

LUBBOCK AREA FOUNDATION, INC.

LUBBOCK, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

**FOR THE YEAR ENDED DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR 2013**

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

LUBBOCK AREA FOUNDATION, INC.

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

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Lubbock Area Foundation, Inc.
Lubbock, Texas

Report on Financial Statements

We have audited the accompanying financial statements of Lubbock Area Foundation, Inc., which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 financial position of Lubbock Area Foundation, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Lubbock Area Foundation, Inc.'s 2013 financial statements and our report dated November 17, 2014 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements of Lubbock Area Foundation, Inc. taken as a whole. The accompanying comparison with the budget is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

June 25, 2015

LUBBOCK AREA FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR 2013

	December 31,	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and Cash Equivalents	\$ 824,698	\$ 1,317,869
Certificates of Deposit	1,703,759	1,834,918
Grant Receivable	250,000	105,000
Investments - Marketable Securities	33,608,888	31,048,574
Construction in Progress	5,463	
Fixed Assets at Cost Less Accumulated Depreciation of \$72,656 in 2014 and \$59,046 in 2013	<u>311,391</u>	<u>190,142</u>
Total Assets	<u>\$ 36,704,199</u>	<u>\$ 34,496,503</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Funds Held as Agency Endowments	\$ 1,884,398	\$ 1,767,948
Other Liabilities	<u>14,191</u>	<u>92,226</u>
Total Liabilities	<u>\$ 1,898,589</u>	<u>\$ 1,860,174</u>
Net Assets		
Unrestricted		
Available for General Use	\$ 34,049,756	\$ 32,309,187
Equity in Fixed Assets	316,854	190,142
Temporarily Restricted	<u>439,000</u>	<u>137,000</u>
	<u>\$ 34,805,610</u>	<u>\$ 32,636,329</u>
Total Liabilities and Net Assets	<u>\$ 36,704,199</u>	<u>\$ 34,496,503</u>

See accompanying notes to financial statements.

LUBBOCK AREA FOUNDATION, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR 2013

	Unrestricted	Temporarily Restricted	December 31,	
			2014	2013
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 1,336,571	\$	\$ 1,336,571	\$ 1,726,705
Interest and Dividend Income	723,491		723,491	617,120
Investments Realized Net Gains	1,238,752		1,238,752	1,938,138
Investments Unrealized Net Gains (Losses)	75,535		75,535	2,768,408
Grants		411,000	411,000	234,000
Other Income	421,650		421,650	39,897
Total	\$ 3,795,999	\$ 411,000	\$ 4,206,999	\$ 7,324,268
Net Assets Released from Restrictions	\$ 109,000	\$ (109,000)	\$ 0	\$ 0
Total Revenue, Gains, and Other Support	\$ 3,904,999	\$ 302,000	\$ 4,206,999	\$ 7,324,268
EXPENSES				
Grants and Scholarships	\$ 1,120,071	\$	\$ 1,120,071	\$ 1,099,537
Other Program Expenses	518,798		518,798	405,397
Fund Raising	314,647		314,647	329,256
Administrative and General	84,202		84,202	59,682
Total	\$ 2,037,718	\$ 0	\$ 2,037,718	\$ 1,893,872
CHANGE IN NET ASSETS	\$ 1,867,281	\$ 302,000	\$ 2,169,281	\$ 5,430,396
NET ASSETS AT BEGINNING OF YEAR	32,499,329	137,000	32,636,329	27,205,933
NET ASSETS AT END OF YEAR	\$ 34,366,610	\$ 439,000	\$ 34,805,610	\$ 32,636,329

See accompanying notes to financial statements.

LUBBOCK AREA FOUNDATION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR 2013

	December 31,	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,169,281	\$ 5,430,396
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Net Unrealized Losses (Gains) on Investments	(75,535)	(2,768,408)
Net Realized Losses (Gains) on Investments	(1,238,752)	(1,938,138)
Depreciation	13,610	12,642
Change in Assets	(145,000)	105,000
Change in Liabilities	38,415	318,064
Net Cash Provided By Operating Activities	\$ <u>762,019</u>	\$ <u>1,159,556</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Fixed Assets	\$ (134,859)	\$ (11,218)
Purchases of Investments	(18,774,982)	(17,464,152)
Proceeds from Sale of Investments	<u>17,654,651</u>	<u>16,436,918</u>
Net Cash Used in Investing Activities	\$ <u>(1,255,190)</u>	\$ <u>(1,038,452)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (493,171)	\$ 121,104
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,317,869</u>	<u>1,196,765</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>824,698</u></u>	\$ <u><u>1,317,869</u></u>

See accompanying notes to financial statements.

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Lubbock Area Foundation (the Foundation) was incorporated October 14, 1980, as a not-for-profit, charitable organization exempt from federal income taxes under Internal Revenue Code 501(c)(3). The purpose of the Foundation is to receive and accept funds and property to be administered exclusively for charitable purposes primarily in and for the South Plains community.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Uncertain Tax Positions

The Foundation, Inc. has adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Foundation is its filing status as a tax exempt entity. The Foundation determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other State taxing authorities. The Foundation is no longer subject to examinations by federal taxing authorities for years before 2011. The Foundation recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the year ended December 31, 2014.

Classification of Net Assets

Unrestricted Net Assets:

Substantially all contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance power gives the Board of Directors the ability to modify donor restrictions that are incapable of fulfillment or inconsistent with the charitable needs of the community. The Foundation's governing documents further provide that absent contrary directions given in the transferring instrument regarding the use of principal, all or part of the principal, of any fund may be used subject to certain conditions, including approval of the Board of Directors. Accordingly, the financial statements classify these assets as unrestricted but segregate the portion that is held as endowment from the funds that are currently available for grants and administration.

Unrestricted net assets include:

Endowment Funds	\$	32,856,124
Available for Grants		134,069
Available for Administration		1,059,563
Equity in Fixed Assets		316,854
	\$	<u>34,366,610</u>

Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of \$189,000 representing the balance of various grants. The program is to provide matching funds to supplement contributions to endowments for selected regional non-profit organizations.

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Fair Value Investments

The Foundation follows generally accepted financial accounting standards which provide a framework for measuring fair value under GAAP. The standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The standard also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

These levels, defined by the valuation techniques are described below:

Level 1 – Inputs include quoted prices in active markets for identical assets.

Level 2 – Inputs include available indirect information, such as quoted prices for similar assets in active markets, or quoted prices for identical or similar assets in markets that are not active.

Level 3 – Inputs are subjective and generally based on the entity's own assumptions on how knowledgeable parties would price assets and are developed using the best information available in the circumstances.

See Note 2 below for a detail of Endowment Investments and their fair value.

In accordance with the policy of stating investments at fair value, net unrealized appreciation or depreciation for the year is reflected in the statement of activities. Income from investments is recorded as earned on an accrual basis. Investments are made according to the Investment Policy adopted by the Foundation's Board of Directors.

Promises to Give

Unconditional promises to give are recognized as revenue in the period received. Promises to give are recorded at net realizable value. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Spending Policy

The Foundation adopted a spending policy for invested contributions received. Unless the donor specifically states otherwise, annual distribution is to be based on a percent (presently established at five percent in 2014 and four and a half percent in 2013) of the average market value of the invested contributions.

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Grants

Grants are recorded when they are approved by the Board of Directors for payment.

Donated Services

A portion of the Foundation's functions is conducted by board members and unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements because the criterion for recognition has not been met.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

2. Investments

The Foundation's Endowment Funds consist of long-term investments in equity and fixed income securities. The assets are held substantially by Merrill Lynch Investment Group and other custodian banks. The Investment Group advises and invests the funds. Overseeing these investments are the Foundation's Board of Directors, the Investment Committee, the Executive Director and the Finance Director. These investments are recorded at their fair market value.

Values in the investments at December 31, 2014 consist of the following:

	Cost	Fair Value	Investment Level
Short Term Investments	\$ 949,867	\$ 916,575	1
Corporate Stocks	19,191,934	22,108,450	1
U.S. Governmental Agency Obligations	4,292,897	4,292,897	2
Mutual Funds	3,670,180	3,670,180	1
Corporate Bonds	2,620,786	2,620,786	2
	<u>\$ 30,725,664</u>	<u>\$ 33,608,888</u>	

Realized and unrealized investment gains or losses are determined by comparison of asset cost to net proceeds received at the time of disposal and changes in the difference between fair values and cost, respectively. Realized and unrealized gains and losses are included in net gain (loss) on investments in the statement of activities. The change in unrealized gains for the year ended December 31, 2014 for investments still held on those dates is as follows:

Net Change in Fair Value \$ 75,535

3. Fixed Assets

Fixed assets are recorded at cost or the fair value of the gift if donated. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis at an annual rate of 5% to 33%. Depreciation expense for the year ended December 31, 2014 was \$13,610.

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The following represents the detail of fixed assets for the year ended December 31, 2014:

	Original Cost	Accumulated Depreciation	Book Value
Land	\$ 144,645	\$	\$ 144,645
Buildings	202,238	48,032	154,206
Office Furniture & Equipment	37,164	24,624	12,540
	<u>\$ 384,047</u>	<u>\$ 72,656</u>	<u>\$ 311,391</u>

4. Pension Benefits

The Foundation provides a defined contribution plan pension benefit to its employees through an IRC Section 403(b) contract. The cost to the Foundation was \$7,380 in 2014.

5. Functional Expenses

	Program	Fund Raising	Administrative and General	Total
Grants and Scholarships	\$ 1,120,071	\$	\$	\$ 1,120,071
Personnel Costs	373,772	136,718	34,179	544,669
Professional and Special Services	100,710	108,487	27,415	236,612
Office Occupancy and Expense	17,587	16,383	3,641	37,611
Marketing and Development	23,410	53,059	18,967	95,436
Library	3,319			3,319
	<u>\$ 1,638,869</u>	<u>\$ 314,647</u>	<u>\$ 84,202</u>	<u>\$ 2,037,718</u>

6. Temporarily Restricted Net Assets

Temporarily Restricted Net Assets consisted of the following at December 31, 2014:

	Balance 1/1/14	Contributions	Released From Restrictions	Balance 12/31/14
Time Restricted Net Assets				
Community Endowment Challenge	\$	\$ 56,000	\$	\$ 56,000
Regional Service Challenge	81,000		(81,000)	0
CH Foundation Library Addition Grant		25,000		25,000
Roadmap to Strengthening South Plains		80,000		80,000
Keep Lubbock Beautiful	28,000			28,000
Breed Love Dehydrated Food Challenge	28,000		(28,000)	0
CH Foundation Building Grant		250,000		250,000
	<u>\$ 137,000</u>	<u>\$ 411,000</u>	<u>\$ (109,000)</u>	<u>\$ 439,000</u>

This balance represents monies contributed or paid to the Foundation to be used for future purposes.

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

7. Funds Held As Agency Endowments

This account represents endowment funds accepted by the Foundation from not-for-profit organizations that specify itself as beneficiary of the fund. The Foundation, Inc. has legal ownership and ultimate variance power over the funds; however, for accounting purposes the agencies recognize a beneficial interest in the assets.

8. Concentration of Credit Risk

The Foundation maintains cash in local bank accounts. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At times during the year the balance in these accounts exceeded the insured limits.

9. Micro Loan Program

The Foundation offers a program to guarantee business development loans. Applicants must meet certain requirements to qualify. Approved applicants may apply to a participating bank for a loan through the banks regular loan application process. The participating banks process and service the loans. The Foundation guarantees 75% of the balance of each loan up to \$3,750 through an Endowment Fund previously established at the Foundation. The Foundation had no outstanding guarantee obligations as of December 31, 2014.

10. Leases

The Foundation is leasing a Xerox Work Centre 7120 copy machine under an operating lease with Lubbock National Bank. The agreement began May 2013 and is for 36 months, the related lease expense for the period ending December 31, 2014 was \$1,463. The future minimum lease payments for 2015 and 2016 are \$1,463 and \$610 respectively.

11. Commitments

The Foundation has an obligation to fund scholarships in subsequent years providing the current recipients remain qualified and attend school. The present obligation to be paid in the years 2015, 2016, 2017, and 2018 totals \$204,167.

12. Subsequent Events

The Foundation's management has evaluated subsequent events through June 25, 2015, the date which the financial statements were available for issue.

ACCOMPANYING INFORMATION

LUBBOCK AREA FOUNDATION, INC.

Schedule I

OPERATING FUND
COMPARISON WITH THE BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014

	Actual	Adjustment To Budgetary Basis	Actual on Budgetary Basis	Budget	Variance with Final Budget - Favorable (Unfavorable)
REVENUE					
Contributions	\$ 1,336,571	\$	\$ 1,336,571	\$ 15,000	\$ 1,321,571
Management Fees	304,715		304,715	304,377	338
CH Foundation for Library	25,000		25,000	21,500	3,500
Interest/Dividends	723,491		723,491	2,000	721,491
CH Repurpose				57,000	(57,000)
Discretionary Funds				40,000	(40,000)
Grants	136,000		136,000	250,000	(114,000)
Workshop Income	5,275		5,275	6,000	(725)
Annual Fund Raiser	137,920		137,920	125,000	12,920
TOTAL REVENUE	\$ 2,668,972	\$ 0	\$ 2,668,972	\$ 820,877	\$ 1,848,095
EXPENSES					
Personnel Costs					
Personnel Costs	\$ 292,869	\$	\$ 292,869	\$ 350,000	\$ 57,131
Payroll Taxes	22,774		22,774	27,990	5,216
Retirement Plan	7,380		7,380	10,500	3,120
Health Insurance	18,771		18,771	30,568	11,797
Total Personnel Costs	\$ 341,794	\$ 0	\$ 341,794	\$ 419,058	\$ 77,264
Special Services					
Legal	\$	\$	\$	\$ 1,000	\$ 1,000
Accounting Services	29,530		29,530	27,600	(1,930)
Insurance	3,670		3,670	4,319	649
Consulting Fees				60,000	60,000
Software Upgrade and Expenses	11,111		11,111	14,000	2,889
Total Special Services	\$ 44,311	\$ 0	\$ 44,311	\$ 106,919	\$ 62,608
Office Expense					
Telephone	\$ 1,742	\$	\$ 1,742	\$ 1,800	\$ 58
Building Expenses	10,324		10,324	14,162	3,838
Auto Expense	5,099		5,099	5,000	(99)
Printing and Copying	6,804		6,804	5,000	(1,804)
Postage and Freight	1,706		1,706	1,500	(206)
Office Supplies	6,055		6,055	3,000	(3,055)
Equipment and Repairs	2,505		2,505	6,500	3,995
Depreciation Expense	13,610	(13,610)			0
Bank Charges and Credit Card Fees	2,172		2,172	1,200	(972)
Conferences	2,599		2,599	6,000	3,401
Dues	4,596		4,596	3,300	(1,296)
Marketing/Development	9,689		9,689	12,030	2,341
Staff Expense	9,326		9,326		(9,326)
Board Meeting Expense	669		669		(669)
Interest Expense	3,840		3,840		(3,840)
Training	1,872		1,872	6,000	4,128
Miscellaneous Expense	11,954		11,954	2,400	(9,554)
Grantee Luncheon	3,240		3,240	1,500	(1,740)
Regional Affiliate Expense	1,187		1,187		(1,187)
Area Endowment Operating Expense	4,519		4,519	11,132	6,613
Total Office Expense	\$ 103,508	\$ (13,610)	\$ 89,898	\$ 80,524	\$ (9,374)
Fundraiser Expenses					
Annual Fundraiser Expense	\$ 39,537	\$	\$ 39,537	\$ 40,500	\$ 963
Total Fundraiser Expense	\$ 39,537	\$ 0	\$ 39,537	\$ 40,500	\$ 963
Library Expenses					
Library Materials	\$ 995	\$	\$ 995	\$ 1,000	\$ 5
Workshop	12		12	200	188
Library Training	2,312		2,312	1,500	(812)
Total Library Expense	\$ 3,319	\$ 0	\$ 3,319	\$ 2,700	\$ (619)
TOTAL EXPENSES	\$ 532,469	\$ (13,610)	\$ 518,859	\$ 649,701	\$ 130,842
NET INCOME	\$ 2,136,503	\$ 13,610	\$ 2,150,113	\$ 171,176	\$ 1,978,937