

**COMMUNITY HOUSING AND  
RESOURCES, INC.**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY  
INFORMATION TOGETHER WITH  
REPORTS OF INDEPENDENT AUDITOR**

**YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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Private Companies Practice Section

Tax Division

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Community Housing and Resources, Inc.  
2401 Library Way  
Sanibel, Florida 33957

We have audited the accompanying statements of financial position of Community Housing and Resources, Inc. (a not-for-profit organization) as of September 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Community Housing and Resources, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Community Housing and Resources, Inc. as of September 30, 2009 and the year then ended were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 26, 2010.

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. 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.

As more fully described in NOTE A to the financial statements, financial accounting standards require entities with common managerial, operational and financial control to be combined and reported as a single economic and financial entity. In accordance with financial accounting standards, FASB ASC 958-810-50-1 (formerly SOP 94-3), "Reporting of Related Entities by Not-for-Profit Organizations," for financial reporting purposes, Community Housing and Resources, Inc. and Coast and Island Community Land Trust, Inc. are considered to be such a single economic and financial entity. Coast and Island Community Land Trust simply acts as a land trust and holds title and/or land leases to certain land on which Community Housing and Resources, Inc. carries out its mission. Within these financial statements the entities will be collectively referred to as Community Housing Resources, Inc. These financial statements do include the assets, liabilities, net assets and changes in net assets of both entities.

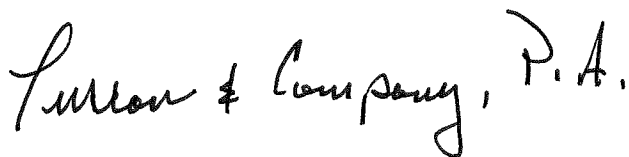
**INTEGRITY ..... SERVICE ..... EXPERIENCE**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Housing and Resources, Inc. as of September 30, 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.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2010, on our consideration of Community Housing and Resources, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered when assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Community Housing and Resources, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance for the year ended September 30, 2010, is presented for purposes of additional analysis as required by the Florida Single Audit Act (Florida Statute 215.97) and State of Florida Auditor General Rule 10.650, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Community Housing and Resources, Inc. taken as a whole. The accompanying Supplementary Information - Statement of Activities by CHR Development for the year ended September 30, 2010, is presented for purposes of additional analysis and is not a required part of the financial statements in conformity with accounting principles generally accepted in the United States of America but is required by an agreement with the City of Sanibel dated September 5, 2007. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



TUSCAN & COMPANY, P.A.  
Fort Myers, Florida  
February 18, 2011

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**September 30, 2010 and 2009**

<b>ASSETS</b>	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (including restricted cash of \$9,408 and \$113,711, respectively)	\$ 17,225	\$ 170,785
Certificate of deposit	-	78,040
Accounts receivable	5,482	836
Due from Lee County - SIFR	5,112	-
Other receivables	-	7,329
Inventory	872,000	-
Prepays and deposits	<u>48,041</u>	<u>69,784</u>
TOTAL CURRENT ASSETS	947,860	326,774
<b>PROPERTY AND EQUIPMENT, NET</b>	5,832,447	4,705,783
<b>DEVELOPMENT IN PROGRESS</b>	<u>-</u>	<u>1,992,510</u>
TOTAL ASSETS	<u>\$ 6,780,307</u>	<u>\$ 7,025,067</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 1,671,590	\$ 160,697
Accounts payable	168,466	15,076
Accrued liabilities	18,657	8,637
Deferred revenue	4,280	-
Security deposits	<u>41,625</u>	<u>38,723</u>
TOTAL CURRENT LIABILITIES	1,904,618	223,133
<b>DEFERRED COMPENSATION</b>	12,229	24,539
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	779,354	2,154,761
<b>COMMITMENTS AND CONTINGENCIES</b>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,696,201</u>	<u>2,402,433</u>
<b>NET ASSETS</b>		
Unrestricted	4,116,323	4,547,646
Temporarily restricted	<u>(32,217)</u>	<u>74,988</u>
TOTAL NET ASSETS	<u>4,084,106</u>	<u>4,622,634</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,780,307</u>	<u>\$ 7,025,067</u>

The accompanying notes are an integral part of this statement.

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENTS OF ACTIVITIES**  
**Years ended September 30, 2010 and 2009**

	2010		
	Unrestricted	Temporarily Restricted	Total
<b>CHANGES IN NET ASSETS</b>			
<b>SUPPORT AND REVENUE</b>			
State grants - SHIP	\$ -	\$ 568,469	\$ 568,469
Federal grants - CDBG HOME	-	70,000	70,000
Unit sales	1,297,754	-	1,297,754
City of Sanibel support	-	247,616	247,616
Rent and utility contribution	566,286	-	566,286
Public support	20,959	-	20,959
Interest income	1,132	-	1,132
Other income	8,012	-	8,012
<b>TOTAL SUPPORT AND REVENUE</b>	<b>1,894,143</b>	<b>886,085</b>	<b>2,780,228</b>
Net Assets Released from Restrictions	993,290	(993,290)	-
<b>TOTAL</b>	<b>2,887,433</b>	<b>(107,205)</b>	<b>2,780,228</b>
<b>EXPENSES</b>			
Program services	3,172,357	-	3,172,357
Supporting services	146,399	-	146,399
<b>TOTAL EXPENSES</b>	<b>3,318,756</b>	<b>-</b>	<b>3,318,756</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(431,323)</b>	<b>(107,205)</b>	<b>(538,528)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>4,547,646</b>	<b>74,988</b>	<b>4,622,634</b>
Prior period adjustment	-	-	-
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 4,116,323</b>	<b>\$ (32,217)</b>	<b>\$ 4,084,106</b>

The accompanying notes are an integral part of this statement.

2009		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ -	\$ 379,921	\$ 379,921
-	-	-
-	-	-
-	246,318	246,318
508,219	-	508,219
-	14,314	14,314
4,974	-	4,974
<u>43,228</u>	<u>656</u>	<u>43,884</u>
556,421	641,209	1,197,630
<u>585,362</u>	<u>(585,362)</u>	<u>-</u>
<u>1,141,783</u>	<u>55,847</u>	<u>1,197,630</u>
705,910	-	705,910
<u>372,237</u>	<u>-</u>	<u>372,237</u>
<u>1,078,147</u>	<u>-</u>	<u>1,078,147</u>
63,636	55,847	119,483
4,640,510	19,141	4,659,651
<u>(156,500)</u>	<u>-</u>	<u>(156,500)</u>
<u>\$ 4,547,646</u>	<u>\$ 74,988</u>	<u>\$ 4,622,634</u>

The accompanying notes are an integral part of this statement.

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Years Ended September 30, 2010 and 2009**

FUNCTIONAL EXPENSES	2010			
	SUPPORTING SERVICES			
	Program Services	Admin.	Fund Raising	Total Supporting Services
Compensation and related expenses				
Salaries	\$ 179,041	\$ 65,906	\$ -	\$ 65,906
Fringe benefits	46,898	17,263	-	17,263
Payroll taxes	15,699	5,779	-	5,779
	241,638	88,948	-	88,948
Accounting	38,004	4,223	-	4,223
Advertising and promotion	4,115	-	-	-
Bad debt	3,233	359	-	359
Bank charges	1,702	-	-	-
CICLT expense	7,329	-	-	-
City of Sanibel rental payment	62,500	-	-	-
Communication and web page	7,945	-	-	-
Contract labor	17,758	17,758	-	17,758
Cost of units sold	1,575,446	-	-	-
Credit verification	1,128	-	-	-
Grants to individuals	303,191	-	-	-
Homeowners association fees	11,775	-	-	-
Insurance	136,762	15,392	-	15,392
Interest	136,678	-	-	-
Licenses and fees	4,246	-	-	-
Miscellaneous	12,088	650	-	650
Office expense	2,701	300	-	300
Printing	626	625	-	625
Professional fees	85,412	-	-	-
Property taxes	8,251	-	-	-
Rent	91,115	-	-	-
Repairs and maintenance	80,648	8,654	-	8,654
Tenant assistance activities	10,633	-	-	-
Travel	8,548	-	-	-
Utilities	76,726	8,525	-	8,525
<b>TOTAL EXPENSES</b>				
<b>BEFORE DEPRECIATION</b>	2,930,198	145,434	-	145,434
Depreciation and amortization	242,159	965	-	965
<b>TOTAL EXPENSES</b>	<u>\$ 3,172,357</u>	<u>\$ 146,399</u>	<u>\$ -</u>	<u>\$ 146,399</u>



2009					
Total Expenses	SUPPORTING SERVICES				Total Expenses
	Program Services	Admin.	Fund Raising	Total Supporting Services	
\$ 244,947	\$ 142,341	\$ 126,226	\$ -	\$ 126,226	\$ 268,567
64,161	36,753	32,592	-	32,592	69,345
<u>21,478</u>	<u>11,888</u>	<u>10,543</u>	<u>-</u>	<u>10,543</u>	<u>22,431</u>
330,586	190,982	169,361	-	169,361	360,343
42,227	-	19,123	-	19,123	19,123
4,115	7,902	-	-	-	7,902
3,592	-	-	-	-	-
1,702	-	-	-	-	-
7,329	-	-	-	-	-
62,500	37,500	-	-	-	37,500
7,945	-	-	-	-	-
35,516	7,728	-	-	-	7,728
1,575,446	-	-	-	-	-
1,128	-	-	-	-	-
303,191	-	-	-	-	-
11,775	9,637	-	-	-	9,637
152,154	40,185	35,636	-	35,636	75,821
136,678	53,097	-	-	-	53,097
4,246	1,912	-	-	-	1,912
12,738	6,798	6,029	-	6,029	12,827
3,001	-	3,437	-	3,437	3,437
1,251	-	-	-	-	-
85,412	46,984	-	-	-	46,984
8,251	18,455	-	-	-	18,455
91,115	59,296	-	-	-	59,296
89,302	43,582	38,649	-	38,649	82,231
10,633	4,997	4,431	-	4,431	9,428
8,548	14,123	-	-	-	14,123
<u>85,251</u>	<u>54,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,960</u>
3,075,632	598,138	276,666	-	276,666	874,804
<u>243,124</u>	<u>107,772</u>	<u>95,571</u>	<u>-</u>	<u>95,571</u>	<u>203,343</u>
<u>\$ 3,318,756</u>	<u>\$ 705,910</u>	<u>\$ 372,237</u>	<u>\$ -</u>	<u>\$ 372,237</u>	<u>\$ 1,078,147</u>

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years ended September 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM</b>		
<b>OPERATING ACTIVITIES</b>		
Cash received from grants - State	\$ 570,969	\$ 379,921
Cash received from grants - Federal	70,000	-
Cash received from donors, tenants, homebuyers, and other operating activities	1,540,161	767,079
Cash paid to suppliers, cost of sales and employees	(1,501,503)	(807,313)
Interest paid	(189,880)	(53,097)
Interest received	1,132	4,974
Other income	<u>8,012</u>	<u>43,884</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>498,891</u>	 <u>335,448</u>
 <b>CASH FLOWS FROM</b>		
<b>INVESTING ACTIVITIES</b>		
Redemption of certificates of deposit	78,040	117,158
Purchase of property and equipment	(865,977)	(160,657)
Payments for developments in progress	<u>-</u>	<u>(1,739,400)</u>
 NET CASH USED IN INVESTING ACTIVITIES	 <u>(787,937)</u>	 <u>(1,782,899)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of principal on long-term debt	(939,923)	-
Proceeds from issuance of debt	1,075,409	1,354,996
Proceeds from line of credit borrowings	<u>-</u>	<u>150,000</u>
 NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	 <u>135,486</u>	 <u>1,504,996</u>
 NET INCREASE (DECREASE) IN CASH	 (153,560)	 57,545
 CASH, BEGINNING OF YEAR	 <u>170,785</u>	 <u>113,240</u>
 CASH, END OF YEAR	 <u>\$ 17,225</u>	 <u>\$ 170,785</u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF INCREASE (DECREASE)  
IN NET ASSETS TO NET CASH PROVIDED  
BY (USED IN) OPERATING ACTIVITIES**

	<u>2010</u>	<u>2009</u>
Increase (decrease) in net assets	\$ (538,528)	\$ 119,483
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	243,125	203,343
(Increase) decrease in accounts receivables, net	(4,646)	-
(Increase) decrease in due from Lee County - SIFR	(5,112)	-
(Increase) decrease in other receivables	7,329	(1,304)
(Increase) decrease in inventory/cost of sales	616,698	-
(Increase) decrease in prepaids and deposits	21,743	(13,097)
Increase (decrease) in accounts payable	153,390	32,502
Increase (decrease) in accrued liabilities	10,020	(4,387)
Increase (decrease) in deferred compensation	(12,310)	-
Increase (decrease) in deferred revenue - grants	2,500	-
Increase (decrease) in deferred revenue - other	1,780	-
Increase (decrease) in security deposits	<u>2,902</u>	<u>(1,092)</u>
	<u>1,037,419</u>	<u>215,965</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 498,891</u>	<u>\$ 335,448</u>

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Operations**

Community Housing and Resources, Inc. ("Community Housing and Resources or CHR ") is a nonprofit Florida corporation located on Sanibel Island, Florida ("Island"). The Organization's objective is to promote and assist in the provision of affordable below market-rate work force housing for individuals working on Sanibel Island, and certain other residents who would otherwise be unable to live on the Island. Specifically, Community Housing and Resources operates two (2) programs to meet its mission. As such, CHR provides below market-rate rental opportunities for the Island workforce as well as a partially subsidized home ownership program. CHR owns and operates housing units on the Island of Sanibel in which it operates and manages these programs. To a much lesser degree it acts as rental agent to place the targeted client population in third-party homes.

CHR, generally, leases land on a long-term basis from the City of Sanibel for \$1 per year, then builds housing units on the land to rent and/or sell. CHR did buy one land parcel (Centre Place) and built housing units it intended to sell and rent. As part of this effort, CHR formed a separate not-for-profit organization - Coast and Island Community Land Trust "CICLT". Although CICLT is a separate not-for-profit Florida corporation, it has no independent financial activity from that of CHR except to act as a land trust and hold title and/or land leases to certain land on which CHR carries out its mission.

CHR and CICLT meet the criteria of for consolidation in accordance with the auditing and accounting standards issued by the Financial Accounting Standards Board ("FASB") in the Accounting Standard Codification ("ASC") FASB ASC 958-810-50-1. These financial statements include the financial activity, financial results of operations, assets, liabilities and net assets of both CHR and CICLT, hereafter, collectively known as Community Housing Resource or CHR.

These financial statements, however, do not include the assets, liabilities, net assets or results of operations of Sanibel Land Trust Homeowners Associations, Inc., an HOA established to operate as a Homeowner Association for the CHR run locations where housing units were sold. HOA operations are anticipated to commence in calendar year 2011. The HOA has a calendar year fiscal year. CHR's Centre Place, Beach Road and Whitehall housing units, both rental and sale units, are included in the HOA.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the significant accounting policies used in the preparation of these financial statements:

**Basis of accounting**

Community Housing and Resources prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The accounting and reporting policies of Community Housing and Resources are in accordance with the auditing and accounting standards issued by the Financial Accounting Standards Board ("FASB") in the Accounting Standard Codification (ASC).

**Financial statement presentation**

The accounting and reporting policies of Community Housing and Resources are in accordance with the auditing and accounting standards issued by the American Institute of Certified Public Accountants in its audit guide, "Not-for-Profit Organizations," under the provisions for Voluntary Health and Welfare Organizations. As noted above, these financial statements also include the financial activity, assets, liabilities and net assets of CICLT.

Community Housing and Resources reports its financial statements in accordance with the Not-For-Profit Entities Topic of the FASB ASC. This topic requires Community Housing Resources 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. In addition, Community Housing and Resources is required to present a statement of cash flows. Community Housing and Resources had no permanently restricted net assets as of September 30, 2010 or 2009.

**Cash**

Cash is stated at the book balance. Cash is comprised of depository accounts. Community Housing and Resources maintains cash balances at various financial institutions. The cash accounts held at each institution, are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Cash, continued**

For purposes of the statements of cash flows, Community Housing and Resources considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Investments**

Investments include certificates of deposits (CD's). Investments are generally carried at market value. Community Housing and Resources has the ability to and intends to hold these investments to maturity. Gains and losses are determined using the specific identification method when securities are sold or matured. Due to the type and nature of investments held, any gain or loss is reflected as interest income. Related investment fees are considered insignificant.

**Inventory**

Inventory consists of four (4) unsold units at the Centre Place complex and are stated at the lower of cost or market using the first-in first-out inventory method. Inventory balances do not include two (2) unsold units at the Whitehall complex (Sanibel Highlands). These units are to be sold but due to certain circumstances relating to platting the sales are being delayed. No date certain for the sales can be determined. Therefore, the units are vacant until clear title can be achieved. As such, the units are being carried as fixed assets and depreciated until the sale of the units are closed.

**Property and equipment**

Property and equipment (fixed assets) is recorded at cost, or if donated, at fair market value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations, Community Housing and Resources report expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Community Housing and Resources reclassifies temporarily restricted net assets to unrestricted net assets at that time. Community Housing and Resources capitalizes assets with a cost or donated fair value of \$1,000 or more and a useful life of one year or more.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Property and equipment, continued**

Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets which range from 3 years to 27.5 years. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss on disposition is credited or charged to earnings. Debt related interest costs were capitalized as part of property and equipment.

Property and equipment held under capital leases is recorded at cost which approximates the present value of minimum lease payments over the term of the lease and is amortized using the straight-line method over their estimated useful lives. At September 30, 2010 and 2009, Community Housing and Resources held assets in the amount of \$4,400 and \$0, respectively, under a capital lease.

The Federal government, as well as the State of Florida, have rights and/or security interests over certain property acquired, partially, with grant funds.

**Impairment of fixed assets**

Community Housing and Resources adheres to the FASB ASC 360-10-50-2 (formerly Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets"). FASB ASC 360-10-50-2 requires, among other things, that entities identify events or changes in circumstances which indicate that the carrying amount of an asset may not be recoverable.

There was no effect on Community Housing and Resources financial statements resulting from FASB ASC 360-10-50-2 for the years ended September 30, 2010 or 2009.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Developments in progress**

Expenditures for developments in progress are recorded at cost. At the completion of these projects, March 2010, the costs were transferred to property and equipment and depreciated. Interest on loans directly related to developments in progress is capitalized as part of the cost of development. At the conclusion of the construction, interest on loans is charged to expense as incurred.

**Recognition of donor restrictions**

Community Housing and Resources reports its contributions in accordance with the Not-For-Profit Entities Topic of the FASB ASC. In accordance with this topic, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, or when the purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. For the years ended September 30, 2010 and 2009, Community Housing and Resources had no permanently restricted net assets.

Community Housing and Resources has received SHIP grant funds in the amount of approximately \$225,000 used as part of the 6 housing units held for sale by CHR at September 30, 2010. Terms of the grant require the units to be sold by May 1, 2011.

**Functional expenses**

Community Housing and Resources allocates and classifies its expenses on a functional basis by program and supporting services. The expenses that are directly attributable to Community Housing and Resources' programs have been charged directly to the program. Substantially all the supporting services expenses incurred by Community Housing and Resources directly benefit the programs. However, no allocation of these supporting services costs has been made by Community Housing and Resources, as no objective allocation basis is available.



**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Income taxes**

Community Housing and Resources and Coast and Island Community Land Trust are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Neither entity is classified as a private foundation within the meaning of Section 509(a) of the Code.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. Both Community Housing and Resources and Coast and Island Community Land Trust report no unrelated business taxable income; however, such status is subject to final determination upon examination of the related tax returns by the appropriate taxing authorities.

**Advertising costs**

It is the policy of Community Housing and Resources to expense advertising costs when incurred.

**Financial instruments**

Community Housing and Resources financial instruments consist of cash, certificates of deposit, accounts receivable, prepaid expenses, accounts payable, accrued expenses, and long term debt. The carrying amounts of these items approximate their fair value.

**Leases**

Rental units owned by Community Housing and Resources were approximately 92% occupied September 30, 2010 and 80% occupied at September 30, 2009. These units are rented to individuals on one-year cancelable leases subject to the provisions of the below market rate housing program guidelines.

**Donated materials and services**

Community Housing and Resources receives donated office space (rent), office supplies, utilities and certain maintenance services. Also a number of other volunteers, including the Board of Directors, donate significant amounts of their time

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Donated materials and services, continued**

and expertise to Community Housing and Resources and its programs. No amounts have been recorded for donated goods or services inasmuch as no objective basis is available to measure the value of such services.

**Management estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Community Housing and Resources to make estimates and assumptions that affect the reported amounts of assets, liabilities and net assets and disclosure of contingent assets and liabilities at September 30, 2010 and 2009, and revenues and expenses during the year ended September 30, 2010 and 2009. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made in the 2009 financial statements to conform with the classifications used in 2010. These reclassifications had no impact on the financial position or changes in net assets as previously reported.

**Subsequent events**

Subsequent events have been evaluated through February 18, 2011, which is the date the financial statements were available to be issued.

**NOTE B - CASH AND INVESTMENTS**

Cash consists of the following at September 30:

	<u>2010</u>	<u>2009</u>
Depository account - unrestricted	\$ 7,817	\$ 57,074
Depository accounts - restricted	<u>9,408</u>	<u>113,711</u>
	<u>\$ 17,225</u>	<u>\$ 170,785</u>

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2010 and 2009**

**NOTE B - CASH AND INVESTMENTS, CONTINUED**

Restricted cash is comprised of the following at September 30:

	2010	2009
Tenant assistance fund	\$ 537	\$ 8,575
Tenant security deposits	5,880	8,025
Credit report	456	443
Buyer downpayment account	2,535	24,145
Centre Street construction account	-	72,523
	\$ 9,408	\$ 113,711

**Investments**

Investments are comprised of the following at September 30:

	2010	2009
Certificate of deposit	\$ -	\$ 78,040

**Concentration of credit risk**

Community Housing and Resources maintains its cash as well as its certificate of deposit (CD), in financial institutions. These assets are federally insured up to \$250,000 per financial institution. Community Housing and Resources' cash accounts and certificate of deposit were fully covered by Federal Depository Insurance at both September 30, 2010 and 2009.

**NOTE C - INVENTORY**

Inventory consists of the following at September 30:

	2010	2009
Centre Place - 4/3 bedroom units	\$ 872,000	\$ -

Upon resolution of a platting issue CHR will have two (2) additional units available for sale at Whitehall Road (Sanibel Highlands).

**NOTE D - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at September 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 823,913	\$ 823,913
Buildings and improvements, rentals	7,001,812	5,867,309
Furniture and equipment	17,312	18,397
Equipment under capital lease	<u>4,400</u>	<u>-</u>
	7,847,437	6,709,619
Accumulated depreciation	<u>(2,014,990)</u>	<u>(2,003,836)</u>
	<u>\$ 5,832,447</u>	<u>\$ 4,705,783</u>

Assets held under capital lease at September 30, 2010, consist of a copier with an original cost of \$4,400. The copier was purchased near the end of the fiscal year ended September 30, 2010. Therefore, no depreciation was charged for the copier for the year ended September 30, 2010. Accumulated depreciation on assets held under capital lease totaled \$0 and \$0 at September 30, 2010 and 2009, respectively.

Depreciation expense for the years ended September 30, 2010 and 2009, was \$243,124 and \$203,343, respectively.

**NOTE E - DEVELOPMENT IN PROGRESS**

Expenditures for development in progress (Centre Place) are recorded at cost. At the completion of this project it will be transferred into Buildings and Improvements and depreciated or allocated to inventory and cost of units sold, as applicable.

Development in progress of \$1,992,510, at September 30, 2009 relates to the construction of Centre Place. Centre Place is a 14-unit below market-rate workforce housing community located on Sanibel. Centre Place was completed in March 2010. As such, the cost of the units held for sale were transferred to inventory. The cost of the rental units was transferred to Buildings and Improvements and depreciated. Interest costs were capitalized during construction in the amount of \$53,202 and \$6,616, for the years ending September 30, 2010 and 2009, respectively.

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2010 and 2009**

**NOTE F - ACCRUED LIABILITIES**

Accrued liabilities consist of the following at September 30:

	<u>2010</u>	<u>2009</u>
Accrued interest	\$ 713	\$ 713
Accrued IRA	8,067	4,812
Accrued payroll and payroll taxes	9,503	3,112
Other liabilities	<u>374</u>	<u>-</u>
	<u>\$ 18,657</u>	<u>\$ 8,637</u>

**NOTE G - DEFERRED REVENUE**

Deferred revenue consists of the following at September 30:

	<u>2010</u>	<u>2009</u>
Prepaid rent	\$ 1,780	\$ -
Deferred grant- Centre Place	<u>2,500</u>	<u>-</u>
	<u>\$ 4,280</u>	<u>\$ -</u>

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2010 and 2009**

**NOTE H - LONG-TERM DEBT**

Long-term debt consists of the following obligations at September 30:

	<u>2010</u>	<u>2009</u>
Mortgage payable (\$2,400,000), to a financial institution, payable in one principal installment at October 24, 2011. Interest is payable monthly at a variable rate of Prime but not less than 5.25%. The obligation is collateralized by various real property. The State of Florida, Department of Community Affairs, has a secondary lien on this real estate. Interest rate at September 30, 2010 was 5.25%	\$1,565,367	\$1,364,916
Mortgage payable (\$815,000), to a financial institution, payable in 240 monthly installments of \$5,201 including principal and interest at a fixed rate of 6.5%. The obligation is collateralized by various real property and all future rents. Final principal payment of approximately \$461,412 is due February 25, 2028.	789,138	800,542
Note payable (\$70,788) to a financial institution, in monthly installments of interest at a rate of 5.5%. Principal due in full June 14, 2011. The obligation is cross collateralized with the \$815,000 mortgage payable.	70,788	-
Capital lease payable to a corporation, in (36) monthly installments for \$127 including principal and interest. The obligation is collateralized by the respective equipment. Interest accrues at 2.5%. Final payment due 2013.	4,400	-
Line of credit (\$200,000) payable to a financial institution in monthly installments of interest at Prime plus one quarter percent. The line of credit was collateralized by the certificate of deposit. Principal due March 14, 2010.	-	150,000

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2010 and 2009**

**NOTE H - LONG-TERM DEBT, CONTINUED**

Long-term debt consists of the following obligations at September 30:

	<u>2010</u>	<u>2009</u>
Note payable to insurance funding company, payable monthly in the amount of \$3,399 including principal and interest. Interest accrues at 5.79%. Collateralized by the respective insurance coverage. Final payment due April 19, 2011.	20,055	-
Note payable to insurance funding company, payable monthly in the amount of \$368 including principal and interest. Interest accrues at 7.39%. Collateralized by the respective insurance coverage. Final Payment due December 25, 2010.	<u>1,196</u>	<u>-</u>
	2,450,944	2,315,458
Current Portion	<u>(1,671,590)</u>	<u>(160,697)</u>
Long-Term Portion	<u>\$ 779,354</u>	<u>\$2,154,761</u>

Certain of the debt agreements noted above contain restrictive covenants and conditions.

Interest expense related to long-term debt was \$136,678 and \$53,097 (including interest expense incurred regarding the lines of credit) for the years ended December 31, 2010 and 2009, respectively.

Principal maturities of long-term debt are as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2011	\$ 1,671,590
2012	13,762
2013	14,111
2014	13,983
2015	14,919
2016-2020	90,991
2021-2025	125,823
2026-2028	<u>505,765</u>
	<u>\$ 2,450,944</u>

**NOTE I - SCHEDULE OF NET ASSETS**

Net assets are available for the following purposes at September 30:

	<u>2010</u>	<u>2009</u>
Unrestricted - general operations	\$ 4,116,323	\$ 4,547,646
Temporarily restricted, (deficit)	<u>(32,217)</u>	<u>74,988</u>
	<u>\$ 4,084,106</u>	<u>\$ 4,622,634</u>

Restricted net assets are intended to reflect the difference between restricted cash and liabilities payable from restricted cash (security deposits). At September 30, 2010 and 2009, the deficit restricted net asset balance was due to security deposit liability in excess of cash held. In a prior year restricted cash was incorrectly used for operational purposes.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

Community Housing and Resources is currently receiving, and has received in the past, grant funds which are subject to special compliance audits by the grantor agencies. These audits may result in disallowed expense amounts.

Disallowed amounts, if any, constitute a contingent liability of Community Housing and Resources. Accordingly, such liabilities are not reflected within the financial statements. Community Housing and Resources does not believe any contingent liabilities, if any, to be material.

**NOTE K - ECONOMIC DEPENDENCE**

The operations of Community Housing and Resources is dependent on the receipt of program revenue from individual rental unit tenants and the City of Sanibel. Loss of these funds and/or large decreases in these types of funding would have a material effect on Community Housing and Resources and a negative impact on overall operations. For the years ended September 30, 2010 and 2009, approximately 29% and 63% of total support and revenue, respectively, was attributable to amounts received for the account classifications listed above.



**NOTE L - RELATED PARTY TRANSACTIONS**

The 1999 CHR/City of Sanibel Casa Mariposa Construction Funding Agreement requires CHR to pay the City of Sanibel 80% of the fiscal year net rental proceeds for Casa Mariposa, based on the income and expenses as of the fiscal year end of September 30, 2010 and 2009. No amounts were paid by CHR to the City of Sanibel under this agreement for the years ended September 30, 2010 or 2009.

The 2003 CHR/City of Sanibel Woodhaven Construction Funding Agreement requires CHR to pay the City of Sanibel \$50,000 each fiscal year. A credit against this payment is given for the amount paid by CHR each December for the Casa Mariposa net rental proceeds. Under this agreement and in light of the above noted agreement, CHR paid the City \$62,500 and \$37,500 for the years ended September 30, 2010 and 2009, respectively.

The CHR/City of Sanibel Agreement provides that the City has designated CHR as its affordable housing agency. As such, the City provides office space, utilities, certain office supplies (limited to \$4,500 annually) and maintenance services to CHR free of charge. No amounts for these services have been provided for in these financial statements as no objective method has been determined to do so.

The City of Sanibel also provided CHR operating revenue of \$247,616 and \$246,318 for the years ended September 30, 2010 and 2009, respectively.

**NOTE M - PENSION PLAN**

CHR maintains a salary continuation plan covering all employees meeting certain eligibility requirements. The plan provides for semiannual employer contributions to the plan at a fixed amount. The plan also provided for voluntary contributions by participants. The annual contribution for the year ended September 30, 2009, of \$1,865 is included in the payroll taxes and benefits line on the Statement of Functional Expenses. There were no such amounts paid during the year ended September 30, 2010.

**NOTE N - LITIGATION**

Community Housing and Resources is involved from time to time in routine litigation, the substance of which would not materially affect its financial position, due to third party insurance coverage and/or federal tort limits. Community Housing and Resources is not in a position at either September 30, 2010 or 2009 to predict a final outcome of such lawsuits or claims, or the related costs involved. Community Housing and Resources intends to vigorously contest all claims unless first settled.

**NOTE O - PRIOR PERIOD ADJUSTMENT**

During the fiscal year ending September 30, 2004, Community Housing and Resources was required to convey the Woodhaven project land to the City of Sanibel as a requirement of a grant for development. During the year ended September 30, 2009, it was discovered that a portion of land included in the transfer with the City was erroneously being reported as land on Community Housing and Resources' financial statements; consequently overstating asset and net assets by \$156,500. Community Housing and Resources has corrected this error through a decrease to beginning of the year net assets and a decrease to land in the amount of \$156,500.

**NOTE P - TENANT'S INDEXED APPRECIATION PERCENTAGE**

As part of the sales contracts for units sold by Community Housing and Resources, CHR is required to rebuy the unit when the owner elects to sell it. As such, CHR is required to accrue and pay owners a guaranteed appreciation on their units when the unit is sold because the unit must be reacquired by CHR. Since the owner buys and sells the housing unit only, not the underlying land, the guarantee amount is used by CHR as an incentive to potential buyers. The guarantee is limited to a 25% appreciation of the purchase price, as defined, over a maximum of ten (10) year period beginning after one (1) year from the date of sale. The guarantee is based on a predetermined graduated scale at time of initial purchase. The owner also is entitled to a graduated conditional guaranteed appreciation amount up to 5% of the purchase price, as defined. This guaranteed amount can be reduced by CHR for repairs required to resell the unit. Since the eight (8) units sold by CHR during the year ended September 30, 2010 were sold on September 30, 2010, no accrual was required at September 30, 2010 or 2009.

**SUPPLEMENTARY INFORMATION**

**COMMUNITY HOUSING AND RESOURCES, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 AND STATE FINANCIAL ASSISTANCE  
 Year Ended September 30, 2010**

<u>Grantor Agency/Program/Project Title</u>	<u>CFDA/ CSFA Number</u>	<u>Grant Contract Number</u>
<b><u>Federal Awards</u></b>		
<b>Department of Housing and Urban Development</b>		
Passed through Lee County, Florida		
NON-MAJOR		
CDBG/HOME	14.239	4177-02
<b>TOTAL FEDERAL AWARDS</b>		
<b><u>State Financial Assistance</u></b>		
<b>Department of Community Affairs</b>		
Passed through Lee County, Florida		
MAJOR (Type A)		
Lee County Capital Grant - SHIP	52.901	C-3749
Lee County Capital Grant - SHIP	52.901	C-3750
Lee County Capital Grant - SHIP	52.901	C-3937
Lee County Capital Grant - SHIP	52.901	C-4659
Lee County Capital Grant - SHIP	52.901	C-4671
Lee County Capital Grant - SHIP	52.901	C-4738
		TOTAL CSFA 52.901
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>		

Program/Project Award Amount	Reciepts/ Revenue Recognized	Disbursements/ Expenditures
\$ 150,000	\$ 70,000	\$ 70,000
<u>\$ 150,000</u>	<u>\$ 70,000</u>	<u>\$ 70,000</u>
\$ 80,000	\$ 80,000	\$ 80,000
255,000	255,000	255,000
113,191	81,078	81,078
42,500	13,809	13,809
195,000	95,000	95,000
55,700	43,582	43,582
-	-	-
<u>741,391</u>	<u>568,469</u>	<u>568,469</u>
<u>\$ 741,391</u>	<u>\$ 568,469</u>	<u>\$ 568,469</u>

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL**  
**AWARDS AND STATE FINANCIAL ASSISTANCE**  
**Year Ended September 30, 2010**

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**NOTE A - BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Awards and State Financial Assistance has been prepared on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and is in accordance with the provisions of the Florida Single Audit Act (F.S. 215.97), and the State of Florida Rules of the Auditor General 10.650.

Expenditures reported on the Schedule of Expenditures of Federal Awards and State Financial Assistance include cash disbursements, whether capitalized or expensed, during the fiscal year as well as grant related amounts recorded as payable at year end. Revenues reported on the Schedule of Expenditures of Federal Awards and State Financial Assistance include cash receipts, whether recognized or deferred, as well as grant receivables recorded at year end.

**NOTE B - INDIRECT COSTS**

Community Housing & Resources did not routinely allocate costs to Federal Awards programs and State Financial Assistance projects. Costs charged to such programs/projects were direct costs unless specifically incurred for the program and allowed and indicated as such.

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENT OF ACTIVITIES BY CHR DEVELOPMENT (UNAUDITED)**  
**Year Ended September 30, 2010**

	Direct Cost			
<b>SUPPORT AND REVENUE</b>	Airport	Algiers	Beach	Belding
State grants - SHIP	\$ -	\$ -	\$ 81,078	\$ -
Federal grants - CDBG/Home	-	-	-	-
Unit sales	-	-	465,754	-
City of Sanibel Support	-	-	-	-
Rent and utility contribution	81,899	8,143	19,548	12,756
Public support	-	-	-	-
Interest income	-	-	-	-
Other income	514	-	-	40
<b>TOTAL SUPPORT AND REVENUE</b>	<b>\$ 82,413</b>	<b>\$ 8,143</b>	<b>\$ 566,380</b>	<b>\$ 12,796</b>
<b>FUNCTIONAL EXPENSES</b>				
Compensation and related expenses	-	-	-	-
Accounting	-	-	-	-
Advertising and promotion	-	-	-	-
Bad debt	-	-	-	-
Bank charges	10	-	-	-
CICLT expense	-	-	-	-
City of Sanibel rental payment	-	-	-	-
Communication and web page	-	-	-	-
Contract labor	455	-	3,280	75
Cost of units sold	-	-	297,606	-
Credit verification	-	-	-	-
Depreciation and amortization	27,394	809	17,272	6,010
Grants to individuals	-	-	113,191	-
Homeowners association fees	-	-	-	235
Insurance	3,097	-	1,912	984
Interest	-	-	-	-
Licenses and fees	-	1,463	-	-
Miscellaneous	-	-	-	-
Office expense	-	-	-	-
Printing	-	-	-	-
Professional fees	-	2,800	7,777	-
Property taxes	177	-	120	658
Rent	-	-	-	-
Repairs and maintenance	7,937	6,158	7,080	819
Tenant assistance activities	-	-	-	-
Travel	-	-	-	-
Utilities	11,014	-	5,639	889
<b>TOTAL EXPENSES</b>	<b>50,084</b>	<b>11,230</b>	<b>453,877</b>	<b>9,670</b>
<b>NET INCOME /LOSS</b>	<b>\$ 32,329</b>	<b>\$ (3,087)</b>	<b>\$ 112,503</b>	<b>\$ 3,126</b>

## Direct Cost

Casa Mariposa	Center Place	Mahogany	Riverview	Sanibel Highlands	Woodhaven	Wooster
\$ -	\$ 430,000	\$ -	\$ -	\$ 43,582	\$ -	\$ -
-	70,000	-	-	-	-	-
-	832,000	-	-	-	-	-
-	-	-	-	-	-	-
78,679	53,472	90,309	41,314	19,767	77,018	19,187
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>341</u>	<u>60</u>	<u>405</u>	<u>1,011</u>	<u>80</u>	<u>3,616</u>	<u>245</u>
\$ 79,020	\$ 1,385,532	\$ 90,714	\$ 42,325	\$ 63,429	\$ 80,634	\$ 19,432
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,252	-	-	-	-	-
4,468	595	-	1,567	-	79	-
-	93	-	493	-	30	-
-	7,329	-	-	-	-	-
6,334	-	-	-	-	56,166	-
-	-	-	-	-	-	-
165	1,580	30	489	383	430	-
-	1,276,379	-	-	-	1,469	-
-	-	-	-	-	-	-
31,962	26,985	26,852	15,906	11,218	69,006	5,525
-	190,000	-	-	-	-	-
-	-	-	-	-	-	11,540
14,388	29,305	5,217	6,606	3,423	8,519	-
-	73,958	-	61,714	-	-	-
250	123	-	160	800	345	-
-	-	-	-	-	132	-
-	-	-	-	-	-	-
-	234	-	-	-	-	-
-	9,828	-	150	10,315	-	-
403	4,711	207	148	1,408	351	68
-	-	-	-	-	-	-
7,440	2,324	10,748	17,902	10,730	7,711	1,308
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>12,946</u>	<u>10,996</u>	<u>11,549</u>	<u>14,095</u>	<u>3,554</u>	<u>12,685</u>	<u>-</u>
<u>78,356</u>	<u>1,635,692</u>	<u>54,603</u>	<u>119,230</u>	<u>41,831</u>	<u>156,923</u>	<u>18,441</u>
<u>\$ 664</u>	<u>\$ (250,160)</u>	<u>\$ 36,111</u>	<u>\$ (76,905)</u>	<u>\$ 21,598</u>	<u>\$ (76,289)</u>	<u>\$ 991</u>



**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENT OF ACTIVITIES BY CHR DEVELOPMENT (UNAUDITED), CONTINUED**  
**Year Ended September 30, 2010**

<b>SUPPORT AND REVENUE</b>	<b>CHR</b>		<b>Clam Bayou</b>	<b>Lakeview</b>
	<b>Unallocated Direct</b>	<b>Total CHR Properties</b>		
State grants - SHIP	\$ 13,809	\$ 568,469	\$ -	\$ -
Federal grants - CDBG/Home	-	70,000	-	-
Unit sales	-	1,297,754	-	-
City of Sanibel Support	61,904	61,904	-	-
Rent and utility contribution	-	502,092	8,452	23,524
Public support	20,660	20,660	-	-
Interest income	1,132	1,132	-	-
Other income	1,140	7,452	-	130
<b>TOTAL SUPPORT AND REVENUE</b>	<b>\$ 98,645</b>	<b>\$ 2,529,463</b>	<b>\$ 8,452</b>	<b>\$ 23,654</b>
<b>FUNCTIONAL EXPENSES</b>				
Compensation and related expenses	-	-	-	-
Accounting	-	-	-	-
Advertising and promotion	137	1,389	-	-
Bad debt	-	6,709	-	-
Bank charges	150	776	-	-
CICLT expense	-	7,329	-	-
City of Sanibel rental payment	-	62,500	-	-
Communication and web page	13	13	-	-
Contract labor	3,250	10,137	-	-
Cost of units sold	-	1,575,454	-	-
Credit verification	1,128	1,128	-	-
Depreciation and amortization	3,030	241,969	-	-
Grants to individuals	-	303,191	-	-
Homeowners association fees	-	11,775	-	-
Insurance	62,038	135,489	-	-
Interest	991	136,663	-	-
Licenses and fees	499	3,640	-	-
Miscellaneous	7,698	7,830	-	-
Office expense	127	127	-	-
Printing	-	234	-	-
Professional fees	6,470	37,340	-	-
Property taxes	-	8,251	-	-
Rent	-	-	9,336	32,967
Repairs and maintenance	3,443	83,600	-	-
Tenant assistance activities	10,632	10,632	-	-
Travel	912	912	-	-
Utilities	10	83,377	-	48
<b>TOTAL EXPENSES</b>	<b>100,528</b>	<b>2,730,465</b>	<b>9,336</b>	<b>33,015</b>
<b>NET INCOME /LOSS</b>	<b>\$ (1,883)</b>	<b>\$ (201,002)</b>	<b>\$ (884)</b>	<b>\$ (9,361)</b>

## Private Market - Direct Cost

Rabbit Road	Siesta Pines Ct	Tennis Place	Tropicana	Total Private Mkt Properties	Unallocated Indirect Expenses	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 568,469
-	-	-	-	-	-	70,000
-	-	-	-	-	-	1,297,754
-	-	-	-	-	185,712	247,616
6,773	8,752	8,220	8,472	64,193	-	566,285
-	-	-	-	-	300	20,960
-	-	-	-	-	-	1,132
<u>(851)</u>	<u>10</u>	<u>851</u>	<u>120</u>	<u>260</u>	<u>300</u>	<u>8,012</u>
\$ 5,922	\$ 8,762	\$ 9,071	\$ 8,592	\$ 64,453	\$ 186,312	\$ 2,780,228
-	-	-	-	-	330,587	330,587
-	-	-	-	-	42,227	42,227
-	-	-	-	-	2,726	4,115
-	-	1,237	-	1,237	-	7,946
-	-	-	-	-	926	1,702
-	-	-	-	-	-	7,329
-	-	-	-	-	1	62,501
-	-	-	-	-	3,579	3,592
-	-	-	-	-	-	10,137
-	-	-	-	-	-	1,575,454
-	-	-	-	-	-	1,128
-	-	-	-	-	1,157	243,126
-	-	-	-	-	-	303,191
-	-	-	-	-	25,381	37,156
-	-	-	-	-	16,664	152,153
-	-	-	-	-	14	136,677
-	-	-	-	-	606	4,246
-	-	-	-	-	4,908	12,738
-	-	-	-	-	2,874	3,001
-	-	-	-	-	1,017	1,251
-	-	-	-	-	48,071	85,411
-	-	-	-	-	-	8,251
10,114	9,480	11,218	18,000	91,115	-	91,115
-	789	225	-	1,014	4,688	89,302
-	-	-	-	-	-	10,632
-	-	-	-	-	7,636	8,548
<u>187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235</u>	<u>1,641</u>	<u>85,253</u>
<u>10,301</u>	<u>10,269</u>	<u>12,680</u>	<u>18,000</u>	<u>93,601</u>	<u>494,703</u>	<u>3,318,769</u>
<u>\$ (4,379)</u>	<u>\$ (1,507)</u>	<u>\$ (3,609)</u>	<u>\$ (9,408)</u>	<u>\$ (29,148)</u>	<u>\$ (308,391)</u>	<u>\$ (538,541)</u>

**ADDITIONAL REPORTS OF  
INDEPENDENT AUDITOR**



**TUSCAN**  
& Company, PA

**Certified Public Accountants & Consultants**

Affiliations

Florida Institute of Certified Public Accountants

American Institute of Certified Public Accountants

Private Companies Practice Section

Tax Division

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**Independent Auditor's 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  
Community Housing and Resources, Inc.  
2401 Library Way  
Sanibel, Florida 33957

We have audited the financial statements of Community Housing and Resources, Inc. as of and for the year ended September 30, 2010, and have issued our report thereon dated February 18, 2011. 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 audit, we considered Community Housing and Resources, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Housing and Resources, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Housing and Resources, Inc.'s internal control over financial reporting.

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 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.

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12621 World Plaza Lane, Building 55 • Fort Myers, FL 33907 • Phone: (239) 333-2090 • Fax: (239) 333-2097

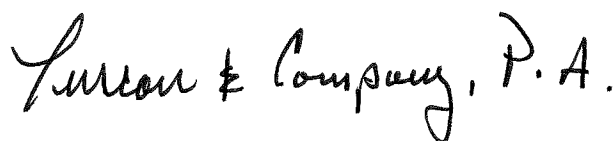
A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of 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 deficiencies, significant deficiencies or material weaknesses. We did identify deficiencies in internal control over financial reporting that we consider to be control deficiencies, significant deficiencies and material weaknesses, as defined above and which are reflected in our Report to Management dated February 18, 2011.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Housing and Resources, Inc.'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are reflected in our Report to Management dated February 18, 2011.

This report is intended solely for the information and use of the Board of Directors, management, federal and state awarding agencies, pass-through entities, the Auditor General of the State of Florida, and federal and state audit agencies. This report is not intended to be, and should not be, used by anyone other than these specified parties.



TUSCAN & COMPANY, P.A.

Fort Myers, Florida

February 18, 2011



**TUSCAN**  
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Tax Division

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
 REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
 EFFECT ON EACH MAJOR PROJECT AND ON INTERNAL CONTROL OVER  
 COMPLIANCE IN ACCORDANCE WITH THE FLORIDA SINGLE AUDIT ACT  
 (FLORIDA STATUTE 215.97)**

Board of Directors  
 Community Housing and Resources, Inc.  
 2401 Library Way  
 Sanibel, Florida 33957

Compliance

We have audited the compliance of Community Housing and Resources, Inc. with the types of compliance requirements described in the "State Projects Compliance Supplement" that are applicable to each of its major projects for the year ended September 30, 2010. Community Housing and Resources, Inc.'s major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major projects are the responsibility of Community Housing and Resources, Inc.'s management. Our responsibility is to express an opinion on Community Housing and Resources, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Florida Single Audit Act (Florida Statute 215.97) and the State of Florida, Rules of the Auditor General 10.550. Those Standards, the Florida Single Audit Act (Florida Statute 215.97), and the State of Florida, Rules of the Auditor General 10.650 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about Community Housing and Resources, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Community Housing and Resources, Inc.'s compliance with those requirements.

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In our opinion, Community Housing and Resources, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major state projects for the year ended September 30, 2010 except as noted in our Report to Management dated February 18, 2011.

#### Internal Control Over Compliance

The management of Community Housing and Resources, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state projects. In planning and performing our audit, we considered Community Housing and Resources, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Housing and Resources, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, in internal control, that adversely affects the entity's ability to administer a state project such that there is a reasonable possibility that noncompliance with a type of compliance requirement of a state project that is more than inconsequential will not be prevented, or detected and corrected, by the entity's internal control. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did identify deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above, which are reflected in our Report to Management dated February 18, 2011.

This report is intended solely for the information and use of the Board of Directors, management, federal and state awarding agencies, pass-through entities and the Auditor General of the State of Florida. This report is not intended to be, and should not be, used by anyone other than these specified parties.

*Tuscan & Company, P.A.*

TUSCAN & COMPANY, P.A.

Fort Myers, Florida

February 18, 2011



**COMMUNITY HOUSING AND RESOURCES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED**  
**COSTS - FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**Year Ended September 30, 2010**

***Section I – Summary of Auditor’s Results***

Financial Statements

Type of auditor's report issued	Unqualified		
Internal control over financial reporting:			
Control deficiency(es) identified?	<u>        X        </u>	Yes	<u>                        </u> No
Significant deficiency(es) identified?	<u>        X        </u>	Yes	<u>                        </u> No
Material weakness(es) identified?	<u>        X        </u>	Yes	<u>                        </u> None reported
Noncompliance material to financial statements noted?	<u>        X        </u>	Yes	<u>                        </u> No

State Financial Assistance

Internal control over major projects:			
Control deficiency(es) identified?	<u>        X        </u>	Yes	<u>                        </u> No
Significant deficiency(es) identified?	<u>        X        </u>	Yes	<u>                        </u> No
Material weakness(es) identified?	<u>        X        </u>	Yes	<u>                        </u> None reported
Type of auditors report issued on compliance for major programs	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Rules of the Auditor General 10.654(1)(1)?	<u>                        </u>	Yes	<u>        X        </u> No
Identification of major programs (Type A):			

CSFA

Number(s)

52.901

Name of State Program or Cluster

Florida Department of Community Affairs, State Housing Initiative Partnership  
 Lee County Capital Grant

Dollar threshold used to distinguish between major and nonmajor projects?                      Threshold used was \$170,541

Listing of Subrecipients and amounts passed-through:                      None - Not applicable

***Section II- Financial Statement Findings***

There were significant deficiencies, material weaknesses, or instances of material noncompliance related to the financial statements. See Report to Management.

**SCHEDULE OF FINDINGS AND QUESTIONED**

**COSTS - FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE, CONTINUED**

**Year Ended September 30, 2010**

*Section III- State Financial Assistance Findings and Questioned Costs*

There were no audit findings related to state financial assistance required to be reported by Rules of the Auditor General 10.654(1)(1).

*Status of Federal and/or State Prior Year Findings*

There were no prior year findings.



**INDEPENDENT AUDITOR'S REPORT TO MANAGEMENT**

Board of Directors  
Community Housing and Resources, Inc.  
2401 Library Way  
Sanibel, Florida 33957

In planning and performing our audit of the financial statements of Community Housing and Resources, Inc. (a not-for-profit organization), for the years ended September 30, 2010 and 2009, we considered Community Housing and Resources, Inc.'s internal controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In connection with our audit, we are submitting the following comments and recommendations in accordance with Rules of the Auditor General, Chapter 10.650 "Florida Single Audit Act Audits - Nonprofit and For-Profit Organizations" (Revised September 30, 2010) Rule 10.656(3)(e) and Section 215.97(9)(f), of the Florida Statutes. Although our audit was not designed to provide assurance on the internal controls, we noted certain matters involving the internal controls and their operations and are submitting for your consideration, related recommendations designed to help Community Housing and Resources, Inc. make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to Community Housing and Resources, Inc.

**PRIOR YEAR COMMENTS:**

We are aware of no prior year comments issued by the predecessor auditors.

**CURRENT YEAR COMMENTS:**

1. Filing and Historical Document Retention Should be Improved  
During the audit, we noted that the staff had difficulty locating and obtaining many documents filed by previous administrations. As such, current staff worked diligently in searching for and/or working with third parties to obtain such documents. The lack of historical documents did extend the audit process and required a great deal of additional effort by your staff.

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1. Filing and Historical Document Retention Should be Improved, continued

It should be noted that current staff has implemented a new filing system which is vastly improving document organization. We recommend that staff be provided the time to thoroughly review each filing cabinet and properly re-file the documents. The missing documents should be obtained from the appropriate third party(ies) and appropriately filed. In addition, we recommend that Community Housing Resources Inc. develop and implement a policy/procedure regarding records retention.

2. Credit Card Controls Should be Enhanced

During our testing of credit card transactions, we selected the largest monthly bill from each of the three (3) credit cards. We noted that one (1) of the monthly bills tested included several personal charges on the business credit card. We noted, that these personal charges were reimbursed by the respective employee; however, we recommend that a policy be developed or revised to specifically disallow personal charges to company credit cards.

We further noted that in one of the three monthly bills tested, while receipts were provided, there was a lack of documentation of the business purpose for the charge. We recommend that proper documentation be provided and retained for all credit card charges to include receipts and documentation of the business purposes for the expenditures charged to the business credit cards.

3. Management Should Develop and Approve a Capitalization Policy

During the audit, we noted that there is currently no policy regarding capitalization of fixed assets. In order to ensure that assets are being consistently recorded it is important for management to develop and approve a capitalization policy. At a minimum, this policy should include a provision as to which assets are to be capitalized or the dollar amount that will be used as a capitalization threshold. The policy should also include a schedule of estimated lives and depreciation methods as well as requirements of annual inventory and fixed asset marking.

We recommend that management develop and approve a formal capitalization policy. We also recommend a \$1,000 capitalization threshold.

4. Dual Signatures Should be Obtained for all Checks Greater than \$500.

In accordance with Community Housing Resource Inc.'s policies, all checks in excess of \$500 require two signatures. During our testing of expenditures, we noted that one (1) of the fifteen (15) checks tested in excess of \$500 only contained one signature.

We recommend two signatures be obtained in accordance with policy, for all checks in excess of \$500.

5. The Board Should Approve Indirect Cost Allocation Policy

We recommend that management determine and the Board approve reasonable, prudent and consistent allocation percentages for all indirect costs to be allocated to the program, administrative and fundraising categories. The allocation methods and percentages should be reviewed regularly (at least annually) to ensure that they remain appropriate.

6. A "Whistle-Blower" and Conflict of Interest Policy Should Be Developed, Board Approved and Implemented

We recommend the Board develop a whistle-blower policy. The whistle blower policy has been widely accepted as the method most likely to deter fraud. It should provide two (2) "accessible routes" to report fraud, abuse, or other problematic behaviors as defined by the Board. Multiple routes are necessary if the person believes one of the routes is not available or being blocked. The policy should ensure the "whistle blower" of no retaliation. A similar process should be implemented for discrimination and harassment (examples enclosed).

The conflict of interest policy is recommended by IRS and will, once developed and implemented, serve to ensure management and the Board are vigilant to ensure no events or transactions would result in a conflict of interest issue.

7. The Board Should Increase Unrestricted Revenue

During the audit, we noted the significant reliance on government funding. While we understand the accomplishment of CHR's mission is dependent upon receipt of this revenue, we recommend and encourage the Board to enhance its fundraising efforts. We also recommend the Board consider adopting a policy that requires/suggests that donors of restricted support provide a portion of the donation for unrestricted purposes. This then provides stability to CHR's operations, provides a means to reduce debt, fund guaranteed appreciation amounts, and provides dollars to explore other revenue opportunities.

8. Monitoring of Contracts Should Be Formalized

During the audit, we obtained copies of certain contracts effective for fiscal year 2010 and those documents that established the two entities. As such, we reviewed the agreements and documents and tested compliance therein. As a result, we noted noncompliance as noted within this report to management.

We therefore recommend that management and the Board establish a procedure to monitor and document compliance with the related agreements and documents. We recommend you consider developing a checklist by agreement.

9. Non-Compliance Noted

We reviewed certain agreements and documents effective during the year ended September 30, 2010 and noted the following non-compliance:

9. Non-Compliance Noted, continued

A) City of Sanibel Agreement dated September 5, 2007:

Requires CHR to submit to the City a quarterly balance sheet, an audited income statement by rental unit complex within 20 days of the respective quarter end, an annual audited financial statement no later than March 1 and adoption of the City of Sanibel purchasing policy for amounts over \$25,000.

CHR did not timely file such reports during fiscal year 2010 or adopt the City's purchasing policy. As such, CHR can not document the required bidding for the construction of Centre Place.

B) The Centre Place loan requires that CHR submit internal financial statements within 60 days of quarter end and year end as well as a copy of the tax return within 60 days of the filing date.

CHR did not timely file such reports during fiscal year 2010.

C) The CHR bylaws define a majority of the Board in a specific manner. It appears that the Board has been operating based upon a simple majority of Board members present at the particular meeting.

We recommend the Board document in the minutes the manner in which a quorum is met.

D) The CICLT bylaws are very detailed as to the purpose and operation of the entity. Actual practice and operation of the entity does not appear consistent with the bylaws.

We recommend the Board consider amending the bylaws to reflect actual practice.

E) CICLT did not file required tax filings, specifically 990N, for the year ended September 30, 2009.

10. Restricted Cash On Hand Less Than Tenant Security Deposits

During the audit, we noted that restricted cash balance held at September 30, 2010 is less than the amount of tenant security deposits received by approximately \$35,745. It appears this was the case in the prior year as well. We were informed that a prior administration used the restricted cash to fund operations in a prior year. Such use is not allowable per Florida Statute, Chapter 83.49.

We recommend the Board develop a strategy to quickly rebuild the required restricted cash balance.

11. Effort To Make the HOA Fully Operational Should Be Implemented

During the audit, we noted a Homeowners Association (HOA) had been legally formed and that initial operations were just starting in January 2011. The initial unit sales were completed on September 30, 2010. The HOA operations should have commenced immediately thereafter. Since such HOA operations did not begin CHR has been paying all costs slated to be part of the HOA as well as acting in certain capacities in the HOA's role.

We recommend the Board ensure the HOA becomes fully functional. It appears the HOA encompasses the sale and rental units within the three (3) affected complexes. Accordingly, CHR should be paying HOA fees for the units owned by it.

We also recommend CHR research the costs paid by it that were the HOA's responsibility and seek reimbursement.

12. The Purpose and Operation of CICLT Should Be Reconsidered

As previously noted, the CICLT bylaws are very specific as to its purpose and operation. Actual practice and operation of CICLT has evolved quite differently from that noted in the bylaws.

Specifically, it appears that Centre Place debt is held by CHR. The land and buildings are held by CICLT. All revenue is held by CHR and needs to be so as to satisfy debt service and operations. Ultimately, after the final four Centre Place units are sold CICLT will have no role under the current facts and circumstances except to simply hold title and leases on certain land.

Therefore, we recommend effort to segregate CICLT from CHR be ceased. This effort would be extremely costly and likely not possible since CHR is going to ultimately be responsible for significant remaining Centre Place debt. Instead, we recommend the Board's effort be directed to fundraising for CHR, CHR's operations stability and oversight of the HOA.

13. Purchase Policy Should Be Adopted

As required by the agreement with the City of Sanibel, we recommend a purchasing policy be implemented to control and manage expenditures.

14. Accounting Should Be Brought Completely In-House

During the audit, we noted that CHR had moved its accounting between accounting firms and is in the process of partially bringing certain accounting in-house. These changes likely have had positive and negative results. However, the current issue is the lack of in-house documentation and records.

14. Accounting Should Be Brought Completely In-House, continued

We recommend the accounting be brought completely in-house. Your staff appear capable and appear to have the time. This will increase understanding of the reports generated and of the other required reporting. It will also provide the basis for timely reporting to the Board and ready access to accounting detail. If the Board still wants a third party accountant involved we suggest their role be that of a reviewer rather than that of initial input.

Effort should be made to ensure reports are submitted timely to the Board, City, bank, County and other reporting agencies.

15. The Financial Position of the Entity Should Be Monitored.

During the audit, we noted that CHR incurred a significant operating loss. In addition, the payables balance at September 30, 2010 was rather large and much greater than available cash. We also noted CHR incurred various late fees and penalties for late filing and untimely payments.

We recommend the Board focus its efforts on ensuring the entity's financial stability and operations. Concentrated effort by the Board on fundraising is essential at this time. We were told of efforts to acquire grants. It should be considered that most grants do not necessarily fund operations or provide for operating capital or for administrative costs.

We further learned of an effort to hire an executive director to fundraise and acquire grants specifically. We recommend the Board reconsider this effort in light of the current CHR financial position. We recommend the Board work with current staff to rectify the issues at hand and solidify CHR's financial position prior to agreeing to expend additional funds.

16. Grant Non-Compliance Noted

During the audit of the year ended September 30, 2010, we tested compliance with grants and noted the following:

During the income eligibility test, we noted that three (3) out of ten (10) tenants' employment verifications were not timely submitted within the 120 day verification clock required by SHIP guidelines. One (1) out of ten (10) tenants' annual employment verification sheet was not signed by the tenant or CHR personnel. Also, one (1) out of ten (10) tenants' files included multiple police reports and incidents, none of which were submitted to the city of Sanibel or SHIP as required.

16. Grant Non-Compliance Noted, continued

We recommend when future grants are first received staff design a compliance summary to ensure compliance with the respective grants.



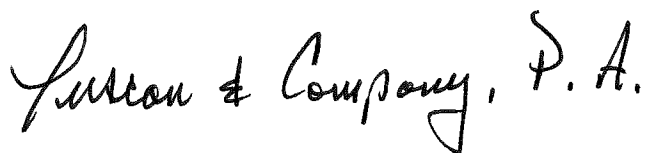
17. Tenant Indexed Appreciation Should be Tracked and Funded

As part of the sales contracts for units sold by Community Housing and Resources, CHR is required to rebuy the unit when the owner elects to sell it. As such, CHR is required to accrue and pay owners a guaranteed appreciation on their units when the unit is sold because the unit must be reacquired by CHR. Since the owner buys and sells the housing unit only, not the underlying land, the guarantee amount is used by CHR as an incentive to potential buyers. The guarantee is limited to a 25% appreciation of the purchase price, as defined, over a maximum of ten (10) year period beginning after one (1) year from the date of sale. The guarantee is based on a predetermined graduated scale at time of initial purchase. The owner also is entitled to a graduated conditional guaranteed appreciation amount up to 5% of the purchase price, as defined. This guaranteed amount can be reduced by CHR for repairs required to resell the unit. Since the eight (8) units sold by CHR during the year ended September 30, 2010 were sold on September 30, 2010, no accrual was required at September 30, 2010 or 2009.

We recommend a worksheet be developed for each unit sold. The accrual should be made on the anniversary of each sale date. The amount should be timely funded and the cash properly restricted for such purpose.

We would like to express our appreciation for the opportunity to serve and assist Community Housing Resources, Inc. Your staff and management were very helpful and assisted us well. We would be pleased to further discuss and assist in the implementation of these recommendations.

This report is intended solely for the information and use of the Board of Directors, management, Federal and State awarding agencies, pass-through entities, the Auditor General for the State of Florida and other Federal and State audit agencies. This report is not intended to be, and should not be, used by anyone other than these specified parties.



TUSCAN & COMPANY, P.A.  
Fort Myers, Florida  
February 18, 2011

**EXHIBIT**



# Community Housing & Resources, Inc. Coast & Islands Community Land Trust, Inc.

2401 Library Way, Sanibel, FL 33957 • 239-472-1189 • Fax 239-472-2695  
Mailing address: 800 Dunlop Road • Sanibel, FL 33957

February 24, 2011

Office of the Auditor General  
Local Government Audits/342  
Claude Pepper Building, Room 401  
111 West Madison Street  
Tallahassee, FL 32399-1450

RE: Response to Management Comments made during review of FY 2010 Financial Statements

Dear Sir or Madam:

Pursuant to the Rules of the Auditor General, Chapter 10,650, "Florida Single Audit Act Audits-Nonprofit and For-Profit Organizations", Rule 10.656(3)(e) and Section 215.97(9)(f), Florida Statutes, Tuscan and Company, Certified Public Accountants, made the following recommendations to the management of Community Housing & Resources, Inc. (CHR) based on their audit of CHR's financial statements for the fiscal year ended September 30, 2010.

#### PRIOR YEAR COMMENTS

There were no prior year comments.

#### CURRENT YEAR COMMENTS

##### 1. Filing and Historical Document Retention Should be Improved

#### **Comment**

During the audit, we noted that the staff had difficulty locating and obtaining many documents filed by previous administrations. As such, current staff worked diligently in searching for and/or working with third parties to obtain such documents. The lack of historical documents did extend the audit process and required a great deal of additional effort by your staff. It should be noted that current staff has implemented a new filing system which is vastly improving document organization. We recommend that staff be provided the time to thoroughly review each filing cabinet and properly re-file the documents. The missing documents should be obtained from the appropriate third party(ies) and appropriately filed. In addition, we recommend that Community Housing Resources Inc. develop and implement a policy/procedure regarding records retention.

#### **Response**

Due to a turnover in two of the three administrative staff members during the last quarter of the fiscal year, new staff members had not had the time to review and reorganize each filing cabinet prior to the commencement of the audit. During the audit fieldwork, much progress was made in this regard and as noted in the comment, the new filing system is vastly improving document organization. It is management's intention to complete the review and re-filing project, obtain third party documents if necessary as well as to develop and adopt a records retention policy.



## 2. Credit Card Controls Should be Enhanced

### **Comment**

During our testing of credit card transactions, we selected the largest monthly bill from each of the three (3) credit cards. We noted that one (1) of the monthly bills tested included several personal charges on the business credit card. We noted that these personal charges were reimbursed by the respective employee; however, we recommend that a policy be developed or revised to specifically disallow personal charges to company credit cards.

We further noted that in one of the three monthly bills tested, while receipts were provided, there was a lack of documentation of the business purpose for the charge. We recommend that proper documentation be provided and retained for all credit card charges to include receipts and documentation of the business purposes for the expenditures charged to the business credit cards.

### **Response**

At September 30, 2010, The CHR staff had three (3) credit cards which it used for business-related purchases. However, as of February 24, 2011, one of these credit cards has been cancelled. The remaining two (2) credit cards are for home improvement/building supply warehouses and staff will be trained on the proper documentation required to demonstrate the business-related nature of the purchase. Further, the CHR Board intends to develop and adopt a revised credit card policy which disallows personal charges to any company credit cards.

## 3. Management Should Develop and Approve a Capitalization Policy

### **Comment**

During the audit, we noted that there is currently no policy regarding capitalization of fixed assets. In order to ensure that assets are being consistently recorded, it is important for management to develop and approve a capitalization policy. At a minimum, this policy should include a provision as to which assets are to be capitalized or the dollar amount that will be used as a capitalization threshold. The policy should also include a schedule of estimated lives and depreciation methods as well as requirements of annual inventory and fixed asset marking.

We recommend that management develop and approve a formal capitalization policy. We also recommend a \$1,000 capitalization threshold.

### **Response**

The Board agrees with this comment and will develop and adopt a fixed assets capitalization policy which defines a \$1,000 minimum threshold for capitalization as well as a schedule of estimated useful lives and depreciation methods for the various categories of fixed asset types.

## 4. Dual Signatures Should be Obtained for all Checks Greater than \$500

### **Comment**

In accordance with Community Housing Resources, Inc.'s policies, all checks in excess of \$500 require two signatures. During our testing of expenditures, we noted that one (1) of the fifteen (15) checks tested in excess of \$500 only contained one signature.

We recommend two signatures be obtained in accordance with policy, for all checks in excess of \$500.

**Response**

The Board strongly agrees with this comment and the current President and Treasurer as well as other account signatories are carefully reviewing check amounts when signing checks to ensure compliance.

5. The Board Should Approve Indirect Cost Allocation Policy

**Comment**

We recommend that management determine and the Board approve reasonable, prudent and consistent allocation percentages for all indirect costs to be allocated to the program, administrative and fundraising categories. The allocation methods and percentages should be reviewed regularly (at least annually) to ensure that they remain appropriate.

**Response**

The Board agrees with this comment and will develop and adopt a reasonable and prudent allocation plan for indirect costs so these costs can be consistently allocated to program, administrative and fundraising categories.

6. A "Whistle-Blower" and Conflict of Interest Policy Should Be Developed, Board Approved and Implemented

**Comment**

We recommend the Board develop and whistle-blower policy. The whistle blower policy has been widely accepted as the method most likely to deter fraud. It should provide two (2) "accessible routes" to report fraud, abuse, or other problematic behaviors as defined by the Board. Multiple routes are necessary if the person believes one of the routes is not available or being blocked. The policy should ensure the "whistle blower" of no retaliation. A similar process should be implemented for discrimination and harassment (examples enclosed).

The conflict of interest policy is recommended by IRS and will, once developed and implement, serve to ensure management and the Board are vigilant to ensure no events or transactions would result in a conflict of interest issue.

**Response**

As of February 24, 2011, the Board is in the process of updating its Personnel Policy and intends to include sections addressing both whistle-blower and conflict of interest policies.

7. The Board Should Increase Unrestricted Revenue

**Comment**

During the audit, we noted the significant reliance on government funding. While we understand the accomplishment of CHR's mission is dependent upon receipt of this revenue, we recommend and encourage the Board to enhance its fundraising efforts. We also recommend the Board consider adopting a policy that requires/suggests that donors of restricted support provide a portion of the donation for unrestricted purposes. This then provides stability to CHR's operations, provides a means to reduce debt, fund guaranteed appreciation amounts, and provides dollars to explore other revenue opportunities.

**Response**

The Board agrees with this comment and is planning increases to its fundraising efforts and will also request future donors of restricted support to provide a portion of the donation for unrestricted purposes.

## 8. Monitoring of Contracts Should Be Formalized

### **Comment**

During the audit, we obtained copies of certain contracts effective for fiscal year 2010 and those documents that established the two entities. As such, we reviewed the agreements and documents and tested compliance therein. As a result, we noted noncompliance as noted within this report to management.

We therefore recommend that management and the Board establish a procedure to monitor and document compliance with the related agreements and documents. We recommend you consider developing a checklist by agreement.

### **Response**

The Board will direct management and staff to develop thorough and consistent contract files for each contract to include contract-specific, compliance-related checklists as a reminder for and to document compliance.

## 9. Non-Compliance Noted

### **Comment**

We reviewed certain agreements and documents effective during the year ended September 30, 2010 and noted the following non-compliance:

- A) City of Sanibel Agreement dated September 5, 2007:  
Requires CHR to submit to the City a quarterly balance sheet, an audited income statement by rental unit complex within 20 days of the respective quarter end, an annual audited financial statement no later than March 1 and adoption of the City of Sanibel purchasing policy for amounts over \$25,000.  
CHR did not timely file such reports during fiscal year 2010 or adopt the City's purchasing policy. As such, CHR cannot document the required bidding for the construction of Centre Place.
- B) The Centre Place loan requires that CHR submit internal financial statements within 60 days of quarter end and year end as well as a copy of the tax return within 60 days of the filing date. CHR did not timely file such reports during fiscal year 2010.
- C) The CHR bylaws define a majority of the Board in a specific manner. It appears that the Board had been operating based upon a simple majority of Board members present at the particular meeting.  
We recommend the Board document in the minutes the manner in which a quorum is met.
- D) The CICLT bylaws are very detailed as to the purpose and operation of the entity. Actual practice and operation of the entity does not appear consistent with the bylaws.  
We recommend the Board consider amending the bylaws to reflect actual practice.
- E) CICLT did not file required tax filings, specifically 990N, for the year ended September 30, 2009.

### **Response**

The Board acknowledges non-compliance with certain contracts and intends to address these areas in the future as follows:

- A) Comply with all terms of the City of Sanibel contract including providing a quarterly balance sheet and income statement by rental unit complex within 20 days of the respective quarter

end, an annual audited financial statement no later than March 1, and adoption of the City of Sanibel purchase policy for purchases over \$25,000.

- B) Submit internal financial statements within 60 days of the quarter end and year end as well as tax returns within 60 days of the filing date to the Bank in compliance with the terms of the loan.
- C) Record in the minutes the basis upon which a quorum is met.
- D) Review the bylaws of the CICLT and develop amendments which would reflect actual practice.
- E) Maintain records of the CICLT tax filings, including the 990N, to document compliance.

**10. Restricted Cash on Hand Less Than Tenant Security Deposits**

**Comment**

During the audit, we noted that restricted cash balance held at September 30, 2010 is less than the amount of tenant security deposits received by approximately \$35,745. It appears this was the case in the prior year as well. We were informed that a prior administration used the restricted cash to fund operations in a prior year. Such use is not allowable per Florida Statute, Chapter 83.49.

We recommend the Board develop a strategy to quickly rebuild the required restricted cash balance.

**Response**

This condition was reported to the current Treasurer by staff when she assumed the position in July 2010. This was immediately reported to the Board and plans for rebuilding the required restricted cash balance begun. Accordingly, on January 3, 2011, \$10,170 was deposited to the restricted bank account and the balance of \$20,559 will be deposited on or about April 5, 2011. The Treasurer continues to provide the Board with monthly updates on this condition.

**11. Effort To Make the HOA Fully Operational Should Be Implemented**

**Comment**

During the audit, we noted a Homeowners Association (HOA) had been legally formed and that initial operations were just starting in January 2011. The initial unit sales were completed on September 30, 2010. The HOA operations should have commenced immediately thereafter. Since such HOA operations did not begin CHR has been paying all costs slated to be part of the HOA as well as acting in certain capacities in the HOA's role.

We recommend the Board ensure the HOA becomes fully functional. It appears the HOA encompasses the sale and rental units within the three (3) affected complexes. Accordingly, CHR should be paying HOA fees for the units owned by it.

We also recommend CHR research the costs paid by it that were the HOA's responsibility and seek reimbursement.

**Response**

As noted above, the HOA began officially operating in January 2011. CHR staff will itemize all the costs paid by CHR since September 30, 2010 which were appropriately HOA expenses and will look for reimbursement from the HOA. Conversely, CHR is paying the HOA fees for the units owned by CHR.

## 12. The Purpose and Operation of CICTL Should Be Reconsidered

### **Comment**

As previously noted, the CICTL bylaws are very specific as to its purpose and operation. Actual practice and operation of CICTL has evolved quite differently from that noted in the bylaws.

Specifically, it appears that Centre Place debt is held by CHR. The land and buildings are held by CICTL. All revenue is held by CHR and needs to be so as to satisfy debt service and operations. Ultimately, after the final four Centre Place units are sold CICTL will have no role under the current facts and circumstances except to simply hold title and leases on certain land.

Therefore, we recommend effort to segregate CICTL from CHR be ceased. This effort would be extremely costly and likely not possible since CHR is going to ultimately be responsible for significant remaining Centre Place debt. Instead, we recommend the Board's effort be directed to fundraising for CHR, CHR's operations stability and oversight of the HOA.

### **Response**

The effort to segregate CICTL from CHR has ceased and as noted in the response to comment 9(D) above, the CHR Board will review the bylaws of the CICTL and develop amendments which would reflect the actual roles of the agencies. Thereby, CHR can direct its efforts to fundraising, regain operational stability and maintain HOA oversight.

## 13. Purchase Policy Should Be Adopted

### **Comment**

As required by the agreement with the City of Sanibel, we recommend a purchasing policy be implemented to control and manage expenditures.

### **Response**

The Board is in the process of amending its current purchasing policy and, once adopted, will train staff on its implementation to control and manage expenditures.

## 14. Accounting Should Be Brought Completely In-House

### **Comment**

During the audit, we noted that CHR had moved its accounting between accounting firms and is in the process of partially bringing certain accounting in-house. These changes likely have had positive and negative results. However, the current issue is the lack of in-house documentation and records.

We recommend the accounting be brought completely in-house. Your staff appear capable and appear to have the time. This will increase understanding of the reports generated and of the other required reporting. It will also provide the basis for timely reporting to the Board and ready access to accounting detail. If the Board still wants a third party accountant involved we suggest their role be that of a reviewer rather than that of initial input.

Effort should be made to ensure reports are submitted timely to the Board, City, bank, County and other reporting agencies.

### **Response**

As of February 14, 2011, all accounting functions have been brought completely in-house.



## 15 The Financial Position of the Entity Should be Monitored

### **Comment**

During the audit, we noted that CHR incurred a significant operating loss. In addition, the payables balance at September 30, 2010 was rather large and much greater than available cash. We also noted CHR incurred various late fees and penalties for late filing and untimely payments.

We recommend the Board focus its efforts on ensuring the entity's financial stability and operations. Concentrated effort by the Board on fundraising is essential at this time. We were told of efforts to acquire grants. It should be considered that most grants do not necessarily fund operations or provide for operating capital or for administrative costs.

We further learned of an effort to hire an executive director to fundraise and acquire grants specifically. We recommend the Board reconsider this effort in light of the current CHR financial position. We recommend the Board work with current staff to rectify the issues at hand and solidify CHR's financial position prior to agreeing to expend additional funds.

### **Response**

The Board is expending significant efforts toward ensuring the entity's financial stability and believes the hiring of an Executive Director is the surest way to succeed in fundraising efforts. In addition, the following actions have either already occurred or are planned to regain the agency's financial stability:

1. The sale of one (1) Limited Equity Ownership (LEO) unit closed on February 24, 2011;
2. Three strong prospects for the purchase of three of the five remaining LEOs have been interviewed and have approached the Sanibel Captiva Community Bank with a positive response from the Bank;
3. The Vice-President of the Board has personally pledged, in writing, to pay the salary and benefits of a new Executive Director for the first six months of employment, should the CHR operating budget not be able to fund that cost;
4. The new Executive Director will focus her/his attention on fundraising for the immediate future once on the job;
5. CHR owns a home on Belding Street, Sanibel, which can be sold to provide cash to offset the presently outstanding accounts payable related to construction of Centre Place, Sanibel Highlands and Beach Road LEO's;
6. Ongoing conversations with Sanibel Captiva Community Bank to the secure a percentage of the net proceeds from the sale of LEO units for cash flow purposes;
7. Board members have spoken with City of Sanibel officials who have given the Board's Executive Committee confidence that the City will work with the CHR Board at least through the term of our existing contract with the City (expires September 30, 2012).

## 16. Grant Non-Compliance Noted

### **Comment**

During the audit of the year ended September 30, 2010, we tested compliance with grants and noted the following:

During the income eligibility test, we noted that three (3) out of ten (10) tenants' employment verifications were not timely submitted within the 120 day verification clock required by SHIP guidelines. One (1) out of ten (10) tenants' annual employment verification sheet was not signed by the tenant or

CHR personnel. Also, one (1) out of ten (10) tenants' files included multiple police reports and incidents, none of which were submitted to the City of Sanibel or SHIP as required.

We recommend when future grants are first received staff design a compliance summary to ensure compliance with the respective grants.

**Response**

The Board certainly agrees with this comment and staff will design a compliance summary for each grant which will increase the likelihood of future compliance with grant requirements.

**17. Tenant Indexed Appreciation Should be Tracked and Funded**

**Comment**

As part of the sales contracts for units sold by Community Housing and Resources, Inc. CHR is required to rebuy the unit when the owner elects to sell it. As such, CHR is required to accrue and pay owners a guaranteed appreciation on their units when the unit is sold because the unit must be reacquired by CHR. Since the owner buys and sells the housing unit only, not the underlying land, the guarantee amount is used by CHR as an incentive to potential buyers. The guarantee is limited to a 25% appreciation of the purchase price, as defined, over a maximum of ten (10) year period beginning after one (1) year from the date of sale. The guarantee is based on a predetermined graduated scale at time of initial purchase. The owner also is entitled to a graduated conditional guaranteed appreciation amount up to 5% of the purchase price, as defined. This guaranteed amount can be reduced by CHR for repairs required to resell the unit. Since the eight (8) units sold by CHR during the year ended September 30, 2010 were sold on September 30, 2010, no accrual was required at September 30, 2010 or 2009.

We recommend a worksheet be developed for each unit sold. The accrual should be made on the anniversary of each sale date. The amount should be timely funded and the cash properly restricted for such purpose.

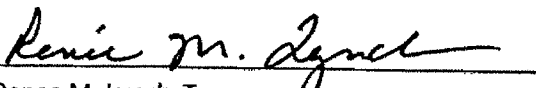
**Response**

The Board agrees with this comment and has included funds in its adopted Fiscal Year 2010-11 budget to address this commitment. Staff will develop a worksheet to track the annual accrual of the guaranteed appreciation on a per -unit sold basis and will book and fund a restricted cash account on the anniversary of the unit sales date beginning September 30, 2011.

In conclusion, the CHR Board and management sincerely appreciate the thorough review and guidance from Tuscan and Company, CPA's included in the Independent Auditor's Report to Management. Every effort will be made to implement these recommendations during the subsequent fiscal year.

Sincerely,

COMMUNITY HOUSING & RESOURCES, INC.

  
Renee M. Lynch, Treasurer