

**NORTH AND EAST LUBBOCK COMMUNITY  
DEVELOPMENT CORPORATION AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statement of Cash Flows	6
Notes to Financial Statements	7



Certified Public Accountants

Garrett and Swann, LLP  
P.O. Box 53730  
Lubbock, Texas 79453

Telephone 806.794.3344  
Facsimile 806.698.8047

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
North and East Lubbock Community Development Corporation  
Lubbock, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of North and East Lubbock Community Development Corporation and Subsidiary (the "Organization"), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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

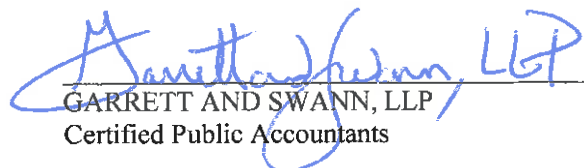
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position of North and East Lubbock Community Development Corporation and Subsidiary as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

  
GARRETT AND SWANN, LLP  
Certified Public Accountants

March 31, 2015  
Lubbock, Texas

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 171,041	\$ 104,969
Accounts receivable	23,888	5,688
Prepaid expenses	1,541	
<b>Total Current Assets</b>	196,470	110,657
<b>PROPERTY AND EQUIPMENT,</b>		
Net of accumulated depreciation	6,710	1,721
<b>OTHER ASSETS</b>		
Other receivable	28,520	12,398
Land held for development	260,386	260,386
Investment in Parkway Place, LLC	770,399	771,485
<b>Total Other Assets</b>	1,059,305	1,044,269
<b>Total Assets</b>	\$ 1,262,485	\$ 1,156,647
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 26,509	\$ 2,776
Accrued interest	1,858	1,858
Notes payable, current portion	33,812	27,476
<b>Total Current Liabilities</b>	62,179	32,110
<b>LONG-TERM LIABILITIES</b>		
Notes payable, less current portion	266,639	300,451
<b>Total Long-Term Liabilities</b>	266,639	300,451
<b>Total Liabilities</b>	328,818	332,561
<b>NET ASSETS</b>		
Unrestricted Net Assets	933,667	824,086
<b>Total Net Assets</b>	933,667	824,086
<b>Total Liabilities and Net Assets</b>	\$ 1,262,485	\$ 1,156,647

The accompanying notes are an integral part of these financial statements.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>REVENUE AND OTHER SUPPORT</b>		
Grants	\$ 269,026	\$
Public support and revenue	28,900	39,308
Gain on Sale of King's Dominion Lots		130,000
Income(Loss) from Investment in Parkway Place, LLC	6,242	(12,064)
Interest Income	<u>58</u>	<u>197</u>
Total revenue and other support	304,226	157,441
<b>EXPENSES</b>		
Program services	73,438	52,066
Fundraising	24,253	16,106
Management and general	<u>96,954</u>	<u>91,229</u>
Total expenses	<u>194,645</u>	<u>159,401</u>
Change in net assets	109,581	(1,960)
Net assets at beginning of year, as previously reported	<u>824,086</u>	<u>832,546</u>
Prior period adjustment due to consolidation	<u>                    </u>	<u>(6,500)</u>
Net assets at beginning of year, as restated	<u>824,086</u>	<u>826,046</u>
Net assets - end of year	<u>\$ 933,667</u>	<u>\$ 824,086</u>

The accompanying notes are an integral part of these financial statements.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 109,581	\$ (1,960)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,449	1,046
Income from Investment in Parkway Place, LLC	(6,242)	12,064
(Increase) decrease in:		
Accounts receivable	(18,200)	32,695
Prepaid expenses	(1,541)	
Other receivable	(16,122)	(12,398)
Increase (decrease) in:		
Accounts payable	23,733	(1,803)
Accrued Liabilities	<u>          </u>	<u>(1,642)</u>
Net cash provided by operating activities	92,658	28,002
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(6,438)	(820)
Distributions from Investment in Parkway Place, LLC	<u>7,328</u>	<u>43,541</u>
Net cash provided by investing activities	890	42,721
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	<u>(27,476)</u>	<u>(22,073)</u>
Net cash used for financing activities	(27,476)	(22,073)
Net increase in cash	66,072	48,650
Cash, beginning of year	<u>104,969</u>	<u>56,319</u>
Cash, end of year	<u>\$ 171,041</u>	<u>\$ 104,969</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 19,524	\$ 18,701

The accompanying notes are an integral part of these financial statements.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

North and East Lubbock Community Development Corporation (NELCDC) is a local, non-profit entity that drives social change by promoting autonomy and empowerment through increasing the supply of quality and affordable housing, generating economic activity and coordinating the efficient delivery of social services.

In 2008, NELCDC purchased 100% of the shares in a separate for-profit corporation organized in the State of Texas and formally known as North and East Lubbock Investment, Inc. (Subsidiary). In 2009, NELCDC contributed land and cash into the Subsidiary, who then used those assets to become a partner in Parkway Place Lubbock, LLC. Subsidiary will manage the property and receive management fees for their services.

Principles of Consolidation

The consolidated financial statements include the accounts of North and East Lubbock Development Corporation and North and East Lubbock Investment, Inc. (Subsidiary). The Subsidiary is consolidated since NELCDC has both an economic interest in and control of the Subsidiary. All material intra-entity transactions have been eliminated. NELCDC and Subsidiary, collectively, are referred to herein as the "Organization".

NELCDC's September 30, 2011 audited financial statements were not consolidated with the Subsidiary's financial statements. To consolidate the financials, a prior period adjustment to net assets of (\$6,500) has been shown on the statement of net assets.

Basis of Presentation

The Organization prepares financial statements in accordance with the Financial Accounting Standards Board (FASB) standards for not-for-profit organizations. Under these standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Accounts Receivable

Accounts receivable is made up of amounts due from grantors and contributors.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated equipment, materials and supplies are reflected as contributions in the accompanying financial statements at their estimated values at date of receipt.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services

During the years ended September 30, 2013 and 2012, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended September 30, 2013 and 2012 were \$1,325 and \$0, respectfully.

Bad Debt Expense

Accounts receivable are charged to bad debts as they are determined to be uncollectible. The difference between this method and the allowance method is considered immaterial.

Cash and Cash Equivalents

The Organization considers cash in operating bank accounts, cash on hand, and certificates of deposits with an original maturity of three months or less to be cash for cash flow purposes.

Property and Equipment

Capital expenditures for land, buildings, and equipment are recorded as unrestricted assets in the statement of financial position. Expenditures for maintenance and repairs are charged to expense as incurred. Donated land, buildings, and equipment are recorded at approximate fair market value of the asset on the date of donation. The costs of assets retired or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

Depreciation is provided on the straight-line method using estimated useful lives.

Other Assets

The Organization accounts for investments in accordance with FASB standard for investments held by not-for-profit organizations. This standard requires that investments be categorized into levels in order to describe the inputs used to calculate fair market value. Those inputs are defined for each level as follows:

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.

The realized and unrealized gain or loss on investments is reflected in the statement of activities.



**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal Income Tax

NELCDC is exempt from federal income tax under Internal Revenue Code Sections 501(c)(3). NELCDC has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. NELCDC has no unrelated business income during the years ended September 30, 2013 and 2012.

North and East Lubbock Investment, Inc. is a for-profit entity and therefore subject to federal income tax. Due to the immateriality of income and losses reported by Subsidiary, no provision for deferred income taxes has been provided. Income tax expense for the years ended September 30, 2013 and 2012 were both \$0.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, and Forms 1120, *U.S. Corporation Income Tax Return*, for the years ending September 30, 2012, 2013, and 2014 remain subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE 2 – PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Furniture and equipment, at cost	\$ 24,625	\$ 18,187
Less: accumulated depreciation	(17,915)	(16,466)
Net Property and Equipment	<u>\$ 6,710</u>	<u>\$ 1,721</u>

Depreciation expense for the years ended September 30, 2013 and 2012 were \$1,449 and \$1,046 respectively.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

NOTE 3 – OTHER ASSETS

Other assets consist primarily of other receivables and investments.

*Other Receivables*

In November 2014, NELCDC's staff and legal counsel became aware of unauthorized charges made using NELCDC's debit card. NELCDC's staff and legal counsel conducted an investigation and filed an insurance claim seeking recovery for the losses sustained. The amounts recorded in Other Receivable pertaining to the insurance claim are \$12,398 at September 30, 2012 and \$28,520 at September 30, 2013. NELCDC management believes that said amounts are collectible and, therefore, no allowance for uncollectible amount has been provided.

*Investments*

The Organization purchased land in 2004 with the intention of developing the area into King's Dominion Addition, a mixed-income residential subdivision located in the north-east quadrant of the City of Lubbock. The project was divided into two development phases in order to expedite the project. Phase I consists of 27 residential lots, of which 24 have been sold as of September 30, 2013. Phase II consists of 38 residential lots, of which 0 have been sold as of September 30, 2013. There are also three large tracts of land, known as Tract A, B, and C. No development costs were incurred on these tracts of land. Tract A was sold for \$130,000 during the year ended September 30, 2012.

During the 2005 fiscal year, NELCDC purchased land from the City of Lubbock for \$13,735 in the northeast section of the Lubbock to be used for a commercial property development located on Parkway Drive, east of Martin Luther King Jr. Drive. In 2009, NELCDC transferred this land along with some additional cash into North and East Lubbock Investment, Inc. (Subsidiary). Subsidiary, then invested these assets into Parkway Place, LLC in exchange for a 35% equity stake in the partnership.

Below is the reconciliation for fair value measurement using significant unobservable inputs (Level 3). A reporting entity is required to present separately information about purchases, sales, issuances, and settlements on a gross basis rather than as on net number. The following tables reconcile the Organization's assets and liabilities classified as Level 3 measurements during the years ended September 30, 2013 and 2012, on such a basis:

	<u>2013</u>	<u>2012</u>
Land held for development	\$ 260,386	\$ 260,386
Investment in Parkway Place, LLC	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 771,485	\$ 827,089
Cash Distributions from Parkway Place, LLC	(7,328)	(43,540)
Organization's share of Net Income	6,242	(12,064)
Balance, end of year	<u>\$ 770,399</u>	<u>\$ 771,485</u>

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION  
AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

NOTE 4 – NOTES PAYABLE

In November 2009, the Organization entered into a note payable with a local financial institution for \$350,000. The note bears interest at 6% and is due in monthly payments of principal and interest through September 2021.

The aggregate maturities of long-term debt for each of the years ended September 30 are as follows:

2014	\$	33,812
2015		31,604
2016		33,553
2017		35,623
2018		37,819
Thereafter		128,040
		<hr/> 300,451
Less current portion		(33,812)
	\$	<hr/> <u>266,639</u>

During the years ended September 30, 2013 and 2012, interest costs incurred totaled \$19,524 and \$18,701.

NOTE 5 – ECONOMIC DEPENDENCY

For the fiscal year ended September 30, 2013, approximately 83% of the Organization's revenue was derived from a grant received from the City of Lubbock. Should this grant become unavailable, the Organization's operations would be very difficult to maintain for any extended period of time.

NOTE 6 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 31, 2015, the date which the financial statements were available to be issued.