Brooks Development Authority

San Antonio, Texas

Financial Statements and Independent Auditor's Report

September 30, 2014 and 2013

Brooks Development Authority

San Antonio, Texas

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Financial Section

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PS&Co.

Padgett Stratemann

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, 2014 and 2013, 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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 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.

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

San Antonio, Texas
December 19, 2014

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, 2014 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

- The assets of BDA exceeded its liabilities at the close of 2014 by $59,047,038. Of this amount, $18,432,893 is considered unrestricted and may be used to meet ongoing financial obligations. The balance of net position, $40,614,145, is the net amount invested in capital assets.

- The BDA's total net position increased by $6,893,865 from fiscal year 2013. This increase is primarily due to the sale of the Landings I Apartments, which is a gain on sale of capital assets, and is included in nonoperating revenues totaling $10,388,383. The sale of the Landing I Apartments allowed BDA to designate some of the sales proceeds as board-designated funds to cover anticipated future shortfalls. Additionally, BDA wrote off net book value of $57,626 in buildings, which were considered permanently impaired. In fiscal year 2013, 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 roads and infrastructure. Additionally, BDA wrote off net book value of $504,336 in buildings, which were considered permanently impaired.

- The primary source of BDA's operating revenue of $8,240,475 stems from its commercial leases; this year totaling $7,011,484, or 85% of total operating revenue. In addition, BDA realized $1,228,991 from common area maintenance ("CAM") fees, utility reimbursements, and other miscellaneous income. BDA continues to increase its commercial leases, increasing them by 10% over fiscal year 2013. BDA has realized $1,396,916 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, 2014, BDA has recognized $500,000 as ground lease revenue related to the Mission Solar Manufacturing Facility, which was completed in July 2014. Fiscal year 2013 represents the second year BDA operated without Air Force lease revenue. Commercial leases increased by 5% in fiscal year 2013 after a drop of 43% in fiscal year 2012.

Basic Financial Statements

The basic financial statements are comprised of the statement of financial position, 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 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 statements of net position include all BDA's assets, deferred outflow of 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, and a grant from Bexar County for reimbursement of capital expenditures, as well as interest expense.

The statements of cash flows report cash inflows and outflows and net changes in cash resulting from operating, 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.

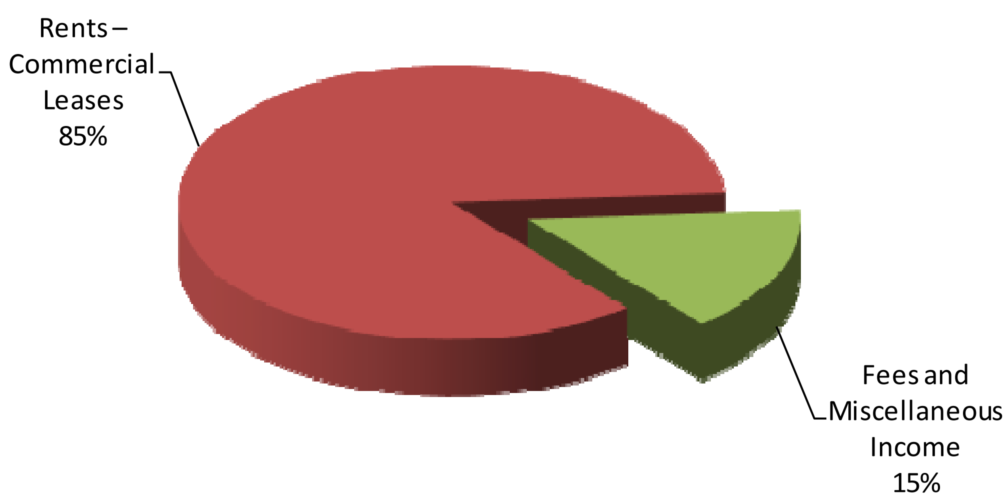
Financial Analysis

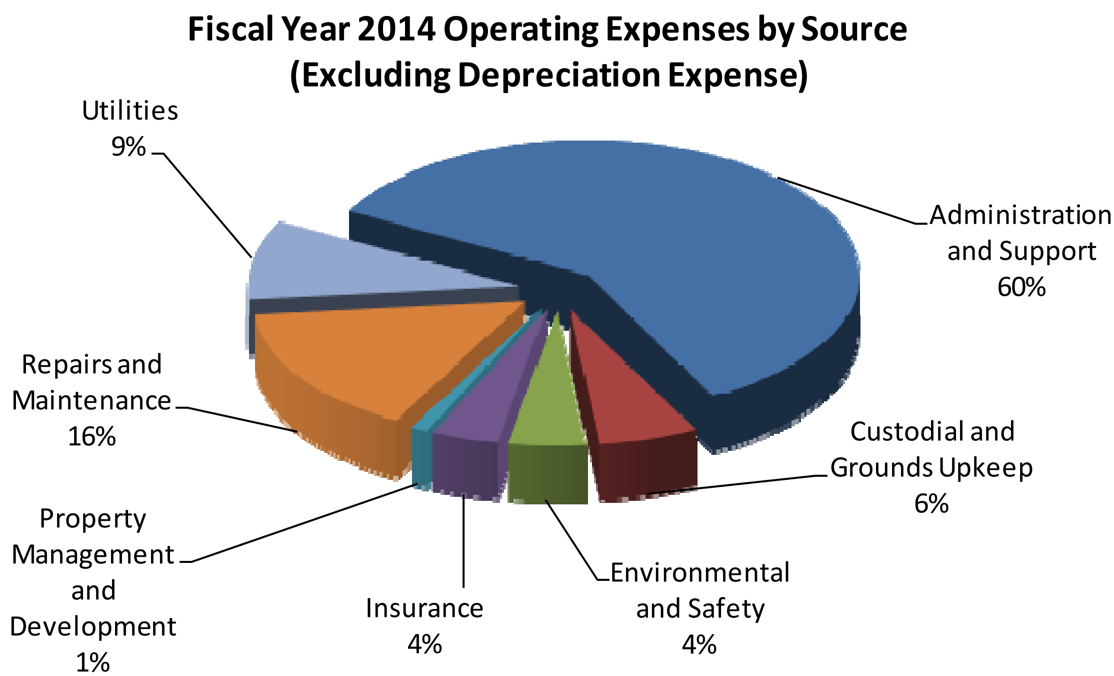
BDA's total fiscal year 2014 operating revenues increased by 9% over fiscal year 2013 as a result of BDA's effort to continue to increase its commercial lease revenues after the Air Force lease vacated in fiscal year 2011. Commercial lease revenue increased by 10% over last year going from $6,385,056 in fiscal year 2013 to $7,011,484 in fiscal year 2014. In 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.

Operating expenses, excluding depreciation, increased from $6,924,584 to $8,923,679, or by 29% from fiscal year 2013. Most major operating cost categories experienced an increase over last year with the exception of utilities, property management and development, and depreciation. These increases are due mainly to the new direction that leadership is undertaking which includes an aggressive marketing program to promote Brooks City Base, plus an increase in staff, increase in outreach, travel, tenant relations, improvements to campus appearance, and EB-5 regional center implementation and operation. In 2013, operating expenses, excluding depreciation, decreased from $7,294,064 to $6,924,584, or by 5% from 2012. Most major operating cost categories experienced a decrease over last year with the exception of custodial and grounds upkeep and repairs and maintenance.

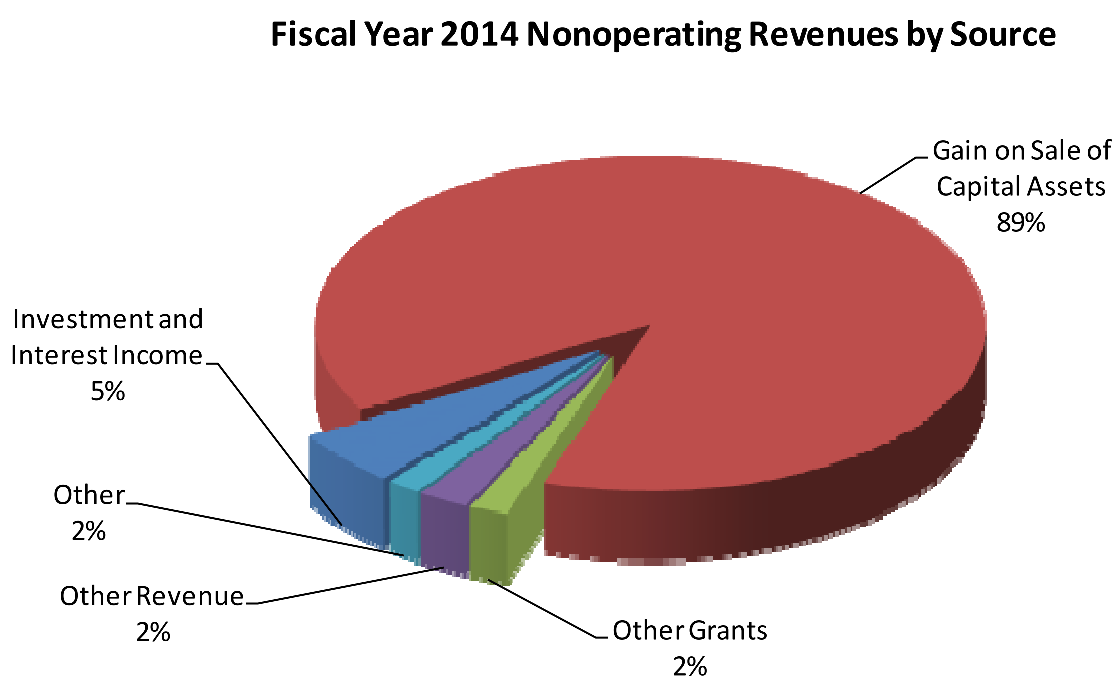
Nonoperating activities reflect a surplus of $10,680,912, which is caused primarily by the sale of the Landings I Apartments for $10,388,383. Other nonoperating items include disposal/impairment of capital assets of $65,695, $220,000 from the Bexar County 381 grant, interest expense of $984,282, interest income of $618,019, other revenues of $283,600, $269,600 related to the settlement on repair cost of DPT's warehouse floor, and other contributions of $14,000. There were also capital contributions of $750,000 from Mission Solar for its contribution for the cost of infrastructure improvements related to its manufacturing facility. In 2013, nonoperating activities reflect a deficit of $18,053,542, which is caused primarily by the loss on roads and infrastructure transferred to the City of San Antonio of $23,062,201. Other nonoperating items include gain on sale of capital assets totaling $5,465,983, disposal/impairment of capital assets totaling $563,806, $89,151 from contributions from the City of San Antonio, interest expense totaling $972,772, interest income totaling $922,748, and other grants totaling $43,884.

Fiscal Year 2014 Operating Revenues by Source





Fiscal Year 2014 Operating Expenses by Source (Excluding Depreciation Expense)
Utilities 9%
Administration and Support 60%
Repairs and Maintenance 16%
Custodial and Grounds Upkeep 6%
Property Management and Development 1%
Insurance 4%
Environmental and Safety 4%



Fiscal Year 2014 Nonoperating Revenues by Source
Gain on Sale of Capital Assets 89%
Investment and Interest Income 5%
Other 2%
Other Revenue 2%
Other Grants 2%

Table 1
Condensed Balance Sheet Information

	2014	2013	2012 (Restated)
Current assets	$ 24,857,337	$ 19,948,957	$ 13,203,933
Capital assets	63,031,578	58,398,728	80,414,521
Deferred outflow of resources	2,396,709	2,593,557	3,871,515
Total assets and deferred outflow of resources	$ 90,285,624	$ 80,941,242	$ 97,489,969
Current liabilities	$ 3,944,816	$ 3,914,272	$ 2,452,994
Noncurrent liabilities	27,293,770	24,873,797	21,281,108
Total liabilities	31,238,586	28,788,069	23,734,102
Net position:			
Net investment in capital assets	40,614,145	39,314,000	62,274,829
Unrestricted	18,432,893	12,839,173	11,481,038
Total net position	59,047,038	52,153,173	73,755,867
Total liabilities and net position	$ 90,285,624	$ 80,941,242	$ 97,489,969

BDA's net position increased $6,893,865 from $52,153,173 to $59,047,038 (Table 2) resulting from a combination of net operating loss of $4,537,047, gain on sale of capital assets of $10,388,383, net nonoperating revenues of $358,224, and disposal/impairment of capital assets of $65,695. In 2013, 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, gain on sale of capital assets of $5,465,983, 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.

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

	2014	2013	2012 (Restated)
Operating Revenues			
Rents – commercial leases	$ 7,011,484	$ 6,385,056	$ 6,054,329
Fees and miscellaneous income	1,228,991	1,145,506	1,277,668
Total operating revenues	8,240,475	7,530,562	7,331,997
Operating expenses	8,923,679	6,924,584	7,294,064
Depreciation	3,853,843	4,155,130	4,934,981
Total operating expenses	12,777,522	11,079,714	12,229,045
Operating loss	(4,537,047)	(3,549,152)	(4,897,048)
Nonoperating Revenues (Expenses)			
Gain on sale of capital assets	10,388,383	5,465,983	915,174
Disposal/impairment of capital assets	(65,695)	(563,806)	(2,001,163)
Loss on roads and infrastructure transferred to City of San Antonio	-	(23,062,201)	(4,997,611)
Contributions	-	89,151	2,042,812
Nonoperating revenues (expenses) – net	358,224	17,331	671,126
Total nonoperating revenues (expenses) – net	10,680,912	(18,053,542)	(3,369,662)
Capital contributions	750,000	-	-
Change in net position	6,893,865	(21,602,694)	(8,266,710)
Net position at beginning of year – as restated	52,153,173	73,755,867	82,022,577
Net position at end of year	$ 59,047,038	$ 52,153,173	$ 73,755,867

Other Key Initiatives

The following are significant events that impacted BDA in fiscal year 2014. BDA continues to undertake initiatives to transform the former Air Force base into the vibrant Brooks City Base.

Policy Development/Governance

- In December 2013, BDA executed a contract with Land Analytics, LLC to perform the appraisal of the 789 acres of land and various buildings.

- In January 2014, BDA executed a contract with Live Oak Gottesman to provide Master Development Services.

- In March 2014, BDA negotiated and executed a contract with Beaty Palmer Architects for the design and construction services for the Brooks Linear Park and Multi-Use Pathways Project (Phase I).

- In May 2014, BDA negotiated and executed a funding agreement with the City of San Antonio totaling $2,940,000 for the design and construction of Phase 1 of the Brooks Linear Park and Multi-Use Pathways Project.

- In June 2014, BDA negotiated and executed a funding agreement with the City of San Antonio totaling $245,000 for support of the restoration of Hangar 9.

- In July 2014, BDA approved the Development Principles and Land Use Plan that will guide the development of the Brooks campus.

Land Sales and New Leases

- In November 2013, BDA negotiated and executed a development agreement with 210 Development Group, LLC for the remodel of Buildings 718 and 719. The overall project will be 86 residential units, made up of 54 remodeled residential units and construction of 32 new residential units on 4.2 acres.

- In December 2014, BDA negotiated and executed a 60-month lease amendment to the lease agreement with the City of San Antonio SAPD K-9 unit reducing the original 5 acres of outside area to 1.64 acres at a rate of $1.00 per year.

- In December 2014, BDA negotiated and executed a ten-month lease with the City of San Antonio Animal Care Services for Buildings 1014 and 1017 and approximately 1.94 acres.

- In March 2014, BDA negotiated and executed all documents related to the assignment of the lease on the Landings I Apartments to Pensam Capital, Inc. for approximately $39,500,000.

- In March 2014, BDA negotiated and executed a 24-month lease for Building 1195 with DPT Laboratories on an as-is basis at the rate of $2,500 per month, or $30,000 annually.

- In May 2014, BDA negotiated and executed a Memorandum of Understanding with the University of the Incarnate Word ("UIW") to reserve up to 7 buildings and up to 23 acres of land on the "The Hill" for a medical school campus.

- In May 2014, BDA negotiated and executed an application for a hotel franchise; negotiated and executed agreements with an architect and engineering design team, a consultant for contract/ agreement development; and extended the Memorandum of Understanding with Phoenix Hospitality Group – McClure Hagee Management for an amount not to exceed $205,000.

- In June 2014, BDA negotiated a 12-month second lease renewal for Buildings 159, 160, and 170 with Wyle Laboratories, Inc. for a total annual extended base rental amount of $362,500, plus $69,750 annual CAM, for a total annual amount of $432,250.

- In July 2014, BDA executed an amendment with Bridge PTS where tenants will begin paying CAM immediately, and future rent payments will be adjusted based on revenues and financial condition of tenant.

- In July 2014, BDA negotiated and executed a development agreement with Phoenix Hospitality Group for the development and construction of a hotel.

- In July 2014, BDA negotiated and executed a 25-year lease agreement with UIW for approximately 16.13 acres of land and approximately 112,321 gross square feet of classrooms, laboratories, and office space with an expansion option "Phase 2," situated on approximately 7.52 acres of land, which includes approximately 109,342 square feet of building space, plus approximately 46,135 square feet remaining in Building 180 not included in Phase 1. UIW will pay a CAM charge of $250,000 per annum.

- In July 2014, BDA negotiated and executed an 11 ½ month lease for a portion of Building 1106 with the Bexar County Office of Emergency Management for approximately 13,092 square feet at $5.00 per square foot ($5,455 monthly; $65,460 annually).

- In September 2014, BDA negotiated and executed all documents related to the purchase of 1.7 acres of undeveloped land at the corner of South Presa and Henderson Court totaling $205,000. BDA will have 90 days after the execution and delivery of a signed sales contract relating to an inspection period to complete its due diligence.

Financial Planning

- On September 16, 2014, BDA's Board of Directors approved the establishment of board-designated funds totaling $12,532,941. Board-designated reserve funds were created for the following purposes: (1) cover projected operating revenue shortfalls through fiscal year 2016; (2) comply with the QPM Partners Escrow Fund requirements; (3) provide an operating reserve to cover unexpected shortfalls; (4) establish a repair and replacement fund; (5) create a balance to be used solely for the purpose of making improvements to Hangar 9; and (6) to transfer an amount to the Brooks City Base Foundation to be used for BDA improvements.

- In August 2014, BDA executed a commitment letter for an 18-month bridge loan with Brevet Capital Advisors for a hotel project totaling $7,300,000 at an internal rate of return of 15% with a payoff of $9,163,078.

- In August 2014, BDA executed a commitment letter for a bridge loan for the Aviator Apartment Project totaling $4,600,000.

Leveraging Resources

- In August 2014, the fiscal year 2015 Operating Budget was approved, which sets into motion the new direction that leadership is undertaking which involves increasing awareness of Brooks City Base through the use of an aggressive marketing program, improvements to campus appearance, securing additional public funding, and utilizing the EB-5 program to attract foreign investors to Brooks City Base.

Project Development

- In February 2014, BDA negotiated and executed a contract with Valla Construction for ADA renovations at Building 532, which is occupied by Volt Information Systems. BDA agreed to provide revisions to the front handicap parking spaces; install sidewalk ramps, striping, and signage; renovations to the second floor men and women's restrooms; flooring repairs; replacement of the elevator cab's grab bar and installation of wall button Braille designations; and completion of HVAC and lighting/electrical. Completion of this project is expected in the first quarter of fiscal year 2015.

- In May 2014, BDA negotiated and executed a contract with D. Plata Construction Co., LLC for the completion of parking lot and landscaping improvements at Building 661, which is occupied by Calumet Specialty Products, totaling $321,635. The parking lot was reconfigured, and BDA agreed to increase the number of marked parking spaces from 87 to 192.

Marketing

In fiscal year 2014 Brooks City Base implemented a public affairs strategy that integrated all communications for the organization in order to effectively promote Brooks City Base as a as a premier mixed-use community.

The public affairs strategy incorporates marketing, public relations, and legislative programs focused on establishing relationships with key organizations to leverage economic development, as well as investment attraction and retention efforts.

The three pillars of the integrative public affairs strategy consisted of the following:

- Marketing – the new brand, established in November 2013, was promoted in local, regional, and international target markets. The purpose was to increase brand awareness and position Brooks City Base as an ideal business location by way of a road show where the new campus-wide land use plan was rolled out into the community.

- Public Relations – new development on Brooks City Base was showcased through a series of public events to announce new project ground breakings, ribbon cuttings, etc. The aim was to reinforce positive brand equity by broadcasting and celebrating economic impact initiatives through community engagement.

- Legislative Programs – relationships with local, state, and federal government entities were strengthened to raise Brooks City Base's profile as a model for redevelopment in the BRAC (Base Realignment and Closure) community. The main objective was to increase accessibility to public funding opportunities tied to economic development on the Brooks City Base campus.

Capital Assets

BDA's capital assets totaled $63,031,578 (net of accumulated depreciation) as of September 30, 2014. Capital assets include land, roads, building, leasehold improvements, infrastructure and improvements, equipment and furniture and fixtures. Significant capital asset events occurring during the current fiscal year included the following:

- There was a total of $443,389 in investment in equipment, furniture, and fixtures, which included $314,852 in fire alarm systems for various buildings, three security vehicle for $43,929, landscaping equipment for $26,877, two maintenance vehicles for $46,853, and other equipment for $10,878.

- Infrastructure improvements included parking lot lighting and striping for $494,310 supporting Building 775.

- Building improvements and renovations totaled $1,472,388, which included DPT flooring repair for $432,618, second floor improvements to Building 532 for $705,525, renovations to Building 510A for $24,586 and Building 511 for $145,564, roof replacement to Building 502 for $69,329, and Building 532 ADA renovations for $94,766.

- The Research Plaza road extension and Mission Creek Detention Basin Project were completed totaling $7,248,288.

Additional information on BDA's capital assets can be found in Note 6 to the financial statements.

The property under operating leases and property not under lease at September 30, 2014 are as follows:

Table 3
Capital Assets

	Under Operating Leases	Not Under Leases	Total
Land	$ -	$ 4,500,178	$ 4,500,178
Construction in progress	-	1,969,805	1,969,805
Roads	-	13,272,434	13,272,434
Infrastructure and improvements – depreciable	-	12,544,461	12,544,461
Facilities and other improvements	-	616,225	616,225
Buildings	44,306,164	18,648,833	62,954,997
Furniture, fixtures, and equipment	5,905,310	3,571,064	9,476,374
Software	-	321,953	321,953
	50,211,474	55,444,953	105,656,427
Less accumulated depreciation	18,103,114	24,521,735	42,624,849
Net capital assets	$ 32,108,360	$ 30,923,218	$ 63,031,578

Investments

As of September 30, 2014, BDA had $13,747,832 in investments that consisted entirely of money market funds ($7,344,364 in 2013). See Note 2 to the financial statements for classification of investments on the statements of net position (reported as cash and cash equivalents on the statements of net position).

Debt

As of September 30, 2014, BDA had a balance of $22,417,434 in outstanding debt. This is made up of a loan of $11,625,140 from JPMorgan Chase for the DPT Laboratories construction project, three loans from the State Energy Conservation Office Stimulus Program totaling $6,192,294, and a loan with Brevet Capital Special Opportunities Fund III, L.P. for $4,600,000. In 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 from the State Energy Conservation Office Stimulus Program totaling $6,904,502.

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.

- Leveraging assets – Leveraging assets will continue to play a major role in securing financing for future capital development projects, as well as establishing public/private partnerships for achieving financing goals.

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

Statements Net Position

September 30, 2014 and 2013

ASSETS AND DEFERRED OUTFLOW OF RESOURCES	2014	2013
Current Assets		
Cash and cash equivalents	$ 24,236,406	$ 13,526,123
Accounts receivable – net of allowance for doubtful accounts	461,006	1,281,098
Mezzanine notes receivable	-	3,909,510
Accrued interest	5,378	1,058,502
Prepaid expenses	110,265	128,963
Inventories	44,282	44,761
Total current assets	24,857,337	19,948,957
Noncurrent Assets		
Capital assets – net	63,031,578	58,398,728
Deferred Outflow of Resources		
Derivative instrument	2,396,709	2,593,557
Total assets and deferred outflow of resources	$ 90,285,624	$ 80,941,242
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 1,610,370	$ 1,677,518
Accrued expenses	84,132	113,556
Current portion of long-term liabilities	1,420,192	1,349,002
Unearned revenues	669,289	613,363
Tenant security deposits	160,833	160,833
Total current liabilities	3,944,816	3,914,272
Long-Term Liabilities		
Unearned revenues	3,739,262	4,208,333
Derivative instrument liability	2,396,709	2,593,557
Long-term debt and other liabilities	21,157,799	18,071,907
Total long-term liabilities	27,293,770	24,873,797
Total liabilities	31,238,586	28,788,069
Net Position		
Net investment in capital assets	40,614,145	39,314,000
Unrestricted	18,432,893	12,839,173
Total net position	59,047,038	52,153,173
Total liabilities and net position	$ 90,285,624	$ 80,941,242

The accompanying notes form an integral part of these statements.

Brooks Development Authority

San Antonio, Texas

Statements Revenues, Expenses, and Changes in Net Position

Years Ended September 30, 2014 and 2013

	2014	2013
Operating Revenues		
Rents – commercial leases	$ 7,011,484	$ 6,385,056
Fees and miscellaneous income	1,228,991	1,145,506
Total operating revenues	8,240,475	7,530,562
Operating Expenses		
Administration and support	5,316,530	3,614,869
Custodial and grounds upkeep	530,731	257,106
Environmental and safety	408,036	379,598
Repairs and maintenance	1,392,706	1,293,775
Utilities	832,211	993,425
Insurance	355,038	248,510
Property management and development	88,427	137,301
Depreciation	3,853,843	4,155,130
Total operating expenses	12,777,522	11,079,714
Operating loss	(4,537,047)	(3,549,152)
Nonoperating Revenues (Expenses)		
Investment income	20,887	23,471
Interest income	618,019	922,748
Interest expense	(984,282)	(972,772)
Gain on sale of capital assets	10,388,383	5,465,983
Disposal/impairment of capital assets	(65,695)	(563,806)
Loss on roads and infrastructure transferred to City of San Antonio	-	(23,062,201)
Other grants	220,000	43,884
Other revenue	283,600	-
Contributions from City of San Antonio	-	89,151
Debt write-off	200,000	-
Total nonoperating revenues (expenses) – net	10,680,912	(18,053,542)
Capital contributions	750,000	-
Change in net position	6,893,865	(21,602,694)
Net position at beginning of year	52,153,173	73,755,867
Net position at end of year	$ 59,047,038	$ 52,153,173

The accompanying notes form an integral part of these statements.

Brooks Development Authority

San Antonio, Texas

Statements of Cash Flows

Years Ended September 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Receipts from tenants and others	$ 8,499,104	$ 11,713,581
Payments to employees	(2,322,714)	(1,789,066)
Payments to suppliers for goods and services	(6,654,915)	(4,547,422)
Net cash provided by (used in) operating activities	(478,525)	5,377,093
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of assets	(8,452,148)	(5,579,076)
DPT land purchase option fee	80,000	-
Proceeds from sale of capital assets	-	5,465,983
Proceeds from sale of Landings I Apartments	14,217,893	-
Payments on loans	(1,267,294)	(1,012,819)
Mission Solar contribution	750,000	-
Notes payable proceeds	4,600,000	1,957,855
Interest payments	(983,351)	(973,804)
Net cash provided by (used in) capital and related financing activities	8,945,100	(141,861)
Cash Flows From Noncapital Financing Activities		
Contributions from local and federal governments	31,515	887,986
DPT floor settlement	269,600	-
Other grants	220,000	-
Other receipts	31,847	31,521
Net cash provided by noncapital financing activities	552,962	919,507
Cash Flows From Investing Activities		
Investment income	20,903	23,471
Interest income	1,669,843	681,909
Net cash provided by investing activities	1,690,746	705,380
Net increase in cash and cash equivalents	10,710,283	6,860,119
Cash and cash equivalents at beginning of year	13,526,123	6,666,004
Cash and cash equivalents at end of year	$ 24,236,406	$ 13,526,123
Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities		
Operating loss	$ (4,537,047)	$ (3,549,152)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	3,853,843	4,155,130
Allowance for doubtful accounts	27,515	-
Changes in operating assets and liabilities:		
Accounts receivable	643,172	(555,120)
Prepaid expenses	18,698	(31,109)
Inventories	479	1,439
Accounts payable	(28,827)	1,363,262
Accrued expenses	(68,677)	(767,212)
Compensated absences	24,376	21,715
Unearned revenues	(412,057)	4,717,526
Tenant security deposits	-	20,614
Net cash provided by (used in) operating activities	$ (478,525)	$ 5,377,093

The accompanying notes form an integral part of these statements.

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 of 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, 2014, the Foundation's net position had a balance of $157 (deficit of $13,812 in 2013).

The following are condensed statements of the Foundation:

Condensed Statements of Net Position

	September 30, 2014	September 30, 2013
Total assets	$ 73,292	$ 59,323
Total liabilities	$ 73,135	$ 73,135
Total net position (deficit)	157	(13,812)
Total liabilities and net position (deficit)	$ 73,292	$ 59,323

Condensed Statements of Revenues, Expenses, and Change in Net Position (Deficit)

	Years Ended September 30, 2014	2013
Operating revenues	$ 14,016	$ 16
Operating expenses	47	73
Change in net position	13,969	(57)
Net position (deficit) at beginning of year	(13,812)	(13,755)
Net position (deficit) at end of year	$ 157	$ (13,812)

Condensed Statements of Cash Flows

	Years Ended September 30, 2014	2013
Operating activities	$ 13,969	$ (57)
Net increase (decrease) in cash and cash equivalents	13,969	(57)
Cash and cash equivalents at beginning of year	52,103	52,160
Cash and cash equivalents at end of year	$ 66,072	$ 52,103

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.

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 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 though 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.

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 $57,626 of net impairment losses on vacated buildings that are no longer suitable to lease to commercial tenants ($504,336 in 2013). 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 statements of net position 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 as 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, 2014 and 2013 totaled $160,557 and $136,181, respectively.

J. Unearned Revenues

BDA receives rental income in advance 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. Settled claims resulting from other risks of loss have not exceeded commercial insurance coverage in any of the past two years.

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.

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.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	September 30, 2014	September 30, 2013
Cash in bank	$ 10,488,574	$ 6,181,759
Cash equivalents:		
Money market funds:		
INVESCO Aim Treasury Portfolio	343,759	343,713
INVESCO Aim Government Agency Portfolio	13,404,073	7,000,651
Total cash and cash equivalents	$ 24,236,406	$ 13,526,123

Deposits
At September 30, 2014, the carrying amount of BDA's bank deposits totaled $10,488,574 ($6,181,759 in 2013), and the bank balance totaled $10,562,045 ($6,265,977 in 2013). BDA's cash deposits at September 30, 2014 and 2013 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 two money market funds are rated AAA (Moody's) and AAA (Standard & Poor's).

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 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 Swap
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 interest rate swap agreement and the related loan are scheduled to mature on July 11, 2024 and have been extended to match the lease agreement. The interest rate 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, 2014, LIBOR was 0.15% (0.17% in 2013) plus 1.50%, resulting in an overall rate of 1.65% (1.67% in 2013).

Fair Value – The interest rate swap had a negative fair value of $2,396,709 and $2,593,557 as of September 30, 2014 and 2013, respectively. The fair value was estimated using a proprietary valuation model developed by a counterparty.

The interest rate 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 interest rate swap's fair value are recorded as a deferred outflow and included in deferred outflow of resources.

Credit Risk – BDA was not exposed to credit risk on its outstanding interest rate swap at September 30, 2014 and 2013 because the interest rate swap had a negative fair value. However, should interest rates change and the interest rate swap becomes positive, BDA would be exposed to credit risk in the amount of the interest rate swap's fair value. The interest rate swap's counterparty has guaranteed all payments and is rated AAA by Standard & Poor's. The interest rate swap agreement provides no collateral by the counterparty.

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

Termination Risk – The interest rate 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 interest rate swap if the other party fails to perform under the terms of the contract. If the interest rate 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 interest rate 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, 2014 and 2013, the interest rate swap had negative fair values of $2,396,709 and $2,593,557, respectively.

Swap Payments and Associated Debt – Adjustable rate promissory note and related interest rate swap payments are effective July 11, 2006. Debt associated with the interest rate swap at September 30, 2014 and 2013 totaled $11,625,140 and $12,180,226, respectively.

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

4. Accounts Receivable

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

	September 30, 2014	September 30, 2013
Accounts receivable – tenants	$ 299,685	$ 1,046,334
Less allowance for doubtful accounts	(148,740)	(121,225)
Total accounts receivable – tenants	150,945	925,109
Federal government	7,220	38,733
Local governments	52,592	52,592
Housing management	191,613	207,069
Other	58,636	57,595
Total accounts receivable	$ 461,006	$ 1,281,098

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 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.

In March 2014, NRP obtained a buyer for the Landings I Apartment, Pensam Capital, Inc., to take over the lease for a prepaid rental amount of $39,500,000, the sales price. Net cash to BDA for the assignment of the lease totaled $15,475,676. The two mezzanine notes, totaling $3,909,510, and unpaid interest of $860,721 were paid off with the sales price. During fiscal year 2014, BDA was paid accrued interest of $806,700 and, thus, as of September 30, 2014 total interest paid to BDA was $1,667,421.

6. Capital Assets

Changes in BDA's capital assets for the year ended September 30, 2014 consist of the following:

	October 1, 2013	Additions	Deletions	Transfers	September 30, 2014
Land	$ 4,500,178	$ -	$ -	$ -	$ 4,500,178
Construction in progress	3,075,790	8,432,423	(8,570)	(9,529,838)	1,969,805
Capital assets not subject to depreciation	7,575,968	8,432,423	(8,570)	(9,529,838)	6,469,983
Roads	6,024,146	-	-	7,248,288	13,272,434
Infrastructure and improvements	12,050,151	-	-	494,310	12,544,461
Facilities and other improvements	616,225	-	-	-	616,225
Buildings	61,576,550	-	(93,941)	1,472,388	62,954,997
Furniture, fixtures, and equipment	9,055,421	128,537	(22,436)	314,852	9,476,374
Software	321,953	-	-	-	321,953
Total depreciable assets	89,644,446	128,537	(116,377)	9,529,838	99,186,444
Total capital assets	97,220,414	8,560,960	(124,947)	-	105,656,427
Accumulated depreciation:					
Roads	(5,777,088)	(41,723)	-	-	(5,818,811)
Infrastructure and improvements	(2,916,665)	(638,101)	-	-	(3,554,766)
Facilities and other improvements	(446,921)	(58,745)	-	-	(505,666)
Buildings	(28,158,730)	(2,483,884)	36,424	-	(30,606,190)
Furniture, fixtures, and equipment	(1,200,329)	(631,390)	14,256	-	(1,817,463)
Software	(321,953)	-	-	-	(321,953)
Total accumulated depreciation	(38,821,686)	(3,853,843)	50,680	-	(42,624,849)
Net capital assets	$ 58,398,728	$ 4,707,117	$ (74,267)	$ -	$ 63,031,578

As part of BDAs' annual review of vacated buildings, management has determined certain buildings were considered permanently impaired and not suitable to lease to commercial tenants. The net book value of these buildings totaled $57,626 and were written off as of September 30, 2014 ($504,336 in 2013). This permanent impairment is reflected as disposal/impairment of capital assets in the financial statements. As of September 30, 2013, BDA also released to the City of San Antonio net book value of $23,062,201 in roads and infrastructure, which is also reflected as loss on roads and infrastructure transferred to City of San Antonio in the financial statements.

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

	October 1, 2012	Additions	Deletions	Transfers	September 30, 2013
Land	$ 4,577,678	$ -	$ (77,500)	$ -	$ 4,500,178
Construction in progress	1,100,215	5,769,922	-	(3,794,347)	3,075,790
Capital assets not subject to depreciation	5,677,893	5,769,922	(77,500)	(3,794,347)	7,575,968
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	321,953	-	-	-	321,953
Total depreciable assets	112,123,600	32,172	(26,305,673)	3,794,347	89,644,446
Total capital assets	117,801,493	5,802,094	(26,383,173)	-	97,220,414
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)	(2,485,104)	901,477	-	(28,158,730)
Furniture, fixtures, and equipment	(719,071)	(517,387)	36,129	-	(1,200,329)
Software	(321,953)	-	-	-	(321,953)
Total accumulated depreciation	(37,386,972)	(4,155,130)	2,720,416	-	(38,821,686)
Net capital assets	$ 80,414,521	$ 1,646,964	$ (23,662,757)	$ -	$ 58,398,728

7. State Energy Conservation Office ("SECO") Stimulus Program

During fiscal year September 30, 2011, BDA became a participant in two loan programs from the SECO Stimulus Program totaling $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 were due and paid on November 30, 2012 in the amounts of $46,565 and $103,419, respectively. During 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 was due and paid in November 2013. As of September 30, 2014 and 2013, the combined outstanding balance of these three loans totaled $6,192,294 and $6,904,502, 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 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 the note payment and the interest rate swap settlement payments will total approximately $115,500 monthly. As of September 30, 2014 and 2013, BDA owed $11,625,140 and $12,180,226, respectively, to JPMorgan Chase.

9. Utility Upgrade Agreement

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 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, 2014 and 2013 totaled $0 and $200,000, respectively.

10. Note Payable – Brevet Capital

On September 30, 2014, BDA closed on a bridge loan with Brevet Capital Special Opportunities Fund III, L.P. ("Brevet Capital") in the amount of $4,600,000, for development costs, as part of a financing package for the construction of the Aviator Apartments. Terms of the loan are 5 years with interest at a fixed rate of 14% compounded monthly for 18 months and thereafter at a floating rate equal to 1-month LIBOR plus 11% subject to a LIBOR floor of 4% and a LIBOR cap of 6%; payable at the end of the term, pre-payable after 18 months. Fees include a 1.75% closing fee and a $2,500 per month administrative agent fee.

11. Long-Term Liabilities

Long-term debt activity for the year ended September 30, 2014 is as follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due in One Year
Notes payable:					
JPMorgan Chase	$ 12,180,226	$ -	$ 555,086	$ 11,625,140	$ 595,189
SECO I and II	4,930,167	-	505,110	4,425,057	515,288
SECO III	1,974,335	-	207,098	1,767,237	213,381
Brevet Capital note	-	4,600,000	-	4,600,000	-
Total notes payable	19,084,728	4,600,000	1,267,294	22,417,434	1,323,858
Other long-term liabilities:					
SAWS agreement	200,000	-	200,000	-	-
Compensated absences	136,181	75,183	50,807	160,557	96,334
Total long-term liabilities	$ 19,420,909	$ 4,675,183	$ 1,518,101	$ 22,577,991	$ 1,420,192

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

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due in One Year
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	18,139,692	1,957,855	1,012,819	19,084,728	1,267,293
Other long-term liabilities:					
SAWS agreement	200,000	-	-	200,000	-
Compensated absences	114,466	40,769	19,054	136,181	81,709
Total long-term liabilities	$ 18,454,158	$ 1,998,624	$ 1,031,873	$ 19,420,909	$ 1,349,002

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
2015	$ 1,323,858	$ 586,185	$ 1,910,043
2016	5,981,587	1,623,770	7,605,357
2017	1,446,930	501,336	1,948,266
2018	1,514,035	455,471	1,969,506
2019	1,585,136	407,143	1,992,279
2020-2024	7,245,338	1,257,176	8,502,514
2025-2027	3,320,550	178,813	3,499,363
	$ 22,417,434	$ 5,009,894	$ 27,427,328

12. Reinvestment 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 no 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, 2014 and 2013, BDA incurred $0 and $89,151, respectively, in project costs. These costs are reported as part of capital assets, subject to depreciation. Cumulative to date, as of September 30, 2014 and 2013, BDA has been reimbursed $0 and $666,343, respectively, of project costs.

13. 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. 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. During the years ended September 30, 2014 and 2013, BDA received $220,000 and $0, respectively, from the County.

14. 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, 2014 and 2013, BDA received $7,011,484 and $6,385,056, respectively, from rents under its operating leases as follows:

	Year Ended September 30, 2014		Year Ended September 30, 2013	
	Amount	**Percentage**	**Amount**	**Percentage**
Rent – commercial leases	$ 7,011,484	85%	$ 6,385,056	85%
Total rents	7,011,484		6,385,056	
Fees and miscellaneous income	1,228,991	15%	1,145,506	15%
Total income	$ 8,240,475	100%	$ 7,530,562	100%

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

	September 30, 2014	September 30, 2013
Buildings	$ 44,306,164	$ 42,903,105
Furniture, fixtures, and equipment	5,905,310	5,905,310
	50,211,474	48,808,415
Less accumulated depreciation	18,103,114	16,065,798
Total	$ 32,108,360	$ 32,742,617

At September 30, 2014, future lease revenues from noncancellable leases for each of the five succeeding fiscal years and five-year increments thereafter are as follows:

Year Ending September 30,	Amount
2015	$ 6,178,034
2016	5,623,660
2017	4,634,978
2018	4,691,334
2019	4,099,160
2020-2024	16,090,499
2025-2029	9,121,724
2030-2034	4,339,528
2035-2104	10,890,500
	$ 65,669,418

15. Major Customer

DPT Laboratories ("DPT") 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, 2014 and 2013, totaled $1,386,525 and $1,386,525, respectively. DPT also pays a CAM fee, which totaled $97,815 and $97,815 in 2014 and 2013, respectively. In fiscal year 2014, DPT started leasing additional office space, which totaled $17,895.

16. 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:

	Beginning Balance	New Contracts	Payments	Ending Balance
2014	$ 5,995,770	$ 762,843	$ 6,359,909	$ 398,704
2013	324,076	9,499,017	3,827,323	5,995,770

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.

17. Unearned Revenues

Unearned revenues consist of the following:

	September 30, 2014	September 30, 2013
The Foundation	$ 30,929	$ 30,929
Unearned tenant rent	4,377,622	4,789,679
Other	-	1,088
	$ 4,408,551	$ 4,821,696

In February 2013, BDA received $5,000,000 from Mission Solar, previously called Nexolon America, LLC, as a one-time prepayment for a lease with option to purchase 85.86 acres of land upon which Mission Solar will construct a photovoltaic solar panel manufacturing facility. Mission Solar will invest more than $115,000,000 in real and personal property to construct and establish the facility made up of several buildings. Mission Solar 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, Mission Solar 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 Mission Solar 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 Mission Solar, will then be subject to full taxation. As of September 30, 2014 and 2013, BDA has recognized $500,000 and $291,667, respectively, as lease revenue and the remaining balance of $4,208,333 as of September 30, 2014 is reflected as unearned rent ($4,708,333 in 2013). The facility was substantially completed in July 2014 and, as of September 30, 2014, a receivable of $68,750 is reflected for the additional rent.

18. Deferred Compensation Plan

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.

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. The plan is not included in BDA's financial statements. BDA and employees' contributions for the fiscal years ended September 30, 2014 and 2013 totaled $308,949 and $220,409, respectively.

19. 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 Oaks, 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, 2014, BDA had received $1,282,117 ($1,284,760 in 2013) of collected funds and recorded a receivable of $114,799 ($95,687 in 2013) for total revenue of $1,396,916 ($1,380,447 in 2013). For fiscal year 2014, the performance bonus payable to NRP totaling $29,044 is to be paid from the Heritage Oaks operating budget.

20. Board-Designated Reserve Funds

On September 16, 2014, BDA's Board of Directors approved the establishment of board-designated reserve funds totaling $12,532,941. Board-designated reserve funds were created for the following purposes: (1) cover projected operating revenue shortfalls through fiscal year 2016; (2) comply with the QPM Partners Escrow Fund requirements; (3) provide an operating reserve to cover unexpected shortfalls;

(4) establish a repair and replacement fund; (5) create a balance to be used solely for the purpose of making improvements to Hangar 9; and (6) to transfer an amount to the Brooks City Base Foundation to be used for BDA improvements.

21. Subsequent Events

On November 6, 2014, BDA closed on an Amended and Restated Loan Agreement with Brevet Capital, which amended the original bridge loan of $4,600,000 by increasing the amount of the loan to $5,000,000 and the first lien loan with Inter National Bank for construction costs related to the Aviator Apartments in the amount of $21,500,000. Terms are for 7 years with interest at 4.35% fixed for 36 months, then at *The Wall Street Journal* prime plus 1.35%, with a floor of 4.35%; payable 24 months of interest only, and thereafter in 59 payments of principal and interest (amortized over 25 years) with a balloon payment due at the end of the term, with a penalty for prepayment. The loan will be secured by a first lien on the land (approximately 13.463 acres) and the buildings located thereon (now and to be constructed). There is a 2% loan origination fee, and this loan is guaranteed by the developer.