



RESOLUTION NO. 20180123-02

ACCEPTANCE OF FISCAL YEAR 2017 AUDITED FINANCIAL STATEMENTS

WHEREAS, TexAmericas Center is a political subdivision of the State of Texas with the powers and authorities specified in Chapter 3503 of the Special District Local Laws Code of the State of Texas; and

WHEREAS, by prior Resolution #20170627-01 of the Board of Directors, TexAmericas Center hired auditors Knauth & Company, P.C. and provided them with the unaudited financial statements of TexAmericas Center for their review, and;

WHEREAS, the auditors, outside accountants and TexAmericas Center staff collaborated to conduct the audit and represent the financial statements, management discussion and analysis, and management representations in accordance with applicable law and regulations (Attached), and;

WHEREAS, the auditors have found no material misstatements in the financial statements.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of TexAmericas Center that 2017 Audited Financial Statements are hereby accepted as presented in the attachment hereto.

PASSED AND APPROVED THIS 23rd day of January, 2018.



Boyd Sartin, Chairman of the Board

ATTEST:



Ben King, Secretary

Attached: FY 2017 Audited Financials

TEXAMERICAS CENTER

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

September 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
TexAmericas Center
New Boston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of TexAmericas Center as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of TexAmericas Center, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 16 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.

Kaath & Company, PC

Frisco, Texas
January 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the TexAmericas Center (Center), we offer readers of the TexAmericas Center's financial statements this narrative overview and analysis of the financial activities of the TexAmericas Center for the fiscal year ended September 30, 2017.

Financial Highlights

- The assets of the Center exceeded its liabilities at the close of the most recent fiscal year by \$54,986,963 (*net position*). Of this amount, \$9,070,890 (*unrestricted net position*) may be used to meet the Center's ongoing obligation to citizens and creditors.
- The Center's total net position decreased by \$896,387.
- As of the close of the fiscal year, the Center's general fund reported an ending fund balance of \$12,118,940, an increase of \$99,585 in comparison with the prior year. Approximately 70% of this amount, \$8,484,536, is available for spending at the Center's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was 148% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the TexAmericas Center's basic financial statements. The Center's basic financial statements comprise three components: 1) government-wide statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the TexAmericas Center's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the TexAmericas Center'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 whether the financial position of the Center is improving or deteriorating.

The *statement of activities* presents information showing how the Center's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Center that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Center include planning, marketing and development.

The government-wide financial statements can be found on pages 10-11 of this report.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Center's near term financial requirements.

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 financial statements. By doing so, readers may better understand the long-term impact of the Center's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Center maintains one governmental fund also called the general fund. The general fund's information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The general fund is considered to be a major fund of the Center. The Center adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-16 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 on pages 17-34 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a Center's financial position. In the case of the Center, assets exceeded liabilities by \$54,986,963 as of September 30, 2017.

The largest portion of the Center's net position (\$42,916,073 or 78%), reflects its investment in capital assets (e.g., land and timber, buildings, roads and rail, equipment, and construction in progress), less any debt used to acquire those assets that is still outstanding. The Center uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Center's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed financial information from the statements of net position and activities as of September 30, 2017 and September 30, 2016 is as follows:

Statement of Net Position As of September 30, 2017 and 2016

	<i>Governmental Activities</i>	
	<u>2017</u>	<u>2016</u>
Cash and investments	\$ 11,567,077	\$11,738,709
Other assets	3,109,844	3,828,182
Capital assets	42,916,073	43,906,148
Total assets	<u>57,592,994</u>	<u>59,473,039</u>
Other liabilities	2,557,981	3,547,536
Long term liabilities	48,050	42,153
Total liabilities	<u>2,606,031</u>	<u>3,589,689</u>
Net position:		
Net invested in capital assets	42,916,073	43,906,148
Restricted for performance bond	3,000,000	3,000,000
Unrestricted	9,070,890	8,977,202
Total net position	<u>\$ 54,986,963</u>	<u>\$55,883,350</u>

An additional portion of the Center's net position, \$3,000,000 (5%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9,070,890) may be used to meet the Center's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Center is able to report positive balances in all three categories of net assets, both for the Center as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Center's net position decreased by \$896,387 during the current fiscal year.

A condensed version of the Statement of Activities follows:

Statement of Activities
For the years ended September 30, 2017 and 2016

	<i>Governmental Activities</i>	
	<u>2017</u>	<u>2016</u>
Revenues		
Program Revenues:		
Charges for Service	\$ 1,900,704	\$ 2,369,992
Operating Grants & Contributions	2,705,604	2,979,882
Capital Grants & Contributions	639,134	716,486
General Revenues:		
Investment Earnings	96,897	33,259
Franchise Fees	143,773	94,411
Miscellaneous	48,760	23,695
Leased Employee Revenue	60,536	48,012
Total Revenues	<u>5,595,408</u>	<u>6,265,737</u>
Expenses		
Facility Operations & Infrastructure	2,582,346	2,332,452
Real Estate, Marketing & Sales	1,052,035	699,579
General Government	572,639	670,874
Hunting & Timber	87,980	52,461
ESCA	2,196,795	2,713,194
Total expenses	<u>6,491,795</u>	<u>6,468,560</u>
Excess of Revenues over Expenses	(896,387)	(202,823)
Gain in Disposal of Assets		<u>6,225,774</u>
Change in Net Position	(896,387)	6,022,951
Net Position-Beginning	<u>55,883,350</u>	<u>49,860,399</u>
Net Position - Ending	<u>\$ 54,986,963</u>	<u>\$ 55,883,350</u>

Governmental activities. Governmental activities decreased the Center's net position by \$896,387 during fiscal year ended September, 2017. Key elements of this decrease are as follows:

- Facility operations and infrastructure expenses increased by approximately \$249,894;
- ESCA expenses decreased by \$516,399. This program relates to the environmental restoration activities.
- Real estate and marketing expenses increased by \$352,456.
- Revenue decreased by \$670,329.

Financial Analysis of the Governmental Fund

As noted earlier, the Center uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The general fund is the chief operating fund of TexAmericas Center. At the end of the current fiscal year, the unassigned fund balance was \$8,484,536, while the total fund balance was \$12,118,940. As a measure of the general fund's liquidity, it may be useful to compare both unassigned and total fund balances to total fund expenditures.

The fund balance of the Center's general fund increased by \$99,585 during the 2017 fiscal year compared to an increase of \$6,487,545 in 2016. The increase for 2016 was due to the transfer of the Wet Utilities System.

General Fund Budgetary Highlights

There was a decrease of \$1,720,197 in the revenues between the original and final amended budgets. The main change was a decrease in grants revenue of \$2,370,000.

During the year, there was a \$4,147,384 decrease in the expenditure appropriations between the original and final amended budget. Following are the main components of the decrease:

- Facility operations and infrastructure expenditures decreased \$2,319,828.
- ESCA expenditures decreased by \$1,170,466
- Real Estate, Marketing and Sales decreased \$260,431.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2017, the Center had \$42,916,073 invested in capital assets for its governmental activities, net of accumulated depreciation. This investment in capital assets includes land and timber, buildings, roads and rails, equipment, and construction in progress.

Capital Assets at Year-End Net of Accumulated Depreciation

	<i>Governmental Activities</i>	
	<u>2017</u>	<u>2016</u>
Land and Timber	\$ 16,889,594	\$ 17,115,663
Buildings and Improvements	25,342,332	24,789,668
Roads and Rail	19,376,001	19,351,364
Equipment	911,004	911,004
Construction in Progress	483,431	-
Subtotal	<u>63,002,362</u>	<u>62,167,699</u>
Accumulated Depreciation	<u>(20,086,289)</u>	<u>(18,261,551)</u>
Total Capital Assets	<u>\$ 42,916,073</u>	<u>\$ 43,906,148</u>

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

Long-term debt. At the end of the current fiscal year, the Center had accrued compensated absences of \$48,050.

	<u>2017</u>	<u>2016</u>
Accrued compensated absences	\$ 48,050	\$ 42,153
Total	<u>\$ 48,050</u>	<u>\$ 42,153</u>

Additional information of the TexAmericas Center's long-term debt can be found in Note 7 on page 31 on this report.

Economic Factors and Next Year's Budget

As part of its transfer agreements with the US Army, TexAmericas Center received several contracts that will generate net revenue for TexAmericas Center in 2018, as well as included provisions for a right of first negotiation on some of the environmental restoration activities, creating a pathway to accelerate redevelopment while simultaneously enhancing revenue. This program function (ESCA) was implemented in 2015.

There are no major changes expected from the current list of tenants upon the TexAmericas Center. There are some leases scheduled to expire this year, however most are expected to be renewed.

Financial Contact

The Center's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Center's finances and to demonstrate the Center's accountability. If you have questions about the report or need additional financial information, please contact Scott Norton, Executive Director/CEO at 107 Chapel Lane, New Boston, Texas, 75570.

TEXAMERICAS CENTER
STATEMENT OF NET POSITION
September 30, 2017

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 8,539,367
Investments - Certificates of Deposit	3,027,710
Accounts Receivable	677,920
Due from U. S. Army - ESCA Grant	2,280,006
Due from EDA Grant	123,660
Due from TAC East Holdings Co.	25,793
Prepaid Expenses	2,465
Capital Assets:	
Land and Timber	16,889,594
Buildings and Improvements	11,165,483
Road and Rail	14,271,126
Equipment	106,439
Construction in Progress	483,431
Total Assets	57,592,994
Liabilities	
Accounts Payable	420,674
Accrued Liabilities	31,179
Unearned Revenue	1,975,626
Tenant Lease Deposits	130,502
Noncurrent Liabilities:	
Due Within One Year:	
Accrued Compensated Absences	24,880
Due in More Than One Year:	
Accrued Compensated Absences	23,170
Total Liabilities	2,606,031
Net Position	
Invested in Capital Assets	42,916,073
Restricted for:	
Performance Bond	3,000,000
Unrestricted	9,070,890
Total Net Position	\$ 54,986,963

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

TEXAMERICAS CENTER
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental Activities:					
Facility Operations and					
Infrastructure	\$ 2,582,346	16,779	150,000	639,134	(1,776,433)
Real Estate, Marketing,					
and Sales	1,052,035	1,797,119	307,985		1,053,069
General Government	572,639		-		(572,639)
Timber & Hunting	87,980	86,806			(1,174)
ESCA	2,196,795		2,247,619		50,824
Total Governmental Activities	6,491,795	1,900,704	2,705,604	639,134	(1,246,353)
			General Revenues		
			Franchise Fees	143,773	
			Investment Earnings	96,897	
			Miscellaneous	48,760	
			Leased Employee Revenue	60,536	
			Total General Revenues	349,966	
			Change in Net Position		(896,387)
			Net Position - Beginning		55,883,350
			Net Position - Ending		\$54,986,963

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

TEXAMERICAS CENTER
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2017

	General Fund
Assets	
Cash and Cash Equivalents	\$ 8,539,367
Investment - Certificates of Deposit	3,027,710
Accounts Receivable	677,920
Due From U. S. Army - ESCA Grant	2,280,006
Due from TAC East Holdings Co.	25,793
Due from EDA Grant	123,660
Prepaid Expenses	2,465
Total Assets	\$ 14,676,921
 Liabilities	
Accounts Payable	\$ 420,674
Accrued Liabilities	31,179
Unearned Revenue	1,975,626
Tenant Lease Deposits	130,502
Total Liabilities	2,557,981
 Fund Balance	
Restricted	3,000,000
Committed	624,874
Assigned	9,530
Unassigned	8,484,536
Total Fund Balance	12,118,940
 Total Liabilities and Fund Balance	 \$ 14,676,921

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

TEXAMERICAS CENTER
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
September 30, 2017

Total Governmental Fund Balance	\$ 12,118,940
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	42,916,073
Long-term liabilities, such as accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(48,050)
Net Position of Governmental Activities	<u>\$ 54,986,963</u>

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

TEXAMERICAS CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2017

	General Fund
Revenues	
Leases	\$ 1,797,119
Franchise Fees	143,773
Timber & Hunting	312,875
Grants	3,036,753
Personal Property Sales	16,779
Intergovernmental	-
Insurance Proceeds	-
Interest	96,897
Leased Employees	60,536
Contractual Arrangements	307,985
Miscellaneous	48,760
Total Revenue	5,821,477
 Expenditures	
Current:	
Facility Operations & Infrastructure	979,814
Real Estate, Marketing & Sales	829,408
General Government	569,637
Timber & Hunting	87,980
ESCA	2,195,530
Debt Service:	
Real Estate, Marketing & Sales:	
Principal	839,134
Interest	220,389
Total Expenditures	5,721,892
 Change in Fund Balance	 99,585
 Fund Balance - Beginning of Fiscal Year	 12,019,355
 Fund Balance - End of Fiscal Year	 \$ 12,118,940

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

TEXAMERICAS CENTER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Net Change in Fund Balances - total governmental funds	\$	99,585
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. This is the amount by which depreciation exceeded capital outlays in the current period.		(764,006)
The net effect of various disposals of capital assets is to decrease net assets.		(226,069)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the change in compensated absences.		(5,897)
Change in net assets of governmental activities	<u>\$</u>	<u>(896,387)</u>

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

TEXAMERICAS CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Leases	\$ 1,569,143	1,760,143	1,797,119	36,976
Franchise Fees	135,000	138,000	143,773	5,773
Timber & Hunting	287,340	299,340	312,875	13,535
Grants	6,045,494	3,675,494	3,036,753	(638,741)
Personal Property Sales	10,000	17,000	16,779	(221)
Interest	21,500	94,500	96,897	2,397
Leased Employees	46,000	58,000	60,536	2,536
Contractual Arrangements	-	308,000	307,985	(15)
Miscellaneous	5,000	48,803	48,760	(43)
Total Revenue	<u>8,119,477</u>	<u>6,399,280</u>	<u>5,821,477</u>	<u>(577,803)</u>
Expenditures				
Current:				
Facility Operations & Infrastructure	3,434,667	1,114,839	979,814	135,025
Real Estate, Marketing & Sales	1,182,318	921,887	829,408	92,479
General Government	545,848	561,390	569,637	(8,247)
Timber & Hunting	192,585	89,825	87,980	1,845
ESCA	3,696,249	2,525,783	2,195,530	330,253
Capital outlay:				
Facility Operations & Infrastructure	1,520,000	990,170	839,134	151,036
Real Estate, Marketing & Sales		220,389	220,389	-
Total Expenditures	<u>10,571,667</u>	<u>6,424,283</u>	<u>5,721,892</u>	<u>702,391</u>
Change in Fund Balance	(2,452,190)	(25,003)	99,585	(124,588)
Fund Balance - Beginning	12,019,355	12,019,355	12,019,355	-
Fund Balance - Ending	<u>\$ 9,567,165</u>	<u>11,994,352</u>	<u>12,118,940</u>	<u>(124,588)</u>

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

TEXAMERICAS CENTER

Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Center relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the Center are described below.

A. REPORTING ENTITY

The TexAmericas Center, “TexAmericas Center”, is a political subdivision of the State of Texas (formerly known as Red River Redevelopment Authority). TexAmericas Center is governed by a board of directors chosen by vote of the governing bodies of Bowie County, Texas and the cities of Texarkana, New Boston, Hooks, Nash, Wake Village, Leary, Redwater, Maud, DeKalb, and Red Lick, Texas. Board members serve two-year terms. TexAmericas Center was created to accept title from the United States to all or any portion of the real or personal property situated within, adjacent to, or related to Red River Army Depot, Lone Star Army Ammunition Plant and Watts-Guillot US Army Reserve Center, to promote the location and development of new businesses and industries, and to undertake eligible projects under the authorizing statutes. TexAmericas Center began operating independently from the governing bodies of the participating governmental entities in April 1999. In 2010, TexAmericas Center underwent a rebranding for marketing and development of their real estate. During the rebranding, the property was renamed from Red River Commerce Park to TexAmericas Center. The property is currently divided into three parcels: TexAmericas Center East, TexAmericas Center West and TexAmericas Center Central. In fiscal year 2011, the State of Texas passed legislation to legally change the name from Red River Redevelopment Authority to TexAmericas Center. On May 12, 2011, the governor signed the legislation and the name change was official.

B. RELATED ORGANIZATIONS

TexAmericas Center's Board of Directors is also responsible for appointing the members of the boards of other organizations, but TexAmericas Center's accountability for these organizations do not extend beyond making the appointments. The Board of Directors appoints a member of the Riverbend Water Resources District board. The position is appointed with an individual who is not a member of the Board of Directors.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements consist of the statement of net position and the statement of activities. They include all funds of TexAmericas Center. Governmental activities include programs supported primarily by intergovernmental revenues and lease revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) leases on property, timber sales, and personal property sales (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Investment earnings are not included among program revenues and are reported instead as general revenues.

Indirect expenses of governmental activities are reported in the general government function.

Separate financial statements are provided for governmental funds.

D. BASIS OF ACCOUNTING

The government-wide financial statements are reported using 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 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 modified accrual basis of accounting. Revenues are recognized as soon as they are both measureable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, TexAmericas Center considers revenues to be available if they are collected within 120 days of the end of the current fiscal period in order to properly match grant funding with TexAmericas Center's budget. Payment requests for amounts reflected on the financial statements as due from other governments are prepared and submitted within 30 days of year end. Payment of the funds requested can take up to 120 days. Expenditures generally are recorded when a liability is incurred, as under accrual

accounting; however, debt service expenditures are recorded when payment is due.

Revenue sources such as lease revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by TexAmericas Center.

TexAmericas Center reports the following major governmental fund:

General Fund – This fund is the general operating fund of TexAmericas Center. It is used to account for all financial resources except those required to be accounted for in another fund.

The accounting and reporting policies of TexAmericas Center relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants, and by the Financial Accounting Standards Board (when applicable).

When both restricted and unrestricted resources are available for use, it is TexAmericas Center's policy to use unrestricted resources first, and then restricted resources as they are needed.

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

1. Cash and Cash Equivalents

TexAmericas Center's cash and cash equivalents include amounts in demand deposit, negotiable order of withdrawal, and money market accounts, as well as certificates of deposit with a maturity of 90 days or less.

2. Investments

It is TexAmericas Center's policy to purchase investments with maturity dates coinciding with cash flow requirements. The average maturity of investments of TexAmericas Center's operating funds cannot exceed one year. The maximum maturity of any investments cannot exceed five years. Using this strategy, TexAmericas Center attempts to purchase the highest yielding allowable investments available at the time of purchase. The basis used to determine whether market yields are being achieved is the average rate of return on United States Treasury Bills for a comparable term.

Under TexAmericas Center's investment policy, the following are authorized investments: obligations issued, guaranteed, or insured by the United States of America which have a liquid market value, including letters of credit, direct obligations of the State of Texas; other obligations which are guaranteed or insured by the State of Texas or the United States; obligations of the states, counties, cities, and other political subdivisions of any state which have an investment quality rating no less than "A" or its equivalent; financial institution deposits of banks or credit unions that have a main office or branch in Texas and participates in the Certificate of Deposit Account Registry Service; fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States; investment pools rated no lower than AAA or AAA-m with a maturity of 90 days or less; money market mutual funds which have a rating of AAA, a maturity of 90 days or less, and are registered with the Securities and Exchange Commission. Guaranteed investment contracts are allowed for investments of bond proceeds only and must be secured by obligations of the United States in an amount equal to 102% of the investment balances.

The following summarizes the minimum diversification standards of TexAmericas Center by investment type and issuer:

Investment Type

Percentage of Total Investments

U.S. government agencies and instrumentalities	Not to exceed 80%
Fully insured or collateralized CDs	Not to exceed 100%
Repurchase agreements	Not to exceed 50%
Money market fund:	
Operating funds	Not to exceed 100%
Bond funds	Not to exceed 100%
Local government investment pools	
Liquidity pools	Not to exceed 100%
Fixed rate/maturity pools	Not to exceed 80%

All deposits and investments of TexAmericas Center funds other than direct purchases of securities, pools, or mutual funds must be secured. With the exception of deposits secured with irrevocable letters of credit at 100% of the invested balance, all deposits of funds with financial institutions must be collateralized with marketable securities at 102% of the market value of principal and accrued interest on the deposits or investments, less an amount insured through Federal Deposit Insurance.

TexAmericas Center's investment policy does not specifically address foreign currency risk; however, TexAmericas Center does not hold any investments that pose a foreign currency risk.

Investments for TexAmericas Center are reported at fair value. Short-term investments, such as certificates of deposit, with a maturity date of less than one year, are reported at cost plus interest earned, which approximates fair value. On September 30, 2017, TexAmericas Center had \$3,027,710 invested in certificates of deposit.

3. Receivables and Payables

TexAmericas Center provides allowances for uncollectable receivables in compliance with generally accepted accounting principles. However, at September 30, 2017 the balance of the allowance account is \$0 since management believes all receivables to be fully collectible.

4. Prepaid Items

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

5. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (roads, rail, and similar items) are reported in the governmental column of the government-wide financial statements.

Governmental activities:

Capital assets are defined by governmental activities as assets with a normal service life greater than five years and an initial individual cost or fair value of more than \$5,000. Capital assets are valued at historical cost, except for donated fixed assets, which are recorded at their estimated fair value on the date of donation. Estimated fair value was used to value the assets acquired from the United States Army, "the Army", on June 30, 1997, September 1, 2010, and September 30, 2011.

Prior to October 1, 2003, infrastructure assets associated with governmental activities were not capitalized. TexAmericas Center has elected to capitalize infrastructure assets prospectively starting October 1, 2003. Infrastructure consists of roads and rail for the governmental activities.

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.

Depreciation is provided using the straight line method over the following estimated useful lives:

<i>Capital Assets Classes</i>	<i>Lives</i>
Buildings	20 years
Improvements	15 years
Machinery and Equipment	5-10 years
Infrastructure	20-60 years

6. Compensated Absences

TexAmericas Center utilizes the accrual method for recording compensated absences. TexAmericas Center provides vacation and sick leave benefits for all full-time employees. Vacation time is accrued at the rate of 1.25 days for each month of service for a total of 15 days each year. Vacation time of up to 200 hours can be carried forward to succeeding fiscal years without prior approval. Sick leave is earned at a rate of 1 day for each month of service. It terminates on the last day of employment. Vested or accumulated vacation that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. It is TexAmericas Center's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences," no liability is recorded for accumulating rights to receive sick pay benefits.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net position.

8. Fund equity

In accordance with GASB No. 54, TexAmericas Center classifies its fund balance into five categories. Non-spendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact. Restricted fund balance includes amounts that are constrained to specific purposes by their providers or by enabling legislations. Committed fund balance includes amounts which are constrained to specific purposes by the government itself, using its highest level of decision-making. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. Assigned fund balance includes amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates. Unassigned fund balance includes amounts that are available for any purpose. Unassigned fund balances are only reported in the general fund.

TexAmericas Center's highest level of decision-making authority is governed by the Board of Directors. Passage of a resolution would be required to establish, modify, or rescind a fund balance commitment. The Board of Directors or Executive Director/CEO has the Authority to assign amounts to specific purposes. The Board of Directors has delegated routine operating decision-making to the Executive Director/CEO.

TexAmericas Center considers restricted amounts spent when expenditures are incurred for purposes for which only restricted fund balance is available. Expenditures incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used are classified using the lowest level of spending constraint available at the time of the expenditure.

9. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes a reconciliation between *total governmental funds balances* and *net position of governmental activities* as reported in the government-wide statement of net position.

One element of that reconciliation explains that "capital assets used in governmental activities are not financials resources and, therefore, not reported in the funds." The details of this \$42,916,073 difference are as follows:

Land and timber	\$ 16,889,594
Buildings and improvements	25,342,332
Less: Accumulated depreciation - buildings	(14,176,849)
Roads and rail	19,376,001
Less: Accumulated depreciation - roads and rail	(5,104,875)
Equipment	911,004
Less: Accumulated depreciation - equipment	(804,565)
Construction in Progress	<u>483,431</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 42,916,073</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balance – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “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.” The details of this (\$764,006) difference are as follows:

Capital Outlay	\$ 1,060,732
Depreciation Expense	<u>(1,824,738)</u>
Net Adjustment to decrease <i>net change in fund balances -total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	<u>\$ (764,006)</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND RESPONSIBILITY

A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general and proprietary funds. Prior to September 30, the Executive Director/CEO submits to the Board of Directors the proposed expenditures and the means of financing them. Prior to October 1, the budget is legally enacted through passage of a resolution. Any revisions that alter the budget of any fund must be approved by the Board of Directors. Budgets presented are as originally adopted, or as amended by TexAmericas Center.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2017, there were no programs in which expenditures exceeded appropriations in the general fund.

NOTE 4 – DEPOSITS AND INVESTMENTS

On September 30, 2017, all of TexAmericas Center’s cash and investments were covered by either federal depository insurance or collateral held by the pledging financial institution’s agent in TexAmericas Center’s name.

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 TexAmericas Center to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principle 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. Statutes authorize TexAmericas Center to invest (1) in 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 Public Funds Investment Act (PFIA) governs TexAmericas Center’s investment policies and types of investments. TexAmericas Center’s management believes that it complied with the requirements of the PFIA and TexAmericas Center’s investment policies described in Note 1.

Concentrations of credit risk of over 5% by issuer on September 30, 2017 are as follows:

<i>Investment Type</i>	<i>Issuer</i>	<i>Fair Value</i>	<i>% of Total Investments</i>
Cash & certificates of deposit	Guaranty Bank	\$ 11,567,077	100%

NOTE 5 – RECEIVABLES

Receivables as of year-end for TexAmericas Center are as follows:

Leases	\$	30,126
Franchise Fees		7,664
Leased Employee		23,164
Miscellaneous		3,625
Grant		<u>3,042,800</u>
Gross Receivables		3,107,379
Less: Allowance for Uncollectibles		<u>-</u>
Net Total Receivables	\$	<u>3,107,379</u>

Governmental funds report deferred inflows of resources, such as unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, TexAmericas Center had no unavailable revenue (deferred inflows of resources) and had \$1,975,626 of unearned revenue (liability) for the ESCA grant which had been received prior to revenue recognition.

NOTE 6 – CAPITAL ASSETS

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

	Balance October 1, 2016	Additions	Sales	Balance September 30, 2017
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land & Timber	\$ 17,115,663	-	(226,069)	\$ 16,889,594
Buildings - Salvage	1,477,239			1,477,239
Roads & Rail - Salvage	2,036,129			2,036,129
Equipment - Salvage	56,496			56,496
Construction in Process	-	483,431		483,431
Total Capital Assets, Not Being Depreciated	20,685,527	483,431	(226,069)	20,942,889
Capital Assets, Being Depreciated:				
Buildings & Improvements	23,312,429	552,664		23,865,093
Roads & Rail	17,315,235	24,637		17,339,872
Equipment	854,508		-	854,508
Total Capital Assets, Being Depreciated	41,482,172	577,301	-	42,059,473
Less Accumulated Depreciation For:				
Buildings & Improvements	(13,059,546)	(1,117,303)		(14,176,849)
Roads & Rail	(4,438,354)	(666,521)		(5,104,875)
Equipment	(763,651)	(40,914)	-	(804,565)
Total Accumulated Depreciation	(18,261,551)	(1,824,738)	-	(20,086,289)
Total Capital Assets, Being Depreciated, Net	23,220,621	(1,247,437)	-	21,973,184
Governmental Capital Assets, Net	\$ 43,906,148	(764,006)	(226,069)	\$ 42,916,073

Depreciation for governmental activities is charged to the planning and marketing function.

Construction Commitments

TexAmericas Center has active construction projects as of September 30, 2017.

Governmental

	Remaining
Area D Fire Line	\$ 2,132
228 TX Ave Parking Lot	561,902
BB-12 Utility	28,876
Bldg F-15 Remediation	31,964
	<u>\$ 624,874</u>

NOTE 7 – LONG-TERM OBLIGATIONS

Governmental funds long-term debt:

On October 1, 2016, TexAmericas Center negotiated with a local financial institution for a line of credit in the amount of \$1,500,000 with an interest rate of 2.75%. At fiscal year end 2017, TexAmericas Center had drawn \$0 on the line of credit. Interest expense paid during the year on the line of credit totaled \$0.

A summary of governmental funds long-term debt transactions follows:

Changes in long-term liabilities:

Long-term liability activity for the year-ended September 30, 2017, was as follows:

	<u>Balance 10/1/2016</u>	<u>Additions</u>	<u>Retirements/ Deductions</u>	<u>Balances 9/30/2017</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated Absences	\$ 42,153	33,787	(27,890)	48,050	24,880
Governmental Activities:					
Long-Term Liabilities	<u>\$ 42,153</u>	<u>33,787</u>	<u>(27,890)</u>	<u>48,050</u>	<u>\$ 24,880</u>

NOTE 8 – LEASES OF PROPERTY

In the course of operations, TexAmericas Center’s general fund leases property received from the Army to various individuals and private companies. The center’s normal leasing practice is annual agreements. The tenants are offered option years should they renew their lease. The option years are not guaranteed revenue. A summary of future minimum rentals due to TexAmericas Center on major non-cancelable leases in the aggregate and for each of the next two years are as follows:

<u>For the Year Ended September 30</u>	<u>Minimum Lease</u>
2018	\$ 1,456,563
2019	291,860
2020	293,565
2021	-
2022	-
Total	<u>\$ 2,041,988</u>

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM

TexAmericas Center sponsors a defined contribution plan for those employees that elect to participate. The plan is a Government Plan as defined in Internal Revenue Code Section 457(b) and is administered through InWest Retirement Solutions and Wachovia Financial Services. All employees of TexAmericas Center are eligible to elect participation in the plan. Employees may contribute, by salary reduction, a percentage as specified in the Internal Revenue Code. TexAmericas Center matches the employee contributions on a discretionary basis. Employees are eligible for employer contributions after 6 months of employment. The current policy matches up to 12.5% of employee compensation based on the following rates: 2 for 1 up to the first 4% of compensation; 1 for 1 within 5-7% of compensation; .5 to 1 within 8-10% of compensation. Employees vest after 6 months. The Center incurred \$41,385 in pension expense for the fiscal year ended September 30, 2017.

NOTE 10 – CONTINGENCIES

TexAmericas Center receives grant funding from the U.S. Department of Defense, and the Office of Economic Adjustment. Expenditures financed by grants are subject to audit by the appropriate grantor agency. If expenditures are disallowed due to noncompliance with grant program regulations, TexAmericas Center may be required to reimburse the grantor agency. As of September 30, 2017, significant amounts of grant expenditures have not been audited but TexAmericas Center believes that disallowed expenditures, if any, will not have a material effect on the overall financial position of TexAmericas Center.

NOTE 11 – RISK MANAGEMENT

TexAmericas Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which TexAmericas Center carries commercial insurance. There has been no major reduction of insurance coverage from prior years.

NOTE 12- SUBSEQUENT PRONOUNCEMENTS

The Governmental Accounting Standards Board recently issued the following statements not yet implemented by the Center. The statements which might impact the Center are as follows:

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, issued June 2015 will be effective for the fiscal year ending September 30, 2018. This Statement replaces the requirements of *Statements No. 45, Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, as amended, and *No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB, *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

Statement No. 85, *Omnibus 2017*, issued in March 2017, will be effective for the fiscal year ending September 30, 2018. The objective of this Statement is to address issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, post-employment benefits (pensions and other post-employment benefits). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

Statement No. 86, *Certain Debt Extinguishment Issues*, issued in May 2017, will be effective for the fiscal year ending September 30, 2018. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance.

Statement No. 87, *Leases*, issued in June 2017, will be effective for the fiscal year ending September 30, 2021. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangement.

The Center has not yet determined the impact of implementing the above new pronouncements.

NOTE 13 – MANAGEMENT REVIEW

In preparing these financial statements, TexAmericas Center has evaluated events and transactions for potential recognition or disclosure through January 22, 2018, the report issuance date.

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

To the Members of the Board
TexAmericas Center
New Boston, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of the TexAmericas Center as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise TexAmericas Center's basic financial statements, and have issued our report thereon dated January 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TexAmericas Center'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 TexAmericas Center's internal control. Accordingly, we do not express an opinion on the effectiveness of TexAmericas Center'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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is 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 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 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 TexAmericas Center's financial statements are free of 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 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kranth & Company, PC

Frisco, Texas
January 22, 2018