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BAY AGING APARTMENTS GLOUCESTER, INC.

DAFFODIL GARDENS

HUD PROJECT NO. 051-EE065

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2016

ROBINSON, FARMER, COX ASSOCIATES

*A PROFESSIONAL LIMITED LIABILITY COMPANY      CERTIFIED PUBLIC ACCOUNTANTS*

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CHARLOTTESVILLE    □    RICHMOND    □    LOUISA    □    FREDERICKSBURG    □    STAUNTON    □    BLACKSBURG



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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Bay Aging Apartments Gloucester, Inc., (a nonprofit organization) which comprise the statement of financial position as of September 30, 2016, 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 Gloucester, Inc., as of September 30, 2016, and the changes in net assets and 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 12-15 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 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 February 22, 2017 on our consideration of Bay Aging Apartments Gloucester, 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 Gloucester Inc.'s internal control over financial reporting and compliance.

Charlottesville, Virginia  
February 22, 2017

- Financial Statements -

BAY AGING APARTMENTS GLOUCESTER, INC.  
DAFFODIL GARDENS  
HUD Project No. 051-EE065

Statement of Financial Position  
September 30, 2016

<b>ASSETS</b>		
<u>Account</u>		
<u>Current assets:</u>		
1120	Cash - operations	\$ 4,101
1130	Tenant accounts receivable	854
1190	Miscellaneous current assets - petty cash	100
1135	Accounts receivable - HUD	28
1200	Prepaid expenses	2,236
		\$ 7,319
1100T	Total current assets	\$ 7,319
<u>Cash deposits held in Trust:</u>		
1191	Tenant deposits held in trust	\$ 24,197
<u>Deposits:</u>		
1310	Escrow deposits	\$ 14,614
1320	Replacement reserve	147,932
1340	Residual receipts reserve	18,871
		\$ 181,417
1300T	Total deposits	\$ 181,417
<u>Fixed Assets:</u>		
1410	Land	\$ 190,000
1420	Buildings	3,458,097
1450	Furniture for project/tenant use	32,334
1465	Office furniture and equipment	11,960
1470	Maintenance equipment	10,999
		\$ 3,703,390
1400T	Total fixed assets	\$ 3,703,390
1495	Accumulated depreciation	(1,345,152)
		\$ 2,358,238
1400N	Net fixed assets	\$ 2,358,238
1000T	Total assets	\$ 2,571,171
<b>LIABILITIES AND NET ASSETS</b>		
<u>Current liabilities:</u>		
2110	Accounts payable - operations	\$ 17,893
2150	Accrued property taxes	6,702
		\$ 24,595
2122T	Total current liabilities	\$ 24,595
<u>Deposit liabilities:</u>		
2191	Tenant deposits held in trust	\$ 24,197
		\$ 48,792
2000T	Total liabilities	\$ 48,792
<u>Net assets:</u>		
3131	Unrestricted	\$ (1,159,621)
3132	Temporarily restricted	3,682,000
		\$ 2,522,379
3130	Total net assets	\$ 2,522,379
2033T	Total liabilities and net assets	\$ 2,571,171

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

BAY AGING APARTMENTS GLOUCESTER, INC.  
DAFFODIL GARDENS  
HUD Project No. 051-EE065

Statement of Activities  
Year Ended September 30, 2016

<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	\$ 196,867	\$ -	\$ 196,867
5121 Tenant assistance payments	97,812	-	97,812
5152N Net rental revenue	<u>\$ 294,679</u>	<u>\$ -</u>	<u>\$ 294,679</u>
<u>Financial revenue:</u>			
5430 Revenue from investments - residual receipts	\$ 2	\$ -	\$ 2
5440 Revenue from investments - replacement reserve	39	-	39
5490 Revenue from investments - miscellaneous	3	-	3
5400T Total financial revenue	<u>\$ 44</u>	<u>\$ -</u>	<u>\$ 44</u>
<u>Other revenue:</u>			
5910 Laundry and vending revenue	\$ 750	\$ -	\$ 750
5990 Miscellaneous revenue	9	-	9
5900T Total other revenue	<u>\$ 759</u>	<u>\$ -</u>	<u>\$ 759</u>
5000T Total revenue	<u>\$ 295,482</u>	<u>\$ -</u>	<u>\$ 295,482</u>
<u>Expenses:</u>			
<u>Administrative:</u>			
6203 Conventions and meetings	\$ 476	\$ -	\$ 476
6250 Other renting expenses	404	-	404
6311 Office expenses	6,586	-	6,586
6320 Management fee	40,283	-	40,283
6330 Manager or superintendent salaries	29,664	-	29,664
6350 Audit expense	7,000	-	7,000
6351 Bookkeeping fees/accounting services	18,253	-	18,253
6390 Miscellaneous administrative expenses	25	-	25
6263T Total administrative expenses	<u>\$ 102,691</u>	<u>\$ -</u>	<u>\$ 102,691</u>
<u>Utilities:</u>			
6450 Electricity	\$ 6,368	\$ -	\$ 6,368
6451 Water	16,315	-	16,315
6453 Sewer	15,410	-	15,410
6400T Total utilities expense	<u>\$ 38,093</u>	<u>\$ -</u>	<u>\$ 38,093</u>
<u>Operating and maintenance:</u>			
6515 Supplies	\$ 12,316	\$ -	\$ 12,316
6520 Contracts	58,500	-	58,500
6525 Garbage and trash removal	2,479	-	2,479
6546 Heating/cooling repairs and maintenance	2,988	-	2,988
6548 Snow removal	1,502	-	1,502
6590 Miscellaneous operating and maintenance expenses	284	-	284
6500T Total operating and maintenance expenses	<u>\$ 78,069</u>	<u>\$ -</u>	<u>\$ 78,069</u>

BAY AGING APARTMENTS GLOUCESTER, INC.  
 DAFFODIL GARDENS  
 HUD Project No. 051-EE065

Statement of Activities  
 Year Ended September 30, 2016 (Continued)

<u>Account</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Expenses: (Continued)</u>			
<u>Depreciation:</u>			
6600 Building	\$ 86,452	\$ -	\$ 86,452
6600 Furnishings	1,284	-	1,284
6600 Total depreciation expenses	<u>\$ 87,736</u>	<u>\$ -</u>	<u>\$ 87,736</u>
<u>Taxes and insurance:</u>			
6710 Real estate taxes	\$ 26,665	\$ -	\$ 26,665
6711 Payroll taxes (Project's share)	2,888	-	2,888
6720 Property and liability insurance (Hazard)	10,477	-	10,477
6722 Workmen's compensation	257	-	257
6723 Health insurance and other employee benefits	3,955	-	3,955
6790 Miscellaneous taxes, licenses, permits and insurance	1,158	-	1,158
6700T Total taxes and insurance	<u>\$ 45,400</u>	<u>\$ -</u>	<u>\$ 45,400</u>
<u>Financial expenses:</u>			
6890 Miscellaneous financial expenses	<u>\$ 8,681</u>	<u>\$ -</u>	<u>\$ 8,681</u>
<u>Other expenses:</u>			
6900 Service Coordinator	<u>\$ 21,241</u>	<u>\$ -</u>	<u>\$ 21,241</u>
Total expenses	<u>\$ 381,911</u>	<u>\$ -</u>	<u>\$ 381,911</u>
5060N Change in net assets	\$ (86,429)	\$ -	\$ (86,429)
S1100-050 Net assets, beginning of year	<u>(1,073,192)</u>	<u>3,682,000</u>	<u>2,608,808</u>
3130 Net assets, end of year	<u><u>\$ (1,159,621)</u></u>	<u><u>\$ 3,682,000</u></u>	<u><u>\$ 2,522,379</u></u>

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



BAY AGING APARTMENTS GLOUCESTER, INC.  
 DAFFODIL GARDENS  
 HUD Project No. 051-EE065

Statement of Cash Flows  
 Year Ended September 30, 2016

Cash flows from operating activities:

Receipts:

S1200-010 Rental receipts	\$	294,766
S1200-020 Interest receipts		44
S1200-030 Other operating receipts		759
		759

S1200-040 Total receipts	\$	295,569
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Disbursements:

S1200-050 Administrative	\$	27,583
S1200-070 Management fees		40,283
S1200-090 Utilities		38,093
S1200-100 Salaries and wages		47,917
S1200-110 Operating and maintenance		78,069
S1200-120 Real estate taxes		26,522
S1200-140 Property insurance		10,477
S1200-150 Miscellaneous taxes and insurance		1,158
S1200-170 Other operating expenses		37,022
		37,022

S1200-230 Total disbursements	\$	307,124
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S1200-240 Net cash provided by (used for) operating activities	\$	(11,555)
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Cash flows from investing activities:

S1200-250 Net deposits to reserve for replacement account	\$	(19,239)
S1200-255 Net deposits from (to) other reserves		(2,126)
S1200-260 Net deposits from (to) residual receipts account		5,810
		5,810

S1200-350 Net cash provided by (used for) investing activities	\$	(15,555)
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S1200-470 Net increase (decrease) in cash	\$	(27,110)
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S1200-480 Cash at beginning of year		31,211
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S1200T Cash at end of year	\$	4,101
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Cash flows from operating activities:

3250 Increase (decrease) in net assets	\$	(86,429)
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Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:

6600 Depreciation expenses		87,736
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Changes in:

S1200-490 Tenant accounts receivable		87
S1200-520 Prepaid expenses		(2,083)
S1200-540 Accounts payable		(11,009)
S1200-560 Accrued liabilities		143
		143

Net cash flows provided by (used for) operating activities	\$	(11,555)
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The accompanying notes to financial statements are an integral part of this statement.

BAY AGING APARTMENTS GLOUCESTER, INC.  
DAFFODIL GARDENS  
HUD Project Number 051-EE065

Notes to Financial Statements  
September 30, 2016

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**NOTE 1 - DESCRIPTION OF ORGANIZATION:**

Bay Aging Apartments Gloucester, 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 Daffodil Gardens, a 64-unit residential facility for elderly adults, located in Gloucester, 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 commenced operations in September 2000.

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 providing a 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 based on the existence or absence of donor-imposed restrictions: 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 September 30, 2016 the Organization reported unrestricted net assets of (\$1,159,621).

*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, 2016, the Organization reported temporarily restricted net assets of \$3,682,000.

*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 September 30, 2016, the Organization had no permanently restricted net assets.

Notes to Financial Statements  
September 30, 2016 (Continued)

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

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.

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 September 30, 2016 was \$87,736.

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.

Notes to Financial Statements  
September 30, 2016 (Continued)

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**NOTE 3 - CASH:**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less from the date of acquisition to be cash equivalents.

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

**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 \$166,803 at September 30, 2016, 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 \$97,812 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 does not have to 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. Indirect cost allocations charged to the Organization by Bay Aging include site manager salary, accounting, and the service coordinator expenses. Bay Aging was paid \$116,543 for various operating and capital 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 13.67% of gross potential rent. The Organization owed Bay Aging \$8,934 at September 30, 2016.

BAY AGING APARTMENTS GLOUCESTER, INC.  
 DAFFODIL GARDENS  
 HUD Project Number 051-EE065

Notes to Financial Statements  
 September 30, 2016 (Continued)

**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 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS:**

The Organization's primary asset is a 64-unit residential facility. The Organization's operations are concentrated in the multifamily real estate market. In addition, the housing project operates in a heavily regulated environment. The operations of the housing project are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**NOTE 10 - FUNCTIONAL ALLOCATION OF EXPENSES:**

The following summarizes the functional allocation of expenses:

	<u>Program</u>	<u>Supporting Services</u>		
	<u>Services</u>	<u>Management</u>	<u>Fund-</u>	<u>Total</u>
		<u>&amp; General</u>	<u>raising</u>	
Administrative expenses:				
Management fees	\$ -	\$ 40,283	\$ -	\$ 40,283
Audit expense	5,600	1,400	-	7,000
Bookkeeping fees	9,127	9,126	-	18,253
Manager	-	29,664	-	29,664
Other	-	7,491	-	7,491
	<u>14,727</u>	<u>87,964</u>	<u>-</u>	<u>102,691</u>
Total administrative expenses	\$ 14,727	\$ 87,964	\$ -	\$ 102,691
Utilities	\$ 38,093	\$ -	\$ -	\$ 38,093
Operating and maintenance	78,069	-	-	78,069
Depreciation expenses	87,736	-	-	87,736
Taxes and insurance	45,400	-	-	45,400
Financial	8,681	-	-	8,681
Service coordinator	21,241	-	-	21,241
	<u>293,947</u>	<u>87,964</u>	<u>-</u>	<u>381,911</u>
Total expenses	\$ 293,947	\$ 87,964	\$ -	\$ 381,911

BAY AGING APARTMENTS GLOUCESTER, INC.  
DAFFODIL GARDENS  
HUD Project Number 051-EE065

Notes to Financial Statements  
September 30, 2016 (Continued)

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**NOTE 11 - 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 12 - SUBSEQUENT EVENTS:**

In preparing these financial statements, management of the Organization has evaluated events and transactions for potential recognition or disclosure through February 22, 2017, the date the financial statements were available to be issued.

- Supplementary Information -

**BAY AGING APARTMENTS GLOUCESTER, INC.**  
**HUD Project 051-EE065**

**Supplementary Data Required by HUD**  
**Year Ended September 30, 2016**

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

Cash - Accounts # 1120 & # 1191	\$ 28,298
Accounts receivable - HUD rental assistance	28
Accounts payable - operations	(17,893)
Tenant deposits held in trust	<u>(24,197)</u>
Surplus cash (deficiency)	<u><u>\$ (13,764)</u></u>

**Schedule of Activity - Reserve for Replacements**

Balance, beginning of year	\$ 128,693
Monthly deposits	19,200
Interest income	<u>39</u>
Balance, end of year	<u><u>\$ 147,932</u></u>

**Schedule of Activity - Residual Receipts**

Balance, beginning of year	\$ 24,681
Deposits made	2,869
Authorized withdrawals	(8,681)
Interest income	<u>2</u>
Balance, end of year	<u><u>\$ 18,871</u></u>

**Schedule of Changes in Fixed Assets**

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 190,000	\$ -	\$ -	\$ 190,000
Buildings	3,458,097	-	-	3,458,097
Furniture for project/tenant use	32,334	-	-	32,334
Office furniture and equipment	11,960	-	-	11,960
Maintenance equipment	<u>10,999</u>	<u>-</u>	<u>-</u>	<u>10,999</u>
Total	\$ 3,703,390	\$ -	\$ -	\$ 3,703,390
Accumulated depreciation	<u>1,257,416</u>	<u>87,736</u>	<u>-</u>	<u>1,345,152</u>
Net fixed assets	<u><u>\$ 2,445,974</u></u>	<u><u>\$ (87,736)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,358,238</u></u>



BAY AGING APARTMENTS GLOUCESTER, INC.  
HUD Project No. 051-EE065

Borrower's Certification  
September 30, 2016

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We hereby certify that we have examined the accompanying financial statements and supplemental data as of and for the period ended September 30, 2016 of Bay Aging Apartments Gloucester, Inc. and to the best of our knowledge and belief, the same is complete and accurate.

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

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

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

BAY AGING APARTMENTS GLOUCESTER, INC.  
HUD Project No. 051-EE065

Management Agent's Certification  
September 30, 2016

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We hereby certify that we have examined the accompanying financial statements and supplemental data as of and for the period ended September 30, 2016 of Bay Aging Apartments Gloucester, Inc. and to the best of our knowledge and belief, the same is complete and accurate.

Bay Aging:

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

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

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

BAY AGING APARTMENTS GLOUCESTER, INC.  
HUD Project No. 051-EE065

Auditors' Disclosure Information  
September 30, 2016

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Auditor: Robinson, Farmer, Cox Associates  
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

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## 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*

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TO THE BOARD OF DIRECTORS OF  
BAY AGING APARTMENTS GLOUCESTER, 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 Gloucester, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016, 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 February 22, 2017.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bay Aging Apartments Gloucester, 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 Gloucester, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Bay Aging Apartments Gloucester, 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 Gloucester, 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  
February 22, 2017

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

### Report on Compliance for Each Major Federal Program

We have audited Bay Aging Apartments Gloucester, Inc.'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 Gloucester, Inc.'s major federal programs for the year ended September 30, 2016. Bay Aging Apartments Gloucester, Inc.'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 Gloucester, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay Aging Apartments Gloucester, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Bay Aging Apartments Gloucester, Inc.'s compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, Bay Aging Apartments Gloucester, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

## Report on Internal Control over Compliance

Management of Bay Aging Apartments Gloucester, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bay Aging Apartments Gloucester, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Gloucester, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Charlottesville, Virginia  
February 22, 2017



BAY AGING APARTMENTS GLOUCESTER, INC.  
 HUD Project No. 051-EE065

Schedule of Expenditures of Federal Awards  
 Year Ended September 30, 2016

Federal Grantor/ Pass-through Grantor Program or Cluster Title	Federal CFDA 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	\$ 3,682,000
Section 8 Housing Assistance Payments Program	14.195	N/A	<u>97,812</u>
Total expenditures of federal awards			<u>\$ 3,779,812</u>

See accompanying notes to schedule of expenditures of federal awards.

BAY AGING APARTMENTS GLOUCESTER, INC.  
HUD Project Number 051-EE102

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2016

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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 Gloucester, Inc. under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of Bay Aging Apartments Gloucester, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of Bay Aging Apartments Gloucester, 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.

BAY AGING APARTMENTS GLOUCESTER, INC.  
HUD Project No. 051-EE065

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2016

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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 GLOUCESTER, INC.  
HUD Project No. 051-EE065

Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2016

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There were no prior year findings.