

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

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

| | |
|--|---|
| INDEPENDENT AUDITOR'S REPORT | 3 |
| FINANCIAL STATEMENTS | |
| Consolidated Statement of Financial Position | 5 |
| Consolidated Statement of Activities | 6 |
| Consolidated Statement of Cash Flows | 7 |
| Notes to Financial Statements | 8 |

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 statement of financial position as of September 30, 2016, 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 the 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 the 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 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, 2016, 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.

A handwritten signature in blue ink that reads "Sanett and Young, LLP". The signature is written in a cursive style with a large loop at the end of the word "Young".

December 13, 2016
Lubbock, Texas

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2016**

ASSETS

CURRENT ASSETS

| | | |
|---------------------------|----------------------|------------|
| Cash and cash equivalents | | \$ 393,379 |
| | Total Current Assets | 393,379 |

FIXED ASSETS

| | | |
|--------------------------------|--------------------|----------|
| Furniture and equipment | | 26,572 |
| Less: accumulated depreciation | | (23,470) |
| | Total Fixed Assets | 3,102 |

OTHER ASSETS

| | | |
|---|--|--------------|
| Land held for development | | 239,611 |
| Subsidiary's investment in Parkway Place, LLC | | 758,794 |
| | | 998,405 |
| | | \$ 1,394,886 |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|--------------------------------|---------------------------|----------|
| Accounts payable | | \$ 8,607 |
| Accrued interest | | 1,007 |
| Due to Parkway Place, LLC | | 10,948 |
| Notes payable, current portion | | 35,623 |
| | Total Current Liabilities | 56,185 |

Long-term debt, less current portion

| |
|---------|
| 171,582 |
| 227,767 |

NET ASSETS

| | | |
|--------------|------------------|--------------|
| Unrestricted | | 1,167,119 |
| | Total Net Assets | 1,167,119 |
| | | \$ 1,394,886 |

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

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| | |
|--|----------------------------|
| REVENUE AND OTHER SUPPORT | |
| Grants from governmental agencies | \$ 363,547 |
| Public support | 7,500 |
| Fundraising | 25,840 |
| Loss on Sale of King's Dominion Lot | (2,794) |
| Loss from investment in Parkway Place, LLC | (15,487) |
| Other income | <u>112</u> |
| TOTAL REVENUE AND OTHER SUPPORT | 378,718 |
| EXPENSES | |
| Program services | 80,945 |
| Fundraising | 14,505 |
| Management and general | <u>186,265</u> |
| TOTAL EXPENSES | <u>281,715</u> |
| CHANGE IN NET ASSETS | 97,003 |
| BEGINNING NET ASSETS | <u>1,030,918</u> |
| Prior period adjustment | <u>39,198</u> |
| Net assets at beginning of year, as restated | <u>1,070,116</u> |
| ENDING NET ASSETS | <u>\$ 1,167,119</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 YEAR ENDED SEPTEMBER 30, 2016**

| | |
|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 97,003 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | |
| Depreciation | 1,841 |
| Loss from investment in Parkway Place, LLC | 15,487 |
| Loss on Sale of King's Dominion lots | 2,794 |
| (Increase) decrease in: | |
| Accounts receivable | 3,706 |
| Due from Parkway Place, LLC | 709 |
| Sale of HOME Program property | 123,408 |
| Other receivable | 76,353 |
| Increase (decrease) in: | |
| Accounts payable | (229) |
| Accrued interest | (168) |
| Due to Parkway Place, LLC | 10,948 |
| Payments for HOME Program liability | <u>(121,951)</u> |
| Net cash provided by operating activities | 209,901 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sale of King's Dominion lot | <u>2,400</u> |
| Net cash provided by investing activities | 2,400 |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Payments on long-term debt | <u>(33,335)</u> |
| Net cash used for financing activities | (33,335) |
| Net increase in cash | 178,966 |
| Cash, beginning of year | <u>214,413</u> |
| Cash, end of year | <u><u>\$ 393,379</u></u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | |
| Cash paid during the year for interest | \$ 12,958 |

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, 2016**

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, which used those assets to become a partner in Parkway Place Lubbock, LLC. Subsidiary will manage the property and receive management fees for its services.

Principles of Consolidation

The consolidated financial statements include the accounts of North and East Lubbock Community 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”.

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. The Organization did not have any accounts receivable as of September 30, 2016.

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.

Contributions of donated equipment, materials and supplies are recorded at their estimated values on the date of donation.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

Contributed Services

During the year ended September 30, 2016, 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. No advertising expenses were incurred during the year ended September 30, 2016.

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.

Fixed Assets

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 in the year of disposal.

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, 2016**

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 had no unrelated business income during the year ended September 30, 2016.

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 year ended September 30, 2016 was \$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, 2014, 2015, and 2016 remain subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE 2 – FIXED ASSETS

Fixed assets consist of office furniture and equipment. Depreciation expense for the year ended September 30, 2016 was \$1,841.

NOTE 3 – OTHER ASSETS

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, 24 of which have been sold as of September 30, 2016. Phase II consists of 38 residential lots, 4 of which have been sold as of September 30, 2016. 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 during the year ended September 30, 2012.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 3 – OTHER ASSETS(CONTINUED)

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 separately present 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 year ended September 30, 2016, on such a basis:

| | |
|------------------------------------|--------------------------|
| Land held for development | |
| Balance, beginning of year | \$ 244,805 |
| Costs of lots sold | <u>(5,194)</u> |
| Balance, end of year | <u><u>\$ 239,611</u></u> |
| | |
| Investment in Parkway Place, LLC | |
| Balance, beginning of year | \$ 774,281 |
| Organization's share of Net Income | <u>(15,487)</u> |
| Balance, end of year | <u><u>\$ 758,794</u></u> |

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:

| | |
|----------------------|--------------------------|
| 2017 | \$ 35,623 |
| 2018 | 37,819 |
| 2019 | 41,652 |
| 2020 | 44,129 |
| 2021 | <u>47,982</u> |
| | 207,205 |
| Less current portion | <u>(35,623)</u> |
| | <u><u>\$ 171,582</u></u> |

During the year ended September 30, 2016, interest costs incurred totaled \$13,126.

**NORTH AND EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION
AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 – PRIOR PERIOD ADJUSTMENT

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 amount recorded in Other Receivable and reported on previous year's audited financial statements pertaining to the insurance claim was \$37,155. During the current year, management settled the outstanding insurance claim and received proceeds of \$76,353. The difference between the receivable of \$37,155 and the amount received of \$76,353 was recorded as a prior period adjustment to net assets.

NOTE 6 – ECONOMIC DEPENDENCY

For the fiscal year ended September 30, 2016 approximately 96% 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 7 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 13, 2016, the date which the financial statements were available to be issued.