

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, 2017

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

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LEAL & CARTER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Frank J. Leal, CPA
Roberto Carter, CPA

16011 University Oak
San Antonio, Texas 78249
Telephone: (210) 696-6206
Fax: (210) 492-6209

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, 2017, 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, 2017, and the respective changes in financial position and its cash flows for the year 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 and budgetary comparison information on pages 3 through 7 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.



San Antonio, Texas

January 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio Economic Development Corporation (“SAEDC” or “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, 2017. 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 City Council Economic and Workforce Development Committee, Chair of the City Council Transportation Committee and three citizens at-large appointed by the City Council.

On September 27, 2016, the SAEDC Board approved a Resolution adopting an annual budget for FY 2017. The SAEDC Bylaws require City Council approval of the corporation's annual budget and any amendments to its Bylaws. The City Council approved the SAEDC FY 2017 Budget on September 29, 2016. The FY 2017 SAEDC Budget included as revenues a grant of \$200,000 to the SAEDC from the City’s General Fund Budget for FY 2017.

On June 17, 2010, the SAEDC Board approved a Resolution authorizing an Economic Development Agreement (EDA) with the City of San Antonio in support of the InCube Labs project and a Resolution approving the EDA between the SAEDC and InCube Labs, LLC. in the amount of \$10,000,000. Funding for the Incube Labs project came from a \$6,000,000 grant to the SAEDC from the City and funding through a Master Funding Participation Agreement (MFPA) with Bexar County (\$2,000,000), the Texas Research and Technology Foundation (\$1,000,000) and \$500,000 each from the University of Texas San Antonio (UTSA) and the University of Texas Health Science Center at San Antonio (UTHSCSA).

Through the EDA with InCube Labs, the SAEDC provided funding of \$2,000,000 per year over five years requiring InCube Labs to establish a bioscience incubator in San Antonio and relocate three existing InCube startup companies to San Antonio. Both Agreements have been finalized and executed with all related funds disbursed. On June 16, 2015, the SAEDC Board and City Council approved an Amendment to the InCube EDA to extend the EDA an additional five years, with no additional funding, through August 3, 2020. The community partners in the MFPA all concurred in the Amendment to the EDA. In exchange for the five-year extension to the EDA, InCube Labs pledged additional collateral to the SAEDC equaling \$5,000,000; to provide SAEDC the 5% founders shares on five companies incubated through Incube Labs to satisfy the current EDA; to provide an additional 5% founders shares on at least 3 new companies, for a total of 8 companies, to SAEDC by August 3, 2020; and to create at least 50

jobs by August 3, 2020. As of September 30, 2017, the SAEDC owned 5% of the Founders Shares in five Incube Labs companies located and conducting business activities in San Antonio.

On July 22, 2011, the SAEDC entered into an EDA with UTHSCSA to assist in financing completion of the South Texas Research Facility (STRF) which was completed in October 2011. The STRF was facing an \$8,000,000 gap to finish construction and fully equip these research facilities. The City granted funds to the SAEDC in the amount of \$3,300,000 for the SAEDC to invest in the STRF at \$1,100,000 per year for 3 years starting in 2012 with the final payment made in 2014.

The SAEDC's \$3,300,000 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. For the investment, UTHSCSA entered into an EDA 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, 2017, UTHSCSA had reported to the SAEDC an equity interest in seven companies covered under the Agreement with no returns yet realized.

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 with Innovative Trauma Care ("ITC"). The SAEDC executed a \$300,000 unsecured Convertible Promissory Note for the establishment of ITC headquarters in San Antonio to conduct 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 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. The SAEDC is still holding these 187,500 shares of preferred stock in ITC.

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 at BioBridge Global 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. The SAEDC is still holding 102,534 share of SBS preferred stock.

On November 11, 2013, City Council approved a grant in the amount of \$500,000 to the SAEDC to establish an Investment Fund and make investment in companies located in or relocating to San Antonio. On August 5, 2016, the SAEDC used \$100,000 from this Investment Fund to enter into an economic development agreement with ParLevel Systems Inc. (“ParLevel”), a cloud based vending management system founded in 2012 and located in San Antonio, TX. ParLevel offers software and hardware platforms for food and beverage sellers, distributors and manufacturers. In the agreement, SAEDC would make an investment of \$100,000 with ParLevel Systems in return for a 6% Interest-Bearing Convertible Promissory Note. In addition to the Note, ParLevel is required to maintain at least 30 full time jobs and add another 10 jobs for a total of 40 full time jobs in San Antonio, and pay at least the City’s minimum living wage of \$11.68/hr. On January 31, 2017, the SAEDC converted the Note to 148,594 shares of ParLevel stock and is still holding these shares.

On October 5, 2016, the SAEDC used another \$100,000 from the Investment Fund to enter into an economic development agreement with HelpSocial, Inc. HelpSocial, Inc. was founded in 2014 and, like ParLevel, is a graduate of the Techstars Cloud accelerator program in San Antonio. It develops web and mobile apps for integrating social media to support customer service center operations and sells their software platform to major contact center software companies, such as inContact. In this agreement, SAEDC would make a \$100,000 investment with HelpSocial in exchange for 285,144 shares of preferred stock in the Company. In addition to the preferred stock, the Company is also required to have at least 10 full time employees by the end of 2017 and maintain its headquarters and business operation in San Antonio for at least 3 years. The SAEDC is still holding the 285,144 shares of HelpSocial preferred stock.

On March 13, 2017, the SAEDC used \$150,000 from the Investment Fund to enter into an economic development agreement with bioAffinity Technologies, Inc. bioAffinity is a startup company who has developed a unique platform for cancer diagnostics and targeted therapeutics. In this agreement, SAEDC would make a \$150,000 investment with bioAffinity in exchange for 150,000 shares of the company stock and \$45,000 of warrants to acquire additional stock. In addition to the equity stake, bioAffinity is also required to create seven (7) full time employee to add to its current six (6) full time employee, for a total of thirteen (13) employees, at the project site within twelve (12) months of contract execution. As of end of FY 2017, the SAEDC was still holding the 150,000 shares of bioAffinity common stock and had not yet exercised the warrants.

Financial Highlights

The assets of the corporation exceeded its liabilities by \$1,014,631 (net position) as of the end of the current fiscal year (2017). This amount represents restricted net position, which increased by \$309,006 from the previous fiscal year.

The increase in restricted net position is due to grants received for investments with HelpSocial (\$100,000), bioAffinity (\$150,000) which is reported in non-current assets, and an increase in Cash (\$59,006) from a grant received by the City.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction of the 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.

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

	2017	2016	Variance	% Change
Assets:				
Current Assets	\$ 164,631	\$ 105,625	\$ 59,006	56%
Non-Current Assets	850,000	600,000	250,000	42%
Total Assets	<u>\$1,014,631</u>	<u>\$ 705,625</u>	<u>\$ 309,006</u>	<u>44%</u>
Net Position:				
Restricted Net Position	<u>\$1,014,631</u>	<u>\$ 705,625</u>	<u>\$ 309,006</u>	<u>44%</u>
Total Net Position	<u>\$1,014,631</u>	<u>\$ 705,625</u>	<u>\$ 309,006</u>	<u>44%</u>

**Condensed Statement of Revenue, Expenses and
Changes in Net Position**

	2017	2016	Variance	% Change
Operating Revenues				
Contributions - Administrative Support	\$ 200,000	\$ 300,000	\$ (100,000)	-33%
Contributions - Projects	250,000	12,808	237,192	1852%
Total Operating Revenue	<u>\$ 450,000</u>	<u>\$ 312,808</u>	<u>\$ 137,192</u>	<u>44%</u>
Operating Expenses				
Total Operating Expenses	<u>\$ 140,994</u>	<u>\$ 189,028</u>	<u>\$ (48,034)</u>	<u>-25%</u>
Operating Income (Loss)	<u>\$ 309,006</u>	<u>\$ 123,780</u>	<u>\$ 185,226</u>	<u>150%</u>
Nonoperating Revenues and (Expenses)				
Program Revenues and (Expenses)	\$ -	\$ -	\$ -	0%
Net Nonoperating Revenue and (Expenses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0%</u>
Increase (Decrease) in Restricted Net Position	\$ 309,006	\$ 123,780	\$ 185,226	150%
Net Position at the Beginning of Year	705,625	431,931	273,694	63%
Prior Year Adjustment	-	149,914	(149,914)	-100%
Net Position at the End of Year	<u>\$ 1,014,631</u>	<u>\$ 705,625</u>	<u>\$ 309,006</u>	<u>44%</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, 2017

ASSETS

Current Assets

Restricted Assets:

Cash and Cash Equivalents	\$ 164,631
Accounts Receivable, net of allowance for doubtful accounts of \$232,042	<u>-</u>

Total Restricted Assets	<u>164,631</u>
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Total Current Assets	<u>164,631</u>
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Non-Current Assets

Equity Securities from Economic Development Programs	<u>850,000</u>
Total Non-Current Assets	<u>850,000</u>

Total Assets	<u>\$ 1,014,631</u>
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LIABILITIES AND NET POSITION

Net Position:

Restricted Net Position	<u><u>\$ 1,014,631</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, 2017

Operating Revenues:

Contributions - Administrative Support	\$ 200,000
Contributions - Projects	250,000
Total Operating Revenues	<u>450,000</u>

Operating Expenses:

Legal and Professional services	30,007
Salaries	85,902
Travel	7,334
Sponsorships	13,500
Other	4,251
Total Operating Expenses	<u>140,994</u>

Operating Income (Loss)	<u>309,006</u>
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Nonoperating Revenues and (Expenses):

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

Increase (Decrease) In Restricted Net Position	309,006
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Net Position at the Beginning of Year	705,625
Net Position at the End of Year	<u><u>\$ 1,014,631</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, 2017

Cash Flows From Operating Activities:

Contributions - Administrative Support	\$ 200,000
Contributions - Projects	250,000
Legal and Professional services	(30,007)
Salaries	(85,902)
Travel	(7,334)
Other	(17,751)
Net cash provided (used) by operating activities	<u>309,006</u>

Cash Flows from Investment Activities:

Equity Securities from Economic Development Programs	(250,000)
Net cash provided (used) by investing activities	<u>(250,000)</u>
Net Increase (Decrease) in cash and cash equivalents	59,006
Cash and cash equivalents at beginning of year	105,625
Cash and cash equivalents at end of year	<u>\$ 164,631</u>

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

Change in Operating Income	\$ 309,006
Net cash provided (used) by operating activities	<u>\$ 309,006</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, 2017

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 in undertaking economic development projects on behalf of the City.

A. REPORTING ENTITY

The governing board of SAEDC consists of seven members appointed by the City. The City may also unilaterally dissolve the 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.

Under applicable state economic development statutes, SAEDC may issue tax-exempt debt with the approval of the City. 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 (“GASB”). Under those GASB standards, SAEDC is also considered a component unit of the City for purposes of the City’s annual financial statement reporting. Under such standards, SAEDC has no includable component units within its annual financial statements.

The SAEDC budget requires approval by the SAEDC board and by the City Council.

B. BASIC FINANCIAL STATEMENTS

SAEDC’s basic financial statements are reported following GASB rules 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 AND MEASUREMENT FOCUS

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. GASB standards require SAEDC to present its financial statements 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. Additionally, SAEDC uses the flow of economic resources measurement focus.

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.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

Notes to Financial Statements

Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

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, 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, 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.
- Unrestricted – all other net position is reported in this category

H. TAX STATUS

SAEDC was formed as a Texas non-profit corporation and instrumentality of the City 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 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.

I. USE OF ESTIMATES

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

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

Notes to Financial Statements

Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

J. POLICY OF USE OF RESTRICTED RESOURCES

During the current fiscal year, SAEDC received administrative support through a \$200,000 Grant from the City. 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. Unspent 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, 2017, SAEDC's cash consisted of \$164,631 in demand deposits with a local bank that is covered by depository insurance. SAEDC's cash balance represents unspent contributions expendable only on economic development projects and related activity. Accordingly, this cash balance is reported as restricted.

NOTE 3 - EQUITY SECURITIES RESULTING FROM ECONOMIC DEVELOPMENT PROGRAMS

As of September 30, 2017 SAEDC holds equity securities in ten (10) non-publicly traded start-up development stage companies as a result of its economic development programs. Securities in five of these companies consisted of stock in companies created under the Business Incubator Development Grants (BIDG) described in Note 4 and Note 5. These securities represent the five (5) percent founder's share of created start-up companies provided for under the BIDG. Stock in the other three start-up development-stage companies represents securities resulting from the conversion of initial SAEDC convertible-debt in each of these three companies as describe in Note 8, Note 9 and Note 10. Stocks in the remaining two companies represent securities resulting from direct investment as part of an economic development agreement, as described in Note 11 and Note 12.

Under the newly issued GASB 72 – *Fair Value Measurements and Applications*, a hierarchy of inputs to valuation techniques must be used to measure fair value of a local government's investments. GASB 72 is effective for periods that begin after June 15, 2015. The Provisions of GASB 72 have clarified that the primary purpose of SAEDC's economic development expenditures are to promote economic development and thus any resulting securities are not deemed as "investments" subject to the "fair value" measurements of GASB 72. In accordance with these guidelines, SAEDC equity securities resulting from economic development related activities, such as conversions of direct economic development loans to start-up companies ("converted equity securities"), are measured on the cost basis of the original loans. Such securities are disclosed below.

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

Notes to Financial Statements

Year Ended September 30, 2017

NOTE 3 - EQUITY SECURITIES RESULTING FROM ECONOMIC DEVELOPMENT PROGRAMS - *Continued*

- *Shares of stock in companies created under the BIDG.* As of the year ended September 30, 2017, SAEDC has received equity securities in five (5) companies created under its economic development agreement with InCube Labs (“InCube”). As explained above, these resulting equity securities did not result from a direct SAEDC investment or loan in the subject created companies, but are a result of the BIDG with InCube. As a consequence, these securities are not considered “investments” subject to GASB 72, so no value has been reported for these equity securities within the accompanying financial statements. A listing of these created companies and related shares therein follows:

a) Corhthym, Inc.	400,000 Shares
b) Neurolink, Inc.	400,000 Shares
c) Fe3 Medical	500,000 Shares
d) iBridge Medical, LLC	175,000 Shares
e) Theracle, Inc.	175,000 Shares

- *Equity securities resulting from converted loans.* Equity securities in StemBioSys, Inc. (SBS), Innovative Trauma Care (ITC), and ParLevel Systems, Inc. resulted from an economic development agreement (EDA). SAEDC provided convertible loans to SBS (Note 9), ITC (Note 8), and ParLevel (Note 10) in exchange for these companies relocating to San Antonio and creating jobs. These loans included options whereby SAEDC could convert these loans to preferred stock. SAEDC exercised its options and converted all three loans to equity securities consisting of preferred stock in the three companies. With the implementation of GASB 72, equity securities resulting from the conversion of direct loans (“converted equity securities”) are measured at the cost basis of the original loans. The converted Equity Securities are reported in the Statement of Net Position at the cost basis of the related original direct loans. Shares received are as follows :

a) Innovative Trauma Care, Inc. - 187,500 Shares	\$ 300,000
b) Stembiosys, Inc. - 102,534 Shares	200,000
c) ParLevel - 148,594 Shares	<u>100,000</u>
	<u>\$600,000</u>

SAN ANTONIO ECONOMIC DEVELOPMENT CORPORATION

(A Component Unit of the City of San Antonio)

Notes to Financial Statements

Year Ended September 30, 2017

NOTE 3 - EQUITY SECURITIES RESULTING FROM ECONOMIC DEVELOPMENT PROGRAMS - *Continued*

- *Equity securities resulting from direct investment.* Equity securities in HelpSocial, Inc. (Note 11) and BioAffinity (Note 12) resulted from an EDA where SAEDC made direct investments in exchange for both companies retaining business operations in San Antonio and retaining and creating additional jobs. The direct EDA investment securities are reported at the cost basis in the accompanying Statement of Net Position under non-current assets. Shares received are as follows:

a) <i>HelpSocial, Inc.</i> - 285,143 Shares	\$ 100,000
b) <i>BioAffinity</i> – 150,000 Shares	<u>150,000</u>
	<u>\$ 250,000</u>

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

In June 2010, SAEDC entered into an economic development agreement with the City whereby the City provided SAEDC \$10,000,000 in an economic development grant to undertake an economic development project in the City. In conjunction with this Agreement, on October 19, 2010, a Master Funding Participation Agreement (MFPA) 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 City and MFPA, up to \$4,000,000 of the City’s \$10,000,000 grant were funded by the above listed grantors, with the balance funded by the City. The entire \$10,000,000 was paid 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 was paid to the SAEDC from combined City and MFPA in three \$2,000,000 installments that began on June 2011 and each succeeding year thereafter. The final \$1,500,000 installment was made in June 2014.

The purpose of the economic development project was to attract a research and development company, Incube Labs, LLC., (the “Development Company”) to San Antonio to accomplish the following:

- Commit to establish a life-science and technology business incubator in San Antonio;
- Commit to create a certain number of 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 at the project site paying annual salaries at specified annual ranges.

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

The City required 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. The City may also suspend any future installments if any required reports (compliance or otherwise) under this agreement are not provided to the City as prescribed. In addition to the above City requirements, the MFPA calls for its grantors to be entitled to a pro-rata share in Founder’s shares of start-up entities created at the project site. 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 grantors, TRTF, is also the owner of another development company (T3DC) that sub-leased business office and development space from the Development Company (Incube Labs).

SAEDC has determined that the revenue recognition criteria of the Voluntary Non-exchange Transactions provisions of GASB statement 33 apply to the above City and MFPA. 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 has deemed the City grant agreement’s requirements pertaining to SAEDC’s formation purpose and City and MFPA’s funded commitments as eligibility requirements have been met.

NOTE 5 - DEVELOPMENT COMPANY AGREEMENT COMMITMENTS

In conjunction with the BIDG, SAEDC entered into a development agreement with Incube Labs, LLC. (“Incube”). Under this agreement, SAEDC paid 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 the City and MFPA BIDG with the SAEDC. The EDA agreement obligates Incube to 1) create/incubate or relocate 5 new development companies to the project site and 2) create 50 new full-time jobs paying a salary of at least \$50,000 or more annually at the project site. The term of the agreement is ten (10) years running in conjunction with SAEDC’s development agreement with the City and the MFPA.

The five (5) annual \$2,000,000 installments to Incube commenced on June 2010 and continued every succeeding year thereafter on or before June 30 of each year. These annual installments were reduced by \$200,000 for 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 Incube from an affiliate of a grantor non-profit entity participating in this economic development project.

On June 16, 2015 the SAEDC board authorized the negotiation and execution of a Second Amendment to the Agreement with Incube which would extend the term of the Agreement, by another five years, to end on August 3, 2020. The second amendment did not include additional grant funding.

On June 18, 2015, the City Council approved an Amendment to its Economic Development Grant Agreement with the SAEDC for an additional five years under the same terms and conditions. It does not include additional funding for the economic development project nor does it include any extension of the lease obligation of SAEDC to the Development Company.

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NOTE 5 - DEVELOPMENT COMPANY AGREEMENT COMMITMENTS - *Continued*

The BIDG, was amended effective October 1, 2015, whereby the term for 1) creating new companies and 2) creating 50 new full-time jobs and paying a salary of at least \$50,000 or more annually was extended by an additional 5 years. The amended term is set to expire on August 3, 2020. The SAEDC will provide no additional grant funds to this project nor extend any further lease obligation to Incube. Under the amended agreement, Incube shall create or relocate three (3) additional companies to the project site, for a total of eight (8) companies, and one manufacturing company to the San Antonio, Texas area.

Incube pledged investment securities it owned in affiliated start-up research and development companies to secure its commitment to reach the BIDG agreement requirements. If it does not reach the agreed upon requirements, SAEDC may acquire the pledged securities among other remedies. A Pledge agreement between the SAEDC and Incube has been executed whereby SAEDC holds the aforementioned pledged stock as collateral until Incube has achieved the above performance goals. The pledged stock is in one (1) private non-publicly traded research and development start-up company affiliated with the Incube, valued at \$5 million, as of its' May 2, 2015 valuation. Such collateral will be reduced as the Development Company meet its established milestones, with 20% of the collateral remaining until the term of the agreement ends or until it has met all its milestones, whichever comes first.

On April 2013, SAEDC received 5% of the Founders Shares in two companies (iBridge and Theracle) created at the project site. The equity received consisted of 175,000 shares of common stock in Theracle, Inc. and 175,000 shares of common stock in iBridge Medical, LLC. On October 2015, SAEDC received 5% of the Founders Shares in three companies (Corhthym, Neurolink, and Fe3 Medical) created at the project site. The equity received consisted of 400,000 shares of common stock in Corhthym, Inc., 400,000 shares of common stock in Neurolink, Inc., and 500,000 shares of common stock in Fe3 Medical. The above pledged stock and the above mentioned Founders Shares are not publicly traded.

As collateral for Incube's commitment to create or relocate the additional three (3) companies and create 50 new full-time jobs paying at least \$50,000 or more at the project site by August 3, 2020, it has pledged stocks with a carrying value of \$5,000,000 (based on a May 2015 financing round, as confirmed by the company's counsel). As additional security for Incube'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 as collateral. 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.

As of September 30, 2017, SAEDC owns shares of stock in five (5) start-up companies created at or relocated to the project site.

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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 re-located to and the location on which the activities of the BIDG are being conducted. The sublease is between Incube Labs, the Development Company, and a sub-lessor (T3DC) who is also affiliated with TRTF. TRTF is one of the grantors in the MFPA. The SAEDC Comfort Letter indicates that SAEDC expressly agrees to its obligation to fund the Development Company's rent (under the sublease) and related Excess Lease Payments (Common area, Insurance and taxes) shall continue throughout the term of the sublease. This sub-lease covered a term that began on August 1, 2010 and ended on November 30, 2015.

The lease payments did not include a \$15,580 deposit funded by SAEDC on behalf of the Development Company. In addition to the Excess Lease Payments, SAEDC also funded 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 (T3DC). Accordingly, SAEDC has recorded these costs totaling \$232,042 as accounts receivable in SAEDC's financial statements. Since SAEDC is unable to ensure these amounts are fully collectible, management deems an allowance for any uncollectible amounts on the full balance. 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.

On August 23, 2016, SAEDC sent an updated Comfort letter to TRTF finalizing the amount owed by TRTF and its affiliated development company, T3DC. Eventual re-payment to SAEDC shall be limited to sources set forth in the Comfort Letter.

NOTE 7 - COMMITMENT TO FUND RESEARCH FACILITY

On July 28, 2011, SAEDC and UTHSCSA approved a July 22, 2010 agreement (UTHSCSA Agreement) whereby SAEDC provided 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 agreed to assign to SAEDC a portion of the net equity proceeds 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, 2017, UTHSCSA had reported an equity interest in seven companies covered under the UTHSCSA Agreement, Rapamycin Holdings, Inc., StemBioSys, SynOsteo, Digital Biopsy, NanoTX Therapeutics, AstroCyte Pharma, and Echolase, however the portion of the net equity proceeds as defined in the UTHSCSA Agreement have not been assigned to SAEDC. SAEDC disbursed the \$3,300,000 grant fund in installments over a three year period starting in FY 2011 and ending in FY 2013.

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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 to undertake an economic development project and execute a \$300,000 unsecured Convertible Promissory Note (“Note”) with Innovative Trauma Care, Inc. (“ITC”) to conduct commercialization of the company’s medical device products in San Antonio.

On October 5, 2012, SAEDC disbursed \$300,000 to Innovative Trauma, Inc. and 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 headquartered 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.

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 UTHSCSA, and Dr. Steve Davis, a local dermatologist. While at UTHSCSA, 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. 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.

NOTE 10 – COMMITMENT TO FUND A SYSTEM MANAGEMENT COMPANY

On November 11, 2013, the City entered into an Agreement with SAEDC whereby the City granted SAEDC \$500,000 to establish an investment fund for purpose of making investments in companies located in or relocating to San Antonio.

On June 30, 2016, the City authorized SAEDC to undertake an economic development project with ParLevel System Inc. (“ParLevel”) in the form of an unsecured Convertible Promissory Note in the amount of \$100,000.

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NOTE 10 – COMMITMENT TO FUND A SYSTEM MANAGEMENT COMPANY - *Continued*

On August 3, 2016, SAEDC entered into an economic development agreement with ParLevel Systems Inc. and disbursed \$100,000 to assist it with their business operations in San Antonio. In exchange, ParLevel is required to meet certain economic development metrics and grant SAEDC, a \$100,000 - 6% Interest-Bearing Convertible Promissory Note. Under the terms of the economic development agreement, ParLevel is required to create 10 new jobs by December 2017, for a total of 40 full-time employees at the facility, and maintain its headquarters in San Antonio throughout the term of the agreement set to expire 3 years from August 3, 2016. Additionally, SAEDC could convert the convertible note into shares of ParLevel's corporate stock issued upon a) a Qualified Financing occurs prior to the Maturity Date, b) At maturity date of Note, February 5, 2018, or c) conversion upon change of control. On January 31, 2017, SAEDC converted the ParLevel Note to 148,594 shares of the company stock.

NOTE 11 – COMMITMENT TO FUND A MOBILE AND WEB APP COMPANY

On September 29, 2016, the City authorized SAEDC to undertake an economic development project with Helpsocial, Inc. ("Helpsocial") in the form of a direct investment in the amount of \$100,000. SAEDC received \$100,000 from the City for this project, and this amount is reported in Contributions – Projects in the accompanying financial statements.

On October 5, 2016, SAEDC entered into an economic development agreement with Helpsocial and disbursed \$100,000 to the company to assist it with business expansion in San Antonio. In exchange, Helpsocial granted 285,143 shares of its Series Seed Preferred Stock to SAEDC. Additionally, under the term of the economic development agreement, Helpsocial is required to add four (4) new full time employees (FTE) to its current six (6) FTEs, for a total of 10, by December 31, 2017.

NOTE 12 – COMMITMENT TO FUND A CANCER DIAGNOSTIC COMPANY

On March 09, 2017, the City authorized SAEDC to undertake an economic development project with bioAffinity Technologies, Inc. ("bioAffinity") in the form of a direct investment in the amount of \$150,000. SAEDC received \$150,000 from the City for this project, and this amount is reported in Contributions – Projects in the accompanying financial statements.

On March 13, 2017, SAEDC entered into an economic development agreement with bioAffinity and disbursed \$150,000 to the company to assist it with business expansion in San Antonio. In exchange, the company granted 150,000 common shares to SAEDC and a warrant to purchase up to \$45,000 worth of the Company's shares at the newly offered price. Additionally, under the term of the economic development agreement, bioAffinity is required to add seven (7) full time jobs to its current six (6) full time jobs, for a total of thirteen (13) full time jobs at the project site by March 13, 2018.

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NOTE 13 – RESTRICTED NET POSITION

Unspent amounts from SAEDC's combined City and MFPA BIDG; STRF project; the City fund grant for the medical device start-up company project (medical device project); the stem cell research project; and the System Management project can only be used for these related projects. As a consequence of these "Purpose" restrictions, any unspent revenues resulting in net position are restricted for the purposes of these respective projects. 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, 2017, SAEDC's restricted net position was \$1,014,631.

NOTE 14 - RELATED PARTY TRANSACTIONS

In addition to the BIDG and the STRF grant, the City 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 provided SAEDC a \$200,000 Administrative Support Grant for the fiscal year 2017.

NOTE 15 – COMMITMENT FOR INVESTMENT FUNDS

In September 2013, The City of San Antonio approved \$500,000 to provide SAEDC with investment funds for future projects. SAEDC used \$100,000 of that investment fund in an economic development project with ParLevel, \$100,000 with Helpsocial, and \$150,000 with bioAffinity. As of September 30, 2017, \$150,000 remains in the SAEDC investment fund. These funds remain available to SAEDC and will be transferred to SAEDC when an investment project is approved by the SAEDC Board of Directors and the City Council.

NOTE 16 – CONTINGENCIES

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.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 23, 2018, the date the financial statements were available to be issued. There are no subsequent events to report.