

EULESS DEVELOPMENT CORPORATION

FINANCIAL REPORT

SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Eules Development Corporation
Eules, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Eules Development Corporation ("Corporation", a component unit of the City of Eules) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors
Eules Development Corporation

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 27 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
February 7, 2014

EULESS DEVELOPMENT CORPORATION

Management's Discussion and Analysis
For the Year Ended September 30, 2013
(Unaudited)

As management of the Euless Development Corporation ("Corporation"), we offer readers of the Euless Development Corporation's financial statements this narrative overview and analysis of the financial activities and financial position of the Corporation for the fiscal year ended September 30, 2013.

Financial Highlights

- As of the close of the current fiscal year, the Corporation's governmental funds reported a combined ending fund balance of \$4,048,355. Of this amount \$2,087,442 is available for spending at the Corporation's discretion (general fund assigned fund balance); \$4,149 is nonspendable due to prepayments; \$913,530 is restricted for debt service; and an additional \$1,043,234 is assigned for capital projects.
- Scheduled principal payments reduced the Corporation's net outstanding debt by 30%.
- The Corporation ended the fiscal year with net position of \$6,495,148. Increased sales tax revenues partially offset with a corresponding increase in rebate payments contributed to an increase in net position of \$653,408.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements present functions of the Corporation that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Corporation include general government, development, and culture and recreation.

The government-wide financial statements include the Corporation's general fund and the capital projects fund. The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The Corporation maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Capital Projects funds, both of which are considered to be major funds. The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-26 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Corporation's operating budget. The Corporation adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 27-28 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Corporation's financial position. As of September 30, 2013, the Corporation's net position totals \$6,495,148.

The Corporation's increase in total net position of \$653,408 is due primarily to increased sales tax revenues partially offset with corresponding increases in rebate payments and savings in salaries and related benefits.

It is important to note that the long-term liabilities of the Corporation have been used to fund capital assets, such as the library and the Parks at Texas Star, the majority of which are reflected as assets on the City's financial statements, and therefore, are not included in the Corporation's net position.

The capital assets carried by the Corporation declined in value due to current year depreciation expense. The decrease in total liabilities primarily results from the scheduled payment of principal on the debt.

Eules Development Corporation's Net Position

	Governmental Activities	
	Total	
	2013	2012
Current and other assets	\$ 4,298,795	\$ 4,371,761
Capital assets	4,537,588	4,667,464
Total assets	<u>8,836,383</u>	<u>9,039,225</u>
Long-term liabilities outstanding	1,128,343	1,994,012
Other liabilities	1,212,892	1,203,473
Total liabilities	<u>2,341,235</u>	<u>3,197,485</u>
Net position:		
Net investment in capital assets	2,543,576	1,822,780
Restricted for debt service	913,530	913,562
Unrestricted	3,038,042	3,105,398
Total net position	<u>\$ 6,495,148</u>	<u>\$ 5,841,740</u>

Analysis of the Corporation's Operation. The following table provides a summary of the Corporation's operations for the fiscal year ended September 30, 2013. Overall, the Corporation's revenues exceeded expenses resulting in an increase in net position of \$653,408.

Eules Development Corporation's Changes in Net Position

	Governmental Activities	
	2013	2012
General Revenues:		
Sales taxes	\$ 4,042,405	\$ 3,751,737
Investment earnings	14,278	10,987
Total revenues	<u>4,056,683</u>	<u>3,762,724</u>
Expenses:		
Culture and recreation	2,779,125	2,106,436
Development services	329,206	404,126
General and administrative	237,172	148,569
Interest on long-term debt	57,772	111,681
Total expenses	<u>3,403,275</u>	<u>2,770,812</u>
Increase in net position	653,408	991,912
Net position, beginning	<u>5,841,740</u>	<u>4,849,828</u>
Net position, ending	<u>\$ 6,495,148</u>	<u>\$ 5,841,740</u>

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the Corporation's governmental funds reported combined ending fund balances of \$4,048,355, a decrease of \$46,799 in comparison with the prior year.

Approximately 52% constitutes assigned fund balance in the General Fund, which is available for spending at the Corporation's discretion. An additional \$1,043,234 is assigned to pay for capital improvements. A small portion of the fund balance is nonspendable due to prepayments and the remaining \$913,530 is restricted to pay debt service.

In the General Fund, the Corporation budgeted for a decrease in fund balance of \$495,314, the majority of which originates from the carryover of budgeted capital items from the prior year. The remainder of the drawdown was for current year capital expenditures and project funding. This was a planned reduction of excess fund balance to fund "pay as you go" capital expenditures. Both revenue categories experienced positive budget variances as did overall expenditures resulting in an increase in the General Fund balance for fiscal year 2013 of \$264,567.

Debt Administration

Long-term debt. At the end of the current fiscal year, the Corporation had total bonded debt outstanding of \$2,050,000.

The Corporation's total debt decreased \$860,000 or 30% during the current fiscal year as a result of the scheduled annual principal payments.

Additional information on the Corporation's long-term debt can be found in Note 5 on pages 25-26.

Economic Factors

In the FY2013-14 budget, sales tax receipts are projected to increase 2% over the prior year projections. Sales tax accounts for nearly 100% of the revenues of the Corporation. Due to the Corporation's heavy dependence on this volatile revenue source, management has been conservative with revenue and expenditure estimates for fiscal year 2014. The Corporation's budgeted expenditures are anticipated to increase over the prior year primarily as a result of an increase in personnel costs, capital expenditures, and utility charges. Personnel costs are anticipated to increase due to the approved salary package and the addition of part-time positions for the indoor aquatic facility. Capital requests of \$542,299 were approved and funded from excess reserves.

Request for Information

The financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the Corporation's finances. If you have questions about this report or need additional information, contact the City of Euless Finance Department, Attn: Janina Jewell, Director of Finance, at 201 N. Ector Drive, Euless, Texas 76039, call (817) 685-1626, or e-mail jjewell@eulesstx.gov.

BASIC FINANCIAL STATEMENTS

**EULESS DEVELOPMENT CORPORATION
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 3,529,651
Accrued interest receivable	475
Prepays	4,149
Deferred charges	42,242
Other assets	23,189
Due from other governments	699,089
Capital assets	
Land	628,999
Other capital assets, net of accumulated depreciation	3,908,589
Total assets	8,836,383
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	142,563
Accrued salaries and wages	203,438
Accrued interest payable	1,222
Noncurrent liabilities	
Debt due within one year	865,669
Debt due in more than one year	1,128,343
Total liabilities	2,341,235
NET POSITION	
Net investment in capital assets	2,543,576
Restricted for debt service	913,530
Unrestricted	3,038,042
Total net position	\$ 6,495,148

The Notes to Basic Financial Statements
are an integral part of this statement.

**EULESS DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013**

Program Activities	Expenses	Program Revenues			Net (Expense)
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental activities					
General and administrative	\$ 237,172	\$ -	\$ -	\$ -	\$ (237,172)
Culture and recreation	2,779,125	-	-	-	(2,779,125)
Development services	329,206	-	-	-	(329,206)
Interest on long-term debt	<u>57,772</u>	-	-	-	<u>(57,772)</u>
 Total governmental activities	 <u>\$ 3,403,275</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>(3,403,275)</u>
General revenues and expenses					
Sales taxes					4,042,405
Investment income					<u>14,278</u>
					<u>4,056,683</u>
					Change in net position 653,408
					<u>Net position, beginning of year 5,841,740</u>
					<u>\$ 6,495,148</u>

The Notes to Basic Financial Statements are an integral part of this statement.

**EULESS DEVELOPMENT CORPORATION
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	General	Capital Projects	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 2,486,318	\$ 1,043,333	\$ 3,529,651
Accrued interest receivable	400	75	475
Prepays	3,975	174	4,149
Due from other governments	699,089	-	699,089
TOTAL ASSETS	\$ 3,189,782	\$ 1,043,582	\$ 4,233,364
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 142,389	\$ 174	\$ 142,563
Accrued salaries and wages	42,446	-	42,446
Total liabilities	184,835	174	185,009
FUND BALANCES			
Nonspendable	3,975	174	4,149
Restricted, debt service	913,530	-	913,530
Assigned	2,087,442	1,043,234	3,130,676
Total fund balances	3,004,947	1,043,408	4,048,355
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,189,782	\$ 1,043,582	\$ 4,233,364

The Notes to Basic Financial Statements are an integral part of this statement.

**EULESS DEVELOPMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Total fund balances - governmental funds \$ 4,048,355

Amounts reported for governmental activities in the statement of net position are different because:

Capital and other long-term assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 4,560,777

Costs associated with the issuance of governmental long-term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements. 42,242

Accrued vacation and other long-term liabilities do not require the use of current financial resources; therefore, they are not reported as liabilities in the governmental funds balance sheet. (160,992)

Interest payable on long-term debt does not require the use of current financial resources; therefore, it is not reported as a liability in the governmental funds balance sheet. (1,222)

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. (1,994,012)

Net position of governmental activities \$ 6,495,148

EULESS DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
Sales taxes	\$ 4,042,405	\$ -	\$ 4,042,405
Investment income	10,129	4,149	14,278
Total revenues	4,052,534	4,149	4,056,683
EXPENDITURES			
Current			
General and administrative	237,172	-	237,172
Culture and recreation	2,124,552	640,515	2,765,067
Development services	199,330	-	199,330
Debt service			
Principal	860,000	-	860,000
Interest and fiscal charges	41,913	-	41,913
Total expenditures	3,462,967	640,515	4,103,482
Excess (deficiency) of revenues over expenditures	589,567	(636,366)	(46,799)
Other financing sources (uses)			
Transfers in	-	325,000	325,000
Transfers out	(325,000)	-	(325,000)
Total other financing sources (uses), net	(325,000)	325,000	-
Net change in fund balances	264,567	(311,366)	(46,799)
FUND BALANCES, beginning of year	2,740,380	1,354,774	4,095,154
FUND BALANCES, end of year	<u>\$ 3,004,947</u>	<u>\$ 1,043,408</u>	<u>\$ 4,048,355</u>

The Notes to Basic Financial Statements
are an integral part of this statement.

**EULESS DEVELOPMENT CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013**

Net change in fund balances - governmental funds \$ (46,799)

Amounts reported for governmental activities in the statement of activities are different because:

Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds. (129,876)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, it does not have an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of the difference in the treatment of long-term debt and related items. 843,629

Current year changes in other long-term liabilities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. (14,058)

Current year changes in accrued interest payable does not require the use of current financial resources; therefore, it is not reported as an expenditure in governmental funds. 512

Change in net position of governmental activities \$ 653,408

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Euleless Development Corporation (the Corporation) was organized as a blended component unit of the City of Euleless, Texas (the City) in 1993 under special legislation of the State of Texas. The City created the Corporation for the purpose of promoting parks, library services, and economic development within the City.

The Corporation's governing body is substantially the same as the governing body of the City. There are seven directors, four of whom are council members which constitutes a voting majority of the Board. The remaining three members are residents of the City. All Board members are appointed by the City Council. The Corporation is authorized to sell bonds or other forms of indebtedness. Upon dissolution of the Corporation, the assets of the Corporation shall be distributed to the City. The Corporation provides all of its services to the City.

The accounting and reporting policies of the Corporation relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the Corporation are as follows.

Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the activities of the Corporation and any organizations for which the Corporation is financially accountable or for which the nature and significance of their relationship with the Corporation are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity – Continued

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government. Accordingly, the Corporation has no component units.

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the Corporation. The Corporation's governmental activities are supported by sales taxes and investment income.

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

Fund Financial Statements

The Corporation segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental funds. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The Corporation has presented the following major governmental funds:

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements – Continued

General Fund

The General Fund is the main operating fund of the Corporation. This fund is used to account for all financial resources generated by a half-cent sales tax. These funds are restricted by law to be used for parks and park facilities, library services, and economic development.

Capital Project Fund

The Capital Project Fund is used to report the expenditures of bond proceeds and transfers used to fund park, library and economic development projects.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Corporation considers receivables collected within sixty days of year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded when the related fund liability is incurred. However, expenditures related to compensated absences and other long-term liabilities are recorded only when payment is due.

The revenues susceptible to accrual are interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deposits and Investments

Deposits include amounts in demand deposits as well as short-term certificates of deposit with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments.

The Corporation's bylaws require that all monies be deposited with the authorized City depository or invested in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on, which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (B) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with a third party selected or approved by the City, and placed through a primary government securities dealer.

Investments in U.S. treasury and agency obligations with maturities of one year or less when purchased are reported at amortized cost. All other investments are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Capital Assets

Capital assets, which include land and buildings, are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period.

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method and has been recorded to development services in the statement of activities. Buildings recorded are being depreciated over an estimated useful life of 33 1/3 years.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

Employees may accumulate a maximum of two times their annual vacation accrual. The Corporation's policy is to pay the employee accumulated vacation upon termination. The Corporation does not pay employees for accumulated sick leave upon termination. All vacation pay is accrued in the government-wide financial statements and reported as accrued salaries and wages (a current liability).

Fund Balance Classifications

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, redefines how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows on the governmental fund financial statements:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Corporation has classified prepaid items of \$4,149 as being nonspendable.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Corporation has recorded the following restriction at year-end: restricted for debt service of \$913,530 represents that portion of fund equity legally restricted for retirement of bond principal and payment of interest.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action (ordinance) of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Corporation has no committed fund balance at year-end.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balance Classifications – Continued

Assigned: This classification includes amounts that are constrained by the Corporation's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to another party. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Corporation has recorded the following assignments at year-end:

- Assigned for capital projects of \$1,043,234 represents revenue sources that are to be used for capital projects for the Corporation.
- Assigned for parks, libraries, and economic development of \$2,087,442 represents funds from sales taxes that are to be used for park improvements, library activities, and economic development throughout the City.

Unassigned: This classification includes all amounts that are not included in other spendable classifications. The Corporation has no unassigned balances at year-end.

When available, the Corporation uses restricted fund balances first, followed by committed resources, assigned resources, then unassigned resources, as appropriate opportunities arise. However, the Corporation reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Net Position

Net position represents the difference between assets and deferred inflows and liabilities and deferred outflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, plus unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on their use either through legislation adopted by the City or the Corporation, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS

GASB 40 Disclosures

As of September 30, 2013, the Corporation's portfolio contained the following investments:

Investment Type	Book Value	Fair Value	% of Portfolio	WAM	Rating	Rating Agency
Overnight pools						
TexPool	\$ 652,821	\$ 652,821	19.63%	60	AAAm	S&P
TexStar	757,297	757,297	22.77%	51	AAAm	S&P
Bank of Texas	11,542	11,542	0.35%	52	AAAm	S&P
Total Overnight	1,421,660	1,421,660	42.75%			
U.S. Issues						
FHLMC	1,899,641	1,903,820	57.25%	15	AA+/Aaa	S&P/Moody's
Total U.S. Issues	1,899,641	1,903,820	57.25%			
Total Portfolio	<u>\$ 3,321,301</u>	<u>\$ 3,325,480</u>	<u>100.00%</u>			

Weighted average maturity (WAM) of the portfolio by investment type categories reflected in the previous table is stated in days. For the investment pools, the Reset WAM is presented. The investment type acronym displayed in the previous table is defined as follows: FHLMC – Federal Home Loan Mortgage Corporation. The rating agency acronyms are defined as follows: S&P – Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. and Moody's – Moody's Investor Service, Inc. Additional information about the rating agency or the significance of the ratings provided may be obtained from the agency's web site.

Deposits

State statutes and the City's investment policies require that all uninsured deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies or instrumentalities that have a market value of not less than the principal amount of the uninsured deposits. The Corporation's deposits were fully insured or collateralized as required as of September 30, 2013. At year end, the Corporation's carrying amount and bank balance was \$209,350. Of the total bank balance, the Corporation's deposits were fully protected by the Federal Depository Insurance Corporation (FDIC).

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Investments

State statutes, bond ordinances, and resolutions authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies and instrumentalities, fully insured or collateralized certificates of deposit, fully collateralized repurchase agreements and reverse repurchase agreements, government pools, and no-load SEC-registered money market funds consisting of any of these securities listed.

The City's investment pools are 2a7-like pools. 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. This type of pool uses amortized investment costs rather than market values to compute participant share values. Furthermore, the pools in which the Corporation is currently participating seek to maintain a stable \$1 net asset value per share or unit. Accordingly, the fair value of the Corporation's position in these pools is substantially the same as the market value of the shares in each of the pools.

TexPool falls under the purview of the Texas Comptroller of Public Accounts (Comptroller) who is responsible for oversight of TexPool operations. Federated Investors is responsible for managing pool assets and day-to-day operations. TexStar is duly chartered and administered by First Southwest Asset Management, Inc. and JPMorgan Chase Investment Management, Inc. TexStar has established a governing board that is partially comprised of pool participants. Duties of the governing board include oversight responsibility. The Comptroller and the governing board exercise oversight of the pools' activities via daily, weekly, and monthly reporting requirements. Additionally, per the requirements of the Public Funds Investment Act (PFIA), all portfolios maintain an AAA or equivalent rating from at least one nationally recognized rating agency. The PFIA also requires an annual examination of the financial statements of the pools by an independent certified public accounting firm. In connection with the financial audit, a compliance audit of management controls on investments and adherence to the Investment Policies is also required.

Interest Rate Risk

In compliance with the Investment Policy, as of September 30, 2013, the City minimized interest rate risk, risk relating to decline in the market values of securities in the portfolio due to rising interest rates by: limiting the weighted average maturity to 365 days and the stated maturity date to two years or less with the exception of securities purchases related to reserve funds; structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in money market mutual funds, government investment pools, and shorter-term securities.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

The following details the maturity schedule for the Corporation's investments as of September 30, 2013.

<u>Maturity Schedule</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Overnight	\$ 1,421,660	\$ 1,421,660	42.75%
Over 12 months	1,899,641	1,903,820	57.25%
Total	<u>\$ 3,321,301</u>	<u>\$ 3,325,480</u>	<u>100.00%</u>

Credit Risk

In compliance with the Investment Policy, as of September 30, 2013, the City minimized credit risk losses due to default of a security issuer or backer by: limiting investments to the safest types of securities; investing in U.S. Agency Bonds rated AA+ by Standard & Poor's; pre-qualifying financial institutions, brokers/dealers, and advisors with which the City does business; and diversifying the investment portfolio so that the potential losses on securities are minimized.

Custodial Credit Risk

The risk that a government will not be able to recover (a) deposits if the depository financial institution fails or (b) the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. To minimize such risk, the City requires collateralization of deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage, utilizes the delivery vs. payment method for investment purchases, and contracts with a third-party safekeeping agent.

Per the terms of its depository agreement, for bank deposits in excess of the coverage provided by the FDIC, the City requires the depository bank to pledge to the City securities (collateral) equal to the following percentages, as applicable, to the largest balances the City maintains in the bank.

<u>Type of Collateral</u>	<u>Other Securities</u>
Eligible collateral other than mortgage-backed securities	102%
Mortgage-backed securities	100%

The percentages as shown reflect the requirement based on market value of the pledged securities. The City actively monitors and manages collateral levels for all deposits. On September 30, 2013, the City's bank balances were insured or fully collateralized.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Custodial Credit Risk – Continued

The City's depository bank also acts as its safekeeping agent per the terms of the depository contract. City policy dictates that all securities rendered for payment will be sent delivery vs. payment, meaning that the funds required for purchase of a security will not be released until the safekeeping agent has received the security purchased in the City's name. No broker holds City funds. The City does not purchase securities from its depository bank or any subsidiary banks of the same bank holding company.

NOTE 3. DUE FROM OTHER GOVERNMENTS

The Corporation has accrued a receivable of \$699,089 for unremitted sales tax revenue collected by the Texas Comptroller of Accounts.

NOTE 4. CAPITAL ASSETS

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

	Balance September 30, 2012	Increase	Decrease	Transfers	Balance September 30, 2013
Governmental activities					
Capital assets not being depreciated					
Land	\$ 628,999	\$ -	\$ -	\$ -	\$ 628,999
Total assets not being depreciated	628,999	-	-	-	628,999
Capital assets being depreciated					
Buildings	4,299,323	-	-	-	4,299,323
Total assets being depreciated	4,299,323	-	-	-	4,299,323
Less accumulated depreciation					
Buildings	260,858	129,876	-	-	390,734
Total accumulated depreciation	260,858	129,876	-	-	390,734
Total capital assets being depreciated, net	4,038,465	(129,876)	-	-	3,908,589
Total governmental activities capital assets, net	\$ 4,667,464	\$ (129,876)	\$ -	\$ -	\$ 4,537,588

There were no outstanding commitments at September 30, 2013, under authorized construction contracts.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. LONG-TERM DEBT

At September 30, 2013, the Corporation's long-term debt payable consisted of the following:

\$3,785,000 Series 2012, Sales Tax Revenue Refunding Bonds, dated January 12, 2012, due in annual installments through 2019, bearing interest at 1.43%.

\$ 2,050,000

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013	Due Within One Year
Governmental Activities					
Sales tax revenue bonds	\$ 2,910,000	\$ -	\$ (860,000)	\$ 2,050,000	\$ 875,000
Deferred loss on refunding bonds	(65,319)	-	9,331	(55,988)	(9,331)
Total Governmental Activities	<u>\$ 2,844,681</u>	<u>\$ -</u>	<u>\$ (850,669)</u>	<u>\$ 1,994,012</u>	<u>\$ 865,669</u>

The long-term obligations of the Corporation are unsecured and are expected to be paid from the sales tax and other revenues collected by the Corporation.

**EULESS DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. LONG-TERM DEBT – CONTINUED

The annual aggregate maturities for sales tax revenue bonds for the years subsequent to September 30, 2013, are as follows:

Revenue bonds:

Due Fiscal Year Ending September 30	Principal	Interest	Total
2014	\$ 875,000	\$ 29,315	\$ 904,315
2015	890,000	16,803	906,803
2016	165,000	4,076	169,076
2017	45,000	1,716	46,716
2018	35,000	1,073	36,073
2019	40,000	572	40,572
	<u>\$ 2,050,000</u>	<u>\$ 53,555</u>	<u>\$ 2,103,555</u>

NOTE 6. INTERFUND TRANSFERS

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Transfer In	Transfer Out	Amount
Capital Projects	General	\$ 325,000

Transfers are primarily used to move funds from:

- The General Fund to the Capital Projects Fund for incentive programs and park improvements.

REQUIRED SUPPLEMENTARY INFORMATION

**EULESS DEVELOPMENT CORPORATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Sales taxes	\$ 3,710,116	\$ 3,710,116	\$ 4,042,405	\$ 332,289
Investment income	3,500	3,500	10,129	6,629
Total revenues	3,713,616	3,713,616	4,052,534	338,918
Expenditures				
Current				
General and administrative	209,474	209,474	237,172	(27,698)
Culture and recreation	2,204,916	2,204,916	2,124,552	80,364
Development services	567,626	567,626	199,330	368,296
Debt service				
Principal	860,000	860,000	860,000	-
Interest and fiscal charges	41,914	41,914	41,913	1
Total expenditures	3,883,930	3,883,930	3,462,967	420,963
Excess (deficiency) of revenues over (under) expenditures	(170,314)	(170,314)	589,567	759,881
Other financing sources (uses)				
Transfers out	(325,000)	(325,000)	(325,000)	-
Total other financing sources (uses)	(325,000)	(325,000)	(325,000)	-
Net change in fund balances	(495,314)	(495,314)	264,567	759,881
FUND BALANCES, beginning of year	2,740,380	2,740,380	2,740,380	-
FUND BALANCES, end of year	\$ 2,245,066	\$ 2,245,066	\$ 3,004,947	\$ 759,881

EULESS DEVELOPMENT CORPORATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1. BUDGETARY CONTROL

A budget is adopted for the general fund on a basis consistent with accounting principles generally accepted in the United States of America. Formal budgetary integration is employed as a management control device during the year for the General Fund. All annual appropriations lapse at fiscal year end.

Budgeted amounts are as originally adopted or as amended by the Corporation's Board of Directors. Individual amendments were not material in relation to the original appropriations, which were adopted.

The Budgetary Comparison Schedule presents a comparison of budgetary data to actual results.