North & East Lubbock Community Development Corporation

Lubbock, Texas

Audited Financial Statements

September 30, 2011 and 2010

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JW ANDERSON & ASSOCIATES, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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, 2011 and 2010, 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 audits.

We conducted our audits 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. 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012 on our consideration of North & East Lubbock Community Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

J W Anderson & Associates, PC

JW ANDERSON & ASSOCIATES, PC
A Professional Corporation
Lubbock, Texas
October 17, 2012

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 55,838	$ 158,672
Grant Receivable	4,133	7,934
Other Receivables	34,250	11,083
Total Current Assets	94,221	177,689
NonCurrent Assets		
Land Held for Development	260,386	260,386
Investment in N&E Lubbock Investment, Inc.	833,089	588,995
Equipment, Net	1,947	3,403
	1,095,422	852,784
TOTAL ASSETS	$ 1,189,643	$ 1,030,473
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 3,299	$ 2,020
Other Liabilities	3,798	6,500
Current Portion of Long-Term Debt	42,357	130,000
Total Current Liabilities	49,454	138,520
Long-Term Debt, Net of Current Portion	307,643	-
Net Assets		
Unrestricted Net Assets	832,546	891,953
TOTAL LIABILITIES AND NET ASSETS	$ 1,189,643	$ 1,030,473

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted Revenues and Gains		
Grants and Contributions	$ 81,834	$ 148,886
Loss on Sale of Lots	-	(39,134)
Special Events	38,300	34,788
Interest	202	396
Total Unrestricted Revenues and Gains	120,336	144,936
Expenses		
Program Services	131,015	150,935
Special Event Direct Expenses	23,506	20,258
Management and General	25,222	30,181
Total Expenses	179,743	201,374
Decrease in Net Assets	(59,407)	(56,438)
Net Assets at Beginning of Year	891,953	948,391
Net Assets At End of Year	$ 832,546	$ 891,953

NORTH & EAST LUBBOCK COMMUNITY
DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	$ (59,407)	$ (56,438)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	1,456	1,989
Loss on Sale of Lots	-	39,134
Changes in		
Grant Receivable	3,801	42,136
Other Receivables	(23,167)	(11,083)
Accounts Payable	1,279	1,580
Other Liabilities	(2,702)	(2,443)
Net Cash Provided (Used) by Operating Activities	(78,740)	14,875
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Lot Sales	-	49,283
Investment N&E Lubbock Investment Inc.	(244,094)	(199,260)
Net Cash Used by Investing Activities	(244,094)	(149,977)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	220,000	130,000
Net Cash Provided by Investing Activities	220,000	130,000
Net Decrease in Cash	(102,834)	(5,102)
Cash at Beginning of Year	158,672	163,774
Cash at End of Year	$ 55,838	$ 158,672

See accompanying notes and independent auditors' report.

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.

Basis of Accounting - The Clinic prepares its financial statements on the accrual basis of accounting where revenues are recognized when earned and expenditures when incurred.

Basis of Presentation - Financial statement presentation follows the requirements of FASB ASC 958, Financial Statements for Not-for-Profit Organizations, formerly SFAS No. 117. Under this standard, the Clinic 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.

The Codification requires the Clinic to report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, restricted assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from 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 - No cash payments for interest were made in 2010. Cash payments for interest totaled $23,843 in 2011.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 FASB ASC 958-320-50. Under this Standard, 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.

Subsequent Events - 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 October 17, 2012, the date the financial statements were available to be issued.

Recent Accounting Pronouncements - In June 2009, the FASB established the FASB Accounting Standards Codification (the "Codification") for financial statements issued for annual periods ending after September 15, 2009. The Company adopted FASB Accounting Standards Codification ("FASB ASC") 105-10 The Accounting Standards Codification for the year ended September 30, 2009. FASB ASC 105-10 establishes the Codification as the single source of authoritative accounting principles for US GAAP. Accordingly, previous references to US GAAP accounting standards are no longer used in our disclosures. The Codification does not affect our statement of financial position, statement of activities and changes in net assets and cash flows.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurement - FASB ASC 820-10-50-1 defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. This statement establishes a hierarchy that prioritizes the methods used to measure fair value such that the highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1). Second priority is for quoted prices for similar assets in active or inactive markets, or valuations from other sources than quoted prices or other market data that can be observed, correlated or corroborated (Level 2), and the lowest priority to unobservable methods (Level 3).

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, 2011 and 2010 is 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 tentatively called 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., a for-profit corporation. In 2009, North & East Lubbock Community Development Corporation contributed the Parkway Place land and $376,000 to the investment company. Also, in 2009 the investment company became a partner in Parkway Place Lubbock, LLC with Gill Holdings, L.C. in developing the Parkway Place land. Upon completion of the development, North & East Lubbock Investment, Inc. 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. Phase II contains 28 residential lots and is approximately 7% complete. For Phase I, the Organization did not incur any development costs in 2011 or 2010. For Phase II, the Organization incurred no development costs in 2011 or 2010.

NOTE C - LAND HELD FOR DEVELOPMENT - Continued

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, 2011 and 2010, respectively, the Organization has met all stipulations and requirements.

Following is a summary of development activity for the years ended September 30, 2011 and 2010:

	King's Dominion		
	Phase I	Phase II	Total
Development Costs - September 30, 2009	$ 151,442	$ 197,361	$ 348,803
Cost of Lots Sold	(88,417)	-	(88,417)
Development Costs - September 30, 2010	63,025	197,361	260,386
Cost of Lots Sold	-	-	-
Development Costs - September 30, 2011	$ 63,025	$ 197,361	$ 260,386

NOTE D - EQUIPMENT

Property and equipment additions, retirements and balances for the Organization for the years ended September 30, 2011 and 2010 was as follows:

	Balance 9/30/10	Increases	Decreases	Balance 9/30/11
Equipment	$ 17,367	$ -	$ -	$ 17,367
Less: Accumulated Depreciation	(13,964)	(1,456)	-	(15,420)
Equipment, Net	$ 3,403	$ (1,456)	$ -	$ 1,947

	Balance 9/30/09	Increases	Decreases	Balance 9/30/10
Equipment	$ 17,367	$ -	$ -	$ 17,367
Less: Accumulated Depreciation	(11,975)	(1,989)	-	(13,964)
Equipment, Net	$ 5,392	$ (1,989)	$ -	$ 3,403

NOTE E - LONG-TERM DEBT

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 November 2021. $350,000 and $130,000 was outstanding under the note payable as of September 30, 2011 and 2010, respectively. The note is secured by rental income and property.

Maturities of long-term debt are as follows:

Year Ending September 30,		
2012	$	42,357
2013		46,629
2014		46,629
2015		46,629
2016		46,629
Thereafter		121,127
Totals	$	350,000

NOTE F - LOSS ON SALE OF LOTS

During 2010, 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, not including water tap fees. The prorated share of development costs for each lot is approximately $22,104, for a total cost of $88,417. There were no lots sold during 2011.

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 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, 2011 and 2010:

	2011		2010	
Fundraiser Revenues	$	38,300	$	34,788
Fundraiser Expenses		(23,506)		(20,258)
Net Income from Special Events	$	14,794	$	14,530

NOTE H - COMMITMENTS

Phase II of King's Dominion 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 the phase into marketable lots.

NOTE I - RISKS AND CONCENTRATIONS

Deposit Risk - The Organization maintains cash balances at a local financial institution which, at times, may exceed federally insured limits. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to certain limits. The Organization has not experienced any losses in such accounts.

Concentration of Funding - 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, 2011 and 2010.

	2011	2010
Department of Housing and Urban Development	73%	22%
City of Lubbock	27%	66%
Local Organizations	0%	12%
	100%	100%

NOTE J - RELATED PARTY TRANSACTIONS

The Organization uses the equity method to account for its investment in North & East Lubbock Investment, Inc., a wholly owned subsidiary. The following is a summary of the change in the investment as of September 30, 2011 and 2010.

	2011	2010
Balance at Beginning of Year	$ 588,995	$ 389,735
Stimulus Fund Contribution	12,255	69,260
Loan Proceeds Contribution	244,000	130,000
Other Contributions	5,000	-
Interest Payments on Loan	(17,161)	-
Balance at End of Year	$ 833,089	$ 588,995

NOTE K - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2011.

Cash and Cash Equivalents - The carrying amounts reported in the statements of financial position for cash and cash equivalents approximate its fair value.

Grants and Other Receivables - The carrying amounts reported in the statements of financial position for receivables approximates its fair value, based on observable collection histories.

Accounts Payable and Other Liabilities - The carrying amounts reported in the statements of financial position for accounts payable and other liabilities approximates its fair value.

Long-Term Debt - The carrying amounts reported in the statements of financial position for long-term debt approximates its fair value, based upon borrowing rates currently available to the Organization.

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Cash and Cash Equivalents	$ 55,838	$ 55,838	$ -	$ -
Grants Receivable	4,133	-	4,133	-
Other Receivables	34,250	-	34,250	-
Accounts Payable and Accrued Liabilities	7,097	-	7,097	-
Long-Term Debt	350,000	-	350,000	-

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*

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

We have audited the financial statements of North & East Lubbock Community Development Corporation as of and for the year ended September 30, 2011, and have issued our report thereon dated October 17, 2012. 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 North & East Lubbock Community Development Corporation'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 North & East Lubbock Community Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North & East Lubbock Community Development Corporation's internal control over financial reporting.

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 significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North & East Lubbock Community Development Corporation'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*.

North & East Lubbock Community Development Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit North & East Lubbock Community Development Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within North & East Lubbock Community Development Corporation, 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
October 17, 2012

NORTH & EAST LUBBOCK COMMUNITY DEVELOPMENT CORPORATION
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
For the Year Ended September 30, 2011

Material Weaknesses

2011-1 – Monthly Reconciliation and Closing Procedures

FINDING - Our audit procedures revealed that there is no systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place. This situation leads to a continuing and growing backlog of adjustments that are not posted into the accounting system, which renders the accounting information virtually useless in making well informed business decisions. This will ultimately cause significant errors in the financial records and financial statements as well as allow possible irregularities, including fraud, to exist and continue without notice. This situation should be corrected as soon as possible with the establishment of a system of consistent monthly reconciliations and closing procedures.

RESPONSE - The plan to fix this would be to out source an independent accounting firm to consistently prepare the monthly reconciliations and perform closing procedures on a systematic basis.

2011-2 – Investment in Subsidiary

FINDING - At the present time, there is no procedure for reconciling the investment in subsidiary and related long-term debt to the general ledger on a regular basis. The lack of such a procedure has led to inaccurate reporting of assets and liabilities in monthly financial statements. To prevent the need for major adjustments to the other asset and long-term debt accounts at the end of each year, we suggest that the general ledger accounts be reconciled to the detailed records on a monthly basis

RESPONSE - The plan to fix this would be to out source an independent accounting firm to consistently reconcile the general ledger to the detail on a monthly basis.

Significant Deficiencies

2011-3 – Accounts Receivable

FINDING - During our audit it was noted that Organization does not maintain a schedule of accounts receivable. A schedule should be maintained and regularly monitored in order to properly track and record receivables. Proper and timely monitoring of this account will be beneficial to the future and overall financial health of the Organization.

RESPONSE - The plan to fix this would be to out source an independent accounting firm to consistently maintain the schedule of accounts receivable on a timely basis.