
BAY AGING APARTMENTS KILMARNOCK, INC.
HUD PROJECT NO. 051-EE082 & HUD PROJECT NO. 051-EE111
FINANCIAL REPORT
YEAR ENDED MARCH 31, 2017

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ LOUISA □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG



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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF
BAY AGING APARTMENTS KILMARNOCK, INC.
URBANNA, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of Bay Aging Apartments Kilmarnock, Inc., which comprise the statement of financial position as of March 31, 2017, and the related statements of activities and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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 Bay Aging Apartments Kilmarnock, Inc., as of March 31, 2017, and the changes in its net assets and cash flows thereof 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 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 *Uniform Financial Reporting Standards* 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. The 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 information is fairly stated, in all material respects, in relation to the 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 23, 2017 on our consideration of Bay Aging Apartments Kilmarnock, 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 Bay Aging Apartments Kilmarnock, Inc.'s internal control over financial reporting and compliance.

Charlottesville, Virginia
August 23, 2017

- Financial Statements -

BAY AGING APARTMENTS KILMARNOCK, INC.
 HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Statement of Financial Position
 At March 31, 2017

ASSETS		
Account		
<u>Current assets:</u>		
1120	Cash - operations	\$ 15,831
1130	Tenant accounts receivable	1,718
1190	Petty cash - miscellaneous current assets	200
1200	Prepaid expenses	3,801
1100T	Total current assets	\$ 21,550
<u>Cash deposits held in Trust:</u>		
1191	Tenant deposits held in trust	\$ 11,518
<u>Restricted cash deposits:</u>		
1310	Escrow deposits	\$ 11,702
1320	Replacement reserve	130,494
1340	Residual receipts reserve	10,259
1300T	Total deposits	\$ 152,455
<u>Fixed assets:</u>		
1410	Land	\$ 155,600
1420	Buildings	3,899,435
1440	Building equipment (portable)	749
1450	Furniture for project/tenant use	23,933
1465	Office furniture and equipment	4,240
1470	Maintenance equipment	14,969
1400T	Total fixed assets	\$ 4,098,926
1495	Accumulated depreciation	(907,192)
1400N	Net fixed assets	\$ 3,191,734
1000T	Total assets	\$ 3,377,257
LIABILITIES AND NET ASSETS		
<u>Current liabilities:</u>		
2110	Accounts payable - operations	\$ 22,661
2150	Accrued property taxes	2,811
2122T	Total current liabilities	\$ 25,472
<u>Deposit liabilities:</u>		
2191	Tenant deposits held in trust	\$ 11,518
2000T	Total liabilities	\$ 36,990
<u>Net assets:</u>		
3131	Unrestricted	\$ (598,919)
3132	Temporarily restricted	3,939,186
3130	Total net assets	\$ 3,340,267
2033T	Total liabilities and net assets	\$ 3,377,257

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

BAY AGING APARTMENTS KILMARNOCK, INC.
 HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Statement of Activities
 Year Ended March 31, 2017

<u>Account</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue:</u>			
<u>Rent revenues:</u>			
5120 Rent revenues - gross potential	\$ 101,230	\$ -	\$ 101,230
5121 Tenant assistance payments	122,052	-	122,052
5100T Total rental revenue	<u>\$ 223,282</u>	<u>\$ -</u>	<u>\$ 223,282</u>
<u>Financial revenue:</u>			
5430 Revenue from investments - residual receipts	\$ 16	\$ -	\$ 16
5440 Revenue from investments - replacement reserve	309	-	309
5490 Revenue from investments - miscellaneous	23	-	23
5400T Total financial revenue	<u>\$ 348</u>	<u>\$ -</u>	<u>\$ 348</u>
<u>Other revenue:</u>			
5910 Laundry and vending revenue	\$ 500	\$ -	\$ 500
5990 Miscellaneous revenue	921	-	921
5900T Total other revenue	<u>\$ 1,421</u>	<u>\$ -</u>	<u>\$ 1,421</u>
5000T Total revenue	<u>\$ 225,051</u>	<u>\$ -</u>	<u>\$ 225,051</u>
<u>Expenses:</u>			
<u>Administrative:</u>			
6203 Conventions and meetings	\$ 517	\$ -	\$ 517
6250 Other renting expenses	223	-	223
6311 Office expenses	9,550	-	9,550
6320 Management fee	29,907	-	29,907
6330 Manager or superintendent salaries	11,832	-	11,832
6350 Audit expense	11,600	-	11,600
6351 Bookkeeping fees/accounting services	21,281	-	21,281
6390 Miscellaneous administrative expenses	36	-	36
6263T Total administrative expenses	<u>\$ 84,946</u>	<u>\$ -</u>	<u>\$ 84,946</u>
<u>Utilities:</u>			
6450 Electricity	\$ 6,058	\$ -	\$ 6,058
6451 Water	7,154	-	7,154
6453 Sewer	12,386	-	12,386
6400T Total utilities expense	<u>\$ 25,598</u>	<u>\$ -</u>	<u>\$ 25,598</u>
<u>Operating and maintenance:</u>			
6515 Supplies	\$ 8,828	\$ -	\$ 8,828
6520 Contracts	32,189	-	32,189
6525 Garbage and trash removal	2,750	-	2,750
6546 Heating/cooling repairs and maintenance	3,171	-	3,171
6548 Snow Removal	1,441	-	1,441
6590 Miscellaneous operating and maintenance expenses	1,105	-	1,105
6500T Total operating and maintenance expenses	<u>\$ 49,484</u>	<u>\$ -</u>	<u>\$ 49,484</u>

BAY AGING APARTMENTS KILMARNOCK, INC.
 HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Statement of Activities
 Year Ended March 31, 2017 (Continued)

<u>Account</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Expenses: (Continued)</u>			
<u>Depreciation:</u>			
6600 Building	\$ 97,486	\$ -	\$ 97,486
6600 Furnishings	3,421	-	3,421
6600 Total depreciation expenses	<u>\$ 100,907</u>	<u>\$ -</u>	<u>\$ 100,907</u>
<u>Taxes and insurance:</u>			
6710 Real estate taxes	\$ 11,244	\$ -	\$ 11,244
6711 Payroll taxes (project's share)	2,019	-	2,019
6720 Property and liability insurance	9,044	-	9,044
6722 Workmen's compensation	26	-	26
6723 Health insurance and other employee benefits	2,707	-	2,707
6790 Miscellaneous taxes, licenses, permits and insurance	1,205	-	1,205
6700T Total taxes and insurance	<u>\$ 26,245</u>	<u>\$ -</u>	<u>\$ 26,245</u>
<u>Financial expenses:</u>			
6890 Miscellaneous financial expenses	<u>\$ 11,814</u>	<u>\$ -</u>	<u>\$ 11,814</u>
<u>Other expenses:</u>			
6900 Service coordinator	<u>\$ 9,641</u>	<u>\$ -</u>	<u>\$ 9,641</u>
Total expenses	<u>\$ 308,635</u>	<u>\$ -</u>	<u>\$ 308,635</u>
5060N Change in net assets	\$ (83,584)	\$ -	\$ (83,584)
S1100-050 Net assets, beginning of year	<u>(515,335)</u>	<u>3,939,186</u>	<u>3,423,851</u>
3130 Net assets, end of year	<u>\$ (598,919)</u>	<u>\$ 3,939,186</u>	<u>\$ 3,340,267</u>

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

BAY AGING APARTMENTS KILMARNOCK, INC.
 HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Statement of Cash Flows
 Year Ended March 31, 2017

Cash flows from operating activities:

Receipts:

S1200-010 Rental receipts	\$	237,554
S1200-020 Interest receipts		348
S1200-030 Other operating receipts		1,421
		1,421
S1200-040 Total receipts	\$	239,323

Expenses:

S1200-050 Administrative	\$	43,978
S1200-070 Management fee		29,907
S1200-090 Utilities		25,598
S1200-100 Salaries and wages		16,584
S1200-110 Operating and maintenance		49,484
S1200-120 Real estate taxes		11,244
S1200-140 Property insurance		9,044
S1200-150 Miscellaneous taxes and insurance		1,205
S1200-170 Other operating expenses		11,868
S1200-220 Miscellaneous financial		11,814
		11,814
S1200-230 Total disbursements	\$	210,726

S1200-240 Net cash provided by (used for) operating activities	\$	28,597
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Cash flows from investing activities:

S1200-250 Net deposits to reserve for replacement account	\$	(30,010)
S1200-255 Net deposits from (to) other reserves		1,913
S1200-260 Net deposits from (to) residual receipts account		414
S1200-330 Net purchase of fixed assets		(2,840)
		(2,840)

S1200-350 Net cash flows provided by (used for) investing activities	\$	(30,523)
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S1200-470 Net increase in cash	\$	(1,926)
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S1200-480 Cash at beginning of year		17,757
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S1200T Cash at end of year	\$	15,831
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Cash flows from operating activities:

3250 Change in total net assets from operations	\$	(83,584)
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Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:

6600 Depreciation expenses		100,907
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Changes in:

S1200-490 Tenant accounts receivable		1,475
S1200-500 Accounts receivable - other		12,797
S1200-520 Prepaid insurance and other		(2,227)
S1200-540 Accounts payable		(771)
		(771)

S1200-610 Net cash flows provided by (used for) operating activities	\$	28,597
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The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements
March 31, 2017

NOTE 1 - DESCRIPTION OF ORGANIZATION:

Bay Aging Apartments Kilmarnock, Inc. is a not-for-profit organization which is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable state law. The Organization owns and operates Tartan Village I, a 22-unit residential facility for elderly adults, located in Kilmarnock, Virginia; as well as Tartan Village II, a 19 unit residential facility for elderly adults, also 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 a Section 202 project under the National Affordable Housing Act. The Organization commenced operations on January 13, 2005, with Tartan Village I. Operations at Tartan Village II commenced on November 2010.

The Organization is managed by Bay Aging, whose President/CEO and Board of Directors also serve on the Board of Directors of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The Organization's financial statements are prepared on the accrual basis, in accordance with generally accepted accounting principles. Therefore, revenues are recognized when earned rather than when received and expenditures are recorded when incurred rather than when paid. Expenditures are capitalized as assets when the expenditure in one period can be seen as provided benefit to the Organization in future periods.

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. Accordingly, the net assets of the Organization and changes therein are classified and reported, based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets - Net assets that are not subject to any donor-imposed stipulations. At March 31, 2017 the Organization reported unrestricted net assets of (\$598,919).

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, 2017, the Organization reported temporarily restricted net assets of \$3,939,186.

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 donor permits the Organization to use all or part of the income earned for either general or donor-specific purposes. At March 31, 2017, the Organization had no permanently restricted net assets.

Accounts Receivable:

Accounts receivable consist of amounts due from tenants for rents and other charges, and amounts due from HUD for housing, assistance payments and construction advances. Tenant receivables are considered to be delinquent when they are more than 30 days in arrears. No provision has been made for uncollectible amounts since management believes all amounts reported as receivables will be received. Receivables are written off when all efforts to collect the amounts are exhausted.

Notes to Financial Statements
March 31, 2017: (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Fixed Assets:

Fixed assets which cost \$500 or more are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows:

Building	40 years
Furnishings	7 years

Depreciation expense for the year ended March 31, 2017 was \$100,907.

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 use restrictions.

Revenue Recognition:

The Organization utilizes grant accounting for governmental grants received for specific programs. This accounting recognizes grant revenue to the extent of grant expenditures paid. Grant revenues received but not expended are reported as deferred revenue. Other revenues are recognized 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 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 AND CASH EQUIVALENTS:

For purposes of cash flows, cash and cash equivalents consists of all cash on hand and in banks and cash investments with maturities of 3 months or less. There were no cash investments during the year.

All cash in banks was in federally insured accounts at all times during the year.

Notes to Financial Statements
March 31, 2017: (Continued)

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. Such amounts are required to be held in separate bank accounts. HUD restricted deposits, which were \$140,753 at March 31, 2017, 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 - RENTAL INCOME:

Rental income consists of payments from tenants and HUD rental subsidies. Rent increases cannot be assessed without approval from HUD. The Organization received \$122,052 in tenant rental assistance payments from the Section 8 Housing Assistance Program.

NOTE 6 - CAPITAL ADVANCE:

Capital advance funds have been reported as temporarily restricted revenues. The capital advance funds do not bear interest and need not be repaid as long as the constructed facilities are used for housing for the elderly for 40 years, or other HUD approved use of the facilities. Failure to keep the facilities available for housing for eligible elderly persons or other HUD approved uses would result in HUD billing the Organization for the entire capital advance plus interest from the date of the first funds advanced.

NOTE 7 - RELATED PARTY ACTIVITIES / MANAGEMENT FEE:

The Organization is managed by Bay Aging. 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. Bay Aging was paid \$77,414 for various operating expenses. All transactions were consummated on terms equivalent to those that prevail in arm's-length transactions. The management fee is approved by HUD and approximates 15.21% (Tartan Village I) and 11.00% (Tartan Village II) of gross potential rent. The Organization owed Bay Aging \$7,417 at March 31, 2017.

NOTE 8 - USE OF ESTIMATES:

The preparation of 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 9 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of capital advances received from HUD for the acquisition and construction of the facility.

Notes to Financial Statements
 March 31, 2017: (Continued)

NOTE 10 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS:

The Organization's primary assets are two residential facilities. The Organization's operations are concentrated in the multifamily real estate market. In addition, the projects operate in a heavily regulated environment. The operations of the projects 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.

NOTE 11 - FUNCTIONAL ALLOCATION OF EXPENSES:

The following summarizes the functional allocation of expenses:

		<u>Supporting Services</u>		
	<u>Program Services</u>	<u>Management & General</u>	<u>Fund- raising</u>	<u>Total</u>
Administrative:				
Management fees	\$ -	\$ 29,907	\$ -	\$ 29,907
Audit	9,280	2,320	-	11,600
Bookkeeping and accounting	10,641	10,641	-	21,281
Manager and superintendent	-	11,832	-	11,832
Other	-	10,326	-	10,326
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total administrative	\$ 19,921	\$ 65,026	\$ -	\$ 84,946
Utilities	25,598	-	-	25,598
Operating and maintenance	49,484	-	-	49,484
Depreciation	100,907	-	-	100,907
Taxes and insurance	21,493	4,752	-	26,245
Financial	11,814	-	-	11,814
Service coordinator	9,641	-	-	9,641
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>238,858</u>	\$ <u>69,778</u>	\$ <u>-</u>	\$ <u>308,635</u>

NOTE 12 - INCOME TAXES:

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by Internal Revenue Service as other than a private foundation.

NOTE 13 - SUBSEQUENT EVENTS:

In preparing these financial statements, management of the Organization has evaluated events and transactions for potential recognition or disclosure through August 23, 2017, the date the financial statements were available to be issued.

- Supplementary Information -

BAY AGING APARTMENTS KILMARNOCK, INC.
HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Supplementary Data Required by HUD
Year Ended March 31, 2017

Computation of Surplus Cash, Distributions and Residual Receipts

Cash - Accounts # 1120 & # 1191	\$	27,349
HUD accounts receivable		-
Accounts payable - current		(22,661)
Tenant deposits held in trust		(11,518)
		(11,518)
Surplus cash (deficiency)	\$	(6,830)

Schedule of Activity - Reserve for Replacements

Balance, beginning of year	\$	100,484
Monthly deposits		29,704
Authorized withdrawals		(3)
Interest income		309
		309
Balance, end of year	\$	130,494

Schedule of Activity - Residual Receipts

Balance, beginning of year	\$	10,673
Required deposits		11,384
Authorized withdrawals and bank charges		(11,814)
Interest income		16
		16
Balance, end of year	\$	10,259

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	-	-	749
Furniture for proj/tenant use	21,093	2,840	-	23,933
Office furniture and equipment	4,240	-	-	4,240
Maintenance equipment	14,969	-	-	14,969
	4,096,086	2,840	-	4,098,926
Total	\$ 4,096,086	\$ 2,840	\$ -	\$ 4,098,926
Accumulated depreciation	806,285	100,907	-	907,192
	806,285	100,907	-	907,192
Net fixed assets	\$ 3,289,801	\$ (98,067)	\$ -	\$ 3,191,734
	3,289,801	(98,067)	-	3,191,734

BAY AGING APARTMENTS KILMARNOCK, INC.
HUD Project Number 051-EE082 and HUD Project Number 051-EE111

Borrower's Certification
March 31, 2017

We hereby certify that we have examined the accompanying financial statements and supplemental data as of and for the year ended March 31, 2017 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.
HUD Project Number 051-EE082 and HUD Project Number 051-EE111

Management Agent's Certification
March 31, 2017

We hereby certify that we have examined the accompanying financial statements and supplemental data as of and for the year ended March 31, 2017 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.
HUD Project Number 051-EE082 and HUD Project Number 051-EE111

Auditors' Disclosure Information
March 31, 2017

Auditor: Robinson, Farmer, Cox Associates, PLLC
530 Westfield Road
Charlottesville, VA 22901

EIN: 54-1896113

Telephone: (434) 973-8314

Fax: (434) 974-7363

Auditor Contact: Kristen L. Choate, CPA

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' 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*

TO THE BOARD OF DIRECTORS OF
BAY AGING APARTMENTS KILMARNOCK, INC.
URBANNA, VIRGINIA

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 Bay Aging Apartments Kilmarnock, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2017, 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 August 23, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bay Aging Apartments Kilmarnock, Inc.'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay Aging Apartments Kilmarnock, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Bay Aging Apartments Kilmarnock, 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 Bay Aging Apartments Kilmarnock, 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 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.

Charlottesville, Virginia
August 23, 2017

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

TO THE BOARD OF DIRECTORS
BAY AGING APARTMENTS KILMARNOCK, INC.
URBANNA, VIRGINIA

Report on Compliance for Each Major Federal Program

We have audited Bay Aging Apartments Kilmarnock's (a nonprofit organization) compliance with the types of compliance requirements described in *the OMB Compliance Supplement* that could have a direct and material effect on each of Bay Aging Apartments Kilmarnock's major federal programs for the year ended March 31, 2017. Bay Aging Apartments Kilmarnock's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Bay Aging Apartments Kilmarnock'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 Bay Aging Apartments Kilmarnock'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 Bay Aging Apartments Kilmarnock's compliance.

Opinion on Each Major Federal Program

In our opinion, Bay Aging Apartments Kilmarnock 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, 2017.

Report on Internal Control over Compliance

Management of Bay Aging Apartments Kilmarnock 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 Bay Aging Apartments Kilmarnock'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 the 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 Bay Aging Apartments Kilmarnock'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.

Charlottesville, Virginia
August 23, 2017

BAY AGING APARTMENTS KILMARNOCK, INC.
 HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Schedule of Expenditures of Federal Awards
 Year Ended March 31, 2017

Federal Grantor/ Pass-Through Grantor Program or Cluster Title	Federal Catalog Number	Pass-through Entity Identify Number	Federal Expendi- tures
<u>Department of Housing and Urban Development</u>			
Direct payments:			
Supportive Housing for the Elderly	14.157	N/A	\$ 3,939,186
Section 8 Housing Assistance Payments Program	14.195	N/A	<u>122,052</u>
Total expenditures of federal awards			<u><u>\$ 4,061,238</u></u>

See accompanying notes to schedule of expenditures of federal awards.

BAY AGING APARTMENTS KILMARNOCK, INC.
HUD Project Number 051-EE082 and HUD Project Number 051-EE111

Notes to Schedule of Expenditures of Federal Awards
Year Ended March 31, 2017

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, 2017. The information in this Schedule is presented in accordance with the requirements of *Uniform Guidance*. 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 financial position, changes in net assets, or cash flows of Bay Aging Apartments Kilmarnock, Inc.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate:

The Organization did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note 4 - Loan Balances:

The Organization has no loans or loan guarantees which are subject to reporting requirements for the current year.

BAY AGING APARTMENTS KILMARNOCK, INC.
HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Schedule of Findings and Questioned Costs
Year Ended March 31, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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?	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 2 CFS Section 200.516(a)?	No
Identification of major programs:	
<u>CFDA #</u>	
14.157 Supportive Housing for the Elderly	
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

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

BAY AGING APARTMENTS KILMARNOCK, INC.
HUD Project No. 051-EE082 and HUD Project No. 051-EE111

Summary Schedule of Prior Audit Findings
Year Ended March 31, 2017

There were no findings reported for year ended March 31, 2016.