

**North & East Lubbock Community
Development Corporation**

Lubbock, Texas

Audited Financial Statements

September 30, 2009 and 2008

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
Independent Auditors' Report on Compliance and Internal control Over Financial Reporting Based On An Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	11
Communication with Those Charged with Governance	13

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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, 2009 and 2008, 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, 2009 and 2008, 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
August 30, 2010

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 163,774	\$ 195,787
Grant Receivable	<u>50,070</u>	<u>40,026</u>
Total Current Assets	213,844	235,813
NonCurrent Assets		
Land Held for Development	348,803	450,955
Investment in N&E Lubbock Investment, Inc.	389,735	1,000
Equipment	17,367	17,367
Accumulated Depreciation	<u>(11,975)</u>	<u>(9,274)</u>
	<u>743,930</u>	<u>460,048</u>
TOTAL ASSETS	<u>\$ 957,774</u>	<u>\$ 695,861</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 440	\$ 625
Other Liabilities	<u>8,943</u>	<u>8,215</u>
Total Liabilities	9,383	8,840
Net Assets		
Unrestricted Net Assets	<u>948,391</u>	<u>687,021</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 957,774</u>	<u>\$ 695,861</u>

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended September 30, 2009 and 2008

	2009	2008
Revenues and Gains		
Grants and Contributions	\$ 448,886	\$ 137,529
Loss on Sale of Lots	(38,749)	(19,590)
Special Events	40,745	31,626
Interest	<u>1,023</u>	<u>3,441</u>
Total Revenues and Gains	451,905	153,006
 Expenses		
Program Services	81,901	145,262
Special Event Direct Expenses	12,835	13,006
Fundraising	-	14,446
Management and General	<u>95,799</u>	<u>48,655</u>
Total Expenses	<u>190,535</u>	<u>221,369</u>
Decrease in Net Assets	261,370	(68,363)
Net Assets at Beginning of Year	<u>687,021</u>	<u>755,384</u>
Net Assets At End of Year	<u>\$ 948,391</u>	<u>\$ 687,021</u>

**NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2009 and 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 261,370	\$ (68,363)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	2,701	2,708
Loss on Sale of Lots	38,749	19,590
Changes in		
Grant Receivable	(10,044)	2,099
Accounts Payable	(185)	(1,067)
Other Liabilities	728	(880)
	<u>293,319</u>	<u>(45,913)</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Lot Sales	49,668	24,619
Investment N&E Lubbock Investment Inc.	(375,000)	-
Acquisition of Stock in N&E Lubbock Investment Inc.	-	(1,000)
	<u>(325,332)</u>	<u>23,619</u>
Net Cash (Used) Provided by Investing Activities		
Net Decrease in Cash	(32,013)	(22,294)
Cash at Beginning of Year	<u>195,787</u>	<u>218,081</u>
Cash at End of Year	<u>\$ 163,774</u>	<u>\$ 195,787</u>
Supplemental Cash Flow Disclosure		
Transfer of Land to N&E Lubbock Investment, Inc.	\$ 13,735	\$ -

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2009 and 2008

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

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.

Supplemental Cash Flow Information - No cash payments for interest were made in 2009 or 2008.

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2009 and 2008

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.

Reclassifications - Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events - Newly adopted accounting standard FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or were available to be issued. Management has evaluated subsequent events through August 30, 2010, the date the financial statements were available to be issued.

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2009 and 2008

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, 2009 and 2008 are fully collectible, and therefore has not recorded an allowance.

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 designated as Parkway Place, situated on Parkway Drive east of Martin Luther King Jr. Drive.

In 2008, the corporation purchased 100% of the shares in North & East Lubbock Investment, Inc.(NELI), a for-profit corporation. In 2009, North & East Lubbock Community Development Corporation contributed the Parkway Place land and \$375,000 to NELI.

Also, in 2009 NELI became a partner in Parkway Place Lubbock, LLC with Gill Holdings, L.C. in developing the Parkway Place land. Upon completion of the development, NELI will manage the property and receive management fees for their services.

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. For Phase I, the Organization did not incur any development costs in 2009 or 2008.

Phase II contains 28 residential lots and is approximately 7% complete. For Phase II, the Organization incurred no development costs in 2009 or 2008.

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, 2009 and 2008, respectively, the Organization has met all stipulations and requirements.

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2009 and 2008

NOTE C – LAND HELD FOR DEVELOPMENT – Continued

Following is a summary of development activity for the years ended September 30, 2009 and 2008:

	King's Dominion Phase I	King's Dominion Phase II	Parkway Place	Total
Development Costs - September 30, 2008	\$ 239,859	\$ 197,361	\$ 13,735	\$ 450,955
Cost of Lots Sold	<u>(88,417)</u>	<u>-</u>	<u>(13,735)</u>	<u>(102,152)</u>
Development Costs - September 30, 2009	<u>\$ 151,442</u>	<u>\$ 197,361</u>	<u>\$ -</u>	<u>\$ 348,803</u>

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

NOTE D - LOSS ON SALE OF LOTS

At the end of the fiscal year 2009, the Organization sold four lots in Phase I to developers for construction of single family resident homes in the subdivision. Each lot was sold for approximately \$12,000 for a total sales amount of \$48,000. The prorated share of development costs for each lot is approximately \$22,104, for a total cost of \$88,417. The resulting loss on the sale of lots is \$38,749.

	<u>Number</u>	<u>Cost</u>
Lots Available for Sale - September 30, 2008	11	\$ 239,860
Lots Sold	<u>(4)</u>	<u>(88,417)</u>
Lots Available for Sale - September 30, 2009	<u>7</u>	<u>\$ 151,443</u>

	<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>

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.

NORTH & EAST LUBBOCK COMMUNITY
 DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009 and 2008

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 \$250,000 each for demand accounts and savings accounts in aggregate per institution. As of September 30 2009 and 2008, respectively, the organization had uninsured cash balances in the amount of \$-0- and \$59,825.

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, 2009 and 2008.

	2009	2008
Local Government	81%	73%
Other	19	27
	<u>100%</u>	<u>100%</u>

In 2010, the Organization's operations will rely on savings as well as a grant from the U.S. Department of Housing and Urban Development for \$32,236, a grant from the City of Lubbock for \$8,500, 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, 2009 and 2008:

	2009	2008
Total Fundraising Revenues	\$ 40,745	\$ 31,626
Total Fundraising Expenses	<u>(12,835)</u>	<u>(13,006)</u>
Net Special Events	<u>\$ 27,910</u>	<u>\$ 18,620</u>

NORTH & EAST LUBBOCK COMMUNITY
 DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009 and 2008

NOTE H - PROPERTY AND EQUIPMENT

Property and equipment additions, retirements and balances for the Organization for the year ended September 30, 2009 and 2008 are as follows:

	<u>Balance</u> <u>9/30/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/09</u>
Equipment	\$ 17,367	\$ -	\$ -	\$ 17,367
Less Depreciation	<u>(9,273)</u>	<u>(2,701)</u>	<u>-</u>	<u>(11,974)</u>
Property and Equipment, Net	<u>\$ 8,094</u>	<u>\$ (2,701)</u>	<u>\$ -</u>	<u>\$ 5,393</u>
	<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
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>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of North & East Lubbock Community Development Corporation (NELCDC) (a nonprofit organization) as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated August 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the NELCDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NELCDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NELCDC's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting as 2009-1, and is communicated in a separate letter of internal control dated August 30, 2010. A *significant deficiency* is a deficiency, or a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NELCDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

NELCDC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit NELCDC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within NELCDC, the Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J W Anderson & Associates, PC

JW ANDERSON & ASSOCIATES, PC
A Professional Corporation
Lubbock, Texas
August 30, 2010

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the accompanying financial statements of the North & East Lubbock Community Development Corporation (NELCDC) as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated August 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 30, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NELCDC are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009 or 2008. We noted no transactions entered into by the organization 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.

Management's estimate of accumulated depreciation is based on estimated useful lives of various capital assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 30, 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 governmental unit'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 organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. In a separate letter dated August 30, 2010, we communicated certain internal control related matters to the management of NELCDC.

This information is intended solely for the use by the management and board of directors of NELCDC and is not intended to be and should not be used by anyone other than these specified parties.

J W Anderson & Associates, PC

JW Anderson & Associates, PC
Certified Public Accountants
Lubbock, Texas
August 30, 2010