note disclosures requirements for governmental entities, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, which clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where difference have arisen, or potentially could arise, in interpretation and practice of GASB Statement No. 34.

GASB Statements No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the use of account groups to the already required fund financial statements and notes. GASB Statement No. 37 provides additional guidance in reporting infrastructure, program revenues and major criteria.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that the government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the more significant accounting policies.

A. Reporting Entity

Lake Dallas Economic Development Corporation is a Texas non-profit industrial development corporation formed on January 1, 2003 under the Development Corporation Act of 1979, with the approval of the City Council of the City of Lake Dallas, Texas, and governed by Section 4A of the Act. The Corporation is managed by a five-member Board of Directors.

The purpose of the Corporation is to promote economic and industrial development within the City of Lake Dallas, Texas in order to eliminate unemployment and underemployment, to promote and encourage employment and the public welfare of the City, and to promote and encourage commercial expansion and development. The primary source of funding for the Corporation is a one-quarter cent sales tax approved by the voters of the City of Lake Dallas in Fall, 2002.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

The accompanying financial statements present the Corporation and its component units, entities for which the Corporation is considered to be financially accountable. The criteria for including organizations as component units within the Corporation's reporting entity, as set forth in Section 2100 GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Corporation holds the corporate powers of the organization
- the Corporation appoints a voting majority of the organization's board
- the Corporation is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Corporation
- there is fiscal dependency by the organization on the Corporation

No component units, as defined by GASB standards, have been identified for inclusion in the reporting entity. However, because the Board of Directors of the Corporation are appointed by and serve at the pleasure of the City Council of the City of Lake Dallas, and because the Corporation exists primarily to benefit the City of Lake Dallas, the Corporation's financial activity is also included as a component unit in the financial statements of the City of Lake Dallas, Texas.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the Corporation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Corporation had no business-type activities during the period.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded for the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The Corporation had no proprietary funds or fiduciary funds during the period.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

C. 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, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Sales taxes and interest associated with the current fiscal period are both considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Corporation. The amount shown as sales tax receivable on the balance sheet consists of sales tax received from the State in October, 2010.

The Corporation reports the following major governmental fund:

General Fund – The General fund accounts for the resources used to finance the fundamental operations of the Corporation. It is the basic fund of the Corporation and includes all activities except those required to be accounted for in another fund. Currently, the Corporation uses no funds other than the General Fund.

Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Cash and Investments

The Corporation's cash consists of demand deposits. The Corporation's investments consists of deposits in State investment pools.

E. Estimates

The preparation of financial statements in conformity with 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.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

F. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, roads, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. The Corporation defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The only capital asset owned by the Corporation at September 30, 2010 is one tract of land. Land is not depreciated.

G. Net Assets

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

H. Budgets and Budgetary Accounting

The Corporation follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. A proposed operating budget for the fiscal year commencing the following October 1, is submitted to the City of Lake Dallas City Council. The operating budget includes proposed expenditures and the means of financing them for the general fund.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance.
- d. Any revisions that alter the total expenditures for governmental type funds must be approved by the City of Lake Dallas City Council.

The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget was not amended during the year by the Corporation.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

I. Nature and Purpose of Reservations and Designations of Fund Balances

The Corporation classifies fund balances as follows:

- a. Reserves – Used to denote that portion of fund balance, which is not appropriate for expenditure or is legally segregated for specific future use.
 - 1. Reserve for prepaid costs represents that portion of fund balance already disbursed on items which are expenditures of a future period.
- b. Designations – Used to indicate tentative plans for financial resource utilization.
- c. Unreserved and undesignated – Used to denote that portion of fund balance which is available for appropriation.

2. DEPOSITS AND INVESTMENTS

The Corporation's funds are required to be deposited and invested under the terms of a depository agreement. The depository bank deposits for safekeeping and trust with the Corporation's agent bank approved pledged securities in an amount sufficient to protect Corporation funds on a day-to-day basis during the period of the agreement. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At September 30, 2010, the carrying amount of the Corporation's deposits in checking accounts and interest-bearing savings accounts was \$126,981 and the bank balance was \$127,251. The Corporation's cash deposits at September 30, 2010 were entirely covered by FDIC insurance or by pledged collateral held by the Corporation's agent bank in the Corporation's name.

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Corporation to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Corporation to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptance, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Corporation to have independent auditors perform test procedures related to investment practices as provided by the Act. The Corporation is in substantial compliance with the requirements of the Act and with local policies.

**LAKE DALLAS ECONOMIC
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NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

In compliance with the Public Funds Investment Act, the Corporation has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned to it. As of September 30, 2010, the Corporation's cash balances totaled \$127,251. This entire amount was either collateralized with securities held by the Corporation's financial institution's agent in the Corporation's name or covered by FDIC insurance. Thus, the Corporation's deposits are not exposed to custodial credit risk.
- b. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2010, the Corporation held all of its investments in the LOGIC public funds investment pool accounts. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. **Credit Risk:** This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for LOGIC at year-end was AAA (Standard & Poor's).
- d. **Interest Rate Risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the LOGIC investment pool is less than 60 days.
- e. **Foreign Currency Risk:** This is the risk that exchange rates will adversely affect the fair value of an investment. At September 30, 2010, the Corporation was not exposed to foreign currency risk.
- f. **Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

The Corporation's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The Corporation's investment at September 30, 2010 is shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
LOGIC Investment Pool	\$ 30,843	\$ 30,843
Total	<u>\$ 30,843</u>	<u>\$ 30,843</u>

3. LONG-TERM DEBT

Long-term debt of the Corporation at September 30, 2010 consists of a bank loan obtained for the purchase of property. The following is a summary of the changes in the Corporation's long-term debt for the year ended September 30, 2010:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 10/01/09</u>	<u>Additions</u>	<u>Retired</u>	<u>Amounts Outstanding 9/30/10</u>	<u>Due Within One Year</u>
Bank Loan-						
Northstar Bank	6.75%	\$351,345	\$ -	\$ 48,724	\$302,621	\$ 48,724
Total Long-Term Debt		<u>\$351,345</u>	<u>\$ -</u>	<u>\$ 48,724</u>	<u>\$302,621</u>	<u>\$ 48,724</u>

Presented below is a summary of bank loan requirements to maturity:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	\$ 48,724	\$ 18,919	\$ 67,643
2012	48,724	15,631	64,355
2013	48,724	12,342	61,066
2014	48,724	9,053	57,777
2015	48,724	4,764	53,488
2016-2017	59,001	1,415	60,416
TOTAL	<u>\$302,621</u>	<u>\$ 62,124</u>	<u>\$364,745</u>

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

4. COMMITMENT

The Development Corporation Act authorizes the Corporation to provide economic development grants suitable for expenditures for infrastructure necessary to promote or develop new or expanded business enterprises in the City of Lake Dallas.

As of September 30, 2010, there are three incentive grants totaling \$446,753 that the Corporation has committed to pay but for which payments have not been made because certain required construction or financing timelines must still be met by each business enterprise. Subsequent to September 30, 2010, \$200,000 of the \$446,753 has been paid by the Corporation as of the date of the audit report.

5. EXPENDITURES BY CHARACTER

The format of the Statement of Revenues, Expenditures, and Change in Fund Balance-Governmental Funds shows expenditures classified by project, meaning capital outlay directly associated with a particular project is charged to that account. Expenditures by character are as follows:

Current	\$203,105
Capital outlay	38,422
Debt Service:	
Principal	48,724
Interest	<u>22,519</u>
Total	<u>\$312,770</u>

Capital outlay expended by the Corporation during the current year is not considered a capital asset of the Corporation but is capitalized by the City of Lake Dallas as capital assets expended for the City's benefit.

6. TRANSFERS IN AND TRANSFERS OUT

Transfers in and transfers out shown on the Statement of Revenues, Expenditures and Change in Fund Balance consist of the following:

- Transfers in of \$43,857 represent Series 2006 certificates of obligation proceeds transferred from the City of Lake Dallas to fund the cost of paving and drainage project.
- Transfers out of \$3,224 represent funds transferred to the City of Lake Dallas, under terms of a written agreement with the City, to use in making long-term debt payments on the Series 2006 certificates of obligation. The Corporation has committed to continued future contributions toward the Series 2006 certificates of obligation annual debt service requirements, based on the portion of the proceeds used by the Corporation.

REQUIRED SUPPLEMENTARY INFORMATION

**LAKE DALLAS ECONOMIC
DEVELOPMENT CORPORATION**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>		Actual Amounts (GAAP BASIS)	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales tax	\$ 293,000	\$ 293,000	\$248,317	\$ (44,683)
Interest income	<u>400</u>	<u>400</u>	<u>122</u>	<u>(278)</u>
Total Revenues	<u>293,400</u>	<u>293,400</u>	<u>248,439</u>	<u>(44,961)</u>
Expenditures:				
Economic development grants	100,000	100,000	80,493	19,507
Marketing	16,000	16,000	12,992	3,008
Infrastructure	-	-	43,307	(43,307)
Shop Lake Dallas campaign	2,500	2,500	2,315	185
Professional services	-	-	60,477	(60,477)
Office expenditures	100	100	-	100
Staff services	36,000	36,000	36,000	-
Legal and audit fees	3,000	3,000	2,500	500
Dues and memberships	1,000	1,000	1,625	(625)
Travel and training	600	600	1,620	(1,020)
Other expenditures	500	500	198	302
Debt Service:				
Principal	48,265	48,265	48,724	(459)
Interest	<u>21,124</u>	<u>21,124</u>	<u>22,519</u>	<u>(1,395)</u>
Total Expenditures	<u>229,089</u>	<u>229,089</u>	<u>312,770</u>	<u>(83,681)</u>
Excess of Revenues Over (Under) Expenditures	<u>64,311</u>	<u>64,311</u>	<u>(64,331)</u>	<u>(128,642)</u>
Other Resources (Uses):				
Proceeds from sale of land	96,000	96,000	146,753	50,753
Transfers in	-	-	43,857	43,857
Transfers out	<u>(91,811)</u>	<u>(91,811)</u>	<u>(3,224)</u>	<u>88,587</u>
Total Other Resources (Uses)	<u>4,189</u>	<u>4,189</u>	<u>187,386</u>	<u>183,197</u>
Net Change in Fund Balance	68,500	68,500	123,055	54,555
Fund Balance – October 1 (beginning)	<u>103,960</u>	<u>103,960</u>	<u>103,960</u>	<u>-</u>
Fund Balance – September 30 (ending)	<u>\$ 172,460</u>	<u>\$ 172,460</u>	<u>\$227,015</u>	<u>\$ 54,555</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Lake Dallas Economic Development Corporation
Lake Dallas, Texas

We have audited the financial statements of the Lake Dallas Economic Development Corporation (the "Corporation") as of and for the year ended September 30, 2010, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated January 6, 2011. 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 Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, and appropriate state and federal agencies and passthrough entities, and is not intended to be used and should not be used by anyone other than these specified parties.



Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 6, 2011