

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**

ANNUAL FINANCIAL REPORT

**Year Ended September 30, 2012
with Report of Independent Auditors**

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
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FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Stafford Economic Development Corporation (“SEDC”) as of and for the year ended September 30, 2012, which collectively comprise SEDC’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of SEDC’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Stafford Economic Development Corporation as of September 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 3 through 7 and 27 through 28 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.

Stafford Economic Development Corporation

Stafford, Texas

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SEDC's financial statements as a whole. The accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service and Capital Projects Funds on Pages 30 through 31 is presented for purposes of additional analysis and are not a required part of the financial statements. This statement is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Whitley Penn LLP

Houston Texas

February 12, 2013

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

As management of the Stafford Economic Development Corporation ("SEDC"), we offer readers of SEDC's financial statements this narrative overview and analysis of the financial activities of SEDC for the fiscal year ended September 30, 2012.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements can be found on Pages 10 through 11 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SEDC, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. SEDC consists only of governmental funds.

Governmental Funds

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of SEDC's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenue, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

The basic governmental fund financial statements can be found on Pages 12 through 15 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Pages 17 through 24 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the budget to actual comparisons of the General Fund. Required supplementary information can be found on Page 27 of this report.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The liabilities of SEDC exceeded its assets at the close of the most recent fiscal year by \$11.7 million (net deficit). SEDC's total net assets increased during the year by \$4.4 million. Management anticipates the current and future fiscal years' financial positions will reflect a deficit of net assets through the life of the outstanding bonded indebtedness.

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

The following table summarizes SEDC's net assets as of September 30, 2012 and 2011:

CONDENSED SCHEDULE OF NET ASSETS

September 30, 2012 and 2011

	Governmental Activities		Change	
	2012	2011	Amount	Percent
Current and other assets	\$ 10,853,113	\$ 7,117,478	\$ 3,735,635	52%
Total Assets	<u>10,853,113</u>	<u>7,117,478</u>	<u>3,735,635</u>	<u>52%</u>
Current and other liabilities	142,875	134,187	8,688	6%
Long-term liabilities	22,386,728	23,086,060	(699,332)	-3%
Total Liabilities	<u>22,529,603</u>	<u>23,220,247</u>	<u>(690,644)</u>	<u>-3%</u>
Net assets:				
Restricted	120,894	114,286	6,608	6%
Unrestricted	(11,797,384)	(16,217,055)	4,419,671	27%
Total Net Assets	<u>\$ (11,676,490)</u>	<u>\$ (16,102,769)</u>	<u>4,426,279</u>	<u>27%</u>

The following table summarizes the change in net assets for SEDC for the years ended September 30, 2012 and 2011:

CONDENSED SCHEDULE OF CHANGES IN NET ASSETS

For the Years Ended September 30, 2012 and 2011

	Governmental Activities		Change	
	2012	2011	Amount	Percent
Revenues:				
Sales tax	\$ 3,630,725	\$ 3,360,861	\$ 269,864	8%
Miscellaneous	63,720		63,720	100%
Interest	27,903	61,483	(33,580)	-55%
Capital grants and contributions	2,621,094		2,621,094	100%
Total Revenues	<u>6,343,442</u>	<u>3,422,344</u>	<u>2,921,098</u>	<u>85%</u>
Expenses:				
General administration	343,405	336,083	7,322	2%
Capital outlay on behalf of the City	286,640	528,175	(241,535)	-46%
Interest and fiscal agent fees	1,287,119	1,322,642	(35,523)	-3%
Total Expenses	<u>1,917,164</u>	<u>2,186,900</u>	<u>(269,736)</u>	<u>-12%</u>
Change in net assets	4,426,278	1,235,444	3,190,834	-258%
Net Assets - Beginning	<u>(16,102,768)</u>	<u>(17,338,212)</u>	<u>1,235,444</u>	<u>-7%</u>
Net Assets - Ending	<u>\$ (11,676,490)</u>	<u>\$ (16,102,768)</u>	<u>\$ 4,426,278</u>	<u>27%</u>

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

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of SEDC's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing SEDC's financing requirements. In particular, unreserved fund balance may serve as a useful measure of an entity's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, SEDC's governmental funds reported combined ending fund balances of \$10.8 million, of which \$6.5 million constitutes unassigned fund balance. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has been legally restricted for debt service (\$225,037) and capital projects (\$4.1 million).

The General Fund balance increased by \$911,833 during the current year as revenues and expenditures remained at levels similar to those of the 2011 fiscal year.

The Capital Projects fund balance increased by \$2.8 million primarily due to a transfer of funds from the City of Stafford for the Stafford/Staffordshire Road project.

General Fund Budgetary Highlights

Actual sales tax revenue was \$310,725 above what was expected during the year. Expenditures were \$247,613 under appropriations. These variances resulted in an ending General Fund balance \$560,702 higher than originally projected in the budgetary process.

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

Debt Administration

At the end of the current fiscal year, SEDC had sales tax revenue bonds outstanding of \$22.0 million. SEDC has secured the payment of the principal and interest on such bonds by a pledge of the sales tax revenue received by the Corporation from the City. Sales taxes collected by SEDC are being used to service the debt payments. Further, at the end of the current fiscal year, SEDC had excess sales tax liability outstanding of \$386,728. SEDC has secured the payment of the principal on such excess sales tax by a pledge of the sales tax revenue received by the Corporation from the City.

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

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

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

Economic Factors and Next Year's Budgets and Rates

SEDC is dependent on a one-half 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.

SEDC is currently operating under its 2013 budget adopted and passed by the Board of Directors. The following schedule outlines a comparison of the 2012 actual operations and the 2013 General Fund budget. The 2013 budget is presented below:

	<u>2012 Actual</u>	<u>2013 Budget</u>	<u>Net Change</u>
Total Revenues	\$ 1,674,570	\$ 1,407,081	\$ (267,489)
Total Expenses	362,737	610,350	247,613
Operating transfers in (out)	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>
Changes in fund balance	911,833	396,731	(515,102)
Beginning fund balance	<u>5,580,033</u>	<u>5,580,032</u>	<u>(1)</u>
Ending fund balance	<u><u>\$ 6,491,866</u></u>	<u><u>\$ 5,976,763</u></u>	<u><u>\$ (515,103)</u></u>

Request for Information

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

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BASIC FINANCIAL STATEMENTS

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
STATEMENT OF NET ASSETS
September 30, 2012

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 10,176,712
Receivables (Net of Allowance for Uncollectibles)	<u>676,401</u>
Total Assets	<u>10,853,113</u>
Liabilities	
Accounts payable and accrued expenses	142,875
Long-term liabilities:	
Due within one year	744,332
Due in more than one year	<u>21,642,396</u>
Total Liabilities	<u>22,529,603</u>
Net Assets	
Restricted for:	
Debt service	120,894
Unrestricted	<u>(11,797,384)</u>
Total Net Assets (Deficit)	<u><u>\$ (11,676,490)</u></u>

See Notes To Basic Financial Statements.

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

	Governmental Activities
General revenues	
Sales tax	\$ 3,630,725
Miscellaneous	63,720
Interest	27,903
Total General Revenues	<u>3,722,348</u>
Program revenues	
Capital grants and contributions	2,621,094
Total Program Revenues	<u>2,621,094</u>
Expenses	
General administration	343,405
Capital Outlay on behalf of City:	
US 90A Railroad Relocation	40,046
Stafford Centre	5,153
US 59 Open Space Enhancement	241,441
Interest and fiscal agent fees	1,287,119
Total Expenses	<u>1,917,164</u>
Change in net assets	4,426,278
Net Assets - Beginning	<u>(16,102,768)</u>
Net Assets - Ending	<u>\$ (11,676,490)</u>

See Notes to Basic Financial Statements.

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2012

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 5,857,020	\$ 225,037	\$ 4,094,655	\$ 10,176,712
Receivables from other governments	645,025		31,376	676,401
Due from other funds	25,711			25,711
Total Assets	<u>\$ 6,527,756</u>	<u>\$ 225,037</u>	<u>\$ 4,126,031</u>	<u>\$ 10,878,824</u>
Liabilities				
Accounts payable and accrued expenses	\$ 35,890	\$	\$ 2,843	\$ 38,733
Due to other funds			25,710	25,710
Total Liabilities	<u>\$ 35,890</u>	<u>\$</u>	<u>\$ 28,553</u>	<u>\$ 64,443</u>
Net Assets				
Restricted:				
Debt service		225,037		225,037
Capital projects			4,097,478	4,097,478
Unassigned	6,491,866			6,491,866
Total Fund Balances	<u>6,491,866</u>	<u>225,037</u>	<u>4,097,478</u>	<u>10,814,381</u>
Total Liabilities and Fund Balances	<u>\$ 6,527,756</u>	<u>\$ 225,037</u>	<u>\$ 4,126,031</u>	<u>\$ 10,878,824</u>

See Notes To Basic Financial Statements.

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2012

Total fund balance, governmental funds	\$ 10,814,381
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Payables for bond principal are not reported in the funds.	(22,000,000)
Payables for excess sales tax principal are not reported in the funds.	(386,728)
Payables for bond interest are not reported in the funds	<u>(104,143)</u>
Net Assets (deficits) of Governmental Activities in the Statement of Net Assets	<u><u>\$ (11,676,490)</u></u>

See Notes to Basic Financial Statements.

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
*STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES*
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Sales tax	\$ 1,660,206	\$ 1,970,519	\$	\$ 3,630,725
Intergovernmental			2,621,094	2,621,094
Interest	14,364	3,208	10,331	27,903
Other			63,720	63,720
Total Revenues	<u>1,674,570</u>	<u>1,973,727</u>	<u>2,695,145</u>	<u>6,343,442</u>
Expenditures				
Current:				
General administration	362,737			362,737
Capital Outlay on Behalf of the City:				
US 90A Railroad Relocation			40,046	40,046
Stafford Centre			5,153	5,153
US 59 Open Space Enhancement			241,441	241,441
Debt Service:				
Principal		680,000		680,000
Interest and other charges		1,290,519		1,290,519
Total Expenditures	<u>362,737</u>	<u>1,970,519</u>	<u>286,640</u>	<u>2,619,896</u>
Revenues over (under) expenditures	<u>1,311,833</u>	<u>3,208</u>	<u>2,408,505</u>	<u>3,723,546</u>
Other Financing Sources (Uses)				
Transfers in			400,000	400,000
Transfers out	(400,000)			(400,000)
Total other financing sources (uses)	<u>(400,000)</u>		<u>400,000</u>	
Net Changes in Fund Balances	911,833	3,208	2,808,505	3,723,546
Fund Balances - Beginning of Year	<u>5,580,033</u>	<u>221,829</u>	<u>1,288,973</u>	<u>7,090,835</u>
Fund Balances - End of Year	<u>\$ 6,491,866</u>	<u>\$ 225,037</u>	<u>\$ 4,097,478</u>	<u>\$ 10,814,381</u>

See Notes to Basic Financial Statements.

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES*
For the Year Ended September 30, 2012

Net change in fund balances - total governmental funds	\$ 3,723,546
Amounts reported for governmental activities in the Statement of Activities are different because:	
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets.	680,000
Repayment of excess sales tax debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets.	19,332
Interest is an expenditure when paid for by governmental funds, but for the statement of activities, interest payable is accrued through the end of the fiscal year.	3,400
Change in Net Assets of Governmental Activities	<u><u>\$ 4,426,278</u></u>

See Notes to Basic Financial Statements.

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

Note 1 - Organization

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

Note 2 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

SEDC reports the following major governmental funds:

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

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

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

D. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation -- is utilized. Encumbrances outstanding at year-end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. There were no outstanding encumbrances at September 30, 2012.

E. Cash and Investments

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

F. Estimates

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

G. Fund Balance

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

H. Net Assets

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

I. Federal Income Tax Status

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

Note 3 - Deposits (Cash) and Investment Policy

SEDC classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, an investment is considered a cash equivalent if when purchased it has a maturity date of three months or less. Investments are classified as either current investments or non-current investments. Investments are those that have a maturity of one year or more. There were no investments reported on the statement of net assets at September 30, 2012.

Deposits

At September 30, 2012, the carrying amount of SEDC's cash, savings and time deposits was \$6.3 million. Bank balances were covered by federal depository insurance and by collateral pledged in SEDC's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent.

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

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

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

Deposits (continued)

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

Investment Policy

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

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

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

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

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

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

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

Investment Policy (continued)

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

Note 4 - Sales Tax Revenue

SEDC's revenues consist principally of a 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 2011, SEDC earned \$3.6 million in sales taxes, of which, \$2.0 million was allocated for SEDC's Debt Service Fund. At year-end, SEDC reported a receivable from the State for sales tax revenues collected in August and September of \$637,441.

Note 5 - Interfund Receivables, Payables and Transfers

Receivables and Payables

The composition of interfund balances as of September 30, 2012, is as follows:

	<u>Receivable Fund</u>
<u>Payable Fund</u>	<u>General Fund</u>
Capital Projects Fund	\$ 25,710
	<u>\$ 25,710</u>

Transfers

For the year ended September 30, 2012, the SEDC Board of Directors approved transfers of \$430,000 from the General Fund to the Capital Projects Fund to provide resources for construction related projects.

Note 6 - Long-Term Debt

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

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

Note 6 - Long-Term Debt (continued)

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

The following is a summary of the long-term debt transactions of SEDC for the year ended September 30, 2012.

	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012	Due Within One Year
Sales tax revenue bonds	\$ 22,680,000	\$	\$ 680,000	\$ 22,000,000	\$ 725,000
Sales tax obligation	406,060		19,332	386,728	19,332
	<u>\$ 23,086,060</u>	<u>\$</u>	<u>\$ 699,332</u>	<u>\$ 22,386,728</u>	<u>\$ 744,332</u>

The annual requirements on the SEDC Sales Tax Revenue Bonds, as of September 30, 2012, are shown below:

Year Ending 9/30	Principal	Interest	Total
2013	\$ 725,000	\$ 1,249,719	\$ 1,974,719
2014	765,000	1,206,219	1,971,219
2015	810,000	1,160,319	1,970,319
2016	860,000	1,111,719	1,971,719
2017	915,000	1,060,119	1,975,119
2018	965,000	1,005,219	1,970,219
2019	1,025,000	947,319	1,972,319
2020	1,085,000	885,819	1,970,819
2021	1,150,000	824,788	1,974,788
2022	1,215,000	760,100	1,975,100
2023	1,280,000	691,756	1,971,756
2024	1,355,000	619,756	1,974,756
2025	1,430,000	543,538	1,973,538
2026	1,510,000	463,100	1,973,100
2027	1,590,000	380,050	1,970,050
2028	1,680,000	292,600	1,972,600
2029	1,770,000	200,200	1,970,200
2030	1,870,000	102,850	1,972,850
	<u>\$ 22,000,000</u>	<u>\$ 13,505,190</u>	<u>\$ 35,505,190</u>

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

Note 6 - Long-Term Debt (continued)

Federal Tax Compliance (Arbitrage) for Long-term Debt

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

Rebate

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

Sales Tax Obligation

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

The annual requirements on the SEDC Excess Sales Tax liability, as of September 30, 2012, are \$19,332 for fiscal years 2012 through 2031 and \$19,420 in fiscal year 2032, for a total of \$386,728.

REQUIRED SUPPLEMENTARY INFORMATION

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**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
*SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND*
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales tax	\$ 1,349,481	\$ 1,349,481	\$ 1,660,206	\$ 310,725
Interest	12,000	12,000	14,364	2,364
Total Revenues	<u>1,361,481</u>	<u>1,361,481</u>	<u>1,674,570</u>	<u>313,089</u>
Expenditures				
Current:				
General administration	610,350	610,350	362,737	247,613
Total Expenditures	<u>610,350</u>	<u>610,350</u>	<u>362,737</u>	<u>247,613</u>
Revenues over (under) expenditures	<u>751,131</u>	<u>751,131</u>	<u>1,311,833</u>	<u>560,702</u>
Other Financing Sources (Uses)				
Transfers out	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	
Total other financing sources (uses)	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	
Net Changes in Fund Balances	351,131	351,131	911,833	560,702
Fund Balances - Beginning of Year	<u>5,580,033</u>	<u>5,580,033</u>	<u>5,580,033</u>	
Fund Balances - End of Year	<u>\$ 5,931,164</u>	<u>\$ 5,931,164</u>	<u>\$ 6,491,866</u>	<u>\$ 560,702</u>

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

Budgetary Data

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

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

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

OTHER SUPPLEMENTARY INFORMATION

**STAFFORD ECONOMIC
DEVELOPMENT CORPORATION**
*SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE AND CAPITAL PROJECTS FUNDS
For the Year Ended September 30, 2012*

	DEBT SERVICE FUND		
	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Final	Actual	
Revenues			
Sales tax	\$ 1,970,519	\$ 1,970,519	\$
Intergovernmental			
Interest	3,000	3,208	208
Other			
Total Revenues	1,973,519	1,973,727	208
Expenditures			
Capital Outlay on Behalf of the City:			
US 90A Railroad Relocation			
Stafford Centre			
US 59 Open Space Enhancement			
Debt Service:			
Principal	680,000	680,000	
Interest and other charges	1,292,519	1,290,519	(2,000)
Total Expenditures	1,972,519	1,970,519	(2,000)
Revenues over (under) expenditures	1,000	3,208	2,208
Other Financing Sources (Uses)			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net Changes in Fund Balances	1,000	3,208	2,208
Fund Balances - Beginning of Year	221,829	221,829	
Fund Balances - End of Year	\$ 222,829	\$ 225,037	\$ 2,208

CAPITAL PROJECTS FUND

Budgeted Amounts		Variance with Final Budget Positive (Negative)
Final	Actual	
\$	\$	\$
2,500,000	2,621,094	121,094
2,355	10,331	7,976
	63,720	63,720
<u>2,502,355</u>	<u>2,695,145</u>	<u>192,790</u>
165,000	40,046	(124,954)
5,200	5,153	(47)
536,000	241,441	(294,559)
<u>706,200</u>	<u>286,640</u>	<u>(419,560)</u>
<u>1,796,155</u>	<u>2,408,505</u>	<u>612,350</u>
400,000	400,000	
(351)		351
<u>399,649</u>	<u>400,000</u>	<u>351</u>
2,195,804	2,808,505	612,701
1,288,973	1,288,973	
<u>\$ 3,484,777</u>	<u>\$ 4,097,478</u>	<u>\$ 612,701</u>