

**COMMUNITY HOUSING AND
RESOURCES, INC.**

**FINANCIAL STATEMENTS
TOGETHER WITH
REPORT OF INDEPENDENT AUDITOR**

**YEARS ENDED
SEPTEMBER 30, 2016 AND 2015**

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1-2
<u>Financial Statements</u>	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7-20



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of financial position of Community Housing and Resources, Inc. (a not-for-profit organization) as of September 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used

INTEGRITY SERVICE EXPERIENCE

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

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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 Board (FASB) Accounting Standards Codification (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 legal title and/or land leases to certain land on which Community Housing and Resources, Inc. carries out its mission. As such, Coast and Island Community Land Trust records no assets, liabilities, net assets revenues or expenses. Within these financial statements the entities are collectively referred to as Community Housing Resources, Inc. These financial statements include the assets, liabilities, net assets and changes in net assets of both entities.

Other Matter

As discussed in Note F, Community Housing and Resources, Inc. has restated its September 30, 2015 financial statements in the current year to include an obligation to the City of Sanibel.


TUSCAN & COMPANY, P.A.

Fort Myers, Florida
October 31, 2016

COMMUNITY HOUSING AND RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents (including restricted cash of \$52,175 and \$68,034, respectively)	\$ 464,403	\$ 310,675
Accounts receivable	3,266	3,136
Prepays	40,683	46,926
Deposit	<u>4,250</u>	<u>-</u>
TOTAL CURRENT ASSETS	<u>512,602</u>	<u>360,737</u>
PROPERTY AND EQUIPMENT, NET (Accumulated depreciation of \$3,316,884 and \$3,076,664 respectively)	<u>4,555,703</u>	<u>4,666,167</u>
TOTAL ASSETS	<u>\$ 5,068,305</u>	<u>\$ 5,026,904</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 13,917	\$ 11,506
Accrued payroll and taxes	11,784	7,641
Unearned revenue - fundraising	6,300	-
Unearned revenue - City of Sanibel	75,070	-
Security deposits	38,700	40,325
Current portion of long-term debt	39,635	46,655
Current portion of LEO appreciation liability	<u>-</u>	<u>28,450</u>
TOTAL CURRENT LIABILITIES	<u>185,406</u>	<u>134,577</u>
OTHER LIABILITIES		
Accrued compensated absences	11,943	14,309
Long-term debt, net of current portion	1,628,534	1,668,754
LEO appreciation liability, net of current portion	<u>266,046</u>	<u>189,804</u>
TOTAL OTHER LIABILITIES	<u>1,906,523</u>	<u>1,872,867</u>
COMMITMENTS AND CONTINGENCIES		
	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,091,929</u>	<u>2,007,444</u>
NET ASSETS		
Unrestricted	2,791,737	2,841,317
Unrestricted, designated	171,164	150,434
Temporarily restricted	<u>13,475</u>	<u>27,709</u>
TOTAL NET ASSETS	<u>2,976,376</u>	<u>3,019,460</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,068,305</u>	<u>\$ 5,026,904</u>

The accompanying notes are an integral part of this statement.

COMMUNITY HOUSING AND RESOURCES, INC.
STATEMENTS OF ACTIVITIES
Years ended September 30, 2016 and 2015

	2016		
	Unrestricted	Temporarily Restricted	Total
CHANGES IN NET ASSETS			
SUPPORT AND REVENUE			
State grants - SHIP	\$ -	\$ -	\$ -
Unit sales	248,000	-	248,000
City of Sanibel support	-	300,281	300,281
Rent and utility contribution	636,999	-	636,999
Public support	93,941	-	93,941
Grants	-	97,749	97,749
Gross proceeds from special events and fundraising	75,547	-	75,547
Less direct costs	<u>(27,494)</u>	<u>-</u>	<u>(27,494)</u>
Net proceeds from special events and fundraising	48,053	-	48,053
Fundraising			
Interest income	521	-	521
Other income	<u>8,772</u>	<u>-</u>	<u>8,772</u>
TOTAL SUPPORT AND REVENUE	1,036,286	398,030	1,434,316
Net Assets Released from Restrictions	<u>412,264</u>	<u>(412,264)</u>	<u>-</u>
TOTAL	<u>1,448,550</u>	<u>(14,234)</u>	<u>1,434,316</u>
EXPENSES			
Program services	1,360,005	-	1,360,005
Supporting services	<u>117,395</u>	<u>-</u>	<u>117,395</u>
TOTAL EXPENSES	<u>1,477,400</u>	<u>-</u>	<u>1,477,400</u>
INCREASE (DECREASE) IN NET ASSETS	(28,850)	(14,234)	(43,084)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>2,991,751</u>	<u>27,709</u>	<u>3,019,460</u>
NET ASSETS, END OF YEAR	<u>\$ 2,962,901</u>	<u>\$ 13,475</u>	<u>\$ 2,976,376</u>

The accompanying notes are an integral part of this statement.

2015		
Unrestricted	Temporarily Restricted	Total
\$ -	\$ -	\$ -
-	-	-
-	291,535	291,535
664,737	-	664,737
56,287	4,200	60,487
28,000	24,300	52,300
33,560	-	33,560
(9,536)	-	(9,536)
<u>24,024</u>	<u>-</u>	<u>24,024</u>
506	-	506
<u>6,839</u>	<u>-</u>	<u>6,839</u>
780,393	320,035	1,100,428
<u>302,362</u>	<u>(302,362)</u>	<u>-</u>
<u>1,082,755</u>	<u>17,673</u>	<u>1,100,428</u>
1,070,422	-	1,070,422
<u>119,646</u>	<u>-</u>	<u>119,646</u>
<u>1,190,068</u>	<u>-</u>	<u>1,190,068</u>
(107,313)	17,673	(89,640)
<u>3,099,064</u>	<u>10,036</u>	<u>3,109,100</u>
<u>\$ 2,991,751</u>	<u>\$ 27,709</u>	<u>\$ 3,019,460</u>

The accompanying notes are an integral part of this statement.

COMMUNITY HOUSING AND RESOURCES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended September 30, 2016 and 2015

FUNCTIONAL EXPENSES	2016			
	SUPPORTING SERVICES			
	Program Services	Admin.	Fund Raising	Total Supporting Services
Compensation and related expenses				
Salaries	\$ 183,390	\$ 38,128	\$ 35,183	\$ 73,311
Fringe benefits	38,206	7,943	7,329	15,272
Payroll taxes	15,495	3,222	2,973	6,195
	237,091	49,293	45,485	94,778
Accounting	10,500	4,680	-	4,680
Advertising and promotion	7,354	-	817	817
Bad debt	6,195	-	-	-
Bank charges	74	328	-	328
Board & staff development	1,152	1,728	-	1,728
CICLT expense (HOA)	8,475	-	-	-
City of Sanibel rental payment	-	-	-	-
Communication and web page	374	47	47	94
Cost of units sold	198,752	-	-	-
Credit verification	823	-	-	-
Grants to individuals	25,000	-	-	-
Homeowners association fees	12,216	-	-	-
Insurance	129,761	3,927	-	3,927
Interest	95,587	-	-	-
LEO appreciation	76,741	-	-	-
Licenses and fees	-	322	-	322
Loss on disposition of assets	2,071	-	-	-
Miscellaneous	-	386	-	386
Office expense	6,217	3,891	921	4,812
Printing	1,832	916	305	1,221
Professional fees	50,216	-	-	-
Repairs and maintenance	125,476	-	-	-
Tenant assistance activities	11,982	-	-	-
Transportation and Travel	5,190	-	-	-
Volunteer expense	-	-	655	655
Utilities	79,918	3,647	-	3,647
TOTAL EXPENSES				
BEFORE DEPRECIATION	1,092,997	69,165	48,230	117,395
Depreciation and amortization	267,008	-	-	-
TOTAL EXPENSES	<u>\$ 1,360,005</u>	<u>\$ 69,165</u>	<u>\$ 48,230</u>	<u>\$ 117,395</u>

The accompanying notes are an integral part of this statement.

2015					
Total Expenses	SUPPORTING SERVICES				Total Expenses
	Program Services	Admin.	Fund Raising	Total Supporting Services	
\$ 256,701	\$ 184,379	\$ 36,149	\$ 36,701	\$ 72,850	\$ 257,229
53,478	45,026	8,828	8,963	17,791	62,817
<u>21,690</u>	<u>15,000</u>	<u>2,941</u>	<u>2,986</u>	<u>5,927</u>	<u>20,927</u>
331,869	244,405	47,918	48,650	96,568	340,973
15,180	9,800	5,380	-	5,380	15,180
8,171	841	-	94	94	935
6,195	-	-	-	-	-
402	36	145	-	145	181
2,880	1,796	2,695	-	2,695	4,491
8,475	6,600	-	-	-	6,600
-	50,000	-	-	-	50,000
468	305	38	38	76	381
198,752	-	-	-	-	-
823	900	-	-	-	900
25,000	-	-	-	-	-
12,216	14,836	-	-	-	14,836
133,688	111,215	4,428	-	4,428	115,643
95,587	95,704	-	-	-	95,704
76,741	56,262	-	-	-	56,262
322	-	322	-	322	322
2,071	-	-	-	-	-
386	-	436	-	436	436
11,029	5,746	3,519	962	4,481	10,227
3,053	2,438	1,219	406	1,625	4,063
50,216	22,240	-	-	-	22,240
125,476	91,245	-	-	-	91,245
11,982	20,622	-	-	-	20,622
5,190	4,790	-	-	-	4,790
655	-	-	-	-	-
<u>83,565</u>	<u>74,606</u>	<u>3,396</u>	<u>-</u>	<u>3,396</u>	<u>78,002</u>
1,210,392	814,387	69,496	50,150	119,646	934,033
<u>267,008</u>	<u>256,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>256,035</u>
<u>\$ 1,477,400</u>	<u>\$ 1,070,422</u>	<u>\$ 69,496</u>	<u>\$ 50,150</u>	<u>\$ 119,646</u>	<u>\$ 1,190,068</u>

The accompanying notes are an integral part of this statement.

COMMUNITY HOUSING AND RESOURCES, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from donors, tenants, homebuyers, and other operating activities	\$ 1,532,132	\$ 1,100,006
Cash paid to suppliers, cost of sales and employees	(1,057,306)	(808,784)
Interest paid	(95,587)	(95,704)
Interest received	521	506
Other income	<u>8,772</u>	<u>6,839</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>388,532</u>	<u>202,863</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(158,615)	(76,693)
LEO appreciation paid to unit holder	<u>(28,949)</u>	<u>-</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(187,564)</u>	<u>(76,693)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of principal	<u>(47,240)</u>	<u>(28,741)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(47,240)</u>	<u>(28,741)</u>
NET INCREASE IN CASH	153,728	97,429
CASH, BEGINNING OF YEAR	<u>310,675</u>	<u>213,246</u>
CASH, END OF YEAR	<u>\$ 464,403</u>	<u>\$ 310,675</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>2016</u>	<u>2015</u>
Increase (decrease) in net assets	\$ (43,084)	\$ (89,640)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	267,008	256,035
Loss on disposal of assets	2,071	-
Non-cash establishment of loan from the City of Sanibel	-	-
Non-cash increase in LEO appreciation liability	76,741	56,262
(Increase) decrease in accounts receivables, net	(130)	(3,136)
(Increase) decrease in inventory/cost of sales	-	-
(Increase) decrease in prepaids/deposit	1,993	(15,416)
Increase (decrease) in accounts payable	2,411	(1,845)
Increase (decrease) in accrued liabilities	4,143	(531)
Increase (decrease) in unearned revenue - rent	-	(377)
Increase (decrease) in unearned revenue - fundraising	6,300	-
Increase (decrease) in unearned revenue - City of Sanibel	75,070	-
Increase (decrease) in security deposits	(1,625)	900
Increase (decrease) in accrued compensated absences	<u>(2,366)</u>	<u>611</u>
	<u>431,616</u>	<u>292,503</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 388,532</u>	<u>\$ 202,863</u>

NON-CASH TRANSACTIONS

The Organization wrote off bad debt in the amount of \$6,195 and \$0 for the years ended September 30, 2016 and 2015, respectively.

Restatement of 2015 beginning net assets due to establishment of formal loan payable terms related to rental agreement with City of Sanibel in the amount of \$282,714.

**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 workforce 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 (74 units) for the Island workforce as well as a partially subsidized home ownership program (14 units). CHR owns, operates and manages housing units on the Island of Sanibel.

As part of these programs CHR leases land on a long-term basis from the City of Sanibel for \$1 per year, and initially built housing units on the land to rent and/or sell. 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 legal title and/or land leases to certain land on which CHR carries out its mission.

CHR and CICLT meet the criteria 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. Accordingly, 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 Resources or CHR.

These financial statements, however, do not include (and are not required to 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 and/or rented. The HOA operations began in calendar year 2011. The HOA has a calendar year fiscal year. Specifically, 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, CONTINUED

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 financial statement presentation adheres to of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-225-45-1 (formerly Statement of Financial Accounting Standards (SFAS) No. 117), "Financial Statements of Not-for-Profit Organizations". Under FASB ASC 958-225-45-1, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Community Housing and Resources had no permanently restricted net assets as of September 30, 2016 or 2015.

As noted previously, these financial statements also include the financial activity, assets, liabilities and net assets of CICLT of which there was none for September 30, 2016 or 2015.

Reclassifications

Certain reclassifications have been made in the 2016 financial statements to conform with the classifications used in 2015. These reclassifications had no impact on the financial position or changes in net assets as previously reported.

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. At September 30, 2016 and 2015, CHR held no such cash equivalents.

Investments

Community Housing and Resources has approved the investment in 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. At September 30, 2016 and 2015, CHR held no such investments.

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.

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 Property and Equipment

Community Housing and Resources adheres to FASB ASC 360-10-50-2 (formerly 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, 2016 or 2015.

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.

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

Recognition of Donor Restrictions, continued

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.

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. Other expenses that are common to several functions are allocated by various statistical bases.

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. Management believes the Organizations have met the requirements to maintain their tax-exempt status and have no income subject to unrelated business income tax. The Organization's income tax returns for the past three years are open and subject to examination by tax authorities, and may change upon examination.

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.

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

Accounting for Uncertainty in Income Tax Items

The Financial Accounting Standards Board has issued guidance on accounting for uncertainty in income taxes and Community Housing and Resources has adopted this guidance. CHR has evaluated its tax provision and any estimates utilized in its tax returns, and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Interest and penalties associated with uncertain tax positions will be recognized in income tax expenses, if required.

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, accounts receivable, prepaid expenses, accounts payable and accrued expenses. The carrying amounts of these items is cost, however, due to their short term nature, approximate fair value. Long term debt is reported as the actual amounts due at the respective year ends.

Leases

Rental units owned by Community Housing and Resources were approximately 93% occupied at September 30, 2016 and 98% occupied at September 30, 2015. These units are rented to individuals on one-year cancelable leases subject to the provisions of the below market rate housing program guidelines. Therefore, no future rental income disclosures are required.

Donated Materials and Services

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

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

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, 2016 and 2015, and revenues and expenses during the years ended September 30, 2016 and 2015. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through October 31, 2016 which is the date the financial statements were available to be issued.

NOTE B - CASH AND INVESTMENTS

Cash and cash equivalents consist of the following at September 30:

	<u>2016</u>	<u>2015</u>
Depository and money market accounts:		
Unrestricted	\$ 149,589	\$ 53,565
Board designated	262,639	189,076
Restricted	<u>52,175</u>	<u>68,034</u>
	<u>\$ 464,403</u>	<u>\$ 310,675</u>

Board designated cash consists of the following at September 30:

	<u>2016</u>	<u>2015</u>
Replacement reserves*	\$ 171,164	\$ 150,434
LEO appreciation	<u>91,475</u>	<u>38,642</u>
	<u>\$ 262,639</u>	<u>\$ 189,076</u>

* Reflected as unrestricted - designated net assets.

COMMUNITY HOUSING AND RESOURCES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE B - CASH AND INVESTMENTS, CONTINUED

Restricted cash is comprised of the following at September 30:

	2016	2015
Tenant assistance fund*	\$ (254)	\$ 12,798
Charitable foundation*	12,903	14,911
Tenant security deposits	38,700	40,325
Other*	826	-
	<u>\$ 52,175</u>	<u>\$ 68,034</u>

* Reflected as temporarily restricted net assets.

Florida Statutes Chapter 83.49 requires that the tenant security deposits be held in a separate bank account. At September 30, 2016 and 2015, such deposits were properly held in a separate bank account. At September 30, 2016 and 2015, security deposits were properly funded.

Concentration of Credit Risk

Community Housing and Resources maintains its cash in financial institutions. These assets are federally insured up to \$250,000 per financial institution. The uninsured bank balances at September 30, 2016 and 2015 were \$226,629 and \$80,263, respectively. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	2016	2015
Land	\$ 768,913	\$ 768,913
Buildings and improvements, rentals	7,078,598	6,945,863
Furniture and equipment	11,951	14,930
Equipment under capital lease	4,400	4,400
Vehicle	8,725	8,725
	<u>7,872,587</u>	<u>7,742,831</u>
Accumulated depreciation	<u>(3,316,884)</u>	<u>(3,076,664)</u>
	<u>\$ 4,555,703</u>	<u>\$ 4,666,167</u>

Depreciation expense for the years ended September 30, 2016 and 2015, was \$267,008 and \$256,035, respectively.

COMMUNITY HOUSING AND RESOURCES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE D - LONG-TERM DEBT

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

	2016	2015
<p>Mortgage payable (\$733,351), to a financial institution, dated October 24, 2013, payable in monthly installments of principal and interest of \$5,169. Interest accrues at 6.5% beginning November 24, 2013, then 239 monthly payments. Interest rate floor and ceiling is 6.5% until October 23, 2016. Final payment is due October 24, 2036. Effective October 24, 2016, interest rate will annually adjust to prime plus 1% with a 6.5% floor rate until maturity of the loan. Effective July 25, 2016, the loan (\$692,176) was modified to adjust interest to 5.25%, continuing to adjust annually on the note anniversary and floor rate adjusted from 6.5% to 5.25%. Loan is payable in 243 monthly payments of \$4,661. Final payment is due October 24, 2036. The obligation is collateralized by various real property. It is also cross-collateralized by the \$714,557 mortgage payable. The State of Florida Housing Finance Corporation has a secondary lien on a portion of this real estate for a period of fifteen (15) years beginning in 2010.</p>	\$ 688,940	\$ 705,594
<p>Mortgage payable (\$714,357 after July 25, 2016 modification, note original amount was \$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. It is also cross-collateralized by the \$733,351 mortgage payable and the 4 units at Lake Palms. Effective July 25, 2016, the loan was modified to adjust the interest rate to 5.25%. Loan is payable in 138 payments of \$4,648 including principal and interest. Final payment of \$436,384 due on February 25, 2028.</p>	711,515	727,101
<p>Note payable to City of Sanibel, dated December 1, 2015, in the amount of \$282,714. Note is non-interest bearing and is payable in 54 quarterly payments of \$5,000. First payment is due October 1, 2016. Final payment of \$2,714 is due October 1, 2030.</p>	<u>267,714</u>	<u>282,714</u>
Current Portion	<u>1,668,169</u> <u>(39,635)</u>	<u>1,715,409</u> <u>(46,655)</u>
Long-Term Portion	<u>\$ 1,628,534</u>	<u>\$ 1,668,754</u>

COMMUNITY HOUSING AND RESOURCES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE D - LONG-TERM DEBT, CONTINUED

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

Interest expense related to long-term debt was \$95,587 and \$95,704 for the years ended September 30, 2016 and 2015, respectively.

Principal maturities of long-term debt are as follows:

Years Ending September 30	Amount
2017	\$ 39,635
2018	60,404
2019	62,595
2020	64,811
2021	67,335
2022-2026	377,997
2027-2031	736,530
2032-2036	240,728
2037	18,134
	<u>\$1,668,169</u>

NOTE E - SCHEDULE OF NET ASSETS

Net assets consist of the following at September 30:

	2016	2015
Unrestricted - general operations	\$2,791,737	\$2,841,317
Unrestricted - designated, replacement reserves*	<u>171,164</u>	<u>150,434</u>
Total unrestricted	<u>2,962,901</u>	<u>2,991,751</u>
Temporarily restricted:		
Tenant assistance fund	(254)	12,798
Charitable foundation	12,903	14,911
Other	<u>826</u>	<u>-</u>
Total temporarily restricted	<u>13,475</u>	<u>27,709</u>
	<u>\$2,976,376</u>	<u>\$3,019,460</u>

* Board designated a separate cash account to record building and equipment replacement reserve.

COMMUNITY HOUSING AND RESOURCES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE F - PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2016, it was determined that a correcting entry needed to be recorded. As such, the prior period adjustment is described as follows:

It was determined through negotiations with the City of Sanibel that \$282,714 was owed to the City for fiscal years 2000 through 2003 under a 1999 agreement with the City for the Casa Mariposa project. Therefore in accordance with FASB ASC 958-605 (formerly FASB Statement No. 136), Community Housing and Resources, Inc. resolved to record the amount due to the City of Sanibel as a prior period entry. The effect of the prior period entry was to restate the September 30, 2015 beginning net assets by decreasing unrestricted net assets by \$282,714.

The prior period entry had the following effect:

	<u>2015</u>
Beginning balance unrestricted net assets at September 30, 2015, as originally stated.	\$ 3,381,778
Prior period entry.	<u>(282,714)</u>
Beginning balance unrestricted net assets at September 30, 2015, as restated.	<u>\$ 3,099,064</u>

NOTE G - COMMITMENTS AND CONTINGENCIES

Community Housing and Resources 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. Community Housing and Resources does not believe contingent liabilities, if any, to be material. Accordingly, no such liabilities are reflected within the financial statements.

NOTE H - 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, 2016 and 2015, approximately 65% and 86% of total support and revenue, respectively, was attributable to amounts received for the account classifications listed above.

NOTE I - 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, 2016 and 2015. These amounts were paid as noted below by CHR to the City of Sanibel under this agreement for the years ended September 30, 2016 or 2015.

The 2003 CHR/City of Sanibel Woodhaven Construction Funding Agreement requires CHR to pay the City of Sanibel \$50,000 each fiscal year through the year ended September 30, 2015. Thereafter no payments are due on the Woodhaven Agreement. A credit against this payment is given for the amount paid by CHR each December for the Casa Mariposa net rental proceeds.

On December 1, 2015, the Casa Mariposa agreement was modified to create a non-interest bearing note payable in the amount of \$282,714 including previously uncollected rental proceeds of \$17,027. The \$282,714 note payable reflects amounts remaining on the original 1999 agreement which provided \$650,000 by the City of Sanibel for the Casa Mariposa project. This note is payable in 54 quarterly payments of \$5,000, final payment of \$2,714 is due October 1, 2030. Therefore, during the year ended September 30, 2016, CHR recorded a prior period entry of a note payable liability and expense of \$282,714 as it relates to this agreement.

NOTE I - RELATED PARTY TRANSACTIONS, CONTINUED

Under the December 1, 2015 revised "Casa Mariposa" agreement, CHR paid the City \$15,000 against the \$17,027 previous rental proceeds (noted above) during the year ended September 30, 2016. Under the "Woodhaven Agreement" CHR paid the City \$50,000 for the years ended September 30, 2015.

The CHR/City of Sanibel Agreement provides that the City has designated CHR as its affordable housing agency.

The City of Sanibel also provided CHR operating revenue of \$300,281 and \$291,535 the years ended September 30, 2016 and 2015, respectively.

At September 30, 2016 and 2015, no amounts were due to or from the City of Sanibel under this agreement.

NOTE J - PENSION PLAN

CHR maintains a salary continuation plan (individual IRA plans) covering all full-time employees meeting certain eligibility requirements. The plan provides for monthly employer contributions to the plan at a (3% of fulltime employee gross wages) fixed amount. Employees are immediately vested. The plan also provides for voluntary contributions by participants. During the years ended September 30, 2016 and 2015, CHR contributed \$5,714 and \$6,468, respectively, to employees' individual IRA plans.

NOTE K - 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, 2016 or 2015 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. Management is not aware of any asserted claims at either September 30, 2016 or September 30, 2015.

NOTE L - TENANT'S INDEXED APPRECIATION PERCENTAGE

As part of the sales contracts for units sold by Community Housing and Resources under the Limited Equity Ownership (LEO) Program, CHR is required to repurchase 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 (indexed appreciation percentage) 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 and accrues annually at the anniversary date of the owners purchase of the unit. The owner also is entitled to a graduated conditional guaranteed appreciation amount up to 5% of the purchase price, as defined. These amounts are collectively reflected as "LEO appreciation liability" of \$266,046 and \$218,254 on the Statements of Financial Position at September 30, 2016 and 2015 respectively.

During the year ended September 30, 2016, CHR reacquired one of the units previously sold under the Limited Equity Ownership (LEO) program. As described above, CHR is required to pay the former owner guaranteed appreciation on the housing unit. The guaranteed appreciation amount paid to the unit holder was \$28,949 for the year ended September 30, 2016. No such amounts were paid during the year ended September 30, 2015 as no units were repurchased.