

Brooks Development Authority

San Antonio, Texas

Financial Statements and
Independent Auditor's Report

September 30, 2013 and 2012

Brooks Development Authority

San Antonio, Texas

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Financial Section

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Independent Auditor's Report

To the Board of Directors
Brooks Development Authority
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Brooks Development Authority ("BDA"), a component unit of the City of San Antonio, Texas, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise BDA'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 an opinion on these financial statements based on our audits. We conducted our audits 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 BDA'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 BDA'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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of BDA as of September 30, 2013 and 2012, and the changes in financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1-B, BDA was required to adopt Governmental Accounting Standards Board ("GASB") Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity, Omnibus, An Amendment to GASB Statements No. 14 and 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective October 1, 2012. The adoption of these GASBs had no effect on the financial statements.

Additionally, as described in Note 20 to the financial statements, BDA did not record rental income earned in 2011; therefore, an adjustment was made to the September 30, 2012 financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 GASB, 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 an opinion on the financial statements that collectively comprise BDA'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, as listed in the table of contents, 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 accompanying Other Supplementary Information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas

January 24, 2014

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Brooks Development Authority

San Antonio, Texas

Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

As management of Brooks Development Authority ("BDA"), we offer the following Management's Discussion and Analysis ("MD&A"). The MD&A serves as an introduction to the financial statements for the fiscal year ended September 30, 2013 and is designed to assist the reader in focusing on significant financial issues and activities and identifying any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- Net position decreased by \$21,602,694 from fiscal year 2012. This decrease is primarily due to BDA releasing to the City of San Antonio \$23,062,201 in net book value of road and infrastructure. Additionally, BDA wrote-off net book value of \$504,336 in buildings, which were considered permanently impaired. In fiscal year 2012, net position decreased by \$8,266,710 from fiscal year 2011. This decrease is the first since fiscal year 2004 and is a direct result of lost revenue due to the Air Force vacating. In fiscal years 2012 and 2011, the operating budgets were reduced significantly in anticipation of the Air Force vacating during fiscal year 2012 and, thus, the loss of Air Force lease revenue.
- The primary source of BDA's operating revenue of \$7,530,562 stems from its commercial leases, this year amounting to \$6,385,056, or 85% of total operating revenue. In addition, BDA realized \$1,145,506 from common area maintenance fees, utility reimbursements, and other miscellaneous income. Fiscal year 2013 represents the second year BDA operates without Air Force lease revenue. To offset the loss of Air Force lease revenues, BDA continues to increase its commercial leases; increasing them by 5% over fiscal year 2012. In addition, BDA has realized \$1,380,447 in revenue from its agreement with NRP Management, LLC ("NRP") related to managing the 163 single-family homes and duplexes, which comprise the Brooks Heritage Oaks at Brooks City-Base (the "Heritage Project"), formerly military residential housing. As of September 30, 2013, BDA has realized \$291,667 as lease revenue related to the manufacturing facility being built by Nexolon America, LLC and \$328,000 in lease revenue related to The Landings Apartments, which are managed by NRP. Fiscal year 2012 represents the first year BDA operated without Air Force lease revenue. As a result of the Air Force departure, operating revenues dropped 43% from fiscal year 2011. Commercial lease revenue more than doubled from fiscal year 2011 as a result of signing five new commercial tenants. BDA continues to search for new commercial tenants as it works to offset the loss of Air Force lease revenue.

Basic Financial Statements

The basic financial statements are comprised of the Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. The basic financial statements report information using accounting methods similar to those used by private sector companies. These financial statements are

Brooks Development Authority

San Antonio, Texas

Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

prepared under the accrual basis of accounting in which revenues and assets are recognized when earned or acquired, and expenses and liabilities are recognized when incurred, regardless of when cash is received or paid. These financial statements also offer short-term and long-term financial information about its activities.

The Balance Sheets include all BDA's assets, deferred outflow or resources, and liabilities and provides information about the nature and amount of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of BDA and assessing the liquidity and its financial flexibility.

The Statements of Revenues, Expenses, and Changes in Net Position present operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses consist of revenues earned and expenses incurred related to the operation and maintenance of the Brooks City-Base property. Nonoperating revenues and expenses consist of investment income, capital assets sales, and dispositions related to permanent impairments or transfers to the City of San Antonio; and grants in aid from the City of San Antonio, and the Office of Economic Adjustment on behalf of the Department of Defense, as well as interest expense.

The Statements of Cash Flows report cash inflows and outflows and net changes in cash resulting from operations, capital, and financing activities and provides answers to such questions as where did cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

Financial Analysis

BDA's total fiscal year 2013 operating revenues increased by 3% over fiscal year 2012 as a result of BDA's effort to replace Air Force lease revenue, which ended in fiscal year 2011. Commercial lease revenue increased by 5% over last year going from \$6,054,329 in fiscal year 2012 to \$6,385,056 in fiscal year 2013. In 2012, operating revenues decreased by 43% over fiscal year 2011 as a result of the loss of Air Force lease revenue in 2011. Rents – commercial leases increased by 104% over fiscal year 2011 going from \$2,961,325 in fiscal year 2011 to \$6,054,329 in fiscal year 2012. BDA continues to review its vacant buildings to determine which can be renovated for commercial development and which should be demolished.

Brooks Development Authority

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Management's Discussion and Analysis

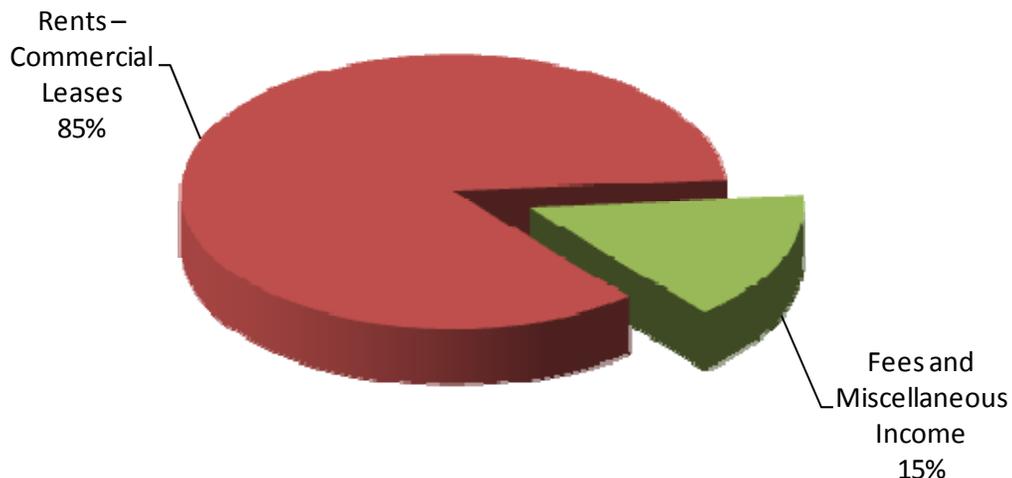
Years Ended September 30, 2013 and 2012

(Unaudited)

Operating expenses, excluding depreciation, decreased from \$7,294,064 to \$6,924,584, or by 5% from last year. Most major operating cost categories experienced a decrease over last year with the exception of custodial and grounds upkeep and repairs and maintenance. In 2012, operating expenses, excluding depreciation, decreased from \$9,473,498 to \$7,294,064, or by 23% from 2011. Most major operating cost categories experienced a decrease over last year with the exception of administration and support and property management and development.

Nonoperating activities reflect a deficit of \$18,053,542, which is caused primarily by the loss on roads and infrastructure transferred to City of San Antonio of \$23,062,201. Other nonoperating items include gain on sale of land of \$5,465,983, disposal/impairment of capital assets of \$563,806, \$89,151 from contributions from City of San Antonio, interest expense of \$972,772, interest income of \$922,748, and other – grants of \$43,884. In 2012, nonoperating activities reflect a deficit of \$3,369,662, which is caused primarily by the loss on roads and infrastructure transferred to City of San Antonio of \$4,997,611. Other nonoperating items include disposal/impairment of capital assets of \$2,001,163, \$2,042,812 from contributions from the City of San Antonio, interest expense of \$871,923, interest income of \$687,658, and other revenue of \$14,000.

Fiscal Year 2013 Operating Revenues by Source



Brooks Development Authority

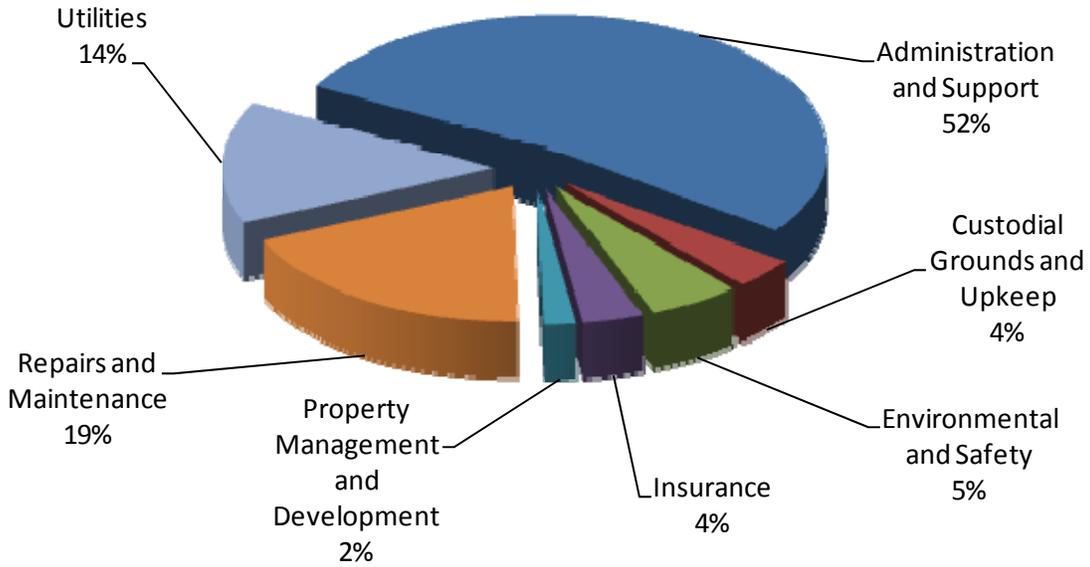
San Antonio, Texas

Management's Discussion and Analysis

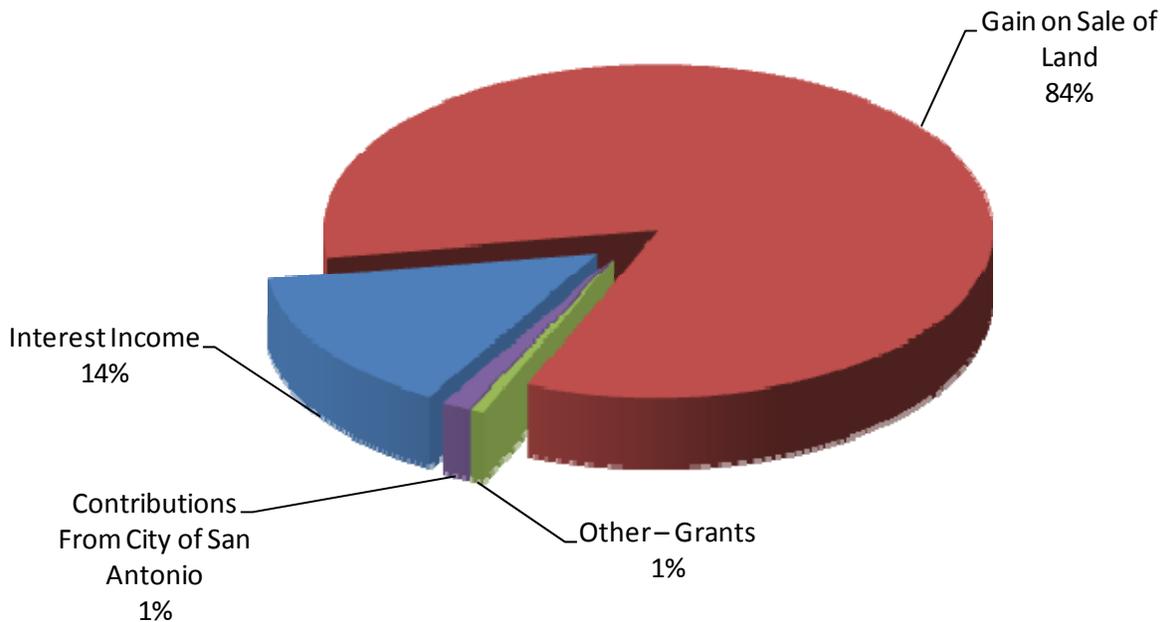
Years Ended September 30, 2013 and 2012

(Unaudited)

Fiscal Year 2013 Operating Expenses by Source (Excluding Depreciation Expense)



Fiscal Year 2013 Nonoperating Revenues by Source



Brooks Development Authority

San Antonio, Texas

Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

Table 1
Condensed Balance Sheet Information

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>	<u>2011</u> <u>(Restated)</u>
Current assets	\$ 19,948,957	\$ 13,203,933	\$ 20,060,157
Capital assets	58,398,728	80,414,521	86,876,587
Deferred outflow of resources	<u>2,593,557</u>	<u>3,871,515</u>	<u>3,717,169</u>
 Total assets and deferred outflow of resources	 <u>\$ 80,941,242</u>	 <u>\$ 97,489,969</u>	 <u>\$ 110,653,913</u>
 Current liabilities	 \$ 3,914,272	 \$ 2,452,994	 \$ 7,412,630
Noncurrent liabilities	<u>24,873,797</u>	<u>21,281,108</u>	<u>21,218,706</u>
 Total liabilities	 <u>28,788,069</u>	 <u>23,734,102</u>	 <u>28,631,336</u>
 Net position:			
Net investment in capital assets	39,314,000	62,274,829	68,745,724
Unrestricted	<u>12,839,173</u>	<u>11,481,038</u>	<u>13,276,853</u>
 Total net position	 <u>52,153,173</u>	 <u>73,755,867</u>	 <u>82,022,577</u>
 Total liabilities and net position	 <u>\$ 80,941,242</u>	 <u>\$ 97,489,969</u>	 <u>\$ 110,653,913</u>

BDA's net position decreased \$21,602,694 from \$73,755,867 to \$52,153,173 (Table 2) resulting from a combination of net operating loss of \$3,549,152, net nonoperating revenues of \$17,331, and contributions of \$89,151. In addition, the decrease in net position is primarily attributed to noncash items consisting of depreciation expense of \$4,155,130, disposal/impairment of capital assets of \$563,806, and loss on roads and infrastructure transferred to City of San Antonio of \$23,062,201. In 2012, net position decreased \$8,266,710 from \$82,022,577 to \$73,755,687 (Table 2) resulting from a combination of net operating loss of \$4,897,048, net nonoperating revenues of \$671,126, and contributions of \$2,042,812. In addition, the decrease in net position is attributed to noncash items consisting of depreciation expense of \$4,934,981, disposal/impairment of capital assets of \$2,001,163, and loss on roads and infrastructure transferred to City of San Antonio of \$4,997,611.

Brooks Development Authority

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Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

Table 2
Condensed Revenues, Expenses, and Changes in Net Position Information

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>	<u>2011</u> <u>(Restated)</u>
Operating Revenues			
Rents – commercial leases	\$ 6,385,056	\$ 6,054,329	\$ 2,961,325
Fees and miscellaneous income	1,145,506	1,277,668	1,426,777
Air Force lease payments	-	-	8,538,697
	<u>7,530,562</u>	<u>7,331,997</u>	<u>12,926,799</u>
Total operating revenues			
Operating expenses			
Operating expenses	6,924,584	7,294,064	9,473,498
Depreciation	4,155,130	4,934,981	4,675,104
	<u>11,079,714</u>	<u>12,229,045</u>	<u>14,148,602</u>
Total operating expenses			
Operating loss	(3,549,152)	(4,897,048)	(1,221,803)
Nonoperating Revenues (Expenses)			
Gain on sale of land	5,465,983	915,174	-
Disposal/impairment of capital assets	(563,806)	(2,001,163)	(5,205,482)
Loss on roads and infrastructure transferred to City of San Antonio	(23,062,201)	(4,997,611)	-
Contributions	89,151	2,042,812	8,823,413
Nonoperating revenues (expenses) – net	<u>17,331</u>	<u>671,126</u>	<u>1,826,802</u>
Change in net position	(21,602,694)	(8,266,710)	4,222,930
Net position at beginning of year – as restated	<u>73,755,867</u>	<u>82,022,577</u>	<u>77,799,647</u>
Net position at end of year	<u>\$ 52,153,173</u>	<u>\$ 73,755,867</u>	<u>\$ 82,022,577</u>

Other Key Initiatives

The following are significant events that impacted BDA in fiscal year 2013. BDA continues to undertake initiatives to transform the former Air Force base into the vibrant Brooks City-Base.

Brooks Development Authority

San Antonio, Texas

Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

Policy Development/Governance

- In May 2013, BDA underwent a leadership transition by which Leo Gomez was appointed Chief Executive Officer and President. Additionally in, February 2013, Milo Nitschke was hired as Chief Finance Officer.
- In February 2013, BDA executed a contract with the joint venture of Shelton & Valadez and Marc A. Rodriguez to provide state and local lobbying/legislative consulting efforts.

Land Sales and New Leases

- In October 2012, Vanguard/Baptist Health Systems exercised its option to purchase 20 acres of land adjacent to its Mission Trails Hospital for the cash sum of \$4,083,138, net of fees.
- In November 2012, BDA sold four acres of land to QPM Partners as two, two-acre parcels for the development of two hotels for approximately \$1,382,845, net of fees.
- In March 2013, BDA negotiated and executed a lease agreement with Infomedia Group, Inc., D/B/A Carenet for approximately 13,120 square feet of office space located in Building 570A for a period of 154 months, commencing April 1, 2013 and ending January 31, 2026, for total lease revenue of \$1,312,842.
- In May 2013, BDA negotiated and executed a 24-month lease for Building 704 with the Brooks Academy of Science and Engineering at \$14.00 per sq. ft. on an as-is basis and a contract to sell up to 24 acres of land contiguous to the base school's existing property at \$3.50 per sq. ft.
- In May 2013, BDA amended the lease agreement with Volt Information Sciences, Inc. for an additional 21,387 sq ft. on the second floor of Building 532 at \$14.00 per sq. ft.
- In February 2013, BDA received \$5,000,000 from Nexolon America, LLC ("Nexolon") as a one-time prepayment for a ground lease with option to purchase 85.86 acres of land upon which Nexolon will construct a photovoltaic solar panel manufacturing facility. The ground lease is for a period of ten years, and BDA agreed to provide Nexolon the option to request transfer of title to the land and improvements at any time during or at the end of the ten-year lease term with the understanding that such real property, once owned by Nexolon, will then be subject to full taxation. Upon substantial completion of the manufacturing facility, Nexolon will commence making additional annual payments of \$275,000 to BDA, plus an annual consumer price index increase not to exceed 2% to be paid during the entire term of the lease.

Brooks Development Authority

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Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

Financial Planning

- BDA successfully completed the operating budget for 2013 with a surplus of \$1,388,150, which was due to revenues exceeding budgeted amounts by \$958,300 and expenditures being under budget by \$429,850.
- In September 2013, BDA approved Resolution #091013-709 to execute a contract with McCall, Parkhurst & Horton, LLP to perform bond counsel services.
- In September 2013, BDA approved Resolution #091013-708 to execute a contract with First Southwest Co. to perform financial advisory services.
- Also, in September 2013, BDA approved Resolution #091013-707 to execute a contract with National Development Council, a New York nonprofit corporation to provide technical assistance in seeking funding for economic and community development activities utilizing new market tax credits and historic tax credits.

Leveraging Resources

- In May 2013 (housing units) and July 2013 (various buildings), BDA completed the energy saving upgrades to Buildings 155, 502, 704, 754, and 940 and to 163 residential housing units, which were funded by a \$1.9 million loan with the State Comptroller of Public Accounts, State Energy Conservation Office ("SECO").
- In May 2013, BDA's Board of Directors (the "Board") approved a resolution authorizing the Interim President and CEO to sanction the recommended preferred site for the Brooks Transit Center and Transit Oriented Development and execute an Memorandum of Understanding with VIA Metropolitan Transit ("VIA") for a right of first refusal or option contract for a ground lease or sale for a VIA transit oriented development.

Project Development

- In June 2013, BDA completed the expansion of parking supporting Building 532, which is occupied by Volt Information Sciences, Inc. The parking lot was reconfigured, and BDA agreed to provide 200 parking spaces.
- In support of the construction of the Nexolon's corporate headquarters/manufacturing facility on Brooks City-Base property, in July 2013, BDA committed to infrastructure improvements for Research Plaza Extension and Mission Creek Detention Basin. The project will consist of the southwestern extension of Research Plaza, approximately 1,750 feet from the existing South New Braunfels Avenue intersection including storm drains, a storm water detention basin, potable water mains, recycled water mains, sanitary sewer mains, underground utilities, telecommunications, and landscaping. Total project budget is \$7,904,778 and is to be funded from the proceeds from Nexolon and the BDA fiscal year 2014 capital budget.

Brooks Development Authority

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Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

- The City of San Antonio accepted road expansion projects of South New Braunfels Phase I and II and Inner Circle Drive Units I, II, and III, which resulted in the release of net book value of \$23,062,201 in roads and Infrastructure, which is reflected as a loss on disposal in the financial statements as of September 30, 2013.
- In April 2013, BDA negotiated and executed a contract with Alamo 1 for the installation of site lighting in parking areas at Building 775, which is occupied by Texas A&M University – San Antonio. BDA agreed to improve the lighting of the parking areas to support the parking; movement and safety of the large number of students attending classes in the evening. Completion of project is expected in the first quarter of fiscal year 2014.

Marketing

In June 2013, BDA adopted a new mission and vision statement as part of a Board revisioning retreat. As a result, staff was tasked with five main goals for the organization:

- Find finances and new businesses; develop a capital improvement plan
- Engage process for master plan development
- Rebrand Brooks City-Base through effective marketing
- Re-evaluate approach to EB-5
- Build relationships/connections with Eagle Ford Shale for economic development

In July 2013, BDA staff engaged consultants to conduct a rebranding effort with the aim of reflecting BDA's change in direction. The process was finalized in November 2013, and staff recommendations will be presented to the Board for authorization. This action was part of the action plan to support the top organizational goals established as part of the revisioning process undergone in June.

In an effort to support another one of the five organizational goals established earlier in the year, the marketing plan for BDA underwent significant changes in the fiscal year 2014 budget planning process. Starting in June 2013, the marketing department launched an initiative to market BDA throughout the Eagle Ford Shale sector by establishing relationships with key community leaders and stakeholders in the industry. The implementation of this program is geared toward attracting new business through BDA's strategic partnerships with economic development organizations.

Brooks Development Authority

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Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

Capital Assets and Related Prepaid Lease

In fiscal year 2012, BDA sold 2.5 acres of land to San Antonio Head & Neck Real Estate Partnership for net proceeds of \$905,174. In fiscal year 2013, Vanguard/Baptist Health Systems Exercised its option to purchase 20 acres of land adjacent to its Mission Trails Hospital for cash sum of \$4,083,138, net of fees. Also in fiscal year 2013, BDA sold 4 acres of Land to QPM Partners for net proceeds of \$1,382,845, net of fees. See accompanying notes to the financial statements for additional information concerning capital assets.

The property under operating leases and property not under lease at September 30, 2013 are as follows:

Table 3
Capital Assets

	<u>Under Operating Leases</u>	<u>Not Under Leases</u>	<u>Total</u>
Land	\$ -	\$ 4,500,178	\$ 4,500,178
Construction in progress	-	3,075,790	3,075,790
Roads	-	6,024,146	6,024,146
Infrastructure and improvements – depreciable	-	12,050,151	12,050,151
Facilities and other improvements	-	616,225	616,225
Buildings	42,903,105	18,673,445	61,576,550
Furniture, fixtures, and equipment	5,905,310	3,150,111	9,055,421
Software	-	321,953	321,953
	<u>48,808,415</u>	<u>48,411,999</u>	<u>97,220,414</u>
Less accumulated depreciation	<u>16,065,798</u>	<u>22,755,888</u>	<u>38,821,686</u>
Net capital assets	<u>\$ 32,742,617</u>	<u>\$ 25,656,111</u>	<u>\$ 58,398,728</u>

Investments

As of September 30, 2013, BDA had \$7,344,364 in investments that consisted entirely of money market funds (\$343,644 in 2012). See Note 2 to the financial statements for classification of investments on the balance sheets (reported as cash and cash equivalents on the balance sheets).

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Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

Debt

As of September 30, 2013, BDA had a balance of \$19,284,728 in outstanding debt. This is made up of a loan of \$12,180,226 from JPMorgan Chase for the DPT Laboratories construction project, San Antonio Water System ("SAWS") agreement of \$200,000 and three loans/grants from SECO totaling \$6,904,502. In 2012, BDA had a balance of \$18,339,692 in outstanding debt. This is made up of a loan of \$12,697,912 from JPMorgan Chase for the DPT Laboratories construction project, SAWS agreement of \$200,000 and three loans/grants from SECO totaling \$5,441,780. See the accompanying notes to the financial statements for additional information concerning long-term debt.

Risk Factors Influencing Future Operations

BDA's mission is to promote, develop, and sustain a vibrant community and catalyst for progressive economic development and prosperity. To enhance administrative efficiency, BDA has undergone a comprehensive evaluation of its internal strengths and weaknesses and external opportunities and threats. The following are factors influencing the future operations of BDA:

- BRAC – The most significant factor is the ability of BDA to renovate and commercially lease the facilities vacated by the Air Force.
- Tax Incremental Reinvestment Zone ("TIRZ") – Brooks City-Base was approved as a TIRZ, which may provide up to approximately \$55,000,000 to aid in the development of South New Braunfels Avenue Road Extension Project. The South New Braunfels Avenue Road Extension Project is estimated to cost a total of \$58,400,000, including financing costs. BDA will have to seek additional funding to assist in completing this project. The completion of this new thoroughfare will connect Brooks City-Base with the major roadway of Loop 410 South.
- Commercial development – Many of the buildings that were vacated by the Air Force are past their useful life. The liability or cost of demolition has an effect on the plan for commercial development.
- The economy – The real estate market has continued to be affected by the slow economic environment which, in turn, has impacted BDA's ability to market and lease available commercial space.
- Capital markets – The state of the capital markets has an effect on the cost of financing commercial projects.
- Leveraging assets – Leveraging assets will continue to play a major role in securing financing for future capital development projects.

Brooks Development Authority

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Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

(Unaudited)

Request for Information

This financial report is designed to provide a general overview of BDA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 3201 Sidney Brooks, San Antonio, Texas 78235.

Basic Financial Statements

Brooks Development Authority

San Antonio, Texas

Balance Sheets

September 30, 2013 and 2012

ASSETS AND DEFERRED OUTFLOW OF RESOURCES	2013	2012 (Restated)
Current Assets		
Cash and cash equivalents	\$ 13,526,123	\$ 6,666,004
Accounts receivable – net of allowance for doubtful accounts	1,281,098	1,666,703
Mezzanine notes receivable	3,909,510	3,909,510
Accrued interest	1,058,502	817,661
Prepaid expenses	128,963	97,854
Inventories	44,761	46,201
	<u>19,948,957</u>	<u>13,203,933</u>
Total current assets		
	<u>19,948,957</u>	<u>13,203,933</u>
Noncurrent Assets		
Capital assets – net	58,398,728	80,414,521
	<u>58,398,728</u>	<u>80,414,521</u>
Total noncurrent assets		
	<u>58,398,728</u>	<u>80,414,521</u>
Deferred Outflow of Resources		
Derivative instrument	2,593,557	3,871,515
	<u>2,593,557</u>	<u>3,871,515</u>
Total assets and deferred outflow of resources		
	<u>\$ 80,941,242</u>	<u>\$ 97,489,969</u>
	<u>\$ 80,941,242</u>	<u>\$ 97,489,969</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 1,677,518	\$ 1,144,011
Accrued expenses	113,556	52,045
Current portion of long-term liabilities	1,349,002	1,044,565
Unearned revenues	613,363	72,154
Tenant security deposits	160,833	140,219
	<u>3,914,272</u>	<u>2,452,994</u>
Total current liabilities		
	<u>3,914,272</u>	<u>2,452,994</u>
Long-Term Liabilities		
Unearned revenues	4,208,333	-
Derivative instrument liability	2,593,557	3,871,515
Long-term debt and other liabilities	18,071,907	17,409,593
	<u>24,873,797</u>	<u>21,281,108</u>
Total long-term liabilities		
	<u>24,873,797</u>	<u>21,281,108</u>
Total liabilities		
	<u>28,788,069</u>	<u>23,734,102</u>
Net Position		
Net investment in capital assets	39,314,000	62,274,829
Unrestricted	12,839,173	11,481,038
	<u>52,153,173</u>	<u>73,755,867</u>
Total net position		
	<u>52,153,173</u>	<u>73,755,867</u>
Total liabilities and net position		
	<u>\$ 80,941,242</u>	<u>\$ 97,489,969</u>
	<u>\$ 80,941,242</u>	<u>\$ 97,489,969</u>

The accompanying notes form an integral part of these statements.

Brooks Development Authority

San Antonio, Texas

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
Operating Revenues		
Rents – commercial leases	\$ 6,385,056	\$ 6,054,329
Fees and miscellaneous income	<u>1,145,506</u>	<u>1,277,668</u>
Total operating revenues	<u>7,530,562</u>	<u>7,331,997</u>
Operating Expenses		
Administration and support	3,614,869	4,333,722
Custodial and grounds upkeep	257,106	223,491
Environmental and safety	379,598	395,027
Repairs and maintenance	1,293,775	739,846
Utilities	993,425	1,089,607
Insurance	248,510	263,283
Property management and development	137,301	249,088
Depreciation	<u>4,155,130</u>	<u>4,934,981</u>
Total operating expenses	<u>11,079,714</u>	<u>12,229,045</u>
Operating loss	<u>(3,549,152)</u>	<u>(4,897,048)</u>
Nonoperating Revenues (Expenses)		
Investment income	23,471	16,492
Interest income	922,748	687,658
Interest expense	(972,772)	(871,923)
Gain on sale of land	5,465,983	915,174
Disposal/impairment of capital assets	(563,806)	(2,001,163)
Loss on roads and infrastructure transferred to City of San Antonio	(23,062,201)	(4,997,611)
Other – grants	43,884	99,962
Other revenue	-	14,000
Contributions from City of San Antonio	89,151	2,042,812
Reimbursements – tenant improvements	<u>-</u>	<u>724,937</u>
Total nonoperating revenues (expenses)	<u>(18,053,542)</u>	<u>(3,369,662)</u>
Change in net position	(21,602,694)	(8,266,710)
Net position at beginning of year – as restated (Note 20)	<u>73,755,867</u>	<u>82,022,577</u>
Net position at end of year	<u>\$ 52,153,173</u>	<u>\$ 73,755,867</u>

The accompanying notes form an integral part of these statements.

Brooks Development Authority
San Antonio, Texas

Statements of Cash Flows

Years Ended September 30, 2013 and 2012

	2013	2012 (Restated)
Cash Flows From Operating Activities		
Receipts from tenants and others	\$ 11,713,581	\$ 6,815,918
Payments to employees	(1,789,066)	(2,055,207)
Payments to suppliers for goods and services	<u>(4,547,422)</u>	<u>(9,402,689)</u>
Net cash provided by (used in) operating activities	<u>5,377,093</u>	<u>(4,641,978)</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of assets	(5,579,076)	(5,465,537)
Proceeds from sale of land	5,465,983	915,175
Payments on loans	(1,012,819)	(465,526)
Notes payable proceeds	1,957,855	474,355
Interest payments	<u>(973,804)</u>	<u>(937,290)</u>
Net cash used in capital and related financing activities	<u>(141,861)</u>	<u>(5,478,823)</u>
Cash Flows From Noncapital Financing Activities		
Contributions from local and federal governments	887,986	9,445,102
Other receipts	<u>31,521</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>919,507</u>	<u>9,445,102</u>
Cash Flows From Investing Activities		
Mezzanine note funding	-	(1,954,742)
Investment income	23,471	18,442
Interest income	<u>681,909</u>	<u>52,648</u>
Net cash provided by (used in) investing activities	<u>705,380</u>	<u>(1,883,652)</u>
Net increase (decrease) in cash and cash equivalents	6,860,119	(2,559,351)
Cash and cash equivalents at beginning of year	<u>6,666,004</u>	<u>9,225,355</u>
Cash and cash equivalents at end of year	<u>\$ 13,526,123</u>	<u>\$ 6,666,004</u>
Reconciliation of Operating Loss to Net Cash From Operating Activities		
Operating loss	\$ (3,549,152)	\$ (4,897,048)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	4,155,130	4,934,981
Changes in assets and liabilities:		
Tenants receivable	171,263	(282,370)
Housing management receivable	18	474,477
Other receivables	(726,401)	30,064
Prepaid expenses	(31,109)	128,974
Inventories	1,439	(3,567)
Accounts payable	1,363,262	(2,477,786)
Accrued expenses	(767,212)	(1,752,983)
Compensated absences	21,715	(58,470)
Unearned revenues	4,969,071	(738,250)
Unearned rents	(251,545)	-
Tenant security deposits	<u>20,614</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 5,377,093</u>	<u>\$ (4,641,978)</u>

The accompanying notes form an integral part of these statements.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

A. Reporting Entity

The Brooks Development Authority (“BDA”) is a Defense Base Development Authority, which is a special purpose political subdivision under Section 379B of the Local Government Code of Texas. BDA was created by a Resolution of the City Council of the City of San Antonio, approved on September 27, 2001. This resolution became effective on the tenth day after its passage, October 7, 2001.

Under the provisions of Section 379B the Local Government Code of Texas, the City of San Antonio was empowered to create a Defense Base Development Authority to accept title to Brooks Air Force Base (“Brooks AFB”) and engage in economic development of Brooks AFB, a military installation located within the City of San Antonio. Brooks AFB was sold and transferred to the community by the Secretary of the Air Force, pursuant to authority conferred by the Military Construction Act, Public Law No. 106-246, and is now known as Brooks-City Base.

BDA’s governing board consists of 11 members appointed by the City Council of the City of San Antonio. BDA is considered a discretely presented component unit of the City of San Antonio for purposes of financial reporting, in accordance with the provisions of Governmental Accounting Standards Board (“GASB”) Codification *Defining Financial Reporting Entity*.

Component Units Included

The financial statements of BDA include one component unit, the Brooks City-Base Foundation, Inc. (the “Foundation”). The Foundation is a nonprofit organization whose purpose is to benefit BDA exclusively. The Foundation meets the criteria of GASB Codification *Defining Financial Reporting Entity*; therefore, the financial statements of the Foundation are blended with those of BDA. As of September 30, 2013, the Foundation’s net position had a deficit balance of \$13,812 (deficit of \$13,755 in 2012).

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

The following are condensed statements of the Foundation:

Condensed Statements of Net Position

	September 30,	
	2013	2012
Total assets	\$ <u>59,323</u>	\$ <u>59,380</u>
Total liabilities	\$ 73,135	\$ 73,135
Total net assets	<u>(13,812)</u>	<u>(13,755)</u>
Total liabilities and net position	\$ <u>59,323</u>	\$ <u>59,380</u>

Condensed Statements of Revenues, Expenses, and Change in Net Position

	Years Ended September 30,	
	2013	2012
Operating revenues	\$ 16	\$ 14,021
Operating expenses	<u>73</u>	<u>(319,173)</u>
Change in net position	(57)	333,194
Net position at beginning of year	<u>(13,755)</u>	<u>(346,949)</u>
Net position at end of year	\$ <u>(13,812)</u>	\$ <u>(13,755)</u>

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Condensed Statements of Cash Flows

	Years Ended September 30,	
	2013	2012
Operating activities	\$ (57)	\$ 333,194
Noncapital financing activities	-	-
Capital and related financing activities	-	-
Cash flows from noncapital financing activities	<u>-</u>	<u>(312,444)</u>
Net increase (decrease) in cash and cash equivalents	(57)	20,750
Cash and cash equivalents at beginning of year	<u>52,160</u>	<u>31,410</u>
Cash and cash equivalents at end of year	<u>\$ 52,103</u>	<u>\$ 52,160</u>

B. Basis of Accounting

All BDA's activities are reported in a single proprietary (enterprise) fund and are prepared on the accrual basis of accounting and the economic resource measurement focus in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and qualifying expenditures have been incurred.

GASB Statements

In 2013, the following GASB Statements were adopted:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements ("SCAs"). The requirements of GASB Statement No. 60 improve financial reporting for both transferors and governmental operations,

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies (continued)

B. Basis of Accounting (continued)

GASB Statements (continued)

requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The adoption of GASB Statement No. 60 did not have an effect on BDA's previously reported net position.

GASB Statement No. 61, *The Financial Reporting Entity, Omnibus, An Amendment to GASB Statements No. 14 and 34*, improves financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. No changes in the reporting entity of BDA were identified as a result of the guidance provided in this statement.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to GASB's efforts to codify all sources of GAAP for state and local governments so that they derive from a single source. This effort brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. Prior to the issuance of this statement, BDA applied the pronouncements codified in this statement; therefore, the adoption of this statement had no impact on BDA in 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Net position now represents the residual of assets and deferred outflows of resources less liabilities and deferred inflows of resources. BDA's balance sheet at September 30, 2013 has been presented in accordance with the guidance provided by this statement.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies (continued)

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, noninterest-bearing demand deposit accounts and cash in interest-bearing demand accounts with commercial banks are considered cash equivalents. Short-term, highly liquid investments that are both readily convertible and that are invested in money market funds with original maturities of three months or less are "cash equivalents."

D. Accounts Receivable

Tenant, other receivables, and the allowance for doubtful accounts are shown separately on the financial statements. The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically-identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

E. Capital Assets and Depreciation

Property and equipment consist of the appraised fair market value of Brooks AFB property transferred to BDA by the United States Air Force (the "Air Force") on July 22, 2002. All other capital assets built or purchased by BDA are recorded on the basis of cost.

Depreciation of BDA's property that was transferred by the Air Force began July 22, 2002, and was computed on the remaining estimated useful life of property, as established by independent appraisers. This remaining life ranged from 3 to 45 years. Depreciation on newly purchased assets was based upon the below established depreciation lives as follows:

Buildings	10-30 years
Improvements	10-30 years
Roads	20 years
Furniture, fixtures, and equipment	5-10 years

BDA has a policy to capitalize expenditures for renewals and betterments in excess of \$10,000.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies (continued)

E. Capital Assets and Depreciation (continued)

BDA accounts for public infrastructure construction costs funded by grants and other revenue sources as construction in progress. Infrastructure assets (e.g., roads, sidewalks), which are completed and accepted by the City of San Antonio, are recorded as nonoperating expenses in the year the infrastructure is accepted. In the current year, infrastructure placed into service that has not yet been accepted by the City of San Antonio was transferred to roads and depreciated over their useful life.

F. Impairment of Long-Lived Assets

BDA reviews the carrying value of assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and effects of obsolescence, demand, competition, and other economic factors. BDA recorded \$504,336 of net impairment losses on vacated buildings that are no longer suitable to lease to commercial tenants (\$1,951,523 in 2012). The impairment is reported as a loss on disposal/impairment of capital assets in the financial statements. See Note 6.

G. Deferred Outflow of Resources

In addition to assets, the balance sheets will sometime report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow or resources (expense) until then. BDA only has one item that qualifies for reporting in this category.

H. Inventories

All inventories are valued at cost using the first-in, first-out method. Inventories are recorded an expense when consumed rather than when purchased.

I. Compensated Absences

BDA employees accrue vacation of 5 to 10 days. Employees can carry over 30 days of vacation and up to 30 days of vacation is payable at termination. The amount of vested vacation pay accrued as of September 30, 2013 and 2012 totaled \$136,181 and \$114,466, respectively.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies (continued)

J. Unearned Revenues

BDA receives rental income in advanced from customers. The balance in the unearned revenue represents these advances.

K. Risk Management

BDA is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health insurance claims. BDA carries commercial insurance for risk of loss that may arise from such losses. This insurance is for property, casualty, general liability, workers' compensation, and employee health.

L. In Kind Revenues/Expenses

In kind revenues/expenses are comprised of donated services, which are measured and recorded at their fair value.

M. Operating Revenues and Expenses

BDA's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its Brooks City-Base property. All other revenues and expenses are reported as nonoperating revenues and expenses.

N. Capital Contributions

Capital contributions consist of funds received through various grants to assist in the acquisition or construction of capital assets.

O. Comparative Data

Comparative data for the prior year has been presented to provide an understanding of the changes in financial position and operations.

P. Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies (continued)

Q. Use of Estimates

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

R. Restricted and Unrestricted Resources

When both restricted and unrestricted net position are available for use, it is BDA's policy to use restricted net position first, and then unrestricted net position as needed.

S. Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to BDA, but which will only be resolved when one or more future events occur or fail to occur. BDA's management and its legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against BDA or unasserted claims that may result in such proceedings, BDA's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred, and the amount of the liability can be estimated, then the estimated liability would be accrued in BDA's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

2. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	September 30,	
	2013	2012
Cash in bank or on hand	\$ 6,181,759	\$ 6,322,360
Cash equivalents:		
Money market funds:		
Fidelity Treasury Fund Daily Money Class	-	153,201
INVESCO Aim Treasury Portfolio	343,713	190,443
INVESCO Aim Government Agency Portfolio	<u>7,000,651</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 13,526,123</u>	<u>\$ 6,666,004</u>

Deposits

At September 30, 2013, the carrying amount of BDA's deposits totaled \$6,181,759 (\$6,322,360 in 2012) and the bank balance totaled \$6,265,977 (\$6,465,105 in 2012). BDA's cash deposits at September 30, 2013 and 2012 were covered by the Federal Deposit Insurance Corporation and by pledged collateral held by BDA's agent bank in BDA's name.

Investments

State statutes govern BDA's investment policies. State authorized investments include obligations of the United States Treasury and United States Government agencies, commercial paper, and repurchase agreements. BDA complies with applicable provisions of the State of Texas Public Funds Investment Act. Realized and unrealized gains and losses on investments are reported as investment income. Investments are valued at fair value.

Credit Risk – BDA's investment policy requires obligations of other governments be rated by a nationally recognized rating firm at not less than A, commercial paper be rated not less than A-I or P-I, and mutual funds be rated no less than AAA. BDA's three money market funds are rated Aaa (Moody's) and AAAM (Standard & Poor's).

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

2. Cash and Cash Equivalents (continued)

Investments (continued)

Interest Rate Risk – As required by state law and BDA’s investment policy, investments in obligations are limited to having maturities at the date of purchase of no more than 10 years. BDA also limits maturities of commercial paper to no more than 270 days from the date of issuance and requires that mutual funds have a weighted-average maturity of 90 days or fewer.

Concentration of Credit Risk – BDA places no limit on the amount it may invest in any one issuer. BDA’s total investments are held in money market funds. The money market funds hold only repurchase agreements and United States Treasury obligations.

3. Derivative Instrument

Interest Rate Swaps

Objective of the Interest Rate – To reduce the risk associated with possible projected interest rate increases, BDA entered into an interest rate swap agreement in connection with an adjustable rate promissory note in the amount of \$14,270,451. This note served as the permanent financing of construction costs associated with build-to-suit buildings for a BDA lessee. This loan is scheduled to mature on July 11, 2024, but will be modified to coincide with the related building lease agreement ending date.

Terms – The swap agreement and the related loan are scheduled to mature on July 11, 2024, and have been extended to match the lease agreement. The swap’s notional amount of \$14,851,837 matches the maximum principal amount of the permanent adjustable rate note that will be used to pay-off the interim construction loan. In 2008, the lease agreement was extended to a 20-year term and, accordingly, the permanent note was extended to a 20-year term, and the principal amount was increased to \$15,000,000.

During 2008, the original adjustable rate promissory note was revised to become a principal plus interest note. The interest rate is a floating rate, which is based on LIBOR plus 1.50%. As of September 30, 2013, LIBOR was 0.17% (0.19% in 2012) plus 1.50%, resulting in an overall rate of 1.67% (1.69% in 2012).

Fair Value – The swap had a negative fair value of \$2,593,557 and \$3,871,515 as of September 30, 2013 and 2012, respectively. The fair value was estimated using a proprietary valuation model developed by a counterparty.

The swap has been deemed an effective hedge and, therefore, qualifies for hedge accounting treatment. Since the fair value is negative, the fair value is recorded as a noncurrent liability. Changes in the swap’s fair value are recorded as a deferred outflow and included in deferred outflow of resources.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

3. Derivative Instrument (continued)

Interest Rate Swaps (continued)

Credit Risk – BDA was not exposed to credit risk on its outstanding swap at September 30, 2013 and 2012 because the swap had a negative fair value. However, should interest rates change and the swap becomes positive, BDA would be exposed to credit risk in the amount of the swap's fair value. The swap's counterparty has guaranteed all payments and is rated AAA by Standard & Poor's. The swap agreement provides no collateral by the counterparty.

Interest Rate Risk – The swap decreases BDA's exposure to interest rate risk.

Termination Risk – The swap was issued pursuant to the International Swap Dealers Association ("ISDA") Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. BDA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the related variable rate promissory note would no longer carry a synthetic interest rate.

Also, if at the time of termination the swap has a negative fair value, BDA would be liable to the counterparty for a payment equal to the swap's fair value. As of September 30, 2013 and 2012, the swap had negative fair values of \$2,593,557 and \$3,871,515, respectively.

Swap Payments and Associated Debt – Adjustable rate promissory note and related swap payments are effective July 11, 2006. Debt associated with the interest rate swap at September 30, 2013 and 2012 totaled \$12,180,226 and \$12,697,912, respectively.

BDA Collateral – Under the terms of the ISDA Master Agreement, BDA is required to provide credit support (collateral) for the swap in the form of cash collateral deposited with the counterparty. The completed buildings serve as collateral.

Brooks Development Authority

San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

4. Accounts Receivable

The allowance for doubtful accounts was based upon management's evaluation of the accounts receivable collectability. Accounts receivable consist of the following:

	September 30,	
	2013	2012
Accounts receivable – tenants	\$ 1,046,334	\$ 622,820
Less allowance for doubtful accounts	<u>(121,225)</u>	<u>(121,225)</u>
Total accounts receivable – tenants	925,109	501,595
Federal government	38,733	78,865
Local governments	52,592	772,844
State governments	-	16,479
Housing management	207,069	239,325
Other	<u>57,595</u>	<u>57,595</u>
Total accounts receivable	<u>\$ 1,281,098</u>	<u>\$ 1,666,703</u>

5. Mezzanine Notes Receivable

During fiscal year 2011, BDA executed a master lease and development agreement with NRP to develop a 15-acre parcel on Brooks-City Base into a multi-family project with 300 multi-family apartment units (the "Project"). BDA will own the Project and lease it to NRP with a net revenue participation component in the master lease. NRP agreed to construct the Project and secure senior debt nonrecourse financing for the Project with NRP contributing \$3,900,000 to the cost of the Project. Such contributions to be partially financed by a mezzanine loan from BDA in the amount of \$1,954,768, at an annual interest rate of 18%, and the remaining \$1,944,742 to be financed by NRP. However, on December 29, 2011, BDA acquired an additional mezzanine loan (NRP financing portion) in the amount of \$1,954,742 at an interest rate of 18%. Frost Bank agreed to lend NRP \$21,000,000 on senior nonrecourse debt financing for the construction of the Project and secured a lien on the 15-acre parcel.

At September 30, 2013 and 2012, the outstanding balance on these notes receivable totaled \$3,909,510. In July 2013, BDA received \$679,653 as payment on accrued interest leaving a balance of \$1,050,705 as accrued interest receivable (\$807,609 in 2012).

Brooks Development Authority
San Antonio, Texas

Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

6. Capital Assets

Changes in BDA's capital assets for the year ended September 30, 2013 consist of the following:

	<u>October 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>September 30, 2013</u>
Land	\$ 4,577,678	\$ -	\$ (77,500)	\$ -	\$ 4,500,178
Construction in progress	<u>1,100,215</u>	<u>5,769,922</u>	<u>-</u>	<u>(3,794,347)</u>	<u>3,075,790</u>
Capital assets not subject to depreciation	<u>5,677,893</u>	<u>5,769,922</u>	<u>(77,500)</u>	<u>(3,794,347)</u>	<u>7,575,968</u>
Roads	30,869,157	-	(24,845,011)	-	6,024,146
Infrastructure and improvements	10,245,576	-	-	1,804,575	12,050,151
Facilities and other improvements	616,225	-	-	-	616,225
Buildings	62,950,610	-	(1,406,014)	31,954	61,576,550
Furniture, fixtures, and equipment	7,120,079	32,172	(54,648)	1,957,818	9,055,421
Software	<u>321,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>321,953</u>
Total depreciable assets	<u>112,123,600</u>	<u>32,172</u>	<u>(26,305,673)</u>	<u>3,794,347</u>	<u>89,644,446</u>
Total capital assets	<u>117,801,493</u>	<u>5,802,094</u>	<u>(26,383,173)</u>	<u>-</u>	<u>97,220,414</u>
Accumulated depreciation:					
Roads	(7,017,764)	(542,134)	1,782,810	-	(5,777,088)
Infrastructure and improvements	(2,364,905)	(551,760)	-	-	(2,916,665)
Facilities and other improvements	(388,176)	(58,745)	-	-	(446,921)
Buildings	(26,575,103)	(2,485,305)	901,678	-	(28,158,730)
Furniture, fixtures, and equipment	(719,071)	(517,387)	36,129	-	(1,200,329)
Software	<u>(321,953)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(321,953)</u>
Total accumulated depreciation	<u>(37,386,972)</u>	<u>(4,155,331)</u>	<u>2,720,617</u>	<u>-</u>	<u>(38,821,686)</u>
Net capital assets	<u>\$ 80,414,521</u>	<u>\$ 1,646,763</u>	<u>\$ (23,662,556)</u>	<u>\$ -</u>	<u>\$ 58,398,728</u>

As of September 15, 2011, the Air Force had terminated its lease agreement with BDA. During fiscal year 2013 and 2012, management reviewed the vacated buildings and determined that a portion of the vacated buildings were not suitable to lease to commercial tenants and, therefore, certain buildings are considered permanently impaired. The net book value of these buildings totaled \$504,336 and were written off as of September 30, 2013 (\$1,951,523 in 2012). This permanent impairment is reflected as disposal/impairment of capital assets in the financial statements. As of September 30, 2013 and 2012, BDA also released to the City of San Antonio net book value of \$23,062,201 and \$4,997,611, respectively, in roads and infrastructure, which is also reflected as loss on road and infrastructure transferred to City of San Antonio in the financial statements.

Brooks Development Authority

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

6. Capital Assets (continued)

Changes in BDA's capital assets for the year ended September 30, 2012 consist of the following:

	<u>October 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>September 30, 2012</u>
Land	\$ 4,585,768	\$ -	\$ (8,090)	\$ -	\$ 4,577,678
Construction in progress	<u>20,462,598</u>	<u>5,314,334</u>	<u>-</u>	<u>(24,676,717)</u>	<u>1,100,215</u>
Capital assets not subject to depreciation	<u>25,048,366</u>	<u>5,314,334</u>	<u>(8,090)</u>	<u>(24,676,717)</u>	<u>5,677,893</u>
Roads	21,130,780	-	(5,648,460)	15,386,837	30,869,157
Infrastructure and improvements	10,039,237	-	-	206,339	10,245,576
Facilities and other improvements	616,225	-	-	-	616,225
Buildings	62,756,592	-	(2,769,856)	2,963,874	62,950,610
Furniture, fixtures, and equipment	909,865	157,355	(66,808)	6,119,667	7,120,079
Software	<u>321,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>321,953</u>
Total depreciable assets	<u>95,774,652</u>	<u>157,355</u>	<u>(8,485,124)</u>	<u>24,676,717</u>	<u>112,123,600</u>
Total capital assets	<u>120,823,018</u>	<u>5,471,689</u>	<u>(8,493,214)</u>	<u>-</u>	<u>117,801,493</u>
Accumulated depreciation:					
Roads	(6,390,958)	(1,277,654)	650,848	-	(7,017,764)
Infrastructure and improvements	(1,849,820)	(515,085)	-	-	(2,364,905)
Facilities and other improvements	(329,431)	(58,745)	-	-	(388,176)
Buildings	(24,659,631)	(2,733,760)	818,288	-	(26,575,103)
Furniture, fixtures, and equipment	(394,638)	(349,737)	25,304	-	(719,071)
Software	<u>(321,953)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(321,953)</u>
Total accumulated depreciation	<u>(33,946,431)</u>	<u>(4,934,981)</u>	<u>1,494,440</u>	<u>-</u>	<u>(37,386,972)</u>
Net capital assets	<u>\$ 86,876,587</u>	<u>\$ 536,708</u>	<u>\$ (6,998,774)</u>	<u>\$ -</u>	<u>\$ 80,414,521</u>

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

7. State Energy Conservation Office (“SECO”) Stimulus Program

During the fiscal year September 30, 2011, BDA became a participant in two loan programs from the SECO Stimulus Program in the amount of \$1,657,000 and \$3,780,000. The \$1,657,000 loan is for energy utilization improvements to portions of two existing buildings (Buildings 160 and 170), and the replacement of the heating, ventilation, and air conditioning (“HVAC”) systems associated with the buildings. The \$3,780,000 loan is for upgrades to Buildings 150, 532, 570, and 775 for the installation of roof top solar panels and the replacement of the HVAC system. In May 2012, BDA was awarded a third loan from SECO in the amount of \$2,400,000, which was subsequently reduced to \$1,662,230 for energy savings upgrades to Buildings 155, 502, 704, 754, and 940 and to 163 residential housing units. In December 2012, the third loan was increased to \$1,952,932. BDA received the first two loans at 2% interest with a term of ten years and the third note at 3% interest and a term of eight years utilizing the energy savings realized from the upgrades. As of September 30, 2012, BDA has expended \$1,657,000 of the \$1,657,000 loan, \$3,664,226 of the \$3,780,000 loan, and \$16,480 of the \$1,952,932 loan. Projects funded by the first two loans were completed in January 2012, and the first loan payments on both loans are due on November 30, 2012 in the amounts of \$46,565 and \$103,419, respectively. During the fiscal year September 30, 2013, projects funded by the third loan were completed in May 2013 and July 2013 and all loan proceeds were expended plus accrued interest for a total of \$1,974,334. The first payment on the third loan is due in November 2013. As of September 30, 2013 and 2012, the combined outstanding balance of these three loans totaled \$6,904,502 and \$5,441,780, respectively.

8. Note Payable – JPMorgan Chase

The purpose of this loan was to provide funding for the construction of a built-to-suit facility for a lessee of BDA. In 2008, the promissory note, dated November 28, 2006, was revised to become a principal plus interest note. The interest portion of the note will vary monthly between the interest rate swap (Note 3) settlement payment and the floating interest portion of the note. This revision will assure that principal plus interest payments on the note plus the interest rate swap settlement payments will total approximately \$115,500. As interest rates fell during 2008, the interest rate swap settlement payments increased significantly and, when combined with fixed monthly note payment of \$115,544, the total payment amounts exceeded the monthly lease payment. The original interest rate swap agreement was designed to hedge against rising interest rates. This revised note will ensure that such funding deficits will not occur going forward by assuring that the note payment and the interest rate swap settlement payments will total approximately \$115,500 monthly. As of September 30, 2013 and 2012, BDA owed \$12,180,226 and \$12,697,912, respectively, to JPMorgan Chase.

Brooks Development Authority

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

9. Utility Upgrade Agreements

As part of the property transfer from the Air Force, BDA agreed to make upgrades to the utility infrastructure. On July 22, 2002, BDA transferred the water and wastewater infrastructure to the San Antonio Water System ("SAWS"). As part of the agreement for the transfer of the utilities to SAWS, BDA agreed to make the required infrastructure improvements with a portion of the funding coming from BDA. The significant term of this agreement is as follows.

SAWS Agreement

BDA agreed to pay \$3,500,000 in water and wastewater upgrades to SAWS. This agreement does not accrue interest and is payable in eight installments of \$437,500. The liability to SAWS at September 30, 2013 and 2012 totaled \$200,000.

10. Long-Term Liabilities

Long-term debt activity for the year ended September 30, 2013 is as follows:

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2013</u>	<u>Due in One Year</u>
Notes payable:					
JPMorgan Chase	\$ 12,697,912	\$ -	\$ 517,686	\$ 12,180,226	\$ 555,086
SECO I and II	5,425,300	-	495,133	4,930,167	505,110
SECO III	16,480	1,957,855	-	1,974,335	207,097
Total notes payable	<u>18,139,692</u>	<u>1,957,855</u>	<u>1,012,819</u>	<u>19,084,728</u>	<u>1,267,293</u>
Other long-term liabilities:					
SAWS agreement	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
Total utility upgrades liability	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
Compensated absences	<u>114,466</u>	<u>40,769</u>	<u>19,054</u>	<u>136,181</u>	<u>81,709</u>
Total long-term liabilities	<u>\$ 18,454,158</u>	<u>\$ 1,998,624</u>	<u>\$ 1,031,873</u>	<u>\$ 19,420,909</u>	<u>\$ 1,349,002</u>

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

10. Long-Term Liabilities (continued)

Long-term debt activity for the year ended September 30, 2012 is as follows:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due in One Year
Notes payable:					
JPMorgan Chase	\$ 13,163,438	\$ -	\$ 465,526	\$ 12,697,912	\$ 517,686
SECO I & II	4,967,425	457,875	-	5,425,300	495,133
SECO III	-	16,480	-	16,480	-
Total notes payable	18,130,863	474,355	465,526	18,139,692	1,012,819
Other long-term liabilities:					
SAWS agreement	200,000	-	-	200,000	-
Total utility upgrades liability	200,000	-	-	200,000	-
Compensated absences	172,936	15,349	73,819	114,466	31,746
Total long-term liabilities	\$ 18,503,799	\$ 489,704	\$ 539,345	\$ 18,454,158	\$ 1,044,565

The principal and interest payments on the notes payable for the next five years and in five year increments thereafter are summarized below:

Years Ending September 30,	Principal	Interest	Total
2014	\$ 1,267,293	\$ 625,517	\$ 1,892,810
2015	1,323,858	586,185	1,910,043
2016	1,381,587	544,847	1,926,434
2017	1,446,930	501,337	1,948,267
2018	1,514,035	455,471	1,969,506
2019-2023	7,716,570	1,509,666	9,226,236
2024-2027	4,434,455	333,467	4,767,922
	\$ 19,084,728	\$ 4,556,490	\$ 23,641,218

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

11. Reinvestments Zone Agreement

On July 18, 2009, BDA entered into an amended development agreement with the City of San Antonio, Texas (the "City") and the Board of Directors of Reinvestment Zone Sixteen. Under this agreement, BDA is to construct the New Braunfels Infrastructure Project (Phases I through V) and other street public improvements, as set forth on the final project plan and financing plan. The project costs will be paid with available tax increment funds. Available tax increment funds are defined under the agreement as the tax increments contributed by the City to a fund established and maintained by the City for the purpose of implementing the projects of the Tax Incremental Reinvestment Zone (the "TIRZ"), less the City's administrative costs (limited to \$420,000), and any debt obligation of the City for debt dedicated to BDA's development of public improvements within the TIRZ. The City issued a series of certificates of obligation to be used by BDA for this project. The City will make available \$10,455,000 in certificates of obligation, of which \$2,500,000 will not be reimbursed via tax increment. The agreement ends on the date which is the earlier to occur of the following: (i) the date BDA receives final payment for completing the Project; (ii) the date this agreement is terminated, as provided in Article X or III of the agreement; or (iii) September 30, 2029. If there are not sufficient available tax increment funds on hand 60 days prior to each semiannual debt service payment date to pay the City's debt incurred and dedicated to BDA's development of public improvements within the TIRZ, BDA will be required to make up the shortfall within 30 days, upon notice by the City of such shortfall, to the extent BDA has available funds. Should BDA have exhausted its resources and a shortfall remains, BDA agrees in good faith to utilize all funding options available and permitted by law to cure such a shortfall. The total payment to BDA under the agreement will not exceed \$55,464,027. This payment is not intended to cover all BDA's costs incurred in connection with performing its obligations under this agreement.

Under the agreement, BDA shall bear all risks associated with payments from the City, including, but not limited to pre-development agreement costs, incorrect estimates of tax increment, changes in tax rates or tax collections, changes in state law or interpretations thereof, changes in market or economic conditions impacting the project, changes in interest rates or capital markets, changes in building and development code requirements, changes in City policy, default by tenants, unanticipated effects covered under legal doctrine of force majeure, and/or other unanticipated factors. BDA recognizes that any liability or obligation incurred in anticipation of payments from City debt proceeds without a Board-approved phase development plan will be BDA's responsibility. BDA is also responsible for the maintenance of all improvements until acceptance by the City and for one year after completion. Also, upon acceptance of a street or drainage improvement for maintenance by the City, BDA or its contractor shall deliver to the City a one-year extended warranty bond, naming the City as the obligee. The cost of repair, replacement, and maintenance for defects discovered during the first year after completion shall be paid by BDA, its contractor, or the bond company and shall not be paid out of the TIRZ fund.

During the years ended September 30, 2013 and 2012, BDA incurred \$89,151 and \$2,024,812, respectively, in project costs. These costs are reported as part of capital assets, subject to depreciation. Cumulative to date, as of September 30, 2013 and 2012, BDA has been reimbursed for \$666,343 and \$6,189,222, respectively, of project costs.

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

12. Bexar County Grant

In 2008, BDA entered into an agreement with Bexar County (the "County") where the County will reimburse BDA for certain capital expenditures. The reimbursement will be made from certain ad valorem taxes collected from a defined area exceeding the base year (January 1, 2008) value in the defined area. Based on the grant agreement, the County will pay BDA the lesser of \$220,000 or the actual amount of ad valorem taxes received by the County for qualifying capital expenditures made for a period of 15 years not to exceed \$3,300,000 starting in 2012. At September 30, 2011, BDA has incurred up to \$3,300,000 in what management believes to be qualifying expenditures for this grant. This amount has not been recognized as revenue in the financial statements since the County is not under any obligation to pay this grant until the related ad valorem taxes have been collected. Revenue will be recognized in future years equal to the amount of qualifying expenditures and ad valorem taxes collected not to exceed \$3,300,000. There were no revenues recognized in years 2013 and 2012.

13. Operating Leases

BDA leases Brooks City-Base property to commercial tenants under cancellable leases ranging from 1 to 50 years. Leased property consists of commercial rental realty and ground leases. For the years ended September 30, 2013 and 2012, BDA received \$6,385,056 and \$6,054,329, respectively, from rents under its operating leases as follows:

	Year Ended September 30, 2013		Year Ended September 30, 2012	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Rent – commercial leases	\$ <u>6,385,056</u>	85%	\$ <u>6,054,329</u>	83%
Total rents	6,385,056		6,054,329	
Fees and miscellaneous income	<u>1,145,506</u>	15%	<u>1,277,668</u>	17%
Total income	<u>\$ 7,530,562</u>	100%	<u>\$ 7,331,997</u>	100%

Brooks Development Authority

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

13. Operating Leases (continued)

The carrying value of BDA property held for the above operating leases is as follows:

	September 30,	
	2013	2012
Buildings	\$ 42,903,105	\$ 47,638,617
Furniture, fixtures, and equipment	<u>5,905,310</u>	<u>4,812,616</u>
	48,808,415	52,451,233
Less accumulated depreciation	<u>16,065,798</u>	<u>16,188,135</u>
Total	<u>\$ 32,742,617</u>	<u>\$ 36,263,098</u>

At September 30, 2013, future lease revenues from noncancellable leases for each of the five succeeding fiscal years and five-year increments thereafter are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 6,245,681
2015	6,020,681
2016	5,331,075
2017	780,597
2018	793,827
2019-2023	15,495,602
2024-2028	9,572,275
2029-2033	2,158,584
2034-2104	<u>14,209,661</u>
	<u>\$ 60,607,983</u>

14. Major Customer

DPT Laboratories occupies office space, warehouse, and lab space in a build-to-suit facility, which was financed by a construction loan with JPMorgan Chase. Lease payments from DPT serve as debt service payments which, for the years ended September 30, 2013 and 2012, totaled \$1,386,525. DPT also pays a common area maintenance fee, which totaled \$97,815 in 2013 and 2012.

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

15. Commitments and Contingencies

A. Grant Funding

BDA participated in various state, city, and county grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent BDA has not complied with the rules and regulations governing the grants, refunds of money received may be required. The amount, if any, of expenditures which may be disallowed by grantor agencies cannot be determined at this time, although BDA's management expects such amounts, if any, to be immaterial to the financial statements.

B. Pending Lawsuits and Claims

From time to time, BDA is a defendant in lawsuits or claims filed against it. It is the opinion of management that the outcome of these lawsuits or claims will not have a material adverse effect on BDA's financial position or operations.

C. Construction Contracts

BDA is committed under various construction contracts or acquisition of capital assets. Changes in commitments occurred as follows:

	<u>Contract Amounts</u>	<u>Beginning Balance</u>	<u>Payments</u>	<u>Ending Balance</u>
2013	\$ 9,499,017	\$ 324,076	\$ 3,827,323	\$ 5,995,770
2012	2,556,315	6,123,092	5,799,016	324,076

D. Environmental Issues

BDA is aware of various existing conditions that will require environmental remediation to facilitate development. The Air Force remains responsible for the remediation of any environmental contamination resulting from its past activities, whether it is known to exist or is currently undiscovered. Since the Air Force remains responsible for these matters, it is the opinion of management the effect, if any, would be immaterial to the financial statements.

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

16. Unearned Revenues

Unearned revenues consist of the following:

	September 30,	
	2013	2012
The Foundation	\$ 30,929	\$ 30,929
Unearned tenant rent	4,789,679	41,225
Other	<u>1,088</u>	<u>-</u>
	<u>\$ 4,821,696</u>	<u>\$ 72,154</u>

In February 2013, BDA received \$5,000,000 from Nexolon America, LLC ("Nexolon") as a one-time prepayment for a lease with option to purchase 85.86 acres of land upon which Nexolon will construct a photovoltaic solar panel manufacturing facility. Nexolon will invest more than \$115,000,000 in real and personal property to construct and establish the facility made up of several buildings. Nexolon will conduct the design, engineering, and construction of the facility and anticipates completing construction of the manufacturing facility in the second quarter of 2014. BDA has designated this project as a redevelopment project under Section 379B.009 of the Texas Local Government Code. The lease agreement with BDA is for a term of ten years. Upon completion of the construction, the facility will become the property of BDA, and BDA will continue to own the land and facility during the term of the lease until title is transferred. Upon substantial completion of the facility, Nexolon will commence making additional annual rent payments of \$275,000 to BDA, plus an annual consumer price index increase not to exceed 2%, to be paid during the entire term of the lease. BDA agrees to provide Nexolon the option to request transfer of title to the land and improvements at any time during, or at the end of the ten-year lease term, with the understanding that such real property, once owned by Nexolon, will then be subject to full taxation. As of September 30, 2013, BDA has recognized \$291,667 as lease revenue and the remaining balance of \$4,708,333 is reflected as unearned rent.

17. Deferred Compensation Plan

The BDA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all regular BDA employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. BDA makes a two-for-one matching contribution in an amount equal to 200% of the employee's deferred salary reduction, up to a maximum of 6% participant contribution. BDA's contributions are fully vested after five years of continuous service. Employees' contributions vest immediately. Employees receive credit for their contribution, as well as BDAs, and benefits are based on the total assets owned in the employee's individual accounts.

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

17. Deferred Compensation Plan (continued)

All employees may defer amounts up to the maximum allowed by the Internal Revenue Service each year. All assets and liabilities are in a trust for the exclusive benefit of the participants and their beneficiaries. These plans are not included in BDA's financial statements. BDA and employees' contributions for the fiscal years ended September 30, 2013 and 2012 totaled \$220,409 and \$297,374, respectively.

18. NRP Management Agreement

On July 19, 2010, BDA signed an agreement with NRP, in which NRP will serve as manager of the 163 single-family homes and duplexes, which comprise the Heritage Project, formerly military residential housing. The initial term is through September 30, 2011 with four one-year renewable options. Effective October 1, 2011, the contract was amended to allow BDA, at the end of every month, to sweep all collected funds in excess of \$50,000 into BDA's general operating account. At September 30, 2013, BDA has received \$1,284,760 (\$1,094,231 in 2012) of collected funds and recorded a receivable of \$95,687 (\$95,705 in 2012) for total revenue of \$1,380,447 (\$1,189,936 in 2012). Additionally, and in accordance with the agreement, BDA has recorded a performance bonus payable to NRP in the amount of \$14,117 (\$142,273 in 2012). Net revenue from this agreement totaled \$1,366,330 for the year ended September 30, 2013 (1,047,663 in 2012).

19. Subsequent Events

On August 29, 2013, BDA signed a contract with Somerset Academy, Inc., dba Brooks Academy of Science and Engineering (the "Academy") to sell approximately 20 acres of land, with an option for an additional 4 acres, to the Academy for future expansion of the its campus for an estimated price of \$3,049,200. The closing date has not occurred, but is expected to be finalized in April 2014.

BDA is in the process of selling the leasehold interest in The Landings Apartments. BDA received eight bids and is in negotiations to consummate the transaction with the closing date on The Landings Apartments expected to occur in May 2014.

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Notes to the Financial Statements

Years Ended September 30, 2013 and 2012

20. Prior Period Adjustment

On May 31, 2011, BDA leased a tract of land located on Brooks City-Base in order to construct a 300 unit apartment project on this premises. The monthly lease amount is calculated based on the value of the land of \$4,100,000 times 8% per annum and divided by 12. The rent payments start on the first day of every month that there is positive cash flow. The term of the lease is for a period of 50 years from the commencement date of the lease. BDA did not record the rental income earned related to this lease; therefore, an adjustment was made to the September 30, 2012 financial statements to increase rents income by \$328,000, net position at the beginning of year by \$109,333, and account receivables by \$437,333.

	<u>Previously Reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Balance Sheet			
Accounts receivable	\$ 1,229,370	\$ 437,333	\$ 1,666,703
Unrestricted net position	11,043,705	437,333	11,481,038
Statement of Revenues, Expenses and Changes in Net Position			
Rents	\$ 5,726,329	\$ 328,000	\$ 6,054,329
Net position at the beginning of the year	81,913,244	109,333	82,022,577

Other Supplementary Information

Brooks Development Authority

San Antonio, Texas

Combining Schedule of Revenues, Expenses, and Changes in Net Position – Operations and Park Management Information

Year Ended September 30, 2013

	<u>BDA Rents and Operations</u>
Operating Revenues	
Rents – commercial leases	\$ 6,385,056
Fees and miscellaneous income	<u>1,145,506</u>
Total operating revenues	<u>7,530,562</u>
Operating Expenses	
Administration and support	3,569,985
Custodial and grounds upkeep	257,106
Environmental and safety	379,598
Repairs and maintenance	1,293,775
Utilities	993,425
Insurance	248,510
Property management and development	137,301
Depreciation	<u>4,155,130</u>
Total operating expenses	<u>11,034,830</u>
Operating loss	<u>(3,504,268)</u>
Nonoperating Revenues (Expenses)	
Investment income	23,471
Interest income	922,748
Interest expense	(972,772)
Gain on sale of land	5,465,983
Disposal/impairment of capital assets	(563,806)
Loss on roads and infrastructure transferred to City of San Antonio	(23,062,201)
Other – grants	-
Contributions from City of San Antonio	<u>-</u>
Total nonoperating revenues (expenses)	<u>(18,186,577)</u>
Change in net position	<u>\$ (21,690,845)</u>

See accompanying independent auditor's report.

<u>City of San Antonio Grants</u>	<u>Office of Economic Adjustment Grants</u>	<u>City of San Antonio TIRZ #16</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 6,385,056
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,145,506</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>7,530,562</u>
-	43,884	1,000	3,614,869
-	-	-	257,106
-	-	-	379,598
-	-	-	1,293,775
-	-	-	993,425
-	-	-	248,510
-	-	-	137,301
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,155,130</u>
<u>-</u>	<u>43,884</u>	<u>1,000</u>	<u>11,079,714</u>
<u>-</u>	<u>(43,884)</u>	<u>(1,000)</u>	<u>(3,549,152)</u>
-	-	-	23,471
-	-	-	922,748
-	-	-	(972,772)
-	-	-	5,465,983
-	-	-	(563,806)
-	43,884	-	(23,062,201)
<u>-</u>	<u>-</u>	<u>89,151</u>	<u>43,884</u>
<u>-</u>	<u>43,884</u>	<u>89,151</u>	<u>89,151</u>
<u>-</u>	<u>43,884</u>	<u>89,151</u>	<u>(18,053,542)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,151</u>	<u>\$ (21,602,694)</u>

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