

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**

**ANNUAL FINANCIAL REPORT**

**For the Year Ended September 30, 2011**



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**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
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## **Financial Section**

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Stafford Economic Development Corporation ("SEDC") as of and for the year ended September 30, 2011, which collectively comprise SEDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SEDC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Stafford Economic Development Corporation as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2012, on our consideration of SEDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on Pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund on Page 27 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stafford Economic Development Corporation

Stafford, Texas

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The accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service and Capital Projects Funds on Pages 30 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mull-Lairson, P.C." in a cursive, flowing script.

Houston Texas

January 24, 2012



**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Stafford Economic Development Corporation ("SEDC"), we offer readers of SEDC's financial statements this narrative overview and analysis of the financial activities of SEDC for the fiscal year ended September 30, 2011.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to SEDC's basic financial statements. SEDC's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Although SEDC is not a political subdivision or a political corporation under state law, under GAAP it is treated as a governmental unit. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

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

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

The *statement of activities* presents information showing how SEDC's net assets changed during the fiscal year. All changes in net assets 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 only result in cash flows in the future fiscal periods.

The government-wide financial statements show the functions of SEDC that are supported by taxes and investment earnings. The activities of SEDC include general administration and interest due on bonds. Major construction projects currently funded by SEDC's bonds will be transferred to the City for operation. SEDC has no business-type activities.

The government-wide financial statements can be found on Pages 10 through 11 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. SEDC, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. SEDC consists only of governmental funds.

**Governmental Funds**

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating SEDC's near-term financing requirements.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

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 SEDC's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenue, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

SEDC adopts annual appropriated budgets for all of its governmental funds. A budgetary comparison statement has been provided for the General Fund in the Required Supplementary Information section to demonstrate compliance with this budget. The same types of budgetary comparisons are presented for the Debt Service Fund and the Capital Projects Fund in the Other Supplementary Information section to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on Pages 12 through 15 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 17 through 24 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 budget to actual comparisons of the General Fund. Required supplementary information can be found on Page 27 of this report.

The other supplemental information is presented following the required supplementary information. This individual statement is found on Pages 30 through 31 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The liabilities of SEDC exceeded its assets at the close of the most recent fiscal year by **\$16.1 million** (net deficit). SEDC's total net assets increased during the year by **\$1.2 million**. Management anticipates the current and future fiscal years' financial positions will reflect a deficit of net assets through the life of the outstanding bonded indebtedness.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

The following table summarizes SEDC's net assets as of September 30, 2011 and 2010:

**CONDENSED SCHEDULE OF NET ASSETS**

*September 30, 2011 and 2010*

*Amounts in (000's)*

	<b>Governmental Activities</b>		<b>Change</b>	
	<b>2011</b>	<b>2010</b>	<b>Amount</b>	<b>Percent</b>
Current and other assets	\$ 7,117,478	\$ 7,031,034	\$ 86,444	1%
<b>Total Assets</b>	<b>7,117,478</b>	<b>7,031,034</b>	<b>86,444</b>	<b>1%</b>
Current and other liabilities	134,187	505,114	(370,927)	-73%
Long-term liabilities	23,086,060	23,864,133	(778,073)	-3%
<b>Total Liabilities</b>	<b>23,220,247</b>	<b>24,369,247</b>	<b>(1,149,000)</b>	<b>-5%</b>
Net assets:				
Restricted	114,286	657,372	(543,086)	-83%
Unrestricted	(16,217,055)	(17,995,585)	1,778,530	10%
<b>Total Net Assets</b>	<b>\$ (16,102,769)</b>	<b>\$ (17,338,213)</b>	<b>1,235,444</b>	<b>7%</b>

The following table summarizes the change in net assets for SEDC for the years ended September 30, 2011 and 2010:

**CONDENSED SCHEDULE OF CHANGES IN NET ASSETS**

*For the Years Ended September 30, 2011 and 2010*

*Amounts in (000's)*

	<b>Governmental Activities</b>		<b>Change</b>	
	<b>2011</b>	<b>2010</b>	<b>Amount</b>	<b>Percent</b>
General revenues:				
Sales tax	\$ 3,360,861	\$ 3,274,147	\$ 86,714	3%
Interest	61,483	109,978	(48,495)	-44%
<b>Total General Revenues</b>	<b>3,422,344</b>	<b>3,384,125</b>	<b>38,219</b>	<b>1%</b>
Expenses:				
General administration	336,083	308,672	27,411	9%
Capital outlay on behalf of the City	528,175	3,090,515	(2,562,340)	-83%
Interest and fiscal agent fees	1,322,642	1,351,723	(29,081)	-2%
<b>Total Expenses</b>	<b>2,186,900</b>	<b>4,750,910</b>	<b>(2,564,010)</b>	<b>-54%</b>
Change in net assets	1,235,444	(1,366,785)	2,602,229	190%
<b>Net Assets - Beginning</b>	<b>(17,338,213)</b>	<b>(15,971,428)</b>	<b>(1,366,785)</b>	<b>9%</b>
<b>Net Assets - Ending</b>	<b>\$ (16,102,769)</b>	<b>\$ (17,338,213)</b>	<b>\$ 1,235,444</b>	<b>7%</b>

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

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

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

**Governmental Funds**

The focus of SEDC's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing SEDC's financing requirements.

In particular, unreserved fund balance may serve as a useful measure of an entity's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, SEDC's governmental funds reported combined ending fund balances of \$7.1 million, of which \$5.6 million constitutes unassigned fund balance. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has been legally restricted for debt service (\$221,829) and capital projects (\$1.3 million).

The General Fund balance increased by \$640,314 during the current year as revenues and expenditures remained at levels similar to those of the 2010 fiscal year.

The Debt Service and Capital Projects fund balances remained relatively unchanged from the prior year.

**General Fund Budgetary Highlights**

Actual sales tax revenue was \$164,000 above what was expected during the year. Expenditures were \$232,435 under appropriations. These variances resulted in an ending General Fund balance \$383,563 higher than originally projected in the budgetary process.

Additional information on SEDC's General Fund budgetary highlights can be found in the required supplementary information on Page 27 of this report.

**Debt Administration**

At the end of the current fiscal year, SEDC had sales tax revenue bonds outstanding of \$22.7 million. SEDC has secured the payment of the principal and interest on such bonds by a pledge of the sales tax revenue received by the Corporation from the City. Sales taxes collected by SEDC are being used to service the debt payments. Further, at the end of the current fiscal year, SEDC had excess sales tax liability outstanding of \$406,060. SEDC has secured the payment of the principal on such excess sales tax by a pledge of the sales tax revenue received by the Corporation from the City.

SEDC continues to hold an "A2" rating from Moody's and an "A+" rating from Standard & Poor's for its bonds.

Additional information regarding SEDC's debt outstanding can be found in Note 6 to the basic financial statements on Pages 22 through 24 of this report.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

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

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

SEDC is currently operating under its 2012 budget adopted and passed by the Board of Directors. The following schedule outlines a comparison of the 2011 actual operations and the 2012 General Fund budget. The 2012 budget is presented below:

	<u>2011 Actual</u>	<u>2012 Budget</u>	<u>Net Change</u>
Total Revenues	\$ 1,425,729	\$ 1,361,481	\$ (64,248)
Total Expenses	355,415	610,350	254,935
Operating transfers in (out)	<u>(430,000)</u>	<u>(400,000)</u>	<u>30,000</u>
Changes in fund balance	640,314	351,131	(289,183)
Beginning fund balance	<u>4,939,718</u>	<u>5,490,000</u>	<u>550,282</u>
Ending fund balance	<u><u>\$ 5,580,032</u></u>	<u><u>\$ 5,841,131</u></u>	<u><u>\$ 261,099</u></u>

**Request for Information**

This financial report is designed to provide a general overview of SEDC's finances for all those with an interest in the Corporation. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Stafford, 2610 South Main, Stafford, Texas, 77477.

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## **Basic Financial Statements**

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*STATEMENT OF NET ASSETS*  
*September 30, 2011*

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 6,286,844
Receivables (Net of Allowance for Uncollectibles)	<u>830,634</u>
<b>Total Assets</b>	<u>7,117,478</u>
<b>Liabilities</b>	
Accounts payable and accrued expenses	134,187
Long-term liabilities:	
Due within one year	699,332
Due in more than one year	<u>22,386,728</u>
<b>Total Liabilities</b>	<u>23,220,247</u>
<b>Net Assets</b>	
Restricted for:	
Debt service	114,286
Capital projects	
Unrestricted	<u>(16,217,055)</u>
<b>Total Net Assets (Deficit)</b>	<u><u>\$ (16,102,769)</u></u>

*See Notes To Basic Financial Statements.*



**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*STATEMENT OF ACTIVITIES*  
*For the year ended September 30, 2011*

	<u>Governmental Activities</u>
<b>General revenues</b>	
Sales tax	\$ 3,360,861
Interest	61,483
<b>Total General Revenues</b>	<u>3,422,344</u>
<b>Expenses</b>	
General administration	336,083
Capital Outlay on behalf of City	
US 90A Railroad Relocation	258,999
Stafford Centre	49,585
US 59 Open Space Enhancement	219,591
Interest and fiscal agent fees	1,322,642
<b>Total Expenses</b>	<u>2,186,900</u>
Change in net assets	1,235,444
<b>Net Assets - Beginning</b>	<u>(17,338,213)</u>
<b>Net Assets - Ending</b>	<u>\$ (16,102,769)</u>

*See Notes to Basic Financial Statements.*

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*BALANCE SHEET*  
*GOVERNMENTAL FUNDS*  
*September 30, 2011*

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 4,698,513	\$ 218,829	\$ 1,369,502	\$ 6,286,844
Receivables from other governments	830,634			830,634
Due from other funds	73,823	3,000		76,823
<b>Total Assets</b>	<u>\$ 5,602,970</u>	<u>\$ 221,829</u>	<u>\$ 1,369,502</u>	<u>\$ 7,194,301</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 19,938	\$	\$ 6,707	\$ 26,645
Due to other funds	3,000		73,822	76,822
<b>Total Liabilities</b>	<u>\$ 22,938</u>	<u>\$</u>	<u>\$ 80,529</u>	<u>\$ 103,467</u>
<b>Net Assets</b>				
Restricted:				
Debt service		221,829		221,829
Capital projects			1,288,973	1,288,973
Unaassigned	5,580,032			5,580,032
<b>Total Fund Balances</b>	<u>5,580,032</u>	<u>221,829</u>	<u>1,288,973</u>	<u>7,090,834</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,602,970</u>	<u>\$ 221,829</u>	<u>\$ 1,369,502</u>	<u>\$ 7,194,301</u>

*See Notes To Basic Financial Statements.*

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS*  
*September 30, 2011*

Total fund balance, governmental funds	\$ 7,090,834
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Payables for bond principal are not reported in the funds.	(22,680,000)
Payables for excess sales tax principal are not reported in the funds.	(406,060)
Payables for bond interest are not reported in the funds	<u>(107,543)</u>
Net Assets (deficits) of Governmental Activities in the Statement of Net Assets	<u><u>\$ (16,102,769)</u></u>

*See Notes to Basic Financial Statements.*

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES*  
**GOVERNMENTAL FUNDS**  
*For the Year Ended September 30, 2011*

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Sales tax	\$ 1,387,842	\$ 1,973,019	\$	\$ 3,360,861
Interest	37,887	9,349	14,247	61,483
<b>Total Revenues</b>	<u>1,425,729</u>	<u>1,982,368</u>	<u>14,247</u>	<u>3,422,344</u>
<b>Expenditures</b>				
Current:				
General administration	355,415			355,415
Capital Outlay on Behalf of the City:				
US 90A Railroad Relocation			258,999	258,999
Stafford Centre			49,585	49,585
US 59 Open Space Enhancement			219,591	219,591
Debt Service:				
Principal		650,000		650,000
Interest and other charges		1,323,840		1,323,840
<b>Total Expenditures</b>	<u>355,415</u>	<u>1,973,840</u>	<u>528,175</u>	<u>2,857,430</u>
Revenues over (under) expenditures	<u>1,070,314</u>	<u>8,528</u>	<u>(513,928)</u>	<u>564,914</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in			430,000	430,000
Transfers out	(430,000)			(430,000)
<b>Total other financing sources (uses)</b>	<u>(430,000)</u>		<u>430,000</u>	
Net Changes in Fund Balances	640,314	8,528	(83,928)	564,914
<b>Fund Balances - Beginning of Year</b>	<u>4,939,718</u>	<u>213,301</u>	<u>1,372,901</u>	<u>6,525,920</u>
<b>Fund Balances - End of Year</b>	<u>\$ 5,580,032</u>	<u>\$ 221,829</u>	<u>\$ 1,288,973</u>	<u>\$ 7,090,834</u>

*See Notes to Basic Financial Statements.*

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES**

*For the year ended September 30, 2011*

Net change in fund balances - total governmental funds	\$ 564,914
Amounts reported for governmental activities in the Statement of Activities are different because:	
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets.	650,000
Repayment of excess sales tax debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets.	19,332
Interest is an expenditure when paid for by governmental funds, for the statement of activities interest payable is accrued through the end of the fiscal year.	1,198
Change in Net Assets of Governmental Activities	<u><u>\$ 1,235,444</u></u>

*See Notes to Basic Financial Statements.*

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**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS*

**Note 1 - Organization**

In 1999, the City of Stafford (the “City”) voters authorized the creation of the Stafford Economic Development Corporation (“SEDC”). The voters approved that a one-half cent sales tax be authorized for economic development purposes in accordance with specified projects, which were included on the ballot. In August 1999, SEDC was formed under Article 5190.6 V.T.C.S., the Development Corporation Act of 1979 and governed by Section 4B of the Act. State law allows the City to collect sales tax to assist in the promoting and developing activities of the City. SEDC has been included as a discretely presented component unit in the City’s financial statements. The City Council approves the budget of SEDC and appoints the members of the Board of Directors of SEDC.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of SEDC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

**A. Reporting Entity**

SEDC’s financial statements include all the accounts and activities of SEDC. Based on criteria prescribed by generally accepted accounting principles, SEDC is considered a component unit of the City of Stafford. As such, the financial statements of SEDC are also included in the separately-issued Annual Financial Report of the City of Stafford.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether SEDC is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on these considerations, no other entities, organizations, or functions have been included in SEDC’s financial reporting entity.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report financial information on all of the activities of SEDC. As a general rule, the effect of interfund activity within SEDC has been eliminated from the government-wide financial statements. The amounts between the City and SEDC are not eliminated. The governmental activities of SEDC are normally supported through sales taxes and interest earnings.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Summary of Significant Accounting Policies (continued)**

**B. Government-wide and Fund Financial Statements (continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program or general revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. SEDC does not receive any program revenues as defined by generally accepted accounting principles. Sales taxes, although required to be used for economic development activities, and other revenues reported in the statement of activities are not included in program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. SEDC does not have any fiduciary or proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recognized as revenues in the year when the transactions giving rise to the sales taxes occur.

General revenues include sales taxes and interest earnings received by SEDC.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

Sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period in both the government-wide and individual fund financial statements.



**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

SEDC reports the following major governmental funds:

The *general fund* is used to account for all financial transactions except those required to be accounted for in another fund. The principal sources of revenue are sales taxes and interest earnings. Expenditures consist of all costs associated with the daily operations of SEDC and certain capital expenditures.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation debts of SEDC. The primary source of revenue is sales taxes.

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

**D. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation -- is utilized. Encumbrances outstanding at year-end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. There were no outstanding encumbrances at September 30, 2011.

**E. Cash and Investments**

SEDC's Investment Committee manages cash, money market accounts and certificates of deposit. The City's staff maintains these investments based on investment policies prescribed by the SEDC's Investment Committee. During the year, the City held no investments.

SEDC considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Summary of Significant Accounting Policies (continued)**

**F. Estimates**

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**G. Fund Balance**

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

**H. Net Assets**

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

**I. Federal Income Tax Status**

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

**Note 3 – Deposits (Cash) and Investment Policy**

SEDC classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, an investment is considered a cash equivalent if when purchased it has a maturity date of three months or less. Investments are classified as either current investments or non-current investments. Investments are those that have a maturity of one year or more. There were no investments reported on the statement of net assets at September 30, 2011.

**Deposits**

At September 30, 2011, the carrying amount of SEDC's cash, savings and time deposits was \$6.3 million. Bank balances were covered by federal depository insurance and by collateral pledged in SEDC's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a financial institution failure, SEDC's deposits may not be returned to them. SEDC requires that all deposits with financial institutions be collateralized in an amount equal to 110 percent of uninsured balances.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 3 – Deposits (Cash) and Investment Policy (continued)**

**Deposits (continued)**

Under Texas state law, a bank serving as the depository must have a bond or in lieu thereof, deposited or pledged securities with the SEDC or an independent third party agent, an amount equal to the highest daily balance of all deposits the SEDC may have during the term of the depository contract, less any applicable FDIC insurance.

**Investment Policy**

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes SEDC to invest its funds under a written investment policy (the “investment policy”) that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

SEDC’s deposits and investments are invested pursuant to the investment policy, which is approved by the Board. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition, it includes an “Investment Strategy Statement” that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which SEDC will deposit funds is addressed. SEDC’s investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). SEDC’s management believes it complied with the requirements of the PFIA and SEDC’s investment policy.

SEDC’s Investment Officer submits an investment report each month to the Board. The report details the investment positions of the SEDC and the compliance of the investment portfolios as they relate to both the adopted investment strategy statements and Texas State law.

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

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker’s acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 3 – Deposits (Cash) and Investment Policy (continued)**

**Investment Policy (continued)**

*Credit Risk* - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets SEDC's cash flow requirements.

**Note 4 - Sales Tax Revenue**

SEDC's revenues consist principally of a ½ percent sales tax which the voters approved in 1999 for the purpose of economic development activities and costs associated with promoting and enhancing economic and industrial development activities. In 2011, SEDC earned \$3.4 million in sales taxes, of which, \$2.0 million was allocated for SEDC's Debt Service Fund. At year-end, SEDC reported a receivable from the State for sales tax revenues collected in August and September of \$606,349 .

**Note 5 - Interfund Receivables, Payables and Transfers**

**Receivables and Payables**

The composition of interfund balances as of September 30, 2011, is as follows:

	<u>Receivable Fund</u>	
	<u>General Fund</u>	<u>Debt Service Fund</u>
<u>Payable Fund</u>		
General Fund	\$	\$ 3,000
Capital Projects Fund	73,822	
	<u>\$ 73,822</u>	<u>\$ 3,000</u>

**Transfers**

For the year ended September 30, 2011, the SEDC Board of Directors approved transfers of \$430,000 from the General Fund to the Capital Projects Fund to provide resources for construction related projects.

**Note 6 - Long-Term Debt**

During fiscal year 2001, SEDC issued \$ 28,000,000 in series 2000 Sales Tax Revenue Bonds. These bonds carry interest rates from 4.45% to 6.00%. The bonds are special obligations of the issuer and are payable from and secured by a lien on and pledge of the pledged revenues (sales tax receipts). Proceeds from the sale of the bonds have been used to pay a portion of the costs related to the U.S. Highway 90A Improvement project through the City; for land acquisition, construction and equipment of a convention center/performing arts theatre complex; and for the payment of the costs of issuance of the bonds.

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 6 - Long-Term Debt (continued)**

Although the capital assets constructed or acquired with the proceeds of these bonds already have been or will eventually be entirely transferred to the City, the bonded debt will continue to be reflected in SEDC's financial statements.

The following is a summary of the long-term debt transactions of SEDC for the year ended September 30, 2011.

	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011	Due Within One Year
Sales tax revenue bonds	\$ 23,330,000	\$	\$ 650,000	\$ 22,680,000	\$ 680,000
Sales tax obligation	425,392		19,332	406,060	19,332
	<u>\$ 23,755,392</u>	<u>\$</u>	<u>\$ 669,332</u>	<u>\$ 23,086,060</u>	<u>\$ 699,332</u>

The annual requirements on the SEDC Sales Tax Revenue Bonds, as of September 30, 2011, are shown below:

Year Ending 9/30	Principal	Interest	Total
2012	\$ 680,000	\$ 1,290,519	\$ 1,970,519
2013	725,000	1,249,719	1,974,719
2014	765,000	1,206,219	1,971,219
2015	810,000	1,160,319	1,970,319
2016	860,000	1,111,719	1,971,719
2017	915,000	1,060,119	1,975,119
2018	965,000	1,005,219	1,970,219
2019	1,025,000	947,319	1,972,319
2020	1,085,000	885,819	1,970,819
2021	1,150,000	824,788	1,974,788
2022	1,215,000	760,100	1,975,100
2023	1,280,000	691,756	1,971,756
2024	1,355,000	619,756	1,974,756
2025	1,430,000	543,538	1,973,538
2026	1,510,000	463,100	1,973,100
2027	1,590,000	380,050	1,970,050
2028	1,680,000	292,600	1,972,600
2029	1,770,000	200,200	1,970,200
2030	1,870,000	102,850	1,972,850
	<u>\$ 22,680,000</u>	<u>\$ 14,795,709</u>	<u>\$ 37,475,709</u>

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 6 - Long-Term Debt (continued)**

**Federal Tax Compliance (Arbitrage) for Long-term Debt**

In accordance with provisions of Section 148 of the Internal Revenue Code of 1986 (the "Code"), as amended, SEDC's long-term debt obligations must meet certain minimum criteria to be considered and continue to be considered "tax exempt." This "tax exempt" status means that interest income earned by purchasers of SEDC's long-term debt instruments is not subject to federal income taxes. Related Treasury Regulations promulgated under Section 148 of the Code generally provide that the determination of whether these obligations are tax exempt is made as of the date such obligations are issued based on reasonable expectations regarding the use of the proceeds of the bonds issued. Long-term debt that does not meet and continue to meet the minimum criteria of Section 148 of the Code and the related Treasury Regulations described above are considered "arbitrage bonds" and are not considered "tax exempt" as described above.

**Rebate**

Section 148 of the Code also provides that in order for debt not to be considered arbitrage bonds (as described above), proceeds of such debt must be invested at a yield that is not materially higher than the yield on the debt issued starting on the third anniversary of the issue date of such debt. Accordingly, any unexpended proceeds of debt issued by SEDC that remain unexpended more than three years after such debt was issued should be yield restricted. The yield restriction may be accomplished by making yield reduction payments pursuant to Treas. Reg. Section 1.148-5(c). SEDC presently has unexpended proceeds from certain debt issues that require yield restriction as described above. SEDC is currently in compliance with these yield restriction requirements and does not anticipate associated significant noncompliance issues. SEDC is continuing to proceed with reasonable diligence to expend any remaining debt issuance proceeds on qualifying projects.

**Sales Tax Obligation**

SEDC negotiated a long-term payout of excess sales tax received in prior years in the amount of \$479,338, with the State Comptroller. This amount was collected by SEDC during the fiscal year periods 2000 through 2007. The total negotiated payout calls for a twenty-five year period with equal amounts deducted each month from SEDC's sales tax receipts beginning with October 2007. No interest is associated with this long-term liability.

The annual requirements on the SEDC Excess Sales Tax liability, as of September 30, 2011, are \$19,332 for fiscal years 2012 through 2031 and \$19,420 in fiscal year 2032, for a total of \$406,060 .

(  
**Required Supplementary Information**

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**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND*  
*For the Year Ended September 30, 2011*

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Sales tax	\$ 1,223,601	\$ 1,223,601	\$ 1,387,842	\$ 164,241
Interest	51,000	51,000	37,887	(13,113)
<b>Total Revenues</b>	<u>1,274,601</u>	<u>1,274,601</u>	<u>1,425,729</u>	<u>151,128</u>
<b>Expenditures</b>				
Current:				
General administration	405,350	587,850	355,415	232,435
<b>Total Expenditures</b>	<u>405,350</u>	<u>587,850</u>	<u>355,415</u>	<u>232,435</u>
Revenues over (under) expenditures	<u>869,251</u>	<u>686,751</u>	<u>1,070,314</u>	<u>383,563</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>(400,000)</u>	<u>(430,000)</u>	<u>(430,000)</u>	
<b>Total other financing sources (uses)</b>	<u>(400,000)</u>	<u>(430,000)</u>	<u>(430,000)</u>	
Net Changes in Fund Balances	469,251	256,751	640,314	383,563
<b>Fund Balances - Beginning of Year</b>	<u>4,939,718</u>	<u>4,939,718</u>	<u>4,939,718</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 5,408,969</u>	<u>\$ 5,196,469</u>	<u>\$ 5,580,032</u>	<u>\$ 383,563</u>

*See Notes to Basic Financial Statements.*

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
*NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND*

**Budgetary Data**

SEDC prepares and adopts an appropriated budget on its General Fund, Debt Service Fund and Capital Projects Fund. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

The SEDC Board prepares an annual budget for SEDC for the ensuing fiscal year. The Board reviews, considers and revises the proposed new budget for the forthcoming fiscal year, prior to the end of the current fiscal year. The budget, as adopted, must set forth the appropriations for services, functions and activities of SEDC, and shall meet all fund requirements provided by law and required by bond covenants. Once approved by the Board, the budget is approved by the City Council along with the City's budget.

SEDC performs budget reviews during the year through which budget requirements are re-evaluated and revisions are recommended for SEDC's Board to approve and make changes as required. Total expenditures may not legally exceed budgeted appropriations. Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by the Board and City Council through a formal budget amendment. Revisions to the budget were made during the year.

## **Other Supplementary Information**

**STAFFORD ECONOMIC  
DEVELOPMENT CORPORATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
DEBT SERVICE AND CAPITAL PROJECTS FUNDS**  
*For the Year Ended September 30, 2011*

	<b>DEBT SERVICE FUND</b>		
	<b>Budgeted Amounts</b>		<b>Variance with Final Budget Positive (Negative)</b>
	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>			
Sales tax	\$ 1,973,019	\$ 1,973,019	\$
Interest	14,000	9,349	(4,651)
<b>Total Revenues</b>	<u>1,987,019</u>	<u>1,982,368</u>	<u>(4,651)</u>
<b>Expenditures</b>			
Capital Outlay on Behalf of the City:			
US 90A Railroad Relocation			
Stafford Centre			
US 59 Open Space Enhancement			
Debt Service:			
Principal	650,000	650,000	
Interest and other charges	1,325,019	1,323,840	1,179
<b>Total Expenditures</b>	<u>1,975,019</u>	<u>1,973,840</u>	<u>1,179</u>
Revenues over (under) expenditures	<u>12,000</u>	<u>8,528</u>	<u>3,472</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in			
Transfers out			
<b>Total other financing sources (uses)</b>			
Net Changes in Fund Balances	12,000	8,528	3,472
<b>Fund Balances - Beginning of Year</b>	<u>213,301</u>	<u>213,301</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 225,301</u>	<u>\$ 221,829</u>	<u>\$ 3,472</u>

***CAPITAL PROJECTS FUND***

<b>Budgeted Amounts</b>		<b>Variance with Final Budget Positive (Negative)</b>
<b>Final</b>	<b>Actual</b>	
\$	\$	\$
44,505	14,247	(30,258)
44,505	14,247	(30,258)
857,333	258,999	598,334
108,500	49,585	58,915
473,000	219,591	253,409
1,438,833	528,175	910,658
(1,394,328)	(513,928)	880,400
430,000	430,000	
(351)		351
429,649	430,000	351
(964,679)	(83,928)	880,751
1,372,901	1,372,901	
\$ 408,222	\$ 1,288,973	\$ 880,751