

**SOUTH TEXAS
DEVELOPMENT COUNCIL**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2014

SOUTH TEXAS DEVELOPMENT COUNCIL

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Texas Development Council
Laredo, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of South Texas Development Council (the "Council"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Texas Development Council, as of September 30, 2014, and the respective changes in financial position 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 on pages 3 through 8 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, issued by the Governor's Office of Budget and Planning, and is also not a required part of the basic financial statements.

The supplemental schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



Brownsville, Texas
June 17, 2015

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis

This section of the South Texas Development Council (STDC) annual report offers a narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental schedules.

FINANCIAL HIGHLIGHTS

- The assets of South Texas Development Council exceeded its liabilities as of September 30, 2014, by \$870,892 (net position). Of this amount, \$206,456 (unrestricted net position) may be used to meet the Council's ongoing obligations.
- The Council's total net position decreased by \$7,542.
- As of the close of the current fiscal year, South Texas Development Council's governmental funds reported combined ending fund balances of \$578,972 an increase of \$4,619 in comparison with the prior year.
- As of September 30, 2014, unassigned fund balance in the General Fund was \$146,527.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to STDC's basic financial statements. These statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements – The government-wide statements are designed to provide readers with a broad overview of STDC's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of STDC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of STDC.

The Statement of Activities presents information showing how STDC's net position changed during the fiscal year. All changes in net position are reported when an event that gives rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused compensated absences). The government-wide financial statements can be found on pages 9 through 10 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. STDC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds – Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the Council’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

STDC maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Texas Department of Aging and Disabilities Services Fund, the Texas Department of State Health Services, the U. S. Department of Homeland Security Fund, and the Commission on State Emergency Communications Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

STDC’s Board approves a financial plan for revenue and expenditures in all funds. Although the financial plans are reviewed and approved by STDC’s Board, they are not considered legally adopted annual budgets or appropriations. Accordingly, comparative budget and actual results are not presented in this report.

The basic governmental fund financial statements can be found on pages 11 through 13 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the governmental fund financial statements.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and other schedules that further support the information in the financial statements. The combining fund statements for non-major funds and other schedules can be found immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In STDC’s case, assets exceeded liabilities by \$870,892 as of September 30, 2014.

SOUTH TEXAS DEVELOPMENT COUNCIL’S NET POSITION

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Current assets	\$ 1,697,750	\$ 1,609,409
Noncurrent assets	-	9,000
Capital assets	<u>291,920</u>	<u>304,081</u>
Total assets	<u>1,989,670</u>	<u>1,922,490</u>
Current liabilities	996,138	950,423
Noncurrent liabilities	<u>122,640</u>	<u>93,633</u>
Total liabilities	<u>1,118,778</u>	<u>1,044,056</u>
Net position:		
Net investment in capital assets	291,920	304,081
Restricted	372,516	372,122
Unrestricted	<u>206,456</u>	<u>202,231</u>
Total net position	<u>\$ 870,892</u>	<u>\$ 878,434</u>

A large portion of STDC’s net position \$291,920 reflects its investment in capital assets. STDC uses these assets to provide services; consequently, these values are not available for spending. Of the remaining balance, \$372,516 is restricted and can be used only for certain purposes and \$206,456 is unrestricted and may be used to meet the Council’s ongoing needs.

The Council’s Total Assets increased by \$67,180 during the year. This was primarily due to an increased in grant receivables from grantor agencies. Total liabilities increased by \$74,722 this was primarily attributable to the increased in bank overdraft. The Council’s net position decreased during the year by \$7,542.

Analysis of STDC's Operations – The following table provides a summary of STDC's operations for the year ended September 30, 2014.

**SOUTH TEXAS DEVELOPMENT COUNCIL'S
CHANGES IN NET POSITION**

	Governmental Activities	
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 80,460	\$ 68,400
Operating grants and contributions	7,089,040	7,808,479
General revenues:		
Other	104,019	80,634
Investment earnings	2,649	3,991
Total revenues	7,276,168	7,961,504
Expenses:		
General government	290,223	63,279
Housing and urban development	1,156,287	1,926,685
Environmental quality	26,589	222,258
Transportation	-	791
Emergency communications	410,007	386,160
Aging	1,840,600	1,826,496
HIV intervention and prevention	3,508,403	3,489,839
Criminal justice	-	-
Community outreach	-	-
Economic development	51,601	106,523
Total expenses after allocation of indirect costs	7,283,710	8,022,031
Change in net position	(7,542)	(60,527)
Net position, beginning	878,434	938,961
Net position, ending	\$ 870,892	\$ 878,434

The Council experienced a decrease in program revenues of \$707,380 or 9.98% from 2013. Expenses decreased by \$738,321 or 9.2% from the prior year. The Council's operations are driven primarily by federal and state grant funding, which can vary widely from year to year. The current year reduction in revenues and expenses was primarily the result of a decrease in grant funding for the Homeland Security program.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

Governmental funds – The focus of STDC’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing STDC’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, South Texas Development Council’s governmental funds reported combined ending fund balances of \$578,972. The General Fund had an increase in fund balance of \$4,619 from the prior year.

CAPITAL ASSETS AND LONG-TERM DEBT

STDC’s investment in capital assets for its governmental activities as of September 30, 2014, amounts to \$291,920 (net of accumulated depreciation). This investment in capital assets consists of the following:

**SOUTH TEXAS DEVELOPMENT COUNCIL’S
CAPITAL ASSETS AT YEAR-END**

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Capital assets (net of accumulated depreciation):		
Land	\$ 151,431	\$ 151,431
Buildings and improvements	140,489	145,172
Equipment	<u>-</u>	<u>7,478</u>
 Total capital assets, net of accumulated depreciation	 \$ <u>291,920</u>	 \$ <u>304,081</u>

There were no significant capital purchases during the fiscal year.

There were no debt issues during the current fiscal year.

ECONOMIC FACTORS AND NEXT YEAR’S ANNUAL FINANCIAL PLAN

The South Texas Development Council is dependent on federal, state and local funding, which can vary widely from year to year. The federal and state economic condition and budget deficits can impact the reauthorization of funds available to local governments. It should be noted that STDC does not know of any significant factors that would affect the financial plan for fiscal year 2015.

ECONOMIC FACTORS AND NEXT YEAR'S ANNUAL FINANCIAL PLAN

The South Texas Development Council is a voluntary association of local governments in the four (4) county regions of Jim Hogg, Starr, Webb, and Zapata Counties. According to the Texas State Data Center, the region has seen a 4.4% growth rate from 2010 to 2013, with a population of 346,166 people living in the region¹. Similarly the South Texas labor force has grown by 7.47% from 104,043 in 2013 to 111,815 in 2014. The region had an 5.1% unemployment rate in 2014, which increased from 3.23% in 2012, compared to the state unemployment rate of 6.1% in 2013 and 6.5% in 2012.²

Major industries in the region are: Education and Health Services, followed by Trade, Transportation and Utilities; which consist of 39.70% and 32.40% of the total employment respectively, within the STDC Area. The region also has a well diversified workforce with the largest projected (projected through 2022) growing industries being: Education and Health services by 24.6% (or 7,270 persons); Government by 20.8% (or 1,960 persons); Leisure & Hospitality by 26.4% (or 2,510 persons); and Professional & Business Services by 22.4% (or 1,660 persons)³. Another industry, that will have the second largest impact in terms of persons employed and not growth rate, following Education & Health Services, would be Trade, Transportation & Utilities which will add 5,980 jobs (but will have a projected growth rate of 20.3%). Total employment for the region to 2022 is expected to grow an average of 21.1% across all industries.

The STDC region is home to the nation's largest inland port, located in the City of Laredo, Webb County, and international border crossings can be found in all three of the counties bordering Mexico. Between 2011 and 2014, commercial crossings along the STDC reported an increase of 7.36%⁴.

The South Texas Development Council is dependent on federal, state and local funding, which can vary widely from year to year. The federal and state economic condition and budget deficits can impact the reauthorization of funds available to local governments. It should be noted that STDC does not know of any significant factors that would affect the financial plan for fiscal year 2015.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of STDC's finances. If you have questions about this report or need any additional information please, contact Sergio Vigil, Finance Director, at 1002 Dicky Lane, Laredo, Texas 78043, or call (956) 722-3995.

¹Texas State Data Center, Estimates of the Total Population of Counties and Places in Texas for July 1, 2012 and January 1, 2013, http://txsdc.utsa.edu/Resources/TPEPP/Estimates/2012/2012_txpopest_cog.pdf

² Labor Market Career Information, "Data Link" <http://www.tracer2.com/?PAGEID=67&SUBID=120>

³ Texas Workforce Commission, TRACER, "Labor Market Information Projections-Industry" <http://www.tracer2.com/cgi/dataanalysis/AreaSelection.asp?tableName=Indprj>

⁴ U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, based on data from the Department of Homeland Security, U.S. Customs and Border Protection, Office of Field Operations

BASIC FINANCIAL STATEMENTS

SOUTH TEXAS DEVELOPMENT COUNCIL

STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

(with comparative information at September 30, 2013)

	Primary Government	
	Governmental Activities	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 406,702	\$ 455,002
Receivables:		
Grantors	1,210,695	1,080,968
Notes	20,399	26,461
Other	25	981
Prepaid expenses	59,929	45,997
Total current assets	1,697,750	1,609,409
Noncurrent assets:		
Notes receivable	-	9,000
Capital assets (net of accumulated depreciation)		
Land	151,431	151,431
Buildings and improvements	140,489	145,172
Machinery and equipment	-	7,478
Total capital assets (net of accumulated depreciation)	291,920	304,081
Total noncurrent assets	291,920	313,081
Total assets	1,989,670	1,922,490
LIABILITIES		
Bank overdraft	705,829	566,680
Accounts payable	290,258	383,743
Due to funding agencies	51	-
Compensated absences	-	53,179
Unearned revenue	122,640	40,454
Total liabilities	1,118,778	1,044,056
NET POSITION		
Net investment in capital assets	291,920	304,081
Restricted for economic development	372,516	372,122
Unrestricted	206,456	202,231
Total net position	\$ 870,892	\$ 878,434

The notes to the financial statements are an integral part of this statement.

SOUTH TEXAS DEVELOPMENT COUNCIL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(with comparative information for the year ended September 30, 2013)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities	
				2014	2013
Primary Government:					
Governmental activities:					
General government	\$ 290,223	\$ -	\$ -	\$(290,223)	\$(63,279)
Housing and urban development	1,156,287	-	1,155,023	(1,264)	(304,410)
Environmental quality	26,589	-	26,361	(228)	-
Community outreach	-	-	-	-	-
Emergency management	410,007	-	410,034	27	-
Aging	1,840,600	595	1,801,229	(38,776)	(41,113)
HIV intervention and prevention	3,508,403	79,865	3,656,459	227,921	303,197
Economic development	51,601	-	39,934	(11,667)	(39,547)
Total governmental activities	\$ 7,283,710	\$ 80,460	\$ 7,089,040	(114,210)	(145,152)
General revenues:					
				104,019	80,634
				2,649	3,991
				<u>106,668</u>	<u>84,625</u>
				(7,542)	(60,527)
				878,434	894,878
				-	44,083
				<u>878,434</u>	<u>938,961</u>
				<u>\$ 870,892</u>	<u>\$ 878,434</u>

The notes to the financial statements are an integral part of this statement.

SOUTH TEXAS DEVELOPMENT COUNCIL

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2014

(with comparative information at September 30, 2013)

	<u>General</u>	<u>S.T.E.D. Corporation</u>	<u>Total Governmental Funds 2014</u>	<u>2013</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 54,528	\$ 352,174	\$ 406,702	\$ 455,002
Due from grantor agencies	1,210,695	-	1,210,695	1,080,968
Notes receivable	-	20,399	20,399	26,461
Other receivables	-	25	25	981
Prepaid items	<u>59,929</u>	<u>-</u>	<u>59,929</u>	<u>45,997</u>
Total current assets	<u>1,325,152</u>	<u>372,598</u>	<u>1,697,750</u>	<u>1,609,409</u>
Noncurrent Assets:				
Notes receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
Total assets	<u>\$ 1,325,152</u>	<u>\$ 372,598</u>	<u>\$ 1,697,750</u>	<u>\$ 1,618,409</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Bank overdraft	\$ 705,829	\$ -	\$ 705,829	\$ 566,680
Accounts payable	290,176	82	290,258	383,743
Due to funding agencies	51	-	51	-
Other accrued expenditures	-	-	-	53,179
Deferred revenue	<u>122,640</u>	<u>-</u>	<u>122,640</u>	<u>40,454</u>
Total liabilities	<u>1,118,696</u>	<u>82</u>	<u>1,118,778</u>	<u>1,044,056</u>
Fund balances:				
Nonspendable - prepaids	59,929	-	59,929	45,997
Restricted - Community and Economic Development	-	372,516	372,516	372,122
Unassigned	<u>146,527</u>	<u>-</u>	<u>146,527</u>	<u>156,234</u>
Total fund balances	<u>206,456</u>	<u>372,516</u>	<u>578,972</u>	<u>574,353</u>
Total liabilities and fund balances	<u>\$ 1,325,152</u>	<u>\$ 372,598</u>		
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			\$ 291,920	\$ 304,081
Recognize deferred revenues as revenues of the current year			<u>-</u>	<u>-</u>
Net position of governmental activities			<u>\$ 870,892</u>	<u>\$ 878,434</u>

The notes to the financial statements are an integral part of this statement.

SOUTH TEXAS DEVELOPMENT COUNCIL

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(with comparative information for the year ended September 30, 2013)

	<u>General</u>	<u>S.T.E.D. Corporation</u>	<u>Total Governmental Funds</u>	
			2014	2013
REVENUES				
Intergovernmental	\$ 7,089,040	\$ -	\$ 7,089,040	\$ 7,808,478
Local	15,000	-	15,000	9,000
Program income	80,460	-	80,460	68,401
Investment income	572	2,077	2,649	3,991
Other income	89,019	-	89,019	71,634
Total revenues	<u>7,274,091</u>	<u>2,077</u>	<u>7,276,168</u>	<u>7,961,504</u>
EXPENDITURES				
Current:				
General government	278,062	-	278,062	31,587
Housing and urban development	1,156,287	-	1,156,287	1,926,685
Environmental quality	26,589	-	26,589	222,258
Community outreach	0	-	-	791
Emergency management	410,007	-	410,007	386,160
Aging	1,840,600	-	1,840,600	1,826,496
HIV intervention and prevention	3,508,403	-	3,508,403	3,489,839
Transportation	-	-	-	-
Criminal justice	-	-	-	-
Economic development	49,918	1,683	51,601	106,523
Total expenditures	<u>7,269,866</u>	<u>1,683</u>	<u>7,271,549</u>	<u>7,990,339</u>
NET CHANGE IN FUND BALANCES	4,225	394	4,619	(28,835)
FUND BALANCES, BEGINNING	202,231	372,122	574,353	559,105
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,083</u>
FUND BALANCES, BEGINNING (RESTATED)	<u>202,231</u>	<u>372,122</u>	<u>574,353</u>	<u>603,188</u>
FUND BALANCES, ENDING	<u>\$ 206,456</u>	<u>\$ 372,516</u>	<u>\$ 578,972</u>	<u>\$ 574,353</u>

The notes to the financial statements are an integral part of this statement.

SOUTH TEXAS DEVELOPMENT COUNCIL

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances - total governmental funds:	\$ 4,619
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. The depreciation expense for the current period is \$12,161.	(12,161)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.	<u>-</u>
Change in net position of governmental activities	<u><u>\$ (7,542)</u></u>

The notes to the financial statements are an integral part of this statement.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of South Texas Development Council (the "Council") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies and practices used by the Council.

A. Description of the Reporting Entity

The Council is a voluntary organization of local governmental units within South Texas, created by the State of Texas under Article 1011M, V.A.C.S. and recognized as a political subdivision of the State. The stated purpose of the Council is the improvement of the health, safety and general welfare of its citizens and the planning for the future development of the region. It does not have any legislative or taxing authority. The region served includes Jim Hogg, Starr, Webb and Zapata Counties of Texas.

The reporting entity consists of the primary government STDC, organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable. The nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

In accordance with Government Accounting Standards Board (GASB) requirements, STDC has reviewed other entities and activities for possible inclusion in the reporting entity. Based on this review, the following organization has been included in the financial reporting entity:

Discretely Presented Component Unit – South Texas Economic Development Corporation (S.T.E.D. Corp) was incorporated in 1980 as a non-profit organization to administer the Economic Development Administration's Title IX Revolving Loan Fund grant program which provides low interest loans to eligible borrowers in the private sector. S.T.E.D. Corp's Board of Directors includes three officers which also serve on the Board of Directors of STDC. S.T.E.D. Corp serves the same geographic area as the reporting entity and has an administrative agreement with STDC whereby STDC exercised oversight responsibility, controls daily operations and manages the organization.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

Excluded from the Reporting Entity – Border Area Nutrition Council, Incorporated (BANC) is a potential component unit that has a separate elected Board of Director that provides services to residents in a smaller geographic area. BANC was organized in 1985 as non-profit organization to implement, on behalf of the reporting entity, a contract for services between Area Agency on Aging, the Department of Aging, Webb County and the City of Laredo. An administrative service contract exists between the two entities. BANC is excluded from the reporting entity because there is sufficient autonomous authority between the governing Board of Directors and the reporting entity does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

Complete financial statements for the component units may be obtained from the administrative office at 1002 Dicky Lane, P.O. Box 2187, Laredo, Texas 78044-2187.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Council. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or identifiable activity. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Grant revenue, rent revenue, membership dues and interest are susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Council.

The Council reports the following major governmental funds:

The ***General Fund*** is the Council's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

Additionally, the Council reports the following fund type:

The ***S.T.E.D. Corporation*** account for the proceeds of specific revenue sources that is legally restricted to expenditure for specified purposes. S.T.E.D. Corporation is included as a component unit of STDC and serves as a non-profit organization to promote, stimulate and advance the economic development of Jim Hogg, Starr, Webb and Zapata Counties.

D. 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.

E. Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

Cash and equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents in the Council's financial statements include amounts in demand deposits and certificates of deposits.

Authorized investments include obligations of the United States, or its agencies and instrumentalities, direct obligations of the State of Texas or its agencies, obligations of stated, agencies and other local governments having an investment rating of not less than A or its equivalent; certificates of deposit that are guaranteed by the Federal Deposit Insurance Corporation and other investments authorized by statutes governing public funds investment pools.

Due from Grantor Agencies

Due from grantor agencies represents amounts due from federal and state agencies for the various programs administered by the Council. The receivable includes amounts due on programs closed-out and those in progress as of September 30, 2014.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Assets, Liabilities and Net Position or Equity

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Deferred Revenue

Deferred revenue represents amounts received from grantors in excess of qualifying expenditures for programs in progress as of September 30, 2014.

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Council as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred.

Assets are depreciated using the straight-line method over the following useful lives:

Assets	Years
Buildings and improvements	20
Furniture and equipment	5
Vehicles	5

Compensated Absences

Annual leave with pay will be granted to all regular, full-time employees. All employees with less than three years of planning agency service are entitled to thirteen days per year, employees with more than three but less than fifteen are entitled to twenty days and those with fifteen or more and entitled to twenty six days. Annual leave is accrued from the beginning of the fiscal year to the end of the fiscal year. Employees must take a minimum of twelve days during the fiscal year in which they were earned; otherwise, the employee forfeits these days. Annual leave in excess of these twelve days accumulated and not taken will be paid at the end of the fiscal year.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Assets, Liabilities and Net Position or Equity

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Council is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the Council's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Executive Committee removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Executive Committee.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

F. Fringe Benefits and Indirect Costs

General and administrative costs are recorded in the General Fund as indirect costs in the Council accounting system and allocated to projects based upon a negotiated indirect cost rate. Indirect costs are defined by Office of Management and Budget (OMB) Circular A-87-Attachment "A" as costs "*(a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved*". The Council's indirect cost rate is based upon prior cost experience, documented by a cost allocation plan, and is approved by the state cognizant agency. It is the Council's policy to negotiate with the cognizant agency a provisional rate which is used for billing purposes during the Council's fiscal year. Upon the completion of an independent audit at the end of each fiscal year, the indirect cost rate is finalized with the cognizant agency.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Fringe Benefits and Indirect Costs

STDC groups all fringe benefits costs and all indirect or administrative costs into “cost pools” from which allocations are made to the various programs. The fringe benefits allocation is based on the amount of salaries chargeable to the programs. The indirect costs allocation is based on chargeable salaries, fringe benefits; the first \$25,000 of contractual amounts for STDC bears the responsibility of monitoring and securing/reviewing audit reports and other direct costs excluding equipment.

The allocation rates were determined as follows:

Fringe benefit rate	=	Total benefits	/	Chargeable time
53.10%	=	\$454,550	/	\$855,587
Indirect cost rate	=	Indirect costs	/	Total direct expenses
14.88%	=	\$314,749	/	\$2,115,248

G. Local Match

In accordance with the terms and provisions of various grant contracts, the Council is required to provide a specified percentage of local matching funds to support certain grant programs. Local matching funds, from governments and other program participants, are recognized as revenue when funds are received.

H. Fund Balance Flow Assumption

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Council considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Council considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

I. Net Position Flow Assumption

Sometimes the Council will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Council’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities.

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense”. There were no capital asset additions for the year ending September 30, 2014.

3. BUDGETARY INFORMATION

The Council’s financial plan is controlled at the project level with management authorized to make transfers of budgeted amounts between object class levels within a project, complying with restrictions imposed by grantor agencies. The Board of Directors approves the financial plan for revenue and expenditures. The financial plan for the grant funds is made on a project (grant) basis, spanning more than one year. Appropriations for all projects lapse at the end of a contract period which may not coincide with the fiscal year-end of the Council. Although the financial plans are reviewed and approved by the Council’s Board of Directors, they are not considered legally adopted budgets or appropriations. Accordingly, comparative budget and actual results are not presented in this report.

4. DETAILED NOTES ON ALL FUNDS

Cash Deposits with Financial Institutions

At September 30, 2014, the carrying amount of the Council’s deposits was \$(705,829) and the bank balance was \$391,038. Additionally, the Council had at September 30, 2014 petty cash of \$39. The Council’s cash deposit at September 30, 2014 and during the year were covered by FDIC insurance or by pledged collateral held by the Council’s agent bank in the Council’s name. The Council monitors cash flows regularly then grant funds are received to ensure that the bank pledges sufficient collateral.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: International Bank of Commerce (IBC)
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$893,824.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$570,260 and occurred during the month of July 2014.
- d. Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

4. DETAILED NOTES ON ALL FUNDS

Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Council to adopt, implement, and publicized an investment policy. The policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

The Statutes authorize the Council to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas: (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The Council is in substantial compliance with the requirements of the Act and with local polices.

The Council's temporary investments at September 30, 2014, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
First National Bank	\$ 23,967	\$ 23,967	\$ -	\$ -	\$ -
Certificates of Deposit	30,495	30,495	-	-	-
Texpool	<u>27</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 54,489</u>	<u>\$ 54,489</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Additional policies and contractual provisions governing deposits and investments for the Council are specified below:

Credit Risk - In accordance with state law and the Council's investment policy, investments in mutual funds and investment pools must be rated at least AAA or have an equivalent rating, commercial paper must be rated at least A-1, P-1 or have an equivalent rating, and obligations of states, agencies, counties, and cities must be at least A or its equivalent.

Custodial Risk for Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by third parties were fully collateralized and held in the Council's name.

Concentration of Credit Risk - The investment portfolio is diversified in terms of investment instruments and maturity scheduling to reduce risk of loss resulting from over concentration of assets in specific class of investments, specific maturity or specific issuer.

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

4. DETAILED NOTES ON ALL FUNDS

Investments

Interest Rate Risk – In accordance with state law and the Council’s investment policy, the Council does not purchase any investments greater than five years for its operating funds.

Foreign Currency Risk for Investments – The Council limits the risk that changes in exchange rates will adversely affect the fair value of an investment. At year-end, the Council was not exposed to foreign currency risk.

Receivables

Receivables as of year-end for the Council’s individual major funds and non-major funds in the aggregate, are as follows:

	<u>General</u>	<u>STED Corp</u>	<u>Total</u>
Receivables:			
Grants	\$ 1,210,695	\$ -	\$ 1,210,695
Notes	-	20,399	20,399
Other	-	25	25
	<u> </u>	<u> </u>	<u> </u>
Total receivables	<u>\$ 1,210,695</u>	<u>\$ 20,424</u>	<u>\$ 1,231,119</u>

Capital Assets

Capital asset activity for the year ended September 30, 2014, is as follows:

	Beginning Balance 10/01/13	Increases	Decreases	Ending Balance 09/30/14
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Government activities:				
Nondepreciable capital assets:				
Land	\$ 151,431	\$ -	\$ -	\$ 151,431
Total nondepreciated assets	<u>151,431</u>	<u>-</u>	<u>-</u>	<u>151,431</u>
Depreciable capital assets				
Furniture and equipment	41,406	-	-	41,406
Buildings and improvements	249,763	-	-	249,763
Vehicles & parking lot	149,351	-	-	149,351
Total depreciable capital assets	<u>440,520</u>	<u>-</u>	<u>-</u>	<u>440,520</u>
Total capital assets	<u>591,951</u>	<u>-</u>	<u>-</u>	<u>591,951</u>
Less accumulated depreciation:				
Furniture and equipment	41,406	-	-	41,406
Buildings and improvements	104,591	4,683	-	109,274
Vehicles & parking lot	141,873	7,478	-	149,351
Total accumulated depreciation	<u>287,870</u>	<u>12,161</u>	<u>-</u>	<u>300,031</u>
Total capital assets being depreciated, net	<u>152,650</u>	<u>12,161</u>	<u>-</u>	<u>140,489</u>
Governmental activities capital assets, net	<u>\$ 304,081</u>	<u>\$ 12,161</u>	<u>\$ -</u>	<u>\$ 291,920</u>

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

4. DETAILED NOTES ON ALL FUNDS

Capital Assets

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ <u>12,161</u>
 Total depreciation expense - governmental activities	 \$ <u><u>12,161</u></u>

Retirement Plan

Plan Description

STDC provides retirement, disability and death benefits for all of its full time employees through a nontraditional defined benefits pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Directors of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 624 nontraditional defined benefits pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The financial statements and required supplementary information for TCDRS can be obtained by writing to Texas County and District Retirement System, P.O. Box 2034, Austin, Texas, 78768-2034 or by calling at (512)328-8889.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS (TCDRS Act). Member can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members vest after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rate prescribed the TCDRS Act.

Funding Policy

The pension plan requires that employees contribute 7% of their annual covered salary. The employer is required to contribute at an actuarially determined rate; the current rate is 11.71% of annual covered payroll. The contribution requirements of the plan members and STDC are established and may be amended by TCDRS' Board of Director

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

4. DETAILED NOTES ON ALL FUNDS

Retirement Plan

Funding Policy

STDC's contributions were based on a covered payroll of \$992,641 for the year ended September 30, 2014. Employer and employee contributions for the years were made as required and are detailed below. Employee contributions may include the purchase of credits for military or legislative service or the buyback of previously forfeited service credit.

Contribution Amounts (Rates)

	<u>Total</u>	
Employee	\$ 69,484	(7%)
Employer	\$ 114,495	

Employer rate was 11.04% October through December 2013, and 11.71% January through September 2014.

Annual Pension Costs

For 2014, STDC's annual pension cost of \$114,495 for TCDRS was equal to the Council's required and actual contributions. The required contribution was determined as part of the December 31, 2014 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (net of investment expenses), (b) projected salary increases of 5.25% per year, and (c) 0% for cost of living adjustments. Both (a) and (b) included an inflation component of 3.5%. The method of determining the actuarial value of assets is the SAF: 10 year smoothed value ESF: Fund value method. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2014 was 20 years.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2012	\$ 123,164	100%	-
9/30/2013	\$ 112,582	100%	-
9/30/2014	\$ 114,495	100%	-

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2010	\$ 1,971,952	\$ 2,589,789	\$ 617,837	76%	\$ 1,188,088	52%
12/31/2011	\$ 2,268,237	\$ 2,879,179	\$ 610,942	79%	\$ 1,222,881	50%
12/31/2012	\$ 2,558,558	\$ 3,154,352	\$ 595,794	81%	\$ 1,081,185	55%
12/31/2013	\$ 2,936,687	\$ 3,472,018	\$ 535,331	85%	\$ 1,032,408	52%
12/31/2014	\$ 2,691,849	\$ 3,156,818	\$ 464,924	85%	\$ 992,641	47%

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

4. DETAILED NOTES ON ALL FUNDS

Related Party Transactions

STDC has entered into administrative service agreements with Border Area Nutrition Council, Inc. (BANC) and S.T.E.D. Corporation to provide the following services for those organizations:

- Assistance with business management
- Accounting services
- Secretarial services
- Assistance with reporting requirements
- Supportive staff services

Two members of the Board of Directors of BANC are also members of the Board of Directors of STDC. S.T.E.D. Corporation is a component unit of STDC. BANC is excluded from the reporting entity; however, STDC is its primary funding source.

Concentrations of Risk

A substantial portion of STDC's revenue is in the form of performance contracts from granting agencies. As a result, STDC's overall operations are contingent upon future funding by the granting agencies.

Risk Management

The Council is exposed to various risks of loss related to torts; theft of, damage to a destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Council maintains worker's compensation and other risks of loss coverage through commercial insurance carries. The Council management believes such coverage is sufficient to preclude any significant uninsured losses to the Council. There were no significant reductions in insurance coverage from coverage in the prior year. There were no insurance settlements which exceeded insurance coverage in any of the past three years.

The Council purchases insurance coverage through the Texas Municipal League Intergovernmental Risk Pool. Insurance coverage is as follows:

<u>Policy</u>	<u>Limits on Liability</u>
Public Employee Dishonesty	\$100,000 per occurrence/per employee
Forgery or Alteration	\$100,000
General Liability	\$1,000,000 per occurrence \$2,000,000 annual aggregate
Errors and Omissions	\$1,000,000 per occurrence \$2,000,000 annual aggregate
Real and Personal Property	\$1,150,000 limit of coverage
Boiler and Machinery	\$100,000 per accident

**SOUTH TEXAS DEVELOPMENT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

4. DETAILED NOTES ON ALL FUNDS

Contingencies

The Council contract with local governments or other local delegate agencies to perform the specific services set forth in certain grant agreements. The Council disburses grant funds to the delegate agencies based on monthly expenditure reports received from each delegate agency.

Each delegate agency is required to have an independent audit at least once every two years. The Council requires each delegate agency to submit copy of the audit reports. If such audits disclose expenditures not in accordance with terms of the grants, the grantor agency could disallow the costs and require reimbursement of the disallowed costs either from the Council or the delegate agency. The Council generally has the right of recovery from the delegate agency.

Some of the audits of the delegate agencies' expenditures for the year ended September 30, 2013, have not been completed. Based on prior experience, the Council management believes that the Council will not incur significant losses from possible grant disallowance.

Litigation

Management has represented that there is no litigation pending against STDC.

SUPPLEMENTAL SCHEDULES

SOUTH TEXAS DEVELOPMENT COUNCIL

SCHEDULE OF GRANT REVENUES AND EXPENDITURES

BY FUNDING SOURCE

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(with comparative information for the year ended September 30, 2013)

	<u>U.S. Department of Commerce</u>	<u>Texas Health and Human Services Commission</u>	<u>Office of the Governor</u>
REVENUES			
Intergovernmental	\$ 39,934	\$ -	\$ 410,033
Local	-	-	-
Program income	-	-	-
Investment income	14	-	-
Other income	<u>9,970</u>	<u>-</u>	<u>-</u>
Total revenues	<u>49,918</u>	<u>-</u>	<u>410,033</u>
EXPENDITURES			
General government	-	-	-
Housing and urban development	-	-	-
Environmental quality	-	-	-
Community outreach	-	-	-
Emergency management	-	-	410,007
Aging	-	-	-
HIV intervention and prevention	-	-	-
Transportation	-	-	-
Criminal justice	-	-	-
Economic development	<u>49,918</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 49,918</u>	<u>\$ -</u>	<u>\$ 410,007</u>

Texas Commission on Environmental Quality	Texas Department of State Health Services	Texas Department of Housing and Community Affairs
\$ 26,361	\$ 3,656,458	\$ 1,148,208
-	-	-
-	79,865	-
228	-	-
-	-	726
<u>26,589</u>	<u>3,736,323</u>	<u>1,148,934</u>
-	227,410	-
-	511	1,148,961
26,589	-	-
-	-	-
-	-	-
-	3,508,403	-
-	-	-
-	-	-
-	-	-
<u>\$ 26,589</u>	<u>\$ 3,736,324</u>	<u>\$ 1,148,961</u>

SOUTH TEXAS DEVELOPMENT COUNCIL

SCHEDULE OF GRANT REVENUES AND EXPENDITURES

BY FUNDING SOURCE

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(with comparative information for the year ended September 30, 2013)

	Texas Department of Agriculture	Texas Department of Aging	Other
REVENUES			
Intergovernmental	\$ 6,816	\$ 1,801,229	\$ -
Local	-	-	15,000
Program income	-	595	-
Investment income	-	66	265
Other income	-	38,710	39,614
Total revenues	<u>6,816</u>	<u>1,840,600</u>	<u>54,879</u>
EXPENDITURES			
General government	-	-	50,652
Housing and urban development	6,816	-	-
Environmental quality	-	-	-
Community outreach	-	-	-
Emergency management	-	-	-
Aging	-	1,840,600	-
HIV intervention and prevention	-	-	-
Transportation	-	-	-
Criminal justice	-	-	-
Economic development	-	-	-
Total expenditures	<u>\$ 6,816</u>	<u>\$ 1,840,600</u>	<u>\$ 50,652</u>

S.T.E.D. Corporation	Totals	
	2014	2013
\$ -	\$ 7,089,039	\$ 7,808,478
-	15,000	9,000
-	80,460	68,401
2,077	2,650	3,991
-	89,020	71,634
<u>2,077</u>	<u>7,276,169</u>	<u>7,961,504</u>
-	278,062	31,587
-	1,156,288	1,926,685
-	26,589	222,258
-	-	791
-	410,007	386,160
-	1,840,600	1,826,496
-	3,508,403	3,489,839
-	-	-
-	-	-
<u>1,683</u>	<u>51,601</u>	<u>106,523</u>
<u>\$ 1,683</u>	<u>\$ 7,271,550</u>	<u>\$ 7,990,339</u>

SOUTH TEXAS DEVELOPMENT COUNCIL
SCHEDULE OF INDIRECT COSTS AND COMPUTATION
OF INDIRECT COST RATE - BUDGET TO ACTUAL
YEAR ENDED SEPTEMBER 30, 2014

	<u>Budget</u>	<u>Actual</u>
INDIRECT COSTS		
Salaries	\$ 154,517	\$ 150,495
Travel	2,350	881
General and administrative	<u>159,040</u>	<u>129,066</u>
Total indirect costs	<u>\$ 315,907</u>	<u>\$ 280,442</u>
INDIRECT COST RATE COMPUTATION		
Total indirect costs	\$ 315,907	\$ 280,442
Total direct program expenditures	7,467,490	6,955,116
Less: capital outlay/contracts in excess of \$25,000	<u>5,355,474</u>	<u>4,839,714</u>
Net direct program expenditures	<u>2,112,016</u>	<u>2,115,402</u>
Computed rate	<u>14.96%</u>	<u>13.26%</u>
(OVER)/UNDER RECOVERY OF INDIRECT COSTS		
Fiscal year 2014 actual indirect costs		\$ 280,442
Cumulative (over)/under recovered indirect costs per 2013 audit		26,707
Less indirect costs recovered in fiscal year 2014		<u>(314,749)</u>
ACCUMULATED (OVER)/UNDER RECOVERED INDIRECT COSTS		<u>\$ (7,600)</u>

SOUTH TEXAS DEVELOPMENT COUNCIL
REQUIRED SUPPLEMENTAL INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

**SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF STDC**

Schedule Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/2010	\$ 1,971,952	\$ 2,589,789	\$ 617,837	76.14%	\$ 1,188,088	52%
12/31/2011	2,268,237	2,879,179	610,942	78.78%	1,222,881	50%
12/31/2012	2,558,558	3,154,352	595,794	81.11%	1,081,185	55%
12/31/2013	2,936,687	3,472,018	535,331	84.58%	1,032,408	52%
12/31/2014	2,691,894	3,156,818	464,924	85.27%	992,641	47%

See Retirement Plan Note for the complete description of the retirement plan for the Council.

SINGLE AUDIT SECTION

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
South Texas Development Council
Laredo, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of South Texas Development Council (the "Council") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Patricia B. Hill, CPA

Brownsville, Texas
June 17, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors
South Texas Development Council
Laredo, Texas

Report on Compliance for Each Major Federal Program

We have audited South Texas Development Council's (the "Council's") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Council's major federal programs for the year ended September 30, 2014. The Council's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brun & Hill, LLP

Brownsville, Texas
June 17, 2015

SOUTH TEXAS DEVELOPMENT COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS			
U.S. Department of Agriculture			
<i>Pass through Texas Department of Aging & Disability Services:</i>			
Nutrition Services Incentive Program (NSIP)	93.053	539-11-0021-0021	\$ 189,463
Total U.S. Department of Agriculture			<u>189,463</u>
U.S. Department of Commerce			
<i>Pass through Economic Development Administration:</i>			
Support for Planning Organization	11.302	08-83-04747	39,934
Total U.S. Department of Commerce			<u>39,934</u>
U.S. Department of Housing & Urban Development			
<i>Pass through Texas Department of State Health Services</i>			
TDH HIV/HOPWA	14.241	2013-043243	264,302
TDH HIV/HOPWA	14.241	2013-041276	511,976
Total Texas Department of State Health Services			<u>776,278</u>
<i>Pass Through Texas Department of Agriculture</i>			
Community Development Block Grant	14.228	C712222	778
Community Development Block Grant	14.228	C713222	6,038
Total Texas Department of Agriculture			<u>6,816</u>
Total U.S. Department of Housing & Urban Development			<u>783,094</u>
U.S. Department of Health & Human Services			
<i>Pass through Texas Department on Aging & Disability Services:</i>			
Title VII, EAP, Chapter 3, Prevention	93.041	539-08-0221-00001	5,273
Title VII, OAG, Chapter 2, Long Term Care Ombudsmen Services for Individual	93.042	539-08-0221-00001	8,500
Title III, Part D, Disease Prevention and Health Promotion Services	93.043	539-08-0221-00001	22,508
Title III, Part B, Supportive Services	93.044	539-08-0221-00001	490,573
Title III, Part C, Nutrition Services	93.045	539-08-0221-00001	724,883
Title III, Part E, National Caregiver Support	93.052	539-08-0221-00001	179,948
CMS Research, Demonstration and Evaluation	93.779	CMS	9,279
CMS Research, Demonstration and Evaluation	93.779	CMS	26,292
OMB AFL Service	93.518	539-110021-00001	2,482
ATRA - MIPPA Priority 2	93.518	ATRA	22,327
Money Follows the Person	93.791	-	2,726
Total Texas Department on Aging Disability Services			<u>1,494,791</u>
<i>Pass through Texas Department of State Health Services:</i>			
Ryan White HIV	93.917	2013-042023	156,443
Ryan White HIV	93.917	2014-001463-00	2,495,817
Total Texas Department of State Health Services			<u>2,652,260</u>
<i>Pass through Texas Health and Human Services Commission:</i>			
Consumer Health Insurance Enrollment Services(CHIMES)	93.75	NAVCA130092-01-14	227,410
Consumer Health Insurance Enrollment Services(CHIMES)	93.75	NAVCA130092-01-15	510
Total Texas Health and Human Services Commission			<u>227,920</u>

SOUTH TEXAS DEVELOPMENT COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS			
<i>Pass through Texas Department of Housing & Community Affairs:</i>			
Community Services Block Grant	93.569	61120001859	101,727
Community Services Block Grant	93.569	61110001598	139,953
Comprehensive Energy Assistance Program	93.568	58130001648	302,691
Comprehensive Energy Assistance Program	93.568	58140001816	409,415
Comprehensive Energy Assistance Program	93.568	58130001977	194,422
Total Texas Department of Housing & Community Affairs			<u>1,148,208</u>
Total U.S. Department of Health & Human Services			<u>5,523,179</u>
U.S. Department of Homeland Security			
<i>Pass through Texas Division of Emergency Management</i>			
2011 SHSP	97.073	11-SR-99022-06	38,916
2012 SHSP	97.073	12-SR-99022-06	126,331
2013 SHSP	97.073	13-SR-99022-01	105,143
Total U.S. Department of Homeland Security			<u>270,390</u>
Total Federal Awards			<u>6,806,060</u>
STATE AWARDS			
Office of the Governor			
Regional Criminal Justice Coordination		SF-12-I97-14775-14	645
Regional Criminal Justice Coordination		SF-13-I97-14475-13	33,908
Peace Officer Training		SF-14-A10-14738-14	105,091
Total Office of the Governor			<u>139,644</u>
Texas Commission on Environmental Quality			
Regional Solid Waste Implementation		582-12-10163	26,361
Total Texas Commission on Environmental Quality			<u>26,361</u>
Texas Department of Aging & Disability Services			
State General Revenue		AA3-0848-019	118,656
Total Texas Department of Aging & Disability Services			<u>118,656</u>
Total State Awards			<u>284,661</u>
Total Federal and State Awards			<u>\$ 7,090,721</u>

SOUTH TEXAS DEVELOPMENT COUNCIL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

SEPTEMBER 30, 2014

1. GENERAL

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards programs of the South Texas Development Council. The Council's reporting entity is defined in Note 1 of the basic financial statements. Federal and state awards received directly from federal and state agencies, as well as awards passed through other government agencies, are included on the Schedule of Expenditures of Federal and State Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

SOUTH TEXAS DEVELOPMENT COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	No
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Identification of major programs:	Ryan White HIV Program (CFDA 93.917)
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Dollar threshold used to distinguish between type A and type B federal programs	\$300,000
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Auditee qualified as low-risk auditee for federal single audit?	Yes
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Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

SOUTH TEXAS DEVELOPMENT COUNCIL

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

FOR THE YEAR ENDED SEPTEMBER 30, 2014

None

(Last Page.)