

18. **CITY MANAGER**
  - a. Informational Items
    - ix. Corrected Audit Report of Community Housing Resources (CHR)



## MEMORANDUM

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TO: JUDIE ZIMOMRA, CITY MANAGER

FROM: SYLVIA EDWARDS, FINANCE DIRECTOR 

DATE: JULY 14, 2009

SUBJECT: COMMUNITY HOUSING & RESOURCES, INC. (CHR) REVISED AUDIT

On June 10, 2009 CHR notified the City that the expenditures reported in the audit report accepted by their Board of Directors on April 18, 2009 for the period ending 9/30/08 had been overstated by \$24,548. On June 8, 2009 CHR's Board of Directors accepted a revised audit report and submitted a copy to the City.

CHR's audited financial statements are included as a discretely presented component unit in the City's audit report. Discretely presented denotes that CHR's financial reports are included in the City's report but are stated separately and are not blended with the City's numbers. Staff contacted the City's independent auditors, LarsonAllen LLP, to ascertain if the City's 2008 audit report needed to be revised.

The first issue discussed was the relevance of the misstatement to the City's financial statement users. Would the users who are relying on the City's financial statements reach a different conclusion based on the change for CHR? The City's auditors do not think so.

Secondly, both the City and CHR are 9 months into the new year. It is less likely that reissuing the statements would impact any users of the City's financial information. It also appears that management of CHR is properly informing users of their financial statements of the change.

The City's independent auditors' opinion is that correcting the error in the 2009 financial audit report with an appropriate disclosure would be adequate to meet the authoritative requirements for the subsequent discovery of an error.

As the City's Finance Director, I am in agreement with the City's independent auditors' recommendation.

ATTACHMENT:

Memorandum dated June 10, 2009 from Community Housing & Resources, Inc.

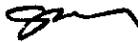


# **Community Housing & Resources, Inc. Coast & Islands Community Land Trust, Inc.**

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

✓  
To: City of Sanibel, Lee County Departments of Human Services and Community Development, Sanibel-Captiva Community Bank

From: Scott Marcelais, Executive Director 

Date: June 10, 2009

Re: Revised Audit

Since we submitted our audit for the period ending 9/30/08 accepted at the CHR Annual meeting on April 18, 2009 we received information from our Auditor's that the Accounting firm had overstated the expenses by \$24,548.00. The revised audit was accepted by the Board of Directors on June 8, 2009. Consequently I am forwarding you the revised audit. The changes are reflected on pages 2, 3, 4, and 5.

To avoid any confusion the first page of the revised audit is stamped as received on June 5, 2009.

Cc: Mike Cuscaden, President  
Judie Zimomra, City Manager  
Allan Myers, Treasurer  
Cyndie Hoggatt, Administrative Assistant  
Stroemer & Co, Auditors  
Markham Norton Mostelle Wright & Company, Accountants



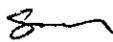


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**RECEIVED**  
JUN - 5 2009

BY:.....

**COMMUNITY HOUSING AND RESOURCES, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED**  
**September 30, 2008**

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INTEGRITY.....KNOWLEDGE.....SERVICE.....COMMITMENT®

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Community Housing and Resources, Inc.  
Sanibel, Florida

We have audited the accompanying statement of financial position of Community Housing and Resources, Inc. (a non-profit corporation) as of September 30, 2008 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Housing and Resources, Inc. as of September 30, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

STROEMER & COMPANY, P.A.  
Fort Myers, Florida  
March 30, 2009

#### Affiliations

Florida Institute of Certified Public Accountants  
American Institute of Certified Public Accountants - Management Consulting Services Division / Private Companies Practice Section / Tax Division

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2008**

Page 2 of 12

	<u>Amount</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents (including restricted cash of \$39,110)	\$ 113,240
Certificates of deposit	195,198
Accounts receivable	836
Due from CICLT	6,025
Prepaid expenses	<u>56,687</u>
TOTAL CURRENT ASSETS	371,986
<b>PROPERTY AND EQUIPMENT, net</b>	4,904,969
<b>LOAN COST, net</b>	483
<b>DEVELOPMENTS IN PROGRESS</b>	<u>252,652</u>
TOTAL ASSETS	<u>\$ 5,530,090</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Current portion of long-term debt	\$ 10,073
Accounts payable and accrued expenses	16,374
Security deposits	<u>39,815</u>
TOTAL CURRENT LIABILITIES	66,262
<b>ACCRUED INTEREST PAYABLE</b>	4,387
<b>LONG-TERM DEBT, net of current portion</b>	<u>799,790</u>
TOTAL LIABILITIES	<u>870,439</u>
<b>NET ASSETS</b>	
Unrestricted	4,640,510
Temporarily restricted	<u>19,141</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,530,090</u>

The accompanying notes are an integral part of this statement.

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENT OF ACTIVITIES**  
**Year ended September 30, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>CHANGES IN NET ASSETS</b>			
<b>SUPPORT AND REVENUE</b>			
Rent	\$ 419,367	\$ -	\$ 419,367
City of Sanibel support	-	240,404	240,404
Public support	-	69,802	69,802
Grants	42,500	-	42,500
Investment and interest income	12,438	-	12,438
Forgiveness of debt income	150,704	-	150,704
Other income	21,893	-	21,893
<b>TOTAL SUPPORT AND REVENUE BEFORE RECLASSIFICATIONS</b>	<u>646,902</u>	<u>310,206</u>	<u>957,108</u>
Net assets released from restrictions	<u>323,015</u>	<u>(323,015)</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE AFTER RECLASSIFICATIONS</b>	<u>969,917</u>	<u>(12,809)</u>	<u>957,108</u>
<b>EXPENSES</b>			
Program services	711,717	-	711,717
Supporting services	178,527	-	178,527
<b>TOTAL EXPENSES</b>	<u>890,244</u>	<u>-</u>	<u>890,244</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>79,673</u>	<u>(12,809)</u>	<u>66,864</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,560,837</u>	<u>31,950</u>	<u>4,592,787</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 4,640,510</u>	<u>\$ 19,141</u>	<u>\$ 4,659,651</u>

The accompanying notes are an integral part of this statement.

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended September 30, 2008**

	<u>PROGRAM SERVICES</u>	<u>SUPPORTING SERVICES</u>	<u>TOTAL EXPENSES</u>
Salaries	\$ 108,648	\$ 99,849	\$ 208,497
Repairs and maintenance	78,364	1,596	79,960
Payroll taxes and benefits	35,347	42,889	78,236
City of Sanibel rental payment	74,618	-	74,618
Insurance	80,010	6,254	86,264
Utilities	49,220	-	49,220
Licenses and taxes	784	-	784
Professional fees	13,346	-	13,346
Homeowners association fees	15,219	-	15,219
Accounting fees	-	13,335	13,335
Miscellaneous expense	3,768	9,498	13,266
Tenant assistance activities	19,280	-	19,280
Office expense	-	3,747	3,747
Travel and per diem	15,441	-	15,441
Property taxes	(1,227)	-	(1,227)
Advertising and promotion	1,064	-	1,064
Interest	22,350	-	22,350
	<u>516,232</u>	<u>177,168</u>	<u>693,400</u>
TOTAL EXPENSES BEFORE DEPRECIATION			
Depreciation and amortization	<u>195,485</u>	<u>1,359</u>	<u>196,844</u>
TOTAL EXPENSES	<u>\$ 711,717</u>	<u>\$ 178,527</u>	<u>\$ 890,244</u>

The accompanying notes are an integral part of this statements.

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**STATEMENT OF CASH FLOWS**  
**Year ended September 30, 2008**

	<u>Amount</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from support and revenue	\$ 801,276
Cash paid to suppliers and employees	(725,770)
Interest received	3,973
Other income received	<u>21,893</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	101,372
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Reinvestment of interest in certificates of deposit	46,531
Purchase of equipment	(969,095)
Payments for developments in progress	(76,620)
Security deposits received (net)	<u>7,165</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(992,019)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from long-term debt	815,000
Payments of long-term debt	(5,137)
Cash paid for loan fees	<u>(500)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>809,363</u>
 NET CHANGE IN CASH	(81,284)
 Cash, beginning of year	<u>194,524</u>
 CASH, END OF YEAR	 <u>\$ 113,240</u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF INCREASE IN NET  
ASSETS TO NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

	<u>Amount</u>
Increase in net assets	\$ 66,864
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	196,844
Forgiveness of debt income	(150,000)
Reinvested CD interest	8,465
Increase in receivables	(5,128)
Decrease in prepaid expenses	1,404
Decrease in accounts payable and accrued expenses	(8,154)
Decrease in accrued interest payable	<u>(8,923)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 101,372</u>

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

**Description of activities**

Community Housing and Resources, Inc. (the "Organization") is a nonprofit corporation located on Sanibel Island, Florida. The Organization's objective is to promote and assist in the provision of affordable housing for low to moderate income individuals working on Sanibel Island, and residents who would otherwise be unable to live on the island. The Organization's current major initiative is to administer a below market rate housing program for the City of Sanibel.

**Basis of presentation**

The financial statements have been prepared on an accrual basis of accounting.

**Financial statement presentation**

The financial statement presentation follows Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 requires an Organization 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, the Organization is required to present a statement of cash flows. The Organization had no permanently restricted net assets as of September 30, 2008.

**Contributions**

The Organization accounts for contributions in accordance with SFAS No. 116 "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under SFAS No. 116, contributions that are required to be reported as temporarily restricted support are reclassified to unrestricted net assets upon expiration of time restrictions or fulfillment of purpose restrictions.

**Developments in progress**

Expenditures for developments in progress are recorded at cost. At the completion of these projects, they will be transferred into property and equipment and depreciated.

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

**Investments**

The Organization accounts for investments in accordance with SFAS No.124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." SFAS No.124 establishes standards for accounting for investments in equity securities with readily determinable fair values and all investments in debt securities. These securities are reported at fair value with gains and losses included in the statement of activities. This statement also requires certain disclosures about the return on those investments.

**Concentration of credit risk**

At September 30, 2008, the Organization maintained its cash and cash equivalents at various financial institutions which, at times, may exceed federally-insured limits. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant risk on cash.

**Property and equipment**

Property and equipment 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 regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Organization capitalizes assets with a cost or donated fair value of \$500 or more.

**Asset impairment**

The Organization follows SFAS No.144 "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 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.

SFAS No. 144 had no effect on the financial statements of the Organization since no assets were considered to be impaired.

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

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Functional expenses**

The Organization allocates its expenses on a functional basis among its various program and supporting services. Expenses that can be identified with a specific program service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

**Income taxes**

The Organization is exempt from income taxes as an Internal Revenue Code Section 501(c)(3) organization and is not classified as a private foundation within the meaning of Section 509(a). As such no provision for income taxes has been reflected in the financial statements.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. The organization reports 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.

**Financial instruments**

The Organization's 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 the Organization were 100% occupied at September 30, 2008. These units are rented to individuals on one-year cancelable leases subject to the provisions of the below market rate housing program guidelines.

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

**Contributed services**

Donated services are recognized as contributions in accordance with SFAS No. 116 if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The City of Sanibel provides office space, some office supplies and designates an indirect cost rate. These donated items have been valued at approximately \$30,000 for the year ended September 30, 2008.

Other contributed or donated services including services provided by the Board of Directors do not have a clearly measurable basis, and as such, are not reflected in the financial statements.

**Statement of cash flows**

For purposes of reporting cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be a cash equivalent.

**NOTE B - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consists of the following:

	Unrestricted	Temporarily Restricted	Total
Checking accounts-unrestricted	\$ 74,130	\$ -	\$ 74,130
Checking accounts-security deposits	-	39,110	39,110
	<u>\$ 74,130</u>	<u>\$ 39,110</u>	<u>\$ 113,240</u>

**NOTE C - CERTIFICATES OF DEPOSIT**

As of September 30, 2008, the Association had three certificates of deposit with the following terms:

<u>Description</u>	<u>Principal</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Sanibel Captiva Community Bank	\$ 75,470	7/15/2009	3.75%

**COMMUNITY HOUSING AND RESOURCES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2008**

**NOTE C - CERTIFICATES OF DEPOSIT, CONTINUED**

<u>Description</u>	<u>Principal</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Sanibel Captiva Community Bank	75,470	7/15/2009	3.75%
Sanibel Captiva Community Bank	<u>44,258</u>	1/21/2009	2.00%
	<u>\$ 195,198</u>		

**NOTE D - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at September 30, 2008:

	<u>Amount</u>
Land	\$ 980,413
Buildings and improvements	5,708,838
Furniture and equipment	<u>24,729</u>
	6,713,980
Accumulated depreciation	<u>(1,809,011)</u>
	<u>\$ 4,904,969</u>

Depreciation expense for the year ended September 30, 2008 was \$196,827.

**NOTE E - LOAN COST**

Riverview	\$ 500
Accumulated amortization	<u>(17)</u>
	<u>483</u>

Amortization expense for the year ended September 30, 2008 was \$17.

**NOTE F - DEVELOPMENTS IN PROGRESS**

Developments in progress consists of costs incurred by the Organization for the purchase and development of land on Center Street.

**NOTE G - LONG-TERM DEBT**

Long-term debt consists of the following obligation on September 30, 2008:

	<u>Amount</u>
Mortgage payable to a financial institution, collateralized by land and buildings, assignment of all rents, monthly interest and principal payments of \$5,201 with interest at 6.5%, and one balloon payment of \$461,412 due February 2028.	<u>\$809,863</u>

Total interest expense for the year ended September 30, 2008 was \$22,350.

Total annual principal payments for outstanding long-term debt are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2009	\$ 10,073
2010	10,930
2011	11,660
2012	12,439
2013	13,269
Thereafter	<u>751,492</u>
	809,863
	Less current portion (10,073)
	<u>\$ 799,790</u>

**NOTE H - RELATED PARTY TRANSACTIONS**

The 1999 CHR/City of Sanibel Casa Mariposa Construction Funding Agreement requires the Organization to pay to 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 on September 30, 2008.

The 2003 CHR/City of Sanibel Woodhaven Construction Funding Agreement requires the Organization to pay to the City of Sanibel \$50,000 each fiscal year. Credit against this payment is given for the amount paid by the Organization each December for the Casa Mariposa net rental proceeds.

**NOTE I - ECONOMIC DEPENDENCE**

A substantial part of the Organization's operation is dependent upon the receipt of support from grantor agencies. Loss of these funds and/or large decreases in this type of funding would have a material effect on the Organization and a negative impact on overall operations. For the year ending September 30, 2008, 46% of total support and revenue is attributable to funds received from grantor agencies.

**NOTE J - PENSION PLAN**

The Organization 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 provides for voluntary contributions by participants. The annual contribution at September 30, 2008 of \$5,251 is included in the payroll taxes and benefits line on the Statement of Functional Expenses.

**NOTE K - FORGIVENESS OF DEBT INCOME**

Effective February 23, 2008, the \$150,000 promissory note (dated April 16, 2004) that the Organization had payable to an unrelated third party, plus accrued interest, was forgiven. As a result of this debt forgiveness, the Organization recorded \$150,704 of income in fiscal 2008. This income was classified as unrestricted.