

**BONHAM ECONOMIC DEVELOPMENT CORPORATION**  
**(A Component Unit of the City of Bonham, Texas)**

**FINANCIAL STATEMENTS WITH**  
**INDEPENDENT AUDITORS' REPORT THEREON**

**For the Year Ended September 30, 2013**

**BONHAM ECONOMIC DEVELOPMENT CORPORATION**  
**(A Component Unit of the City of Bonham, Texas)**  
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**September 30, 2013**

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Report on Basic Financial Statements Accompanied by Required  
Supplementary Information, Supplementary Information, and Other Information

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Bonham Economic Development Corporation  
Bonham, Texas

We have audited the accompanying financial statements of the Bonham Economic Development Corporation, a component unit of the City of Bonham, Texas, 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.

**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 of 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 auditors' 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.

Board of Directors  
Bonham Economic Development Corporation  
Bonham, Texas

### Opinions

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the respective financial position of the Bonham Economic Development 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 conformity 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 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*McClardrum and Hubert, LLP*  
Certified Public Accountants

Bonham, Texas  
January 27, 2014

BONHAM ECONOMIC DEVELOPMENT CORPORATION  
(A Component Unit of the City of Bonham, Texas)  
Governmental Funds Balance Sheet/Statement of Net Position  
September 30, 2013

	General Fund	Debt Service Fund	Special Revenue Fund	Total	Adjustments*	Statement of Net Position
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 229,828	\$ -	\$ -	\$ 229,828	\$ -	\$ 229,828
Investments	31,481	-	274,679	306,160	-	306,160
Receivables	118,181	-	-	118,181	-	118,181
Restricted Assets:						
Investments	-	92	-	92	-	92
Capital Assets (Net of Accumulated Depreciation):						
Land	-	-	-	-	323,808	323,808
Land Improvements	-	-	-	-	256,129	256,129
Buildings	-	-	-	-	562,311	562,311
Equipment	-	-	-	-	27,000	27,000
<b>Total Assets</b>	<b>\$ 379,490</b>	<b>\$ 92</b>	<b>\$ 274,679</b>	<b>\$ 654,261</b>	<b>1,169,248</b>	<b>1,823,509</b>
<b>LIABILITIES</b>						
Accounts Payable and Accrued Expenses	\$ 2,428	\$ -	\$ 2,000	\$ 4,428	-	4,428
Accrued Interest Payable	-	-	-	-	(11,673)	11,673
Current Portion of Revenue Bonds Payable	-	-	-	-	(160,000)	160,000
Long-Term Liabilities:						
Revenue Bonds Payable - Net of Current Portion	-	-	-	-	(1,450,000)	1,450,000
<b>Total Liabilities</b>	<b>2,428</b>	<b>-</b>	<b>2,000</b>	<b>4,428</b>	<b>(1,621,673)</b>	<b>1,626,101</b>
Fund Balances:						
Nonspendable Fund Balance:						
Notes Receivable	31,052	-	-	31,052	31,052	-
Restricted Fund Balance:						
Retirement of Long-Term Debt	-	92	-	92	92	-
Unassigned Fund Balance	346,010	-	272,679	618,689	618,689	-
<b>Total Fund Balances</b>	<b>377,062</b>	<b>92</b>	<b>272,679</b>	<b>649,833</b>	<b>649,833</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 379,490</b>	<b>\$ 92</b>	<b>\$ 274,679</b>	<b>\$ 654,261</b>		
Net Position:						
Net Investment in Capital Assets					452,425	(452,425)
Restricted for Debt Service					(92)	92
Unrestricted					(649,741)	649,741
<b>Total Net Position</b>					<b>\$ (197,408)</b>	<b>\$ 197,408</b>

\*Adjustments consist of long-term bonds, accrued interest expense, capital assets and depreciation not reported in the funds.

See accompanying notes to financial statements.

**BONHAM ECONOMIC DEVELOPMENT CORPORATION**  
(A Component Unit of the City of Bonham, Texas)  
Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities  
Year Ended September 30, 2013

	General Fund	Debt Service Fund	Special Revenue Fund	Total	Adjustments*	Statement of Activities
<b>Revenues:</b>						
Sales Tax	\$ 511,487	\$ -	\$ -	\$ 511,487	\$ -	\$ 511,487
Interest Income	323	69	251	643	-	643
Miscellaneous	-	-	-	-	-	-
<b>Total Revenues</b>	<u>511,810</u>	<u>69</u>	<u>251</u>	<u>512,130</u>	<u>-</u>	<u>512,130</u>
<b>Expenditures/Current Expenses:</b>						
Salaries and Administrative	142,693	-	-	142,693	-	142,693
Supplies and Materials	35,150	-	-	35,150	(30,000)	5,150
Services and Other Charges	75,280	-	-	75,280	-	75,280
Economic Development	-	-	45,000	45,000	-	45,000
Bad Debt Expense	38,426	-	76,853	115,279	-	115,279
Depreciation	-	-	-	-	29,549	29,549
<b>Debt Service:</b>						
Principal	-	160,000	-	160,000	(160,000)	-
Interest	-	51,314	-	51,314	(1,160)	50,154
Bond Issuance Costs	-	-	-	-	-	-
<b>Total Expenditures</b>	<u>291,549</u>	<u>211,314</u>	<u>121,853</u>	<u>624,716</u>	<u>(161,611)</u>	<u>463,105</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>220,261</u>	<u>(211,245)</u>	<u>(121,602)</u>	<u>(112,586)</u>	<u>161,611</u>	<u>49,025</u>
<b>Other Financing Sources (Uses):</b>						
Transfers In (Out)	(275,389)	195,683	79,706	-	-	-
Refunding Bonds Issued	-	-	-	-	-	-
Payment To Refunded Bond Escrow Agent	-	-	-	-	-	-
<b>Total other Financing Sources (Uses)</b>	<u>(275,389)</u>	<u>195,683</u>	<u>79,706</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>(55,128)</u>	<u>(15,562)</u>	<u>(41,896)</u>	<u>(112,586)</u>	<u>161,611</u>	<u>49,025</u>
<b>Fund Balances/Net Position:</b>						
Beginning of the Year	<u>432,190</u>	<u>15,654</u>	<u>314,575</u>	<u>762,419</u>	<u>(614,036)</u>	<u>148,383</u>
End of the Year	<u>\$ 377,062</u>	<u>\$ 92</u>	<u>\$ 272,679</u>	<u>\$ 649,833</u>	<u>\$ (452,425)</u>	<u>\$ 197,408</u>

\*Adjustments consist primarily of long-term bonds, accrued interest expense, capital assets and depreciation not reported in the funds.

See accompanying notes to financial statements.

**BONHAM ECONOMIC DEVELOPMENT CORPORATION**  
**(A Component Unit of the City of Bonham, Texas)**  
**Notes to Financial Statements**  
**September 30, 2013**

**Note 1: Summary of Significant Accounting Policies**

**A. The Reporting Entity**

**Organization, History, and Purpose** - Bonham Economic Development Corporation was incorporated under the Texas Non-Profit Corporation Act on June 24, 1997. It operates without capital stock and was formed for the purpose of benefiting and accomplishing public purposes of, and to act on behalf of, the City of Bonham, Texas, to undertake, maintain and finance projects for the permitted purposes set forth in the Act.

Bonham Economic Development Corporation is a component unit of the City of Bonham, Texas, and the Board of Directors of Bonham Economic Development Corporation are appointed by the City Commission of the City of Bonham, Texas, and are removable by the City Commission at will.

**B. Measurement Focus, Basis of Accounting, and Basis of Presentation**

The accounting policies of the Corporation conform to accounting principles generally accepted in the United States of America as applicable to governments. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant accounting policies:

**Basic Financial Statements – Combined Governmental Funds and Government-Wide Statements**

The Corporation's basic financial statements include both government-wide (reporting the unit as a whole) and fund financial statements (reporting the Corporation's major funds). Government-wide reporting consists of the Statement of Net Position column on Statement 1 and the Statement of Activities column on Statement 2.

The Statement of Net Position column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations, if any. The reporting of net position is discussed further in Note 1 (C).

The Statement of Activities column of Statement 2, reports both the gross and net cost of the Corporation's function (economic development). Economic development is supported by general government revenues (sales tax, interest on investments, etc.).

BONHAM ECONOMIC DEVELOPMENT CORPORATION  
(A Component Unit of the City of Bonham, Texas)  
Notes to Financial Statements (Continued)  
September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (continued)

The financial transactions of the Corporation are reported in three individual funds in the combined financial statements. These funds are accounted for by providing a separate set of self-balancing accounts that comprise their assets, liabilities, fund equity, revenues, and expenditures/expenses. All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized when the related fund liability is incurred. An exception to this general rule includes principal and interest on general long-term debt which is recognized when due. The focus of the governmental funds' measurement (in the fund statements columns) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of Bonham Economic Development Corporation:

General Fund – The General Fund is the general operating fund and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt.

Special Revenue Fund – The Special Revenue Fund is used to account for the transfer of designated funds and related expenditures for economic development.

C. Assets, Liabilities, and Net Position/Fund Balance

Deposits and Investments

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.

Investments are stated at amortized cost (carrying value), which does not vary materially from fair value due to the short term nature of the investments.

Restricted Assets

Certain resources set aside for repayment of revenue bonds and related interest are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The Debt Service Fund is used to accumulate resources for debt service payments over the next twelve months.

BONHAM ECONOMIC DEVELOPMENT CORPORATION  
(A Component Unit of the City of Bonham, Texas)  
Notes to Financial Statements (Continued)  
September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, and Net Position/Fund Balance (continued)

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

Assets capitalized have an original cost of more than \$5,000 and useful life in excess of one year. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follow:

Equipment	5-7 Years
Buildings	40 Years
Improvements Other Than Buildings	50 Years

Net Position/Fund Balance

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, 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, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use its either through the enabling legislations adopted by the Corporation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Beginning with fiscal year 2011, the Corporation implemented GASB Statement 54“ Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2013, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board of Directors is the highest level of decision making authority for the Corporation. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Directors.

BONHAM ECONOMIC DEVELOPMENT CORPORATION  
 (A Component Unit of the City of Bonham, Texas)  
 Notes to Financial Statements (Continued)  
 September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, and Net Position/Fund Balance (continued)

Net Position/Fund Balance (continued)

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purpose. Under the Corporation’s adopted policy, only the Board of Directors may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Corporation considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Corporation considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

Use of Estimates

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

Note 2: Stewardship, Compliance and Accountability

The Corporation is subject to various federal, state, and local laws and contractual regulations.

For the year ended September 30, 2013, the Corporation’s expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Supplies and Materials	\$ 34,368
Services and Other Charges	18,870
Bad Debt Expense	38,426

BONHAM ECONOMIC DEVELOPMENT CORPORATION  
(A Component Unit of the City of Bonham, Texas)  
Notes to Financial Statements (Continued)  
September 30, 2013

Note 3: Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Corporation's deposits may not be returned or the Corporation will not be able to recover collateral securities in the possession of an outside party. The Corporation's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposit in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

As of September 30, 2013, the Corporation was not exposed to custodial credit risk since deposits are insured or collateralized with securities pledged held in the name of the Corporation. The Corporation's carrying amount of deposits was \$229,828 and the bank's balances were \$229,828.

As of September 30, 2013, the Corporation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Texas Local Government Investment Pool (Texpool)	\$ 306,252

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of September 30, 2013, Texpool's investments credit quality rating was AAAM (Standard & Poor's).

**Custodial Credit Risk - Deposits:** This is the risk that in the event of bank failure, the Corporation's deposits may not be returned to it. As of September 30, 2013, the Corporation's bank balance was not exposed to custodial credit risk.

**Custodial Credit Risk – Investments:** 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. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Note 4: Disaggregation of Receivables and Payables

Receivables at September 30, 2013, were as follows:

	<u>Sales Taxes</u>	<u>Notes</u>	<u>Total</u>
Governmental Activities:			
General Fund	\$ 87,129	\$ 31,052	\$ 118,181
Special Revenue Fund	-	-	-
Total Governmental Activities	<u>\$ 87,129</u>	<u>\$ 31,052</u>	<u>\$ 118,181</u>

Amounts Not Expected to be Collected During the Subsequent Year	<u>\$ -</u>	<u>\$ 24,308</u>	<u>\$ 24,308</u>
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BONHAM ECONOMIC DEVELOPMENT CORPORATION  
(A Component Unit of the City of Bonham, Texas)  
Notes to Financial Statements (Continued)  
September 30, 2013

Note 4: Disaggregation of Receivables and Payables (continued)

Payables at September, 30, 2013, were as follows:

	<u>Accounts</u>
Governmental Activities:	
General Fund	\$ 2,428
Special Revenue Fund	<u>2,000</u>
Total Governmental Activities	<u>\$ 4,428</u>

Note 5: Capital Assets

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

	<u>Balance 9/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9/30/13</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 323,808	\$ -	\$ -	\$ 323,808
Capital Assets being Depreciated:				
Land Improvements	298,738	-	-	298,738
Buildings	733,578	-	-	733,578
Equipment	<u>62,127</u>	<u>30,000</u>	-	<u>92,127</u>
	<u>1,094,443</u>	<u>30,000</u>	-	<u>1,124,443</u>
Less Accumulated Depreciation for:				
Land Improvements	36,634	5,975	-	42,609
Buildings	152,332	18,935	-	171,267
Equipment	<u>60,488</u>	<u>4,639</u>	-	<u>65,127</u>
Total Accumulated Depreciation	<u>249,454</u>	<u>29,549</u>	-	<u>279,003</u>
Capital Assets being Depreciated, Net	<u>844,989</u>	<u>451</u>	-	<u>845,440</u>
Capital Assets, Net	<u>\$ 1,168,797</u>	<u>\$ 451</u>	<u>\$ -</u>	<u>\$ 1,169,248</u>

**BONHAM ECONOMIC DEVELOPMENT CORPORATION**  
 (A Component Unit of the City of Bonham, Texas)  
 Notes to Financial Statements (Continued)  
 September 30, 2013

**Note 6: Bonds Payable**

A summary of the Corporation's Bond transactions for the year ended September 30, 2013, follows:

<b>Governmental Activities:</b>	
Balance, September 30, 2012	\$ 1,770,000
Additions	-
Retirements	<u>160,000</u>
Balance, September 30, 2013	<u>\$ 1,610,000</u>

The amount of bonds due within one year is \$160,000.

Bonds are comprised of the following:

**Revenue Bonds:**

\$1,870,000, Series 2011 Sales Tax Revenue Refunding Bonds, due in annual installments of \$160,000 to \$195,000 through 2022, interest at 2.9%	<u>\$ 1,610,000</u>
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Debt service requirements are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Sales Tax</u> <u>Revenue Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2014	\$ 160,000	\$ 46,690	\$ 206,690
2015	165,000	42,050	207,050
2016	170,000	37,265	207,265
2017	175,000	32,335	207,335
2018	180,000	27,260	207,260
2019	185,000	22,040	207,040
2020	190,000	16,675	206,675
2021	195,000	11,165	206,165
2022	<u>190,000</u>	<u>5,510</u>	<u>195,510</u>
	<u>\$ 1,610,000</u>	<u>\$ 240,990</u>	<u>\$ 1,850,990</u>

Sales and Use Taxes (one-half of one percent) levied by the City of Bonham, Texas, within its boundaries under the Development Corporation Act of 1979, are pledged for payment of bonds and interest. The resolution authorizing the issuance of revenue bonds created an interest and sinking fund (Debt Service Fund). The ordinance requires the Corporation to make substantially equal monthly installment payments to the Debt Service Fund which will be sufficient to pay principal and interest as it comes due.

BONHAM ECONOMIC DEVELOPMENT CORPORATION  
(A Component Unit of the City of Bonham, Texas)  
Notes to Financial Statements (Continued)  
September 30, 2013

**Note 7: Commitments and Contingencies**

**Grants**

The Corporation participates in Federally assisted grant programs which are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Corporation expects such amounts, if any, to be immaterial.

**Construction Contracts**

The Corporation had outstanding at September 30, 2013, contract commitments totaling approximately \$172,250 related to economic development.

**Note 8: Transfers**

The General Fund transferred \$195,683 to the Debt Service Fund during the year to comply with the bond ordinance related to the 2011 Sales Tax Revenue Refunding Bonds, the General Fund transferred \$79,706 to the Special Revenue Fund to be used for economic development.

**Note 9: Risk Management**

The Corporation is exposed to various risks of loss and has obtained insurance related to general liability, property, and equipment liability.

**Note 10: Subsequent Events**

Management has evaluated subsequent events through January 27, 2014, the date on which the financial statements were available to be issued.

**BONHAM ECONOMIC DEVELOPMENT CORPORATION**  
 (A Component Unit of the City of Bonham, Texas)  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended September 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Sales Tax	\$ 503,664	\$ 503,664	\$ 511,487	\$ 7,823
Interest Income	-	-	323	323
Miscellaneous	-	-	-	-
Total Revenues	<u>503,664</u>	<u>503,664</u>	<u>511,810</u>	<u>8,146</u>
<b>Expenditures/Current Expenses:</b>				
Salaries and Administrative	176,934	176,934	142,693	34,241
Supplies and Materials	781	781	35,149	(34,368)
Services and Other Charges	56,410	56,410	75,280	(18,870)
Bad Debt Expense	-	-	38,426	(38,426)
Total Expenditures	<u>234,125</u>	<u>234,125</u>	<u>291,548</u>	<u>(57,423)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>				
	<u>269,539</u>	<u>269,539</u>	<u>220,262</u>	<u>(49,277)</u>
<b>Other Financing Sources/Uses:</b>				
Transfers In (Out)	<u>(279,330)</u>	<u>(279,330)</u>	<u>(275,389)</u>	<u>3,941</u>
Total Other Financing Sources (Uses)	<u>(279,330)</u>	<u>(279,330)</u>	<u>(275,389)</u>	<u>3,941</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>				
	(9,791)	(9,791)	(55,127)	(45,336)
<b>Fund Balances</b>				
Beginning of the Year	<u>389,953</u>	<u>389,953</u>	<u>432,190</u>	<u>42,237</u>
End of the Year	<u>\$ 380,162</u>	<u>\$ 380,162</u>	<u>\$ 377,063</u>	<u>\$ (3,099)</u>

BONHAM ECONOMIC DEVELOPMENT CORPORATION  
(A Component Unit of the City of Bonham, Texas)  
Notes to Required Supplementary Information  
September 30, 2013

Budgetary Data

The Corporation's fiscal year commences October 1, and ends September 30. Prior to the commencement of each fiscal year of the Corporation, the Board shall adopt a proposed budget of expected revenues and expenditures for the next ensuing fiscal year.

The proposed budget shall contain such classifications and shall be in such form as may be prescribed from time to time by the Council of the City of Bonham. The budget shall not be effective until it has been approved by the City Council.

The Budgetary Comparison Schedule – General Fund presented as Required Supplementary Information for the General Fund is presented to provide a meaningful comparison of actual results with the budget.

**McCLANAHAN AND HOLMES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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Communication with Those Charged  
with Governance

Board of Directors  
Bonham Economic Development Corporation  
Bonham, Texas

We have audited the financial statements of Bonham Economic Development Corporation (the Corporation) for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 27, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the audited financial statements. No new accounting policies were adopted, and the application of existing policies did not change during the audit period. We noted no transactions entered into by the Corporation for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate (s) affecting the Corporation's financial statements was depreciation.

Management's estimate of the depreciation is based on management's knowledge and experience. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. There are no disclosures that are considered sensitive because of their significance to the financial statement users.

Difficulties in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of those misstatements detected as a result of audit procedures and corrected by management were material, either individually or the aggregate, to the financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 27, 2014.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion," in certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements, or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to make inquires of us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Other Audit Finding for Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of Bonham Economic Development Corporation as of and for the year ended September 30, 2013 in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control.

**Financial Accounting and Reporting:**

The Corporation does not have the ability to prepare the financial statements and control the period-end financial reporting process, including controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles; controls over procedures used to analyze transactions comprising general ledger activity; controls over initiating, authorizing, recording and processing journal entries into the general ledger; and controls over recording recurring and nonrecurring adjustments to the financial statements.

**Segregation of Duties:**

A critical element in any internal control structure is the characteristic known as segregation of duties. Assigning different personnel the responsibility of authorizing transactions, recording transactions, and maintaining custody of assets achieve this internal control structure attribute. Due to the Corporation's small number of personnel, there is limited segregation of duties in substantially all areas of the accounting system. To the extent possible, every effort should be made to utilize a "best practices" approach when considering controls over cash transactions and preparation of accounting records. We encourage the Board to closely monitor its financial activities which may help offset the weaknesses associated with limited segregation of duties.

This report is intended solely for the information and use of the Corporation's management, Board of Directors, and grant agencies and is not intended to and should not be used by anyone other than these parties.

*McClardum and Holman, LLP*  
Certified Public Accountants

January 27, 2014  
Bonham, Texas

**BONHAM ECONOMIC DEVELOPMENT CORPORATION**  
**(A Component Unit of the City of Bonham, Texas)**  
**Misstatements Corrected by Management**  
**September 30, 2013**

<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b><u>General Fund</u></b>		
Other Taxes Receivable - Sales	\$ 4,163.00	\$ -
Sales Tax Revenue	-	4,163.00
BEDCO Salaries Payable	-	1,225.00
BEDCO Regular Hourly	1,225.00	-
Accounts Payable-Vendors	6,695.00	-
Principal - Fannin Community Foundation	6,542.00	-
Loan Receivable	-	44,968.00
Sale of Property	1,650.00	-
Loan Receivable - Hope Concrete	-	1,650.00
Bad Debt Expense	38,426.00	-
Electric - Street Light	-	6,695.00
<b><u>Debt Service Fund</u></b>		
Debt Payments - Interest	51,330.00	-
Debt Payments - BEDCO I & S	-	51,330.00
<b><u>Economic Development</u></b>		
Bad Debt Expense	76,853.00	-
Loan Receivable - Baari, Inc	-	76,853.00