

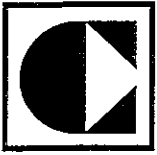
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

COMMUNITY LODGINGS, INC.

May 31, 2010

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DOUGLAS COREY & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

6601 LITTLE RIVER TURNPIKE, SUITE 440

ALEXANDRIA, VIRGINIA 22312

(703) 354-2900 • FAX (703) 354-2606

E-MAIL: coreycpa@coreycpa.com

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, 2010, 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, 2010, 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 28, 2011

Community Lodgings, Inc.

Balance Sheet

May 31, 2010

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

Assets

Current Assets

Cash and cash equivalents

Cash - operating

\$ 57,945

Cash - escrows

9,751

67,696

Grants and pledges receivable

35,251

Other receivables

20,059

Prepaid expenses

11,142

Expense escrows and deposits

200

Total Current Assets

134,348

Property and Equipment

1,927,935

Less accumulated depreciation

(981,939)

945,996

Other Assets

Reserve for property replacements

39,207

Escrow held through loan account

3,960

Investment in affiliated company

1,797

44,964

\$ 1,125,308

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses

\$ 1,310

Advance from affiliated company

2,664

Prepaid rent

194

Current maturities of long-term debt

28,729

Security deposits

3,305

Total Current Liabilities

36,202

Long-term debt

Line of credit

138,580

Notes payable, net of current maturities

312,901

451,481

Net Assets

Unrestricted

600,723

Temporarily restricted

36,902

637,625

\$ 1,125,308

Community Lodgings, Inc.
Statement of Activities
For the year ended May 31, 2010
(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	\$ 42,354	\$ -	\$ 42,354
Contributions/grants	201,993	540,225	742,218
Rental income	95,462	-	95,462
Other rental related income	17,710	-	17,710
Management fee	5,000	-	5,000
Investment income (loss)	53	-	53
Miscellaneous income	4,767	-	4,767
Interest	1,115	-	1,115
In-kind	214,451	-	214,451
Realized gain on investment	398	-	398
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>540,164</u>	<u>(540,164)</u>	<u>-</u>
	1,123,467	61	1,123,528
Expenses:			
Transitional Housing	443,193	-	443,193
Affordable Housing	74,850	-	74,850
Family Learning Center - Youth & Adult Education	503,985	-	503,985
Management and general	84,795	-	84,795
Fundraising	<u>84,685</u>	<u>-</u>	<u>84,685</u>
	1,191,508	-	1,191,508
Change in net assets	(68,041)	61	(67,980)
Net Assets, beginning of year	<u>668,764</u>	<u>36,841</u>	<u>705,605</u>
Net Assets, end of year	<u>\$ 600,723</u>	<u>\$ 36,902</u>	<u>\$ 637,625</u>

Community Lodgings, Inc.
Statement of Functional Expenses
For the year ended May 31, 2010
(See Independent Auditor's Report and notes to financial statements)

	Program Services					Total Expenses		
	Housing Program		Family Learning Center - Youth & Adult Education		Total Program Services			
	Transitional	Affordable	Youth & Adult Education	Total Program Services				
Mangement and General	Fundraising	Supporting Services	Total	Total Expenses				
Payroll and payroll taxes	\$ 174,623	\$ 7,684	\$ 218,476	\$ 400,783	\$ 53,906	\$ 65,823	\$ 119,729	\$ 520,512
Client support	42,202	-	110,604	152,806	-	-	-	152,806
Maintenance/repair/turnover	65,536	24,239	-	89,775	-	-	-	89,775
Depreciation	34,242	12,665	33,773	80,680	2,938	-	2,938	83,618
Tutors and teachers	845	-	54,715	55,560	-	-	-	55,560
Employee benefits	11,447	505	14,318	26,270	3,532	4,314	7,846	34,116
Professional fees	22,218	672	2,303	25,193	7,985	573	8,558	33,751
Property management	19,436	7,189	-	26,625	-	-	-	26,625
Utilities	17,541	6,487	-	24,028	-	-	-	24,028
Supplies	3,689	-	19,298	22,987	812	-	812	23,799
Office rent	7,609	335	9,519	17,463	2,349	2,868	5,217	22,680
Equipment	734	271	16,049	17,054	2,172	231	2,403	19,457
Property taxes	13,843	5,120	-	18,963	-	-	-	18,963
Insurance	8,545	3,161	4,317	16,023	854	568	1,422	17,445
Office utilities/cleaning	1,511	-	10,490	12,001	1,337	-	1,337	13,338
Interest	5,301	1,960	-	7,261	4,773	-	4,773	12,034
Communication	2,331	607	6,268	9,206	181	120	301	9,507
Fundraising - direct	-	-	-	-	-	9,067	9,067	9,067
Trash	6,276	2,321	-	8,597	-	-	-	8,597
Other expenses	3,274	898	1,201	5,373	181	362	543	5,916
Membership dues	1,073	397	1,360	2,830	507	338	845	3,675
Local travel	917	339	1,162	2,418	434	289	723	3,141
Bank charges	-	-	-	-	1,918	-	1,918	1,918
Postage and delivery	-	-	132	132	916	132	1,048	1,180
	<u>\$ 443,193</u>	<u>\$ 74,850</u>	<u>\$ 503,985</u>	<u>\$ 1,022,028</u>	<u>\$ 84,795</u>	<u>\$ 84,685</u>	<u>\$ 169,480</u>	<u>\$ 1,191,508</u>

Community Lodgings, Inc.
Statement of Cash Flows
For the year ended May 31, 2010
(See Independent Auditor's Report and notes to financial statements)

Cash flows from operating activities:	
Change in net assets	\$ (67,980)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Realized gain on investment	(398)
Depreciation	83,618
(Increase) decrease in grants and pledges receivable	1,590
(Increase) decrease in other receivables	(17,867)
(Increase) decrease in prepaid expenses	608
(Increase) decrease in expense escrows and deposits	280
Increase (decrease) in accounts payable and accrued expenses	(10,081)
Increase (decrease) in prepaid rent	(689)
Increase (decrease) in security deposits	<u>(1,155)</u>
Net cash provided (used) by operating activities	(12,074)
Cash flows from investing activities:	
Proceeds from sale of investment	1,463
Change in carrying amount of investment	<u>(56)</u>
Net cash provided (used) by investing activities	1,407
Cash flows from financing activities:	
Net distributions from reserves and escrows	734
Net borrowings against line of credit	71,012
Payment on long-term debt	<u>(28,116)</u>
Net cash provided (used) by financing activities	<u>43,630</u>
Net increase in cash and cash equivalents	32,963
Cash, beginning of year	<u>34,733</u>
Cash, end of year	<u>\$ 67,696</u>
Cash paid during the year for:	
Income taxes	\$ -
Interest expense	<u>\$ 12,034</u>
Summary of non-cash operating transactions:	
In-kind contribution for rent	\$ 22,680
In-kind contributions of goods/services	123,262
In-kind contributions of professional services	68,509
Rent expense	(22,680)
Supplies/services	<u>(191,771)</u>
Net non-cash operating transactions	<u>\$ -</u>

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2010
(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* consists of transitional and affordable housing units provided to homeless and low income families. The housing program includes 16 apartments provided to residents in Alexandria at below market rates. Transitional housing currently consists of 14 apartments dedicated to housing homeless families who are coming from the 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.

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, 2010
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

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. 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 reimbursable grants for costs incurred during the year ended May 31, 2010. It also includes amounts pledged by donors as of May 31, 2010. 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, 2010
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

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 May 31, 2010. 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, 2010. The Organization's 2007 through 2009 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.

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.

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2010
(See Independent Auditor's Report)

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 28, 2011, the date that the financial statements were available to be issued.

Note D – Investment Income

Income from investments consists of interest totaling \$12 and a realized gain of \$398. As of May 31, 2010, CLI had no remaining investments.

Note E – 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>(981,939)</u>
Net Book Value	<u>\$945,996</u>

Depreciation expense for the year ended May 31, 2010 totaled \$83,918.

Note F – 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 \$123,262 and professional services valued at \$68,509. 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, 2010
(See Independent Auditor's Report)

Note G – 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.	\$ 8,922
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.	\$ 5,221
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.	\$ 165,587
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.	\$ 161,900
	\$ 341,630
Less: Current maturities	(28,729)
Long-term debt	<u>\$ 312,901</u>

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. As of May 31, 2010, no amounts had been borrowed against this loan.

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2010
(See Independent Auditor's Report)

Note G – Long-term Debt, continued

Aggregate maturities of long-term debt subsequent to May 31, 2010, are as follows:

2010	\$ 28,729
2011	29,345
2012	29,928
2013	28,542
2014	26,738
Thereafter	<u>198,348</u>
	<u>\$ 341,630</u>

Note H – 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 May 31, 2010 was 4.25%. The line is secured by CLI's property. As of May 31, 2010, outstanding draws totaled \$138,580. Interest paid during the year ended May 31, 2010 totaled \$4,813. The loan is renewed annually.

Note I – 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, 2010 totaled \$267.

Note J – Net Assets

Temporarily restricted net assets at May 31, 2010 are available for the following purposes:

Grants and pledges receivable	\$ 35,252
For use in next year	<u>1,650</u>
	<u>\$36,902</u>

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2010
(See Independent Auditor's Report)

Note K – Major Donor

During the year ended May 31, 2010, CLI received approximately 17% of support from one major donor. In-kind contributions for the year ended May 31, 2010 accounted for 19% of support.

Note L – 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, 2010, CLI charged the partnership \$5,000 in management and administrative fees. At May 31, 2010 CLI owes the partnership \$2,664 from advances.

Note M – Rental Income

Rental income of \$95,462 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, 2010 totaled \$210,189. The subsidy paid for the year totaled \$114,727.

Community Lodgings, Inc.
Notes to Financial Statements
May 31, 2010
(See Independent Auditor's Report)

Note N – Subsequent Events

Related Party Transactions

Subsequent to May 31, 2010, CLI's ownership in the CLI Multifamily Partnership, LP changed from 1% to 99%. For the year ended May 31, 2011, this investment will be required to be reported under the equity method.

Loans Payable

Subsequent to May 31, 2010, CLI borrowed \$46,512 from the City of Alexandria (referred to in Note G) for repairs on the buildings. This amount is not included in the debt maturity schedule in Note G.