

LUBBOCK AREA FOUNDATION, INC.

LUBBOCK, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2009

LUBBOCK AREA FOUNDATION, INC.

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009

TABLE OF CONTENTS

	Page <u>No.</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5
ACCOMPANYING INFORMATION	
Independent Auditors' Report on Accompanying Information	10
Operating Fund – Comparison with the Budget	Schedule I 11
Ronald McDonald House Endowment Fund	Schedule II 12
Children's Advocacy Center Endowment Fund	Schedule III 13

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Lubbock Area Foundation, Inc. as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lubbock Area Foundation, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

August 13, 2010

LUBBOCK AREA FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009
WITH COMPARATIVE TOTALS FOR 2008

	December 31,	
	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and Cash Equivalents	\$ 390,407	\$ 450,756
Certificates of Deposit	256,656	100,000
Investments - Marketable Securities	19,821,169	17,049,847
Equipment and Furnishings at Cost Less Accumulated Depreciation of \$14,702 in 2009 and \$13,166 in 2008	<u>5,202</u>	<u>6,738</u>
Total Assets	<u>\$ 20,473,434</u>	<u>\$ 17,607,341</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Funds Held as Agency Endowments	<u>\$ 1,120,524</u>	<u>\$ 990,341</u>
Net Assets		
Unrestricted	\$ 19,163,708	\$ 16,401,262
Temporarily Restricted	184,000	209,000
Equity in Fixed Assets	<u>5,202</u>	<u>6,738</u>
	<u>\$ 19,352,910</u>	<u>\$ 16,617,000</u>
Total Liabilities and Net Assets	<u>\$ 20,473,434</u>	<u>\$ 17,607,341</u>

See accompanying notes to financial statements.

LUBBOCK AREA FOUNDATION, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE TOTALS FOR 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>December 31,</u>	
			<u>2009</u>	<u>2008</u>
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 1,040,280	\$	\$ 1,040,280	\$ 564,322
Interest and Dividend Income	542,698		542,698	622,203
Investments Realized Net (Losses)	(1,347,575)		(1,347,575)	(1,467,101)
Investments Unrealized Net Gains (Losses)	3,346,919		3,346,919	(2,663,149)
Grants	24,300		24,300	37,300
Other Income	<u>9,343</u>		<u>9,343</u>	<u>15,681</u>
Total Current Year	<u>\$ 3,615,965</u>	<u>\$ 0</u>	<u>\$ 3,615,965</u>	<u>\$ (2,890,744)</u>
Funds Released from Restriction				
Prior Year CH Foundation Grant	<u>\$ 25,000</u>	<u>\$ (25,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$ 3,640,965</u>	<u>\$ (25,000)</u>	<u>\$ 3,615,965</u>	<u>\$ (2,890,744)</u>
EXPENSES				
Grants and Scholarships	\$ 441,743	\$	\$ 441,743	\$ 730,799
Other Program Expenses	206,346		206,346	224,699
Fund Raising	174,396		174,396	174,450
Administrative and General	<u>57,570</u>		<u>57,570</u>	<u>46,744</u>
Total	<u>\$ 880,055</u>	<u>\$ 0</u>	<u>\$ 880,055</u>	<u>\$ 1,176,692</u>
INCREASE (DECREASE) IN NET ASSETS	\$ 2,760,910	\$ (25,000)	\$ 2,735,910	\$ (4,067,436)
NET ASSETS AT BEGINNING OF YEAR	<u>16,408,000</u>	<u>209,000</u>	<u>16,617,000</u>	<u>20,684,436</u>
NET ASSETS AT END OF YEAR	<u>\$ 19,168,910</u>	<u>\$ 184,000</u>	<u>\$ 19,352,910</u>	<u>\$ 16,617,000</u>

See accompanying notes to financial statements.

LUBBOCK AREA FOUNDATION, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE TOTALS FOR 2008**

	December 31,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 2,735,910	\$ (4,067,436)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Net Unrealized Losses (Gains) on Investments	(3,346,919)	2,663,149
Depreciation	1,536	1,333
Increase (Decrease) in Liabilities	<u>130,183</u>	<u>(202,289)</u>
Net Cash Used in by Operating Activities	\$ <u>(479,290)</u>	\$ <u>(1,605,243)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed Asset Additions	\$	\$ (1,895)
Net Decrease in Investments	<u>418,941</u>	<u>1,703,528</u>
Net Cash Provided by Investing Activities	\$ <u>418,941</u>	\$ <u>1,701,633</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (60,349)	\$ 96,390
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>450,756</u>	<u>354,366</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 390,407</u>	<u>\$ 450,756</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.

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	\$ 18,632,791
Available for Grants	280,684
Available for Administration	250,233
Equity in Fixed Assets	<u>5,202</u>
	<u>\$ 19,168,910</u>

Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of \$184,000 representing the balance of grants from the CH Foundation for the Community Endowment Challenge initiative. A portion of the grant was released from restriction and recognized as unrestricted revenue in 2009. The program is to provide matching funds to supplement contributions to endowments for selected regional non-profit organizations.

Fair Value Investments

Effective January 1, 2009, the Foundation adopted a newly issued generally accepted financial accounting standard which provides 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

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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 2008 and three percent in 2009) of the average market value of the invested contributions.

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Fixed Assets and Depreciation

Fixed assets are stated at cost. Donated assets are valued at their fair value as of the date of the gift. Depreciation is provided on the straight-line method over the estimated useful lives of the assets which generally approximate five years. Depreciation expense for the year ended December 31, 2009, was \$1,536.

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.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Reclassifications

For comparative purposes, certain 2008 amounts have been reclassified to conform to the 2009 presentation.

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 Finance Director. These investments are recorded at their fair market value.

Values in the investments at December 31, 2009 consist of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Investment Level</u>
Short Term Investments	\$ 1,800,031	\$ 1,800,031	1
Corporate Stocks	11,036,600	11,879,935	1
Direct U.S. Treasury Obligations	1,643,744	1,674,864	2
U.S. Governmental Agency Obligations	1,993,025	2,119,998	2
Mutual Funds	1,473,420	1,060,775	2
Corporate Bonds	996,150	1,064,365	2
Other Investments	21,493	221,201	3
	<u>\$ 18,964,463</u>	<u>\$ 19,821,169</u>	

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The following table presents changes in the Foundation's level 3 investment assets measured at fair value on a recurring basis for the year ended December 31, 2009:

Balance, Beginning of Year (Fair Market Value)	\$ 571,201
Transfers In (Out) of Level 3	(50,000)
Purchase, Sales and Settlements (Net)	(300,165)
Gain on Level 3 Investments	<u>165</u>
Balance, End of Year (Fair Market Value)	<u>\$ 221,201</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 (losses) for the years ended August 31, 2009 and 2008 for investments still held on those dates are as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Net change in fair value	<u>\$ 3,346,919</u>	<u>\$ (2,663,149)</u>

3. 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 \$19,654 in 2009.

4. Functional Expenses

	<u>Program</u>	<u>Fund Raising</u>	<u>Administrative and General</u>	<u>Total</u>
Grants and Scholarships	\$ 441,743	\$	\$	\$ 441,743
Personnel Costs	68,869	128,715	45,652	243,236
Professional and Special Services	10,629	10,629	5,314	26,572
Office Occupancy and Expense	14,149	14,149	3,143	31,441
Marketing and Development	11,288	20,903	3,461	35,652
Library	2,178			2,178
Investments Management	<u>99,233</u>			<u>99,233</u>
	<u>\$ 648,089</u>	<u>\$ 174,396</u>	<u>\$ 57,570</u>	<u>\$ 880,055</u>

LUBBOCK AREA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

5. Leases

The Foundation leases office space on an annual basis. Lease expense was \$13,020 in 2009.

6. 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 Lubbock Area Foundation has legal ownership and ultimate variance power over the funds; however, for accounting purposes the agencies recognize a beneficial interest in the assets.

7. Concentration of Credit Risk

The Foundation maintains cash in local bank accounts. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year the balance in these accounts exceeded the insured limits.

8. 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 the loan up to \$3,750 through an Endowment Fund previously established at the Foundation. The Foundation guaranty obligation totals \$5,514 as of December 31, 2009. During the year, the Foundation paid \$3,207 in loan guaranties.

9. 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 2010, 2011, and 2012 totals \$205,220.

10. Subsequent Events

The Foundation's management has evaluated subsequent events through August 13, 2010, the date which the financial statements were available for issue.

ACCOMPANYING INFORMATION

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audit of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on Schedules I through III is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

August 13, 2010

LUBBOCK AREA FOUNDATION, INC.

Schedule I

**OPERATING FUND
COMPARISON WITH THE BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Actual	Adjustment To Budgetary Basis	Actual on Budgetary Basis	Budget	Variance with Final Budget - Favorable (Unfavorable)
REVENUE					
Contributions	\$ 25,315	\$	\$ 25,315	\$ 23,000	\$ 2,315
Management Fees	5,963	188,481	194,444	193,940	504
Operating Endowment Fees		16,720	16,720	16,720	0
Interest/Dividends	6,858	(2,758)	4,100	6,000	(1,900)
Grants	24,300		24,300	24,300	0
Grants - Regional Affiliates				8,000	(8,000)
Young Leaders Fund	8,051		8,051	7,400	651
Workshop Income	3,380		3,380	6,000	(2,620)
Annual Fund Raiser	47,014		47,014	50,000	(2,986)
Levelland Fund Operating Income	1,821		1,821	2,000	(179)
Other Income				37,500	(37,500)
TOTAL REVENUE	\$ 122,702	\$ 202,443	\$ 325,145	\$ 374,860	\$ (49,715)
EXPENSES					
Personnel Costs					
Director Salary	\$ 74,181	\$	\$ 74,181	\$ 74,181	\$ 0
Program/Accting/marketing Director Salary	53,560		53,560	53,560	0
Program Officer/Special Initiatives Salary	22,249		22,249	22,249	0
Development Director Salary	26,780		26,780	26,780	0
Office Manager Salary	19,776		19,776	19,776	0
Payroll Taxes	15,036		15,036	15,036	0
Retirement Plan	19,654		19,654	19,654	0
Health Insurance	12,000		12,000	12,000	0
Total Personnel Costs	\$ 243,236	\$ 0	\$ 243,236	\$ 243,236	\$ 0
Special Services					
Legal	\$ 44	\$	\$ 44	\$ 1,500	\$ 1,456
Accounting Services	15,878		15,878	14,500	(1,378)
Insurance	4,278		4,278	5,000	722
Software Upgrade and Expenses	6,372		6,372	7,425	1,053
Total Special Services	\$ 26,572	\$ 0	\$ 26,572	\$ 28,425	\$ 1,853
Office Expense					
Telephone	\$ 1,755	\$	\$ 1,755	\$ 1,500	\$ (255)
Rent	13,020		13,020	13,020	0
Auto Expense	3,000		3,000	3,000	0
Printing and Copying	4,456		4,456	5,000	544
Postage and Freight	2,702		2,702	2,500	(202)
Office Supplies	2,068		2,068	1,500	(568)
Equipment and Repairs	3,618		3,618	1,500	(2,118)
Depreciation Expense	1,536	(1,536)			0
Miscellaneous Office	38		38	500	462
Bank Charges and Credit Card Fees	784		784	850	66
Conferences	4,885		4,885	6,000	1,115
Dues	2,922		2,922	3,200	278
Program Expense	492		492	500	8
Marketing/Development	10,216		10,216	13,600	3,384
Affiliate Operating Expense	1,079		1,079	8,000	6,921
Total Office Expense	\$ 52,571	\$ (1,536)	\$ 51,035	\$ 60,670	\$ 9,635
Fundraiser Expenses					
Annual Fundraiser Expense	\$ 7,014	\$	\$ 7,014	\$ 10,000	\$ 2,986
Young Leaders Fundraiser	6,571		6,571	7,400	829
Young Leaders Fund Expense	937		937	1,000	63
Total Fundraiser Expense	\$ 14,522	\$ 0	\$ 14,522	\$ 18,400	\$ 3,878
Library Expenses					
Library Materials	\$ 995	\$	\$ 995	\$ 1,100	\$ 105
Workshop	375		375	600	225
Library Training	808		808	1,750	942
Total Library Expense	\$ 2,178	\$ 0	\$ 2,178	\$ 3,450	\$ 1,272
TOTAL EXPENSES	\$ 339,079	\$ (1,536)	\$ 337,543	\$ 354,181	\$ 16,638
NET INCOME (LOSS)	\$ (216,377)	\$ 203,979	\$ (12,398)	\$ 20,679	\$ (33,077)

LUBBOCK AREA FOUNDATION, INC.
LUBBOCK, TEXAS

Schedule II

JUNIOR LEAGUE OF LUBBOCK, INC.
RONALD McDONALD HOUSE ENDOWMENT FUND
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

Net Assets - January 1, 2009	\$ 85,916
Interest and Dividends Earned	2,689
Net Investment Gains	<u>10,020</u>
Total Available	\$ <u>98,625</u>
Grant - Family House	\$ 2,079
Management and Bank Fees	<u>1,536</u>
Total Expenses	\$ <u>3,615</u>
Net Assets - December 31, 2009	\$ <u><u>95,010</u></u>

LUBBOCK AREA FOUNDATION, INC.
LUBBOCK, TEXAS

Schedule III

JUNIOR LEAGUE OF LUBBOCK, INC.
CHILDREN'S ADVOCACY CENTER ENDOWMENT FUND
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

Net Assets - January 1, 2009	\$ 80,290
Interest and Dividends Earned	2,514
Net Investment Gains	<u>9,315</u>
Total Available	\$ <u>92,119</u>
Grant - Childrens Advocacy Center	\$ 2,016
Management and Bank Fees	<u>1,472</u>
Total Expenses	\$ <u>3,488</u>
Net Assets - December 31, 2009	\$ <u><u>88,631</u></u>

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

To the Board of Directors and
Finance Committee
Lubbock Area Foundation
Lubbock, Texas

In planning and performing our audit of the financial statements of Lubbock Area Foundation, Inc. for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies that we consider to be significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in the organization's internal control to be significant deficiencies:

Internal controls within the Lubbock Area Foundation, Inc. are limited due to the limited number of personnel responsible for the financial records, which makes segregation of responsibilities impractical.

This communication is intended solely for the information and use of the Board of Directors and management of Lubbock Area Foundation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

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

Certified Public Accountants

August 13, 2010

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

August 13, 2010

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

We have audited the financial statements of Lubbock Area Foundation, Inc. for the year ended December 31, 2009, and have issued our report thereon dated August 13, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 13, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Lubbock Area Foundation, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Foundation's financial statements and report does not extend beyond the financial information identified in the report, in addition we do not have an obligation to perform any procedures to corroborate other information contained in these documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meetings about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies

used by Lubbock Area Foundation, Inc. are described in the notes to the financial statements. During the year ended December 31, 2009, the Foundation adopted new accounting standards which provided additional guidance on classification of net assets relating to endowment funds and required additional footnote disclosures and additional disclosure requirements on marketable securities and other investments. These are described in detail in Note 1 to the financial statements. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated fair market value of Level 3 investments and the estimated allowance for uncollectible pledges. Management's estimate of the fair market value of Level 3 investments is based primarily on information obtained by knowledgeable parties on how they would price similar assets.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure relating to the Investment levels based on inputs used to calculate fair market value of investments in Note 1.

Investment footnote disclosures in Note 2.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached adjustments detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Board of Directors
Lubbock Area Foundation, Inc.
August 13, 2010
Page 3

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 13, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors and management of Lubbock Area Foundation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants