

**STAFFORD ECONOMIC DEVELOPMENT
CORPORATION**
STAFFORD, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2010

KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566

THIS PAGE LEFT BLANK INTENTIONALLY.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

*Annual Financial Report
For the Year Ended September 30, 2010*

Table of Contents

| | <u>Page</u> |
|---|-------------|
| FINANCIAL SECTION | |
| Independent Auditors' Report..... | 7-8 |
| Management's Discussion and Analysis | 9-14 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 16 |
| Statement of Activities | 17 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 18 |
| Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Assets | 19 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 20 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities | 21 |
| Notes to the Financial Statements..... | 23-35 |
| Required Supplementary Information: | |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund | 38 |
| Other Supplementary Information: | |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service and Capital Projects Fund..... | 40-41 |
| COMPLIANCE AND INTERNAL CONTROLS SECTION | |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements in Accordance with <i>Government Auditing Standards</i> | 45-46 |

THIS PAGE LEFT BLANK INTENTIONALLY.

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY.

KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
(979) 297-4075 Fax: (979) 297-6648
(800) 399-4075

Houston Office:
12000 Westheimer, Suite 105
Houston, Texas 77077
(281) 752-0200 Fax: (281) 752-0204

Independent Auditors' Report
Unqualified Opinions on Basic Financial Statements
Accompanied by Required Supplementary Information,
Along with Other Schedules

February 22, 2011

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), Stafford, Texas as of and for the year ended September 30, 2010, which collectively comprise the 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, Stafford, Texas as of September 30, 2010 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.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2011 on our consideration of the 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.

The Management's Discussion and Analysis and Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund on pages 9 through 14 and 38 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.

The accompanying Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service and Capital Projects Funds on pages 40 through 41 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.

Kennemer, Masters & Hunford, LLC

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2010*

As management of the Stafford Economic Development Corporation (SEDC), we offer readers of the SEDC's financial statements this narrative overview and analysis of the financial activities of the SEDC for the fiscal year ended September 30, 2010.

Financial Highlights

- The liabilities of the SEDC exceeded its assets at the close of the most recent fiscal year by \$ 17,338,213 (net deficit). As discussed in prior years, the SEDC utilized \$ 20 million in bond funds as well as additional general fund revenues to construct the Stafford Centre and upon completion, made a contribution of the building to the City of Stafford to handle the operational responsibilities. In addition, a total of \$ 8 million in bond funds as well as additional general fund revenues were spent on the US90A project, which essentially was a contribution to the State of Texas due to the ownership of the assets related to the project remaining with the State. Management anticipates the current and future fiscal year's financial position will reflect a deficit of net assets through the life of the outstanding bonded indebtedness as the assets associated with the debt have been transferred to the City of Stafford.
- The SEDC's total net assets decreased by \$ 1,366,785.
- As of the close of the current fiscal year, the SEDC's governmental funds reported combined ending fund balances of \$ 6,525,920. 88% of this total amount, \$ 5,759,807 (unreserved fund balance) is available for use within the SEDC's designation.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 4,939,718 or fifteen times the total general fund expenditures for the year ended September 30, 2010.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the SEDC's basic financial statements. The SEDC's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Although the 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.

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

The *statement of net assets* presents information on all of the 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 the SEDC is improving or deteriorating.

The *statement of activities* presents information showing how the SEDC's net assets changed during the fiscal year. All changes in net assets are reported when 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.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2010*

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

The government-wide financial statements can be found on pages 16 through 17 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The SEDC, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The SEDC consist 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 current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the SEDC'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 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.

The 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.

The 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 type of budgetary comparisons are presented for the Debt Service Fund and the Capital Projects Fund in the other supplemental information section to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 18 through 21 of this report.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis
For the Year Ended September 30, 2010

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 23 through 35 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 38 of this report.

The other supplemental information is presented following the required supplementary information. This individual statement is found on pages 40 through 41 of this report.

Government-wide Financial Analysis

The liabilities of the SEDC exceeded its assets at the close of the most recent fiscal year by \$ 17,338,213 (net deficit). The SEDC's total net assets decreased during the year by \$ 1,366,785. Management anticipates the current and future fiscal year's financial position will reflect a deficit of net assets through the life of the outstanding bonded indebtedness.

The following table presents a comparative condensed year end Statement of Net Assets for the past two fiscal years:

| | Governmental Activities | | Change | |
|-------------------------------|--------------------------|--------------------------|-------------------------|----------------|
| | September 30, 2010 | 2009 | Amount | Percent |
| Current and other assets | \$ <u>7,031,034</u> | \$ <u>8,550,355</u> | \$ (<u>1,519,321</u>) | (<u>18%</u>) |
| Total assets | <u>7,031,034</u> | <u>8,550,355</u> | (<u>1,519,321</u>) | (<u>18%</u>) |
| Current and other liabilities | 505,114 | 15,821 | 489,293 | 3,093% |
| Long-term liabilities | <u>23,864,133</u> | <u>24,505,962</u> | (<u>641,829</u>) | (<u>3%</u>) |
| Total liabilities | <u>24,369,247</u> | <u>24,521,783</u> | (<u>152,536</u>) | (<u>1%</u>) |
| Net Assets: | | | | |
| Restricted | 657,372 | 242,761 | 414,611 | 171% |
| Unrestricted | (<u>17,995,585</u>) | (<u>16,214,189</u>) | (<u>1,781,396</u>) | <u>11%</u> |
| Total net assets | \$ (<u>17,338,213</u>) | \$ (<u>15,971,428</u>) | \$ (<u>1,366,785</u>) | <u>9%</u> |

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis
For the Year Ended September 30, 2010

Analysis of the SEDC's operations. The following table provides a summary of the SEDC's operations for the years ended September 30, 2010 and 2009. Governmental activities decreased net assets by \$ 1,366,785 compared to an increase of \$ 960,680 for the year ended September 30, 2009.

| | Governmental Activities | | Change | |
|--------------------------------------|-------------------------|------------------------|-----------------------|--------------|
| | September 30, | | Amount | Percent |
| | 2010 | 2009 | | |
| General Revenues: | | | | |
| Sales tax | \$ 3,274,147 | \$ 3,513,235 | \$(239,088) | (7%) |
| Interest | <u>109,978</u> | <u>117,264</u> | <u>(7,286)</u> | <u>(6%)</u> |
| Total general revenues | <u>3,384,125</u> | <u>3,630,499</u> | <u>(246,374)</u> | <u>(7%)</u> |
| Expenses: | | | | |
| General administration | 308,672 | 313,764 | (5,092) | (2%) |
| US 59 Open Space Enhancement | 39,600 | 6,649 | 32,951 | 496% |
| US 90A Railroad Relocation | 2,505,421 | | 2,505,421 | N/A |
| Stafford Centre | | 4,011 | (4,011) | N/A |
| Capital outlay on behalf of the City | 545,494 | 964,777 | (419,283) | 43% |
| Interest and fiscal agent fees | <u>1,351,723</u> | <u>1,380,618</u> | <u>(28,895)</u> | <u>(2%)</u> |
| Total expenses | <u>4,750,910</u> | <u>2,669,819</u> | <u>2,081,091</u> | <u>78%</u> |
| Increase (decrease) in net assets | (1,366,785) | 960,680 | (2,327,465) | (242%) |
| Net assets (deficit) - October 1, | (15,971,428) | (16,932,108) | 960,680 | (6%) |
| Net assets (deficit) - September 30, | <u>\$(17,338,213)</u> | <u>\$(15,971,428)</u> | <u>\$(1,366,785)</u> | <u>9%</u> |

Financial Analysis of the City's Funds

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

Governmental funds. The focus of the SEDC's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the 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, the SEDC's governmental funds reported combined ending fund balances of \$ 6,525,920. 88% of this total amount, \$ 5,759,807 constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) debt service \$ 213,302 and 2) capital projects \$ 552,811.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

*Management's Discussion and Analysis
For the Year Ended September 30, 2010*

The General Fund balance increased by \$ 698,273 during the current year as compared to prior year's decrease of \$ 2,802,941. Revenues decreased approximately 16.1% from \$ 1,610,823 to \$ 1,351,927. Expenditures increased approximately 4.5% from \$ 313,764 to \$ 328,004. Transfers out to other funds decreased \$ 3,774,000 from the prior year.

The Debt Service Fund balance increased by \$ 12,803 during the current year as compared to prior year's increase of \$ 3,157,728. The lower increase in the current year is primarily due to lower interest earnings.

The Capital Projects fund balance decreased \$ 2,719,690 during the current year as compared to prior year's increase of \$ 3,157,728, which was primarily due to increased expenditures primarily on the US 90A Railroad Relocation.

General Fund Budgetary Highlights

Actual sales tax revenue was \$ 77,177 above what was expected during the year. This is affected by changes in budgets based on, among other things, the amounts of excess sales taxes received during the prior years. Transfers out were \$ 76,000 more than budgeted due to capital fund expenditures. Additionally, investment earnings were \$ 10,851 below budgeted amounts. These variances were the cause of the overall budget variance of \$ 11,798.

Additional information on the SEDC's General Fund budgetary highlights can be found in the required supplementary information on page 38 of this report.

Debt Administration

At the end of the current fiscal year, the SEDC had sales tax revenue bonds outstanding of \$ 23,330,000. The 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 the SEDC are being used to service the debt payments. Further, at the end of the current fiscal year, the SEDC had excess sales tax liability outstanding of \$ 425,392. The 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.

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

Additional information regarding the SEDC's debt outstanding can be found in Note 6 to the basic financial statements on pages 32 through 34 of this report.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis
For the Year Ended September 30, 2010

Economic Factors and Next Year's Budgets and Rates

The 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.

The SEDC is currently operating under its 2011 budget adopted and passed by the Board of Directors. The following schedule outlines a comparison of the 2010 actual operations and the 2011 General Fund budget. The 2011 budget is dependent on sales taxes for ongoing operations. SEDC expects a net increase in fund balance of \$ 988,071 for 2011.

| | <u>2010 Actual</u> | <u>2011 Budget</u> | <u>Net Change</u> |
|------------------------------|---------------------|---------------------|-----------------------|
| Total Revenues | \$ 1,351,927 | \$ 1,274,601 | \$ (77,326) |
| Total Expenses | 328,004 | 405,350 | (77,346) |
| Operating transfers in (out) | <u>(325,650)</u> | <u>(400,000)</u> | <u>(74,350)</u> |
| Changes in fund balance | 698,273 | 469,251 | (229,022) |
| Beginning fund balance | <u>4,241,445</u> | <u>4,939,718</u> | <u>698,273</u> |
| Ending fund balance | <u>\$ 4,939,718</u> | <u>\$ 5,408,969</u> | <u>\$ 469,251</u> |

Request for Information

This financial report is designed to provide a general overview of the 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.

BASIC FINANCIAL STATEMENTS

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

STATEMENT OF NET ASSETS

September 30, 2010

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 6,253,173 |
| Receivables (net of allowance for uncollectibles) | <u>777,861</u> |
| Total assets | <u>7,031,034</u> |
| Liabilities: | |
| Accounts payable and accrued expenses | 505,114 |
| Long-term liabilities: | |
| Due within one year | 748,073 |
| Due in more than one year | <u>23,116,060</u> |
| Total liabilities | <u>24,369,247</u> |
| Net Assets: | |
| Restricted For: | |
| Debt service | 104,561 |
| Capital projects | 552,811 |
| Unrestricted | <u>(17,995,585)</u> |
| Total net assets (deficit) | <u>\$(17,338,213)</u> |

The notes to the financial statements are an integral part of this statement.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

| | Governmental Activities |
|---------------------------------------|--------------------------------|
| General Revenues: | |
| Sales taxes | \$ 3,274,147 |
| Investment earnings | <u>109,978</u> |
| Total general revenues | <u>3,384,125</u> |
| Expenses: | |
| General administration | 308,672 |
| US 59 Open Space Enhancement | 39,600 |
| US 90A Railroad Relocation | 2,505,421 |
| Capital Outlay on Behalf of the City: | |
| Stafford Centre | 171,362 |
| US 59 Open Space Enhancement | 374,132 |
| Interest and fiscal charges | <u>1,351,723</u> |
| Total expenses | <u>4,750,910</u> |
| Change in net assets | (1,366,785) |
| Net assets - beginning | <u>(15,971,428)</u> |
| Net assets - ending | <u><u>\$ (17,338,213)</u></u> |

The notes to the financial statements are an integral part of this statement.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2010

| | <u>General Fund</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|-------------------------|-------------------------|-----------------------------|---|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 3,755,692 | \$ 216,869 | \$ 2,280,612 | \$ 6,253,173 |
| Receivables from other governments | 777,861 | | | 777,861 |
| Due from other funds | <u>911,279</u> | | | <u>911,279</u> |
| Total assets | <u>\$ 5,444,832</u> | <u>\$ 216,869</u> | <u>\$ 2,280,612</u> | <u>\$ 7,942,313</u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 505,114 | \$ | \$ | \$ 505,114 |
| Due to other funds | | <u>3,567</u> | <u>907,712</u> | <u>911,279</u> |
| Total liabilities | <u>505,114</u> | <u>3,567</u> | <u>907,712</u> | <u>1,416,393</u> |
| Fund Balance: | | | | |
| Reserved For: | | | | |
| Debt service | | 213,302 | | 213,302 |
| Capital projects | | | 552,811 | 552,811 |
| Unreserved, Reported In: | | | | |
| General fund | 4,939,718 | | | 4,939,718 |
| Capital projects | | | <u>820,089</u> | <u>820,089</u> |
| Total fund balances | <u>4,939,718</u> | <u>213,302</u> | <u>1,372,900</u> | <u>6,525,920</u> |
| Total liabilities and fund balances | <u>\$ 5,444,832</u> | <u>\$ 216,869</u> | <u>\$ 2,280,612</u> | <u>\$ 7,942,313</u> |

The notes to the financial statements are an integral part of this statement.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS**

September 30, 2010

| | |
|--|--------------------------------|
| Total fund balances – governmental funds balance sheet | \$ 6,525,920 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets are different because: | |
| Payables for bond principal are not reported in the funds. | (23,330,000) |
| Payables for excess sales tax principal are not reported in the funds | (425,392) |
| Payables for bond interest are not reported in the funds. | (<u>108,741</u>) |
| Net assets (deficits) of governmental activities – statement of net assets. | <u><u>\$ (17,338,213)</u></u> |

The notes to the financial statements are an integral part of this statement.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2010

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------------|-----------------------------|---|
| Revenues: | | | | |
| Sales tax | \$ 1,300,778 | \$ 1,973,369 | \$ | \$ 3,274,147 |
| Interest | <u>51,149</u> | <u>13,654</u> | <u>45,175</u> | <u>109,978</u> |
| Total revenues | <u>1,351,927</u> | <u>1,987,023</u> | <u>45,175</u> | <u>3,384,125</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General administration | 328,004 | | | 328,004 |
| US 59 Open Space Enhancement | | | 39,600 | 39,600 |
| US 90A Railroad Relocation | | | 2,505,421 | 2,505,421 |
| Capital Outlay on Behalf of the City: | | | | |
| Stafford Centre | | | 171,362 | 171,362 |
| US 59 Open Space Enhancement | | | 374,132 | 374,132 |
| Debt Service: | | | | |
| Principal | | 620,000 | | 620,000 |
| Interest and fiscal charges | | <u>1,354,220</u> | | <u>1,354,220</u> |
| Total expenditures | <u>328,004</u> | <u>1,974,220</u> | <u>3,090,515</u> | <u>5,392,739</u> |
| Excess of revenues over (under) expenditures | <u>1,023,923</u> | <u>12,803</u> | <u>(3,045,340)</u> | <u>(2,008,614)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 350 | | 326,000 | 326,350 |
| Transfers out | <u>(326,000)</u> | | <u>(350)</u> | <u>(326,350)</u> |
| Total other financing sources (uses) | <u>(325,650)</u> | <u>-0-</u> | <u>325,650</u> | <u>-0-</u> |
| Net changes in fund balances | 698,273 | 12,803 | (2,719,690) | (2,008,614) |
| Fund balance - beginning | <u>4,241,445</u> | <u>200,499</u> | <u>4,092,590</u> | <u>8,534,534</u> |
| Fund balance - ending | <u>\$ 4,939,718</u> | <u>\$ 213,302</u> | <u>\$ 1,372,900</u> | <u>\$ 6,525,920</u> |

The notes to the financial statements are an integral part of this statement.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
Stafford, Texas

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

For the Year Ended September 30, 2010

| | |
|--|------------------------------|
| Net change in fund balances – total governmental funds | \$(2,008,614) |
| Amounts reported for <i>governmental activities</i> 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. | 620,000 |
| 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 expenditure when paid for by governmental funds, for the statement of activities interest payable is accrued through the end of the fiscal year. The difference between prior year accrual and current year accrual is \$ 2,497. | <u>2,497</u> |
| Change in net assets of governmental activities | <u><u>\$(1,366,785)</u></u> |

The notes to the financial statements are an integral part of this statement.

THIS PAGE LEFT BLANK INTENTIONALLY.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

INDEX

| Note | Page |
|---|------|
| 1. Summary of Significant Accounting Policies | 24 |
| 2. Deposits, Investments and Derivatives..... | 29 |
| 3. Sales Tax Revenue | 31 |
| 4. Interfund Receivables, Payables and Transfers..... | 31 |
| 5. Capital Assets..... | 32 |
| 6. Long-Term Debt | 32 |
| 7. Excess of Expenditures Over Appropriations | 35 |
| 8. Evaluation of Subsequent Events..... | 35 |

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

In 1999, the City of Stafford (the "City") voters authorized the creation of the Stafford Economic Development Corporation (the "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, the 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. The SEDC has been included as a discretely presented component unit in the City's financial statements. The City Council approves the budget of the SEDC and appoints the members of the Board of Directors of the SEDC.

Reporting Entity

The SEDC's financial statements include all the accounts and activities of the SEDC. Based on criteria prescribed by generally accepted accounting principles, the SEDC is considered a component unit of the City of Stafford. As such, the financial statements of the 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 the 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 the SEDC's financial reporting entity.

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 the SEDC. As a general rule, the effect of interfund activity within the SEDC has been eliminated from the government-wide financial statements. The amounts between the City and the SEDC are not eliminated. The governmental activities of the SEDC are normally supported through sales taxes and interest earnings.

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. The SEDC does not receive any program revenues as defined by generally accepted accounting principals. 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*.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - continued

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

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 the SEDC.

When both restricted and unrestricted resources are available for use, the 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.

The 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 the SEDC and certain capital expenditures.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

The *debt service fund* is used to account for the payment of interest and principal on all general obligation debts of the 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.

New Pronouncements

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. This statement did not have a material effect on the financial statements of the SEDC.

GASB No. 52, "Land and Other Real Estate Held as Investments by Endowments", was issued November 2007. This statement does not apply to the SEDC as it holds no endowment funds. This statement is effective for periods beginning after June 15, 2008. The statement was implemented and did not have an impact on the SEDC's financial statements.

GASB No. 53, "Accounting and Financial Reporting for Derivative Instruments", was issued June 2008. This statement provides guidance for financial reporting of derivative instruments for all state and local governments. This statement is effective for periods beginning after June 15, 2009. This statement did not have a material effect on the financial statements of the SEDC since it does not make direct investments in derivative instruments.

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. The management of the SEDC is uncertain as to whether the implementation of this statement will affect the financial statements of the SEDC. This statement is effective for periods beginning after June 15, 2010.

GASB No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", was issued April 2009. This statement is effective immediately and had no effect on the SEDC's financial statements.

GASB No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", was issued April 2009. This statement is effective immediately and had no affect on the SEDC's financial statements.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - continued

GASB No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", was issued December 2009. This statement is effective immediately and had no affect on the financial statements of SEDC.

GASB No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", was issued December 2009. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the financial statements of SEDC.

GASB No. 59, "Financial Instrument Omnibus", was issued December 2009. The management of SEDC does not believe that the implementation of this statement will affect the financial statements of SEDC. This statement is effective for periods beginning after June 15, 2010.

Budgetary Data

The 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 the 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 the 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.

The SEDC performs budget reviews during the year by which budget requirements are re-evaluated and revisions recommended for the SEDC's Board to approve and changes 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.

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, 2010.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments

The 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. Investments, held during the year consisted solely of certificates of deposit and were reported at cost plus accrued interest, which approximate market value.

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

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.

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 the SEDC as described in the enabling legislation.

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.

Federal Income Tax Status

The 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, the SEDC is not a private foundation under provisions of the Internal Revenue Code.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The 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 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. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents, current investments, and non-current investments are reported on the statement of net assets at September 30, 2010 are as follows:

| | <u>Governmental Funds</u> |
|---------------------------------|-------------------------------|
| Cash and Cash Equivalents: | |
| Financial Institution Deposits: | |
| Demand deposits | \$ <u>6,253,173</u> |

There were no investments reported on the statement of net assets at September 30, 2010.

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the SEDC’s deposits may not be returned to them. The SEDC requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

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.

At September 30, 2010, the carrying amount of the SEDC’s cash, savings and time deposits was \$ 6,253,173. The financial institutions balances were \$ 6,601,829 at September 30, 2010. Bank balances of \$ 250,000 were covered by federal depository insurance, and \$ 6,351,829 was covered by collateral pledged in the SEDC’s name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank’s agent.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the 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.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

The 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 the SEDC will deposit funds is addressed. The SEDC's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The SEDC's management believes it complied with the requirements of the PFIA and the SEDC's investment policy.

The 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 portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The 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.

The SEDC held no investments at September 30, 2010.

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 the SEDC's cash flow requirements.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The SEDC made no direct investments in derivatives during the year ended September 30, 2010, and holds no direct investments in derivatives at September 30, 2010.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 3 - SALES TAX REVENUE

The 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 2010, the SEDC earned \$ 3,274,147 in sales taxes. Of which, \$ 1,973,369 was allocated for the SEDC's Debt Service Fund. At year-end the SEDC reported a receivable from the State for sales tax revenues collected in August and September of approximately \$ 548,783.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and Payables

Interfund balances at September 30, 2010 consisted of the following individual fund receivables and payables:

| <u>Fund</u> | <u>Receivable</u> | <u>Payable</u> |
|--------------------|-------------------|-------------------|
| General Fund: | | |
| Capital Projects | \$ 907,712 | \$ |
| Debt Service | <u>3,567</u> | <u> </u> |
| Total general fund | <u>911,279</u> | <u> </u> |
| Capital Projects: | | |
| General Fund | <u>-0-</u> | <u>907,712</u> |
| Debt Service: | | |
| General Fund | <u> </u> | <u>3,567</u> |
| Total | <u>\$ 911,279</u> | <u>\$ 911,279</u> |

Transfers

Interfund transfers for the year ended September 30, 2010 consisted of the following individual fund transfers in and transfer out:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------|---------------------|----------------------|
| General Fund: | | |
| Capital Projects | \$ <u>350</u> | \$ <u>326,000</u> |
| Capital Projects: | | |
| General Fund | <u>326,000</u> | <u>350</u> |
| Total | <u>\$ 326,350</u> | <u>\$ 326,350</u> |

These budgeted transfers were for the purpose of providing resources for a Corridor Study and the US 90A Railroad Relocation project.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2010 was as follows:

| | <u>Balance</u> <u>09/30/09</u> | <u>Current Year</u> <u>Additions</u> | <u>Assets</u> <u>Transferred</u> <u>to City</u> |
|---|-----------------------------------|---|---|
| Capital Assets, Not Being Depreciated: | | | |
| Construction in Progress: | | | |
| Stafford Centre | \$ -0- | \$ 171,362 | \$ 171,362 |
| U S 59 Open Space Enhancement | <u>-0-</u> | <u>374,132</u> | <u>374,132</u> |
| Total capital assets, not being depreciated | <u>\$ -0-</u> | <u>\$ 545,494</u> | <u>\$ 545,494</u> |

NOTE 6 - LONG-TERM DEBT

During fiscal year 2001, the 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 and will be used to pay a portion of the costs related to the U.S. Highway 90A Improvement project through the City, for land acquisition, and for the construction and equipment of a convention center/performing arts theatre complex, and for the payment of the costs of issuance of the bonds. Payments of principal and interest on the debt are provided primarily from sales taxes. Although the capital assets construction or acquired with the proceeds of these bonds have at this time or will eventually be entirely transferred to the City (see Note 5), the bonded debt will continue to be reflected in the SEDC's financial statements.

The annual requirements on the SEDC Sales Tax Revenue Bonds, as of September 30, 2010 are shown below:

| <u>Fiscal</u> <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|------------------|-----------------|--------------|
| 2011 | \$ 650,000 | \$ 1,323,019 | \$ 1,973,019 |
| 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 |

(continued)

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 6 - LONG-TERM DEBT - Continued

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------|----------------------|----------------------|----------------------|
| 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 | <u>1,870,000</u> | <u>102,850</u> | <u>1,972,850</u> |
| | <u>\$ 23,330,000</u> | <u>\$ 16,118,728</u> | <u>\$ 39,448,728</u> |

During the year ended September 30, 2010, the SEDC negotiated a long-term payout of excess sales tax received in prior years in the amount of \$ 444,724 with the State Comptroller. This amount was collected by the SEDC during the fiscal year periods 2000 through 2007. The negotiated payout calls for a twenty-five year period with \$ 1,538.01 deducted each month from the SEDC 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, 2010 are shown below:

| <u>Fiscal Year</u> | <u>Principal</u> |
|------------------------|-------------------|
| 2011 | \$ 19,332 |
| 2012 | 19,332 |
| 2013 | 19,332 |
| 2014 | 19,332 |
| 2015 | 19,332 |
| 2016 | 19,332 |
| 2017 | 19,332 |
| 2018 | 19,332 |
| 2019 | 19,332 |
| 2020 | 19,332 |
| 2021 | 19,332 |
| 2022 | 19,332 |
| 2023 | 19,332 |
| 2024 | 19,332 |
| 2025 | 19,332 |
| 2026 | 19,332 |
| 2027 | 19,332 |
| 2028 | 19,332 |
| 2029 | 19,332 |
| 2030 | 19,332 |
| 2031 | 19,332 |
| 2032 | <u>19,420</u> |
| | <u>\$ 425,392</u> |

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 6 - LONG-TERM DEBT - Continued

The following is a summary of the long-term debt transactions of the SEDC for the year ended September 30, 2010.

| | Balance October 1, 2009 | Additions | Retirements | Balance September 30, 2010 | Due Within One Year |
|-------------------------------|-------------------------------|-------------------|-------------------|----------------------------------|---------------------------|
| Sales tax revenue bonds | \$ 23,950,000 | \$ | \$ 620,000 | \$ 23,330,000 | \$ 620,000 |
| Sales tax obligation | 444,724 | | 19,332 | 425,392 | 19,332 |
| Components of Long-Term Debt: | | | | | |
| Accrued interest payable | <u>111,238</u> | <u>108,741</u> | <u>111,238</u> | <u>108,741</u> | <u>108,741</u> |
| | <u>\$ 24,505,962</u> | <u>\$ 108,741</u> | <u>\$ 750,570</u> | <u>\$ 23,864,133</u> | <u>\$ 748,073</u> |

Federal Tax Compliance (Arbitrage) for Long-term Debt

In accordance with provisions of Section 148 of the Internal Revenue Code of 1986, as amended, (the "Code") 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 the 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 a 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 the 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). The SEDC presently has unexpended proceeds from certain debt issues that require yield restriction as described above. The SEDC is currently in compliance with these yield restriction requirements and does not anticipate associated significant noncompliance issues. The SEDC is continuing to proceed with reasonable diligence to expend any remaining debt issuance proceeds on qualifying projects.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended September 30, 2010, the SEDC incurred expenditures in excess of appropriations in the General Fund of \$ 2,474.

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

The SEDC has evaluated subsequent events through February 22, 2011, the date which the financial statements were available to be issued.

THIS PAGE LEFT BLANK INTENTIONALLY.

REQUIRED SUPPLEMENTARY INFORMATION

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
Stafford, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Sales taxes | \$ 1,501,601 | \$ 1,223,601 | \$ 1,300,778 | \$ 77,177 |
| Interest | <u>62,000</u> | <u>62,000</u> | <u>51,149</u> | <u>(10,851)</u> |
| Total revenues | <u>1,563,601</u> | <u>1,265,601</u> | <u>1,351,927</u> | <u>66,326</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General administration | <u>325,530</u> | <u>325,530</u> | <u>328,004</u> | <u>(2,474)</u> |
| Total expenditures | <u>325,530</u> | <u>325,530</u> | <u>328,004</u> | <u>(2,474)</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,238,071</u> | <u>960,071</u> | <u>1,023,923</u> | <u>63,852</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | | | 350 | 350 |
| Transfers out | <u>(250,000)</u> | <u>(250,000)</u> | <u>(326,000)</u> | <u>(76,000)</u> |
| Total other financing sources (uses) | <u>(250,000)</u> | <u>(250,000)</u> | <u>(325,650)</u> | <u>(75,650)</u> |
| Net change in fund balances | 988,071 | 710,071 | 698,273 | (11,798) |
| Fund balance - beginning | <u>4,241,445</u> | <u>4,241,445</u> | <u>4,241,445</u> | <u>-0-</u> |
| Fund balance - ending | <u>\$ 5,229,516</u> | <u>\$ 4,951,516</u> | <u>\$ 4,939,718</u> | <u>\$(11,798)</u> |

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL SCHEDULE

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

Stafford, Texas

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DEBT SERVICE AND CAPITAL PROJECTS FUNDS**

For the Year Ended September 30, 2010

| | Debt Service Fund | | | |
|--|-------------------|-------------------|-------------------|---|
| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
| | Original | Final | Actual | (Negative) |
| Revenues: | | | | |
| Sales taxes | \$ 1,973,399 | \$ 1,973,399 | \$ 1,973,369 | \$(30) |
| Interest | <u>15,000</u> | <u>15,000</u> | <u>13,654</u> | <u>(1,346)</u> |
| Total revenues | <u>1,988,399</u> | <u>1,988,399</u> | <u>1,987,023</u> | <u>(1,376)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General administration | | | | -0- |
| US 59 Open Space Enhancement | | | | -0- |
| US 90A Railroad Relocation | | | | -0- |
| Capital Outlay on Behalf of the City: | | | | |
| US 59 Open Space Enhancement | | | | -0- |
| US 90A Railroad relocation | | | | -0- |
| Debt Service: | | | | |
| Principal | 620,000 | 620,000 | 620,000 | -0- |
| Interest and fiscal charges | <u>1,355,399</u> | <u>1,355,399</u> | <u>1,354,220</u> | <u>1,179</u> |
| Total expenditures | <u>1,975,399</u> | <u>1,975,399</u> | <u>1,974,220</u> | <u>1,179</u> |
| Excess (deficiency) of revenues over expenditures | <u>13,000</u> | <u>13,000</u> | <u>12,803</u> | <u>(197)</u> |
| Other Financing Sources: | | | | |
| Transfers in | | | | |
| Transfers out | | | | -0- |
| Total other financing sources and (uses) | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Net change in fund balances | 13,000 | 13,000 | 12,803 | (197) |
| Fund balances - beginning | <u>200,499</u> | <u>200,499</u> | <u>200,499</u> | <u>-0-</u> |
| Fund balances - ending | <u>\$ 213,499</u> | <u>\$ 213,499</u> | <u>\$ 213,302</u> | <u>\$(197)</u> |

Capital Projects Fund

| Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
|-------------------|-------------------|---------------------|---|
| Original | Final | Actual | |
| \$ 7,905 | \$ 7,905 | \$ 45,175 | \$ -0- 37,270 |
| <u>7,905</u> | <u>7,905</u> | <u>45,175</u> | <u>37,270</u> |
| 1,000 | 1,000 | | 1,000 |
| 3,317,000 | 3,094,225 | 39,600 | (39,600) |
| 98,500 | 98,500 | 2,505,421 | 588,804 |
| 500,000 | 500,000 | 171,362 | (72,862) |
| | | 374,132 | 125,868 |
| | | | -0- |
| | | | -0- |
| <u>3,916,500</u> | <u>3,693,725</u> | <u>3,090,515</u> | <u>603,210</u> |
| (3,908,595) | (3,685,820) | (3,045,340) | 640,480 |
| 303,000 | 303,000 | 326,000 | 23,000 |
| (350) | (350) | (350) | -0- |
| <u>302,650</u> | <u>302,650</u> | <u>325,650</u> | <u>23,000</u> |
| (3,605,945) | (3,383,170) | (2,719,690) | 663,480 |
| <u>4,092,590</u> | <u>4,092,590</u> | <u>4,092,590</u> | <u>-0-</u> |
| <u>\$ 486,645</u> | <u>\$ 709,420</u> | <u>\$ 1,372,900</u> | <u>\$ 663,480</u> |

THIS PAGE LEFT BLANK INTENTIONALLY.

**OVERALL COMPLIANCE
AND
INTERNAL CONTROLS SECTION**

THIS PAGE LEFT BLANK INTENTIONALLY.

KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
(979) 297-4075 Fax: (979) 297-6648
(800) 399-4075

Houston Office:
12000 Westheimer, Suite 105
Houston, Texas 77077
(281) 752-0200 Fax: (281) 752-0204

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Basic Financial Statements in Accordance with
Governmental Auditing Standards

February 22, 2011

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stafford Economic Development Corporation (the "SEDC") as of and for the year ended September 30, 2010, which collectively comprise the SEDC's basic financial statements and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the SEDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SEDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SEDCS's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing 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.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
Partnering for CPA Practice Success

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SEDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have performed tests designed to verify the SEDC's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2010, no instances of noncompliance were found.

This report is intended for the information of the Board and SEDC's management and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Hurdford, LLC