

**Lubbock Economic
Development Alliance**

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

Audited Basic Financial Statements

For the Year Ended:

September 30, 2013

Robinson
Burdette
Martin &
Seright, L.L.P.
a professional services firm of
certified public accountants

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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

We have audited the accompanying financial statements of the governmental activities, each major 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, 2013, 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 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 the *Government Auditing Standards* (GAS), 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, each major fund of LEDA as September 30, 2013, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 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.

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

Lubbock, Texas
November 25, 2013

Lubbock Economic Development Alliance
Management's Discussion and Analysis
For the Year Ended September 30, 2013

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, 2013. 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 Assets and the Statement of Activities.

The Statement of Net Assets includes LEDA's assets, liabilities and net assets. 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 assets are one indicator of the Organization's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Organization's financial health.

Statement of Net Assets

September 30,	2013	2012	% Change
Assets			
Current assets	\$ 6,044,520	\$ 4,290,271	40.89
Capital assets, net of depreciation	8,195,646	23,902,339	(65.71)
Total Assets	\$ 14,240,166	\$ 28,192,610	(49.49)
Liabilities			
Current liabilities	\$ 1,663,627	\$ 4,063,870	(59.06)
Noncurrent liabilities	1,949,165	2,876,866	(32.25)
Total Liabilities	3,612,792	6,940,736	(47.95)
Net Assets			
Invested in capital assets, net of related debt	8,195,646	22,574,415	(63.69)
Unrestricted	2,431,728	(1,322,541)	283.87
Total Net Assets	10,627,374	21,251,874	(49.99)
Total Liabilities and Net Assets	\$ 14,240,166	\$ 28,192,610	(49.49)

Current Assets

Cash and Equivalents

The fiscal year 2013 cash and equivalents balance is higher than the fiscal year 2012 balance due to a \$5.6 million change in net assets in the current year, net of depreciation, which was partially offset by a \$2.4 million decrease in current liabilities and the current-year payoff of the Organization's note payable, which totaled \$1.3 million as of September 30, 2012.

Lubbock Economic Development Alliance
Management's Discussion and Analysis
For the Year Ended September 30, 2013

Investments

Investments are comprised of two certificates of deposit, held at separate financial institutions, which are carried at fair value. The fiscal year 2013 balance is slightly higher than the fiscal year 2012 balance as a result of current-year interest earnings on the certificates of deposit.

EDA Grant Reimbursement Receivable

As of September 30, 2013, LEDA was due \$217,723 in expenditure reimbursements from the U.S. Department of Commerce, Economic Development Administration, under the terms of a \$1.5 million grant agreement (the EDA Grant) for the construction of rail improvements at the Lubbock Railport (Railport).

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 2013 balance is higher than the fiscal year 2012 balance as a result of the City having higher sales and use tax collections in August and September of 2013, as compared to August and September of 2012.

Noncurrent Assets

Capital Assets, Net of Depreciation

Net capital assets of \$8.1 million includes the historical acquisition costs and related improvements for land, office equipment, vehicles and equipment, and leasehold improvements, less \$289,244 for accumulated depreciation. Significant capital additions during fiscal year 2013 include over \$1.2 million for development of the Lubbock Business Park (Business Park) and Railport, particularly for additional roads, landscaping, irrigation and sewage improvements at the Business Park and the extension of additional rail into the Railport. Detailed information regarding capital asset additions and deletions is available in Note 5.

Current Liabilities

Accounts Payable

Accounts payable of \$43,211 as of September 30, 2013 consists of expenses for goods and services received from vendors in the current year but paid in the following year. The balance is lower than as of September 30, 2012 due to fewer construction costs and professional services fees outstanding related to the Business Park and Railport.

Accrued Liabilities

Accrued liabilities consist of compensated absences accumulated by the Organization's employees. LEDA's accrued liabilities were relatively consistent from September 30, 2012 to September 30, 2013.

Notes Payable, Amounts Due Within One Year

As of September 30, 2012, LEDA had a \$1.3 million note payable, representing the outstanding principal balance on the taxable bank loan, all of which was due in fiscal year 2013. The loan was originally entered into in partial financing of the development costs for the Business Park and Railport. See Note 8 for additional information.

Lubbock Economic Development Alliance
Management's Discussion and Analysis
For the Year Ended September 30, 2013

Incentives and Special Projects Liabilities, Estimated Amounts Due Within One Year

Incentives are primarily for economic development through the creation and maintenance of new jobs. Special projects include contractual commitments to local businesses. Incentives and special projects liabilities, estimated amounts due within one year, are primarily comprised of incentives and special projects commitments which are due within 12 months after September 30, 2013. The liability recorded at the end of fiscal year 2013 is approximately \$760,000 lower than at the end of fiscal year 2012 as a result of current year payments and forfeitures totaling approximately \$755,000 on four significant incentive contracts, as well as an overall net decrease of seven open incentive contracts from September 30, 2012. These decreases were partially offset by four new incentive contracts that were entered into during fiscal year 2013. Detailed information regarding incentives and special projects liabilities is available in Note 7.

Noncurrent Liabilities

Incentives and Special Projects Liabilities, Estimated Amounts Due After One Year

Incentives and special projects liabilities, estimated amounts due after one year, are primarily comprised of incentives and special projects commitments which are due after September 30, 2014. The noncurrent liability recorded at the end of fiscal year 2013 is approximately \$928,000 lower than fiscal year 2012 as a result of the net decrease of seven open incentive contracts mentioned above, including one contract with \$220,000 in incentive commitments that was rescinded during the current year, in addition to eleven agreements entering their final year in fiscal year 2014. These increases were partially offset by current year payments and forfeitures on contracts entered into prior to fiscal year 2013. Detailed information regarding incentives and special projects liabilities is available in Note 7.

Net Assets

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, of \$8.1 million includes the historical acquisition costs and related improvements for land, office equipment, vehicles and equipment and leasehold improvements, net of accumulated depreciation and outstanding principal requirements on the related debt. Detailed information regarding capital assets and acquisition-related debt obligations is available in Notes 5 and 8.

Unrestricted Net Assets

LEDA's net assets are 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. The \$3.8 million improvement in unrestricted net assets in fiscal year 2013 is roughly due to revenues over expenses and special items totaling \$5.6 million and a \$1.8 million increase in current assets during the current year, partially offset by a \$2.4 million decrease in current liabilities and payments on notes payable totaling \$1.3 million.

Lubbock Economic Development Alliance
Management's Discussion and Analysis
For the Year Ended September 30, 2013

Statement of Activities

<u>Year ended September 30,</u>	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Revenues			
Operating grants and contributions	\$ 7,365,622	\$ 7,839,996	(6.05)
Capital grants and contributions	552,297	1,355,006	(59.24)
Total Revenues	7,917,919	9,195,002	(13.89)
Expenses			
Economic development	2,272,158	4,849,136	(53.14)
Depreciation expense	30,995	54,987	(43.63)
Total Expenses	2,303,153	4,904,123	(53.04)
Excess of revenues over expenses	5,614,766	4,290,879	30.85
Special Items			
Loss on capital asset disposals	—	(5,020)	100.00
Change in Net Assets	5,614,766	4,285,859	31.01
Net Assets – Beginning	21,251,874	16,966,015	25.26
Capital Contribution to City of Lubbock	(16,239,266)	—	(100.00)
Net Assets – Ending	\$ 10,627,374	\$ 21,251,874	(49.99)

Revenues

Operating Grants and Contributions

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, as well as cash grants from Market Lubbock, Inc. (MLI), a related party, for the development and expansion of commercial activity within and around the City. The decrease in revenues between fiscal years 2012 and 2013 is due to fewer cash grants received from MLI in 2013, partially offset by an increase in sales and use tax collections.

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. Additional information on the Railport is provided in Note 5.

Expenses

Economic Development

In fiscal year 2013, LEDA expended approximately \$2.3 million for economic development within and around Lubbock, compared to \$4.8 million in the prior year. Amounts expended for economic development in the current fiscal year included over \$1.3 million for business incentives and just under \$1.2 million for employee compensation and benefits, in addition to approximately \$372,000 for marketing and sales and approximately \$848,000 for office and other general and administrative expenses. These expenditures were partially offset by a net decrease in incentive commitments totaling about \$1.5 million prior to September 30, 2013.

Lubbock Economic Development Alliance
Management's Discussion and Analysis
For the Year Ended September 30, 2013

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 office equipment and a tractor and rotary shredder becoming fully depreciated in fiscal years 2012 and 2013. Detailed information regarding depreciation expense is available in Note 5.

Special Items

Capital Asset Disposals

No capital assets were disposed of during fiscal year 2013. During fiscal year 2012, LEDA recorded a net loss on capital asset disposals totaling \$5,020, as a result of selling two small tracts of land and replacing one vehicle.

Capital Contribution to City of Lubbock

During fiscal year 2013, LEDA contributed to the City of Lubbock paving improvements on certain Business Park streets, alleys and avenues. The total cost of these improvements was approximately \$16.2 million, which LEDA recorded as a capital contribution to the City. Additional information on the Business Park is provided in Note 5.

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.

Capital Plan

Management has developed a Capital Plan in order to be able to plan for expected necessary 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, 2013, the Capital Plan includes approximately \$15.0 million of future capital outlay for development of the Business Park and Railport, comprised of approximately \$13.3 million and \$1.7 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 \$10.6 million (*net assets*) at the close of the fiscal year, compared to assets exceeding liabilities by \$21.3 million (*net assets*) at the end of the prior fiscal year. The net decrease is a result of the \$16.2 million capital contribution to the City. As a result of operations, total net assets increased by \$5.6 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

Basic Financial Statements

For the Year Ended:

September 30, 2013

Lubbock Economic Development Alliance
Government-Wide Financial Statements
For the Year Ended:
September 30, 2013

Lubbock Economic Development Alliance
Statement of Net Assets
September 30, 2013

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

		Governmental Activities
Cash and equivalents	\$	3,633,460
Investments		1,251,445
EDA grant reimbursement receivable		217,723
Accounts receivable		941,892
Capital assets:		
Land		8,140,262
Depreciable capital assets, net		<u>55,384</u>
Assets	\$	<u>14,240,166</u>
Accounts payable	\$	43,211
Accrued liabilities		57,415
Incentives and special projects liabilities:		
Estimated amounts due within one year		1,563,001
Estimated amounts due after one year		<u>1,949,165</u>
Liabilities		<u>3,612,792</u>
Invested in capital assets, net of related debt		8,195,646
Unrestricted		<u>2,431,728</u>
Net Assets	\$	<u>10,627,374</u>

Lubbock Economic Development Alliance
Statement of Activities
For the Year Ended September 30, 2013

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

Programs	Expenses	Program Revenues		Net Revenue (Expense) & Change in Net Assets
		Operating Grants & Contributions	Capital Grants & Contributions	
Economic development	\$ 2,272,158	\$ 7,365,622	\$ 552,297	\$ 5,645,761
Depreciation expense (all unallocated)	<u>30,995</u>	<u>-</u>	<u>-</u>	<u>(30,995)</u>
Governmental Activities	<u>\$ 2,303,153</u>	<u>\$ 7,365,622</u>	<u>\$ 552,297</u>	<u>5,614,766</u>
Change in Net Assets				5,614,766
Net assets - beginning				21,251,874
Capital contribution to City of Lubbock				<u>(16,239,266)</u>
Net assets - ending				<u>\$ 10,627,374</u>

Lubbock Economic Development Alliance

Fund Financial Statements

For the Year Ended:

September 30, 2013

Lubbock Economic Development Alliance
Governmental Fund Balance Sheet
September 30, 2013

Governmental Fund Financial Statements - Modified Accrual Basis

		Governmental Fund
Cash and equivalents	\$	3,633,460
Investments		1,251,445
EDA grant reimbursement receivable		217,723
Accounts receivable		941,892
	Assets	\$ 6,044,520
Accounts payable	\$	43,211
Accrued liabilities		57,415
Incentives payable		234,600
	Liabilities	335,226
Fund balances:		
Committed		3,277,566
Unassigned		2,431,728
	Fund Balance	5,709,294
	Liabilities & Fund Balance	\$ 6,044,520

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

	Governmental Fund Balance Above	5,709,294
<i>Amounts reported for governmental activities in the Statement of Net Assets (page 10) are different due to the following:</i>		
Capital assets used in governmental activities are not financial resources and are not reported in the fund.		8,195,646
Long-term liabilities are not due and payable from current financial resources and are not reported in the fund.		(3,277,566)
	Net Assets, per the Government-Wide Statement of Net Assets - Page 10	\$ 10,627,374

Lubbock Economic Development Alliance
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance
September 30, 2013

Governmental Fund Financial Statements - Modified Accrual Basis

	Governmental Fund
Sales tax revenue	\$ 5,187,512
Other income	2,730,407
Revenues	<u>7,917,919</u>
Economic development incentives	667,333
Personnel services	1,199,943
Administration	1,201,219
Debt service	1,346,022
Capital outlay	1,221,367
Expenditures	<u>5,635,884</u>
Revenues over Expenditures	<u>2,282,035</u>
Change in Fund Balance	2,282,035
Fund balance - beginning	<u>3,427,259</u>
Fund balance - ending	<u>\$ 5,709,294</u>

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

Governmental Fund Change in Fund Balance Above 2,282,035

Amounts reported for governmental activities in the Statement of Activities (page 11) are different due to the following:

The governmental fund reports 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.

532,573

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 repayments exceeded proceeds.

1,327,924

Expenses related to incentive 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.

1,472,234

Change in Net Assets, per the Government-Wide Statement of Activities - Page 11 \$ 5,614,766

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
For the Year Ended:
September 30, 2013

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
September 30, 2013

Note 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. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. LEDA 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 (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 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.

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
September 30, 2013

Note 2: Summary of Significant Accounting Policies (continued)

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 LEDA as a whole.

- The *Statement of Net Assets* 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 would be presented as general revenues, with certain exceptions (LEDA 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 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 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 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.

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. Grant management contracts are accounted for through individual special revenue funds, one of which is reported as a major fund. LEDA has neither a general fund nor capital project or debt service funds.

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
September 30, 2013

Note 2: Summary of Significant Accounting Policies (continued)

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.

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:

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

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 special revenue 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 accrued liabilities for the respective 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. Beginning with fiscal year 2011, LEDA implemented 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.

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
September 30, 2013

Note 2: Summary of Significant Accounting Policies (continued)

- 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.

Net Assets. Net assets represent the difference between LEDA'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.
- Unrestricted – not meeting the criteria for treatment as 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. 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, 2013 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.

Note 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.

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
September 30, 2013

Note 4: Cash and Investments

Cash. On September 30, 2013, the bank balance of LEDA's deposits in one financial institution was approximately \$3.7 million; of this amount, \$250,000 was covered by federal depository insurance. As of September 30, 2013, LEDA's bank balance was not exposed to custodial credit risk because it was secured and collateralized by approximately \$4.0 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, 2013, LEDA had investments totaling approximately \$1.3 million, all of which were held in certificates of deposit at two separate financial institutions. These investments are considered "insured or registered" as they are secured and collateralized by approximately \$687,000 and \$1.4 million of securities held by the pledging financial institutions' trust departments.

Note 5: Capital Assets

Capital assets reported in the accompanying GWFS and related activity for the year ended September 30, 2013 follow:

	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
Land	\$ 23,828,057	\$ 1,209,269	\$ 16,897,064	\$ 8,140,262
Not Depreciated, at Cost	<u>23,828,057</u>	<u>1,209,269</u>	<u>16,897,064</u>	<u>8,140,262</u>
Office equipment	222,752	12,097	-	234,849
Vehicles and equipment	97,757	-	-	97,757
Leasehold improvements	<u>12,022</u>	<u>-</u>	<u>-</u>	<u>12,022</u>
Being Depreciated, at Cost	<u>332,531</u>	<u>12,097</u>	<u>-</u>	<u>344,628</u>
Office equipment	172,297	24,300	-	196,597
Vehicles and equipment	80,850	4,978	-	85,828
Leasehold improvements	<u>5,102</u>	<u>1,717</u>	<u>-</u>	<u>6,819</u>
Accumulated Depreciation	<u>258,249</u>	<u>30,995</u>	<u>-</u>	<u>289,244</u>
Depreciable, Net	<u>74,282</u>	<u>(18,898)</u>	<u>-</u>	<u>55,384</u>
Capital Assets, Net	<u>\$ 23,902,339</u>	<u>\$ 1,190,371</u>	<u>\$ 16,897,064</u>	<u>\$ 8,195,646</u>

Depreciation expense totaling \$30,995 was recognized in the GWFS during the current year; none of this expense was allocated to LEDA's various programs.

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
September 30, 2013

Note 5: Capital Assets (continued)

Lubbock Business Park and Lubbock Railport

In fiscal year 2007 LEDA entered into engineering and construction contracts for Phase I development of the Lubbock Business Park and the Lubbock Railport, located on 586 and 301 acre tracts of land, respectively, owned by LEDA in northeast Lubbock. LEDA intends to convey the land to businesses in individual units for economic development purposes. Businesses receiving land grants must commit to build office, industrial or other economic facilities on site, with the intent of creating additional jobs for the Lubbock community.

Phase I Construction of the Business Park and Railport began in August 2007 and was substantially completed by September 2009. The total cost of Phase I development was approximately \$29.5 million, approximately \$110,000 of which had not been billed by and was not yet due to the contractor as of September 30, 2013.

In fiscal year 2008 LEDA deeded a total of 47 acres of Business Park land to two businesses, and 18 acres of Railport land to one business. No land was conveyed during fiscal years 2009 or 2011. In fiscal year 2010, LEDA sold approximately 35 acres of Business Park land to a related party and deeded another 21 acres of Business Park land to two businesses. In fiscal year 2012, LEDA deeded approximately 10 acres of Business Park land to one business and approximately 11 acres of Business Park land were deeded back to LEDA from another business. In fiscal year 2013, LEDA deeded approximately 17 acres of Business Park land to one business. LEDA's total cost of the 17 acres of land deeded to the business was approximately \$658,000.

During fiscal year 2013, LEDA contributed to the City of Lubbock paving improvements on certain Business Park and Railport streets, alleys and avenues. The paving improvements were accepted by the City Engineer on September 29, 2013. The total cost of these improvements was approximately \$16.2 million, which LEDA recorded as a capital contribution to the City of Lubbock.

Note 6: 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 \$10,484 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 certain equipment under monthly operating leases. LEDA recognized lease and rental expenditures totaling \$145,292 for the year ended September 30, 2013.

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. Current year activity and the September 30, 2013 liabilities for incentives and special projects are as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Due Within One Year</u>
Incentive contracts	\$ <u>3,326,666</u>	\$ <u>790,200</u>	\$ <u>(604,700)</u>	\$ <u>3,512,166</u>	\$ <u>1,563,001</u>

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.

Lubbock Economic Development Alliance
Notes to Basic Financial Statements
September 30, 2013

Note 7: Incentives and Special Projects Liabilities (continued)

LEDA has also 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.

Note 8: Note Payable

To secure financing for the development of the Lubbock Business Park and the Lubbock Railport, including the construction of streets and roads, water, electric and gas utilities improvements, drainage and related improvements, and telecommunications and internet improvements, LEDA entered into a taxable loan and security agreement (the Loan) with a bank on August 23, 2007 for a principal sum of \$7.25 million. The Loan was secured by 100% of the funds collected by the City of Lubbock from the levy of the sales and use tax.

Beginning with the initial draw request, the Loan bore interest at a floating rate equal to the Wall Street Journal Prime Rate minus one-half of one percent. Beginning September 15, 2007 and continuing until August 15, 2008, LEDA was required to make monthly interest-only payments on the outstanding principal balance. From September 15, 2008 through the maturity date, 60 monthly principal and interest payments were required, with the balance of the Loan due in full on August 15, 2013.

The remaining principal balance of the Loan was paid in full during the year ended September 30, 2013. In fiscal year 2013, interest expense on the Loan totaled \$18,098.

Note 9: 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, 2013, employees contributed \$47,224 to the Plan and LEDA contributed an additional \$54,096 on their behalf.

Note 10: 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 \$2.15 million in cash grants from Market Lubbock, Inc., a related party, during the year ended September 30, 2013, to be utilized for economic development and expansion of commercial activity for the City of Lubbock.

Note 11: Subsequent Events Evaluation

Management has evaluated subsequent events through November 25, 2013, 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, 2013.

Lubbock Economic Development Alliance
Required Supplementary Information
For the Year Ended:
September 30, 2013

Lubbock Economic Development Alliance
Budgetary Comparison
For the Year Ended September 30, 2013

	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget</u>
Revenues			
Sales Tax Funding	\$ 4,779,816	\$ 5,187,512	\$ 407,696
Interest Income	14,750	20,141	5,391
Grant from Market Lubbock, Inc.	2,150,000	2,150,000	-
Lease Income	9,920	6,991	(2,929)
EDA Grant Income	-	552,297 *	552,297
Other Income	-	978	978
Total Revenue Sources	<u>6,954,486</u>	<u>7,917,919</u>	<u>963,433</u>
Utilization of Net Assets	<u>550,007</u>	<u>-</u>	<u>(550,007)</u>
Total Revenues	\$ <u>7,504,493</u>	\$ <u>7,917,919</u>	\$ <u>413,426</u>
Expenses			
Personnel			
Compensation	\$ 1,231,000	\$ 983,588	\$ 247,412
Employee Benefits	297,400	216,355	81,045
Personnel	<u>1,528,400</u>	<u>1,199,943</u>	<u>328,457</u>
Administrative			
Bank Charges	500	72	428
Pre-employment	5,000	550	4,450
Repairs & Maintenance	5,000	5,841	(841)
Repairs & Maintenance - Business Park/Railport	114,000	106,064	7,936
Professional Services	297,600	255,043	42,557
Meeting Expense	16,500	10,398	6,102
Insurance	16,000	13,770	2,230
Miscellaneous	15,000	8,549	6,451
Memberships/Dues/Subscriptions	109,066	97,978	11,088
Travel/Training	89,050	86,061	2,989
Administrative	<u>667,716</u>	<u>584,326</u>	<u>83,390</u>
Office			
Office Supplies	25,000	20,749	4,251
Office Equipment Rental	19,200	19,383	(183)
Office Rent	131,000	125,909	5,091
Telephone	31,420	22,688	8,732
Postage	5,000	3,395	1,605
Office	<u>211,620</u>	<u>192,124</u>	<u>19,496</u>
Marketing and Sales			
Promotions/Advertising	386,500	261,629	124,871
Meeting Expense	49,000	25,589	23,411
Travel	133,175	84,367	48,808
Marketing and Sales	<u>568,675</u>	<u>371,585</u>	<u>197,090</u>
Business Incentives/Special Projects			
Special Projects	108,000	53,184	54,816
Incentive Fund - Direct Business Incentives	1,600,000	667,333	932,667
Business Incentives/Special Projects	<u>1,708,000</u>	<u>720,517</u>	<u>987,483</u>
Debt Service			
Debt Service - Principal Reduction	1,329,167	1,327,924	1,243
Debt Service - Interest Expense	23,300	18,098	5,202
Debt Service	<u>1,352,467</u>	<u>1,346,022</u>	<u>6,445</u>
Capital Costs			
Computer Expense	15,000	9,407	5,593
Office Furniture & Equipment	3,000	2,690	310
Lubbock Business Park & Railport	1,449,615	1,209,270 *	240,345
Capital Costs	<u>1,467,615</u>	<u>1,221,367</u>	<u>246,248</u>
Total Expenses	\$ <u>7,504,493</u>	\$ <u>5,635,884</u>	\$ <u>1,868,609</u>

* Grant receipts budgeted as reduction of capital costs