

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082
HUD PROJECT NO. 051-EE111**

COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

As of and for the Year Ended March 31, 2014

And Report of Independent Auditor

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
TABLE OF CONTENTS**

REPORT OF INDEPENDENT AUDITOR 1-2

COMBINED FINANCIAL STATEMENTS

Combined Statement of Financial Position 3
Combined Statement of Activities and Changes in Net Assets 4-5
Combined Statement of Cash Flows 6
Notes to the Combined Financial Statements 7-10

SUPPLEMENTAL INFORMATION

Combined Supplementary Data Required by HUD 11
Borrower's Certification 12
Management Agent's Certification 13
Auditor's Disclosure Information 14

COMPLIANCE

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with *Government Auditing Standards* 15-16

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by *OMB Circular A-133* 17-18

Combined Schedule of Expenditures of Federal Awards 19

Notes to Combined Schedule of Expenditures of Federal Awards 20

Combined Schedule of Findings and Questioned Costs 21

Combined Schedule of Prior Year Findings and Questioned Costs 22

Report of Independent Auditor

To the Board of Directors of
Bay Aging Apartments Kilmarnock, Inc.
5306 Old Virginia Street
Urbanna, Virginia 23175

Report on the Financial Statements

We have audited the accompanying combined financial statements of Bay Aging Apartments Kilmarnock, Inc. (HUD Project Nos. 051-EE082 and 051-EE111) (the "Organization"), which comprise the combined statement of financial position as of March 31, 2014, and the related combined statement of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information shown on pages 11-14 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 the 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. 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2014 on our consideration of the Organization's, (HUD Project Nos. 051-EE082 and 051-EE111) 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
August 5, 2014

BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED STATEMENT OF FINANCIAL POSITION

MARCH 31, 2014

ASSETS

Current Assets:

1120	Cash in bank	\$	28,029
1135	Accounts receivable, HUD		990
1190	Petty cash		200
1200	Prepaid expenses		<u>3,392</u>
1100T	Total Current Assets		<u>32,611</u>

Cash Deposits Held in Trust:

1191	Tenant security deposits		<u>12,422</u>
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Restricted Cash Deposits:

1310	Escrow reserve for property taxes and insurance		11,096
1320	Replacement reserve		92,239
1340	Residual receipts		<u>46,204</u>
1300T	Total Restricted Cash Deposits		<u>149,539</u>

Property and Equipment:

1410	Land		155,600
1420	Buildings		3,899,435
1440	Building Equipment		749
1450	Furniture for project/tenant use		19,698
1465	Office furniture and equipment		5,347
1470	Maintenance equipment		<u>10,705</u>
1400T	Total Property and Equipment		4,091,534
1495	Accumulated depreciation		<u>(609,240)</u>
1400N	Net Property and Equipment		<u>3,482,294</u>
1000T	Total Assets		<u>\$ 3,676,866</u>

LIABILITIES AND NET ASSETS

2110	Accounts payable	\$	20,487
2150	Accrued taxes		<u>2,482</u>
2122T	Total Current Liabilities		<u>22,969</u>

Deposit Liabilities:

2191	Tenant security deposits		<u>12,422</u>
2000T	Total Liabilities		<u>35,391</u>

Net Assets:

3131	Unrestricted		(297,711)
3132	Temporarily restricted		<u>3,939,186</u>
3130	Total Net Assets		<u>3,641,475</u>
	Total Liabilities and Net Assets		<u>\$ 3,676,866</u>

BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED MARCH 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Unrestricted</u>	<u>Total</u>
Revenues:			
Rent Revenues:			
5120 Rent revenues, gross potential	\$ 93,671	\$ -	\$ 93,671
5121 Tenant assistance payments	110,170	-	110,170
5100T Total Potential Rent Revenues	<u>203,841</u>	<u>-</u>	<u>203,841</u>
5152N Net Rent Revenues	<u>203,841</u>	<u>-</u>	<u>203,841</u>
Financial Revenues:			
5430 Interest income, residual receipts	87	-	87
5440 Interest income, reserve for replacements	186	-	186
5490 Interest income, property tax and insurance escrow	21	-	21
5400T Total Financial Revenues	<u>294</u>	<u>-</u>	<u>294</u>
Other Revenue:			
5990 Miscellaneous	975	-	975
Total Other Revenue	<u>975</u>	<u>-</u>	<u>975</u>
5000T Total Revenues	<u>205,110</u>	<u>-</u>	<u>205,110</u>
Expenses:			
Administrative:			
6203 Conventions and meetings	977	-	977
6250 Other renting expenses	180	-	180
6311 Office expenses	7,383	-	7,383
6320 Management fee	27,522	-	27,522
6330 Manager/superintendent salary	11,037	-	11,037
6350 Audit	12,100	-	12,100
6351 Bookkeeping	16,439	-	16,439
6390 Miscellaneous	34	-	34
6263T Total Administrative Expenses	<u>75,672</u>	<u>-</u>	<u>75,672</u>
Utilities:			
6450 Electricity	5,628	-	5,628
6451 Water	7,190	-	7,190
6453 Sewer	12,430	-	12,430
6400T Total Utilities	<u>25,248</u>	<u>-</u>	<u>25,248</u>

The accompanying notes to the combined financial statements are an integral part of this statement.

BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

YEAR ENDED MARCH 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Unrestricted</u>	<u>Total</u>
Expenses (continued):			
Operating and Maintenance:			
6515 Supplies	\$ 4,324	\$ -	\$ 4,324
6520 Contracts	41,444	-	41,444
6525 Garbage and trash removal	3,014	-	3,014
6546 Heating/cooling repairs and maintenance	3,288	-	3,288
6548 Snow removal	1,471	-	1,471
6590 Miscellaneous operating and maintenance	829	-	829
6500T Total Operating and Maintenance	<u>54,370</u>	<u>-</u>	<u>54,370</u>
Depreciation:			
6600 Building	97,486	-	97,486
6601 Furnishings	2,061	-	2,061
6600T Total Depreciation	<u>99,547</u>	<u>-</u>	<u>99,547</u>
Taxes and Insurance:			
6710 Real estate taxes	10,701	-	10,701
6711 Payroll taxes (Project's Share)	1,634	-	1,634
6720 Property, liability insurance and crime	8,478	-	8,478
6722 Worker's compensation insurance	181	-	181
6723 Health insurance and other benefits	1,143	-	1,143
6790 Miscellaneous taxes, licenses, permits	1,072	-	1,072
6700T Total Taxes and Insurance	<u>23,209</u>	<u>-</u>	<u>23,209</u>
Other Expenses:			
6900 Service Coordinator	6,867	-	6,867
Total Other Expenses	<u>6,867</u>	<u>-</u>	<u>6,867</u>
Total Expenses	<u>284,913</u>	<u>-</u>	<u>284,913</u>
3250 Change in net assets	(79,803)	-	(79,803)
S1100-050 Net assets (deficit), beginning of year	<u>(217,908)</u>	<u>3,939,186</u>	<u>3,721,278</u>
3130 Net assets (deficit), end of year	<u>\$ (297,711)</u>	<u>\$ 3,939,186</u>	<u>\$ 3,641,475</u>

The accompanying notes to the combined financial statements are an integral part of this statement.

BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2014

Cash Flows Provided By Operating Activities:

Receipts:	
S1200-010 Rental receipts	\$ 202,858
S1200-020 Interest	294
S1200-030 Other operating receipts	975
S1200-040 Total receipts	<u>204,127</u>
Expenses:	
S1200-050 Administrative	35,228
S1200-070 Management fees	26,145
S1200-090 Utilities	23,950
S1200-100 Salaries and wages	11,003
S1200-110 Operating and maintenance	50,862
S1200-120 Real estate taxes	10,530
S1200-140 Property insurance	8,478
S1200-150 Other	<u>10,897</u>
S1200-230 Total expenses	<u>177,093</u>
S1200-240 Net cash flows provided by operating activities	<u>27,034</u>

Cash Flows Used By Investing Activities:

S1200-250 Net deposits to reserve for replacement account	(12,168)
S1200-260 Net deposits to residual receipts account	<u>(12,515)</u>
S1200-350 Net cash flows used by investing activities	<u>(24,683)</u>
S1200-470 Net cash flows	2,351
S1200-480 Cash, beginning of year	<u>25,678</u>
S1200T Cash, end of year	<u>\$ 28,029</u>

Cash Flows Provided By Operating Activities:

3250 Change in net assets	\$ (79,803)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
6600 Depreciation	99,547
S1200-490 Tenant accounts receivable	8
S1200-500 Accounts receivable, HUD	(990)
S1200-510 Accounts receivable, operations	498
S1200-520 Miscellaneous prepaid expense and other	7,555
S1200-540 Accounts payable	172
S1200-560 Accrued taxes	47
S1200-601 Escrow deposits	<u>47</u>
S1200-610 Net cash flows provided by operating activities	<u>\$ 27,034</u>

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
NOTES TO THE COMBINED FINANCIAL STATEMENTS**

MARCH 31, 2014

Note 1—Organization and nature of operations

Bay Aging Apartments Kilmarnock, Inc. (the "Organization") is a not-for-profit organization which is exempt from income tax under Section 501 (c)(3) of the Internal Revenue Code (the "Code") and comparable state law. The Organization owns and operates Tartan Village I, a 22-unit, and Tartan Village II, a 19-unit residential facility for elderly adults, located in Kilmarnock, Virginia. Substantially all revenues result from tenant rentals and rental subsidies from the U.S. Department of Housing and Urban Development Section 8 Housing Assistance Program. The Organization has been classified as a publicly supported organization under Section 509(a) of the Code. The projects are Section 202 projects under the National Affordable Housing Act.

The Organization has evaluated the effect of GAAP guidance on Accounting for Uncertainty in Income Taxes. The Organization is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Therefore, a provision for income taxes is not provided. Management believes the Organization continues to satisfy the requirements of a tax-exempt organization and, therefore, had no uncertain income tax positions at March 31, 2014.

The Organization is managed by Bay Aging, whose President/CEO also serves on the Organization's Board of Directors. All members of Bay Aging's Board of Directors also serve on the Board of Directors of Bay Aging Apartments Kilmarnock, Inc. Although Tartan Village I and Tartan Village II are separate legal entities, HUD requested that the results of their operations be combined for reporting purposes.

Rental operations commenced for Tartan Village commenced in January 2005 and November 2010 for Tartan Village II.

Note 2—Significant accounting policies

Basis of Accounting - The Organization reports its financial activities on the accrual basis of accounting.

Financial Statement Presentation - The Organization 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. In addition, the Organization is required to present a statement of cash flows. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to any donor-imposed stipulations. At March 31, 2014, the Organization reported (\$297,711) in unrestricted net assets.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time. At March 31, 2014, the Organization reported \$3,939,186 in temporarily restricted net assets (See Note 5).

Permanently Restricted Net Assets - Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specific purposes. At March 31, 2014, the Organization had no permanently restricted net assets.

BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
NOTES TO THE COMBINED FINANCIAL STATEMENTS

MARCH 31, 2014

Note 2—Significant accounting policies (continued)

Accounts Receivable - Accounts receivable consist of tenant receivables for rent payments and receivables due from HUD. Receivables are stated at amounts billed less an allowance for doubtful accounts. The Organization determines the need for an allowance for doubtful accounts based on historical data, current economic conditions, and management's opinion of the collectability of accounts receivable. No allowance was deemed necessary at March 31, 2014.

Property and Equipment - Property and equipment are reported at cost if purchased or the fair values of assets contributed at the date of gift. Acquisitions in excess of \$500 are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows:

Buildings	40 years
Furnishings	7 years

Depreciation expense for the year ended March 31, 2014 was \$99,547.

Real estate acquired or constructed with HUD capital advance funds are subject to liens to HUD for a period of 40 years or until HUD releases its use restrictions.

Revenue Recognition - The Organization recognizes revenues when earned.

Contributions - The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Note 3—Cash

For purposes of cash flows, cash consists of all cash on hand and in banks and cash investments with maturities of three months or less. There were no cash investments during the year.

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of March 31, 2014, the amounts on deposit did not exceed these insured amounts.

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
NOTES TO THE COMBINED FINANCIAL STATEMENTS**

MARCH 31, 2014

Note 4—Restricted deposits

Under the regulatory agreement with HUD, the Organization is required to set aside amounts for the replacement of property and other project expenditures approved by HUD. HUD restricted deposits, which were \$149,539 at March 31, 2014, are held in separate accounts and are generally not available for operating purposes. The use of the residual receipts and reserve for replacement accounts is contingent upon HUD's prior written approval.

Note 5—Capital advance

The capital advances represent amounts contributed to the construction of Tartan Village I and Tartan Village II and other costs by the U.S. Department of Housing and Urban Development.

The total amount of the capital advances is reported as temporarily restricted net assets at year end. The capital advances do not have to be repaid as long as the buildings are used for the elderly for 40 years. Failure to keep the housing available for elderly persons would result in HUD billing the Organization for the entire capital advance plus interest since the date of the first advance.

Note 6—Rental income

Rental income consists of payments from tenants and HUD subsidies. Rent increases cannot be assessed without approval from HUD. Housing assistance payments from HUD totaled \$110,170.

Note 7—Use of estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 8—Related-party activities

The Organization is managed by Bay Aging, Inc., a related organization. Bay Aging provides accounting and other related services to the Organization. All costs attributable to the operation of the residential facility that are paid by Bay Aging are charged to the Organization as incurred. There are indirect cost allocations charged to the Organization by Bay Aging. Bay Aging was paid \$27,522 for management services, \$11,037 for the manager's salary and benefits, and \$16,439 for bookkeeping and accounting services. Management believes all transactions were consummated on terms equivalent to those that prevail in arm's-length transactions. At March 31, 2014, the Organization owed \$6,122 to Bay Aging, which is included in accounts payable on the statement of financial position.

BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
NOTES TO THE COMBINED FINANCIAL STATEMENTS

MARCH 31, 2014

Note 9—Functional expenses

The following is the functional categorization of expenses:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Administrative:				
Management fee	\$ -	\$ 27,522	\$ -	\$ 27,522
Audit	9,680	2,420	-	12,100
Bookkeeping	8,220	8,219	-	16,439
Manager	-	11,037	-	11,037
Other	-	15,441	-	15,441
Total administrative	<u>17,900</u>	<u>64,639</u>	<u>-</u>	<u>82,539</u>
Program:				
Utilities	25,248	-	-	25,248
Operating and maintenance	54,370	-	-	54,370
Depreciation	99,547	-	-	99,547
Taxes and insurance	23,209	-	-	23,209
Total program	<u>202,374</u>	<u>-</u>	<u>-</u>	<u>202,374</u>
Total	<u>\$ 220,274</u>	<u>\$ 64,639</u>	<u>\$ -</u>	<u>\$ 284,913</u>

Note 10—Current vulnerability due to certain concentrations

The Organization's operations are concentrated in the multi-family real estate market. In addition, the Organization is in a heavily regulated environment. The operations of the Organization 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.

The Organization receives a substantial portion of revenue from HUD Section 8 rent supplements. During the year ended March 31, 2014, the Organization received \$110,170 in Section 8 supplements.

Note 11—Subsequent events

In preparing the combined financial statements, the Organization has evaluated events and transactions for potential recognition of disclosure through August 5, 2014, the date that the combined financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED SUPPLEMENTARY DATA REQUIRED BY HUD

YEAR ENDED MARCH 31, 2014

Computation of Surplus Cash, Distributions, and Residual Receipts

	Tartan Village I	Tartan Village II	Total
Cash Account #1120	\$ 18,942	\$ 9,087	\$ 28,029
Cash Account #1191	6,095	6,327	12,422
HUD accounts receivable	990	-	990
Accounts payable	(14,601)	(5,886)	(20,487)
Tenant security deposits liability	(6,095)	(6,327)	(12,422)
Cash surplus	<u>\$ 5,331</u>	<u>\$ 3,201</u>	<u>\$ 8,532</u>

Schedule of Activity, Reserve for Replacements

Balance, beginning of year	\$ 45,696	\$ 34,375	\$ 80,071
Monthly deposits	6,330	5,682	12,012
Interest income	109	77	186
Withdrawals (bank service charges)	(30)	-	(30)
Balance, end of year	<u>\$ 52,105</u>	<u>\$ 40,134</u>	<u>\$ 92,239</u>

The reserve for replacement funds are held at the Bank of Lancaster in Kilmarnock, Virginia.

Schedule of Activity, Residual Receipts

Balance, beginning of year	\$ 27,724	\$ 5,965	\$ 33,689
Deposits made	7,201	5,227	12,428
Interest income	71	16	87
Balance, end of year	<u>\$ 34,996</u>	<u>\$ 11,208</u>	<u>\$ 46,204</u>

Schedule of Changes in Fixed Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 155,600	\$ -	\$ -	\$ 155,600
Buildings	3,899,435	-	-	3,899,435
Building equipment	749	-	(177)	572
Furniture for project/tenant use	19,875	-	-	19,875
Office furniture and equipment	5,347	-	-	5,347
Maintenance equipment	10,705	-	-	10,705
Total	4,091,711	-	(177)	4,091,534
Accumulated depreciation	509,870	99,547	(177)	609,240
Net fixed assets	<u>\$ 3,581,841</u>	<u>\$ (99,547)</u>	<u>\$ -</u>	<u>\$ 3,482,294</u>

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
BORROWER'S CERTIFICATION**

YEAR ENDED MARCH 31, 2014

We hereby certify that we have examined the accompanying combined financial statements and supplemental data as of and for the year ended March 31, 2014 of Bay Aging Apartments Kilmarnock, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: _____

Title: _____

Date: _____

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
MANAGEMENT AGENT’S CERTIFICATION**

YEAR ENDED MARCH 31, 2014

We hereby certify that we have examined the accompanying combined financial statements and supplemental data as of and for the year ended March 31, 2014 of Bay Aging Apartments Kilmarnock, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

Bay Aging:

By: _____

Title: _____

Date: _____

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
AUDITOR'S DISCLOSURE INFORMATION**

YEAR ENDED MARCH 31, 2014

Auditor: **Cherry Bekaert LLP
222 Central Park Avenue, Suite 1400
Virginia Beach, Virginia 23462**

EIN: **56-0574444**

Telephone: **(757) 456-2400**

Auditor Contact: **Renee L. Pendleton, CPA**

COMPLIANCE

**Report of Independent Auditor on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Combined Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Directors of
Bay Aging Apartments Kilmarnock, Inc.
5306 Old Virginia Street
Urbanna, Virginia 23175

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 combined financial statements of Bay Aging Apartments Kilmarnock, Inc. (HUD Project Nos. 051-EE082 and 051-EE111; a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of March 31, 2014, and the related combined statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated August 5, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization's 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 the Organization's combined 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
August 5, 2014

**Report of Independent Auditor on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133**

To the Board of Directors of
Bay Aging Apartments Kilmarnock, Inc.
5306 Old Virginia Street
Urbanna, Virginia 23175

Report on Compliance for Each Major Federal Program

We have audited Bay Aging Apartments Kilmarnock, Inc.'s (HUD Project Nos. 051-EE082 and 051-EE111, a nonprofit organization) (the "Organization") 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 the Organization's major federal programs for the year ended March 31, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying combined 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 the Organization'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 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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 March 31, 2014.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization'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 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 the Organization'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Handwritten signature of Cheryl Bekant in black ink.

Virginia Beach, Virginia
August 5, 2014

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED MARCH 31, 2014

HUD Project No: 051-EE082 Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development			
Direct payments:			
Supportive Housing for the Elderly	14.157	N/A	\$ 1,797,100
Section 8 Housing Assistance Payments Program	14.195	N/A	<u>74,068</u>
Total expenditures of federal awards			<u><u>\$ 1,871,168</u></u>

HUD Project No: 051-EE111 Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development			
Direct payments:			
Supportive Housing for the Elderly	14.157	N/A	\$ 2,142,086
Section 8 Housing Assistance Payments Program	14.195	N/A	<u>36,102</u>
Total expenditures of federal awards			<u><u>\$ 2,178,188</u></u>

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
NOTES TO COMBINED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED MARCH 31, 2014

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Bay Aging Apartments Kilmarnock, Inc. under programs of the federal government for the year ended March 31, 2014. 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. Because the Schedule presents only a select portion of the operations of Bay Aging Apartments Kilmarnock, Inc., it is not intended to and does not present the combined financial position, changes in net assets, or cash flows of Bay Aging Apartments Kilmarnock, Inc.

Note 2—Summary of significant accounting policies

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. Pass-through entity identifying numbers are presented where available.

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED MARCH 31, 2014

Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the combined financial statements of Bay Aging Apartments Kilmarnock, Inc.
2. No material weaknesses or significant deficiencies were identified during the audit of the Bay Aging Apartments Kilmarnock, Inc.
3. No instances of noncompliance material to the combined financial statements of Bay Aging Apartments Kilmarnock, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for Bay Aging Apartments Kilmarnock, Inc. expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included: Supportive Housing for the Elderly (CFDA No. 14.157).
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Bay Aging Apartments Kilmarnock, Inc. is a low-risk auditee.

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None

**BAY AGING APARTMENTS KILMARNOCK, INC.
(TARTAN VILLAGE I AND TARTAN VILLAGE II)
HUD PROJECT NO. 051-EE082 AND HUD PROJECT NO. 051-EE111
COMBINED SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

YEAR ENDED MARCH 31, 2014

There were no items reported for the year ended March 31, 2013.