

**North & East Lubbock Community
Development Corporation**

Lubbock, Texas

Audited Financial Statements

September 30, 2008 and 2007

JW Anderson & Associates, PC
Certified Public Accountants

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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, 2008 and 2007, 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, 2008 and 2007, 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.

J W Anderson & Associates, PC

JW ANDERSON & ASSOCIATES, PC
A Professional Corporation
Lubbock, Texas
January 19, 2009

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007

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, 2008 and 2007 are fully collectible, and therefore has not recorded an allowance.

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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 developments costs have been capitalized for this property in the fiscal years ended September 30, 2008 or 2007 for this project. In 2008, the corporation purchased 100% of the shares in North & East Lubbock Investment, Inc., a for-profit corporation. The investment company will be developing the Parkway Place land in 2009 in an agreement with Gill Holdings, L.C... Upon completion of the development, North & East Lubbock Investment, Inc. will manage the property.

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. For Phase I, the Organization did not incur any development costs in 2008 or 2007. For Phase II, the Organization incurred no development costs in 2008 and \$1,731 of development costs in 2007.

The City of Lubbock, through contributions and a bond package, has contributed \$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, 2008 and 2007, respectively, the Organization has met all stipulations and requirements.

Following is a summary of development activity for the years ended September 30, 2008 and 2007:

	King's Dominion		Parkway	Total
	Phase I	Phase II	Place	
Development Costs - September 30, 2007	\$284,068	\$ 197,361	\$ 13,735	\$ 495,164
Cost of Lots Sold	<u>(44,209)</u>	_____ -	_____ -	<u>(44,209)</u>
Development Costs - September 30, 2008	<u>\$ 239,860</u>	<u>\$ 197,361</u>	<u>\$ 13,735</u>	<u>\$ 450,955</u>

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NOTE C – LAND HELD FOR DEVELOPMENT – Continued

	King's Dominion Phase I	King's Dominion Phase II	Parkway Place	Total
Development Costs - September 30, 2006	\$ 451,478	\$ 195,630	\$ 13,735	\$ 660,843
Current Year Development Costs	<u>(12,680)</u>	<u>1,731</u>	<u>-</u>	<u>(10,949)</u>
Total Development Costs	438,978	197,361	13,735	649,894
Cost of Lots Sold	<u>(154,730)</u>	<u>-</u>	<u>-</u>	<u>(154,730)</u>
Development Costs - September 30, 2007	<u>\$ 284,068</u>	<u>\$ 197,361</u>	<u>\$ 13,735</u>	<u>\$ 495,164</u>

NOTE D - LOSS ON SALE OF LOTS

At the end of the fiscal year 2008, the Organization sold two lots in Phase I to developers for construction of single family resident homes in the subdivision. Each lot was sold for approximately \$12,155 for a total sales amount of \$24,309. The prorated share of development costs for each lot is approximately \$22,104, for a total cost of \$44,208. The resulting loss on the sale of lots is \$19,590.

	<u>Number</u>	<u>Cost</u>
Lots Available for Sale - September 30, 2007	13	\$ 284,068
Lots Sold	<u>(2)</u>	<u>(44,208)</u>
Lots Available for Sale - September 30, 2008	<u>11</u>	<u>\$ 239,860</u>
	<u>Number</u>	<u>Cost</u>
Land Under Construction, September 30, 2006	20	\$ 451,478
Lots Completed and Additional Costs Incurred	-	(12,680)
Lots Sold	<u>(7)</u>	<u>(154,730)</u>
Lots Available for Sale - September 30, 2007	<u>13</u>	<u>\$ 284,068</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.

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NOTE E - COMMITMENTS

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 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 2008 and 2007, respectively, the organization had uninsured cash balances in the amount of \$59,825 and \$50,040.

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, 2008 and 2007.

	2008	2007
Local Government	73%	72%
Other	<u>27</u>	<u>28</u>
	<u>100%</u>	<u>100%</u>

The Organization's operating revenue is derived primarily from City of Lubbock funding. The funding from the City of Lubbock for fiscal year 2008 was reduced to \$100,000 from \$250,000 for fiscal year 2007. The City of Lubbock will not fund the corporation in the 2009 fiscal year. In 2009, the Organization's operations will rely on savings as well as a grant from the U.S. Department of Housing and Urban Development for \$53,695, a grant from Bank of America for \$5,500, land sales, and fundraising events.

NOTE G - 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, 2008 and 2007:

	2008	2007
Total Fundraising Revenues	\$ 31,625	\$ 23,450
Total Fundraising Expenses	<u>(13,226)</u>	<u>(17,845)</u>
Net Special Events	<u>\$ 18,399</u>	<u>\$ 5,605</u>

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NOTE H - PROPERTY AND EQUIPMENT

Property and equipment additions, retirements and balances for the Organization for the year ended September 30, 2008 and 2007 was as follows:

	<u>Balance</u> <u>9/30/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/08</u>
Equipment	\$ 17,367	\$ -	\$ -	\$ 17,367
Totals Cost	17,367	-	-	17,367
Less Depreciation	<u>(6,565)</u>	<u>(2,708)</u>	<u>-</u>	<u>(9,273)</u>
Property and Equipment, Net	<u>\$ 10,802</u>	<u>\$ (2,708)</u>	<u>\$ -</u>	<u>\$ 8,094</u>
	<u>Balance</u> <u>9/30/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/07</u>
Equipment	\$ 15,703	\$ 1,664	\$ -	\$ 17,367
Totals Cost	15,703	1,664	-	17,367
Less Depreciation	<u>(4,047)</u>	<u>(2,518)</u>	<u>-</u>	<u>(6,565)</u>
Property and Equipment, Net	<u>\$ 11,656</u>	<u>\$ (854)</u>	<u>\$ -</u>	<u>\$ 10,802</u>