

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2015  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

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**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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

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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 funds of Lubbock Economic Development Alliance (LEDA), a component unit of the City of Lubbock, Texas, as of and for the year ended September 30, 2015, 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, a component unit of the City of Lubbock, Texas, as of and for the year ended September 30, 2015, 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.

**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 3 through 8 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 January 6, 2016, 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

January 6, 2016

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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, 2015. 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,	
	2015	2014
Assets		
Current Assets	\$ 16,555,040	\$ 11,154,830
Non-Current Assets	318,626	1,115,485
Capital Assets, Net of Depreciation	8,306,482	8,266,894
Total Assets	<u>\$ 25,180,148</u>	<u>\$ 20,537,209</u>
Liabilities		
Current Liabilities	\$ 3,159,460	\$ 1,639,568
Noncurrent Liabilities	1,452,989	1,665,396
Total Liabilities	<u>\$ 4,612,449</u>	<u>\$ 3,304,964</u>
Net Position		
Net Investment in Capital Assets	\$ 8,306,482	\$ 8,266,894
Unrestricted	12,261,217	8,965,351
Total Net Position	<u>\$ 20,567,699</u>	<u>\$ 17,232,245</u>
Total Liabilities and Net Position	<u>\$ 25,180,148</u>	<u>\$ 20,537,209</u>

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Assets**

*Cash and Equivalents*

The fiscal year 2015 cash and equivalents balance is higher than the fiscal year 2014 balance due to the Organization coming in under budget in the areas of personnel, professional services, advertising, business incentives, and capital costs. The Board of Directors have assigned \$1,706,768 and \$1,000,000 of operating cash to be used for capital outlay and special projects.

*Investments*

Investments are comprised of six certificates of deposit, held at five separate financial institutions, which are carried at fair value. The fiscal year 2015 balance is higher than the fiscal year 2014 balance as a result of purchasing three new certificates of deposit in the amount of \$2 million, \$1.2 million and \$928,841. The Board of Directors have assigned \$4,750,800 of certificate of deposits to be used for 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 2015 balance is in line with the fiscal year 2014 balance.

*Other Accounts Receivable*

The Organization gives incentives in advance and accounts for these as receivables until earned by the companies. Information regarding other receivables is available in Note 7.

*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 \$212,269 for accumulated depreciation. Significant capital additions during fiscal year 2015 include \$8,098 for office equipment and \$46,145 for projects at the business park.

**Liabilities**

*Accounts Payable*

Accounts payable of \$38,889 as of September 30, 2015 consists of expenses for goods and services received from vendors in the current year but paid in the following year. The balance is slightly higher than as of September 30, 2014.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

*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, 2014 to September 30, 2015.

*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 incentive liability recorded at the end of fiscal year 2015 is approximately \$605,994 lower than at the end of fiscal year 2014 as a result of current year payments and forfeitures totaling approximately \$2.5 million and adding new incentive agreements totaling approximately \$1.9 million. The special projects liability at the end of fiscal year 2015 is \$1.9 million. Information regarding incentives and special projects liabilities is available in Note 10.

**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 8.

*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 2015 improved by approximately \$3.3 million over 2014 due to revenues exceeding expenses. The Board of Directors have assigned \$6.5 million and \$1 million of unrestricted net position to be used for capital outlay and special projects.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Statement of Activities**

	Years Ended September 30,	
	2015	2014
<b>Revenues:</b>		
Program Revenues:		
Operating Grants and Contributions	\$ 2,432,528	\$ 2,531,079
General Revenues:		
Sales Taxes	5,669,778	5,387,578
Miscellaneous Revenue	312	2,775
Rents	19,880	20,720
Gain on Sale of Real and Personal Property	100	630,309
Investment Earnings	73,773	31,630
Total Revenues	\$ 8,196,371	\$ 8,604,091
<b>Expenses:</b>		
Economic Development	\$ 4,846,262	\$ 3,094,513
Depreciation Expense	14,655	20,192
Total Expenses	\$ 4,860,917	\$ 3,114,705
Increase in Net Position	\$ 3,335,454	\$ 5,489,386
Net Position - Beginning	17,232,245	11,742,859
Net Position - Ending	\$ 20,567,699	\$ 17,232,245

**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 decrease in revenues between fiscal years 2015 and 2014 is due to less cash grants received from MLI in 2015.

**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. LEDA budgeted a two percent increase in sales tax revenue based on the 2014 actual revenues for 2015 and actually had a five percent increase in sales tax revenues for 2015.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

*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. During, 2015, LEDA did not sale any land or equipment.

**Expenses**

*Economic Development*

In fiscal year 2015, LEDA expended approximately \$4.8 million for economic development within and around Lubbock, compared to \$3.1 million in the prior year. Amounts expended for economic development in the current fiscal year included \$2,496,849 for business incentives and special projects, \$1,184,891 for employee compensation and benefits, in addition to \$374,818 for marketing and sales, \$683,698 for office and other general and administrative expenses and \$106,006 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 8.

**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, 2015, the Capital Plan includes approximately \$40 million of capital outlay for development of the Business Park and Railport, comprised of approximately \$34 million and \$6 million of construction and design and engineering costs, respectively.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Overall Financial Position**

Management believes the Organization is in good condition financially. Assets exceeded liabilities by \$20.6 million (*net position*) at the close of the fiscal year, compared to assets exceeding liabilities by \$17.2 million (*net position*) at the end of the prior fiscal year. As a result of operations, total net position increased by \$3.3 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, 2015

	<u>Primary Government Governmental Activities</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 8,169,859
Investments	6,822,913
Receivables	979,993
Other Receivables	
Current	582,275
Non-current	318,626
Capital Assets:	
Land	8,220,025
Depreciable Capital Assets, Net of Accumulated Depreciation	25,286
Construction Work In Progress	61,171
Total Assets	<u>\$ 25,180,148</u>
<b>LIABILITIES:</b>	
Accounts Payable	\$ 38,889
Incentives and Special Projects Liabilities:	
Estimated Amounts Due Within One Year	3,120,571
Estimated Amounts Due After One Year	1,401,710
Accrued Compensated Absences	51,279
Total Liabilities	<u>\$ 4,612,449</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 8,306,482
Unrestricted	<u>12,261,217</u>
Total Net Position	<u>\$ 20,567,699</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, 2015

		<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	\$ 4,846,262	\$ 2,432,528	\$ (2,413,734)
Depreciation Expense	14,655		(14,655)
Total Governmental Activities	<u>\$ 4,860,917</u>	<u>\$ 2,432,528</u>	<u>\$ (2,428,389)</u>
General Revenues:			
Sales Tax Revenue			\$ 5,669,778
Miscellaneous Revenue			312
Rents			19,880
Gain on Sale of Real and Personal Property			100
Investment Earnings			73,773
Total General Revenues			<u>\$ 5,763,843</u>
Change in Net Position			\$ 3,335,454
Net Position - Beginning			16,116,760
Prior Period Adjustment			1,115,485
Net Position - Ending			<u>\$ 20,567,699</u>

The accompanying notes are an integral part of this statement.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit A-3

BALANCE SHEET - GOVERNMENTAL FUND  
SEPTEMBER 30, 2015

	<u>Governmental Fund</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 8,169,859
Investments	6,822,913
Receivables	979,993
Total Assets	<u>\$ 15,972,765</u>
<b>LIABILITIES:</b>	
Accounts Payable	\$ 38,888
Accrued Compensated Absences	51,279
Incentives Payable	324,367
Total Liabilities	<u>\$ 414,534</u>
<b>FUND BALANCES:</b>	
Committed for Incentives and Special Projects	\$ 4,197,914
Assigned for Capital Outlay	6,457,568
Assigned for Special Projects	1,000,000
Unassigned	3,902,749
Total Fund Balances	<u>\$ 15,558,231</u>
Total Liabilities and Fund Balances	<u>\$ 15,972,765</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, 2015

Total Fund Balances - Governmental Fund Balance Sheet	\$	15,558,231
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.		8,306,482
Long-term receivables outstanding related to economic incentives.		900,901
Long-term liabilities are not due and payable from current financial resources and are not reported on the Governmental Fund Balance Sheet.		(4,197,915)
Net Position of Governmental Activities - Statement of Net Position	\$	<u>20,567,699</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, 2015

	<u>Governmental Fund</u>
Revenues:	
Taxes:	
Sales Taxes	\$ 5,669,778
Intergovernmental Revenue and Grants	2,432,528
Investment Earnings	73,773
Rents	19,880
Other Revenue	312
Total Revenues	<u>\$ 8,196,271</u>
Expenditures:	
Current:	
Economic Development Incentives	\$ 795,193
Personnel Services	1,184,891
Administration	1,164,522
Capital Outlay	54,242
Total Expenditures	<u>\$ 3,198,848</u>
Excess of Revenues Over Expenditures	<u>\$ 4,997,423</u>
Other Financing Sources:	
Sale of Real and Personal Property	\$ 100
Total Other Financing Sources	<u>\$ 100</u>
Net Change in Fund Balances	\$ 4,997,523
Fund Balances - Beginning	<u>10,560,708</u>
Fund Balances - Ending	<u><u>\$ 15,558,231</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, 2015

Net Change in Fund Balances - Total Governmental Fund	\$	4,997,523
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:		
Capital assets are not reported as expenses in the SOA.		54,242
The depreciation of capital assets used in governmental activities is not reported in the funds.		(14,655)
Economic incentives paid in advance are expensed in the funds, but are recorded as other receivables in the SNP since they are tied to performance goals and may have to be paid back if these goals are not met.		113,500
Forgiveness of receivable due to meeting performance goals.		(328,084)
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>(1,487,072)</u>
Change in Net Position of Governmental Activities - Statement of Activities	\$	<u><u>3,335,454</u></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 Type A 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 period. Expenditures are recorded when a liability is incurred, with the exceptions of debt

## LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

### NOTES TO BASIC FINANCIAL STATEMENTS

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% 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.

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, 2015 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 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, 2015, LEDA has assigned \$6,457,568 to be used for capital outlay. This amount is shown as assigned for capital outlay on the governmental fund balance sheet.

On July 22, 2015, the Board of Directors of LEDA passed a resolution to place \$1 million in reserve funds to be used for the mutual benefit of the City of Lubbock and South Plains College's technical training program expansion. As of September 30, 2015, LEDA has assigned \$1,000,000 to be used for the above purpose. This amount is shown as assigned for special projects on the governmental fund balance sheet.

**5. Cash and Investments**

*Cash.* On September 30, 2015, the bank balance of LEDA's deposits in one financial institution was approximately \$8.2 million; of this amount, \$250,000 was covered by federal depository insurance. As of September 30, 2015, LEDA's bank balance was not exposed to custodial credit risk because it was secured and collateralized by 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, 2015, LEDA had investments totaling approximately \$6.8 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 securities held by the pledging financial institutions' trust departments.

LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

NOTES TO BASIC FINANCIAL STATEMENTS

**6. Receivables**

Receivables consist of October and November 2015 sales tax allocations due from the City of Lubbock.

**7. Other Receivables**

Other receivables consist of cash amounts and property given to companies as incentives for the purpose of creating and maintaining new full-time positions in Lubbock. These receivables are structured to be forgiven as the companies meet the required performance agreements established by LEDA. As of September 30, 2015, the outstanding other receivables balance is \$900,901.

**8. Capital Assets**

Capital assets reported in the accompanying GWFS and related activity for the year ended September 30, 2015 are as follows:

	Beginning	Additions	Disposals	Ending
Land	\$ 8,220,025	\$	\$	\$ 8,220,025
Not Depreciated, at Cost	\$ 8,220,025	\$ 0	\$ 0	\$ 8,220,025
Office Equipment	\$ 207,507	\$ 8,098	\$ 992	\$ 214,613
Vehicles and Equipment	10,920			10,920
Leasehold Improvements	12,022			12,022
Being Depreciated, at Cost	\$ 230,449	\$ 8,098	\$ 992	\$ 237,555
Office Equipment	\$ 179,500	\$ 13,675	\$ 992	\$ 192,183
Vehicles and Equipment	10,920			10,920
Leasehold Improvements	8,186	980		9,166
Accumulated Depreciation	\$ 198,606	\$ 14,655	\$ 992	\$ 212,269
Depreciable, Net	\$ 31,843	\$ (6,557)	\$ 0	\$ 25,286
Construction Work in Progress	\$ 15,026	\$ 46,145	\$	\$ 61,171
Capital Assets, Net	\$ 8,266,894	\$ 39,588	\$ 0	\$ 8,306,482

Depreciation expense totaling \$14,655 was recognized in the GWFS during the current year; none of this expense was allocated to LEDA's various programs.

**9. 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. This office lease was renewed on March 12, 2015 for a five year period with an option for an additional five years. The new monthly rate is \$9,490 per month for the first two years and increases to \$9,638 per month for the following two years and the fifth year is \$9,787 per month. The monthly rent includes all utilities except for phone and internet.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE**

**NOTES TO BASIC FINANCIAL STATEMENTS**

LEDA also leases a copier and postage machine under monthly operating leases. LEDA recognized lease and rental expenditures totaling \$141,267 for the year ended September 30, 2015.

**10. 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, 2015 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	\$ 3,228,275	\$ 1,937,485	\$ 2,543,479	\$ 2,622,281	\$ 1,220,571
Special Projects	\$ 0	\$ 1,900,000	\$ 0	\$ 1,900,000	\$ 1,900,000

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

**11. Commitments – Loan Guarantee**

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. On December 28, 2015, LEDA entered into a settlement agreement that terminated the above loan guarantee.

**12. 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, 2015, employees contributed \$52,293 to the Plan and LEDA contributed an additional \$55,373 on their behalf.

**13. 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.

**LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE**

**NOTES TO BASIC FINANCIAL STATEMENTS**

LEDA also received \$2.43 million in cash grants from Market Lubbock, Inc., a related party, during the year ended September 30, 2015, to be utilized for economic development and expansion of commercial activity for the City of Lubbock.

**14. Subsequent Events Evaluation**

Management has evaluated subsequent events through January 6, 2016, the date which the financial statements were available to be issued. See Note 11 for subsequent event information related to LEDA's loan guarantee.

**15. Prior Period Adjustment**

Beginning Net Position	\$	16,116,760
Value of Business Park Land Given as Incentive		<u>1,115,485</u>
Restated Beginning Net Position	\$	<u><u>17,232,245</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

## LUBBOCK ECONOMIC DEVELOPMENT ALLIANCE

Exhibit B-1

**BUDGETARY COMPARISON SCHEDULE  
GOVERNMENTAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	(Unaudited) Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive or (Negative)
	Original	Final		
Revenues:				
Taxes:				
Sales Taxes	\$ 5,496,494	\$ 5,496,494	\$ 5,669,778	\$ 173,284
Intergovernmental Revenue and Grants	2,432,528	2,432,528	2,432,528	0
Investment Earnings	30,500	30,500	73,773	43,273
Rents	20,720	20,720	19,880	(840)
Other Revenue	0	0	312	312
Total Revenues	<u>\$ 7,980,242</u>	<u>\$ 7,980,242</u>	<u>\$ 8,196,271</u>	<u>\$ 216,029</u>
Expenditures:				
Personnel				
Compensation	\$ 1,195,700	\$ 1,195,700	\$ 981,763	\$ 213,937
Employees Benefits	293,200	293,200	203,128	90,072
Administrative				
Bank Charges	500	500	13	487
Pre-employment	5,000	5,000	2,047	2,953
Repairs & Maintenance	5,000	5,000	3,081	1,919
Repairs & Maintenance - Business Parks	162,400	162,400	135,076	27,324
Professional Services	297,000	297,000	168,616	128,384
Meeting Expense	18,000	18,000	7,289	10,711
Insurance	16,800	16,800	8,637	8,163
Miscellaneous	15,000	15,000	1,693	13,307
Memberships/Dues/Subscriptions	137,100	137,100	124,953	12,147
Travel/Training	91,400	91,400	60,412	30,988
Office				
Office Supplies	25,000	25,000	18,913	6,087
Office Equipment Rental	20,600	20,600	12,452	8,148
Office Rent	132,500	132,500	123,838	8,662
Telephone	12,200	12,200	12,329	(129)
Postage	5,000	5,000	4,349	651
Marketing and Sales				
Promotions/Advertising	485,000	485,000	282,130	202,870
Meeting Expense	22,000	22,000	19,499	2,501
Travel	115,000	115,000	73,189	41,811
Business Incentives/Special Projects				
Special Projects	540,500	540,500	188,442	352,058
Incentive Fund - Direct Business Incentives	1,300,000	1,300,000	606,751	693,249
Capital Costs				
Computer Expense	15,000	15,000	8,703	6,297
Office Furniture & Equipment	3,000	3,000	780	2,220
Miscellaneous Land Purchases	400,000	400,000	0	400,000
Lubbock Business Park & Railport	1,469,000	1,469,000	150,765	1,318,235
Designated Future Capital Infrastructure	1,198,342	1,198,342	0	1,198,342
Total Expenditures	<u>\$ 7,980,242</u>	<u>\$ 7,980,242</u>	<u>\$ 3,198,848</u>	<u>\$ 4,781,394</u>
Excess of Revenues Over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,997,423</u>	<u>\$ 4,997,423</u>
Other Financing Sources:				
Sale of Real and Personal Property	\$ 0	\$ 0	\$ 100	\$ 100
Total Other Financing Sources	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 100</u>	<u>\$ 100</u>
Net Change in Fund Balances	\$ 0	\$ 0	\$ 4,997,523	\$ 4,997,523
Fund Balances - Beginning	<u>10,560,708</u>	<u>10,560,708</u>	<u>10,560,708</u>	
Fund Balances - Ending	<u>\$ 10,560,708</u>	<u>\$ 10,560,708</u>	<u>\$ 15,558,231</u>	<u>\$ 4,997,523</u>

**OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**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, 2015, and the related notes to the financial statements, which collectively comprise the LEDA's basic financial statements and have issued our report thereon dated January 6, 2016.

**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

January 6, 2016