

**BIG SPRING ECONOMIC
DEVELOPMENT CORPORATION**

**AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Board of Directors

Nadine Reyes, President
Terry Hansen, Vice-President
Jeff Ward, Secretary-Treasurer
Kay McDaniel
Bobby McDonald

Executive Director

Terry Wegman

**BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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January 9, 2018

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors
Big Spring Economic Development Corporation
Post Office Box 3359
Big Spring, Texas 79721-3359

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison of the Big Spring Economic Development Corporation, (a component unit of the City of Big Spring, Texas) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the entity'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 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 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 of 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 auditors consider 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 respective financial position of the governmental activities and each major fund of Big Spring Economic Development Corporation as of September 30, 2017, the respective changes in financial position and budgetary comparison 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 5 to 11 and defined benefit retirement plan information on pages 30 to 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018, on our consideration of Big Spring Economic Development Corporation's internal control over financial reporting and 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 but not to provide an opinion on the 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 Big Spring Economic Development Corporation's internal control over financial reporting and compliance.


Newberry Leonard Horton & Bairrington

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January 9, 2018

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

Board of Directors
Big Spring Economic Development Corporation
Post Office Box 3359
Big Spring, Texas 79721-3359

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, each major fund, and the budgetary comparison of the Big Spring Economic Development Corporation (a component unit of the City of Big Spring, Texas) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Big Spring Economic Development Corporation's basic financial statements, and have issued our report thereon dated January 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Spring Economic Development Corporation'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 Big Spring Economic Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Big Spring Economic Development Corporation'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.

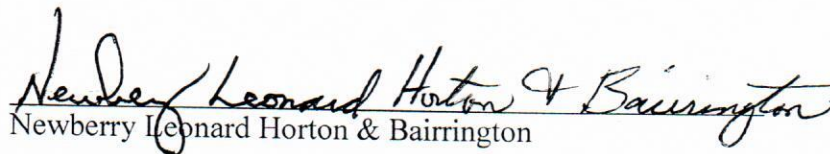
Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitation, during 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 Big Spring Economic Development Corporation'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.


Newberry Leonard Horton & Bairrington

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Our discussion and analysis of the Big Spring Economic Development Corporation's (Big Spring EDC) financial performance provides an overview of the entity's financial performance for the fiscal year ending September 30, 2017. It should be read in conjunction with the corporation's basic financial statements and independent auditors' report.

Financial Highlights

During the fiscal year 2016-2017, the corporation's net position increased by 30 percent or \$1,016,561. This was caused by the completion of the airpark infrastructure project and a lack of new projects.

Big Spring EDC closed the fiscal year ended September 30, 2017 with total assets and deferred outflows of \$4,730,508 and net position restricted for economic development of \$3,610,767.

The balance of cash and investments at September 30, 2017 totaled \$3,394,187 which was an increase of \$1,131,135. Liabilities increased by \$12,655 to \$277,478.

Total special revenue fund expenditures for the year ended September 30, 2017 were \$1,277,736 compared to \$5,374,294 for the previous year. The fund expenditure decreases were primarily the result of the completion of the airpark infrastructure grant.

Overview of the Financial Statements and Use of This Report

This annual report consists of a series of financial statements and notes to those statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the component unit as a whole and present a long-term view of the corporation's property, debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise. These statements are referred to as government-wide financial statements, but as a component unit of the City of Big Spring, they are not intended to present government-wide information.

Overview of the Financial Statements and Use of This Report - Continued

Fund financial statements include the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance that report the operations in more detail than the government-wide statements by providing information about the corporation's general fund. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax needs and the appropriations budget. Within these fund statements, a loan incentive package is not recorded as a grant cost until forgiveness is earned.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide or the fund financial statements.

Reporting Big Spring Economic Development Corporation as a Whole

Government-Wide Financial Statements (Statements of Net Position and Activities)

The analysis of Big Spring EDC's overall financial condition and operations is reflected in these statements. Its primary purpose is to show whether the entity is faring better or worse as a result of the year's activities. The Statement of Net Position includes all the corporation's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Big Spring EDC's revenues are divided into those provided by outside parties (Big Spring Chamber of Commerce and United Way of Howard County) who share the costs of the building facility and revenues provided by sales tax or investment earnings (general revenues). All the corporation's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report Big Spring EDC's net position and changes in them. The net position (the difference between assets with deferred outflows of resources and liabilities) provide one measure of Big Spring EDC's financial health or financial position. Increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of Big Spring EDC however, you should consider non-financial factors as well, such as changes in the city's economic activity, stability and workforce and the condition of Big Spring EDC's facilities.

In the Statement of Net Position and the Statement of Activities, we present the activities of Big Spring EDC's as follows:

Government-wide activities – Big Spring EDC's basic purpose is reported here, including the cost of maintaining the operation and economic development programs. Sales tax finances most of these activities.

Reporting the Most Significant Funds

Fund Financial Statements

(Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance)

Big Spring EDC requires only one fund to maintain its operations and programs. The fund financial statements provide information about the fund—not the entity as a whole.

Big Spring EDC's basic operations and services are reported in a government (General) fund. This fund uses modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and reports balances that are available for future spending. The governmental fund statements provide a detailed short-term view of Big Spring EDC's general operations and the basic services it provides. We describe the differences between government-wide activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Government Financial Analysis

We present both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the Net Position (Table I) and Changes in Net Position (Table II) of Big Spring EDC's governmental activities.

Table I		
BIG SPRING ECONOMIC DEVELOPMENT CORPORATION		
NET POSITION		
	Governmental Activities 2017	Governmental Activities 2016
Current and other assets	\$ 4,536,483	\$ 3,493,299
Capital assets	138,601	145,223
Deferred outflows	55,424	62,770
Total Assets and Deferred Outflows	<u>\$ 4,730,508</u>	<u>\$ 3,701,292</u>
Liabilities		
Current liabilities	\$ 56,013	\$ 57,890
Noncurrent liabilities	221,465	206,933
Total Liabilities	<u>277,478</u>	<u>264,823</u>
Net Assets:		
Invested in capital assets net of related debt	138,601	145,223
Invested in incomplete grants	703,662	866,180
Restricted for economic development	3,610,767	2,425,066
Total Net Position	<u>\$ 4,453,030</u>	<u>\$ 3,436,469</u>

Government Financial Analysis – Continued

Table II
BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
CHANGES IN NET POSITION

	Governmental Activities 2017	Governmental Activities 2016
Revenues:		
Program Revenues:		
Charges for services	\$ 11,275	\$ 10,985
General Revenues:		
Sales tax	2,242,995	2,095,168
Investment earnings	67,563	95,122
Other revenues	964	209,667
Total Revenue	<u>\$ 2,322,797</u>	<u>\$ 2,410,942</u>
Expenses:		
General Government		
Compensation	\$ 206,975	\$ 234,651
Office facilities	58,598	22,303
Office expenses	7,395	7,381
Insurance	9,825	8,343
Economic Development		
Contractual services	36,325	112,337
Meetings and committees	8,877	7,742
Professional development	2,879	3,314
Promotion	21,345	37,569
Economic development grants	204,017	4,204,658
Allowance for bad debts		40,801
Water and Waste Water Project	750,000	750,000
Total Expenses	<u>\$ 1,306,236</u>	<u>\$ 5,429,099</u>
Increase (decrease) in net position	1,016,561	(3,018,157)
Net position at beginning of year	3,436,469	6,454,626
Net position at end of year	<u>\$ 4,453,030</u>	<u>\$ 3,436,469</u>

Total assets and deferred outflows of the Big Spring EDC's governmental activities increased from \$3,701,292 to \$4,730,508. Net position restricted for economic development – the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation or other legal requirements – was \$3,610,767 at September 30, 2017.

Total revenues decreased from \$2,410,942 in fiscal year 2016 to \$2,322,797 in fiscal year 2017, a decrease of 4 percent. There was a sales tax increase of 7%.

Government Financial Analysis – Continued

Total expenses decreased from \$5,429,099 in the preceding year to \$1,306,236 for the year ending September 30, 2017 which reflects a decrease of 76 percent. The decrease is attributed to completion of infrastructure improvements to the Airpark Rail and the Texas Healthcare grant.

Operating revenues exceeded expenses by \$1,016,561.

Fund Balances

As Big Spring EDC completed the year, its governmental fund reported a fund balance of \$4,412,490 which is more than last year's balance of \$3,350,229. This \$1,062,261 increase is from revenues exceeding expenditures during the year. This balance is restricted for economic development within the City of Big Spring. Even though this balance is restricted, \$641,803 is in non-spendable forms invested in prepaid items or long-term grants notes receivable.

Budget and Planning

The original budget for 2016-2017 was developed in the summer of 2016 and adopted by the Board in August, 2016. This budget was approved by the City of Big Spring in September, 2016. The budget was amended in January, 2017 to include additional economic development grants.

Other Assets, Capital Assets And Debt Administration

Other Assets

The 315 acres of unimproved real estate continues to be held for future needs.

Capital Assets

At the end of 2017, Big Spring EDC had \$138,601 invested in various capital assets including facilities and equipment.

Debt

Big Spring EDC has no long term debt other than pension and compensated absences obligations.

Economic Factors, Next Year's Budgets And Rates

Big Spring Economic Development Corporation's appointed directors considered many factors when setting the fiscal year 2017-2018 budget. Sales tax collection, which accounts for the majority of Big Spring EDC revenues, are projected to increase from the weak tax receipts collected in the 2015-2016 fiscal year and the recovering receipts for 2016-2017. 2017-2018 receipts could approach the levels of the exceptional year of 2014-2015. Activity and stronger prices in crude oil has affected sales tax revenue and will impact budgeted revenue. We see the recent increase in oil prices stimulating activity in the region and we are seeing continued increase in activity and planned exploration.

Economic Factors, Next Year's Budgets And Rates - Continued

The construction of the \$68 million Highway 87 reliever route to complete the route from I-20 North to US Hwy. 87 which began in January will help generate construction jobs and increased taxable activity. The expected completion is early 2019 therefore benefits will continue throughout 2018.

The restoration of Big Spring's name sake, The Big Spring, has generated great interest and excitement in the community. It will be an attraction for tourists and a great educational tool for the whole region. We are already seeing positive economic impacts from the project in the form of sales tax and hotel motel tax.

The EDC has completed the \$3.25 million rail infrastructure project on the Airpark. The goal is to develop the facility and create the "rail backbone" for the park. As businesses locate on the park they will be responsible for rail infrastructure to meet their own needs. The completion of Phase 3 will provide much needed storage capacity for existing businesses and complete the lead that will make its way the full length of the tarmac creating opportunities for new business location at the Airpark.

The shortline rail operator at the Airpark had a substantial increase in business during the past year. Rail car shipments for 2017 will exceed 3000 with expected movements of 3500 in 2018. As a result, the shortline is about at capacity and the Board has directed staff to proceed with surveying, engineering and planning for the next expansion at the Airpark. We have found that the investment in rail infrastructure continues to fuel growth of existing companies and attraction for new business.

Currently the Board is negotiating an agreement to help an existing business with a 12,000-sq. ft. expansion which will require amendments to the budget. Another expansion is occurring at the Airpark which will renovate an abandoned hangar, and a third local company has occupied an abandoned hangar renovated it and are currently moving Oregon and Minnesota operations to Big Spring. All of this activity has been generated in great part due to the rail expansion.

The increase in oil activity has rejuvenated many areas of the economy. Sales tax, new construction, increased jobs, low unemployment all indicate strong growth. We feel this trend will continue throughout 2017-2018 and beyond.

Big Spring EDC continues its contract with Leading EDG to provide business counseling and facilitation to startups, existing business and entrepreneurs needing assistance in becoming vital businesses in Big Spring. The service is being well utilized by the community, and it has had several successes.

Western Container announced closure of its facility in late 2016. The EDC is marketing heavily and attending numerous trade shows to promote the facility and hopefully find a related replacement industry soon. Big Spring EDC completed a marketing video last year to promote the Airpark and planned infrastructure improvements including rail and the new relief route. The feasibility study will be used to promote Big Spring to develop as a warehousing, distribution, intermodal and transportation hub. Both pieces will be utilized at trade shows and marketing events primarily focused on logistics.

Economic Factors, Next Year's Budgets And Rates - Continued

Big Spring EDC's sole purpose is to stimulate the local economy by providing incentives and marketing support for industrial development. To that end, it is impossible to predict at the start of the budget process how many or what types of economic development projects will present themselves for consideration. Thus, at any given point throughout the fiscal year, a small or large portion of fund balance could become encumbered as incentives to fulfill Big Spring EDC's mission.

Contacting Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Big Spring EDC's finances and to show the component unit's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Terry Wegman, Big Spring Economic Development Corporation, Post Office Box 3359, Big Spring, Texas 79721.

GOVERNMENTAL FINANCIAL STATEMENTS

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Governmental Activities
ASSETS	
Cash (Note 2)	\$ 3,394,187
Sales taxes and other receivables	432,513
Prepaid insurance	6,121
Notes receivable, net of related allowance (Note 3)	635,682
Other assets (Note 4)	67,980
Land	25,000
Building, net (Note 5)	111,288
Furniture and equipment, net (Note 5)	2,313
Total Assets	<u>4,675,084</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension plan - employer contribution deferrals (Note 10)	20,875
Pension plan - differences in expected and actual experience (Note 10)	5,485
Pension plan - differences in projected and actual earnings (Note 10)	28,310
Pension plan - changes in assumptions (Note 10)	754
Total Deferred Outflows of Resources	<u>55,424</u>
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	56,013
Noncurrent Liabilities	
Compensated absences (Note 9)	36,036
Net pension liability (Note 10)	185,429
Total Liabilities	<u>277,478</u>
NET POSITION	
Invested in capital assets	138,601
Invested in incomplete grants	703,662
Restricted for economic development	3,610,767
Total Net Position	<u>\$ 4,453,030</u>

The accompanying notes are an integral part of this statement.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

		<u>Program Revenues</u>	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Total Governmental Activities
GOVERNMENTAL ACTIVITIES:			
General government	\$ 282,793	\$ 11,275	\$ 271,518
Economic development	273,443		273,443
Water and waste water project	750,000		750,000
TOTAL COMPONENT UNIT:	<u>\$ 1,306,236</u>	<u>\$ 11,275</u>	<u>1,294,961</u>

General Revenues:

Taxes:

Sales tax

2,242,995

Investment Earnings

67,563

Other income (Note 7)

964

Total General Revenues

2,311,522

Change in Net Position

1,016,561

Net Position - Beginning - October 1, 2016

3,436,469

Net Position - Ending - September 30, 2017

\$ 4,453,030

The accompanying notes are an integral part of this statement.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND TYPES
SEPTEMBER 30, 2017

	Special Revenue
ASSETS	
Cash (Note 2)	\$ 3,394,187
Sales tax and other receivables	432,513
Prepaid insurance	6,121
Notes receivable, net of related allowance (Note 3)	635,682
Total Assets	<u>\$ 4,468,503</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and accrued liabilities	\$ 56,013
Total Liabilities	<u>56,013</u>
Fund Balance:	
Restricted for economic development (Note 12)	<u>4,412,490</u>
Total Fund Balance	<u>4,412,490</u>
Total Liabilities and Fund Balance	<u>\$ 4,468,503</u>

The accompanying notes are an integral part of this statement.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITON
SEPTEMBER 30. 2017

Total Fund Balances - Governmental Funds	\$ 4,412,490
Capital assets used in governmental activities are not financial resources and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$314,994, and the accumulated depreciation was \$169,771. The net effect of including the beginning balances for capital assets (net of depreciation) is to increase net position.	145,223
Other assets owned in governmental activities are not financial resources and therefore, are not reported in governmental funds. At the beginning of the year the cost in these assets was \$85,180 but basis was reduced by \$17,200 for an easement granted during the year. The net effect of including the other assets is to increase net position.	67,980
Compensated absences do not reflect a current obligation and are not reported in governmental funds. The net effect of including the beginning balance of \$30,775 and the increase of \$5,261 to compensated absences is to decrease net position.	(36,036)
Included in liabilities is the recognition of the Corporation's proportionate share of the net pension liability required by GASB 68 in the amount of \$185,429. Additionally, the Corporation recognizes deferred outflows of resources related to pensions of \$55,424. The net effect of recording the net pension liability and related deferred outflows is a decrease to net position.	(130,005)
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(6,622)
Net Position of Governmental Activities	<u><u>\$ 4,453,030</u></u>

The accompanying notes are an integral part of this statement.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue
REVENUES	
Sales tax	\$ 2,242,995
Interest (Note 6)	67,563
Rental (Note 7)	6,900
Other revenues (Note 7)	5,339
Total Revenues	<u>2,322,797</u>
EXPENDITURES	
General Government	
Compensation	185,097
Office facilities	53,036
Office expenses	6,335
Insurance	9,825
Total General Government	<u>254,293</u>
Economic Development	
Contractual services	36,325
Meetings and workshops	8,877
Professional development	2,879
Promotion	21,345
Economic development grants	204,017
Total Economic Development	<u>273,443</u>
Water and Waste Water Project - City of Big Spring (4B Project) (Note 13)	<u>750,000</u>
Total Expenditures	<u>1,277,736</u>
Excess of Revenues Over (Under) Expenditures	<u>1,045,061</u>
Other Financing Sources	
Easements	<u>17,200</u>
Net Change in Fund Balances	1,062,261
Fund Balance - October 1, 2016	<u>3,350,229</u>
Fund Balance - September 30, 2017	<u><u>\$ 4,412,490</u></u>

The accompanying notes are an integral part of this statement.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ 1,062,261
The receipt of funds from granted easements provides current financial resources to the government fund, but is a basis reduction to the affected property. It has no effect on net position in the government wide financial statements.	(17,200)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(6,622)
The increase in compensated absences is not recognized in governmental funds. The net effect of recording the 2017 obligation increase is to decrease net position.	(5,261)
Decrease in deferred outflows related to pensions of \$7,346 and increase in pension liability of \$9,271 are not recorded in the fund financial statements. The net effect of these pension changes is to decrease net position.	(16,617)
Change in Net Position of Governmental Activities	<u><u>\$ 1,016,561</u></u>

The accompanying notes are an integral part of this statement.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Sales tax	2,000,000	2,000,000	\$ 2,242,995	\$ 242,995
Interest (Note 6)	160,000	160,000	67,563	(92,437)
Rental (Note 7)	7,000	7,000	6,900	(100)
Chamber reimbursment (Note 7)	4,500	4,500	4,375	(125)
Other revenues (Note 7)			964	964
Total Revenues	2,171,500	2,171,500	2,322,797	151,297
EXPENDITURES				
General Government				
Compensation	180,734	180,734	185,097	(4,363)
Office facilities	53,000	53,000	53,036	(36)
Office expenses	8,050	8,050	6,335	1,715
Contractual services	62,500	62,500	36,324	26,176
Insurance	9,200	9,200	9,825	(625)
Meetings and workshops	15,500	15,500	8,877	6,623
Professional development	4,000	4,000	2,879	1,121
Promotion	26,000	26,000	21,345	4,655
Economic development grants	1,325,750	1,349,750	204,018	1,145,732
Capital outlay	10,000	10,000		10,000
Water and Waste Water Project (Note 13)	750,000	750,000	750,000	-
Total Expenditures	2,444,734	2,468,734	1,277,736	1,190,998
Excess of Revenues Over or (Under) Expenditures	(273,234)	(297,234)	1,045,061	1,342,295
Other Financing Sources				
Easements			17,200	17,200
Net Change in Fund Balances	(273,234)	(297,234)	1,062,261	1,359,495
Fund Balance, October 1, 2016	3,350,229	3,350,229	3,350,229	
Fund Balance, September 30, 2017	\$ 3,076,995	\$ 3,052,995	\$ 4,412,490	\$ 1,359,495

The accompanying notes are an integral part of this statement.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Big Spring Economic Development Corporation (Big Spring EDC) conform to generally accepted accounting principles promulgated by the Governmental Accounting Standard Board (GASB). The following is a summary of the more significant policies:

A. REPORTING ENTITY

Big Spring EDC was incorporated under the laws of the State of Texas and operates under a Board of Directors which is appointed by the City Council of Big Spring, Texas. The corporation is a non-profit corporation created under the Texas Development Corporation Act of 1979 and is governed by Section 4A of Article 5190.6 of the Revised Civil Statutes of the State of Texas. The purpose of the corporation is to promote, assist and enhance economic development for Big Spring, Texas. It is funded by a one-half cent sales tax.

The corporation was originally incorporated as Moore Development for Big Spring, Inc.

Big Spring EDC is a component unit of the City of Big Spring, Texas ("City"). It is legally separate from the City, but the City Council appoints its five directors and approves the annual budget of Big Spring EDC. The financial statements presented here are also included in the comprehensive financial report of the City.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. Governmental activities include programs supported primarily by taxes, grants and other intergovernmental revenues.

The Statement of Activities presents a comparison between direct expense and revenue for each function of governmental activities. The "charges for services" column represents payments (rent) made by parties that use or directly benefit from facilities provided by Big Spring EDC. Revenues that are not classified as program revenues are presented as general revenues.

Fund financial statements (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance) provide information about the fund. The General Fund is the only operating fund.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenue from sales tax is recorded in the fiscal year the point of sale occurs.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets. However, Big Spring EDC invests extensively in long-term notes as an integral part of its purpose of promoting economic growth. These notes receivable are included in the balance sheet.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred and measurable. Revenues are considered available when they are expected to be collected during the current budgetary period or shortly thereafter. The expenditures are recognized in the period the obligations are expected to be liquidated with expendable available financial resources.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. FUND ACCOUNTING

Big Spring EDC reports all activity in the following governmental fund.

General Fund – This special revenue fund is established to account for resources financing the fundamental operations that are legally restricted for specified purposes. It is a budgeted fund, and any fund balance is considered resources available for current or future economic development.

E. OTHER ACCOUNTING POLICIES

Capital Assets - Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental activities in the government-wide financial statements. Capital assets are defined as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost.

- a. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.
- b. Buildings, furniture and equipment of Big Spring EDC are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	10
Computer Equipment	5
Other Equipment	5-10

Management's Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual amounts could differ from those estimates.

Budget - The annual budget is presented on the modified accrual basis of accounting. The current year's budget was adopted in August, 2016 and was approved by the City Council in September, 2016. It was increased by \$24,000 in January, 2017 to include additional economic development grants. Encumbrance accounting is not used in the accounting system or as a budgetary control.

Compensated Absences – Compensated Absences consists of sick leave and vacation days earned but not used. They are reflected within the government-wide financial statements.

Pensions – For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments including refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. OTHER ACCOUNTING POLICIES - CONTINUED

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Net Assets and Fund Balance

Government-Wide Financial

Investment in Capital Assets – The component of net assets that reports capital assets less accumulated depreciation.

Invested in Incomplete Grants – Certain assets are invested in notes receivable as part of economic incentive grants. Other assets are invested in real properties for future needs. These assets cannot be expended on other projects.

Restricted for Economic Development – The difference between the assets and liabilities that is not restricted for investment in capital assets or invested in incomplete grants.

Governmental Fund Financial Statements

In the fund financial statements, governmental funds can be reported in several classifications. As a special revenue fund the entire balance of Big Spring EDC is restricted.

Restricted – That fund balance that can be spent only for specific purposes stipulated by constitution, external resource providers, laws and regulations of other governments or enabling legislation.

NOTE 2. CASH AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and 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 Big Spring EDC to adopt and implement an investment policy. That 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 of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities (9) and bid solicitation preferences for certificates of deposit.

The Act also requires Big Spring EDC to have independent auditors perform test procedures related to investment practices as provided by the Act. Big Spring EDC is in substantial compliance with the requirements of the Act and with local policy.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, Big Spring EDC has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk for Deposits (Cash and certificates of deposits) - This is the risk that in the event of a bank failure, Big Spring EDC's deposits may not be returned to it. The policy regarding types of deposits allowed and collateral requirements is that all deposits must be insured by FDIC or secured in another manner provided by law. Big Spring EDC was not exposed to custodial credit risks for its deposits because they were covered by depository insurance or pledged securities at all times during the year.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 3. NOTES RECEIVABLE

Notes receivable are not negotiated to produce favorable investment yields but to fulfill Big Spring EDC's economic development purpose in conjunction with grant awards. The five notes vary in original grants from \$50,000 to \$600,000 and current balances from \$40,265 to \$300,000. Some are collateralized and all bear interest. Remaining durations vary between one and five years. Some notes are repaid through economic incentive terms of payroll or capital credits where the maker receives forgiveness for meeting certain economic expansion goals. Forgiven note amounts are reflected as reductions of the note balance and respective interest with an offsetting expense of economic development grants. Not all notes are performing. One is fully reserved (\$40,265) as an allowance for doubtful collection.

Minimum note receivable requirements reflected below are based on management's expected collections:

Year Ended September 30, 2017	Loans		Total Requirements
	Principal	Interest	
2018	230,682	42,700	273,382
2019	115,000	28,350	143,350
2020	115,000	20,300	135,300
2021	115,000	12,250	127,250
Later years	60,000	4,200	64,200
Totals	<u>\$ 635,682</u>	<u>\$ 107,800</u>	<u>\$ 743,482</u>

Note credits and collections for the current year were:

Year Ended Date	Loans		Total Requirements
	Principal	Interest	
September 30, 2017	<u>\$ 145,318</u>	<u>\$ 50,750</u>	<u>\$ 196,068</u>

NOTE 4. OTHER ASSETS

Separate property has been acquired for marketing purposes and future economic development. It does not meet the definition of capital assets since it is not used in the operation. It is:

Description	Basis
315 acres of unimproved land east of Big Spring and in close proximity to Interstate 20	<u>\$ 67,980</u>

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 5. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Buildings and Improvements	238,013			238,013
Furniture and Equipment	51,981			51,981
Totals at Historic Cost	<u>314,994</u>	<u>-</u>	<u>-</u>	<u>314,994</u>
Less Accumulated				
Depreciation for:				
Buildings and Improvements	(121,163)	(5,562)		(126,725)
Furniture and Equipment	(48,608)	(1,060)		(49,668)
Total Accumulated Depreciation	<u>(169,771)</u>	<u>(6,622)</u>	<u>-</u>	<u>(176,393)</u>
Governmental Activities Capital Assets, Net	<u>\$ 145,223</u>	<u>\$ (6,622)</u>	<u>\$ -</u>	<u>\$ 138,601</u>

Depreciation expense was charged to functions as follows:

Office facilities	\$ 5,562
Office expense	1,060
Total Depreciation Expense	<u>\$ 6,622</u>

NOTE 6. INTEREST EARNED

Big Spring EDC earns interest from both investment activities and grant loans made as economic development grants. The current grant loan interest rates are 7% and are recorded whether collected from or earned by the grantee. See also notes 2 and 3.

Description	Interest Income
Collected Through Investment Activities	\$ 16,813
Collected Through Grant Loans	28,200
Grant Earned Credit-Non Cash	8,463
Accrued in Grant Loans - not collected	14,087
Total	<u>\$ 67,563</u>

NOTE 7. RENTAL, REIMBURSEMENT AND OTHER REVENUES

Big Spring EDC leased office space to the Big Spring Chamber of Commerce and Howard County United Way. The duration is indefinite and was established as a verbal extension of a three-year lease that expired in May, 1999. The monthly rent is \$575 plus 50% of shared utility costs.

NOTE 8. RISK MANAGEMENT

Big Spring EDC is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. Big Spring EDC carries commercial insurance for these risks.

Workers' Compensation Pool – The Big Spring EDC's employees are covered by the City's workers' compensation plan. The City's workers compensation plan is administered by Texas Municipal League's Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program and the City pays an annual premium for this coverage. The City has acquired stop-loss coverage, which limits the City's possible loss to \$250,000 per occurrence.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 9. COMPENSATED ABSENCES

Compensated Absences consists of vacation leave, sick leave, and compensatory leave. Vacation leave of 5-20 days is granted to all regular employees dependent upon the date employed, years of service, and civil service status. Currently, two times the employee's annual accrual of vacation leave may be "carried over" to the next calendar year. The City is obligated to make payment upon retirement or termination for employees in good standing for any available, unused vacation and compensatory leave. Sick leave for employees is accrued at 5-15 days per year. After 20 years of continuous full-time service for non-civil service personnel, vested sick leave is paid on retirement or termination at the current hourly rate for up to 90 days. Post-Employment Benefits for retirees of the City include the option to purchase health insurance.

NOTE 10. PENSION PLAN

Plan Description

The Big Spring EDC participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the EDC are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the EDC, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the EDC-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75.00% of the member's deposits and interest.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 10. PENSION PLAN – CONTINUED

Benefits Provided – continued

Currently the EDC has adopted the following provisions related to the pension plan:

	<u>December 31, 2016</u>
Employee Deposit Rate	7.00%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	10
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/10,0/20
Updated Service Credit	100% Repeating
Annuity Increase (to Retirees)	70% of CPI

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	
Inactive Employees Entitled to but not Yet Receiving Benefits	
Active Employees	<u>2</u>
Total Plan Employees	<u><u>2</u></u>

Contributions

The contribution rates for employees in TMRS are either 5.00%, 6.00%, or 7.00% of employee gross earnings, and the matching percentages are either 100.00%, 150.00%, or 200.00%, both as adopted by the governing body. Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the EDC were required to contribute 7.00% of their annual gross earnings during the fiscal year. The required contribution rates for the EDC were 16.11% and 16.93% in calendar years 2016 and 2017, respectively. The EDC's contributions to TMRS for the year ended September 30, 2017, were \$24,211.

Net Pension Liability

The EDC's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Inflation	2.5% per year
Overall Payroll Growth	2.9% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization Period	29 years

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 10. PENSION PLAN – CONTINUED

Net Pension Liability - continued

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109.00% and female rates multiplied by 103.00%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on a Mortality Experience Investigation Study covering 2009 through 2011, and Dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 10. PENSION PLAN - CONTINUED

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance 12/31/2015	\$ 609,819	\$ 433,661	\$ 176,158
Service cost	22,328		\$ 22,328
Interest (on the Total Pension Liability)	52,479		\$ 52,479
Difference between expected and actual expense	4,116		\$ 4,116
Contributions - employee		9,830	\$ (9,830)
Contributions - employer		22,623	\$ (22,623)
Net investment income		40,972	\$ (40,972)
Benefit payments	(39,022)	(39,022)	\$ -
Administrative expense		(463)	\$ 463
Proportionate Share Adjustment	3,284		\$ 3,284
Other		(26)	\$ 26
Balance 12/31/2016	<u>\$ 653,004</u>	<u>\$ 467,575</u>	<u>\$ 185,429</u>

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the EDC, calculated using the discount rate of 6.75%, as well as what the EDC's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease	Current Rate Assumption	1% Increase
\$ 302,466	\$ 185,429	\$ 89,875

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense, Deferred Outflows, and Deferred Inflows Related to Pensions

For the year ended September 30, 2017, the EDC recognized pension expense of \$40,195 and calculated as shown below:

Total Service Cost	\$ 22,328
Interest on the Total Pension Liability	52,479
Employee Contributions (Reduction of Expense)	(9,830)
Projected Earnings on Plan Investments (Reduction of Expense)	(40,930)
Administrative Expense	463
Other Changes in Fiduciary Net Position	26
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	5,718
Recognition of Current Year Outflow (Inflow) of Resources-Assets	9,941
Total Pension Expense	<u>\$ 40,195</u>

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 10. PENSION PLAN - CONTINUED

Pension Expense, Deferred Outflows, and Deferred Inflows Related to Pensions - continued

At September 30, 2017, the EDC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources - Pension Plan	Amount	Plan Year	Amortization Period
Employer Contribution Deferrals	\$ 20,875	2015	1.000
Differences Between Projected and Actual Investment Earnings	(32)	2016	4.000
Differences Between Projected and Actual Investment Earnings	25,332	2015	3.000
Differences Between Projected and Actual Investment Earnings	3,010	2014	2.000
Differences Between Expected and Actual Economic Experience	2,841	2016	2.230
Differences Between Expected and Actual Economic Experience	2,482	2015	0.960
Differences Between Expected and Actual Economic Experience	162	2014	0.151
Difference in Assumptions	754	2015	0.960
Total Deferred Outflows of Resources	<u>\$ 55,424</u>		

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year	Amortization of Deferred Outflows
2017	\$ 35,488
2018	11,215
2019	8,729
2020	(8)
	<u>\$ 55,424</u>

NOTE 11. HEALTH CARE BENEFITS

Health insurance benefits are provided to the employees of Big Spring EDC through the City's self-insured health insurance plan. The City's health insurance plan is administered by a third-party administrator, Texas Municipal League's Multistate Intergovernmental Employee Benefits Pool (TMLIEBP). TMLIEBP reviews and processes all health insurance claims. The City has acquired stop-loss coverage, which limits the City's possible liability exposure to \$90,000 per claim. Big Spring EDC's health insurance cost of \$6,148 includes health insurance for only one employee.

The Big Spring EDC does not provide post-retirement health benefits to its employees.

NOTE 12. RESTRICTED FUND BALANCE

The entire fund balance is restricted for economic development. However, the Board has obligated funds within the balance that may not be available for future operations and grants.

Nonspendable – the amount of \$641,803 is in a non-spendable form as prepaid expenses or invested in long-term grant notes receivable.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 13. COMMITMENTS

In May, 2012 the citizens of Big Spring voted to fund a 4B project to rehabilitate the City's water and waste water treatment plants including repair or replacing water distributions lines. As a part of that agreement with the City, the Big Spring EDC was obligated to fund \$750,000 on January 1, 2016. In later years and through 2033 the Big Spring EDC is obligated to pay 40% of its sales tax revenue except the payment cannot exceed \$750,000 or be less than \$500,000. This agreement has a term ending in 2033 or a total amount of \$13,000,000.

	Project Amortization	Expended to Date	Commitment	Required Further Financing
Water & waste water	\$ 13,000,000	\$ 3,750,000	\$ 9,250,000	\$ -
	<u>\$ 13,000,000</u>	<u>\$ 3,750,000</u>	<u>\$ 9,250,000</u>	<u>\$ -</u>

NOTE 14. SUBSEQUENT EVENTS

The Big Spring EDC has evaluated events occurring after September 30, 2017 through January 9, 2018, the date on which the financial statements were available to be issued, for additional evidence about conditions that existed at the date of the balance sheet, including the estimate inherent in the process of preparing financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS

DEFINED BENEFIT RETIREMENT PLAN

**SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

	12/31/14	12/31/15	12/31/16
	Total Pension Liability	Total Pension Liability	Total Pension Liability
Service Cost	\$ 11,837	\$ 32,062	\$ 22,328
Interest	34,258	76,779	52,479
Benefit Payments	(27,162)	(42,272)	(39,022)
Differences between Expected and Actual Experience	2,350	7,513	4,116
Other			3,284
Changes in Assumptions		2,281	
Net Change	\$ 21,283	\$ 76,363	\$ 43,185
Beginning Balance	512,173	533,456	609,819
Ending Balance	\$ 533,456	\$ 609,819	\$ 653,004
	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position
Employee Contributions	\$ 6,874	\$ 9,732	\$ 9,830
Employer Contributions	14,193	22,615	22,623
Net Investment Income	28,602	892	40,972
Benefit Payments	(27,162)	(42,272)	(39,022)
Administration Expenses	(244)	(544)	(463)
Other	(20)	(27)	(26)
Net Change	\$ 22,243	\$ (9,604)	\$ 33,914
Beginning Balance	421,022	443,265	433,661
Ending Balance	\$ 443,265	\$ 433,661	\$ 467,575
Net Pension Liability	\$ 90,191	\$ 176,158	\$ 185,429
Fiduciary Net Position as a Percentage of Total Pension Liability	83.09%	71.11%	71.60%
Covered Payroll	\$ 118,247	\$ 123,703	\$ 134,083
Net Pension Liability as a Percentage of Covered Payroll	76.27%	142.40%	138.29%

Note: Only 3 years of GASB 68 data is available as of 12/31/2016.
The remaining 7 years of data will be built on a go forward basis.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS

DEFINED BENEFIT RETIREMENT PLAN

SCHEDULE OF CONTRIBUTIONS

SEPTEMBER 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>
Actuarially Determined Contribution	\$ 19,731	\$ 25,555	\$ 24,211
Actual Contributions	19,731	25,555	24,211
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cover Payroll	\$ 120,703	\$ 133,496	\$ 133,277
Contributions as a Percentage of Covered Employee Payroll	16.35%	19.14%	18.17%

Note: Only 3 years of GASB 68 data is available as of 09/30/17.
The remaining 7 years of data will be built on a go forward basis.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
DEFINED BENEFIT RETIREMENT PLAN

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2017

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

BIG SPRING ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF BIG SPRING, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2017

Summary of Auditors' Results

The auditors' report expresses an unmodified opinion on the financial statements of Big Spring Economic Development Corporation.

No significant deficiency or material weakness was disclosed during the audit of the financial statements that are reported in the 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.

Instances of noncompliance required to be reported in accordance with *Government Auditing Standards* were not material to the financial statements of Big Spring Economic Development Corporation.

Findings – Financial Statement Audit

There were no significant deficiencies discovered in internal controls or noncompliance.

Status of Prior Year's Findings

All prior year findings have been corrected.

Corrective Action Plan

The person responsible for corrective action is Terry Wegman, Executive Director.