

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION,
A COMPONENT UNIT OF
THE CITY OF STAFFORD, TEXAS**

ANNUAL FINANCIAL REPORT

**Year Ended September 30, 2021
with Report of Independent Auditors**

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S 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"), a component unit of the City of Stafford, Texas (the "City") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the SEDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 SEDC as of September 30, 2021, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board Directors
Stafford Economic Development Corporation

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SEDC's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
February 22, 2022

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2021.

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 comprise 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 themselves.

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

The *statement of activities* presents information showing how the SEDC's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

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 of Stafford, Texas for operation. The SEDC has no business-type activities.

The government-wide financial statements can be found beginning on page 9 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 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 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.

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

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 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 beginning on page 11 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 beginning on page 15 of this report.

Required and Other Supplementary 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 beginning on page 25 of this report.

The other supplemental information is presented following the required supplementary information. This individual schedule is found beginning on page 29 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The liabilities of the SEDC exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$3.3 million (net deficit). The SEDC's total net deficit was decreased during the year by \$0.3 million primarily due to the sales tax revenue increasing by approximately \$0.8 million. Management anticipates the current and future fiscal years' financial positions will reflect a deficit of net position through the life of the outstanding bonded indebtedness.

The following table summarizes the SEDC's net position as of September 30, 2021 and 2020:

Condensed Statement of Net Position
September 30, 2021 and 2020

	Governmental Activities		Change	
	2021	2020	Amount	Percent
Current and other assets	\$ 11,568,751	\$ 11,661,511	\$ (92,760)	-1%
Deferred outflow of resources	851,374	1,021,466	(170,092)	-17%
Total Assets and Deferred Outflows	12,420,125	12,682,977	(262,852)	-2%
Current and other liabilities	1,157,693	582,346	575,347	99%
Long-term liabilities	14,580,448	15,678,311	(1,097,863)	-7%
Total Liabilities	15,738,141	16,260,657	(522,516)	-3%
Net position (deficit):				
Unrestricted	(3,318,016)	(3,577,680)	259,664	7%
Total Net Position (Deficit)	\$ (3,318,016)	\$ (3,577,680)	\$ 259,664	7%

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

The following table summarizes the change in net position for the SEDC for the years ended September 30, 2021 and 2020:

Condensed Statement of Activities
For the Years Ended September 30, 2021 and 2020

	Governmental Activities		Change	
	2021	2020	Amount	Percent
Revenues:				
Sales tax	\$ 5,123,362	\$ 4,463,841	\$ 659,521	15%
Miscellaneous	44,296	25,668	18,628	73%
Interest	565	39,474	(38,909)	-99%
Capital grants and contributions	2,337,825	-	2,337,825	100%
Total Revenues	7,506,048	4,528,983	2,977,065	66%
Expenses:				
Economic development	791,310	809,626	(18,316)	-2%
Project costs on behalf of the City	5,604,311	5,294,722	309,589	6%
Interest and fiscal agent fees	850,763	1,117,900	(267,137)	-24%
Total Expenses	7,246,384	7,222,248	24,136	0%
Change in net position	259,664	(2,693,265)	2,952,929	-110%
Net Position (Deficit) - Beginning	(3,577,680)	(884,415)	(2,693,265)	-305%
Net Position (Deficit) - Ending	\$ (3,318,016)	\$ (3,577,680)	\$ 259,664	7%

Financial Analysis of the SEDC'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, unassigned 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 \$10.4 million, of which \$7.9 million constitutes unassigned fund balance. The remainder of the fund balance has been committed by the Board of Directors for debt service in the amount of \$597,234, or construction related projects in the amount of \$2.0 million.

Fund balance in the General Fund decreased by approximately \$1.0 million. The sales tax revenues net of reimbursement for 380 agreements increased by \$739,197. However, one time transfer of \$3,214,700 to City's general fund resulted in a decrease of fund balance.

Fund balance in the Debt Service Fund remained stable relatively unchanged from the prior year.

Fund balance in the Capital Projects Fund increased by approximately \$0.3 million primarily due to funds received for a partnership agreement with the County for certain capital projects.

General Fund Budgetary Highlights

Actual sales tax revenues for the 2021 fiscal year of \$2.7 million (net of 380 agreement reimbursement of \$608,468) were more than budgeted revenue projections by (see Note 8 to the financial statements). Actual total expenditures were less than final appropriations by \$0.3 million due to maintenance and landscaping costs being less than anticipated. These variances resulted in an ending fund balance in the General Fund of \$7.9 million, or \$0.5 million higher than budgeted expectations.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Additional information on the SEDC's General Fund budgetary highlights can be found in the required supplementary information beginning on page 25 of this report.

Debt Administration

At the end of the current fiscal year, the SEDC had sales tax revenue bonds outstanding of \$14.0 million. 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 SEDC 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 \$301,587. 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 SEDC from the City.

The SEDC Sales Tax Revenue Refunding Bonds, Series 2014 hold an "A3" rating from Moody's and the SEDC Sales Tax Revenue Refunding Bonds, Series 2021 hold an "AA" rating from Standard & Poor's. Additional information regarding the SEDC's debt outstanding can be found in Note 7 to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The SEDC is dependent on a one-half percent 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 fiscal year 2021 budget adopted and passed by the Board of Directors. The following schedule outlines a comparison of the fiscal year 2021 budgeted operations and the fiscal year 2022 General Fund budget:

	2021 Budget	2022 Budget	Net Change
Total Revenues	\$ 3,192,380	\$ 5,309,000	\$ 2,116,620
Total Expenditures	(4,648,193)	(1,156,857)	3,491,336
Operating transfers in (out)	-	(1,686,205)	(1,686,205)
Changes in fund balance	(1,455,813)	2,465,938	3,921,751
Beginning budgetary fund balance	8,853,876	3,687,516	(5,166,360)
Ending budgetary fund balance	<u>\$ 7,398,063</u>	<u>\$ 6,153,454</u>	<u>\$ (1,244,609)</u>

The large decrease in expenditures for 2022 is due to many projects expected to be completed by the end of fiscal year 2021.

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 SEDC. 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**STATEMENT OF NET POSITION***September 30, 2021*

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 9,479,278
Receivables	2,076,973
Prepaid expenses	12,500
Total Assets	11,568,751
Deferred Outflows of Resources	
Deferred amount on refunding	851,374
Total Deferred Outflows of Resources	851,374
Liabilities	
Accounts payable and accrued expenses	1,157,693
Long-term liabilities:	
Due within one year	1,437,409
Due in more than one year	13,143,039
Total Liabilities	15,738,141
Net Position (Deficit)	
Unrestricted	(3,318,016)
Total Net Position (Deficit)	\$ (3,318,016)

STAFFORD ECONOMIC DEVELOPMENT CORPORATION**STATEMENT OF ACTIVITIES***For the Year Ended September 30, 2021*

	Governmental Activities
General Revenues	
Sales tax	\$ 5,123,362
Interest	565
Miscellaneous	44,296
Total General Revenues	<u>5,168,223</u>
Program Revenues	
Capital grants and contributions	<u>2,337,825</u>
Total Program Revenues	<u>2,337,825</u>
Expenses	
Economic development	791,310
Project maintenance and landscaping:	
US 90A	280,821
US 59	55,315
Capital outlay on behalf of City	2,053,475
Economic development contribution to City	3,214,700
Interest and fiscal agent fees	850,763
Total Expenses	<u>7,246,384</u>
Change in net position	259,664
Net Position (Deficit) - Beginning	<u>(3,577,680)</u>
Net Position (Deficit) - Ending	<u>\$ (3,318,016)</u>

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2021

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 8,882,044	\$ 597,234	\$ -	\$ 9,479,278
Receivables from other governments	2,076,973	-	-	2,076,973
Due from other funds	-	-	1,975,026	1,975,026
Prepaid expenditures	12,500	-	-	12,500
Total Assets	\$ 10,971,517	\$ 597,234	\$ 1,975,026	\$ 13,543,777
Liabilities				
Accounts payable and accrued expenditures	\$ 554,148	\$ -	\$ -	\$ 554,148
Due to other funds	1,975,026	-	-	1,975,026
Sales tax rebate payable	580,624	-	-	580,624
Total Liabilities	3,109,798	-	-	3,109,798
Fund Balance				
Committed:				
Debt service	-	597,234	-	597,234
Capital projects	-	-	1,975,026	1,975,026
Unassigned	7,861,719	-	-	7,861,719
Total Fund Balances	7,861,719	597,234	1,975,026	10,433,979
Total Liabilities and Fund Balances	\$ 10,971,517	\$ 597,234	\$ 1,975,026	\$ 13,543,777

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS

BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2021

Total fund balance, governmental funds	\$ 10,433,979
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred amounts on refunding are not reported in funds	851,374
Bonds payable are not reported in the funds.	(14,278,861)
Excess sales tax payable is not reported in the funds.	(301,587)
Bond interest expense payable is not reported in the funds	(22,921)
Net Position (deficit) of Governmental Activities in the Statement of Net Position	<u>\$ (3,318,016)</u>

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Sales tax	\$ 3,305,203	\$ 1,790,750	\$ -	\$ 5,095,953
Intergovernmental	-	-	2,337,825	2,337,825
Interest	490	75	-	565
Miscellaneous	44,296	-	-	44,296
Total Revenues	3,349,989	1,790,825	2,337,825	7,478,639
Expenditures				
Current:				
Economic development	791,310	-	-	791,310
Project maintenance and landscaping:				
US 90A	280,821	-	-	280,821
US 59	55,315	-	-	55,315
Economic development contribution to City	3,214,700	-	-	3,214,700
Capital outlay on behalf of City	-	-	2,053,475	2,053,475
Debt Service:				
Principal on bonds	-	1,100,000	-	1,100,000
Interest and other charges	-	935,252	-	935,252
Total Expenditures	4,342,146	2,035,252	2,053,475	8,430,873
Revenues over (under) expenditures	(992,157)	(244,427)	284,350	(952,234)
Other Financing Sources (Uses)				
Refunding bonds issued	-	11,610,000	-	11,610,000
Payment to bond escrow agent	-	(11,360,577)	-	(11,360,577)
Total Other Financing Sources (Uses)	-	249,423	-	249,423
Net Changes in Fund Balances	(992,157)	4,996	284,350	(702,811)
Fund Balances - Beginning of Year, as Retated	8,853,876	592,238	1,690,676	11,136,790
Fund Balances - End of Year	\$ 7,861,719	\$ 597,234	\$ 1,975,026	\$ 10,433,979

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021

Net change in fund balances - total governmental funds	\$	(702,811)
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Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Issuance of refunding bonds	(11,610,000)
Payment to refunding agent	11,360,577
Principal paid on long term debt principal	1,100,000

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Amortization of bond premiums	151,932
Amortization on refunding	(102,147)
Retirement of excess sales tax debt	27,409

Interest is an expenditure when paid for by governmental funds, but for the Statement of Activities, interest payable is accrued through the end of the fiscal year.

34,704

Change in Net Position of Governmental Activities	\$	<u>259,664</u>
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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 percent 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.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the 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

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. As such, the financial statements of the SEDC are also included in the separately issued Annual Financial Report of the City.

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.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position 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 governmental activities of the SEDC are primarily 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. *Program revenues* are grants and contributions that are restricted to meeting operational or capital requirements of a particular segment. 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 but are reported instead as *general revenues*.

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.

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

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.

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, including maintenance and landscaping for completed projects.

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 and execution of maintenance activities on those completed projects.

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 an assignment 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, 2021.

E. 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. During the year, the City held no investments.

The 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

Restrictions of fund balance represent those portions of fund balance legally segregated for a specific use and include amounts restricted for future debt service and construction activities. Committed fund balance is comprised of amounts constrained to specific purposes by the SEDC itself, using its highest level of decision-making authority. Commitments of fund balance cannot be used for any other purposes unless the SEDC takes the same highest level of action to remove or change the constraint. Fund balance has been 100 percent committed in the Capital Projects Fund by the SEDC. Unassigned fund balance represents fund balance that can be used for any lawful purpose of the SEDC as described in the enabling legislation.

H. Net Position

Net position represents the differences between assets and liabilities. Net position is 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

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.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The SEDC has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Note 3 - Deposits (Cash) and Investment Policy

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 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 position at September 30, 2021.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Deposits (Cash) and Investment Policy (continued)

Deposits

At September 30, 2021, the deposit balance of the SEDC's cash, savings and time deposits was \$9.1 million with a carrying value of \$9.5 million. Bank balances were covered by federal depository insurance and 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.

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 110 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.

Investment Policy

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.

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 portfolios 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.

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.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION**NOTES TO FINANCIAL STATEMENTS (continued)****Note 4 - Receivables**

Receivables at September 30, 2021, for the SEDC's individual funds are as follows:

	General Fund
Sales taxes	\$ 1,079,309
Due from other governments	997,664
Total Receivables	<u>\$ 2,076,973</u>

Note 5 - Sales Tax Revenue

The SEDC's revenues consist principally of a one-half 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 fiscal year 2021, sales tax produced \$5.1 million in revenues, of which, \$1.8 million was allocated for the SEDC's Debt Service Fund.

Note 6 - Interfund Receivables, Payables and Transfers

As of September 30, 2021, SEDC's General Fund reported an interfund payable to the Capital Projects Fund in the amount of \$1,975,026 for general fund resources committed for capital projects. In addition, SEDC had no interfund transfers during fiscal year 2021.

Note 7 - Long-Term Debt**Use of Bond Proceeds**

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 the SEDC's financial statements.

The Sales Tax Revenue Refunding Bonds, Series 2014, was originally issued for \$20,775,000 with an interest rate from 2.0 percent to 5.0 percent. The maturity date is September 1, 2030 with a call date of September 1, 2023.

The Sales Tax Revenue Refunding Bonds, Series 2021, were issued during fiscal year 2021 for \$11,610,000 with an interest rate from 0.3 percent to 1.9 percent. The maturity date is September 1, 2030 with a call date of September 1, 2026. The proceeds of the bonds were used to refund \$10,365,000 of the Sales Tax Revenue Refunding Bonds, Series 2014. The transaction resulted in net present value savings of \$875,265 and a deferred loss of \$647,082 to be amortized over the life of the bonds. The proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, \$10,365,000 of the Series 2014 Sales Tax Revenue Refunding Bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The following is a summary of the long-term debt transactions of the SEDC for the year ended September 30, 2021.

	Balance September 30, 2020	Additions	Retirements	Balance September 30, 2021	Due Within One Year
Sales tax revenue bonds	\$ 13,830,000	\$ 11,610,000	\$ (11,465,000)	\$ 13,975,000	\$ 1,410,000
Bond issuance premiums	1,519,315	-	(1,215,454)	303,861	-
Sales tax obligation	328,996	-	(27,409)	301,587	27,409
	<u>\$ 15,678,311</u>	<u>\$ 11,610,000</u>	<u>\$ (12,707,863)</u>	<u>\$ 14,580,448</u>	<u>\$ 1,437,409</u>

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Long-Term Debt (continued)

The annual requirements on the SEDC Sales Tax Revenue Bonds, as of September 30, 2021, are shown below:

Year Ending	Revenue Refunding Bonds		
	Principal	Interest	Total
9/30			
2022	1,410,000	275,455	1,685,455
2023	1,470,000	217,378	1,687,378
2024	1,535,000	155,578	1,690,578
2025	1,545,000	144,065	1,689,065
2026	1,560,000	128,615	1,688,615
2027	1,575,000	109,115	1,684,115
2028	1,605,000	86,278	1,691,278
2029	1,620,000	59,795	1,679,795
2030	1,655,000	31,445	1,686,445
	<u>\$ 13,975,000</u>	<u>\$ 1,207,724</u>	<u>\$ 15,182,724</u>

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, the 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 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.

Sales Tax Obligation

The 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 the 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 the SEDC's sales tax receipts beginning with October 2007. No interest is associated with this long-term liability.

During the 2015 fiscal year, the SEDC negotiated a long-term payout of excess sales tax received in prior years in the amount of \$140,674, with the State Comptroller. The total negotiated payout calls for an eighteen-year period with equal amounts deducted each month from the SEDC's sales tax receipts beginning with May 2015. No interest is associated with this long-term liability. The annual requirements on the SEDC Excess Sales Tax liability, as of September 30, 2021, are \$27,409 through 2031 and \$27,497 in fiscal year 2032, for a total of \$301,587.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - 380 Agreement

The SEDC enters into sales tax abatement agreements with local businesses under Chapter 380 of the Texas Local Government Code which authorizes municipalities to offer incentives designed to promote economic development such as commercial and retail projects. Specifically, it provides for offering loans and grants of SEDC funds or services at little or no cost to promote state and local economic development and to stimulate business and commercial activity.

For fiscal year 2021, the SEDC provided tax abatements through two programs: (i) Texas Instruments Redevelopment Property project and (ii) Stafford Retail Sales Center III project.

- The Stafford Retail Sales Center III project provides sales tax abatements to a business in order to operate a Retail Sales Center and attract businesses contracted with the developer. Under the agreement the developer receives an 80% rebate of the combined City and SEDC 2.0% sales tax revenues generated solely by the activity of this business. The threshold to trigger the rebate is new net taxable revenues in excess of \$50 million in a 12-month period.
- The Texas Instruments Redevelopment Property project provides sales tax abatements to develop a mixed-use, commercial, retail, and residential development to be known as the TI Redevelopment Property. The project's developer will pay all costs of the development project and the City and SEDC will make payments to the project's developer in a combined total amount not to exceed \$8,400,000 plus developer interest calculated at an annual rate of 4.5% for a term not to exceed 10 years. The annual payments are based on the sales tax generated directly by the project on a calendar year, minus administrative fees deducted by the State Comptroller. The percentage applied to the additional sales tax generated by the project is as follows:

Additional Sales Tax Generated on Project (Less Administrative Fees)			%
\$0	to	\$250,000	0%
\$250,001	to	\$1,000,000	50%
\$1,000,001	to	\$1,500,000	60%
\$1,500,001	to	\$2,000,000	70%
\$2,000,001	to	N/A	80%

During the fiscal year ended September 30, 2021 this agreement generated additional \$760,585 in new sales tax revenue of which \$608,468 was paid out in grants to the Developers.

Note 9 - Capital Outlay on Behalf of the City

As part of its charge, the SEDC will expend capital outlay for certain road projects on behalf of the City of Stafford to promote economic development. These projects are expended in the funds of the SEDC and capitalized in the financial statements of the City. Some of these mobility projects are subject to reimbursement by Fort Bend County as part of the County's ongoing mobility bond projects. A listing of current capital projects and outlays is presented in the supplementary information section of this report.

STAFFORD ECONOMIC DEVELOPMENT CORPORATION**NOTES TO FINANCIAL STATEMENTS (continued)****Note 10 - Prior Period Adjustment**

The SEDC reclassified fund balances during the fiscal year to reflect capital project expenditures, made on behalf of the City, in the SEDC's Capital Projects Fund. In addition, the fund balance in the Capital Projects Fund now more appropriately reflects amounts committed for capital projects. In addition, the fund balance previously reported in the Capital Projects Fund consisted of funds for capital projects that had been completed.

	General Fund	Capital Projects Fund
Beginning fund balance	\$ 6,652,158	\$ 3,892,394
Restatement due to:		
Fund balance committed for capital projects reclassified from the general fund to the capital projects fund	(1,690,676)	1,690,676
Fund balance for capital projects closed out in a prior fiscal year reclassified from capital projects fund to general fund	3,892,394	(3,892,394)
Beginning fund balance, as restated	<u>\$ 8,853,876</u>	<u>\$ 1,690,676</u>

REQUIRED SUPPLEMENTARY INFORMATION



STAFFORD ECONOMIC DEVELOPMENT CORPORATION

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES – BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales tax	\$ 2,730,083	\$ 3,147,590	\$ 3,305,203	\$ 157,613
Interest	13,500	490	490	-
Miscellaneous	44,300	44,300	44,296	4
Total Revenues	<u>2,787,883</u>	<u>3,192,380</u>	<u>3,349,989</u>	<u>157,617</u>
Expenditures				
Current:				
Economic development	839,921	847,493	791,310	56,183
Project maintenance:				
US90A	411,000	411,000	280,821	130,179
US 59	185,000	175,000	55,315	119,685
Transfer to City	-	3,214,700	3,214,700	-
Sales tax obligation	-	-	-	-
Total Expenditures	<u>1,435,921</u>	<u>4,648,193</u>	<u>4,342,146</u>	<u>306,047</u>
Revenues over (under) expenditures	<u>1,351,962</u>	<u>(1,455,813)</u>	<u>(992,157)</u>	<u>463,656</u>
Net Changes in Fund Balances	1,351,962	(1,455,813)	(992,157)	463,656
Fund Balances - Beginning of Year, as Restated	<u>9,391,856</u>	<u>8,853,876</u>	<u>8,853,876</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 10,743,818</u>	<u>\$ 7,398,063</u>	<u>\$ 7,861,719</u>	<u>\$ 463,656</u>

STAFFORD ECONOMIC DEVELOPMENT CORPORATION

NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2021

Budgetary Data

The SEDC prepares and adopts an appropriated budget on its General Fund, Debt Service Fund and Capital Projects Fund. The budgets are generally prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles (GAAP).

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 through which budget requirements are re-evaluated and revisions are recommended for the 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 not 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 FUND

For the Year Ended September 30, 2021

DEBT SERVICE FUND			
	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Final	Actual	
Revenues			
Sales tax	\$ 1,790,750	\$ 1,790,750	\$ -
Interest	76	75	(1)
Total Revenues	<u>1,790,826</u>	<u>1,790,825</u>	<u>(1)</u>
Expenditures			
Debt Service:			
Principal	1,100,000	1,100,000	-
Interest and other charges	936,000	935,252	748
Total Expenditures	<u>2,036,000</u>	<u>2,035,252</u>	<u>748</u>
Revenues over (under) expenditures	<u>(245,174)</u>	<u>(244,427)</u>	<u>747</u>
Other Financing Sources (Uses)			
Refunding bonds issued	11,610,000	11,610,000	-
Payment to bond escrow agent	(11,360,580)	(11,360,577)	3
Total Other Financing Sources (Uses)	<u>249,420</u>	<u>249,423</u>	<u>3</u>
Net Changes in Fund Balances	4,246	4,996	750
Fund Balances - Beginning of Year	<u>592,238</u>	<u>592,238</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 596,484</u>	<u>\$ 597,234</u>	<u>\$ 750</u>

STAFFORD ECONOMIC DEVELOPMENT CORPORATION
SCHEDULE OF CAPITAL PROJECT EXPENDITURES AND COMMITMENTS
For the Year Ended September 30, 2021

	Security Camera Fund	West Airport Expansion	Trinity Drive Extension	Cash Road Expansion	Streets, Drainage and Parks Project	Sign Demolition Project	Meadows Trail	Total
Original commitment	\$ 35,750	\$ 3,114,615	\$ 1,314,245	\$ 2,771,416	\$ 632,000	\$ 20,000	\$ 230,000	\$ 8,118,026
Project costs:								
Prior year expenditures	-	2,954,276	146,012	248,262	-	-	-	3,348,550
Current year expenditures	-	160,339	496,745	1,356,695	-	16,200	23,496	2,053,475
Total project costs	-	3,114,615	642,757	1,604,957	-	16,200	23,496	5,402,025
Close-out adjustments	-	-	-	-	-	(3,800)	-	(3,800)
Remaining commitment	\$ 35,750	\$ -	\$ 671,488	\$ 1,166,459	\$ 632,000	\$ -	\$ 206,504	2,712,201
					Less Anticipated Contribution by the County			(737,175)
					Total remaining SEDC committed fund balance			\$ 1,975,026