

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

**COMMUNITY LODGINGS, INC.**

**May 31, 2008**

## TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6



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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Community Lodgings, Inc.

We have audited the accompanying balance sheet of Community Lodgings, Inc. (a nonprofit organization) as of May 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 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 audit provides 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 Community Lodgings, Inc. as of May 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Douglas Corey & Associates, P.C.*

December 9, 2008

**Community Lodgings, Inc.**  
**Balance Sheet**  
**May 31, 2008**  
(See Independent Auditor's Report and notes to financial statements)

**Assets**

**Current Assets**

Cash and cash equivalents		
Cash - operating	\$	97,771
Cash - escrows		<u>17,924</u>
		115,695
Investments		1,901
Grants receivable		3,179
Other receivables		2,205
Prepaid expenses		2,980
Expense escrows and deposits		<u>3,486</u>
<b>Total Current Assets</b>		<b>129,446</b>

Property and Equipment		1,899,043
Less accumulated depreciation		<u>(816,346)</u>
		<b>1,082,697</b>

**Other Assets**

Work in process - software		19,055
Reserve for property replacements		37,421
Investment in affiliated company		<u>2,147</u>
		<u>58,623</u>
	<b>\$</b>	<b><u>1,270,766</u></b>

**Liabilities and Net Assets**

**Current Liabilities**

Advance from affiliated company	\$	2,664
Prepaid rent		503
Current maturities of long-term debt		27,522
Security deposits		<u>5,383</u>
<b>Total Current Liabilities</b>		<b>36,072</b>

**Long-term debt**

Line of credit		67,466
Notes payable, net of current maturities		<u>369,754</u>
		<b>437,220</b>

**Net Assets**

Unrestricted		794,295
Temporarily restricted		<u>3,179</u>
		<u>797,474</u>
	<b>\$</b>	<b><u>1,270,766</u></b>

**Community Lodgings, Inc.**  
**Statement of Activities**  
**For the year ended May 31, 2008**  
(See Independent Auditor's Report and notes to financial statements)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and Other Support:</b>			
Special events	\$ 30,198	\$ -	\$ 30,198
Contributions/grants	226,681	238,590	465,271
Contributions - Family Learning Center	-	15,000	15,000
Rental income	105,810	-	105,810
Other rental related income	4,379	-	4,379
Administrative fee	5,200	-	5,200
Investment income	63	-	63
Miscellaneous income	1,736	-	1,736
Interest, dividends, and capital gains	4,852	-	4,852
In-kind	359,757	-	359,757
Unrealized loss on investment	(839)	-	(839)
<b>Net assets released from restrictions:</b>			
Satisfaction of program restrictions	364,821	(364,821)	
Family Learning Center expenditures	167,763	(167,763)	-
	<u>1,270,421</u>	<u>(278,994)</u>	<u>991,427</u>
<b>Expenses:</b>			
Transitional Housing	317,005	-	317,005
Affordable Housing	59,564	-	59,564
Adult and Family Program	114,763	-	114,763
Children's Program	137,136	-	137,136
Management and general	99,685	-	99,685
Fundraising	61,614	-	61,614
	<u>789,767</u>	<u>-</u>	<u>789,767</u>
Change in net assets	480,654	(278,994)	201,660
Net Assets, beginning of year	<u>313,641</u>	<u>282,173</u>	<u>595,814</u>
Net Assets, end of year	<u>\$ 794,295</u>	<u>\$ 3,179</u>	<u>\$ 797,474</u>

**Community Lodgings, Inc.**  
**Statement of Functional Expenses**  
**For the year ended May 31, 2008**

(See Independent Auditor's Report and notes to financial statements)

	Housing Program			Program Services			Supporting Services			Total Expenses
	Transitional	Affordable	Adult and Family Program	Children's Program	Total Program Services	Management and General	Fundraising	Supporting Services		
Payroll and payroll taxes	\$ 82,794	\$ -	\$ 72,343	\$ 82,704	\$ 237,841	\$ -	\$ 51,123	\$ 113,760	\$ 351,601	
Client support	61,641	-	11,402	27,188	100,231	-	-	-	100,231	
Maintenance	45,292	17,614	-	-	62,906	-	-	-	62,906	
Depreciation	35,459	13,790	4,478	7,452	61,179	299	-	299	61,478	
Office expenses	5,102	-	3,231	4,175	12,508	17,707	1,350	19,057	31,565	
Utilities	21,789	8,474	-	-	30,263	-	-	-	30,263	
Property management	18,921	7,332	-	-	26,253	-	-	-	26,253	
Employee benefits	5,391	-	5,218	4,816	15,425	8,458	1,378	9,836	25,261	
Office rent	4,867	-	3,931	3,931	12,729	4,680	1,310	5,990	18,719	
Property taxes	11,994	4,606	-	-	16,600	-	-	-	16,600	
Interest	8,282	1,859	1,420	1,322	12,883	1,626	455	2,081	14,964	
Insurance	5,608	1,302	1,069	986	8,965	1,436	343	1,779	10,744	
Supplies	6,068	-	1,123	2,676	9,867	-	-	-	9,867	
Professional fees	2,609	-	2,175	1,886	6,670	2,457	686	3,143	9,813	
Tutors and teachers	-	-	8,373	-	8,373	-	-	-	8,373	
Other expenses	1,188	4,587	-	-	5,775	385	-	385	6,160	
Fundraising - direct	-	-	-	-	-	-	4,969	4,969	4,969	
	<u>\$ 317,005</u>	<u>\$ 59,564</u>	<u>\$ 114,763</u>	<u>\$ 137,136</u>	<u>\$ 628,468</u>	<u>\$ 99,685</u>	<u>\$ 61,614</u>	<u>\$ 161,299</u>	<u>\$ 789,767</u>	

Community Lodgings, Inc.  
Statement of Cash Flows  
For the year ended May 31, 2008  
(See Independent Auditor's Report and notes to financial statements)

Cash flows from operating activities:	
Change in net assets	\$ 201,660
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Unrealized loss on investment	839
In-kind contributions of fixed assets	(247,187)
Depreciation	61,478
(Increase) decrease in grants and other receivables	124,915
(Increase) decrease in prepaid expenses	(150)
(Increase) decrease in expense escrows and deposits	507
Increase (decrease) in accounts payable and accrued expenses	(4,808)
Increase (decrease) in prepaid rent	(392)
Increase (decrease) in security deposits	<u>(2,119)</u>
Net cash provided (used) by operating activities	134,743
Cash flows from investing activities:	
Expenditures related to FLC expansion	(172,069)
Expenditures for other fixed asset purchases	(12,868)
Expenditures related to software	(19,055)
Change in carrying amount of investment	<u>(63)</u>
Net cash provided (used) by investing activities	(204,055)
Cash flows from financing activities:	
Net contributions to replacement reserves	(6,787)
Payment on long-term debt	<u>(26,933)</u>
Net cash provided (used) by financing activities	<u>(33,720)</u>
Net decrease in cash and cash equivalents	(103,032)
Cash, beginning of year	<u>218,727</u>
Cash, end of year	<u>\$ 115,695</u>
Cash paid during the year for:	
Income taxes	\$ -
Interest expense	<u>\$ 14,954</u>
Summary of non-cash operating transactions:	
In-kind contribution for rent	\$ 18,720
In-kind contributions of goods/services	88,760
In-kind contributions of professional services	5,090
Rent expense	(18,720)
Supplies/services	<u>(93,850)</u>
Net non-cash operating transactions	<u>\$ -</u>

**Community Lodgings, Inc.**  
**Notes to Financial Statements**  
**May 31, 2008**  
(See Independent Auditor's Report)

**Note A - Nature of Organization**

Community Lodgings, Inc. (CLI) is a non-profit corporation established in 1987 to preserve affordable housing, provide transitional housing for the homeless and help families become self sufficient through counseling and supportive services programs. CLI is based in Alexandria, Virginia and maintains several programs to achieve its goals. CLI's programs are as follows:

The *Housing Program* provides affordable and transitional housing to low income and formerly homeless families. The transitional housing program provides subsidized rent. The affordable housing program provides below market rent. The programs provide comprehensive support to families by enabling them to reduce debt and save toward future homeownership.

The *Adult and Family Program* provides assistance to families in the housing program. Transitional clients receive rent subsidies, counseling, budget and employment mentoring, computer literacy classes, ESOL classes, and other job readiness training. Computer literacy and ESOL classes are available to the entire adult community.

The *Children's Program* was designed to help children and parents work together to improve students' learning both at home and at school. The After School and Summer Tutoring and Enrichment program achieves this goal by providing professional assistance with homework assignments, assisting children in developing higher skill levels in Reading, English and Math, providing computer skills training, providing enrichment activities in art, music, problem solving, and self-esteem, and promoting parent involvement in children's education.

**Note B - Summary of Accounting Policies**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. **Method of Accounting**

CLI's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Consequently, revenues are recognized when earned and expenses are recognized when incurred.

**Community Lodgings, Inc.**  
**Notes to Financial Statements**  
**May 31, 2008**  
(See Independent Auditor's Report)

**Note B - Summary of Accounting Policies, continued**

2. Financial Statement Presentation

CLI follows Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the CLI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the CLI is required to present a statement of cash flows.

3. Revenue

CLI receives grants and gifts from various sources, including governmental agencies, foundations, charitable organizations, and individuals. CLI receives rent from clients in the housing program. Leases are generally for periods of one year or less. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases that net asset class.

4. Recognition of Donor-Restricted Contributions

Support that is restricted by the donor is reported as an increase in temporarily restricted net assets until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

5. Grants and Pledge Receivable

Grants receivable consists of amounts due from grants awarded during the year ended May 31, 2008. The amounts are collectible within one year. CLI considers the amounts collectible and, therefore, has not recorded an allowance for doubtful accounts.

6. Buildings, Building Improvements, and Property

Buildings, building improvements and property are recorded at cost at the date of acquisition. Donations of property and equipment are recorded as support at their estimated fair value at the date of the gift. The assets are depreciated on a straight-line basis over their estimated useful lives.

**Community Lodgings, Inc.**  
**Notes to Financial Statements**  
**May 31, 2008**  
(See Independent Auditor's Report)

**Note B - Summary of Accounting Policies, continued**

7. Investments

CLI has adopted Statement of Financial Accounting Standards No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," whereby investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

8. Income Taxes

CLI is exempt from income taxes on all activities directly related to its exempt purpose under the Internal Revenue Service Code Section 501(c)(3). The Center is liable for income taxes on unrelated business income. Unrelated business income represents revenues from the sale of promotional items. There was no taxable net unrelated business income at May 31, 2008. Accordingly, no provision for income taxes has been made in these financial statements.

9. Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of CLI.

10. Cash and cash equivalents

For purposes of the statement of cash flows, the CLI considers all highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents.

11. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Community Lodgings, Inc.**  
**Notes to Financial Statements**  
**May 31, 2008**  
(See Independent Auditor's Report)

**Note C – Investments**

Investments as of May 31, 2008 consist of mutual funds with a market value of \$1,901 and an adjusted basis of \$2,276 on June 1, 2007. Income from this investment consists of long term capital gain distributions of \$288 and unrealized losses of \$839.

**Note D – Fixed Assets**

Building, building improvements, and property:

Apartment dwellings	\$744,441
Apartment improvements	421,300
Family Learning Center expansion	440,035
Rental appliances and fixtures	17,739
Family Learning Center equipment	36,928
Office equipment and software	32,868
Land	<u>205,732</u>
	1,899,043
Accumulated depreciation	<u>(816,346)</u>
Net Book Value	<u>\$1,082,697</u>

Depreciation expense for the year ended May 31, 2008 totaled \$61,478.

**Note E – Donated Facility, Supplies and Services**

CLI occupied office space donated by CLI Multifamily Partnership with an estimated fair market rental value of \$18,720. The rental value of this facility has been recorded as an in-kind contribution and expensed as rent and allocated to programs based on the allocation for other overhead expenses. CLI also received goods and services valued at \$49,490 and professional services valued at \$8,360. The value of the goods and services and professional services have been recorded as in-kind contributions and expensed as supplies and tutors and teachers to the program supported.

Many volunteers have contributed numerous hours to support CLI's programs that do not meet the requirements to be recorded as revenue and expense under SFAS 116.

**Community Lodgings, Inc.**  
**Notes to Financial Statements**  
**May 31, 2008**  
(See Independent Auditor's Report)

**Note F – Long-term Debt**

CLI financed the acquisition and rehabilitation of its properties as follows:

City of Alexandria – Original note was amended in 1997. Note bears interest at 3% and is due in monthly installments of \$197.47. Final payment is due on July 12, 2015. The note is secured by a deed of trust on the apartment buildings. \$ 12,997

City of Alexandria – Original note was amended in 1998. Note bears interest at 3% and is due in monthly installments of \$169.98. Final payment is due on January 8, 2013. The note is secured by a deed of trust on the apartment buildings. \$ 8,872

Virginia Housing Partnership – Note dated September 1, 1992 with interest only due for the first six months. Note bears interest at 2% and is now due in monthly installments of \$1,297.55 through June 1, 2011. The note is secured by a deed of trust on the apartment buildings. \$ 189,340

Virginia Housing Partnership – Note dated September 1, 1992 with interest only due for the first six months. Note bears interest at 2% and is now due in monthly installments of \$1,286.47 through January 1, 2011. The note is secured by a deed of trust on the apartment buildings. \$ 186,067

Less: Current maturities \$ 397,276  
Long-term debt 27,522  
\$ 369,754

Aggregate maturities of long-term debt subsequent to May 31, 2008, are as follows:

2009	27,522
2010	28,117
2011	28,726
2012	29,345
Thereafter	<u>283,556</u>
	<u>\$ 397,266</u>

**Community Lodgings, Inc.**  
**Notes to Financial Statements**  
**May 31, 2008**  
(See Independent Auditor's Report)

**Note G -- Commitments and Contingencies**

**Line of Credit**

CLI has a line of credit with Burke & Herbert Bank and Trust in the amount of \$100,000. Payments of interest only of 7.0% are due monthly. The line expires on March 4, 2009 and CLI has the option to extend the due date. At May 31, 2008, \$67,466 had been borrowed against the line. For the year ended May 31, 2008, CLI made interest payments totaling \$6,504.

**Note H -- Retirement Plan**

CLI maintains a defined contribution plan covering substantially all full time employees. Participants are fully vested after one year of service. Under the plan, CLI may, at its discretion, make matching contributions as a percentage of employee contributions. Matching contributions for the year ended May 31, 2008 totaled \$4,931.

**Note I -- Net Assets**

Temporarily restricted net assets at May 31, 2008 are available for the following purposes:

Grants receivable	<u>\$ 3,179</u>
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**Note J -- Major Donor**

During the year ended May 31, 2008, CLI received approximately 26% of support from two major donors. In-kind contributions for the year ended May 31, 2008 accounted for 36% of support and included contributions from one of the major donors referred to above.

**Community Lodgings, Inc.**  
**Notes to Financial Statements**  
**May 31, 2008**  
(See Independent Auditor's Report)

**Note K - Related Party Transactions**

CLI is the general partner of CLI Multifamily Partnership, LP (the partnership). As general partner, CLI guarantees the partnership liabilities and certain other covenants as described below.

The partnership received \$429,639 of capital contributions from Housing Equity Fund of Virginia II, LP (the limited partner), conditioned upon the continuation of the partnership's building qualifying for the Low Income Housing Tax Credit, under IRC Section 42.

CLI also maintains a development agreement with the partnership. The agreement provided that the partnership pay CLI development fees totaling \$222,598. Of that amount, \$110,000 was paid in prior years, and a promissory note exists for the remaining \$112,598. The note bears interest at 9.5% per year with principal and interest payments due from the partnership's surplus cash from operations. The fee and related interest will be reported as income when the cash is received. As a result, this note is not reflected on the accompanying financial statements.

During the year ended May 31, 2008, CLI charged the partnership \$5,200 in management and administrative fees. At May 31, 2008 CLI owes the partnership \$2,664 from advances.

**Note L - Rental Income**

Rental income of \$105,810 reflected on the accompanying financial statements is net of subsidies paid from Community Lodgings, Inc. to the Notabene Apartments operating account. Gross potential rent for the year ended May 31, 2008 totaled \$205,780. The subsidy paid for the year totaled \$99,970.