

Market Lubbock Economic
Development Corporation,
dba Market Lubbock, Inc.

(A Component Unit of The City of Lubbock, Texas)

Audited Basic Financial Statements

For the Year Ended:
September 30, 2011

Robinson
Burdette
Martin &
Seright, L.L.P.

a professional services firm of
certified public accountants

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Independent Auditors' Report

To the Honorable Mayor Tom Martin and Members of the City Council
The City of Lubbock, Texas
And the Board of Directors of
Market Lubbock Economic Development Corporation

We have audited the accompanying financial statements of the governmental activities, each major fund of Market Lubbock Economic Development Corporation, dba Market Lubbock, Inc. ("MLI"), a component unit of the City of Lubbock, Texas, as of and for the year ended September 30, 2011, which collectively comprise MLI's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of MLI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* ("GAS"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of MLI as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MLI has not presented the Required Supplementary Information (Management's Discussion and Analysis ("MD&A") and budgetary comparison information in MLI's case) that the Governmental Accounting Standards Board ("GASB") has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Robinson Burdette
Martin & Seright, L.L.P.

Lubbock, Texas
December 13, 2011

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Basic Financial Statements

For the Year Ended:

September 30, 2011

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Government-Wide Financial Statements

For the Year Ended:

September 30, 2011

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**
Statement of Net Assets
September 30, 2011

Government-Wide Financial Statements - Accrual Basis - There are no Business-Type Activities

		Governmental Activities
Cash and equivalents	\$	990,802
Investments		382,842
Accounts receivable		416,286
Inventory		62,754
Restricted assets:		
Incentives advances		2,000,000
Capital assets:		
Land		872,087
Depreciable capital assets, net		106,373
Assets	\$	<u>4,831,144</u>
Accounts payable	\$	38,245
Accrued liabilities		24,872
Due to affiliate		71,865
Deferred revenues		2,000,000
Incentives and special projects liabilities:		
Estimated amounts due within one year		18,489
Estimated amounts due after one year		30,800
Liabilities		<u>2,184,271</u>
Invested in capital assets, net of related debt		932,822
Unrestricted		1,714,051
Net Assets	\$	<u>2,646,873</u>

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**
Statement of Activities
For the Year Ended September 30, 2011

Government-Wide Financial Statements - Accrual Basis - There are no Business-Type Activities

Programs	Expenses	Program Revenues		Net Revenue (Expense) & Change in Net Assets
		Charges for Services	Operating Grants & Contributions	
Economic development	\$ 4,907,246	\$ -	\$ 4,382,276	\$ (524,970)
Convention & tourism	1,582,423	49,917	1,822,931	290,425
Sports promotion	632,449	45,903	561,535	(25,011)
Depreciation expense (all unallocated)	51,762	-	-	(51,762)
Governmental Activities	\$ 7,173,880	\$ 95,820	\$ 6,766,742	(311,318)
Gain/(loss) on capital asset disposals				(2,220)
Special Items				(2,220)
Change in Net Assets				(313,538)
Net assets - beginning				2,960,411
Net assets - ending				\$ 2,646,873

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Fund Financial Statements

For the Year Ended:

September 30, 2011

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Governmental Funds Balance Sheets
September 30, 2011

Governmental Fund Financial Statements - Modified Accrual Basis

ML - Market Lubbock; LCVB - Lubbock Convention and Visitors Bureau; LSA - Lubbock Sports Authority

	Major Special Revenue Funds			Governmental Funds
	ML	LCVB	LSA	
Cash and equivalents	\$ 621,910	\$ 368,892	\$ -	\$ 990,802
Investments	-	382,842	-	382,842
Accounts receivable	-	213,684	202,602	416,286
Inventory	-	62,754	-	62,754
Restricted assets:				
Incentives advances	2,000,000	-	-	2,000,000
Assets	\$ 2,621,910	\$ 1,028,172	\$ 202,602	\$ 3,852,684
Accounts payable	\$ -	\$ 38,245	\$ -	\$ 38,245
Accrued liabilities	-	19,454	5,418	24,872
Due to affiliate	71,865	-	-	71,865
Deferred revenues	2,000,000	-	-	2,000,000
Incentives and special projects payable	3,089	-	-	3,089
Liabilities	2,074,954	57,699	5,418	2,138,071
Fund balances:				
Nonspendable	-	62,754	-	62,754
Committed	46,200	-	-	46,200
Assigned	-	437,478	277,500	714,978
Unassigned	500,756	470,241	(80,316)	890,681
Fund Balances	546,956	970,473	197,184	1,714,613
Liabilities & Fund Balances	\$ 2,621,910	\$ 1,028,172	\$ 202,602	\$ 3,852,684

Reconciliation of the Governmental Funds Balance Sheets to the Government-Wide Statement of Net Assets:

Governmental Fund Balance Above 1,714,613

Amounts reported for governmental activities in the Statement of Net Assets (page 4) are different due to the following:

Capital assets used in governmental activities are not financial resources and are not reported in the funds. 978,460

Long-term liabilities are not due and payable from current financial resources and are not reported in the funds. (46,200)

Net Assets, per the Government-Wide Statement of Net Assets - Page 4 \$ 2,646,873

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**
Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2011

<i>Governmental Fund Financial Statements - Modified Accrual Basis</i>				
ML - Market Lubbock; LCVB - Lubbock Convention and Visitors Bureau; LSA - Lubbock Sports Authority				
	Major Special Revenue Funds			Governmental Funds
	ML	LCVB	LSA	
Property taxes allocated by City of Lubbock	\$ 4,375,453	\$ -	\$ -	\$ 4,375,453
Hotel occupancy taxes allocated by City of Lubbock	-	1,814,101	558,701	2,372,802
Other income	6,823	58,747	48,737	114,307
Revenues	<u>4,382,276</u>	<u>1,872,848</u>	<u>607,438</u>	<u>6,862,562</u>
Economic development incentives and special projects	3,965,143	151,972	-	4,117,115
Convention and event promotion	-	185,190	411,138	596,328
Personnel services	99,157	663,185	118,884	881,226
Administration	164,127	582,076	102,427	848,630
Capital outlay	36,878	17,538	3,095	57,511
Debt service	335,809	-	-	335,809
Expenditures	<u>4,601,114</u>	<u>1,599,961</u>	<u>635,544</u>	<u>6,836,619</u>
Revenues over (under) Expenditures	<u>(218,838)</u>	<u>272,887</u>	<u>(28,106)</u>	<u>25,943</u>
Transfers in	-	-	206,490	206,490
Transfers out	-	(206,490)	-	(206,490)
Other Financing Sources (Uses), Net	-	(206,490)	206,490	-
Changes in Fund Balances	<u>(218,838)</u>	<u>66,397</u>	<u>178,384</u>	<u>25,943</u>
Fund balances - beginning	765,794	904,076	18,800	1,688,670
Fund balances - ending	<u>\$ 546,956</u>	<u>\$ 970,473</u>	<u>\$ 197,184</u>	<u>\$ 1,714,613</u>

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities:

Governmental Funds Change in Fund Balance Above 25,943

Amounts reported for governmental activities in the Statement of Activities (page 5) are different due to the following:

Governmental funds report capital asset purchases as capital outlay expenditures and proceeds from disposals as income. However, in the Statement of Activities, the costs of capital assets are allocated over their estimated useful lives as depreciation expense and gains/losses on disposals are recognized. This is the net effect of the government-wide accounting for capital asset transactions for the current period.	(953,449)
Loan proceeds provide current financial resources to the governmental fund, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayment exceeded proceeds.	331,071
Expenses related to incentive and special project commitments recognized in the Statement of Activities do not require the use of current financial resources and are not recognized in the funds. This is the change in the incentive and special project commitments recognized in the Statement of Activities.	<u>282,897</u>
Change in Net Assets, per the Government-Wide Statement of Activities - Page 5	<u><u>\$ (313,538)</u></u>

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements

For the Year Ended:

September 30, 2011

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 1: Reporting Entity

Market Lubbock Economic Development Corporation, dba Market Lubbock, Inc. ("MLI") was formed on October 10, 1995 by the City of Lubbock, Texas ("Lubbock") to create, manage and supervise programs and activities to promote, assist and enhance economic development within and around Lubbock. Through the Lubbock Convention and Visitors Bureau ("LCVB") and Lubbock Sports Authority ("LSA"), MLI strives to foster and promote Lubbock as a convention center and a city of interest to tourists, and to encourage the use of the Memorial Civic Center, Auditorium/Coliseum and other Lubbock facilities for conventions, as well as participatory and spectator sports events.

A board of directors appointed by the Lubbock City Council ("City Council") oversees MLI's operations. A three-cent budget allocation of the Lubbock property tax rate is the primary source of revenue for MLI; budget allocations of the Lubbock Hotel Occupancy Taxes are the primary sources of revenue for LCVB and LSA. From time to time, Lubbock makes additional grants to MLI for specific projects. MLI'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. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*; MLI has no component units within its own reporting entity.

Note 2: Summary of Significant Accounting Policies

These BFS are prepared in conformity with accounting principles generally accepted in the United States of America 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* ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body that establishes governmental accounting and financial reporting principles.

Basis of Presentation. MLI has implemented the provisions of GASB Statement No. 34, *Basic Financial Statements for State and Local Governments* ("GASB 34"). MLI'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.

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 2: Summary of Significant Accounting Policies (continued)

- 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, MLI considers revenues to be available if they are collected by the end of the current fiscal 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 Assets 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 MLI as a whole.

- The *Statement of Net Assets* presents MLI'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 MLI'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 would be presented as general revenues, with certain exceptions (MLI currently has no source of 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 MLI.

Fund Financial Statements (“FFS”). Throughout the year MLI 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. MLI's financial resources are accounted for in two fund categories, governmental and fiduciary. GASB 34 created the concept of “major” funds for financial reporting purposes; the focus of governmental FFS is major funds.

Major Fund Determination for MLI. 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.

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 2: Summary of Significant Accounting Policies (continued)

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 MLI'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. Grant management contracts are accounted for through individual special revenue funds, one of which is reported as a major fund. MLI 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.

Inventory. Inventory purchases are recorded as expenditures at the time of purchase. At year end, inventory on hand is valued at the lower of first-in-first-out cost (including donated items recorded at fair market value based on the date received) or market value; any valuation adjustments are recorded as decreases in expenditures (for purchased items), or increases in contributions revenue (for donated items).

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

In the GWFS, general 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. General 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:

Leasehold improvements.....	7-10 years
Vehicles and equipment.....	5 years
Office equipment.....	3-7 years

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 2: Summary of Significant Accounting Policies (continued)

Incentives and Special Projects Liabilities. Incentive, special project and convention promotion expenditures are recognized in the governmental FFS when the obligation was incurred and payment 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 special revenue funds at year end, if the eligibility requirements have been met and management considers payment to be probable. Open convention offers are not contractually binding (i.e. payment is tentative) thus they are not accrued for in the FFS or GWFS; such offers are disclosed in these notes.

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

Deferred Revenues. Deferred revenues in the accompanying basic financial statements primarily relate to funds received from Lubbock (\$10 million) before the eligibility requirements have been met. Revenues are recognized in the basic financial statements as MLI meets the eligibility requirements imposed by Lubbock (to be recognized ratably over a 10-year term beginning in 2004). These deferred revenues are directly related to restricted assets described above.

Interfund Activity. Governmental interfund activity is eliminated in the GWFS. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Interfund transfers are reported for cash flows from one fund to another without a requirement for repayment; interfund transfers are reported as other financing sources/uses in the governmental FFS. Not presented in the financial statements are repayments of expenditures/expenses from the responsible funds to the funds that initially paid for them.

Property and Hotel Occupancy Tax Allocations. For 2011, MLI received \$.03 of the Lubbock property tax rate. LCVB and LSA received 37.96186% and 12.03814% of the hotel occupancy taxes for fiscal year 2011, respectively.

Fund Balances. Beginning with fiscal year 2011, MLI implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories 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.

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 2: Summary of Significant Accounting Policies (continued)

MLI'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. Assigned fund balance is established by management or the Board of Directors through incentives offered to groups to hold conventions or sporting events in Lubbock.

Net Assets. Net assets represent the difference between MLI's assets and liabilities in the GWFS; net assets are presented in three components, as applicable:

- Invested in capital assets, net of related debt – 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** assets that are 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; and
- Unrestricted – not meeting the criteria for treatment for either of the above components.

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

Tax Status. MLI 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.

Note 3: Budgetary Accounting

MLI is required to submit proposed operating expenditure budgets to the City Council on an annual basis. Lubbock's Budget Department provides annual revenue estimates from property and hotel occupancy tax allocations; public hearings are conducted for taxpayer comments, then the budget is legally enacted through passage of an ordinance by the City Council. MLI does not use encumbrance accounting. Although GASB 34 indicates presentation of budgetary comparison information is part of the minimum required financial presentation for governments as Required Supplementary Information ("RSI"), GASB concluded that such information is not essential to the fair presentation of the BFS when designating information as RSI. MLI has elected not to present RSI, including budgetary comparison information.

Note 4: Cash and Investments

Cash. On September 30, the bank balance of MLI's deposits in one financial institution was \$1,034,222; of this amount, \$250,000 was covered by federal depository insurance. As of September 30, 2011, MLI's bank balance was not exposed to custodial credit risk because it was secured and collateralized by \$4.2 million of securities held by the pledging financial institution's trust department.

Investments. MLI's investments are categorized under 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.

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 4: Cash and Investments (continued)

At September 30, 2011, MLI had investments totaling \$382,842, all of which were held in certificates of deposits. These investments are considered "insured or registered" as they are also secured and collateralized by the \$4.2 million of securities held by the trust department of the aforementioned financial institution.

Note 5: Capital Assets

Capital assets reported in the accompanying GWFS and the related activity for the year ended September 30, 2011 follow:

	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
Land	\$ 1,829,065	\$ -	\$ 956,978	\$ 872,087
Not Depreciable, at Cost	<u>1,829,065</u>	<u>-</u>	<u>956,978</u>	<u>872,087</u>
Leasehold improvements	26,201	4,700	-	30,901
Vehicles and equipment	47,858	13,841	47,858	13,841
Office equipment	<u>228,542</u>	<u>38,970</u>	<u>-</u>	<u>267,512</u>
Being Depreciated, at Cost	<u>302,601</u>	<u>57,511</u>	<u>47,858</u>	<u>312,254</u>
Leasehold improvements	6,385	3,542	-	9,927
Vehicles and equipment	40,306	5,332	45,638	-
Office equipment	<u>153,066</u>	<u>42,888</u>	<u>-</u>	<u>195,954</u>
Accumulated Depreciation	<u>199,757</u>	<u>51,762</u>	<u>45,638</u>	<u>205,881</u>
Depreciable, Net	<u>102,844</u>	<u>5,749</u>	<u>2,220</u>	<u>106,373</u>
Capital Assets, Net	<u>\$ 1,931,909</u>	<u>\$ 5,749</u>	<u>\$ 959,198</u>	<u>\$ 978,460</u>

Depreciation expense of \$51,762 was recognized in the GWFS during the current year; none of this expense was allocated to MLI's various programs.

Note 6: Leases

On November 1, 2006, LCVB and LSA entered into a ten-year operating lease for office space at 1500 Broadway. Per the terms of the lease agreement, rent is \$6,637 per month plus a pro-rata portion for the monthly utilities for the property. The monthly rent will be subject to annual increases based on calculations set forth in the lease agreement.

LCVB and LSA also lease certain equipment under monthly operating leases. LCVB and LSA recognized \$98,015 of total lease and rental expenditures for the year ended September 30, 2011.

Note 7: 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. Incentives and special projects liabilities, and the related activity in the GWFS follow:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Due Within One Year</u>
Incentive contracts	\$ 332,098	\$ 1,334	\$ (285,898)	\$ 47,534	\$ 16,734
Special projects	<u>9,164</u>	<u>31,603</u>	<u>(39,012)</u>	<u>1,755</u>	<u>1,755</u>
	<u>\$ 341,262</u>	<u>\$ 32,937</u>	<u>\$ (324,910)</u>	<u>\$ 49,289</u>	<u>\$ 18,489</u>

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**
Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 7: Incentives and Special Projects Liabilities (continued)

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 five years, if the performance requirements are met.

LCVB and LSA make offers to groups as incentives to hold their convention/sporting events in Lubbock. These offers become liabilities of the respective funds at the conclusion of the event. Open (undeclared) offers at September 30, 2011 are \$437,478 for LCVB and \$277,500 for LSA, for possible events through 2014. Due to the tentative nature of the offers, these amounts are not accrued as liabilities in the GWFS or the FFS, but are reflected as designations of fund balance in the FFS.

Note 8: Retirement Plans

The Market Lubbock, 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 upon reaching age 21. Employees are not required to contribute to the Plan, but may make elective deferrals up to 20% of their compensation. MLI annually contributes 5% of eligible employee's compensation to the Plan on their behalf; all contributions vest immediately. During the year ended September 30, 2011, employees contributed \$17,406 to the Plan and MLI contributed \$24,340 on their behalf.

Note 9: Related Party Transactions

Lubbock provides certain services to MLI at no charge; the nature and scope of these services vary as deemed necessary by Lubbock and MLI management. Lubbock also processes certain disbursements when it is deemed economically beneficial to MLI for such disbursements to be made by Lubbock. Management is unable to estimate the value of these services. Historically and during the year ended September 30, 2011, Lubbock provided substantially all funding for MLI activities.

At September 30, 2010, MLI had a \$330,000 note payable to Lubbock Economic Development Alliance ("LEDA"), a related party. The note bore interest at a fixed rate of 3.25% and was originally due in one lump sum payment on August 25, 2011. The note was paid in full in March 2011, along with \$5,809 of accrued interest. Interest expense on the related party note payable was \$4,738 for the year ended September 30, 2011.

MLI also made cash grants to LEDA totaling \$2.7 million during the year ended September 30, 2011, to be utilized for economic development and expansion of commercial activity for the City of Lubbock.

Note 10: Commitments and Contingencies

In 2002, the City of Lubbock granted MLI \$10 million to be used solely to fund an incentive agreement MLI has entered into with a company. Under this incentive agreement, MLI has advanced the company \$10 million primarily to construct a manufacturing facility in Lubbock. The advance is subject to a repayment obligation that is reduced by realization of specified annual payrolls at the facility over a 10-year term beginning with completion of the facility. The grant has been included in deferred revenues in the accompanying financial statements and is amortized into income at \$1 million per year, through 2013.

Note 11: Fund Balance Deficits

LSA's unassigned fund deficit of \$80,316 is due to \$277,500 of open (undeclared) incentives offered to groups for potential sporting events through 2014. Management expects to fund these commitments (net of any forfeitures) through future hotel occupancy tax allocations from Lubbock.

**Market Lubbock Economic Development Corporation,
dba Market Lubbock, Inc.**

Notes to Basic Financial Statements
For the Year Ended September 30, 2011

Note 12: Subsequent Events Evaluation

Management has evaluated subsequent events through December 13, 2011, the date which the financial statements were available to be issued. Other than the transaction described above, 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, 2011.