



Board Meeting

April 22, 2020



AGENDA  
Product Development and Small Business Incubator Board Meeting

April 22, 2020  
3:30 PM

Board members will be meeting via videoconference and/or teleconference. Members of the public who would like to attend the meeting may join by teleconference or videoconference using the following information:

Phone Number: +1 (646) 749-3122  
Access Code: 917-232-741

Free Web Link for Videoconference:

<https://global.gotomeeting.com/join/917232741>

In accordance with section 418.016 of the Texas Government Code, Governor Abbott has suspended various provisions that require a quorum or a presiding officer to be physically present at a specified meeting location. It is the intent of the Board to have its members join from separate locations. Members of the public via the call-in information provided will be able to hear audio of the meeting and can provide comments during the Public Comment portion of the meeting. The Board will also record the video and audio of the meeting, which will be made available to members of the public.

All agenda items are subject to possible discussion, questions, consideration, and action by the Product Development and Small Business Incubator Board (Board). Agenda item numbers are assigned for ease of reference only and do not necessarily reflect the order of their consideration by the Board. Presentations may be made by the identified staff or Board member or other staff as needed. The Board reserves the right to discuss any items in executive session where authorized by the Open Meetings Act.

ITEM

- I. Call to Order
- II. Introduction of Board Members and Staff
- III. Discussion and Possible Action on Approval of Minutes from the September 4, 2019 Product Development & Small Business Incubator Board meeting (Tab 1).
- IV. Update, Discussion, Consideration, and/or Possible Action On:
  - 1) Mason Greenstar, Inc./Mason Veneers, LLC: Update, discussion, consideration and/or possible action on a pending Small Business Incubator Fund loan (Tab 2).
  - 2) Credit Policy/Use of Funds: Update, discussion, consideration and/or possible action on Credit Policy and/or use of program funds, relating to changes in economic conditions due to COVID-19 (Tab 3).
  - 3) Potential amendments to loan agreements with the following borrowers (Tab 4):

- a. Fujifilm Diosynth Biotechnologies Texas, LLC
  - b. Texas State Technical College- Waco
  - c. Taylor Iron-Machine Works, Inc.
- V. Financial and Program Update:
  - 1) Presentation and discussion of Loan Program Financial Report (Tabs 5 and 6).
- VI. Comments without Deliberation:

Public comment may be received on any matter under the Board's jurisdiction without regard to whether the item was posted on the Agenda.
- VII. Adjournment

Link to April 22, 2020 PDSBI Board meeting documents:

[https://gov.texas.gov/uploads/files/business/Updated\\_PDSBI\\_Board\\_Binder\\_April\\_14.pdf](https://gov.texas.gov/uploads/files/business/Updated_PDSBI_Board_Binder_April_14.pdf)

Persons with disabilities who plan to attend the meeting, who may need auxiliary aids or services, or who need assistance in having English translated into Spanish, should contact William Jackson at 512.936.0256, at least 2 days before the meeting so that appropriate arrangements can be made.

Si tiene planeado asistir a esta reunión y es usted una persona discapacitada que requiere servicios o instrumentos especiales; o bien si requiere de traducción al español, le rogamos comunicarse al 512.936.0291 por lo menos 2 días antes de la reunión para hacer los arreglos necesarios.

**THE BOARD MAY CONVENE INTO EXECUTIVE SESSION AT ANY TIME DURING THE COURSE OF THIS MEETING TO DISCUSS ANY OF THE MATTERS LISTED ABOVE AS AUTHORIZED UNDER THE TEXAS OPEN MEETINGS ACT FOR THE FOLLOWING PURPOSES:**

Tex. Gov't Code § 551.071 Consultation with Attorney

Tex. Gov't Code § 551.074 Personnel Matters

Tex. Gov't Code § 551.087 Deliberation Regarding Economic Development Negotiations

The meeting will be reconvened in open session upon conclusion of any executive session to consider or take final action, if any, on matters deliberated during the executive session.

Tab

1

**PRODUCT DEVELOPMENT AND SMALL BUSINESS INCUBATOR BOARD**

**Minutes of September 4, 2019 Meeting**

State Insurance Building Annex  
221 East 11<sup>th</sup> Street, 4<sup>th</sup> Floor  
Austin, Texas 78701  
4<sup>th</sup> Floor EDT Conference Room  
1:30 PM

**VIDEOCONFERENCE MEETING**

**BOARD MEMBERS IN ATTENDANCE:**

David Margrave	Jody Goehring
Jimmie Limon	Manny Salazar
Jimmy Mize	Melinda Moore

**STAFF IN ATTENDANCE:**

Nicole Ryf  
Lindsey Aston  
Michael Treyger  
William Jackson  
Haileigh Meyers  
Lynn Gunn

The Board proceeded on posted agenda items in the order as follows:

**I. CALL TO ORDER**

David Margrave, Chairman of the Product Development and Small Business Incubator Board (PDSBI), welcomed the board members and the staff at 1:37 PM and took attendance of the members. A quorum was present.

**II. INTRODUCTION OF BOARD MEMBERS AND STAFF**

Board members and staff in attendance at the meeting introduced themselves.

**III. APPROVAL OF MINUTES**

The Board reviewed the minutes of the February 1, 2019 board meeting.

**ACTION: Motion by Jimmie Limon, Second by Melinda Moore, Motion carried to approve the minutes as presented.**

**Product Development and Small Business Incubator  
Board Meeting Minutes  
September 4, 2019**

**IV. FINANCIAL & PROGRAM UPDATE**

**1. Presentation and discussion of Loan Program Financial Report.**

William Jackson presented the financial update of current borrowers to the board members.

**2. Report and discussion on status of current loan portfolio.**

William Jackson updated the board on a Product Development borrower's continuous late payments and status of their financials. The board requested staff to conduct continued monitoring of this matter and provide updates to the board.

Discussion on plans to promote the PDSBI program.

**V. UPDATE, DISCUSSION, CONSIDERATION, AND/OR POSSIBLE ACTION ON:**

**1. Mason Greenstar: Discussion and possible action on a pending Small Business Incubator Fund loan.**

William Jackson updated the board on the status of the Mason Greenstar loan.

**2. Discussion concerning and possible action on Credit Policy approved at February 1, 2019 meeting.**

William Jackson presented the Credit Policy that was approved February 1, 2019. Chairman Margrave led a discussion on small edits for both clarity and grammatical purposes.

**ACTION: Motion by Jimmie Limon, seconded by Manny Salazar, Motion carried to approve the edits to the credit policy which include updates to grammatical and punctuation, as well as:**

**Page 5 addition of the word believed added to the first sentence in the historical performance section;**

**Page 10 deletion of "other than for bank approvable loans" from the second paragraph, first sentence;**

**Page 10, last sentence section C, change "within a reasonable time" to "at least five business days"**

**Page 11- Deletion of "NOTE: stated above"**

**VI. Comments without Deliberation:**

No Public Comment

**Product Development and Small Business Incubator  
Board Meeting Minutes  
September 4, 2019**

**VII. Adjournment**

No further agenda items were discussed or deliberated and no other action was taken. Meeting adjourned at 2:24 PM.

\_\_\_\_\_  
David Margrave, Chair

\_\_\_\_\_  
Date

Tab

2

**Potential Motion Relating to Authority Provided To The Texas Economic Development Bank (“Bank”) Relating to Potential Loan to Mason Veneers, LLC, and Mason Greenstar, Inc.**

The Bank is requesting, and the PDSBI Board hereby approves, the Bank’s possible implementation of the following parameters relating to the potential loan (including any loan documents) to Mason Veneers, LLC, and Mason Greenstar, Inc., previously approved by the PDSBI Board:

1. Allow flexibility for use of loan proceeds within parameters set by the Bank.
2. Allowable interest rate with a minimum of four percent plus variable.
3. Additional flexibility to adjust the payment, disbursement, collateral, and monitoring structure of the loan beyond the specifications originally presented to the Board.

Additional adjustments, within the general intent and scope of these terms, may be approved by the Bank, provided that the Bank believes such adjustments are as protective as the specified terms.

Tab

3

**Discussion Relating to Credit Policy and/or Use of Program Funds, relating to Changes in Economic Conditions Due to COVID-19**

**I. Potential Motion to Approve the Proposed COVID-19 Temporary Loan Addendum to the Credit Policy**

**I move to approve the Proposed COVID-19 Temporary Loan Addendum to the Credit Policy, as edited by the Board.**

**PROPOSED COVID-19 TEMPORARY LOAN ADDENDUM**

**Purpose:** The Texas Economic Development Bank would obtain additional authority from the PDSBI board to provide up to \$15,000,000 of funding from the Small Business Incubator Fund for small business manufacturers (NAICS codes 31-33) that adjust or expand their business for COVID-19 related products, at collateral discount rates potentially greater than what is currently permitted under the Credit Policy for bank-approved loans, and with modified application procedures. The remainder of procedures and parameters in the current Credit Policy would apply to these loans. The application process shall remain open until all proceeds have been distributed or September 30, 2020, whichever event occurs first.

**Application Fee:** \$500

**Loan Amount:** The program will offer loans up to \$250,000 per applicant.

**Interest Rate:** Amount not less to than what is determined by the Board

**Maximum Length of Loan:** In accordance with 10 T.A.C. 177.5, the maximum term of a loan to finance real property may not exceed 20 years, and the maximum term of a loan to finance tangible personal property may not exceed 15 years. The payback period and amortization duration would be lengths in amounts within ranges to be determined by the Board, with balloon payments permitted at the conclusion of the loan period.

**Collateral:** Collateral is required as a secondary source of repayment. The Bank will review the applications collateral if it meets the following discount rates:

- Real Estate--- Range of acceptable rates to be determined by the Board (currently, the Credit Policy permits the Bank to issue the loan for a 65-85% discount rate).
- Commodity products in raw forms such as, metals, lumber, bulk agriculture products, non-toxic materials (items that can be easily sold) – Range of acceptable rates to be determined by the Board (currently, the Credit Policy permits the Bank to issue the loan for a 50-60% discount rate)
- Inventory
  - New machinery or equipment - Range of acceptable rates to be determined by the Board (currently, the Credit Policy permits the Bank to issue the loan for a 65-75% discount rate).

- Used machinery or equipment - Range of acceptable rates to be determined by the Board (currently, the Credit Policy permits the Bank to issue the loan for a 40-50% discount rate).
- Readily saleable finished goods: engines, large industrial tools, equipment, brand name finished goods, large appliances, some consumer goods – Range of acceptable rates to be determined by the Board (currently, the Credit Policy permits the Bank to issue the loan for a 40-50% discount rate)
- Saleable finished goods: Auto parts, small appliances, office supplies, marine parts – Range of acceptable Rate to be determined by the Board (currently, the Credit Policy permits the Bank to issue the loan for a 25%-40% discount rate).

**Application:** The applicant must submit the following:

- Standardized Application stating use of funds and how their application applies to this program
- Business plan including documentation included in Texas Administrative Code Title 10, Part 5, Chapter 177, Rule 177.6
- Insurance
- Demonstration of clear title for pledged collateral

II. **Discussion and Potential Action Relating to Clarification of Credit Policy Concerning Existing Loans**

**Background:** The existing Credit Policy provides, in part:

- “Ultimate collection of Bank loans and facilities – Bank Staff will be expected to take whatever prudent, timely and lawful steps are necessary to insure that the loan remains collectible. It is expected that deteriorating credits and any other important developments regarding a borrower will be brought to the immediate attention of the Board.”
- “Identify obligors that require special interaction, monitoring, follow-up or expertise to assure collection and pursue accordingly. At the discretion of the Office of the Governor, or at the request of the Board, delinquent loans may be referred to the Office of the Attorney General for collection and enforcement. Endeavor to avoid deficiencies in documentation and, if any exist, promptly locate and identify deficiencies in documentation and report these to the responsible parties and monitor remedial actions.”
- “After disbursement, and as the Bank begins to regularly monitor performance on a monthly or quarterly basis, if violations of covenants or other conditions of borrowing are observed, the Bank should advise obligors (in accordance with the loan documents and applicable law) that they are or may be in default. It is the obligor itself who is required to initiate the communication so that the Bank can discuss corrective action. In all cases, the Bank should immediately bring violations to the obligor’s attention verbally and follow up with a default letter, if necessary.”

**Clarification:** The Bank seeks to inform the Board of its potential interpretation of various existing provisions of the Credit Policy as relates to potential late payments due to COVID-19-related economic conditions, so as to provide clarification on how the Bank may interpret those existing provisions. The Bank anticipates that the program's three existing borrowers may experience hardship in making monthly payments due to COVID-19-related economic conditions. Accordingly, the Bank intends to possibly, upon being informed by a borrower that the borrower is unable to make a payment in a particular month, refrain from formally declaring a default. Instead, the Bank may choose to advise the borrower that conditions may exist to declare the borrower in default, but the Bank does not intend to (although does not waive any right to do so earlier) formally declare a default until a certain time period, as determined by the Bank, and connected to COVID-19-related economic conditions, has passed without payment.

Tab

4

**Potential Motion Relating to Fujifilm Diosynth Biotechnologies, LLC-- Any Necessary Changes to Loan Documents To Provide Flexibility on Loan Payments Due to COVID-19 pandemic**

The Board approves any necessary changes to loan documents to be made by the Texas Economic Development Bank (Bank) in order to delay future loan payments and accrual of interest for the above named recipient, if requested by the loan recipient, due to economic hardship caused by the COVID-19 pandemic.

**Potential Motion Relating to Texas State Technical College-Waco -- Any Necessary Changes to Loan Documents To Provide Flexibility on Loan Payments Due to COVID-19 pandemic**

The Board approves any necessary changes to loan documents to be made by the Texas Economic Development Bank (Bank) in order to delay future loan payments and accrual of interest for the above named recipient, if requested by the loan recipient, due to economic hardship caused by the COVID-19 pandemic.

**Potential Motion Relating to Taylor Iron-Machine Works, Inc. -- Any Necessary Changes to Loan Documents To Provide Flexibility on Loan Payments Due to COVID-19 pandemic**

The Board approves any necessary changes to loan documents to be made by the Texas Economic Development Bank (Bank) in order to delay future loan payments and accrual of interest for the above named recipient, if requested by the loan recipient, due to economic hardship caused by the COVID-19 pandemic.

Tab

5

UNAUDITED

**PRODUCT DEVELOPMENT BOND FUND**

FINANCIAL STATEMENTS

Fiscal Year 2020

For the Quarter Ended

February 29, 2020

## UNAUDITED

## PRODUCT DEVELOPMENT BOND FUND

BALANCE SHEET  
February 29, 2020**ASSETS**

## Current Assets:

Cash and Cash Equivalents		
Cash in State Treasury	\$	8,202,033.60
Restricted Cash and Cash Equivalents		
Cash in State Treasury (Required Reserve)		830,000.00
Receivables From:		
Loans Receivable		1,148,294.52
Interest Receivable		
State Treasury Depository Interest		14,357.81
Interest from Program Loans		23,476.32
Prepaid Expenses		
Total Current Assets		<u>10,218,162.25</u>

## Non Current Assets;

Receivables From:		
Loans Receivable		<u>15,551,815.45</u>
Total Non Current Assets		<u>15,551,815.45</u>

**TOTAL ASSETS** \$ 25,769,977.70

**LIABILITIES AND FUND BALANCE**

## Liabilities

Current Liabilities:		
Payables from:		
Accounts	\$	<u>14,806.00</u>
Total Current Liabilities		<u>14,806.00</u>
Non-Current Liabilities		
Bonds Payable		<u>25,000,000.00</u>
Total Non-Current Liabilities		<u>25,000,000.00</u>
<b>TOTAL LIABILITIES</b>		<u>25,014,806.00</u>
Fund Balance (Deficit)		<u>755,171.70</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$	<u><u>25,769,977.70</u></u>

## UNAUDITED

**PRODUCT DEVELOPMENT BOND FUND  
COMPARATIVE BALANCE SHEET  
FISCAL YEARS 2019 AND 2020**

	<u>February 29, 2020</u>	<u>February 28, 2019</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents		
Cash in State Treasury	\$ 8,202,033.60	\$ 7,038,083.34
Restricted Cash and Cash Equivalents		
Cash in State Treasury (Required Reserve)	830,000.00	830,000.00
Receivables From:		
Loans Receivable	1,148,294.52	1,148,294.52
Interest Receivable		
State Treasury Depository Interest	14,357.81	15,442.37
Interest from Program Loans	23,476.32	30,293.72
Prepaid Expenses	-	-
Total Current Assets	<u>10,218,162.25</u>	<u>9,062,113.95</u>
Non Current Assets;		
Receivables From:		
Loans Receivable	<u>15,551,815.45</u>	<u>16,700,109.97</u>
Total Non Current Assets	<u>15,551,815.45</u>	<u>16,700,109.97</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>25,769,977.70</u></b>	<b>\$ <u>25,762,223.92</u></b>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Current Liabilities:		
Payables from:		
Accounts	\$ 14,806.00	\$ 33,063.00
Vouchers	<u>0.00</u>	<u>0.00</u>
Total Current Liabilities	<u>14,806.00</u>	<u>33,063.00</u>
Non-Current Liabilities		
Bonds Payable	<u>25,000,000.00</u>	<u>25,000,000.00</u>
Total Non-Current Liabilities	<u>25,000,000.00</u>	<u>25,000,000.00</u>
<b>TOTAL LIABILITIES</b>	<u>25,014,806.00</u>	<u>25,033,063.00</u>
Fund Balance (Deficit)	<u>755,171.70</u>	<u>729,160.92</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>25,769,977.70</u></b>	<b>\$ <u>25,762,223.92</u></b>

## UNAUDITED

## PRODUCT DEVELOPMENT BOND FUND

## STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE

For the Quarter Ended February 29, 2020

	Quarter Ended February 29, 2020	Fiscal Year 2020 YEAR TO DATE
<b>OPERATING REVENUES:</b>		
INTEREST ON LOANS	\$ 132,555.14	\$ 276,799.26
FEES ADMINISTRATIVE SERVICES		-
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 132,555.14</b>	<b>\$ 276,799.26</b>
<b>OPERATING EXPENSES:</b>		
PROFESSIONAL FEES AND SERVICES	3,361.72	6,325.16
INTEREST EXPENSE	138,248.73	220,454.22
ADMINISTRATIVE EXPENSES	49,806.49	99,590.34
OTHER OPERATING EXPENSES	18,259.75	37,328.78
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 209,676.69</b>	<b>\$ 363,698.50</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (77,121.55)</b>	<b>\$ (86,899.24)</b>
<b>NON OPERATING REVENUE (EXPENSES):</b>		
INVESTMENT INCOME	\$ 45,432.07	\$ 93,572.48
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<b>\$ 45,432.07</b>	<b>\$ 93,572.48</b>
<b>INCOME BEFORE OPERATING TRANSFERS IN (OUT)</b>	<b>\$ (31,689.48)</b>	<b>\$ 6,673.24</b>
<b>OPERATING TRANSFERS:</b>		
OPERATING TRANSFERS - OUT (Note D)	(47,281.63)	(96,865.78)
OPERATING TRANSFERS - IN (Note D)	\$ 47,281.63	\$ 96,865.78
<b>TOTAL OPERATING TRANSFERS</b>	<b>\$ -</b>	<b>\$ -</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (31,689.48)</b>	<b>\$ 6,673.24</b>
<b>FUND BALANCE (BEGINNING)</b>	<b>\$ 786,861.18</b>	<b>\$ 748,498.46</b>
<b>FUND BALANCE (ENDING)</b>	<b>\$ 755,171.70</b>	<b>\$ 755,171.70</b>

UNAUDITED  
**PRODUCT DEVELOPMENT BOND FUND**

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE  
 FISCAL YEARS 2019 AND 2020**

	<u>Year to Date</u> <u>February 29, 2020</u>	<u>Year to Date</u> <u>February 28, 2019</u>
<b>OPERATING REVENUES:</b>		
INTEREST ON LOANS	\$ 276,799.26	\$ 350,322.56
FEEs ADMINISTRATIVE SERVICES	-	
<b>TOTAL OPERATING REVENUE</b>	<u>\$ 276,799.26</u>	<u>\$ 350,322.56</u>
<b>OPERATING EXPENSES:</b>		
PROFESSIONAL FEES AND SERVICES	6,325.16	6,423.60
INTEREST EXPENSE	220,454.22	278,869.86
ADMINISTRATIVE EXPENSES	99,590.34	99,428.95
OTHER OPERATING EXPENSES	37,328.78	38,289.88
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 363,698.50</u>	<u>\$ 423,012.29</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ (86,899.24)</u>	<u>\$ (72,689.73)</u>
<b>NON OPERATING REVENUE (EXPENSES):</b>		
INVESTMENT INCOME	\$ 93,572.48	\$ 88,748.08
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>\$ 93,572.48</u>	<u>\$ 88,748.08</u>
<b>INCOME BEFORE OPERATING TRANSFERS IN (OUT)</b>	\$ 6,673.24	\$ 16,058.35
<b>OPERATING TRANSFERS:</b>		
OPERATING TRANSFERS - OUT (Note D)	(96,865.78)	(52,483.27)
OPERATING TRANSFERS - IN (Note D)	\$ 96,865.78	\$ 52,483.27
<b>TOTAL OPERATING TRANSFERS</b>	<u>\$ -</u>	<u>\$ -</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 6,673.24</u>	<u>\$ 16,058.35</u>
<b>FUND BALANCE (BEGINNING)</b>	<u>\$ 748,498.46</u>	<u>\$ 713,102.57</u>
<b>FUND BALANCE (ENDING)</b>	<u><u>\$ 755,171.70</u></u>	<u><u>\$ 729,160.92</u></u>

## UNAUDITED

## PRODUCT DEVELOPMENT BOND FUND

## STATEMENT OF CASH FLOWS

For the Year Ended

February 29, 2020

	Fiscal Year 2020 <u>YEAR TO DATE</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Fees Administrative Services	\$ -
Payments for Other Expenditures	<u>(160,875.28)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>(160,875.28)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfer of Cash from Other Funds	95,865.78
Payments of Interest on Bonds	\$ (220,454.22)
Transfer of Cash to Other Funds	<u>(95,865.78)</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ <u>(220,454.22)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from Interest Income	\$ 95,865.78
Proceeds from Principal Payments on Loans	574,147.26
Proceeds from Interest Payments on Loans	287,371.49
Payments for Loans Provided	<u>-</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ <u>957,384.53</u></b>
Increases (Decrease) in cash	\$ 576,055.03
Cash and cash equivalents September 1, 2019	<u>8,455,978.57</u>
Cash and cash equivalents February 29, 2020	<u><u>\$ 9,032,033.60</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (86,899.24)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Operating Income and Cash Flow Categories Classification Differences	(56,345.04)
Change in Assets and Liabilities:	
(Increase) Decrease in Prepaid Expenses	-
(Increase) Decrease in Due to Other Funds	-
Increase (Decrease) in Payables	<u>(17,631.00)</u>
<b>Total Adjustments</b>	<b>\$ <u>(73,976.04)</u></b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>(160,875.28)</u></b>

UNAUDITED

## Product Development Fund

### Notes to the Financial Statements

February 29, 2020

#### Note A: Summary of Significant Accounting Policies

##### The Entity

The Product Development Fund was established for the purpose of aiding in the development and production, including the commercialization, of new or improved products in the State of Texas.

##### Fund Structure

The Product Development Fund is categorized as both a Special Revenue fund and a Debt Service fund. A Special Revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to use for specified purposes. A Debt Service fund is used to account for the accumulation of resources for, and the payment of, general long-term principal and interest.

##### Basis of Accounting

The basis of accounting, in accordance with generally accepted accounting principles, determines when revenue and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The Product Development Fund is classified as a governmental fund and uses the modified accrual basis of accounting. Under the modified accrual basis, revenue is recognized in the period in which it becomes both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenue of the current year for fund financial statements prepared on the modified basis of accrual. Expenditures and other uses of financial resources are recognized when the related liabilities are incurred.

For the quarterly financial statements a Statement of Cash Flows is prepared in accordance with the prescribed format required by the Governmental Accounting Standards Board (GASB) for proprietary funds. This format is followed since there is not a Statement of Cash Flows for special revenue or debt service funds.

Note B: Bonded Indebtedness

The activities of the Product Development Fund are funded by the issuance of self-supporting General Obligation Bonds:

- \$25,000,000 Product Development General Obligation Variable Rate Demand Bonds, Series 2005B, were issued on May 18, 2005.
- \$25,000,000 was authorized; all authorized bonds have been issued.
- Bondholders may tender the bonds for repurchase every seven days. Any bonds tendered will be purchased with proceeds from loan repayments and/or the liquidity facility until remarketed.

Note C: Notes and Loans Receivable

The Product Development Fund has the following loans outstanding:

FUJIFILM Diosynth Biotechnologies Texas, LLC	\$ 15,510,109.97
Texas State Technical College Waco	\$ 1,190,000.00

The loan receivable balance shown on this report is \$16,700,109.97.

The loan to FUJIFILM Diosynth Biotechnologies Texas, LLC consists of four tranches. The first tranche in the amount of \$6,000,000.00 was distributed on April 23, 2014. The second tranche in the amount of \$5,500,000.00 was distributed on June 15, 2015. The third tranche in the amount of \$5,000,000.00 was distributed on September 28, 2015. The fourth and final tranche in the amount of \$2,000,000.00 was distributed on April 29, 2016.

Note D: Interest Earnings

The Product Development Fund's cash proceeds are deposited in the State of Texas Treasury and earn interest. Interest earnings proceeds must be transferred to the Texas Economic Development Bank (Fund 5106) per legislative mandate. This cash is transferred back to the Product Development Fund at the direction of the Bank for fund use.

Note E: Administrative Expenses

A quarterly administrative fee is paid to the Economic Development Bank for administrative services. The Product Development Fund and the Small Business Incubator Fund pay a combined quarterly fee of \$50,000. The amount paid by each Fund is determined by the relative amount of loans receivable in each Fund.

Note F: Required Reserve

Per a motion passed by the Board on 5/30/2014, a reserve of not less than \$1,500,000 (\$830,000 in the Product Development Fund and \$670,000 in the Small Business Incubator Fund) or an estimated two years of projected operating expenses will be maintained.

Tab

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UNAUDITED

**SMALL BUSINESS INCUBATOR BOND FUND**

FINANCIAL STATEMENTS

Fiscal Year 2020

For the Quarter Ended

February 29, 2020

## UNAUDITED

## SMALL BUSINESS INCUBATOR BOND FUND

## BALANCE SHEET

February 29, 2020

**ASSETS**

## Current Assets:

Cash and Cash Equivalents		
Cash in State Treasury	\$	20,361,701.08
Restricted Cash and Cash Equivalents		
Cash in State Treasury (Required Reserve)		670,000.00
Receivables From:		
Loans Receivable- Non-Governmental Agencies		36,000.00
Allowance for Uncollectible Loans		
Total Loans Receivable, Net		<u>36,000.00</u>
Interest Receivable		
State Treasury Depository Interest		33,753.89
Interest from Program Loans		349.61
Prepaid Expenses		<u>-</u>
Total Current Assets		<u>21,101,804.58</u>

## Non Current Assets:

Receivables From:		
Loans Receivable - Non Governmental Agencies		<u>21,000.00</u>
Total Non Current Assets		<u>21,000.00</u>

**TOTAL ASSETS** \$ 21,122,804.58

**LIABILITIES AND FUND BALANCE**

## Liabilities

Current Liabilities		
Payables from:		
Accounts	\$	<u>12,065.00</u>
Total Current Liabilities		<u>12,065.00</u>
Non-Current Liabilities		
Bonds Payable		<u>20,000,000.00</u>
Total Non-Current Liabilities		<u>20,000,000.00</u>

**TOTAL LIABILITIES** 20,012,065.00

Fund Balance (Deficit) 1,110,739.58

**TOTAL LIABILITIES AND FUND BALANCE** \$ 21,122,804.58

## UNAUDITED

**SMALL BUSINESS INCUBATOR BOND FUND  
COMPARATIVE BALANCE SHEET  
FISCAL YEARS 2019 AND 2020**

	February 29, 2020	February 28, 2019
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents		
Cash in State Treasury	\$ 20,361,701.08	\$ 20,317,509.38
Restricted Cash and Cash Equivalents		
Cash in State Treasury (Required Reserve)	670,000.00	670,000.00
Receivables From:		
Loans Receivable- Non-Governmental Agencies	36,000.00	36,000.00
Allowance for Uncollectible Loans	0.00	
Total Loans Receivable, Net	36,000.00	36,000.00
Interest Receivable		
State Treasury Depository Interest	33,753.89	40,420.06
Interest from Program Loans	349.61	713.05
Due From Other Funds	0.00	
Total Current Assets	21,101,804.58	21,064,642.49
Non Current Assets:		
Receivables From:		
Loans Receivable - Non Governmental Agencies	21,000.00	66,000.00
Total Non Current Assets	21,000.00	66,000.00
<b>TOTAL ASSETS</b>	<b>\$ 21,122,804.58</b>	<b>\$ 21,130,642.49</b>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Current Liabilities		
Payables from:		
Accounts	\$ 12,065.00	\$ 16,348.00
Voucher		
Total Current Liabilities	12,065.00	16,348.00
Non-Current Liabilities		
Bonds Payable	20,000,000.00	20,000,000.00
Total Non-Current Liabilities	20,000,000.00	20,000,000.00
<b>TOTAL LIABILITIES</b>	<b>20,012,065.00</b>	<b>20,016,348.00</b>
Fund Balance (Deficit)	1,110,739.58	1,114,294.49
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 21,122,804.58</b>	<b>\$ 21,130,642.49</b>

## UNAUDITED

## SMALL BUSINESS INCUBATOR BOND FUND

## STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE

For Quarter Ended

February 29, 2020

	Quarter Ended February 29, 2020	FISCAL 2020 YEAR TO DATE
<b>OPERATING REVENUES:</b>		
INTEREST ON LOANS	\$ 551.23	\$ 1,209.01
MISC REVENUE	0.00	0.00
OTHER OPERATING REVENUE	0.00	0.00
TOTAL OPERATING REVENUE	<u>\$ 551.23</u>	<u>\$ 1,209.01</u>
<b>OPERATING EXPENSES:</b>		
PROFESSIONAL FEES AND SERVICES	2,810.71	5,366.27
INTEREST EXPENSE	110,599.04	176,363.40
ADMINISTRATIVE EXPENSES	193.51	409.66
OTHER OPERATING EXPENSES	14,939.80	30,609.01
GRANTS PUBLIC INCENTIVE PROGRAMS		
UNCOLLECTIBLE DEBT		0.00
TOTAL OPERATING EXPENSES	<u>\$ 128,543.06</u>	<u>\$ 212,748.34</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ (127,991.83)</u>	<u>\$ (211,539.33)</u>
<b>NON OPERATING REVENUE (EXPENSES):</b>		
INVESTMENT INCOME	\$ 107,574.04	\$ 224,873.74
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>\$ 107,574.04</u>	<u>\$ 224,873.74</u>
<b>INCOME BEFORE OPERATING TRANSFERS IN (OUT)</b>	\$ (20,417.79)	\$ 13,334.41
<b>OPERATING TRANSFERS:</b>		
OPERATING TRANSFERS - OUT (Note D)	(107,139.88)	(107,139.88)
OPERATING TRANSFERS - IN (Note D)	\$ 107,139.88	\$ 107,139.88
TOTAL OPERATING TRANSFERS	<u>\$ -</u>	<u>\$ -</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (20,417.79)</u>	<u>\$ 13,334.41</u>
<b>FUND BALANCE (BEGINNING)</b>	<u>\$ 1,131,157.37</u>	<u>\$ 1,097,405.17</u>
<b>FUND BALANCE (ENDING)</b>	<u><u>\$ 1,110,739.58</u></u>	<u><u>\$ 1,110,739.58</u></u>

## UNAUDITED

## SMALL BUSINESS INCUBATOR BOND FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE  
FISCAL YEARS 2019 AND 2020

	Year to Date February 29, 2020	Year to Date February 28, 2019
<b>OPERATING REVENUES:</b>		
INTEREST ON LOANS	\$ 1,209.01	\$ 2,799.22
MISC REVENUE	-	-
OTHER OPERATING REVENUE	-	-
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 1,209.01</b>	<b>\$ 2,799.22</b>
<b>OPERATING EXPENSES:</b>		
PROFESSIONAL FEES AND SERVICES	5,366.27	5,160.57
INTEREST EXPENSE	176,363.40	223,095.91
ADMINISTRATIVE EXPENSES	409.66	571.05
OTHER OPERATING EXPENSES	30,609.01	30,275.92
GRANTS PUBLIC INCENTIVE PROGRAMS		
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 212,748.34</b>	<b>\$ 259,103.45</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (211,539.33)</b>	<b>\$ (256,304.23)</b>
<b>NON OPERATING REVENUE (EXPENSES):</b>		
INVESTMENT INCOME	\$ 224,873.74	\$ 246,276.78
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<b>\$ 224,873.74</b>	<b>\$ 246,276.78</b>
<b>INCOME BEFORE OPERATING TRANSFERS IN (OUT)</b>	<b>\$ 13,334.41</b>	<b>\$ (10,027.45)</b>
<b>OPERATING TRANSFERS:</b>		
OPERATING TRANSFERS - OUT (Note D)	(119,964.71)	(151,461.46)
OPERATING TRANSFERS - IN (Note D)	\$ 119,964.71	\$ 151,461.46
<b>TOTAL OPERATING TRANSFERS</b>	<b>\$ -</b>	<b>\$ -</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 13,334.41</b>	<b>\$ (10,027.45)</b>
<b>FUND BALANCE (BEGINNING)</b>	<b>\$ 1,097,405.17</b>	<b>\$ 1,123,320.15</b>
<b>FUND BALANCE (ENDING)</b>	<b>\$ 1,110,739.58</b>	<b>\$ 1,113,292.70</b>

## UNAUDITED

## SMALL BUSINESS INCUBATOR BOND FUND

## STATEMENT OF CASH FLOWS

For Year Ended  
February 29, 2020

	FISCAL 2020 YEAR TO DATE
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Proceeds From Other Revenues	-
Payments for Other Expenditures	(50,807.94)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ (50,807.94)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfer of Cash from Other Funds	\$ 220,998.60
Payments of Interest on Bonds	(176,363.40)
Transfer of Cash to Other Funds	(220,998.60)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>\$ (176,363.40)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from Interest Income	232,778.56
Proceeds from Interest Payments on Loans	1,574.49
Proceeds from Principal Payments on Loans	\$ 18,000.00
Payments for Loans Provided	0.00
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>\$ 252,353.05</u>
Increases (Decrease) in cash	\$ 25,181.71
Cash and cash equivalents September 1, 2019	21,006,519.37
Cash and cash equivalents February 29, 2020	<u>\$ 21,031,701.08</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (211,539.33)
Bad Debt Expense	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Operating Income and Cash Flow Categories	
Classification Differences	175,154.39
Change in Assets and Liabilities:	
(Increase) Decrease in Prepaid Expenses	
(Increase) Decrease in Due From	-
Increase (Decrease) in Payables	(14,423.00)
<b>Total Adjustments</b>	<u>\$ 160,731.39</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ (50,807.94)</u>

UNAUDITED

Small Business Incubator Fund  
Notes to the Financial Statements

February 29, 2020

Note A: Summary of Significant Accounting Policies

The Entity

The Small Business Incubator Fund was established for the purpose of fostering and stimulating the development of new or existing small businesses in the State of Texas.

Fund Structure

The Small Business Incubator Fund is categorized as both a Special Revenue fund and a Debt Service fund. A Special Revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to use for specified purposes. A Debt Service fund is used to account for the accumulation of resources for, and the payment of, general long-term principal and interest.

Basis of Accounting

The basis of accounting, in accordance with generally accepted accounting principles, determines when revenue and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The Small Business Incubator Fund is classified as a governmental fund and uses the modified accrual basis of accounting. Under the modified accrual basis, revenue is recognized in the period in which it becomes both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenue of the current year for fund financial statements prepared on the modified basis of accrual. Expenditures and other uses of financial resources are recognized when the related liabilities are incurred.

For the quarterly financial statements a Statement of Cash Flows is prepared in accordance with the prescribed format required by the Governmental Accounting Standards Board (GASB) for proprietary funds. This format is followed since there is not a Statement of Cash Flows for special revenue or debt service funds.

Note B: Bonded Indebtedness

The activities of the Small Business Incubator Fund are funded by the issuance of self-supporting General Obligation Bonds:

- \$20,000,000 Small Business Incubator General Obligation Variable Rate Demand Bonds, Series 2005B, were issued on May 18, 2005.
- \$20,000,000 was authorized; all authorized bonds have been issued.
- Bondholders may tender the bonds for repurchase every seven days. Any bonds tendered will be purchased with proceeds from loan repayments and/or the liquidity facility until remarketed.

Note C: Loans Receivable

The Small Business Incubator Fund has the following loans outstanding:

Taylor Iron Machine Works	\$ 57,000.00
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The loan receivable balance shown on this report is \$57,000.00.

Note D: Transfers

The Small Business Incubator Fund's cash proceeds are deposited in the State of Texas Treasury and earn interest. Interest earnings proceeds must be transferred to the Texas Economic Development Bank (Fund 5106) per legislative mandate. This cash is transferred back to the Small Business Incubator Fund at the direction of the Bank for fund use.

The Small Business Incubator Fund received a cash transfer of \$1.5 million from the Capital Access Program in October 2014. A separate account has been set up to account for activity in SBI funded from transfers from Capital Access funds.

Note E: Administrative Expenses

A quarterly administrative fee is paid to the Economic Development Bank for administrative services. The Product Development Fund and the Small Business Incubator Fund pay a combined quarterly fee of \$50,000. The amount paid by each Fund is determined by the relative amount of loans receivable in each Fund.

Note F: Required Reserve

Per a motion passed by the Board on 5/30/2014, a reserve of not less than \$1,500,000 (\$830,000 in the Product Development Fund and \$670,000 in the Small Business Incubator Fund) or an estimated two years of projected operating expenses will be maintained.