

**BAY AGING APARTMENTS  
MONTROSS, INC.**

**MILL POND VILLAGE  
HUD PROJECT NUMBER 051-EE072**

**FINANCIAL STATEMENTS**

*As of September 30, 2014*

*And Report of Independent Auditor*

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
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## Report of Independent Auditor

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Bay Aging Apartments Montross, Inc. (HUD Project No.: 051-EE072) (the "Organization"), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and changes in net assets 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.

### Auditor's 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 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 Organization'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 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 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 Organization as of September 30, 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 financial statements as a whole. The accompanying supplementary information shown on pages 11 to 14 is presented for purposes of additional analysis as required by the *Uniform Financial Reporting Standard* issued by the U.S. Department of Housing and Urban Development, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Charney Bekant LLP".

Virginia Beach, Virginia  
March 27, 2015

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**STATEMENT OF FINANCIAL POSITION**

SEPTEMBER 30, 2014

**ASSETS**

Current Assets

1120	Cash in Bank	\$	6,813
1130	Tenant accounts receivable		2,676
1190	Petty cash		100
1200	Miscellaneous prepaid expense		1,053
1100T	Total Current Assets		<u>10,642</u>

Cash deposits held in trust

1191	Tenant security deposits		<u>5,661</u>
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Restricted cash deposits

1310	Escrow reserve for property taxes and insurance		9,818
1320	Replacement reserve		87,282
1340	Residual receipts		2,589
1300T	Total Restricted Cash Deposits		<u>99,689</u>

Property and equipment

1410	Land		56,700
1420	Buildings		1,435,118
1450	Furniture for project/tenant use		9,144
1465	Office furniture and equipment		15,363
1470	Maintenance equipment		5,083
1400T	Total Property and Equipment		1,521,408
1495	Accumulated depreciation		<u>(452,922)</u>
1400N	Net Property and Equipment		<u>1,068,486</u>
1000T	<b>Total Assets</b>		<u><u>\$ 1,184,478</u></u>

**LIABILITIES AND NET ASSETS**

2110	Accounts payable	\$	8,876
2150	Accrued taxes		4,067
2122T	Total Current Liabilities		<u>12,943</u>

Deposit Liabilities

2191	Tenant security deposits		<u>5,661</u>
2000T	<b>Total Liabilities</b>		<u>18,604</u>

Net Assets

3131	Unrestricted		(322,815)
3132	Temporarily restricted		1,488,689
3130	Total Net Assets		<u>1,165,874</u>
	<b>Total Liabilities and Net Assets</b>		<u><u>\$ 1,184,478</u></u>

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

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

YEAR ENDED SEPTEMBER 30, 2014

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues</b>			
Rent revenues			
5120 Rent revenues, gross potential	\$ 51,861	\$ -	\$ 51,861
5121 Tenant assistance payments	91,616	-	91,616
5100T Total Potential Rent Revenues	<u>143,477</u>	<u>-</u>	<u>143,477</u>
5152N Net Rent Revenues	<u>143,477</u>	<u>-</u>	<u>143,477</u>
<b>Financial Revenue</b>			
5430 Interest income, residual receipts	2	-	2
5440 Interest income, reserve for replacements	209	-	209
5490 Interest income, property tax and insurance escrow	10	-	10
5990 Miscellaneous Revenue	182	-	182
5400T Total Financial Revenue	<u>403</u>	<u>-</u>	<u>403</u>
5000T Total Revenues	<u>143,880</u>	<u>-</u>	<u>143,880</u>
<b>Expenses</b>			
Administrative			
6203 Conventions and meetings	86	-	86
6210 Advertising	124	-	124
6250 Other renting expenses	308	-	308
6311 Office expenses	5,018	-	5,018
6320 Management fee	21,751	-	21,751
6330 Manager/superintendent salary	7,165	-	7,165
6340 Legal expense-project	372	-	372
6350 Audit	7,150	-	7,150
6351 Bookkeeping	8,954	-	8,954
6370 Bad debts	4,245	-	4,245
6390 Miscellaneous	30	-	30
6263T Total Administrative Expenses	<u>55,203</u>	<u>-</u>	<u>55,203</u>
<b>Utilities</b>			
6450 Electricity	2,853	-	2,853
6451 Water	5,974	-	5,974
6453 Sewer	9,964	-	9,964
6263T Total Utilities	<u>18,791</u>	<u>-</u>	<u>18,791</u>

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

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)**

YEAR ENDED SEPTEMBER 30, 2014

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Expenses (continued)			
Operating and Maintenance			
6515 Supplies	6,016	-	6,016
6520 Contracts	25,150	-	25,150
6525 Garbage and trash removal	1,456	-	1,456
6546 Heating/cooling repairs and maintenance	1,315	-	1,315
6548 Snow removal	1,973	-	1,973
6590 Miscellaneous operating and maintenance	423	-	423
6500T Total Operating and Maintenance	<u>36,333</u>	<u>-</u>	<u>36,333</u>
Depreciation			
6600 Buildings	35,878	-	35,878
6601 Furnishings	1,387	-	1,387
6600 Total Depreciation	<u>37,265</u>	<u>-</u>	<u>37,265</u>
Taxes and Insurance			
6710 Real estate taxes	5,422	-	5,422
6711 Payroll taxes (Project's Share)	973	-	973
6720 Property, liability insurance and crime	4,750	-	4,750
6722 Worker's compensation insurance	49	-	49
6723 Health Ins. & other benefits	1,222	-	1,222
6790 Miscellaneous taxes, licenses, permits	1,158	-	1,158
6700T Total Taxes and Insurance	<u>13,574</u>	<u>-</u>	<u>13,574</u>
Other Expenses			
6900 Service Coordinator	9,780	-	9,780
Total Other Expenses	<u>9,780</u>	<u>-</u>	<u>9,780</u>
Total Expenses	<u>170,946</u>	<u>-</u>	<u>170,946</u>
3250 Change in net assets	(27,066)	-	(27,066)
S1100-050 Net assets, beginning of year	(295,749)	1,488,689	1,192,940
3130 Net assets, end of year	<u>\$ (322,815)</u>	<u>\$ 1,488,689</u>	<u>\$ 1,165,874</u>

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

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED SEPTEMBER 30, 2014

**Cash Flows Provided By Operating Activities**

Receipts		
S1200-010	Rental receipts	\$ 147,273
S1200-020	Interest	221
S1200-030	Other operating receipts	182
S1200-020	Total receipts	<u>147,676</u>
Expenses		
S1200-050	Administrative	20,882
S1200-070	Management fees	23,783
S1200-090	Utilities	20,206
S1200-100	Salaries and wages	7,650
S1200-110	Operating and maintenance	39,689
S1200-120	Real estate taxes	5,422
S1200-140	Property insurance	4,931
S1200-150	Miscellaneous taxes and insurance	13,182
S1200-230	Total expenses	<u>135,745</u>
S1200-240	Net cash provided by operating activities	<u>11,931</u>

**Cash Flows Used By Investing Activities**

S1200-250	Net deposits to reserve for replacement account	(7,876)
S1200-260	Net deposits to residual receipts account	(1,373)
S1200-330	Purchase of fixed assets	<u>(6,741)</u>
S1200-350	Net cash flows used by investing activities	<u>(15,990)</u>
S1200-470	Net cash flows	(4,059)
S1200-480	Cash at beginning of year	<u>10,872</u>
S1200T	Cash at end of year	<u>\$ 6,813</u>

**Cash Flows Provided By Operating Activities**

3250	Change in net assets	\$ (27,066)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
6600	Depreciation and amortization	37,265
S1200-490	Tenant accounts receivable	3,796
S1200-520	Miscellaneous prepaid expense and other	36
S1200-601	Escrow deposits	(780)
S1200-540	Accounts payable	<u>(1,320)</u>
S1200-610	Net cash flows provided by operating activities	<u>\$ 11,931</u>

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



**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED SEPTEMBER 30, 2014

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**Note 1—Organization and nature of operations**

Bay Aging Apartments Montross, Inc. (formerly Agency on Aging Apartments Montross, 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 and comparable state law. The Organization owns and operates Mill Pond Village, a 24-unit residential facility for elderly adults, located in Montross, 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 project is a Section 202 project 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 September 30, 2014.

The Organization is managed by Bay Aging, whose President/CEO also serves on the Organization's Board of Directors. The members of Bay Aging's Board of Directors also serve on the Board of Directors of Bay Aging Apartments Montross, Inc.

The Organization began construction of its residential facilities in November 2001. Rental operations commenced in November 2002.

**Note 2—Summary of 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 September 30, 2014, the Organization reported (\$322,815) 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 September 30, 2014, the Organization reported \$1,488,689 in temporarily restricted net assets.

*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 September 30, 2014, the Organization had no permanently restricted net assets.

*Accounts Receivable* - Accounts receivable consists 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 September 30, 2014.

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED SEPTEMBER 30, 2014

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**Note 2—Summary of significant accounting policies**

*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 September 30, 2014 was \$37,265.

Real estate acquired or constructed with HUD capital advance funds is 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 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 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 September 30, 2014 the amounts on deposit did not exceed these insured limits.

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**NOTES TO FINANCIAL STATEMENTS**

*YEAR ENDED SEPTEMBER 30, 2014*

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**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 \$99,689 at September 30, 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 advance represents amounts contributed to the construction of Mill Pond Village and other costs by the U.S. Department of Housing and Urban Development.

The total amount of the capital advance is reported as temporarily restricted net assets. The capital advance does 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 \$91,616.

**Note 7—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 8—Related-party activities**

The Organization is managed by Bay Aging, 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 \$21,751 for management services, \$7,165 for the manager's salary and benefits, and \$8,954 for bookkeeping and accounting services. All transactions were consummated on terms equivalent to those that prevail in arm's length transactions. At September 30, 2014, the Organization owed Bay Aging, Inc. \$4,537, which is included in Accounts Payable on the Statement of Financial Position.

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED SEPTEMBER 30, 2014

**Note 9—Functional expenses**

The following is the functional categorization of expenses:

	<u>Program</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Administrative:				
Management fees	\$ -	\$ 21,751	\$ -	\$ 21,751
Audit	5,720	1,430	-	7,150
Bookkeeping	4,477	4,477	-	8,954
Manager	-	7,165	-	7,165
Other	-	10,183	-	10,183
Total administrative	<u>10,197</u>	<u>45,006</u>	<u>-</u>	<u>55,203</u>
Program:				
Utilities	18,791	-	-	18,791
Operating and maintenance	36,333	-	-	36,333
Depreciation	37,265	-	-	37,265
Taxes and insurance	13,574	-	-	13,574
Other	9,780	-	-	9,780
Total program	<u>115,743</u>	<u>-</u>	<u>-</u>	<u>115,743</u>
Total	<u>\$ 125,940</u>	<u>\$ 45,006</u>	<u>\$ -</u>	<u>\$ 170,946</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 September 30, 2014 the Organization received \$91,616 in Section 8 supplements.

**Note 11—Subsequent events**

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition of disclosure through March 27, 2015, the date that the financial statements were available to be issued.

## **SUPPLEMENTAL INFORMATION**

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**SUPPLEMENTARY DATA REQUIRED BY HUD**

YEAR ENDED SEPTEMBER 30, 2014

**Computation of Surplus Cash, Distributions, and Residual Receipts**

Cash Account #1120	\$ 6,813
Cash Account #1191	5,661
Accounts payable	(8,876)
Tenant security deposits liability	(5,661)
Cash deficiency	<u>\$ (2,063)</u>

**Schedule of Activity, Reserve for Replacements**

Balance, beginning of year	\$ 79,406
Monthly deposits	7,667
Interest income	209
Balance, end of year	<u>\$ 87,282</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	\$ 1,216
Deposits made	1,371
Interest income	2
Balance, end of year	<u>\$ 2,589</u>

**Schedule of Changes in Fixed Assets**

	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance</b>
Land	\$ 56,700	\$ -	\$ -	\$ 56,700
Buildings	1,435,118	-	-	1,435,118
Furniture for project/tenant use	9,144	-	-	9,144
Office furniture and equipment	8,695	6,741	(73)	15,363
Maintenance equipment	5,083	-	-	5,083
Total	<u>1,514,740</u>	<u>6,741</u>	<u>(73)</u>	<u>1,521,408</u>
Accumulated depreciation	(415,730)	(37,265)	73	(452,922)
Net fixed assets	<u>\$ 1,099,010</u>	<u>\$ (30,524)</u>	<u>\$ -</u>	<u>\$ 1,068,486</u>

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**BORROWER'S CERTIFICATION**

*YEAR ENDED SEPTEMBER 30, 2014*

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We hereby certify that we have examined the accompanying financial statements and supplemental data as of and for the year ended September 30, 2014 of Bay Aging Apartments Montross, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**MANAGEMENT AGENT’S CERTIFICATION**

*YEAR ENDED SEPTEMBER 30, 2014*

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We hereby certify that we have examined the accompanying financial statements and supplemental data as of and for the year ended September 30, 2014 of Bay Aging Apartments Montross, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

Bay Aging:

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**AUDITOR'S DISCLOSURE INFORMATION**

*YEAR ENDED SEPTEMBER 30, 2014*

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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 Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of  
Bay Aging Apartments Montross, 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 financial statements of Bay Aging Apartments Montross, Inc. (HUD Project No.: 051-EE072; a nonprofit organization), (the "Organization"), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the 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 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 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 cursive script that reads "Charay Bekant LLP".

Virginia Beach, Virginia  
March 27, 2015

## **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 Montross, Inc.  
5306 Old Virginia Street  
Urbanna, Virginia 23175

### **Report on Compliance for Each Major Federal Program**

We have audited Bay Aging Apartments Montross, Inc.'s (HUD Project No.: 051-EE072; 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 September 30, 2014. The Organization'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 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 September 30, 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.

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

Virginia Beach, Virginia  
March 27, 2015

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*YEAR ENDED SEPTEMBER 30, 2014*

<b>Federal Grantor/Pass-through Grantor Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<u>Department of Housing and Urban Development</u>			
Direct payments			
Supportive Housing for the Elderly	14.157	N/A	\$ 1,488,689
Section 8 Housing Assistance Payments Program	14.195	N/A	<u>91,616</u>
Total expenditures of federal awards			<u><u>\$ 1,580,305</u></u>

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*YEAR ENDED SEPTEMBER 30, 2014*

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**Note 1—Basis of presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Bay Aging Apartments Montross, Inc. under programs of the federal government for the year ended September 30, 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 Montross, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Bay Aging Apartments Montross, 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 MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*YEAR ENDED SEPTEMBER 30, 2014*

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**Summary of Auditor's Results**

1. The auditor's report expresses an unmodified opinion on the financial statements of Bay Aging Apartments Montross, Inc.
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: None reported  
  
Material weaknesses: None reported
3. No instances of noncompliance material to the financial statements of Bay Aging Apartments Montross, Inc. were disclosed during the audit.
4. Significant Deficiencies in internal control over major programs: None reported  
  
Material weaknesses: None reported
5. The auditor's report on compliance for the major federal award programs for Bay Aging Apartments Montross, Inc. expresses an unmodified 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 Montross, Inc. is a low-risk auditee.

**Financial Statement Findings**

None

**Federal Award Findings and Questioned Costs**

None

**BAY AGING APARTMENTS MONTROSS, INC.**  
**HUD PROJECT NUMBER 051-EE072**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

*YEAR ENDED SEPTEMBER 30, 2014*

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There were no items reported for the year ended September 30, 2013.