

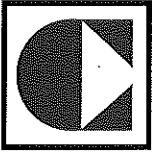
CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

**COMMUNITY LODGINGS, INC.**

**June 30, 2012**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Community Lodgings, Inc.

We have audited the accompanying consolidated balance sheet of Community Lodgings, Inc. (a nonprofit organization) as of June 30, 2012, and the related consolidated 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 June 30, 2012, 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.*

February 4, 2013

**Community Lodgings, Inc.**  
**Consolidated Balance Sheet**  
**June 30, 2012**

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

**Assets**

**Current Assets**

Cash and cash equivalents		
Cash - operating	\$	9,204
Cash - escrows		17,241
Cash - CLI Multifamily LP		25,484
		51,929
Grants and pledges receivable		29,512
Other receivables		1,420
Advance to related entity		2,500
Rent receivable, CLI Multifamily LP		715
Prepaid expenses, CLI Multifamily LP		6,126
Prepaid expenses		11,751
Expense escrows and deposits		200
Total Current Assets		104,153

Property and Equipment		4,066,606
Less accumulated depreciation and amortization		(2,401,583)
		1,665,023

**Other Assets**

Work in process		15,485
Reserve for property replacements		33,850
Reserve for property replacements, CLI Multifamily LP		21,481
Escrow held through loan account		3,412
Escrow held through loan account, CLI Multifamily LP		4,113
		78,341
	\$	1,847,517

**Liabilities and Net Assets**

**Current Liabilities**

Accounts payable and accrued expenses		\$ 8,569
Current maturities of long-term debt, CLI Multifamily LP		76,497
Current maturities of long-term debt		29,180
Security deposits, CLI Multifamily LP		13,895
Security deposits		10,025
Total Current Liabilities		138,166

**Long-term debt**

Line of credit		15,000
Notes payable CLI Multifamily LP, net of current maturities		533,775
Section 754 adjustment, CLI Multifamily LP		345,298
Notes payable, net of current maturities		313,902
		1,207,975

**Net Assets**

Minority interest in Limited Partnership		(273)
Equity in CLI Multifamily LP		(25,321)
Unrestricted		469,459
Temporarily restricted		57,511
		501,376
	\$	1,847,517

**Community Lodgings, Inc.**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2012**  
(See Independent Auditor's Report and notes to financial statements)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Other Support:			
Special events	\$ 51,069	\$ -	\$ 51,069
Contributions/grants	116,878	510,583	627,461
Program fees	35,976	-	35,976
Rent and rental related	460,840	-	460,840
Interest	207	-	207
In-kind	91,459	-	91,459
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>535,659</u>	<u>(535,659)</u>	<u>-</u>
	1,292,088	(25,076)	1,267,012
Expenses:			
Transitional Housing	413,530	-	413,530
Affordable Housing	363,061	-	363,061
Family Learning Center - Youth & Adult Education	358,229	-	358,229
Management and general	79,925	-	79,925
Fundraising	<u>126,410</u>	<u>-</u>	<u>126,410</u>
	<u>1,341,155</u>	<u>-</u>	<u>1,341,155</u>
Change in net assets	(49,067)	(25,076)	(74,143)
Net Assets, beginning of year	<u>518,526</u>	<u>82,587</u>	<u>601,113</u>
Net Assets, end of year	<u>\$ 469,459</u>	<u>\$ 57,511</u>	<u>\$ 526,970</u>

**Community Lodgings, Inc.**  
**Consolidated Statement of Functional Expenses**  
**For the year ended June 30, 2012**  
(See Independent Auditor's Report and notes to financial statements)

	Program Services						Total
	Housing Program			Supporting Services			
	Transitional	Affordable	Family Learning Center - Youth & Adult Education	Management and General	Fundraising	Supporting Services	
Payroll and payroll taxes	\$ 192,851	\$ 74,354	\$ 180,692	\$ 57,969	\$ 78,446	\$ 136,415	\$ 584,312
Depreciation	33,144	89,137	21,677	534	723	1,257	145,215
Office expenses	28,675	5,463	37,873	11,837	11,959	23,796	95,807
Maintenance/repair/turnover	27,542	51,230	-	-	-	-	78,772
Tutors and teachers	-	-	62,189	-	-	-	62,189
Utilities	16,317	43,766	-	-	-	-	60,083
Property taxes	12,501	34,203	-	-	-	-	46,704
Employee benefits	14,678	2,796	14,101	4,524	6,122	10,646	42,221
Client support	13,749	-	22,527	-	-	-	36,276
Interest	5,501	23,255	-	621	-	621	29,377
Child care	27,469	-	-	-	-	-	27,469
Fundraising - direct	-	-	-	-	24,399	24,399	24,399
Insurance	7,350	11,143	2,771	889	1,203	2,092	23,356
Employment counselor	18,899	-	-	-	-	-	18,899
Professional fees	6,412	1,222	6,160	1,976	2,674	4,650	18,444
Property management	2,105	14,039	-	-	-	-	16,144
Trash	3,188	6,424	-	-	-	-	9,612
Field trips	-	-	8,204	-	-	-	8,204
Licenses and fees	549	4,440	-	-	-	-	4,989
Payroll fees	1,196	646	1,098	352	477	829	3,769
Staff development	976	186	937	301	407	708	2,807
Other expenses	428	757	-	922	-	922	2,107
	<u>\$ 413,530</u>	<u>\$ 363,061</u>	<u>\$ 358,229</u>	<u>\$ 79,925</u>	<u>\$ 126,410</u>	<u>\$ 206,335</u>	<u>\$ 1,341,155</u>

**Community Lodgings, Inc.**  
**Consolidated Statement of Cash Flows**  
**For the year ended June 30, 2012**

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

Cash flows from operating activities:	
Change in net assets	\$ (74,143)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	145,215
(Increase) decrease in grants and pledges receivable	8,075
(Increase) decrease in other receivables	228
(Increase) decrease in prepaid expenses	(2,420)
Increase (decrease) in accounts payable and accrued expenses	5,172
Increase (decrease) in prepaid rent	(1,116)
Increase (decrease) in security deposits	<u>2,908</u>
Net cash provided (used) by operating activities	83,919
Cash flows from investing activities:	
Expenditures for work in process	(15,485)
Net change resulting from consolidated entity	<u>(6,273)</u>
Net cash provided (used) by investing activities	(21,758)
Cash flows from financing activities:	
Net distributions from reserves and escrows	2,062
Net borrowings against line of credit	14,069
Payment on long-term debt	<u>(86,719)</u>
Net cash provided (used) by financing activities	<u>(70,588)</u>
Net decrease in cash and cash equivalents	(8,427)
Cash, beginning of year	<u>60,356</u>
Cash, end of year	<u><u>\$ 51,929</u></u>
Cash paid during the year for:	
Income taxes	\$ -
Interest expense	<u><u>\$ 29,377</u></u>
Summary of non-cash operating transactions:	
In-kind contributions of goods/supplies	\$ 39,493
In-kind contributions of services	51,966
Supplies/services	<u>(91,459)</u>
Net non-cash operating transactions	<u><u>\$ -</u></u>

**Community Lodgings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012**  
(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 a 99% owner in CLI Multifamily Limited Partnership. As a 99% owner, CLI is required to present consolidated financial statements including the activity of both organizations.

CLI is based in Alexandria, Virginia and maintains several programs to achieve its goals. CLI's programs are as follows:

The *Housing Program* consists of transitional and affordable housing units provided to homeless and low income families. The housing program includes 44 apartments to provide below market rental rates to residents in the City of Alexandria. Of the 44 apartments, 14 are designated for housing homeless families coming from homeless shelters in Alexandria. These families pay 30% of their income for a program fee to CLI. There is no rent attached to the housing they receive. The transitional program is a two-year program designed to provide education, counseling, job placement, financial and budget mentoring to stabilize the families so they will be able to move into their own housing when they leave the program.

The *Family Learning Center – Youth & Adult Education Program* provides educational programs for adults, youth and families living in the neighborhood and in our transitional housing apartments. The youth education program is highly academic, mirroring the curriculums being presented in the local schools. It is designed to create the atmosphere of success for these low income, minority and homeless children and to prevent them from becoming homeless in the future. The adult education component focuses on teaching English and computer literacy skills. In addition, the learning center is open for walk-in assistance for local families. This would include, translating, job/internet search, resume writing, job applications, making phone calls and helping with school information/forms.



**Community Lodgings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012**  
(See Independent Auditor's Report)

**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 consolidated 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. The consolidated financial statements include the accounts of CLI Multifamily Limited partnership. All significant intercompany transactions and balances have been eliminated in consolidation.

2. Financial Statement Presentation

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. 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.

CLI receives rent from their residents and program fees from their transitional housing clients. Residents enter into leases that are generally for periods of one year or less.

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.

**Community Lodgings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012**  
(See Independent Auditor's Report)

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

5. Grants and Pledges Receivable

Grants receivable consists of amounts due from reimbursable grants for costs incurred during the year ended June 30, 2012. 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.

7. 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). CLI is liable for income taxes on unrelated business income. There was no taxable net unrelated business income for the year ended June 30, 2012. Accordingly, no provision for income taxes has been made in these financial statements.

The Organization evaluated its tax positions and determined it has no uncertain tax positions as of June 30, 2012. The Organization's 2008 through 2011 tax years are open for examination by federal taxing authorities.

8. 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.

9. 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.

**Community Lodgings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012**  
(See Independent Auditor's Report)

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

10. 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.

**Note C - Date of Management's Review**

In preparing the financial statements, the CLI has evaluated events and transactions for potential recognition or disclosure through February 4, 2013, the date that the financial statements were available to be issued.

**Note D - Fixed Assets**

Building, building improvements, and property:

Apartment dwellings	\$1,355,233
Apartment improvements	1,872,724
Family Learning Center expansion	440,035
Family Learning Center equipment	1,000
Office equipment and software	61,304
Land	<u>336,310</u>
	3,066,606
Accumulated depreciation	<u>(2,401,583)</u>
Net Book Value	<u>\$1,665,023</u>

Depreciation expense for the year ended June 30, 2012 totaled \$145,215.

**Note E - Goods and Services**

CLI received goods and services valued at \$91,459 for the year ended June 30, 2012. The value of the goods and services and professional services have been recorded as in-kind contributions and expensed as based on the contribution 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 Consolidated Financial Statements**  
**June 30, 2012**  
(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. \$ 4,399

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. \$ 1,186

Virginia Housing Partnership – Note dated September 1, 1992 with interest only due for the first six months. Note bears interest at 2% and is payable in monthly installments of \$1,297.55 through August 1, 2021. The note is secured by a deed of trust on the apartment buildings. \$ 135,687

Virginia Housing Partnership – Note dated September 1, 1992 with interest only due for the first six months. Note bears interest at 2% and is payable in monthly installments of \$1,286.47 through January 1, 2022. The note is secured by a deed of trust on the apartment buildings. \$ 139,812

City of Alexandria – Note bears interest at 2% and is due in monthly installments of \$445.26 beginning in November 2014. Final payment is due on November 1, 2023. The note is secured by a promissory note to the City from CLI. \$ 46,512

**Community Lodgings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012**  
(See Independent Auditor's Report)

**Note F – Long-term Debt, continued**

City of Alexandria – Note bears interest at 2% and is due in monthly installments of \$984.18 beginning in October 2014. . Final payment is due on October 1, 2053. The total loan is \$325,000, but \$15,486 has been drawn through June 30, 2012. The note is secured by a promissory note to the City from CLI. \$ 15,486

City of Alexandria – Note bears interest at 3% and is due in monthly installments of \$2,093.81. Final payment is due in September 2015. The note is secured by a deed of trust on the apartment buildings. \$54,095

M & T Bank – Original note was modified in December 2004. Note bears interest at 6.92% and is due in monthly installments of \$2,076.67. Final payment is due in July 2015. The note is secured by a deed of trust on the apartment buildings. \$69,094

Virginia Housing Partnership – Original note was amended in March 2004. Note bears interest at 3% and is payable in monthly installments of \$3,794.44 through October 2024. The note is secured by a deed of trust on the apartment buildings. \$ 487,083

	\$953,354
Less: Current maturities	<u>(105,677)</u>
Long-term debt	<u>\$ 847,677</u>

Aggregate maturities of long-term debt subsequent to June 30, 2012, are as follows:

2013	\$ 105,677
2014	112,521
2015	98,377
2016	74,386
2017	77,068
Thereafter	<u>485,325</u>
	<u>\$ 953,354</u>

**Community Lodgings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012**  
(See Independent Auditor's Report)

**Note G – Commitments and Contingencies**

Line of Credit

CLI maintains an agreement with BB&T Bank for a revolving line of credit in the amount of \$240,000. Interest charged on the line of credit is variable and is equal to the bank's prime rate. The interest rate at June 30, 2012 was 4.25%. The line is secured by CLI's property. As of June 30, 2012, outstanding draws totaled \$15,000. Interest paid during the year ended June 30, 2012 totaled \$621. The loan is renewed annually.

**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 June 30, 2012 totaled \$3,611.

**Note I – Net Assets**

Temporarily restricted net assets at June 30, 2012 are available for the following purposes:

Grants and pledges receivable	\$ 29,512
High school	<u>27,999</u>
	<u>\$57,511</u>

**Note J – Program Fees**

Transitional housing clients pay CLI a program fee in lieu of rent.

**Note K – Rental Income**

Gross potential rent for the year ended June 30, 2012 totaled \$580,761. Rental income of \$460,840 excludes rent subsidies paid by CLI for transitional clients. CLI subsidizes 100 percent of rent for transitional clients. The subsidy paid by CLI for the year ended June 30, 2012 totaled \$119,921.