

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE
(A COMPONENT UNIT OF THE CITY OF LUBBOCK, TEXAS)**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2014
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
LUBBOCK, TEXAS

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TABLE OF CONTENTS

| | <u>Statement Identification</u> | <u>Page No.</u> |
|---|-------------------------------------|---------------------|
| FINANCIAL SECTION | | |
| Independent Auditor's Report | | 1 |
| Management's Discussion and Analysis (Required Supplementary Information) | | 4 |
| <u>Basic Financial Statements</u> | | |
| Statement of Net Position | Exhibit A-1 | 10 |
| Statement of Activities | Exhibit A-2 | 11 |
| Balance Sheet – Governmental Fund | Exhibit A-3 | 12 |
| Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position | Exhibit A-4 | 13 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund | Exhibit A-5 | 14 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Fund to the Statement of Activities | Exhibit A-6 | 15 |
| Notes to Basic Financial Statements | | 16 |
| REQUIRED SUPPLEMENTARY INFORMATION | | |
| Budgetary Comparison Schedule – Governmental Fund | Exhibit B-1 | 24 |
| OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION | | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 25 |

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Independent Auditor's Report

To the Honorable Mayor Glen Robertson and Members of the City Council
The City of Lubbock, Texas
And the Board of Directors of
Lubbock Economic Development Alliance

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and governmental fund of Lubbock Economic Development Alliance (LEDA), a component unit of the City of Lubbock, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise LEDA'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 governmental fund of Lubbock Economic Development Alliance (LEDA), a component unit of the City of Lubbock, Texas, as of and for the year ended September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2014 LEDA adopted new accounting guidance, GASB Statements No. 63 and 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and budgetary comparison information on pages 4 through 9 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014, on our consideration of LEDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LEDA's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

December 1, 2014

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

This section of Lubbock Economic Development Alliance's (LEDA or the Organization) financial report presents a discussion and analysis of the Organization's financial performance for the fiscal year ended September 30, 2014. This discussion has been prepared by management, along with the financial statements and related footnote disclosures, and should be read in conjunction with, and is qualified in its entirety by, the basic financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting changes and currently known facts.

Using the Financial Report

This financial report consists of financial statements that focus on the financial condition of the unit of government and the results of its operations as a whole. One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes LEDA's assets, liabilities and net position. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when levied or the service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. LEDA's net position is one indicator of the Organization's financial health. Over time, increases or decreases in net position indicate the improvement or erosion of the Organization's financial health.

Statement of Net Position

| | September 30, | |
|-------------------------------------|---------------|---------------|
| | 2014 | 2013 |
| Assets | | |
| Current Assets | \$ 11,154,830 | \$ 6,044,520 |
| Capital Assets, Net of Depreciation | 8,266,894 | 8,195,646 |
| Total Assets | \$ 19,421,724 | \$ 14,240,166 |
| Liabilities | | |
| Current Liabilities | \$ 1,639,568 | \$ 1,663,627 |
| Noncurrent Liabilities | 1,665,396 | 1,949,165 |
| Total Liabilities | \$ 3,304,964 | \$ 3,612,792 |
| Net Position | | |
| Net Investment in Capital Assets | \$ 8,266,894 | \$ 8,195,646 |
| Unrestricted | 7,849,866 | 2,431,728 |
| Total Net Position | \$ 16,116,760 | \$ 10,627,374 |
| Total Liabilities and Net Position | \$ 19,421,724 | \$ 14,240,166 |

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Current Assets

Cash and Equivalents

The fiscal year 2014 cash and equivalents balance is higher than the fiscal year 2013 balance due to the Organization coming in under budget in the areas of personnel, advertising, business incentives, and capital costs. The Board of Directors have assigned \$2.9 million of operating cash to be used for future capital outlay.

Investments

Investments are comprised of three certificates of deposit, held at separate financial institutions, which are carried at fair value. The fiscal year 2014 balance is higher than the fiscal year 2013 balance as a result of purchasing two new certificates of deposit in the amount of \$1 million and \$614,000 and cashing in a maturing certificate of deposit in the amount of \$236,233. The board of directors have assigned the \$614,000 certificate of deposit to be used for future capital outlay.

Accounts Receivable

The Organization's accounts receivable are comprised of amounts due from the City of Lubbock (the City) for sales and use tax allocations. LEDA is typically due two months of sales and use tax allocations as of each fiscal year end. The fiscal year 2014 balance is in line with the fiscal year 2013 balance.

Noncurrent Assets

Capital Assets, Net of Depreciation

Net capital assets of \$8.3 million includes the historical acquisition costs and related improvements for land, office equipment, vehicles and equipment, and leasehold improvements, less \$198,606 for accumulated depreciation. Significant capital additions during fiscal year 2014 include \$90,497 for the rail project.

Liabilities

Accounts Payable

Accounts payable of \$25,410 as of September 30, 2014 consists of expenses for goods and services received from vendors in the current year but paid in the following year. The balance is slightly lower than as of September 30, 2013.

Accrued Compensated Absences

Accrued compensated absences consist of accrued vacation leave accumulated by the Organization's employees. LEDA's accrued compensated absences were relatively consistent from September 30, 2013 to September 30, 2014.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Incentives and Special Projects Liabilities

Incentives are primarily for economic development through the creation and maintenance of new jobs. Special projects include contractual commitments to local businesses. The liability recorded at the end of fiscal year 2014 is approximately \$283,891 lower than at the end of fiscal year 2013 as a result of current year payments and forfeitures totaling approximately \$1.7 million and adding eight new incentive agreements totaling approximately \$1.4 million. Information regarding incentives and special projects liabilities is available in Note 8.

Net Position

Net Investment in Capital Assets

Net Investment in Capital Assets, of \$8.3 million includes the historical acquisition costs and related improvements for land, office equipment, vehicles and equipment and leasehold improvements, net of accumulated depreciation. The increase in the net investment in capital assets is due to additions exceeding depreciation expense. Information regarding capital assets is available in Notes 6.

Unrestricted Net Position

LEDA's unrestricted net position is restricted in the sense that expenditures are limited to those that further the Organization's purpose of creating, managing and supervising programs and activities to promote, assist and enhance economic development within and around the City of Lubbock, Texas. Unrestricted net position during the fiscal year 2014 improved by approximately \$5.4 million over 2013 due to revenues exceeding expenses. The board of directors have assigned \$3.5 million of unrestricted net position to be used for future capital outlay.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Statement of Activities

| | Year Ended September 30, | |
|--|--------------------------|---------------|
| | 2014 | 2013 |
| Revenues: | | |
| Program Revenues: | | |
| Operating Grants and Contributions | \$ 2,531,079 | \$ 2,150,000 |
| Capital Grants and Contributions | | 552,297 |
| General Revenues: | | |
| Sales Taxes | 5,387,578 | 5,187,512 |
| Miscellaneous Revenue | 2,775 | 978 |
| Rents | 20,720 | 6,991 |
| Gain on Sale of Real and Personal Property | 630,309 | |
| Investment Earnings | 31,630 | 20,141 |
| Total Revenues | \$ 8,604,091 | \$ 7,917,919 |
| Expenses: | | |
| Economic Development | \$ 3,094,513 | \$ 2,272,158 |
| Depreciation Expense | 20,192 | 30,995 |
| Total Expenses | \$ 3,114,705 | \$ 2,303,153 |
| Increase in Net Position | \$ 5,489,386 | \$ 5,614,766 |
| Net Position - Beginning | 10,627,374 | 21,251,874 |
| Capital Contribution to City of Lubbock | | (16,239,266) |
| Net Position - Ending | \$ 16,116,760 | \$ 10,627,374 |

Program Revenues

Operating Grants and Contributions

LEDA's program revenues are from cash grants from Market Lubbock, Inc. (MLI), a related party, for the development and expansion of commercial activity within and around the City. The increase in revenues between fiscal years 2014 and 2013 is due to more cash grants received from MLI in 2014.

Capital Grants and Contributions

Capital grants and contributions are comprised of amounts restricted to meeting the operational or capital requirements of a particular program. LEDA received capital grants and contributions totaling \$552,297 during fiscal year 2013, which are fully comprised of reimbursements for construction costs at the Railport under the terms of the EDA Grant. The grant was finalized in 2013.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

General Revenues

Sales Tax

LEDA's revenues are generated primarily through a one-eighth ($1/8$) of one percent sales and use tax imposed within the City of Lubbock. This amount varies based on the amount of sales in the City of Lubbock. The 3.5% increase in sales tax revenues is in line with the 2% increase that was budgeted for 2014 based on the 2013 actual revenues.

Gain on Sale of Real and Personal Property

During 2014, LEDA sold 7.702 acres of land to Market Lubbock, Inc., with an original cost of \$10,734, for a market value of \$597,188. LEDA also sold various vehicles and equipment, with a net book value of \$10,693, for \$54,548.

Expenses

Economic Development

In fiscal year 2014, LEDA expended approximately \$3.1 million for economic development within and around Lubbock, compared to \$2.3 million in the prior year. Amounts expended for economic development in the current fiscal year included \$742,158 for business incentives and special projects, approximately \$1.09 million for employee compensation and benefits, in addition to \$360,866 for marketing and sales, \$744,005 for office and other general and administrative expenses and \$157,116 for non-capital expenses related to the Lubbock Business Park & Railport.

Depreciation Expense

LEDA's depreciable capital assets include office equipment, vehicles and equipment, and leasehold improvements. Depreciation expense decreased in the current year as a result of some items being fully depreciated. Information regarding depreciation expense is available in Note 6.

Other Information

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. In addition to the basic financial statements and accompanying notes, this report also presents a budgetary comparison, which is *required supplementary information*. The budgetary comparison demonstrates the level of budgetary control and can be found on page 24.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Capital Plan

Management has developed a Capital Plan in order to be able to plan for expected necessary future capital infrastructure projects or land purchases. The Capital Plan identifies known projects or projects anticipated within the next five to seven years. In order to verify the projected costs are as accurate as possible, management makes the projections for the Capital Plan based on an Opinion of Probable Costs, which is provided by engineers for each known or anticipated project. The Capital Plan is part of LEDA's annual budget and is revised each year as necessary. As of September 30, 2014, the Capital Plan includes approximately \$38 million of future capital outlay for development of the Business Park and Railport, comprised of approximately \$32 million and \$6 million of construction and design and engineering costs, respectively.

Overall Financial Position

Management believes the Organization is in good condition financially. Assets exceeded liabilities by \$16.1 million (*net position*) at the close of the fiscal year, compared to assets exceeding liabilities by \$10.6 million (*net position*) at the end of the prior fiscal year. As a result of operations, total net position increased by \$5.5 million during the year. Based on historical trends, management expects that future receipts of sales and use taxes and grants from other organizations will be sufficient to fund noncurrent incentives and special projects liabilities.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit A-1

STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

| | <u>Primary Government Governmental Activities</u> |
|---|---|
| ASSETS: | |
| Cash and Cash Equivalents | \$ 7,549,012 |
| Investments | 2,645,868 |
| Receivables | 959,950 |
| Capital Assets: | |
| Land | 8,220,025 |
| Depreciable Capital Assets, Net of Accumulated Depreciation | 31,843 |
| Construction Work In Progress | 15,026 |
| Total Assets | <u>\$ 19,421,724</u> |
| LIABILITIES: | |
| Accounts Payable | \$ 25,410 |
| Incentives and Special Projects Liabilities: | |
| Estimated Amounts Due Within One Year | 1,614,158 |
| Estimated Amounts Due After One Year | 1,614,117 |
| Accrued Compensated Absences | 51,279 |
| Total Liabilities | <u>\$ 3,304,964</u> |
| NET POSITION | |
| Net Investment in Capital Assets | \$ 8,266,894 |
| Unrestricted | <u>7,849,866</u> |
| Total Net Position | <u>\$ 16,116,760</u> |

The accompanying notes are an integral part of this statement.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit A-2

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

| | | <u>Program Revenues</u> | | <u>Net (Expense) and Changes in Net Position</u> |
|---|---------------------|---|---|--|
| Programs | <u>Expenses</u> | <u>Operating Grants and Contributions</u> | <u>Primary Gov. Governmental Activities</u> | |
| PRIMARY GOVERNMENT: | | | | |
| Governmental Activities | | | | |
| Economic Development | \$ 3,094,513 | \$ 2,531,079 | | \$ (563,434) |
| Depreciation Expense | 20,192 | | | (20,192) |
| Total Governmental Activities | <u>\$ 3,114,705</u> | <u>\$ 2,531,079</u> | | <u>\$ (583,626)</u> |
| General Revenues: | | | | |
| Sales Tax Revenue | | | \$ 5,387,578 | |
| Miscellaneous Revenue | | | 2,775 | |
| Rents | | | 20,720 | |
| Gain on Sale of Real and Personal Property | | | 630,309 | |
| Investment Earnings | | | <u>31,630</u> | |
| Total General Revenues | | | <u>\$ 6,073,012</u> | |
| Change in Net Position | | | \$ 5,489,386 | |
| Net Position - Beginning | | | <u>10,627,374</u> | |
| Net Position - Ending | | | <u>\$ 16,116,760</u> | |

The accompanying notes are an integral part of this statement.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit A-3

BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2014

| | <u>Governmental Fund</u> |
|---|------------------------------|
| ASSETS: | |
| Cash and Cash Equivalents | \$ 7,549,012 |
| Investments | 2,645,868 |
| Receivables | 959,950 |
| Total Assets | <u>\$ 11,154,830</u> |
| LIABILITIES: | |
| Accounts Payable | \$ 25,410 |
| Accrued Compensated Absences | 51,279 |
| Incentives Payable | 517,433 |
| Total Liabilities | <u>\$ 594,122</u> |
| FUND BALANCES: | |
| Committed for Incentives and Special Projects | \$ 2,710,842 |
| Assigned for Capital Outlay | 3,540,991 |
| Unassigned | 4,308,875 |
| Total Fund Balances | <u>\$ 10,560,708</u> |
| Total Liabilities and Fund Balances | <u>\$ 11,154,830</u> |

The accompanying notes are an integral part of this statement.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit A-4

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

| | |
|---|----------------------|
| Total Fund Balances - Governmental Fund Balance Sheet | \$ 10,560,708 |
| Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because: | |
| Capital assets used in governmental activities are not reported in the funds. | 8,266,894 |
| Long-term liabilities are not due and payable from current financial resources and are not reported on the Governmental Fund Balance Sheet. | (2,710,842) |
| Net Position of Governmental Activities - Statement of Net Position | <u>\$ 16,116,760</u> |

The accompanying notes are an integral part of this statement.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit A-5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

| | <u>Governmental Fund</u> |
|--|------------------------------|
| Revenue: | |
| Taxes: | |
| Sales Taxes | \$ 5,387,578 |
| Intergovernmental Revenue and Grants | 2,531,079 |
| Investment Earnings | 31,630 |
| Rents | 20,720 |
| Other Revenue | 2,775 |
| Total Revenues | <u>\$ 7,973,782</u> |
| Expenditures: | |
| Current: | |
| Economic Development Incentives | \$ 1,128,032 |
| Personnel Services | 1,090,368 |
| Administration | 1,442,837 |
| Capital Outlay | 112,867 |
| Total Expenditures | <u>\$ 3,774,104</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ 4,199,678</u> |
| Other Financing Sources (Uses): | |
| Sale of Real and Personal Property | \$ 651,736 |
| Total Other Financing Sources (Uses) | <u>\$ 651,736</u> |
| Net Change in Fund Balances | \$ 4,851,414 |
| Fund Balances - Beginning | <u>5,709,294</u> |
| Fund Balances - Ending | <u><u>\$ 10,560,708</u></u> |

The accompanying notes are an integral part of this statement.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit A-6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

| | |
|---|---------------------|
| Net Change in Fund Balances - Total Governmental Fund | \$ 4,851,414 |
| Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because: | |
| Capital assets are not reported as expenses in the SOA. | 112,867 |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | (20,192) |
| The loss from the disposition of a capital asset is not recorded in the funds. | (21,427) |
| Expenses not requiring the use of current financial resources are not reported as expenditures in the funds. This is the change in the incentive and special project commitments recognized in the SOA. | <u>566,724</u> |
| Change in Net Position of Governmental Activities - Statement of Activities | <u>\$ 5,489,386</u> |

The accompanying notes are an integral part of this statement.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

1. Reporting Entity

Lubbock Economic Development Alliance (LEDA) was formed on June 1, 2004 by the City of Lubbock, Texas (Lubbock) as a 4A corporation to create, manage and supervise programs and activities to promote, assist and enhance economic development within and around Lubbock.

A board of directors appointed by the Lubbock City Council (City Council) oversees LEDA's operations. LEDA's primary source of revenue is a one-eighth (1/8) of one percent sales and use tax imposed within the City of Lubbock. LEDA's Basic Financial Statements (BFS) are discretely presented as a component unit in Lubbock's Comprehensive Annual Financial Report, in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* – an amendment of GASB Statements No. 14 and No. 34. LEDA has no component units within its own reporting entity.

2. Summary of Significant Accounting Policies

These BFS are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, including specialized industry practices as specified in the American Institute of Certified Public Accountants audit and accounting guide titled *Audits of State and Local Governmental Units*. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body that establishes governmental accounting and financial reporting principles.

Basis of Presentation. LEDA has implemented the provisions of GASB Statement No. 34, *Basic Financial Statements for State and Local Governments* (GASB 34). LEDA's BFS consist of Government-Wide Financial Statements and Fund Financial Statements, as well as these notes. The measurement focus and basis of accounting vary across the financial statements.

Measurement Focus and Basis of Accounting. The accompanying BFS are prepared under two different methods of measurement and basis of accounting. Measurement focus relates to the goal in determining results of operations, while the basis of accounting relates to the timing of recognition. A fund's basis of accounting is determined by its measurement focus. The economic resources measurement focus requires the accrual basis of accounting. The current financial resources measurement focus requires the modified accrual basis of accounting.

- Under the economic resources / accrual method, revenues and expenses are recognized when earned and when a liability is incurred, respectively, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues when all eligibility requirements imposed by the provider have been met. All assets and liabilities associated with operations (e.g., capital assets and debt) are recognized. The government-wide financial statements are prepared and presented under this method.
- The current financial resources / modified accrual method recognizes revenues and other financing sources when measurable and available. Revenues are considered available when they are collectible (i.e. collection is expected to occur in the current period or soon enough thereafter to pay liabilities of the current period). For this purpose, LEDA considers revenues to be available if they are collected by the end of the current fiscal

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

period. Expenditures are recorded when a liability is incurred, with the exceptions of debt service, judgments, and claims, which are not recognized until payment is due. Unique aspects of this method are that purchases of capital assets are recognized as expenditures rather than being capitalized and depreciated over their useful lives; borrowings are recognized as financial resources (rather than liabilities) and the principal payments, along with interest (i.e., debt service), are recognized as expenditures rather than as reductions of liabilities. Generally, only current assets and current liabilities are recognized. The governmental fund financial statements are prepared and presented under this method.

Government-Wide Financial Statements (GWFS). The GWFS, consisting of the Statement of Net Position and the Statement of Activities, are prepared and presented under the economic resources measurement focus and the accrual basis of accounting. These statements present information about the financial activities of LEDA as a whole.

- The *Statement of Net Position* presents LEDA's year-end financial condition on a government-wide accrual basis.
- *Statement of Activities.* The Statement of Activities is a comparison of direct expenses and revenues for each of LEDA's programs. Direct expenses are those that are specifically associated and identifiable with a specific program. Program revenues include charges paid by recipients of goods or services offered by the respective program, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants which is restricted to be used for support of a particular program. Revenues that are not programmatic are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each program is self-financing or drawing from any general revenues generated by LEDA.

Fund Financial Statements (FFS). Throughout the year LEDA accounts for transactions correlated with certain programs in separate funds, for financial management and legal compliance purposes. A fund is a distinct fiscal and accounting entity with a self-balancing set of accounts. LEDA's financial resources are accounted for in one fund category, governmental. GASB 34 created the concept of "major" funds for financial reporting purposes; the focus of governmental FFS is major funds.

Major Fund Determination for LEDA. GASB 34 requires that governmental funds be presented as major funds if total assets, liabilities, revenues or expenditures of an individual governmental fund are 10 percent or more of the corresponding total (assets, liabilities, etc.) for that fund.

GASB 34 further permits the reporting of any fund as major, whether it meets the quantitative criteria or not, if management believes it is of particular importance to financial statement users (e.g., for public interest or consistency).

Fund Financial Statements. Fund financial statements enable presentation of financial information at a more detailed level for major funds, while nonmajor funds are combined and presented in a single column.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

Account Groups. Under the GASB 34 reporting model, the General Fixed Assets and General Long-Term Debt account groups presented in the general purpose financial statements are not presented in the BFS; capital assets acquired by governmental funds and long-term liabilities of the governmental funds are included in the GWFS.

Governmental Funds. Governmental funds are used to account for all of LEDA's general activities, including the collection and disbursement of grants and other contributions. Governmental funds reported in the FFS focus on the sources, uses and balances of current financial resources. Expendable assets are reported in the various governmental funds based on their intended purpose, including any restrictions as to use; current liabilities are reported in the funds from which they will be paid. The net balance of governmental fund assets and liabilities is the fund balance. LEDA has neither a general fund nor capital project or debt service funds.

All governmental funds are accounted for and presented in the FFS under the **current financial resources** measurement focus and the **modified accrual** basis of accounting. This approach differs from the measurement and presentation of the governmental activities in the GWFS. Governmental FFS are reconciled to the GWFS with brief explanations of the reconciling items.

Cash and Equivalents. Cash includes amounts on hand and in demand deposits. Book overdrafts of demand deposits, if any, are reclassified to accounts payable for financial statement purposes. Money market mutual funds and other temporary investments are not considered cash equivalents.

Investments. Investments are reported at fair market value. *Restricted investments* include unspent proceeds of grants or other contributions, with constraints imposed either: (a) externally by creditors, grantors, contributors or laws or regulations of other governments, or (b) legally through constitutional provisions or enabling legislation.

Capital Assets. Acquisitions are recognized as expenditures in the governmental FFS; the assets are only reported in the GWFS.

In the GWFS, capital assets are recorded at cost and updated for additions and disposals during the year. Donated fixed assets are recorded at fair market value as of the date received. Improvements are capitalized; costs incurred for routine repairs and maintenance, neither adding value to nor extending the useful life of the asset, are not capitalized. Capital assets, with the exception of land, are depreciated from the date placed in service using the straight-line method, over their estimated useful lives as follows:

| | |
|------------------------|------------|
| Office Equipment | 3-7 years |
| Vehicles and Equipment | 5 years |
| Leasehold Improvements | 7-10 years |

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

Incentives and Special Projects Liabilities. Incentive and special project expenditures are recognized in the governmental FFS when the obligation was incurred and payment was made during the current fiscal year or will occur within 45 days of year end. Additional liabilities are recorded in the GWFS for incentive and special project contractual commitments entered into during the year but not accrued for in the funds at year end, if the eligibility requirements have been met and management considers payment to be probable.

Compensated Absences. Accumulated vacation leave is generally not significant; such expenditures are included in the funds.

Sales Tax Allocations. LEDA receives one-eighth (1/8) of one percent of the sales and use tax imposed within the City of Lubbock; LEDA normally receives its allocation within 45 days of the month taxed.

Fund Balances. LEDA follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories in the FFS's, to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint.
- Assigned fund balance - 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 the authority.
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the general fund.

LEDA's Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a board resolution and/or contractual commitments with local businesses.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

Net Position. Net position represents the difference between LEDA's assets and liabilities in the GWFS; net position is presented in three components, as applicable:

- Net investment in capital assets - include general capital assets net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, capital leases or other borrowings that are attributable to the acquisition, construction or improvement of those assets {with the exception of any related unspent debt proceeds at year end, which are presented as amounts restricted for capital purposes}.
- Restricted - include net position that is restricted for specific purposes through constraints that are either:
 - > Externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments, or
 - > Imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - not meeting the criteria for treatment as either of the above components.

In accordance with GASB 34, designations of net position are not reported on the face of the GWFS.

Change in Accounting Principles. GASB Statements No. 63 and No. 65 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; Items Previously Reported as Assets and Liabilities* - These statements affected how some items were reported in the Proprietary Funds and Government Wide Statements. The prior guidance stated that a Balance Sheet format was to be used to report on Proprietary funds and the Government Wide Statement of Net Assets, the new statements, however, require those statements to be reported using a Statement of Net Position format (Assets + Deferred Outflow – Liabilities – Deferred Inflows = Net Position). The new statements also clarified which items had to be reported as Deferred Outflows of Resources or Deferred Inflows of Resources and continued to change some accounting principles that are used by FASB.

Tax Status. LEDA is a nonprofit corporation exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code (IRC) of 1986, as amended. Accordingly, there is no provision for federal income taxes in the accompanying BFS.

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits that the position will be sustained upon examination. As of September 30, 2014 management has analyzed its tax positions and believes that all are more likely than not to be sustained upon examination. LEDA's tax returns generally remain open for federal income tax examination for three years from the date of filing.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

3. Budgetary Accounting

LEDA is required to submit a proposed operating expenditure budget to the City Council on an annual basis. Lubbock's Budget Department provides annual revenue estimates; public hearings are conducted for taxpayer comments, then the budget is legally enacted through passage of an ordinance by the City Council. LEDA does not use encumbrance accounting.

4. Assigned Fund Balance

On July 23, 2013, the Board of Directors of LEDA passed a resolution to set up a designated account to fund future infrastructure improvements and to fund this account from any budgeted, but unspent capital outlay expenditures. These unspent funds would be moved at the end of each fiscal year to the designated account. As of September 30, 2014, LEDA has assigned \$3,540,991 to be used for capital outlay. This amount is shown as assigned for capital outlay on the governmental fund balance sheet.

5. Cash and Investments

Cash. On September 30, 2014, the bank balance of LEDA's deposits in one financial institution was approximately \$7.6 million; of this amount, \$250,000 was covered by federal depository insurance. As of September 30, 2014, LEDA's bank balance was not exposed to custodial credit risk because it was secured and collateralized by approximately \$8.3 million of securities held by the pledging financial institution's trust department.

Investments. LEDA's investments are categorized based on criteria specified by GASB as follows:

- 1) Insured or registered, with securities held by the entity or its agent in the entity's name.
- 2) Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.
- 3) Uninsured and unregistered, with securities held by the counter party or by the counter party's trust department or agent, but not in the entity's name.

At September 30, 2014, LEDA had investments totaling approximately \$2.65 million, all of which were held in certificates of deposit at three separate financial institutions. These investments are considered "insured or registered" as they are secured and collateralized by approximately \$597,000, \$896,000 and \$1.4 million of securities held by the pledging financial institutions' trust departments.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

6. Capital Assets

Capital assets reported in the accompanying GWFS and related activity for the year ended September 30, 2014 follow:

| | <u>Beginning</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending</u> |
|----------------------------|------------------|------------------|------------------|---------------|
| Land | \$ 8,140,262 | \$ 90,497 | \$ 10,734 | \$ 8,220,025 |
| Not Depreciated, at Cost | \$ 8,140,262 | \$ 90,497 | \$ 10,734 | \$ 8,220,025 |
| Office Equipment | \$ 234,849 | \$ 7,344 | \$ 34,686 | \$ 207,507 |
| Vehicles and Equipment | 97,757 | | 86,837 | 10,920 |
| Leasehold Improvements | 12,022 | | | 12,022 |
| Being Depreciated, at Cost | \$ 344,628 | \$ 7,344 | \$ 121,523 | \$ 230,449 |
| Office Equipment | \$ 196,597 | \$ 17,589 | \$ 34,686 | \$ 179,500 |
| Vehicles and Equipment | 85,828 | 1,236 | 76,144 | 10,920 |
| Leasehold Improvements | 6,819 | 1,367 | | 8,186 |
| Accumulated Depreciation | \$ 289,244 | \$ 20,192 | \$ 110,830 | \$ 198,606 |
| Depreciable, Net | \$ 55,384 | \$ (12,848) | \$ 10,693 | \$ 31,843 |
| Capital Assets, Net | \$ 8,195,646 | \$ 77,649 | \$ 21,427 | \$ 8,251,868 |

Depreciation expense totaling \$20,192 was recognized in the GWFS during the current year; none of this expense was allocated to LEDA's various programs.

7. Leases

On November 1, 2006, LEDA entered into a ten-year operating lease for office space at 1500 Broadway. Per the terms of the lease agreement, rent is \$9,481 per month plus a pro-rata portion of the monthly utilities for the property. The monthly rent is subject to annual increases based on calculations set forth in the lease agreement.

LEDA also leases a copier and postage machine under monthly operating leases. LEDA recognized lease and rental expenditures totaling \$131,183 for the year ended September 30, 2014.

8. Incentives and Special Projects Liabilities

Incentive and special project expenditures are recognized in the FFS when expected to be paid within 45 days of year end. Current year activity and the September 30, 2014 liabilities for incentives and special projects are as follows:

| | <u>Beginning</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending</u> | <u>Due Within One Year</u> |
|---------------------|------------------|------------------|------------------|---------------|----------------------------|
| Incentive Contracts | \$ 3,512,166 | \$ 1,406,000 | \$ 1,689,891 | \$ 3,228,275 | \$ 1,614,158 |

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

Incentives are primarily for economic development through the creation and maintenance of new jobs. Special projects include contractual commitments to local businesses. The underlying contracts provide for payments over periods ranging from two to seven years, if the performance requirements are met.

9. Commitments

LEDA pledged \$500,000 of its sales and use tax receipts in order to secure the guarantee of a loan from the Office of the Governor of Texas Product Development Fund to a local business. The guarantee would require payment by LEDA only in the event the local business defaults on the loan.

10. Retirement Plans

The Lubbock Economic Development Alliance, Inc. 401(k) Plan (the Plan) is a defined contribution pension plan administered by a third party. All permanent full-time employees, as defined by the Plan, are eligible to participate after one year of service. Employees are not required to contribute to the Plan, but may make elective deferrals up to the allowable IRS annual limitation. LEDA annually contributes 5% of eligible employee's compensation to the Plan on their behalf; all contributions vest immediately. During the year ended September 30, 2014, employees contributed \$56,736 to the Plan and LEDA contributed an additional \$57,612 on their behalf.

11. Related Party Transactions

Lubbock may provide certain services to LEDA at no charge; the nature and scope of these services vary as deemed appropriate by Lubbock and LEDA management. Management is unable to estimate the value of these services.

LEDA also received \$2.53 million in cash grants from Market Lubbock, Inc., a related party, during the year ended September 30, 2014, to be utilized for economic development and expansion of commercial activity for the City of Lubbock.

12. Subsequent Events Evaluation

Management has evaluated subsequent events through December 1, 2014, the date which the financial statements were available to be issued. No material subsequent events have occurred during this time which would require recognition in the financial statements or footnotes as of and for the year ended September 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit B-1

**BUDGETARY COMPARISON SCHEDULE
GOVERNMENT FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

| | (Unaudited) Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive or (Negative) |
|--|---------------------------------|---------------------|----------------------|--|
| | Original | Final | | |
| Revenue: | | | | |
| Taxes: | | | | |
| Sales Taxes | \$ 5,360,417 | \$ 5,292,253 | \$ 5,387,578 | \$ 95,325 |
| Intergovernmental Revenue and Grants | 2,650,000 | 2,531,079 | 2,531,079 | 0 |
| Investment Earnings | 15,700 | 15,700 | 31,630 | 15,930 |
| Rents | 18,320 | 18,320 | 20,720 | 2,400 |
| Other Revenue | | | 2,775 | 2,775 |
| Total Revenues | <u>\$ 8,044,437</u> | <u>\$ 7,857,352</u> | <u>\$ 7,973,782</u> | <u>\$ 116,430</u> |
| Expenditures: | | | | |
| Personnel | | | | |
| Compensation | \$ 1,260,375 | \$ 1,260,375 | \$ 890,426 | \$ 369,949 |
| Employees Benefits | 284,900 | 284,900 | 199,942 | 84,958 |
| Administrative | | | | |
| Bank Charges | 500 | 500 | 114 | 386 |
| Pre-employment | 5,000 | 5,000 | 3,190 | 1,810 |
| Repairs & Maintenance | 5,000 | 5,000 | 2,625 | 2,375 |
| Repairs & Maintenance - Business Parks | 152,500 | 152,500 | 136,343 | 16,157 |
| Professional Services | 288,200 | 288,200 | 223,156 | 65,044 |
| Meeting Expense | 15,500 | 15,500 | 6,728 | 8,772 |
| Insurance | 16,700 | 16,700 | 13,119 | 3,581 |
| Miscellaneous | 15,000 | 15,000 | 1,723 | 13,277 |
| Memberships/Dues/Subscriptions | 129,900 | 129,900 | 131,640 | (1,740) |
| Travel/Training | 86,400 | 86,400 | 42,841 | 43,559 |
| Office | | | | |
| Office Supplies | 27,000 | 27,000 | 12,322 | 14,678 |
| Office Equipment Rental | 21,000 | 21,000 | 17,645 | 3,355 |
| Office Rent | 132,500 | 132,500 | 127,118 | 5,382 |
| Telephone | 30,200 | 30,200 | 23,213 | 6,987 |
| Postage | 5,000 | 5,000 | 4,827 | 173 |
| Marketing and Sales | | | | |
| Promotions/Advertising | 437,500 | 437,500 | 297,619 | 139,881 |
| Meeting Expense | 29,500 | 29,500 | 12,095 | 17,405 |
| Travel | 130,000 | 120,000 | 48,552 | 71,448 |
| Business Incentives/Special Projects | | | | |
| Special Projects | 158,000 | 188,000 | 180,850 | 7,150 |
| Incentive Fund - Direct Business Incentives | 1,675,000 | 1,625,000 | 1,128,032 | 496,968 |
| Capital Costs | | | | |
| Computer Expense | 15,000 | 15,000 | 13,225 | 1,775 |
| Office Furniture & Equipment | 3,000 | 3,000 | (50) | 3,050 |
| Miscellaneous Land Purchases | 400,000 | 300,000 | | 300,000 |
| Lubbock Business Park & Railport | 2,720,762 | 1,405,000 | 256,809 | 1,148,191 |
| Designated Future Capital Infrastructure | | 1,258,677 | | 1,258,677 |
| Total Expenditures | <u>\$ 8,044,437</u> | <u>\$ 7,857,352</u> | <u>\$ 3,774,104</u> | <u>\$ 4,083,248</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 4,199,678</u> | <u>\$ 4,199,678</u> |
| Other Financing Sources (Uses): | | | | |
| Sale of Real and Personal Property | \$ 0 | \$ 0 | \$ 651,736 | \$ 651,736 |
| Total Other Financing Sources | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 651,736</u> | <u>\$ 651,736</u> |
| Net Change in Fund Balances | \$ 0 | \$ 0 | \$ 4,851,414 | \$ 4,851,414 |
| Fund Balances - Beginning | <u>5,709,294</u> | <u>5,709,294</u> | <u>5,709,294</u> | <u>0</u> |
| Fund Balances - Ending | <u>\$ 5,709,294</u> | <u>\$ 5,709,294</u> | <u>\$ 10,560,708</u> | <u>\$ 4,851,414</u> |

OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

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

To the Honorable Mayor Glen Robertson and Members of the City Council
The City of Lubbock, Texas
And the Board of Directors of
Lubbock Economic Development Alliance

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund information of Lubbock Economic Development Alliance (LEDA), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the LEDA's basic financial statements and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

Lubbock, Texas

December 1, 2014