

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of San Antonio, Texas)

SAN ANTONIO, TEXAS

FINANCIAL STATEMENTS
(With Independent Auditors' Report Thereon)

SEPTEMBER 30, 2015

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of San Antonio, Texas)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
City of San Antonio
San Antonio Economic Development Corporation
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial Statements of the San Antonio Economic Development Corporation (a fully blended non-profit component unit of the City of San Antonio), which comprise the statement of net position as of September 30, 2015, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Antonio Economic Development Corporation as of September 30, 2015, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Valuation of Non-Publicly Traded Equity Securities

As discussed in Note 3 to the financial statements, the San Antonio Economic Development Corporation has received equity shares in various start-up companies through its various development grants. Since such shares are not publicly traded, San Antonio Economic Development Corporation management has utilized other allowable methods in estimating the \$350,085 value reported on the Statement of Net Position and within Note 3. Our opinion is not modified with respect to this matter.

Other Information

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods or measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



San Antonio, Texas
January 15, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

The City of San Antonio Economic Development Corporation (the Corporation), a blended component unit of the City of San Antonio, presents the following discussion and analysis of the Corporation's financial performance during the fiscal year ended September 30, 2015. The Corporation is a nonprofit corporation organized in 2010 under the laws of the State of Texas and under the auspices of the City of San Antonio. The Corporation was formed to enhance economic development activities for the City of San Antonio.

This discussion and analysis is intended to assist readers in focusing on significant financial issues and changes in the Corporation's financial position and in identifying any significant variances for the previous fiscal year.

BACKGROUND

City Council approved the establishment of the SAEDC and its Bylaws on May 13, 2010. The SAEDC is governed by a seven-member Board of Directors which consists of the Mayor, City Manager, Chair of the Economic and Human Development Council Committee, Chair of the Transportation, Technology & Utilities Committee and three citizens at-large. On June 17, 2010, the SAEDC Board approved a Resolution approving the Economic Development Grant Agreement with the City of San Antonio in support of the InCube Labs project and a Resolution approving the Economic Development Agreement (EDA) between the SAEDC and InCube Labs, LLC. Both Agreements have been finalized and executed with all related funds disbursed. Both Agreements were extended an additional five years with no additional funding by the SAEDC Board and City Council to retain the InCube Labs project in San Antonio through August 3, 2020.

On September 20, 2014, the SAEDC Board approved a Resolution adopting an annual budget for FY 2015. The SAEDC Bylaws require City Council approval of the corporation's annual budget and the City approved the budget on October 9, 2014. The FY 2015 SAEDC Budget includes as revenues the grant of \$300,000.00 from the City of San Antonio.

In 2005, the UTHSCSA requested \$5 million from the City to assist in financing two new facilities -- the Medical Arts and Research Center (MARC) which was completed in February 2006, and the South Texas Research Facility (STRF) which was completed in October 2011. The STRF was facing an \$8 million gap to finish construction and fully equip these research facilities; the UTHSCSA requested the City consider investing \$3.3 million in the STRF over 3 years. This investment from the City of \$3.3 million was made at \$1.1 million per year for 3 years starting in 2012 with the final payment made in 2014.

The STRF is a state-of-the art \$200 million research building. The project is a significant economic generator for the community creating over 150 new, high paying research and scientific jobs. The facility houses the Institute of Integration of Medicine and Science and is home for the \$26 million National Institute of Health Clinical (NIH) Translation Science Award. The facility also houses other core research programs on cancer, diseases affecting the elderly, disorders such as stroke, diabetes in children and adults, and the engineering of new body tissues to cure diseases in partnership with the military.

The City's \$3.3M investment in the STRF at UTHSCSA greatly enhanced the university's research capabilities by: (1) increasing opportunities for growing local entrepreneurs and companies; (2) helping attract top tier researchers and scientists; (3) demonstrating an investment in our own local institutions and talent; and (4) providing opportunities to leverage other research, such as military medicine.

The \$3.3M investment also provides the City the opportunity to leverage its investment through the SAEDC which was created by the City as a nonprofit corporation in May 2010. Through the SAEDC, the City can invest in economic development projects and take out an equity position in a project to potentially achieve a return on the public's investment. The University entered into an Economic Development Agreement with the SAEDC which provides the SAEDC, over 10 years, a 15% interest in any equity position (e.g., founders shares of stock) taken by the University in start-up companies formed through the discovery of intellectual property owned by the University. The SAEDC could then potentially receive a return on its investment up to a cap of \$4,000,000 (the \$3,300,000 principal amount plus an additional \$700,000 return) during the term of the Agreement from the University's distribution to the

SAEDC based on its equity interest in start-up companies as those companies are acquired or go public. As of September 30, 2015, UTHSCSA had reported to the SAEDC an equity interest in two companies covered under the Agreement: Rapa Holdings, Inc. and Aspect Oncology, Inc.

On September 9, 2012, the City entered into an Agreement with SAEDC whereby the City granted SAEDC \$300,000 for the purpose of SAEDC undertaking an economic development project whereby SAEDC executed a \$300,000 unsecured Convertible Promissory Note for the establishment of Innovative Trauma Care, Inc. (“ITC”) in San Antonio,. ITC is conducting commercialization of the company’s medical device products. Through this Note, the SAEDC had the option to convert the Note to equity shares of ITC. On October 5, 2012, SAEDC disbursed \$300,000 to ITC and received, in exchange, a \$300,000 - 5% Interest-Bearing Convertible Promissory Note. Under the terms of the Note, SAEDC could convert the note into shares of the class and series of ITC’s parent corporate stock issued and sold in a Qualified Financing on or before the maturity of the Note, October 5, 2017. On November 8, 2012, SAEDC elected to convert the note into 187,500 shares of Series A Preferred stock in ITC’s parent corporation under the above described note provision.

On November 21, 2013 City Council approved a grant in the amount of \$200,000 to the SAEDC for the purpose of undertaking the StemBioSys, Inc. (“SBS”) project and on the same date the SAEDC Board authorized the execution of a Convertible Promissory Note with SBS in the same amount. SBS is a local bioscience startup company formed in November 2010 by Dr. Xiao-Dong Chen and Dr. Steve Davis which is developing a way to isolate and expand adult stem cells for research, diagnostics, and therapeutic treatments. SBS requested a \$200,000 economic grant from the SAEDC to help fund their continued research and product development, as well as to establish a certified Good Manufacturing Practice (cGMP) facility in San Antonio to do initial manufacturing of stem cells using the SBS patented technology. On May 27, 2014, the SAEDC executed a Convertible Promissory Note (the “Note”) for \$200,000 and on November 27, 2014, the SAEDC converted the Note into 102,534 shares of SBS Class A Preferred stock.

Financial Highlights

The assets of the corporation exceeded its liabilities by \$431,931 (net position) as of the end of the current fiscal year. This amount represents restricted net position, which decreased by \$166,948 from the previous fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction of the San Antonio's San Antonio Economic Development Corporation's basic financial statements which includes the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to the Financial Statements.

The Statement of Net Position is a presentation of the Corporation's assets and liabilities and reports this difference between assets and liabilities as net position.

The Statement of Revenues, Expenses and Changes in Net Position presents information regarding increases or decreases to the Corporation's net position for the fiscal year. Changes in net position are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in the statement may result in cash flows in future periods. The revenues are generated by fees charged by the City of San Antonio for facilitating bond sales.

In addition, these financial statements provide information which is included in the City of San Antonio Comprehensive Annual Report as a blended component unit and is reported separately from the City's primary government-wide financial statements.

Condensed Statement of Net Position

	<u>2015</u>	<u>2014</u>	<u>Variance</u>	<u>% Change</u>
Assets:				
Current Assets	\$ 431,931	\$ 398,879	\$ 33,052	8%
Non-current Assets	-	200,000	(200,000)	100%
Total Assets	<u>431,931</u>	<u>598,879</u>	<u>(166,948)</u>	<u>-28%</u>
Net Position				
Restricted Net Position	<u>431,931</u>	<u>598,879</u>	<u>(166,948)</u>	<u>-28%</u>
Total Net Position	<u>431,931</u>	<u>598,879</u>	<u>(166,948)</u>	<u>-28%</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2014</u>	<u>Variance</u>	<u>% Change</u>
Operating Revenues:				
Contributions	\$ 300,000	\$ 3,574,000	\$ (3,274,000)	-92%
Total Operating Revenues	<u>300,000</u>	<u>3,574,000</u>	<u>(3,274,000)</u>	<u>-92%</u>
Operating Expenses:	<u>523,283</u>	<u>3,239,367</u>	<u>(2,716,084)</u>	<u>-84%</u>
Total Operating Expenses	<u>523,283</u>	<u>3,239,367</u>	<u>(2,716,084)</u>	<u>-84%</u>
Operating Income (Loss)	<u>(223,283)</u>	<u>334,633</u>	<u>(557,916)</u>	<u>-167%</u>
Nonoperating Revenues and (Expenses)				
Net Increase in the Fair value of Investments	<u>56,335</u>	<u>(206,250)</u>	<u>262,585</u>	<u>100%</u>
Net Nonoperating Revenues and (Expenses)	<u>56,335</u>	<u>(206,250)</u>	<u>262,585</u>	<u>100%</u>
Increase (Decrease) In Restricted Net Position	<u>(166,948)</u>	<u>128,383</u>	<u>(295,331)</u>	<u>-230%</u>
Net Position at the Beginning of Year	<u>598,879</u>	<u>470,496</u>	<u>128,383</u>	<u>27%</u>
Net Position at the End of Year	<u>\$ 431,931</u>	<u>\$ 598,879</u>	<u>\$ (166,948)</u>	<u>-28%</u>

Requests for Information

This financial report is designed to provide a general overview of the San Antonio Economic Development Corporation's position for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report should be addressed to: San Antonio Economic Development Corporation, Ed Davis, Executive Director, Frost Bank Tower 19th Floor, 100 W. Houston St., Suite 1900, San Antonio, TX 78283

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of San Antonio, Texas)

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

ASSETS

Current Assets

Restricted Assets:

Cash and Cash Equivalents	\$ 81,846
Accounts Receivable, net of allowance for doubtful accounts of \$236,375	-
Investment Securities	<u>350,085</u>

Total Restricted Assets	<u>431,931</u>
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Total Current Assets	<u>431,931</u>
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Total Assets	<u><u>\$ 431,931</u></u>
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LIABILITIES AND NET POSITION

Net Position:

Restricted Net Position	<u><u>\$ 431,931</u></u>
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See accompanying notes to financial statements.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of San Antonio, Texas)

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Operating Revenues:

Contributions	\$ 300,000
Total Operating Revenues	<u>300,000</u>

Operating Expenses:

Grants transfers	143,557
Legal and Professional services	53,073
Salaries	80,738
Travel	3,177
Allowance for Uncollectible Accounts expense	236,375
Other	6,363
Total Operating Expenses	<u>523,283</u>

Operating Income (Loss)	<u>(223,283)</u>
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Nonoperating Revenues and (Expenses):

Net Increase (Decrease) in the Fair value of Investments	56,335
Net Nonoperating Revenues and (Expenses):	<u>56,335</u>

Increase (Decrease) In Restricted Net Position	(166,948)
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Net Position at the Beginning of Year	598,879
Net Position at the End of Year	<u><u>\$ 431,931</u></u>

See accompanying notes to financial statements.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION
(A Component Unit of the City of San Antonio, Texas)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Cash Flows From Operating Activities:

Contributions	\$ 300,000
Grants transfers	(143,558)
Legal and Professional services	(53,073)
Salaries	(80,738)
Travel	(3,177)
Other	(61,253)
Net cash provided (used) by operating activities	<u>(41,799)</u>
Net Increase (Decrease) in cash and cash equivalents	(41,799)
Cash and cash equivalents at beginning of year	123,645
Cash and cash equivalents at end of year	<u><u>\$ 81,846</u></u>

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Change in Operating Income	\$ (223,283)
Adjustments to Reconcile Net Income to net Cash provided by Operating activities:	
Provision for allowance for uncollectible Accounts	236,375
(Increase) Decrease in Accounts Receivable	(54,891)
Net cash provided (used) by operating activities	<u><u>\$ (41,799)</u></u>

See accompanying notes to financial statements.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The San Antonio Economic Development Corporation (“SAEDC”) is a Texas non-profit corporation created on June 15, 2010. SAEDC was formed under the Development Corporation Act, Title 12, Subtitle C1, Section 501 of the Texas Local Government Code. Creation and formation of SAEDC was approved by the City of San Antonio (the City). SAEDC is governed under Chapter 505 (type B corporations) of the Texas Local Government Code and its purpose is to serve as an instrumentality of the City of San Antonio in undertaking economic development projects on behalf of the City of San Antonio in the San Antonio area.

A. REPORTING ENTITY

The governing board of SAEDC consists of seven members appointed by the City of San Antonio. Also, SAEDC’s budgets are approved by the City of San Antonio. The City of San Antonio may also unilaterally dissolve SAEDC, subject to any on-going commitments and contracts, at which time any remaining assets, after payment of debt and expenses, revert to the City of San Antonio. Additionally, under applicable state economic development statutes, SAEDC may issue tax-exempt debt with the approval of the City of San Antonio. Professional Accounting Standards presume entities having the above characteristics as being governmental in nature and should thus follow governmental accounting and reporting standards promulgated by the Governmental Accounting Standards Board (the “GASB”) - as prescribed for special purpose governmental entities involved only in business-type activity such as SAEDC. Under those GASB standards, SAEDC is also considered a component unit of the City of San Antonio for purposes of the City of San Antonio’s annual financial statement reporting. Additionally, under such standards, SAEDC has no includable component units within its annual financial statements.

B. BASIC FINANCIAL STATEMENTS

SAEDC’s basic financial statements are those required by the GASB for a special-purpose local government involved only in business-type activities. These consist of a statement of net position, a statement of revenues and expenses and changes in net position, and a statement of cash flows. The focus of these statements is the determination of financial position, operating income, changes in net position and cash flows.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Because GASB standards deem SAEDC as a special- purpose government involved only in business-type activities, its financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, fees and revenues are recognized when earned and expenses are recognized when incurred.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

Continued

D. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, SAEDC considers all investments with a maturity of three- months or less when purchased to be cash equivalents.

E. RECEIVABLES

All receivables are reported net of any estimated uncollectible amounts.

F. OPERATING REVENUES AND EXPENSES

Under GASB 34, the statement of revenues, expenses and changes in net assets of proprietary funds and Special-purpose entities involved only in business-type activities are required to distinguish between operating and non-operating revenues and expenses that is appropriate to the activity being reported. In accordance with this requirement, SAEDC reports as Operating revenues and expenses, its activities under economic development grants from the City of San Antonio, other local governments and non- profit entities. The purpose of the economic development grants are for economic development in the San Antonio area via payments to contracted development entities and payments for related services and costs. All other SAEDC revenues and expenses are reported as non-operating.

G. DIVISION OF NET POSITION

Under GASB standards for special purpose governmental units reporting its operations as business-type activities, net position is reported in the following sub-categories;

- Restricted net position – consist of net position that is restricted by the SAEDC's creditor's (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors. Also see Note 10 for further explanation of SAEDC's restricted net position.
- Unrestricted – all other net position is reported in this category

H. TAX STATUS

SAEDC was formed as Texas non-profit corporation and instrumentality of the City of San Antonio under state Development Corporations Act statutes whereby interest on issued long-term debt is exempt from federal income tax. SAEDC's relationship with the City of San Antonio appears to meet the government affiliation factors of the U.S Internal Revenue Code and its regulations. SAEDC received its 501(C) (3) tax-exemption status letter with an effective date of June 15, 2010. Under this tax-exemption letter, SAEDC is not required to file annual federal non-profit returns because of SAEDC's government affiliation status.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –

Continued

I. USE OF ESTIMATES

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

J. POLICY OF USE OF RESTRICTED AND RESTRICTED FUNDS

During the current year, SAEDC received administrative support through a \$300,000 Grant from the City of San Antonio. These amounts were first expended and used on legal and professional fees and other operating expenses. Thereafter, restricted contributions received under the below described economic development grants were used to fund all other related economic development expenditures. Un-spent balances from restricted contributions are reported as restricted assets and corresponding restricted net position in the accompanying Statement of Net Position. The restricted assets and restricted net position represent all of SAEDC's assets and net position.

NOTE 2 – CASH

At September 30, 2015, SAEDC's cash consisted of \$81,846 in demand deposits with a local bank. SAEDC's September 30, 2015 cash balance represents unspent contributor- restricted contributions expendable only on economic development projects and related activity. Accordingly, this cash balance is reported as restricted.

NOTE 3 - INVESTMENT SECURITIES

As of September 30, 2015 SAEDC had equity securities in four non-publicly traded start-up development stage companies. Securities in two of these companies consisted of stock in companies created under the Business Incubator Development Grants described in Note 4 and Note 5 that follow. These securities represent the five (5) percent founder's share of created start-up companies provided for under the Business Incubator Development grants. Stock in the other two start-up development-stage companies represents securities resulting from the conversion of initial SAEDC convertible-debt in each of these two companies. Refer to Note 8 and Note 9 below for further details on these companies and related agreements.

Under GASB statement 31, equity securities held for income or eventual profit are reported at their fair value. However, since stock in all four of these companies is not actively traded, SAEDC has used a combination of (1) GASB 31 Implementation Guide sanctioned fair value estimating techniques; (2) discussions with investee company management on company development status and (3) the results of private-offerings of securities by two of the subject investee companies to estimate the fair value basis set forth below:

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 3 - INVESTMENT SECURITIES - *Continued*

- *For the shares in the companies created under the Business Incubator Development Grants described above* - The Fundamental Analysis of investee financial statements sanctioned by the GASB 31 Implementation Guide coupled with discussions with investee management of the subject companies' development status were used to estimate a fair value of zero for both of these two companies. The GASB 31 Implementation Guide describes the Fundamental Analysis of Investee statements technique as that of considering the assets, liabilities, operating statement performance, management, and economic environment of the issuer in estimating a fair value. These companies are involved in the development of cutting-edge medical technology for eventual commercialization and marketing thereof and consist of the following:

a) iBridge Medical, LLC - 175,000 Common Units	\$ -
b) Theracle, Inc. - 175,000 Shares Common Stock	-
Total	<u>\$ -</u>

- *For shares of companies with recent private-offerings.* - Equity securities in both of these two companies result from the conversion of original convertible-debt. These companies are involved in the development of cutting-edge medical technology for eventual commercialization and marketing thereof. Both of these companies recently had private-offerings wherein funds were raised for development stage financing. Based on such private offerings the following fair values were arrived at:

a) Innovative Trauma Care, Inc. - 187,500 Shares	\$ 93,750.00
b) Stembiosys, Inc. - 102,534 Shares Series A Preferred Stock	256,335.00
	<u>\$ 350,085.00</u>

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 4 - BUSINESS INCUBATOR ECONOMIC DEVELOPMENT GRANTS - RESEARCH AND DEVELOPMENT COMPANY

In June 2010, SAEDC entered into an economic development agreement with the City of San Antonio (the “City”) whereby the City will provide SAEDC \$10,000,000 in an economic development grant for SAEDC to undertake an economic development project within the City’s local area. In conjunction with this Agreement, an October 19, 2010 Master Funding Participation Agreement between SAEDC and the following grantors was entered into:

- County Government of Bexar County Texas (“Bexar County”)
- Texas Research and Technology Foundation (TRTF)
- University of Texas Health Science Center at San Antonio, (UTHSCSA)
- University of Texas at San Antonio (UTSA)

Under the combined above City of San Antonio and the Master Funding Participation Agreements, up to \$4,000,000 of the City \$10,000,000 grant will be funded by the above listed Master Funding grantors. The entire \$10,000,000 will be paid from combined City and Master Funding Participation grantors over a five (5) year period in annual installments commencing with a \$2,500,000 installment that was approved and paid by the City to SAEDC in June 2010. The remaining \$7,500,000 will be paid to the SAEDC from combined City and Master Funding Participation grantors in three \$2,000,000 installments beginning on or before June 2011 and each succeeding year thereafter. The final \$1,500,000 installment was made in June 2014. These installments were contingent on annual approvals by the City and the Master Funding Participation grantors.

The purpose of the development project consists of SAEDC attracting a research and development company (the “Development Company”) to the San Antonio area whereby the Development Company will perform the following:

- Commit to establish a life-science and technology business incubator within the San Antonio area;
- Commit to create a certain number of development companies in which SAEDC and the other Project Grantors will receive eventual equity interests;
- Commit to raise and expend specified capital amounts and
- Commit to create a specified number of employment positions in the San Antonio area paying annual salaries at specified annual ranges.

The City Agreement requires SAEDC to expend Grant receipts only on “Allowable Costs” as determined under the City Agreement. The Agreement defines direct costs expended on this Project as Allowable Costs. Any expended amounts the City deems as non-allowable must be refunded to the City. The City may also suspend any future installments if any required reports (compliance or otherwise) under this

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 4 – BUSINESS INCUBATOR ECONOMIC DEVELOPMENT GRANTS – RESEARCH AND DEVELOPMENT COMPANY - *Continued*

agreement are not provided to the City as prescribed. In addition to the above City Agreement requirements, the above Master Funding Participation Agreement calls for its grantors, Bexar County, TRTF, UTHCSSA and UTSA as being entitled to a pro-rata share in Founder's shares of start-up entities created by the above Development Company. The Development Company will also provide UTHSCSA and UTSA development support under separate agreements between UTHSCSA, UTSA and the Development Company. Additionally, one of the Master Funding Participation Agreement grantors, TRTF, is also the owner of another development company that is sub-leasing business office and development space from the Development Company mentioned above.

SAEDC Management has determined that the revenue recognition criteria of the Voluntary Non-exchange Transactions provisions of GASB statement 33 apply to the above City and Master Funding Participation Grants. Under such criteria, a grant recipient recognizes revenue and receivables when all eligibility requirements specified or implied by the grant agreement have been met. SAEDC Management has deemed the City grant agreement's requirements pertaining to SAEDC's formation purpose and City and Master Funding Participation agreements' funded commitments as eligibility requirements that have been met. Accordingly, the combined City and Master Funding Participation payments received by SAEDC through September 30, 2014 were recognized as grant revenue.

NOTE 5 - DEVELOPMENT COMPANY AGREEMENT COMMITMENTS

In conjunction with the above described City and Master Funding Participation Business Incubator Economic Development Grant Project, SAEDC entered into a development agreement with the Development Company described in Note 4 above. Under this agreement, SAEDC will pay the Development Company \$10,000,000 in five (5) equal \$2,000,000 annual installments for the purpose of reaching the goals set forth in SAEDC's above City and Master Funding Participation Business Incubator Economic Grant. This Development Company's agreement period will consist of a term of five (5) years running in conjunction SAEDC's development agreement with the City and the Master Funding Participation Agreement mentioned in Note 4 above.

The Development Company pledged investment securities it owned in affiliated start-up research and development companies to secure its commitment to reach the Business Incubator Economic Development requirements mentioned in Note 4 above. If the Development Company does not reach the above requirements, SAEDC may acquire the mentioned pledged securities among other remedies. A Pledge agreement between the SAEDC and the Development Company has been executed whereby SAEDC holds the aforementioned pledged stock as collateral for the Development Company's achieving the above performance goals. The pledged stock is in two (2) private non-publicly traded research and development start-up companies affiliated with the Development Company.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 5 – DEVELOPMENT COMPANY AGREEMENT COMMITMENTS - *Continued*

In April 2013, SAEDC received 5% of the Founders Shares in two companies created by the Development Company in San Antonio. These shares consisted of 175,000 shares of common stock in one company and 175,000 common units in the second company. The above pledged stock and the above mentioned Founders Shares are not publically traded. As a consequence, a “Fundamental Analysis” method described within the GASB 31 Implementation Guide for valuing non-publicly traded equity shares was used by management in arriving at a zero estimated fair value for this stock. Under the GASB 31 Implementation Guide, the “Fundamental Analysis” method considers assets, liabilities, operating statement performance, management and economic environment of the issuer in estimating fair value. The use of this method and the subject companies involved are also set forth in Note 3.

The above mentioned five (5) annual \$2,000,000 installments to the Development Company commenced June 2010 and will continue every succeeding year thereafter on or before June 30 of each year. These annual installments will be reduced by \$200,000 annual sub-lease payments made by SAEDC on behalf of the Development Company. The sub-lease payments relate to a San Antonio area office and manufacturing facility sub-leased by the Development Company from an affiliate of a grantor non-profit entity (see NOTE 6 of these disclosure notes) participating in this economic development project. The annual \$2,000,000 payments (less the aforementioned \$200,000 sub-lease payments) to the Development Company from SAEDC are contingent on SAEDC receiving its annual installments from the City and its Master Funding Participation grantors under the above \$10,000,000 combined City and Master Funding Participation Business Incubator Economic Development project grant. SAEDC recognizes an expense for these annual Development Company installments payments as they are scheduled to be made under the terms of the SAEDC/Development Company Agreement. Under this agreement, SAEDC paid \$1,800,000 directly to the Development Company in FY 2014, which constituted the final payment under the Agreement with the Development Company.

On June 16, 2015 the SAEDC authorized the negotiation and execution of a Second Amendment to the Agreement with the Development company which would extend the term of the Agreement with no additional grant funding another five years to August 3, 2020. On June 18, 2015, the City Council approved an Amendment to its Economic Development Grant Agreement (as summarized above) with the SAEDC for an additional five years under the same terms and conditions but with no new additional funding for the economic development project nor does it include any extension of the lease obligation of SAEDC to the Development Company. As of September 30, 2015, the SAEDC was finalizing the Amendment for execution. See Note 14 for further discussion on this Amendment.

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Year Ended September 30, 2015

NOTE 6 - COMMITMENTS UNDER COMFORT LETTER FOR DEVELOPMENT COMPANY SUBLEASE

SAEDC provided a July 9, 2010 Comfort Letter to a San Antonio area office and manufacturing space sub-lessor in conjunction with a sublease of property on whose premises the Development Company (described in Note 5 above) re-located to San Antonio and the location on which the activities of the Business Incubator Economic Development Project (described in Notes 4 and 5 above) are being conducted. The sublease is between the Development Company and a sub-lessor who is also affiliated with TRTF. TRTF is one of the grantors in the Master Funding Participation Grant that is a part of the Business Incubator Economic Development Grant mentioned in Note 4 above. The SAEDC Comfort Letter indicates that SAEDC expressly agrees that its obligation to fund the Development Company's rent (under the sublease) and related Excess Lease Payments shall continue throughout the term of the sub-lease. This sub-lease covers a term that began on August 1, 2010 and ends on November 30, 2015. The sub-lease agreement calls for SAEDC to fund the Development Company's scheduled annual lease base rent payments and Excess lease payments (Common area, Insurance and taxes). The scheduled annual lease base payments under the Development Company sub-lease are as follows:

<u>Year Ended</u> <u>September 30</u>	<u>Amount</u>
2010	-
2011	186,957
2012	191,285
2013	196,478
2014	201,671
2015	206,864
2016	34,622
<u>Total</u>	<u>\$ 1,017,877</u>

The above schedule does not include a \$15,580 deposit funded by SAEDC on behalf of the Development Company. This amount is reported as a receivable by SAEDC as of September 30, 2015. In addition to the Excess Lease payments, SAEDC will also fund sub-lease finish-out expenses charged to the Development Company and its sub-lease landlord. Both the Excess lease payments and the Sub-lease Finish-Out payments shall be re-paid to SAEDC by the sub-lessor. Accordingly, Excess Lease and Finish-out payments paid by SAEDC shall be recorded as accounts receivable in SAEDC's books of account. As of September 30, 2015, such net unreimbursed combined Excess Lease and Finish-out payments amounted to \$236,375. Since SAEDC management is unable to fully ensure these amounts are fully collectible, management deems an allowance for any uncollectible amounts pertaining to this receivable is necessary. The collection of this receivable is based upon obtaining a payout event from the SAEDC percentage of Founders Shares in the companies launched from the Development Company. Eventual collections from these receivables will be restricted to expenditures on economic development projects or as directed by donors. Accordingly, resulting receivables are reported as restricted assets.

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NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

NOTE 6 - COMMITMENTS UNDER COMFORT LETTER FOR DEVELOPMENT COMPANY SUBLEASE – *Continued*

Eventual re-payment of the Excess and Finish-out expenses to SAEDC shall be limited to sources set forth in the abovementioned July 9, 2010 Comfort Letter. SAEDC deems its commitment under this Comfort Letter as analogous to a real property operating lease commitment, which under applicable GASB standards would require disclosure of the lease commitment and separate reporting of the related rental/lease expense in the operating statement. Since SAEDC's Development Company Agreement calls for basic rent payments to be made on behalf of the Development Company to be deducted from the overall annual Development Company installment, the subject sub-lease payments are reported as part of the Development Company annual installment payments.

NOTE 7 - COMMITMENT TO FUND RESEARCH FACILITY

On July 28, 2011, SAEDC and the University of Texas Health Science Center at San Antonio (UTHSCSA) approved a July 22, 2010 dated agreement (UTHSCSA Agreement) whereby SAEDC will provide a \$3,300,000 grant to UTHSCSA to help fund construction of UTHSCSA's state-of-the art research building – the South Texas Research Facility ("STRF"). In exchange for SAEDC's \$3,300,000 grant to UTHSCSA, UTHSCSA has agreed to assign to SAEDC a portion of the net equity proceeds, as defined in the UTHSCSA Agreement, from equity interests received by UTHSCSA or its affiliates in Start-Up entities for a period of ten years following the effective date of the agreement. The Start-Up entities are those entities formed as start-up companies based in UTHSCSA Intellectual property and in which UTHSCSA secures an equity interest in each company. In addition to the assignment of its Equity Right, UTHSCSA covenants and agrees to create a specified number of full-time employment positions at the STRF by the end of a twenty-six (26) month period along with other commitments. As of September 30, 2015, UTHSCSA had reported an equity interest in two companies covered under the UTHSCSA Agreement, Rapa Holdings, Inc. and Aspect Oncology, Inc., however the portion of the net equity proceeds as defined in the UTHSCSA Agreement have not been assigned to SAEDC.

SAEDC committed to disbursement of the \$3,300,000 grant fund in installments over a three year period starting in FY 2011. As of September 30, 2014, SAEDC had disbursed its \$3,300,000 commitment under the UTHSCSA Agreement.

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Year Ended September 30, 2015

NOTE 8 – COMMITMENT TO FUND A MEDICAL DEVICE START-UP COMPANY

On September 9, 2012, the City entered into an Agreement with SAEDC whereby the City granted SAEDC \$300,000 for the purpose of SAEDC undertaking an economic development project whereby SAEDC will execute a \$300,000 unsecured Convertible Promissory Note (Note) for the establishment of Innovative Trauma Care, Inc. in San Antonio, where it plans to conduct commercialization of the company's medical device products. Through this Note, the SAEDC will have the option to convert the Note to equity shares of Innovative Trauma Care.

On October 5, 2012, SAEDC disbursed \$300,000 to Innovative Trauma, Inc. ("ITC") under the \$300,000 September 19, 2012 economic development grant from the City of San Antonio. As indicated above, the amount was made to ITC to assist it in establishing US-based commercialization of its operations in San Antonio. In exchange for the \$300,000 disbursement, ITC granted SAEDC, a \$300,000 - 5% Interest-Bearing Convertible Promissory Note. Under the terms of the Note, SAEDC could convert the note into shares of the class and series of ITC's parent corporate stock issued and sold in a Qualified Financing on or before the maturity date of the Note, October 5, 2017. ITC's parent company is a privately-held medical device start-up company head-quartered in Canada. SAEDC was notified by a letter dated October 16, 2012, that ITC's corporate parent completed a Qualified Financing totaling \$3,342,354. On November 8, 2012, SAEDC elected to convert the note into 187,500 shares of Series A Preferred stock in ITC's parent corporation under the above described Note provision. Fair value of \$93,750 for this stock is being reported in SAEDC's financial statements as of September 30, 2015. See Note 3 for more detail on this stock.

NOTE 9 – COMMITMENT TO FUND A STEM CELL RESEARCH COMPANY

On November 21, 2013, the City approved a grant in the amount of \$200,000 to the SAEDC for the purpose of undertaking the StemBioSys, Inc. ("SBS") project, and on the same date the SAEDC Board authorized the execution of a Convertible Promissory Note with SBS in the same amount. SBS is a local bioscience startup company formed in November 2010 by Dr. Xiao-Dong Chen, of the UT Health Science Center, and Dr. Steve Davis, a local dermatologist. While at the UT Health Science Center, Dr. Chen discovered a way to isolate and expand adult stem cells for research, diagnostics, and therapeutic treatments. SBS has secured two patents on its stem cell technology platforms, and has three other patents pending. SBS requested a \$200,000 economic grant from the SAEDC to help fund their continued research and product development, as well as to establish a certified Good Manufacturing Practice (cGMP) facility in San Antonio to do initial manufacturing of stem cells using the SBS patented technology. On May 27, 2014, the SAEDC executed a Convertible Promissory Note (the "Note") for \$200,000 for a loan to SBS creating a \$200,000 note receivable. For the loan, SBS agreed to retain its business operations in San Antonio for the term of the Note or until such time as the SAEDC may exercise its option to convert the note into shares of equity. SBS must also retain and create a minimum of six full-time jobs by December 2014 and pay an average annual salary of at least \$50,000. On November 27, 2014, this Note was converted into 102,534 Series A Preferred shares. Fair value of \$256,335 for this stock is being reported in SAEDC's financial statements as of September 30, 2015. See Note 3 for more detail on this stock.

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Year Ended September 30, 2015

NOTE 10 – RESTRICTED NET POSITION

Unspent amounts from SAEDC's combined City and Master Funding Participation Business Incubator Economic Development Grant (the "Incubator Project"); SAEDC's City funded UTHSCSA – STRF project (the "STRF" project) and the City fund grant for the medical device start-up company project (medical device project) can only be used for these related projects. As a consequence of these "Purpose" restrictions, any un-spent revenues resulting in net position are restricted for the purposes of the Incubator Project STRF project and medical device project. This restriction shall continue until all related project grant contributions are used for these projects or for as long as the grantors require such contributions be maintained intact. As of September 30, 2015, SAEDC's restricted net position was \$431,931.

NOTE 11 - RELATED PARTY TRANSACTIONS

In addition to the Business Incubator Economic Development Grant described in Note 4 above, and the UTHSCSA – STRF grant described in Note 7 above, the City of San Antonio (*who is also SAEDC's sponsor government*), provides SAEDC with administrative support in the form of City employee salary, related fringe and other professional services allocated to SAEDC based on employee time and professional services devoted to SAEDC. As described in Note 1(J) above, the City of San Antonio provided SAEDC a \$300,000 Administrative Support Grant for the current fiscal year.

NOTE 12 – COMMITMENT FOR INVESTMENT FUNDS

In September 2013, The City of San Antonio approved \$500,000 to provide SAEDC with investment funds for future projects. The funds have not been drawn upon as of September 30, 2015. These funds remain available to SAEDC and will be transferred to SAEDC when the investment project is approved by the SAEDC Board of Directors and the City of San Antonio City Council.

NOTE 13 – CONTINGENCIES

As set forth in Note 4 of these disclosure notes, the City requires SAEDC to expend City Incubator Project Grant receipts only on "Allowable Costs" as determined under the related City Agreement. The Agreement defines direct costs expended on this Project as Allowable Costs. Any expended amounts the City deems as non-allowable must be refunded to the City.

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NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 15, 2016, the date the financial statements were available to be issued, and the following issues were noted:

The Business Incubator Economic Development Agreement mentioned in Note 4 above, was amended effective October 1, 2015, whereby the term for creating new development companies and creating 50 full-time employment positions paying a salary of at least \$50,000 or more annually was extended an additional 5 years to expire on August 3, 2020. SAEDC will provide no additional grant funds to this project nor extend any further lease obligation to the Development Company. Under the amended agreement, the contracted Development Company shall create three (3) additional companies whereby the total number of created companies shall amount to eight (8) and plus one manufacturing company in the San Antonio, Texas area. Additionally, equity securities in three additional development companies related to the contracted Development Company and/or its founders were issued to SAEDC on October 1, 2015. These securities consisted of 400,000 shares in Corhythm; 400,000 shares in Neurolink and 500,000 shares in Fe3 company. As a result, SAEDC owns shares of stock in five (5) start-up development companies as of October 1, 2015.

As security for the contracted development company's commitment to create an additional three (3) development companies and create 50 full-time employment positions paying at least \$50,000 or more by August 3, 2020, the contracted Development Company has pledged stock consisting of an additional 500,000 founder's shares in the Fe3 company and 685,000 units in Rani Therapeutics, LLC with a total value of \$5,000,000 (which value is based on a recent May 2015 financing, as confirmed by the company's counsel). As additional security for the contracted Development Company's commitment, the Development Company's founder has pledged his 400,000 founder's shares in Corhythm and his 400,000 founder's shares in Neurolink. If the development company fails to achieve the above goals, SAEDC may gain title to the above pledged securities and be reimbursed for certain dollar amounts in increments set forth within phased dates and goals in the amended agreement.