

BETTYE RUTH KAY COMMUNITY HOMES INC

PROJECT NO. 042-HD136

**FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
WITH INDEPENDENT AUDITOR'S
REPORTS AND MORTGAGOR'S
AND MANAGEMENT AGENT'S CERTIFICATIONS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bettye Ruth Kay Community Homes Inc
Whitehouse, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Bettye Ruth Kay Community Homes Inc. (an Ohio not-for-profit corporation), Project No. 042-HD136, which consist of the statements of financial position as of December 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 audit 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bettye Ruth Kay Community Homes Inc., as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years 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 20 to 24 are 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 as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. This information has been subjected to the auditing procedures applied in the audit 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 March 17, 2016, on our consideration of the Bettye Ruth Kay Community Homes Inc.'s 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 Bettye Ruth Kay Community Homes Inc.'s internal control over financial reporting and compliance.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
March 17, 2016

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash	\$ 506	\$ 1,422
Tenant accounts receivable	851	383
Housing assistance receivable	3,763	3,630
	<u>5,120</u>	<u>5,435</u>
	Total current assets	
Deposits held in trust		
Tenant security deposits	2,464	2,463
Restricted deposits and funded reserves		
Reserve for replacements	21,640	15,840
Property and equipment		
Land	60,000	60,000
Building and building improvements	1,662,519	1,662,519
Office furniture and equipment	36,265	36,265
Maintenance equipment	9,895	9,895
Miscellaneous fixed assets	7,250	7,250
	<u>1,775,929</u>	<u>1,775,929</u>
	Total property and equipment	
Less accumulated depreciation	481,768	418,202
	<u>1,294,161</u>	<u>1,357,727</u>
	Net property and equipment	
	<u>\$ 1,323,385</u>	<u>\$ 1,381,465</u>
	Total assets	
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,443	\$ 8,258
Prepaid rents	3,763	3,635
Payable to affiliate	2,495	5,186
	<u>13,701</u>	<u>17,079</u>
	Total current liabilities	
Deposit liabilities		
Tenant security deposits	2,464	2,463
	<u>16,165</u>	<u>19,542</u>
	Total liabilities	
Net assets		
Unrestricted	(423,855)	(369,152)
Temporarily restricted	1,731,075	1,731,075
	<u>1,307,220</u>	<u>1,361,923</u>
	Total net assets	
	<u>\$ 1,323,385</u>	<u>\$ 1,381,465</u>
	Total liabilities and net assets	

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

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2015 and 2014

	2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues			
Tenant assistance	\$ 43,927	\$ 0	\$ 43,927
Rental income, less vacancy loss of \$0 in 2014 and 2013	45,353		45,353
Miscellaneous	505		505
Interest income	4		4
Total support and revenues	<u>89,789</u>	<u>0</u>	<u>89,789</u>
Expenses			
Management fees	7,059		7,059
Office expenses	7,231		7,231
Professional fees	8,450		8,450
Utilities	19,837		19,837
Operating and maintenance	21,733		21,733
Taxes and insurance	11,145		11,145
Other administrative expenses	5,471		5,471
Depreciation	63,566		63,566
Total expenses	<u>144,492</u>	<u>0</u>	<u>144,492</u>
Change in net assets	(54,703)	0	(54,703)
Net assets at beginning of year	<u>(369,152)</u>	<u>1,731,075</u>	<u>1,361,923</u>
Net assets at end of year	<u>\$ (423,855)</u>	<u>\$ 1,731,075</u>	<u>\$ 1,307,220</u>

2014		
Unrestricted	Temporarily Restricted	Total
\$ 49,035	\$ 0	\$ 49,035
41,961		41,961
0		0
3		3
<u>90,999</u>	<u>0</u>	<u>90,999</u>
6,912		6,912
7,076		7,076
7,900		7,900
19,825		19,825
25,708		25,708
11,327		11,327
5,576		5,576
62,172		62,172
<u>146,496</u>	<u>0</u>	<u>146,496</u>
(55,497)	0	(55,497)
<u>(313,655)</u>	<u>1,731,075</u>	<u>1,417,420</u>
<u>\$ (369,152)</u>	<u>\$ 1,731,075</u>	<u>\$ 1,361,923</u>

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

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2015 and 2014

Cash flows from operating activities	2015	2014
Rental receipts	\$ 88,807	\$ 91,137
Interest receipts	4	3
Other operating receipts	505	0
Total cash flows provided by operating activities	<u>89,316</u>	<u>91,140</u>
Administrative	(23,843)	(22,748)
Management fee	(7,059)	(6,912)
Utilities	(19,837)	(19,825)
Operating and maintenance	(22,548)	(33,836)
Real estate taxes and escrow deposits	(11,145)	(11,327)
Net cash provided by (used in) operating activities	<u>4,884</u>	<u>(3,508)</u>
Cash flows from investing activities		
Purchases of property and equipment	0	(15,100)
Change in reserve for replacements	(5,800)	14,708
Net cash used in investing activities	<u>(5,800)</u>	<u>(392)</u>
Net decrease in cash	(916)	(3,900)
Cash		
Cash at beginning of year	1,422	5,322
Cash at end of year	<u>\$ 506</u>	<u>\$ 1,422</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (54,703)	\$ (55,497)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	63,566	62,172
(Increase) decrease in tenant accounts receivable	(468)	136
(Increase) decrease in housing assistance receivable	(133)	1,974
Decrease in accounts payable	(815)	(8,128)
Increase in accrued liability	0	0
Decrease in payable to affiliate	(2,691)	(2,196)
Increase (decrease) in prepaid rents	128	(1,969)
Net cash provided by (used in) operating activities	<u>\$ 4,884</u>	<u>\$ (3,508)</u>

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

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 1–Nature of business

Bettye Ruth Kay Community Homes Inc. (Project) was organized to provide living facilities for residents with mental disabilities, specifically autism. Bettye Ruth Kay Community Homes Inc. is a separate legal entity that is sponsored by Bittersweet Farms, Inc. The Project is managed by Preferred Properties, Inc. which is a nonprofit private corporation that provides living facilities for residents with physical and mental disabilities in Lucas County, Ohio. Bettye Ruth Kay Community Homes Inc. is under the control of Bittersweet Farm Inc.'s Board of Trustees and management.

The Project is an affiliate of Bittersweet Farms, Inc. through common control and economic interest. In accordance with Financial Accounting Standards Board (FASB) Topic, Consolidations, the Project's financial statements have been consolidated and presented in the consolidated financial statements of Bittersweet Farms, Inc. and Subsidiary in a separate report. These financial statements reflect only the financial position, results of operations, changes in net assets, and cash flows of the Project.

The Project consists of 12 one-bedroom units of housing for persons with disabilities, and one two-bedroom unit for resident staff, which receives monthly rentals as approved by HUD. The operations of Bettye Ruth Kay Community Homes Inc. 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). Bettye Ruth Kay Community Homes Inc. is required to comply with the terms of the Regulatory Agreement.

The Corporation was incorporated in the State of Ohio on March 30, 1996. Construction of the project was completed in September 2008, and operations commenced on September 19, 2008.

Note 2–Summary of significant accounting and reporting policies

Basis of accounting

The financial statements of the Project 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, Not for Profit Entities, Presentation of Financial Statements, to be in accordance with accounting principles generally accepted in the United States of America. The Project 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 December 31, 2015 and 2014.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

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

Temporarily restricted net assets

Temporarily restricted net assets consist of a capital advance from HUD in the amount of \$1,088,200 and grants from the State of Ohio Housing Development Assistance Program (State of Ohio) and the Federal Home Loan Bank of Cincinnati's Affordable Housing Program in the amounts of \$522,875 and \$120,000, respectively. 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. The State of Ohio grant requires the housing remain available to very low-income-eligible persons for a period of 30 years while the Bank of Cincinnati grants require the housing remain available to very low-income-eligible persons for a period of 15 years. Management believes the likelihood of required repayment is remote.

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. The project had no cash equivalents at December 31, 2015 and 2014.

Accounts receivable

Accounts receivable consist of amounts due from tenants and housing assistance payments due from HUD. The January 2015 and 2014 housing assistance payments due from HUD are classified as housing assistance receivables in 2015 and 2014, respectively. Accounts receivable are considered fully collectible at December 31, 2015 and 2014. Accordingly, no allowance for uncollectible accounts is required.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

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

Property and equipment

The cost of the building and equipment is depreciated over their estimated useful lives (ranging from 5 to 27.5 years), using the straight-line method. The Project 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 and 2014.

Income taxes

The Project is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

Management of Bettye Ruth Kay is required to determine whether a tax position of Bettye Ruth Kay 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 of Bettye Ruth Kay 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). Bettye Ruth Kay's 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 December 31, 2015, through March 17, 2016, 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

Tenants are charged rental amounts based on a percentage of their income, and HUD subsidizes the remainder. HUD approved rentals per unit were \$620 per month for January 1, 2014 through December 31, 2015. The rent subsidy contract with HUD expires in September 2016.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

Note 4—Transactions with affiliate

The accounts payable to affiliate balance at December 31, 2015 and 2014 is comprised of maintenance and operating costs due to Bittersweet, Inc. The amount due as of December 31, 2015 and 2014 was \$2,495 and \$5,186, respectively.

Bittersweet, Inc. performs maintenance services for the Project. Fees paid to Bittersweet, Inc. for maintenance services, lawn care, and snow removal were \$8,755 and \$7,080 in 2015 and 2014, respectively.

Note 5—Cash reserves

HUD requires the Project 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 December 31, 2015 and 2014 as no surplus cash existed.

Replacement reserve

The U.S. Department of Housing and Urban Development (HUD) under a Capital Advance Program Regulatory Agreement requires monthly funding payments of \$483 to this reserve. The funds are to be used for replacement of property with the approval of HUD. The replacement reserve balance was \$21,640 and \$15,840 at December 31, 2015 and 2014, respectively. HUD-approved withdrawals amounted to \$0 and \$20,508 in 2015 and 2014, respectively.

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

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 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	\$ 43,927
Supportive Housing for Persons with Disabilities Capital Advance	14.181	<u>1,088,200</u>
	Total expenditures of federal awards	<u>\$ 1,132,127</u>

The accompanying note is an integral part of this schedule.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards, which includes all federal grant activity of Bettye Ruth Kay Community Homes Inc., is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, 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
Bettye Ruth Kay Community Homes Inc
Whitehouse, 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 Bettye Ruth Kay Community Homes Inc, which consist of the statement of financial position as of December 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 March 17, 2016.

Internal Control for Financial Reporting

In planning and performing our audit of the financial statements and compliance, we considered Bettye Ruth Kay Community Homes Inc.'s internal control over financial reporting (internal control) to determine the auditing 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 Bettye Ruth Kay Community Homes Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Bettye Ruth Kay Community Homes Inc.'s 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 Bettye Ruth Kay Community Homes Inc.'s 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 Bettye Ruth Kay Community Homes Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bettye Ruth Kay Community Homes Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
March 17, 2016

**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 THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bettye Ruth Kay Community Homes Inc.
Whitehouse, OH

Report on Compliance for Each Major Federal Program

We have audited Bettye Ruth Kay Community Homes, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Bettye Ruth Kay Community Homes, Inc.'s major federal programs for the year ended December 31, 2015. Bettye Ruth Kay Community Homes, Inc.'s 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 Bettye Ruth Kay Community Homes, Inc.'s 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Bettye Ruth Kay Community Homes, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Bettye Ruth Kay Community Homes, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Bettye Ruth Kay Community Homes, Inc. 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 December 31, 2015.

Report on Internal Control Over Compliance

Management of Bettye Ruth Kay Community Homes, Inc. 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 Bettye Ruth Kay Community Homes, Inc.'s 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 Uniform Guidance, 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 Bettye Ruth Kay Community Homes, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
March 17, 2016

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
For the Year Ended December 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 2 CFR 200.516(a)?	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	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
SCHEDULE ON THE STATUS OF PRIOR YEAR FINDINGS, QUESTIONED COSTS, AND
RECOMMENDATIONS
For the Year Ended December 31, 2014

There were no reportable findings for the year ended December 31, 2014.

HUD SUPPLEMENTARY INFORMATION

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
BALANCE SHEET
December 31, 2015

ASSETS

Current assets

1120	Cash—operations	\$	506
1130	Tenant accounts receivable		851
1135	Housing assistance receivable		3,763
	Total current assets		5,120

Deposits held in trust

1191	Tenant security deposits		2,464
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Restricted deposits and funded reserves

1320	Reserve for replacements		21,640
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Property and equipment

1410	Land		60,000
1420	Building		1,662,519
1465	Office furniture and equipment		36,265
1470	Maintenance equipment		9,895
1490	Miscellaneous fixed assets		7,250
	Total property and equipment		1,775,929
1495	Less accumulated depreciation		481,768
	Net property and equipment		1,294,161

Total assets \$ 1,323,385

LIABILITIES AND NET ASSETS

Current liabilities

2110	Accounts payable	\$	7,443
2113	Accounts payable - affiliate		2,495
2150	Accrued property taxes		0
2210	Prepaid revenues		3,763
	Total current liabilities		13,701

Deposit liabilities

2191	Tenant security deposits		2,464
	Total liabilities		16,165

Net assets

3131	Unrestricted		(423,855)
3132	Temporarily Restricted		1,731,075
	Total net assets		1,307,220

Total liabilities and net assets \$ 1,323,385

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
STATEMENT OF PROFIT AND LOSS
For the year ended December 31, 2015

Rent revenue

5120	Rent revenue–gross potential	\$ 45,353
5121	Tenant assistance payments	43,927
	Total rent revenue	<u>89,280</u>

Financial revenue

5440	Revenue from investments–replacement reserve	4
	Total financial revenue	<u>4</u>

Other revenue

5920	Tenant Charges	505
	Total other revenue	<u>505</u>
	Total revenue	<u>89,789</u>

Administrative expenses

6203	Conventions and meetings	95
6310	Office salaries	4,260
6311	Office expenses	7,231
6320	Management fees	7,059
6350	Auditing expenses	8,450
6351	Bookkeeping	1,116
	Total administrative expenses	<u>28,211</u>

Utilities expenses

6450	Electricity	10,898
6451	Water	5,947
6452	Gas	2,992
	Total utilities expenses	<u>19,837</u>

Operating and maintenance expenses

6510	Payroll	6,480
6515	Supplies	2,201
6520	Contracts	8,453
6525	Garbage/Trash Removal	991
6546	Heating/cooling	158
6548	Snow removal	3,450
	Total operating and maintenance expenses	<u>21,733</u>

Taxes and insurance

6710	Real estate taxes	94
6720	Property and liability insurance	8,655
6790	Miscellaneous taxes, licenses, permits and insurance	2,396
	Total taxes and insurance	<u>11,145</u>

Total cost of operations before depreciation 80,926

Profit before depreciation 8,863

6600	Depreciation	<u>63,566</u>
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-21- Net loss \$ (54,703)

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
COMPUTATION OF SURPLUS CASH
December 31, 2015

Current cash

S1300-010	Cash (accounts 1120 and 1191)	\$	2,970
1135	Accounts receivable–HUD		3,763
			3,763
S1300-040		Total current cash	6,733

Current obligations

S1300-075	Accounts payable–30 days (account 2110 and 2114)		9,938
S1300-100	Accrued property tax		0
2191	Tenant security deposits		2,464
2210	Prepaid revenues		3,763
			3,763
S1300-140		Total current obligations	16,165
S1300-150		Deficiency	\$ (9,432)
			(9,432)
S1300-210		Deposit due receipts	\$ 0
			0

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
SCHEDULE OF CHANGES IN FIXED ASSETS
For the year ended December 31, 2015

		Property and Equipment			
		Balance			Balance
		12/31/2014	Additions	Retirements	12/31/2015
1410	Land	\$ 60,000	\$ 0	\$ 0	\$ 60,000
1420	Building	1,662,519			1,662,519
1465	Office furniture and equipment	36,265			36,265
1470	Maintenance equipment	9,895			9,895
1490	Miscellaneous assets	7,250			7,250
		<u>\$ 1,775,929</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,775,929</u>

		Accumulated Depreciation				
		Balance	Current		Balance	Net
		12/31/2014	Provisions	Retirements	12/31/2015	Book Value
						12/31/2015
1410	Land	\$ 0	\$ 0	\$ 0	\$ 0	\$ 60,000
1495	Accumulated depreciation	418,202	63,566		481,768	1,234,161
		<u>\$ 418,202</u>	<u>\$ 63,566</u>	<u>\$ 0</u>	<u>\$ 481,768</u>	<u>\$ 1,294,161</u>

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
OTHER SUPPLEMENTARY INFORMATION
For the year ended December 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, January 1, 2015	\$ 15,840
Monthly deposits (\$483 x 12)	5,796
Interest earned	4
Authorized withdrawals	
ENDING BALANCE, December 31, 2015	<u><u>\$ 21,640</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, January 1, 2015	\$ 0
Additions	0
Interest earned	0
Authorized withdrawals	0
ENDING BALANCE, December 31, 2015	<u><u>\$ 0</u></u>

**BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
MANAGEMENT AGENT'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplementary information of Bettye Ruth Kay Community Homes Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: _____ *Signature on file*
Yvonda A. Bean
Executive Director
Preferred Properties, Inc.

By: _____ *Signature on file*
Beverly A. Zadiraka
Finance Manager
Preferred Properties, Inc.

Federal Employer Identification
Number 34-1715222

BETTYE RUTH KAY COMMUNITY HOMES INC
PROJECT NO. 042-HD136
GENERAL INFORMATION
For the Year Ended December 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 December 16, 2015 and February 19, 2016 at Bettye Ruth Kay Community Homes Inc.'s management facility.

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 220, Toledo, OH 43615, telephone number (419) 244-9609.