

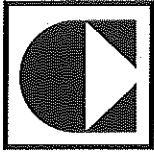
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

COMMUNITY LODGINGS, INC.

May 31, 2009

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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, 2009, 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, 2009, 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.

January 11, 2010

Balance Sheet

May 31, 2009

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

Assets

Current Assets

Cash and cash equivalents	
Cash - operating	\$ 25,994
Cash - escrows	8,739
	<hr/>
	34,733
Investments	1,065
Grants and pledges receivable	36,841
Other receivables	2,192
Prepaid expenses	11,750
Expense escrows and deposits	480
Total Current Assets	<hr/>
	87,061

Property and Equipment	1,927,935
Less accumulated depreciation	(898,321)
	<hr/>
	1,029,614

Other Assets

Reserve for property replacements	43,455
Escrow held through loan account	446
Investment in affiliated company	1,741
	<hr/>
	45,642
	<hr/>
	\$ 1,162,317

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 11,391
Advance from affiliated company	2,664
Prepaid rent	883
Current maturities of long-term debt	28,117
Security deposits	4,460
Total Current Liabilities	<hr/>
	47,515

Long-term debt

Line of credit	67,568
Notes payable, net of current maturities	341,629
	<hr/>
	409,197

Net Assets

Unrestricted	668,764
Temporarily restricted	36,841
	<hr/>
	705,605

\$ 1,162,317

Community Lodgings, Inc.
Statement of Activities
For the year ended May 31, 2009
(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	\$ 22,544	\$ -	\$ 22,544
Contributions/grants	290,635	334,178	624,813
Rental income	97,283	-	97,283
Other rental related income	6,432	-	6,432
Management fee	6,000	-	6,000
Investment income (loss)	(406)	-	(406)
Miscellaneous income	2,336	-	2,336
Interest, dividends, and capital gains	1,091	-	1,091
In-kind	122,477	-	122,477
Unrealized loss on investment	(835)	-	(835)
Net assets released from restrictions:			
Satisfaction of program restrictions	300,516	(300,516)	-
	<u>848,073</u>	<u>33,662</u>	<u>881,735</u>
Expenses:			
Transitional Housing	440,665	-	440,665
Affordable Housing	59,934	-	59,934
Adult and Family Program	108,667	-	108,667
Children's Program	204,111	-	204,111
Management and general	87,328	-	87,328
Fundraising	72,899	-	72,899
	<u>973,604</u>	<u>-</u>	<u>973,604</u>
Change in net assets	(125,531)	33,662	(91,869)
Net Assets, beginning of year	<u>794,295</u>	<u>3,179</u>	<u>797,474</u>
Net Assets, end of year	<u>\$ 668,764</u>	<u>\$ 36,841</u>	<u>\$ 705,605</u>

Community Lodgings, Inc.
Statement of Functional Expenses
For the year ended May 31, 2009

(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	Mangement and General	Fundraising	Total Supporting Services		
Payroll and payroll taxes	\$ 147,064	\$ 2,594	\$ 23,770	\$ 127,293	\$ 300,721	\$ 50,255	\$ 49,307	\$ 99,562	\$ 400,283	
Client support	74,447	-	54,296	54,296	183,039	-	-	-	183,039	
Maintenance/repair/turnover	63,552	18,983	-	-	82,535	-	-	-	82,535	
Depreciation	48,787	13,933	9,340	9,340	81,400	575	-	575	81,975	
Utilities	26,216	7,730	-	-	33,946	-	-	-	33,946	
Property management	24,929	7,152	-	-	32,081	-	-	-	32,081	
Employee benefits	7,842	-	4,357	4,357	16,556	10,168	2,451	12,619	29,175	
Office rent	6,124	-	3,402	3,402	12,928	7,938	1,814	9,752	22,680	
Office expenses	5,534	-	3,075	3,075	11,684	7,175	1,639	8,814	20,498	
Property taxes	13,664	4,081	-	-	17,745	-	-	-	17,745	
Fundraising - direct	-	-	-	-	-	-	16,435	16,435	16,435	
Interest	6,046	1,806	-	-	7,852	4,029	-	4,029	11,881	
Insurance	6,573	1,612	656	656	9,497	1,531	350	1,881	11,378	
Professional fees	2,450	-	1,361	1,361	5,172	3,176	726	3,902	9,074	
Other expenses	6,840	2,043	-	-	8,883	-	-	-	8,883	
Tutors and teachers	-	-	8,079	-	8,079	-	-	-	8,079	
Supplies	597	-	331	331	1,259	774	177	951	2,210	
Loan closing costs	-	-	-	-	-	1,707	-	1,707	1,707	
	\$ 440,665	\$ 59,934	\$ 108,667	\$ 204,111	\$ 813,377	\$ 87,328	\$ 72,899	\$ 160,227	\$ 973,604	

Community Lodgings, Inc.
Statement of Cash Flows
For the year ended May 31, 2009
(See Independent Auditor's Report and notes to financial statements)

Cash flows from operating activities:	
Change in net assets	\$ (91,869)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Unrealized loss on investment	835
Depreciation	81,975
(Increase) decrease in grants and pledges receivable	(33,662)
(Increase) decrease in receivables	13
(Increase) decrease in prepaid expenses	(8,770)
(Increase) decrease in expense escrows and deposits	3,006
Increase (decrease) in accounts payable and accrued expenses	11,391
Increase (decrease) in prepaid rent	380
Increase (decrease) in security deposits	<u>(923)</u>
Net cash provided (used) by operating activities	(37,624)
Cash flows from investing activities:	
Expenditures related to software	(9,837)
Change in carrying amount of investment	<u>406</u>
Net cash provided (used) by investing activities	(9,431)
Cash flows from financing activities:	
Net contributions to reserves and escrows	(6,480)
Payment on long-term debt	<u>(27,427)</u>
Net cash provided (used) by financing activities	<u>(33,907)</u>
Net decrease in cash and cash equivalents	(80,962)
Cash, beginning of year	<u>115,695</u>
Cash, end of year	<u>\$ 34,733</u>
Cash paid during the year for:	
Income taxes	\$ -
Interest expense	<u>\$ 11,881</u>
Summary of non-cash operating transactions:	
In-kind contribution for rent	\$ 22,680
In-kind contributions of goods/services	88,572
In-kind contributions of professional services	11,225
Rent expense	(22,680)
Supplies/services	<u>(99,797)</u>
Net non-cash operating transactions	<u>\$ -</u>

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2009
(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, 2009
(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 Pledges Receivable

Grants receivable consists of amounts due from a reimbursable grant for costs incurred during the year ended May 31, 2009. It also includes amounts pledged by donors as of May 31, 2009. 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, 2009
(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, 2009. 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, 2009
(See Independent Auditor's Report)

Note C – Investments

Investments as of May 31, 2009 consist of mutual funds with a market value of \$1,065 and an adjusted basis of \$1,901 on May 31, 2009. Income from this investment consists of interest totaling \$72 and unrealized losses of \$835.

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	61,760
Land	<u>205,732</u>
	1,927,935
Accumulated depreciation	<u>(898,321)</u>
Net Book Value	<u>\$1,029,614</u>

Depreciation expense for the year ended May 31, 2009 totaled \$81,975.

Note E – Donated Facility, Supplies and Services

CLI occupied office space donated by CLI Multifamily Partnership with an estimated fair market rental value of \$22,680. 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 \$88,572 and professional services valued at \$11,225. 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, 2009
(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.	\$ 10,990
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.	\$ 7,074
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.	\$ 177,582
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.	\$ 174,100
	\$ 369,746
Less: Current maturities	(28,117)
Long-term debt	<u>\$ 341,629</u>

Subsequent to the year ended May 31, 2009, the Organization entered into an agreement with the City of Alexandria to borrow \$46,512 to be used for improvements to the multi-family complexes. The loan accrues interest at 2% per year based on the amount borrowed. Outstanding principal and accrued interest is payable annually over 10 years with the first payment due on November 1, 2014 and final payment due on November 1, 2023.

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2009
(See Independent Auditor's Report)

Note F – Long-term Debt, continued

Aggregate maturities of long-term debt subsequent to May 31, 2009, are as follows:

2010	\$ 28,117
2011	28,726
2012	29,345
2013	29,298
2014	28,542
Thereafter	<u>272,230</u>
	<u>\$ 416,258</u>

Note G – Commitments and Contingencies

Line of Credit

CLI maintained a line of credit with Burke & Herbert Bank and Trust in the amount of \$100,000. Payments of interest only of 7.0% were due monthly. The line expired on March 4, 2009 and was closed at that time. For the year ended May 31, 2009, CLI made interest payments totaling \$3,478.

During the year ended May 31, 2009, CLI entered into an agreement with BB&T Bank for a line of credit in the amount of \$250,000. Interest charged on the line of credit is variable and is equal to the bank's prime rate. The interest rate at May 31, 2009 was 4.25%. The line is secured by CLI's property. As of May 31, 2009, outstanding draws totaled \$67,568. Interest paid during the year ended May 31, 2009 totaled \$510.

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, 2009 totaled \$3,834.

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2009
(See Independent Auditor's Report)

Note I – Net Assets

Temporarily restricted net assets at May 31, 2009 are available for the following purposes:

Grants and pledges receivable	<u>\$ 36,841</u>
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Note J – Major Donor

During the year ended May 31, 2009, CLI received approximately 23% of support from two major donors. In-kind contributions for the year ended May 31, 2009 accounted for 14% of support.

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, 2009, CLI charged the partnership \$6,000 in management and administrative fees. At May 31, 2009 CLI owes the partnership \$2,664 from advances.

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2009
(See Independent Auditor's Report)

Note L – Rental Income

Rental income of \$97,283 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, 2009 totaled \$212,015. The subsidy paid for the year totaled \$114,732.