

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080**

**FINANCIAL STATEMENTS
JULY 31, 2015 AND 2014
WITH AUDITOR'S REPORTS,
SUPPLEMENTARY INFORMATION,
HUD SUPPLEMENTARY INFORMATION,
AND MORTGAGOR'S
AND MANAGEMENT AGENT'S CERTIFICATIONS**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Erie County Housing Opportunities
Sandusky, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Project No. 042-HD080, Erie County Housing Opportunities, an Ohio non-profit corporation, which consist of the statements of financial position as of July 31, 2015 and 2014, the related statements of activities 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 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Erie County Housing Opportunities, as of July 31, 2015 and 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 21 to 26 is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 on our consideration of Erie County Housing Opportunities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Erie County Housing Opportunities' internal control over financial reporting and compliance.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
September 23, 2015

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
STATEMENTS OF FINANCIAL POSITION
July 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash	\$ 1,716	\$ 715
Housing assistance receivable	1,857	1,083
Prepaid expenses and other	359	359
	<u>3,932</u>	<u>2,157</u>
Deposits held in trust		
Tenant security deposits	2,344	2,343
Restricted deposits and funded reserves		
Reserve for replacements	12,762	39,979
Residual receipts reserve	2,556	2,556
Property and equipment		
Land	96,000	96,000
Building and building improvements	795,883	774,941
Office furniture and equipment	26,274	26,274
	<u>918,157</u>	<u>897,215</u>
Less accumulated depreciation	392,304	369,986
	<u>525,853</u>	<u>527,229</u>
	<u>547,447</u>	<u>574,264</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable operations	\$ 5,476	\$ 7,305
Prepaid rents	1,857	1,041
Accrued management fee payable	0	1,617
	<u>7,333</u>	<u>9,963</u>
Deposit liabilities		
Tenant security deposits	2,344	2,343
	<u>9,677</u>	<u>12,306</u>
Net assets		
Unrestricted	(354,630)	(330,442)
Temporarily restricted	892,400	892,400
	<u>537,770</u>	<u>561,958</u>
	<u>547,447</u>	<u>574,264</u>

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
STATEMENTS OF ACTIVITIES
For the Years Ended July 31, 2015 and 2014

	2015		
	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Tenant assistance	\$ 22,434	\$ 0	\$ 22,434
Rental income, less vacancy loss of \$6,000 in 2015 and \$3,949 in 2014	43,524		43,524
Interest income	5		5
Total support and revenues	<u>65,963</u>	<u>0</u>	<u>65,963</u>
Expenses			
Management fees	6,828		6,828
Office expenses	9,420		9,420
Professional fees	5,355		5,355
Utilities	16,871		16,871
Operating and maintenance	16,243		16,243
Taxes and insurance	5,367		5,367
Other administrative expenses	261		261
Loss on disposal of assets	2,704		2,704
Depreciation	27,102		27,102
Total expenses	<u>90,151</u>	<u></u>	<u>90,151</u>
Change in net assets	(24,188)	0	(24,188)
Net assets at beginning of year	<u>(330,442)</u>	<u>892,400</u>	<u>561,958</u>
Net assets at end of year	<u>\$ (354,630)</u>	<u>\$ 892,400</u>	<u>\$ 537,770</u>

2014		
Unrestricted	Temporarily Restricted	Total
\$ 13,771	\$ 0	\$ 13,771
43,773		43,773
7		7
<u>57,551</u>	<u>0</u>	<u>57,551</u>
6,602		6,602
9,566		9,566
5,650		5,650
17,127		17,127
13,203		13,203
5,789		5,789
246		246
0		0
26,808		26,808
<u>84,991</u>		<u>84,991</u>
(27,440)	0	(27,440)
<u>(303,002)</u>	<u>892,400</u>	<u>589,398</u>
<u>\$ (330,442)</u>	<u>\$ 892,400</u>	<u>\$ 561,958</u>

The accompanying notes are an integral part of these financial statements.

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
STATEMENTS OF CASH FLOWS
For the Years Ended July 31, 2015 and 2014**

	2015	2014
Cash flows from operating activities		
Rental receipts	\$ 66,000	\$ 57,330
Interest receipts	5	7
Total cash flows provided by operating activities	66,005	57,337
Administrative	(15,036)	(15,462)
Management fee	(8,445)	(4,985)
Utilities	(16,871)	(17,127)
Operating and maintenance	(18,072)	(12,919)
Real estate taxes and escrow deposits	(5,367)	(4,442)
Net cash provided by operating activities	2,214	2,402
Cash flows from investing activities		
Purchases of property and equipment	(28,430)	0
Change in reserve for replacements	27,217	(1,687)
Net cash used in investing activities	(1,213)	(1,687)
Net increase in cash	1,001	715
Cash		
Cash at beginning of year	715	0
Cash at end of year	\$ 1,716	\$ 715
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (24,188)	\$ (27,440)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,102	26,808
Loss on disposal of assets	2,704	0
(Increase) decrease in prepaid expenses	0	1,347
(Increase) decrease in cash restricted for tenant security deposits	(1)	0
(Increase) decrease in housing assistance receivable	(774)	42
Increase (decrease) in accounts payable operations	(1,829)	284
Increase (decrease) in payable to affiliate	(1,617)	1,617
Increase (decrease) in tenant security deposits	1	0
Increase (decrease) in prepaid rents	816	(256)
Net cash provided by operating activities	\$ 2,214	\$ 2,402

The accompanying notes are an integral part of these financial statements.

ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
NOTES TO FINANCIAL STATEMENTS
July 31, 2015 and 2014

Note 1–Nature of business

Erie County Housing Opportunities was organized to provide living facilities for residents with physical and mental disabilities. Erie County Housing Opportunities is a separate legal entity located in Sandusky, Ohio. The project is sponsored by Ability Works, Inc., which is a nonprofit private corporation. The management agent for Erie County Housing Opportunities is Preferred Properties, Inc., which is a nonprofit private corporation.

The operations of Erie County Housing Opportunities are regulated by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD) under Section 811 of the National Housing Act, as amended (Regulatory Agreement). Erie County Housing Opportunities is required to comply with the terms of the Regulatory Agreement.

Note 2–Summary of significant accounting and reporting policies

Basis of accounting

The financial statements of Erie County Housing Opportunities have been prepared on the accrual basis of accounting. The accrual basis of accounting provides for the recognition of revenues when earned and the recognition of expenses when incurred.

Financial statement presentation

The accompanying financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic related to Financial Statements of Not-for-Profit Organizations. Under the FASB ASC Topic related to Financial Statements of Not-for-Profit Organizations, Erie County Housing Opportunities is required 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. Management is of the opinion that there were no permanently restricted net assets at July 31, 2015 and 2014.

Temporarily restricted net assets

Temporarily restricted net assets consist of a capital advance from HUD. The capital advance does not bear interest and need not be repaid as long as the housing remains available to very low-income-eligible persons, as approved by HUD, for no less than 40 years. Failure to comply with HUD requirements would result in HUD billing the owner for the entire capital advance outstanding plus interest since the date of the first advance. Management believes the likelihood of required repayment is remote.

ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
NOTES TO FINANCIAL STATEMENTS – CONTINUED
July 31, 2015 and 2014

Note 2—Summary of significant accounting and reporting 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 and 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.

Cash and cash equivalents

For the purpose of the statement of cash flows, all unrestricted investments with original maturities of three months or less are cash equivalents. Erie County Housing Opportunities had no cash equivalents at July 31, 2015 and 2014.

Accounts receivable

Tenant accounts receivable consists of rent due from tenants. The July 2015 and July 2014 housing assistance payments due from HUD are classified as housing assistance receivable. Accounts receivable are considered fully collectible at July 31, 2015 and 2014. Accordingly, no allowance for uncollectible accounts is required.

Property and equipment

The cost of the building and equipment is depreciated over their estimated useful lives (ranging from 5 to 40 years), using the straight-line method. Erie County Housing Opportunities has a capitalization policy for expenditures over \$1,000.

The Project reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. Management believes there were no impairment losses in 2015 or 2014.

ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
NOTES TO FINANCIAL STATEMENTS – CONTINUED
July 31, 2015 and 2014

Note 2—Summary of significant accounting and reporting policies—continued

Income taxes

Erie County Housing Opportunities is exempt from federal income taxes effective June 21, 2002 under Section 501(c)(3) of the Internal Revenue Code.

Management of Erie County Housing Opportunities is required to determine whether a tax position of Erie County Housing Opportunities is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Management is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. However, management's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, new tax laws, regulations, and administrative interpretations (including relevant court decisions). Erie County Housing Opportunities' federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

Subsequent events

The Project has evaluated all events subsequent to the statement of financial position date of July 31, 2015, through September 23, 2015, which is the date these financial statements were ready to be issued, and has determined that there are no subsequent events that require disclosure.

Note 3—Rental revenue

Erie County Housing Opportunities consists of 3 buildings with 12 one bedroom units of housing for persons with disabilities, which receives monthly rentals as approved by HUD. The tenants are charged rental amounts based on a percentage of their income, and HUD subsidizes the remainder. HUD approved rentals per unit is \$427 for the period of August 1, 2013 through July 31, 2014 and \$500 for the period of August 1, 2014 through July 31, 2015. The rent subsidy contract with HUD expires annually in December.

Note 4—Cash reserves

HUD requires that Erie County Housing Opportunities fund the following reserves:

Residual receipts reserve

Project funds in excess of funds needed for their intended purpose must be deposited with the mortgagee within 90 days after year-end. Withdrawals from this account can be made only with approval of HUD and only for project purposes. Funding of the residual receipts reserve was not required at July 31, 2015 and 2014 as no surplus cash existed.

ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
NOTES TO FINANCIAL STATEMENTS – CONTINUED
July 31, 2015 and 2014

Note 4–Cash reserves–continued

Replacement reserve

Monthly funding payments of \$440 are required for the period of August 1, 2013 through July 31, 2014 and \$541.67 for the period of August 1, 2014 through July 31, 2015. The funds are to be used for replacement of property with the approval of HUD. The Capital Advance Program Regulatory Agreement requires that the mortgagor make monthly deposits to the replacement reserve account. At July 31, 2015 and 2014, the replacement reserve balance was \$12,762 and \$39,979, respectively. HUD-approved withdrawals in 2015 and 2014 amounted to \$33,722 and \$3,600, respectively.

Note 5–Commitments

The management agent, Preferred Properties, Inc. charged Erie County Housing Opportunities a management fee equal to \$49 per unit rented August 1, 2013 through July 31, 2015. Management fees charged in 2015 and 2014 amounted to \$6,828 and \$6,602, respectively. The terms of the management agreement expire July 31, 2016.

Note 6–Current vulnerability due to certain concentrations

The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

SUPPLEMENTARY INFORMATION

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended July 31, 2015**

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Supportive Housing for Persons with Disabilities PRAC	14.181	\$ 22,434
Supportive Housing for Persons with Disabilities Capital Advance	14.181	<u>892,400</u>
	Total expenditures of federal awards	<u>\$ 914,834</u>

The accompanying note is an integral part of this schedule.

ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended July 31, 2015

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards, which includes all federal grant activity of Erie County Housing Opportunities, is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented, or used, in the preparation of the financial statements.

**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***

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Erie County Housing Opportunities
Sandusky, OH

We have audited, in accordance with the 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, the financial statements of Erie County Housing Opportunities, an Ohio non-profit corporation, which consist of the statement of financial position as of July 31, 2015, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Erie County Housing Opportunities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Erie County Housing Opportunities' internal control. Accordingly, we do not express an opinion on the effectiveness of Erie County Housing Opportunities' internal control.

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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Erie County Housing Opportunities' financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
September 23, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Erie County Housing Opportunities
Sandusky, OH

Report on Compliance for Each Major Federal Program

We have audited Erie County Housing Opportunities, an Ohio non-profit corporation, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Erie County Housing Opportunities' major federal programs for the year ended July 31, 2015. Erie County Housing Opportunities' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Erie County Housing Opportunities' major federal programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 federal program occurred. An audit includes examining, on a test basis, evidence about Erie County Housing Opportunities' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Erie County Housing Opportunities' compliance.

Opinion on Each Major Federal Program

In our opinion, Erie County Housing Opportunities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended July 31, 2015.

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Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-1. Our opinion on each major federal program is not modified with respect to this matter.

Report on Internal Control Over Compliance

Management of Erie County Housing Opportunities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Erie County Housing Opportunities' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Erie County Housing Opportunities' 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 federal program on a timely basis. *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 federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
September 23, 2015

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended July 31, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.181	Department of Housing and Urban Development Supportive Housing for Persons with Disabilities
Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
SCHEDULE OF STATUS OF PRIOR YEAR (2014) AUDIT FINDINGS
For the Year Ended July 31, 2015**

**Department of Housing and Urban Development
Finding 2014-01**

Condition

The HUD Regulatory Agreement requirement of making timely deposits into the residual receipts account was not met.

Status

Management's request to HUD that this requirement be waived was approved on August 28, 2015.

HUD SUPPLEMENTARY INFORMATION

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
BALANCE SHEET
July 31, 2015**

ASSETS

Current assets

1120	Cash—operations	\$	1,716
1135	Housing assistance receivable		1,857
1200	Miscellaneous prepaid expenses		359
Total current assets			3,932

Deposits held in trust

1191	Tenant security deposits		2,344
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Restricted deposits and funded reserves

1320	Reserve for replacements		12,762
1340	Residual receipts reserve		2,556
Total restricted deposits and funded reserves			15,318

Property and equipment

1410	Land		96,000
1420	Building		795,883
1450	Furniture		26,274
Total property and equipment			918,157
1495	Less accumulated depreciation		392,304
Net property and equipment			525,853

Total assets \$ 547,447

LIABILITIES AND NET ASSETS

Current liabilities

2110	Accounts payable	\$	5,476
2210	Prepaid revenues		1,857
Total current liabilities			7,333

Deposit liabilities

2191	Tenant security deposits		2,344
Total liabilities			9,677

Net assets

3131	Unrestricted		(354,630)
3132	Temporarily Restricted		892,400
Total net assets			537,770

Total liabilities and net assets \$ 547,447

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
STATEMENT OF PROFIT AND LOSS
For the Year Ended July 31, 2015**

Rent revenue

5120	Rent revenue—gross potential	\$	49,524
5121	Tenant assistance payments		22,434
	Total rent revenue		71,958

Vacancies

5220	Vacancies—apartments		6,000
	Total vacancies		6,000
	Net rent revenue		65,958

Financial revenue

5440	Revenue from investments—replacement reserve		5
	Total financial revenue		5
	Total revenue		65,963

Administrative expenses

6203	Conventions and meetings		195
6210	Advertising and marketing		66
6310	Office salaries		5,040
6311	Office expenses		3,120
6320	Management fees		6,828
6350	Auditing expenses		5,355
6351	Bookkeeping		1,260
	Total administrative expenses		21,864

Utilities expenses

6450	Electricity		8,450
6451	Water		3,923
6452	Gas		4,498
	Total utilities expenses		16,871

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
STATEMENT OF PROFIT AND LOSS-CONTINUED
For the Year Ended July 31, 2015**

Operating and maintenance expenses

6510	Payroll	6,600
6515	Supplies	1,575
6520	Contracts	6,527
6525	Garbage and trash removal	1,363
6546	Heating/cooling repairs and maintenance	178
	Total operating and maintenance expenses	16,243

Taxes and insurance

6720	Property and liability insurance	4,332
6790	Miscellaneous taxes, licenses, permits and insurance	1,035
	Total taxes and insurance	5,367

Financial expenses

6890	Loss on disposal of assets	2,704
	Total financial expenses	2,704

	Total cost of operations before depreciation	63,049
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Income before depreciation	2,914
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6600	Depreciation	27,102
		27,102

	Net loss	\$ (24,188)
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**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
COMPUTATION OF SURPLUS CASH
For the Year Ended July 31, 2015**

Current cash

	Cash (accounts 1120 and 1191)	\$	4,060
1135	Accounts receivable–HUD		1,857
	Total current cash		<u>5,917</u>

Current obligations

	Accounts payable–operations		5,476
2191	Tenant security deposits		2,344
2210	Prepaid revenues		<u>1,857</u>
	Total current obligations		<u>9,677</u>
	Deficiency	\$	<u>(3,760)</u>
	Deposit due receipts	\$	<u>0</u>

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
SCHEDULE OF CHANGES IN FIXED ASSETS
For the Year Ended July 31, 2015**

		Property and Equipment						
		Balance July 31, 2014	Additions	Retirements	Balance July 31, 2015			
1410	Land	\$ 96,000	\$ 0	\$ 0	\$ 96,000			
1420	Building	774,941	28,430	7,488	795,883			
1450	Furniture	26,274			26,274			
		<u>\$ 897,215</u>	<u>\$ 28,430</u>	<u>\$ 7,488</u>	<u>\$ 918,157</u>			
		Accumulated Depreciation						
		Balance July 31, 2014	Current Provisions	Retirements	Balance July 31, 2015	Net Book Value July 31, 2015		
	Land	\$ 0	\$ 0	\$ 0	\$ 0	\$ 96,000		
1495	Accumulated depreciation	369,986	27,102	4,784	392,304	429,853		
		<u>\$ 369,986</u>	<u>\$ 27,102</u>	<u>\$ 4,784</u>	<u>\$ 392,304</u>	<u>\$ 525,853</u>		

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended July 31, 2015**

Replacement reserve

In accordance with the provisions of the Regulatory Agreement, restricted cash is to be used for the replacement of property, with the approval of HUD, as follows:

Beginning balance, August 1, 2013	\$ 39,979
Monthly deposits (\$541.67 x 12)	6,500
Interest earned	5
Authorized withdrawals	<u>(33,722)</u>
Ending balance, July 31, 2015	<u><u>\$ 12,762</u></u>

Residual receipts

In accordance with the provisions of the Regulatory Agreement, restricted cash is to be used for the purposes determined to be necessary or appropriate by HUD.

Beginning balance, August 1, 2014	\$ 2,556
Additions	0
Interest earned	0
Authorized withdrawals	<u>0</u>
Ending balance, July 31, 2015	<u><u>\$ 2,556</u></u>

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
MORTGAGOR'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplementary information of Erie County Housing Opportunities and, to the best of our knowledge and belief, the same is complete and accurate.

By: Signature on File
Allison Young
Chairman of the Board

By: Signature on File
Laura Nickle
Vice Chairman

Federal Employer Identification
Number 34-1925590

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
MANAGEMENT AGENT'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplementary information of Erie County Housing Opportunities and, to the best of our knowledge and belief, the same is complete and accurate.

By: Signature on File
Yvonda Bean
Executive Director
Preferred Properties, Inc.

By: Signature on File
Beverly A. Zadiraka
Finance Manager
Preferred Properties, Inc.

Federal Employer Identification
Number 34-1715222

**ERIE COUNTY HOUSING OPPORTUNITIES
PROJECT NO. 042-HD080
GENERAL INFORMATION
For the Year Ended July 31, 2015**

Gilmore Jason Mahler, LTD
1715 Indian Wood Circle, Suite 100
Maumee, OH 43537

Engagement Partner: Robert A. Bobek
Telephone Number: (419) 794-2000
Federal Employer I.D. Number: 34-1827159

The audit was performed between July 31, 2015 and August 28, 2015.

Records for the accounting and administration of the Federal Financial Assistance programs, and administration of the mortgagor and the management agent are located at 5555 Airport Highway, Suite 145, Toledo, OH 43615, telephone number (419) 244-9609.