

ANNUAL FINANCIAL REPORT

of the

Orange Economic Development Corporation

For the Year Ended
September 30, 2020

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Orange Economic Development Corporation

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September 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Orange Economic Development Corporation

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Orange Economic Development Corporation (the "Corporation"), a component unit of the City of Orange, Texas, as of and for the year ended September 30, 2020, 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

The Corporation's 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 opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of September 30, 2020 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of an Error

As disclosed in Note V.A., in the year ending September 30, 2020, the Corporation restated the beginning net position for governmental activities as of September 30, 2019 to correct an accounting error. Our opinion is not modified with respect to this matter.

Other Matter

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 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.



BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
April 6, 2021

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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Orange Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2020

As management of the Orange Economic Development Corporation (the "Corporation"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended September 30, 2020.

Financial Highlights

- The Corporation's total combined net position is \$5,884,323 at September 30, 2020. A portion of which, \$3,772,269, is restricted for economic development.
- At the close of the current fiscal year, the Corporation's general fund reported a fund balance of \$4,251,200, an increase of \$801,535, which is due to current year revenues exceeding expenditures.
- The Corporation had an overall increase in net position of \$849,153.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

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

The *statement of net position* presents information on all of the Corporation's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. Other non-financial factors, such as the City's economic activity need to be considered in order to assess the overall health of the Corporation.

The *statement of activities* presents information showing how the Corporation's net position changed during the most recent 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 for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Orange Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the Corporation. They are usually segregated for specific activities or objectives. The Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The Corporation only utilizes one governmental fund, the general fund.

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 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, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Corporation maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be a major fund.

The Corporation adopts an annual budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with general fund budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Supplementary Information. This includes a budgetary comparison schedule for the general fund which can be found after the basic financial statements.

Orange Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the Corporation's financial position. For the Corporation, assets exceed liabilities by \$5,884,323 as of September 30, 2020.

Current and other assets increased by \$775,109 due to increased cash on hand primarily as a result of revenues exceeding expenses in the current year. Capital assets decreased by \$304,934 due to current year depreciation expense.

Long-term liabilities decreased by \$354,653 due to debt payments during the current year.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	<u>2020</u>	<u>2019</u>		
	<u>Governmental</u>	<u>Governmental</u>		
	<u>Activities</u>	<u>Activities</u>	<u>\$ Change</u>	<u>% Change</u>
Current and				
other assets	\$ 4,283,454	\$ 3,508,345	\$ 775,109	22%
Capital assets	<u>6,772,798</u>	<u>7,077,732</u>	<u>(304,934)</u>	<u>-4%</u>
Total Assets	<u>11,056,252</u>	<u>10,586,077</u>	<u>470,175</u>	<u>4%</u>
Other liabilities	58,593	99,420	(40,827)	-41%
Long-term liabilities	<u>5,096,834</u>	<u>5,451,487</u>	<u>(354,653)</u>	<u>-7%</u>
Total Liabilities	<u>5,155,427</u>	<u>5,550,907</u>	<u>(395,480)</u>	<u>-7%</u>
Net Position:				
Net investment in capital assets	1,677,798	1,627,732	50,066	3%
Restricted	<u>4,206,525</u>	<u>3,407,438</u>	<u>799,087</u>	<u>23%</u>
Total Net Position	<u>\$ 5,884,323</u>	<u>\$ 5,035,170</u>	<u>\$ 849,153</u>	<u>17%</u>

Orange Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

Statement of Activities:

The following table provides a summary of the Corporation's changes in net position:

	<u>2020</u>	<u>2019</u>		
	<u>Governmental</u>	<u>Governmental</u>		
	<u>Activities</u>	<u>Activities</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
General revenues:				
Sales taxes	\$ 1,888,087	\$ 1,703,378	\$ 184,709	11%
Investment income	20,906	56,887	(35,981)	-63%
Other revenue	15,811	12,281	3,530	29%
Total Revenues	<u>1,924,804</u>	<u>1,772,546</u>	<u>152,258</u>	<u>9%</u>
Expenses				
Economic development	907,943	1,584,286	(676,343)	-43%
Interest and fiscal charges	167,708	172,896	(5,188)	-3%
Total Expenses	<u>1,075,651</u>	<u>1,757,182</u>	<u>(681,531)</u>	<u>-39%</u>
Change in Net Position	849,153	15,364	833,789	5427%
Beginning Net Position	<u>5,035,170</u>	<u>5,019,806</u>	<u>15,364</u>	<u>0%</u>
Ending Net Position	<u>\$ 5,884,323</u>	<u>\$ 5,035,170</u>	<u>849,153</u>	<u>17%</u>

For the year ended September 30, 2020, revenues totaled \$1,924,804. This represents an increase of \$152,258 when compared to the prior year primarily due to higher sales tax revenues in the current year.

The cost of all governmental activities this year was \$1,075,651. This represents a decrease of \$681,531 or 39% when compared to the previous year. This decrease can be attributed to fewer funds spent on economic development projects for the City of Orange in the current year.

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Orange Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

Governmental Funds - The focus of the Corporation's governmental funds is to provide information of 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 the Corporation's net resources available for spending at the end of the year. At the close of the current fiscal year, the Corporation's general fund reported a fund balance of \$4,251,200, an increase of \$801,535, which is due to current year revenues exceeding expenditures.

CAPITAL ASSETS

Capital assets totaling \$6,772,798 have been recognized within the Statement of Net Position. The only capital asset activity in the current year was annual depreciation.

More detailed information about the Corporation's capital assets is presented in the notes to the financial statements.

LONG-TERM DEBT

At the end of the current year, the Corporation had outstanding sales tax revenue bonds of \$5,095,000. The Corporation made \$355,000 of principal payments in the current year.

More detailed information about the Corporation's long-term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors and management are committed to maintaining and improving the overall wellbeing of the Corporation and increased economic development in the City of Orange, Texas. The Corporation is budgeting for growth in the upcoming year.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's business office, at Orange Economic Development Corporation, P.O. Box 520, Orange, Texas 77631.

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FINANCIAL STATEMENTS

Orange Economic Development Corporation

STATEMENT OF NET POSITION

September 30, 2020

	<u>Governmental Activities</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 3,092,433
Restricted cash	460,595
Investments	249,951
Receivables	346,981
Prepays	133,494
Total Current Assets	<u>4,283,454</u>
Long-term assets:	
Capital assets:	
Capital assets	8,959,596
Accumulated depreciation	(2,186,798)
Total Noncurrent Assets	<u>6,772,798</u>
Total Assets	<u><u>11,056,252</u></u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	32,254
Accrued interest	26,339
Compensated absences, current	16,502
Long-term debt due within one year	360,000
Total Current Liabilities	<u>435,095</u>
Noncurrent liabilities:	
Long-term debt due in more than one year	4,735,000
Compensated absences, noncurrent	1,834
Total Noncurrent Liabilities	<u>4,736,834</u>
Total Liabilities	<u><u>5,171,929</u></u>
<u>Net Position</u>	
Net investment in capital assets	1,677,798
Restricted for debt service	434,256
Restricted for economic development	3,772,269
Total Net Position	<u><u>\$ 5,884,323</u></u>

See Notes to Financial Statements.

Orange Economic Development Corporation

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues Operating grants & contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Primary Government			
Governmental Activities			
Economic development	\$ 1,075,651	\$ 15,811	\$ (1,059,840)
Total Governmental Activities	1,075,651	15,811	(1,059,840)
General Revenues:			
Taxes			
Sales taxes			
Investment income			
			1,888,087
			20,906
Total General Revenues			1,908,993
Change in Net Position			849,153
Beginning Net Position			5,035,170
Ending Net Position			\$ 5,884,323

See Notes to Financial Statements.

Orange Economic Development Corporation

BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2020

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 3,092,433
Restricted cash	460,595
Investments	249,951
Receivables	346,981
Prepays	133,494
Total Assets	\$ 4,283,454
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 32,254
Total Liabilities	32,254
<u>Fund Balance</u>	
Nonspendable:	
Prepays	133,494
Restricted for:	
Debt service	460,595
Economic development	3,657,111
Total Fund Balance	4,251,200
Total Liabilities and Fund Balance	\$ 4,283,454

See Notes to Financial Statements.

Orange Economic Development Corporation

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUND

September 30, 2020

Fund Balance - Total Governmental Fund	\$ 4,251,200
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets	8,959,596
Accumulated depreciation	(2,186,798)
Some liabilities, including long-term debt and compensated absences, are not reported as liabilities in the governmental funds.	
Non-current liabilities due in one year	(360,000)
Non-current liabilities due in more than one year	(4,735,000)
Accrued interest	(26,339)
Compensated absences	(18,336)
Net Position of Governmental Activities	<u>\$ 5,884,323</u>

See Notes to Financial Statements.

Orange Economic Development Corporation

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND

For the Year Ended September 30, 2020

	General Fund
<u>Revenues</u>	
Sales tax	\$ 1,888,087
Investment income	20,906
Other revenue	15,811
Total Revenues	1,924,804
<u>Expenditures</u>	
Current:	
Personnel	312,276
Economic development	160,601
Economic development projects	126,668
Debt service:	
Principal	355,000
Interest	168,724
Total Expenditures	1,123,269
Net Change in Fund Balance	801,535
Beginning fund balance	3,449,665
Ending Fund Balance	\$ 4,251,200

See Notes to Financial Statements.

Orange Economic Development Corporation
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

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

Net changes in fund balances - total governmental funds	\$	801,535
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense		(304,934)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest		1,016
Compensated absences		(3,464)

The issuance of long-term debt provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments		355,000
Change in Net Position of Governmental Activities	\$	849,153

See Notes to Financial Statements.

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Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organizational Structure

The Orange Economic Development Corporation (the "Corporation") is a non-for-profit industrial development corporation within the City of Orange, Texas (the "City"), organized pursuant to the provisions of Article 5190.6 of the Texas Revised Civil Statute (the Development Corporation Act of 1979) and governed by Section 4B of the Act. The Corporation was created to promote and expand commerce in the City and to finance development projects of public purpose, which are approved by City Council. State law allows the City to collect sales tax to assist in the promoting and developing activities within the City. Type B projects included certain targeted infrastructure projects necessary to promote and develop new or expanded business enterprises, limited to streets and roads, rail spurs, water and sewer utilities, electric utilities, drainage, site improvements, and related improvements, telecommunications and internet improvements, and beach remediation along the Gulf of Mexico.

The Corporation is a discretely presented component unit in the City's financial statements. The City Council approves all actions of the Corporation and appoints the seven members of the Board of Directors. Directors are appointed for two year terms, and three of the Directors cannot be employees, officers or members of the City Council. The City has the ability to exercise influence or control over daily operations, approve budgets, and provide funding although the Corporation is a separate legal entity.

The accompanying financial statements of the Corporation are prepared in conformity with generally accepted accounting principles for governmental entities as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation's significant accounting policies are described below.

The Corporation has adopted GASB Statements No. 61, *The Financial Reporting Entity and amendment of No. 14 The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*. In accordance with these statements, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the Corporation's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Corporation is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the Corporation's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the primary government which exercises significant influence over the Corporation. Significant influence or accountability is based primarily on operational or financial relationships with the City. Due to the nature of the relationship between the City and the Corporation, the Corporation has been included as a component unit of the City for financial statement purposes.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Corporation’s overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the Corporation’s activities;
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

a statement of activities. It requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets**—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information about the Corporation as a whole. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Corporation’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

The government reports the following governmental fund:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

General Fund

The general fund is used to account for all financial transactions of the Corporation. The principal sources of revenue are assessments to taxing authorities and interest earned on investments. Expenditures include all costs associated with the daily operations of the Corporation.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net position and statements of activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Corporation utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are 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 pay liabilities of the current period. For this purpose, the Corporation considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Sales taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

E. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

The Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the Corporation reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The Corporation has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the Corporation is authorized to invest in the following:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the State of Texas
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

The Corporation has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between the City and the Corporation outstanding at the end of the year are classified as "due to/from component unit/primary government."

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Inventories and Prepaid Items

The costs of inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include land, building, and infrastructure assets (e.g., property, pavilion buildings, boardwalk, etc.) are reported in the government-wide financial statements. Capital assets are defined by the Corporation, as assets with an initial, individual costs of more than \$1,000 and an estimated useful life in excess of 5 years. 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 date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	20 years
Infrastructure	10 years
Buildings and improvements	40 years

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

6. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing body is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (Board of Directors) has by resolution authorized the finance director to assign fund balance. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

8. Compensated Absences

The liability for compensated absences reported in the government-wide consists of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the Corporation's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the Corporation's general fund recognizes accrued compensated absences when it is paid.

9. Long-Term Obligations

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

Long-term debt is not reported as liabilities in the fund financial statements until due. Debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

10. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the Board prior to the beginning of the year.

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

A budget is prepared by fund and function. Appropriations lapse at the end of the year.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2020, the Corporation had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 249,951	0.87
Total value	<u>\$ 249,951</u>	
Portfolio weighted average maturity		0.87

Interest rate risk In accordance with its investment policy, the Corporation manages its exposure to declines in fair values by limiting the weighted average of maturity; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The Corporation's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

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. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2020, all bank balances were full insured or collateralized.

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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. The Corporation's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the Corporation's safekeeping account prior to the release of funds.

B. Receivables

The following comprise receivable balances of the Corporation at year end:

	<u>General Fund</u>
Sales tax due from City	\$ 346,981
Total	<u><u>\$ 346,981</u></u>

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Balances</u>	<u>Increases</u>	<u>Reclassifications</u>	<u>Balances</u>
Capital assets not being depreciated				
Land	\$ 871,059	\$ -	\$ -	\$ 871,059
Construction in progress	341,012			341,012
Total capital assets not being depreciated	<u>1,212,071</u>	<u>-</u>	<u>-</u>	<u>1,212,071</u>
Capital assets being depreciated				
Buildings	\$ 1,181,943	\$ -	\$ -	\$ 1,181,943
Infrastructure	6,565,582	-	-	6,565,582
Total capital assets being depreciated	<u>7,747,525</u>	<u>-</u>	<u>-</u>	<u>7,747,525</u>
Less accumulated depreciation				
Buildings	(339,466)	(59,097)	-	(398,563)
Infrastructure	(1,542,398)	(245,837)	-	(1,788,235)
Total Accumulated Depreciation	<u>(1,881,864)</u>	<u>(304,934)</u>	<u>-</u>	<u>(2,186,798)</u>
Total Capital Assets, Net	<u><u>\$ 7,077,732</u></u>	<u><u>\$ (304,934)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,772,798</u></u>

Depreciation was charged to governmental functions as follows:

Economic development	<u>\$ 304,934</u>
Total Governmental Activities Depreciation Expense	<u><u>\$ 304,934</u></u>

D. Long-term Liabilities - Debt

The Corporation's long-term obligations at September 30, 2020 are composed of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Sales Tax Revenue Bonds	\$ 5,450,000	\$ -	\$ (355,000)	\$ 5,095,000	\$ 360,000
Total	<u><u>\$ 5,450,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (355,000)</u></u>	<u><u>\$ 5,095,000</u></u>	<u><u>\$ 360,000</u></u>
			Long-term liabilities	<u><u>\$ 4,735,000</u></u>	

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

During 2008, the Corporation issued \$2,590,000 in sales tax revenue bonds, Series 2007, dated December 1, 2007. The bonds were issued for the purpose of constructing wastewater force mains and lift stations and related appurtenances along the Interstate 10 corridor of the City. The bonds are special obligations of the Corporation, payable from and secured by a lien on and pledge of the proceeds of a ½ of 1% sales and use tax levied within the City for the benefit of the Corporation. Principal payments are due semi-annually through August 1, 2023. The bonds bear interest ranging from 4% to 4.2%. These bonds were refunded in 2016. The balance of the refunded bonds was \$1,395,000.

During 2012, the Corporation issued \$5,520,000 in sales tax revenue bonds, Series 2012, dated March 1, 2012. The bonds were issued for the purpose of constructing a downtown outdoor destination known as the City Downtown Master Plan or the riverfront park project. The bonds are special obligations of the Corporation, payable from and secured by a lien on and pledge of the proceeds of a ½ of 1% sales and use tax levied within the City for the benefit of the Corporation. Principal payments are due semi-annually through August 1, 2032. The bonds bear interest ranging from 2% to 4%.

As of September 30, 2020, the debt service requirements are as follows:

Year ending September 30,	Series 2016	
	Principal	Interest
2021	\$ 210,000	\$ 11,842
2022	215,000	8,357
2023	220,000	4,421
Total	\$ 645,000	\$ 24,620

Year ending September 30,	Series 2012	
	Principal	Interest
2021	\$ 150,000	\$ 149,700
2022	150,000	146,513
2023	155,000	143,138
2024	390,000	139,650
2025	400,000	127,950
2026-2030	2,205,000	446,000
2031-2032	1,000,000	60,400
Total	\$ 4,450,000	\$ 1,213,351

Orange Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

E. Long-term Liabilities – Compensated Absences

The Corporation's compensated absences at September 30, 2020 were the following:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 14,872	\$ 3,464	\$ -	\$ 18,336	\$ 16,502
Total	\$ 14,872	\$ 3,464	\$ -	\$ 18,336	\$ 16,502
		Long-term liabilities		\$ 1,834	

V. OTHER INFORMATION

A. Restatement

The Corporation restated beginning net position for a construction in progress invoice that should have been capitalized to capital assets at the end of prior year.

The restatement of beginning net position is as follows:

	Governmental Activities
Prior year end net position, as reported	\$ 5,003,942
Correction to capital assets	31,228
Prior year end net position, restated	\$ 5,035,170

B. Subsequent Events

There were no material subsequent events through April 6, 2021, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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Orange Economic Development Corporation

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2020

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 1,650,000	\$ 1,888,087	\$ 238,087
Investment income	43,600	20,906	(22,694)
Other revenue	12,000	15,811	3,811
Total Revenues	1,705,600	1,924,804	219,204
<u>Expenditures</u>			
Current			
Personnel	328,788	312,276	16,512
Supplies	7,750	1,698	6,052
Maintenance & services	239,600	158,903	80,697
Economic development projects	2,445,725	126,668	2,319,057
Debt service			
Principal	356,050	355,000	1,050
Interest	167,774	168,724	(950)
Total Expenditures	3,545,687	1,123,269	2,422,418
Net Change in Fund Balance	\$ (1,840,087)	801,535	\$ 2,641,622
Beginning fund balance		3,449,665	
Ending Fund Balance		\$ 4,251,200	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with U.S. GAAP.

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