

**North & East Lubbock Community
Development Corporation**

Lubbock, Texas

Audited Financial Statements

September 30, 2006 and 2005



TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of North & East Lubbock Community Development Corporation as of September 30, 2006 and 2005, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the management of North & East Lubbock Community Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 audits provide 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 North & East Lubbock Community Development Corporation as of September 30, 2006 and 2005, and the results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

JW Anderson & Associates, PC

JW ANDERSON & ASSOCIATES, PC
A Professional Corporation
Lubbock, Texas
December 6, 2006

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 132,377	\$ 13,039
Grant Receivable	<u>103,020</u>	<u>51,954</u>
Total Current Assets	235,397	64,993
Land Held for Development	660,843	404,995
Equipment	15,703	15,013
Accumulated Depreciation	<u>(4,047)</u>	<u>(1,691)</u>
	<u>672,499</u>	<u>418,317</u>
	<u><u>\$ 907,896</u></u>	<u><u>\$ 483,310</u></u>
LIABILITIES NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 123,357	\$ 181,355
Other Current Liabilities	<u>176</u>	<u>168</u>
Total Current Liabilities	123,533	181,523
Unrestricted Net Assets	<u>784,363</u>	<u>301,787</u>
	<u><u>\$ 907,896</u></u>	<u><u>\$ 483,310</u></u>

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended Septembr 30, 2006 and 2005

	2006	2005
UNRESTRICTED NET ASSETS		
Unrestricted Revenues and Gains		
Grants and Contributions	\$ 276,531	\$ 302,954
Loss on Sale of Lots	(74,009)	-
Special Events (Net)	9,486	12,093
Interest	306	102
	<u>212,314</u>	<u>315,149</u>
Total Unrestricted Revenues and Gains	212,314	315,149
Net Assets Released from Restrictions		
Satisfaction of Program Restrictions	<u>569,120</u>	<u>180,671</u>
	781,434	495,820
Total Unrestricted Revenues, Gains and Other Support	781,434	495,820
Expenses		
Program Services	212,775	149,450
Fundraising	17,742	14,734
Management and General	68,341	45,615
	<u>298,858</u>	<u>209,799</u>
Total Expenses	298,858	209,799
Increase in Unrestricted Net Assets	482,576	286,021
TEMPORARILY RESTRICTED NET ASSETS		
King's Dominion Development Grants	569,120	152,033
Net Assets Released from Restrictions	<u>(569,120)</u>	<u>(180,671)</u>
Decrease in Temporarily Restricted Net Assets	<u>-</u>	<u>(28,638)</u>
Increase in Net Assets	482,576	257,383
Net Assets at Beginning of Year	<u>301,787</u>	<u>44,404</u>
Net Assets At End of Year	<u>\$ 784,363</u>	<u>\$ 301,787</u>

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 482,576	\$ 257,383
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	2,356	1,691
Loss on Sale of Lots	74,009	-
Changes in		
Grant Receivable	(51,066)	(51,954)
Accounts Payable	(57,998)	181,355
Other Accrued Liabilities	8	168
	<u> </u>	<u> </u>
Net Cash Provided by Operating Activities	449,885	388,643
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Lot Sales	84,008	-
Land Development Costs	(413,865)	(395,426)
Acquisition of Equipment	(690)	(15,013)
	<u> </u>	<u> </u>
Net Cash Used by Investing Activities	(330,547)	(410,439)
Net Increase (Decrease) in Cash	119,338	(21,796)
Cash at Beginning of Year	<u>13,039</u>	<u>34,835</u>
Cash at End of Year	<u>\$ 132,377</u>	<u>\$ 13,039</u>

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The North & East Lubbock Community Development Corporation is a local 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.

Method of Accounting - The Organization prepares its financial statements on the accrual basis of accounting where revenues are recognized when earned and expenditures when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation - In accordance with SFAS No. 117, 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. In addition, the Organization is required to present a statement of cash flows.

Contributions - In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of and donor restrictions.

Promises to Give - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Equipment - Donations of equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

Revenue Recognition - Unrestricted contributions are recognized as revenue when received. No amounts have been reflected in the financial statements for donated services inasmuch as no objective basis is available to measure the value of such services.

Donated Materials - Donated materials and other non-cash items are recorded as contributions at their estimated fair market value at the date of donation.

Supplemental Cash Flow Information - Cash payments for interest during 2005 totaled \$856. No cash payments for interest were made in 2006.

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment - Property and equipment are recorded at cost for purchased items, or at fair market value at the date of acquisition for donated items. When retired or otherwise disposed of, the related carrying value and allowance for depreciation is cleared from the respective accounts and the net difference, less any amount realized on disposition, is reflected in operations.

Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. The cost of maintenance and repairs is expensed as incurred, whereas significant betterments and improvements are capitalized.

Income Taxes - The Organization is exempt from income taxes under Section 501(c) of the Internal Revenue Code.

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 and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Accordingly, actual amounts could differ from those amounts.

Investments - The Organization accounts for investments, if any, under SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values are recorded at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities and Changes in Net Assets.

Advertising - The Organization uses advertising to promote its programs among the audience it serves. The costs of advertising are expensed when incurred.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use to be cash equivalents.

NOTE B - GRANT RECEIVABLE

Grants awards that are accounted for as reimbursement grants are recorded by the Organization as grants receivable until the reimbursements are received. The management of the Organization feels that the grant receivable at September 30, 2006 is fully collectible, and therefore has not recorded an allowance.

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006 and 2005

NOTE C - LAND HELD FOR DEVELOPMENT

Parkway Place - During the 2005 fiscal year, the Organization purchased land from the City of Lubbock for \$13,735 in the northeast section of the City of Lubbock to be used for commercial property development tentatively called Parkway Place, situated on Parkway Drive east of Martin Luther King Jr. Drive. No development costs have been capitalized for this property in the fiscal years ended September 30, 2006 or 2005 for this project.

King's Dominion - 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 to initially be funded and developed as one project, but the Organization divided the development into two phases for completion in order to expedite the project. Phase I is approximately 95% complete and contains 27 residential lots, 15 of which is designated as affordable unit lots, which the purchaser of the lot must be in compliance with 80% of the area's average median income to meet the US Department of Housing and Urban Development's income guidelines. Phase II contains 28 residential lots and is approximately 7% complete. The Organization incurred development costs for Phase I of the King's Dominion subdivision of approximately \$413,865 and \$190,845 for the fiscal years ended September 30, 2006 and 2005, respectively. For Phase II, the Organization did not incur any development costs in 2006, and incurred \$190,845 in development costs in 2005.

The City of Lubbock, through contributions and a bond package, is contributing \$725,000 toward the cost of the development of the subdivision. Generally accepted accounting principles require reporting the proceeds as temporarily restricted income until the Organization complies with the stipulations imposed on the proceeds. As of September 30, 2006 and 2005, respectively, the Organization has met all stipulations and requirements.

Following is a summary of development activity for the year ended September 30, 2006:

	King's Dominion		Parkway	Total
	Phase I	Phase II	Place	
Development Costs - September 30, 2005	\$ 195,630	\$ 195,630	\$ 13,735	\$ 404,995
Current Year Development Costs	<u>413,865</u>	<u>-</u>	<u>-</u>	<u>413,865</u>
Total Development Costs	609,495	195,630	13,735	818,860
Cost of Lots Sold	<u>(158,017)</u>	<u>-</u>	<u>-</u>	<u>(158,017)</u>
Development Costs - September 30, 2006	<u>\$ 451,478</u>	<u>\$ 195,630</u>	<u>\$ 13,735</u>	<u>\$ 660,843</u>

NORTH & EAST LUBBOCK COMMUNITY
 DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006 and 2005

NOTE D - LOSS ON SALE OF LOTS

At the end of the fiscal year 2006, the Organization sold seven lots in Phase I to developers for construction of single family resident homes in the subdivision. Each lot was sold for approximately \$12,001 for a total sales amount of \$84,008. The prorated share of development costs for each lot is approximately \$22,574, for a total cost of \$158,017. The resulting loss on the sale of lots is \$74,009.

	<u>Number</u>	<u>Cost</u>
Land Under Construction, September 30, 2005	-	\$ 195,630
Lots Completed and Additional Costs Incurred	27	413,865
Lots Sold	<u>(7)</u>	<u>(158,017)</u>
Lots Available for Sale - September 30, 2006	<u>20</u>	<u>\$ 451,478</u>

Although the City of Lubbock contributed the proceeds from the bond package toward the development of the subdivision, generally accepted accounting principles require reporting the lot development costs at the gross amount of development costs incurred. Therefore, the bond proceeds are not included in the calculation of the gain or loss on the sale of the lots.

NOTE E - COMMITMENTS

During the 2005 fiscal year, the Organization entered into an engineering contract with G. Greenstreet Construction, Inc. (Greenstreet) to develop the King's Dominion Addition, with an original contract amount of \$1,040,467. Net change orders of \$440,962 was initiated during the 2006 fiscal year to segregate Phase II from the contract so Phase I can be completed. As of September 30, 2006, the Organization had paid the contractor \$635,273 for Phases I and II. The Organization is committed to Greenstreet for the remaining \$122,195 for Phase I due under the contract, of which \$122,195 is included in accounts payable in the Balance Sheet.

Phase II is currently idle at 7% complete. To continue the development of Phase II, the Organization will have to enter into a separate contract with Greenstreet or another developer to complete the development of Phase II into marketable lots.

NOTE F - RISKS AND CONCENTRATIONS

Deposit Risk - The Organization maintains cash balances at a financial institution located in Lubbock, Texas. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 each for demand accounts and savings accounts in aggregate per institution. As of September 30, 2006 and 2005, the organization has no uninsured cash balances.

NORTH & EAST LUBBOCK COMMUNITY
 DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006 and 2005

NOTE F - RISKS AND CONCENTRATIONS - Continued

Contributions Risk - The Organization receives grant and contribution revenues from various sources. The following is a mix of grant revenues from the various sources at September 30, 2006 and 2005.

	2006	2005
Local Government	99%	99%
Other	<u>1</u>	<u>1</u>
	<u>100%</u>	<u>100%</u>

The Organization's operating revenue is derived primarily from City of Lubbock funding and the City's CDBG grant program. Should this program and funding become unavailable, the Organization's operations would be very difficult to maintain for any extended period of time.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment additions, retirements and balances for the Organization for the year ended September 30, 2006 and 2005 was as follows:

	<u>Balance</u> <u>9/30/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/06</u>
Equipment	\$ 15,013	\$ 690	\$ -	\$ 15,703
Totals Cost	15,013	690	-	15,703
Less Depreciation	<u>(1,691)</u>	<u>(2,356)</u>	<u>-</u>	<u>(4,047)</u>
Property and Equipment, Net	<u>\$ 13,322</u>	<u>\$ (1,666)</u>	<u>\$ -</u>	<u>\$ 11,656</u>

	<u>Balance</u> <u>9/30/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/05</u>
Equipment	\$ -	\$ 15,013	\$ -	\$ 15,013
Totals Cost	-	15,013	-	15,013
Less Depreciation	<u>-</u>	<u>(1,691)</u>	<u>-</u>	<u>(1,691)</u>
Property and Equipment, Net	<u>\$ -</u>	<u>\$ 13,322</u>	<u>\$ -</u>	<u>\$ 13,322</u>

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006 and 2005

NOTE H - SPECIAL EVENTS

Special event funds are from various fundraising events that raise money for the Organization. Below are the related revenues and expenses for the years ended September 30, 2006 and 2005:

	2006	2005
Total Fundraising Revenues	\$ 29,475	\$ 19,221
Total Fundraising Expenses	<u>(19,989)</u>	<u>(7,128)</u>
Net Special Events	<u>\$ 9,486</u>	<u>\$ 12,093</u>