

**Friends of Good Shepherd Manor Housing  
Organization, Inc.**  
**(a not-for-profit corporation)**  
**HUD Project No. 043-HH008-NP-WDD**

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**Financial Report**  
**with Supplemental Information**  
**December 31, 2010**

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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**Certificate of Officers**

I certify that I have examined the attached financial statements and supplemental information of HUD Project No. 043-HH008-NP-WDD, Friends of Good Shepherd Manor Housing Organization, Inc., and to the best of my knowledge and belief, the same is a true statement of the financial condition as of December 31, 2010.

\_\_\_\_\_  
Jackie Bowling  
Executive Director

\_\_\_\_\_  
April 27, 2011  
Date

\_\_\_\_\_  
ID# 31-1315438  
Employer Identification Number

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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**Management Agent's Certification**

We certify that we have examined the attached financial statements and supplemental information of HUD Project No. 043-HH008-NP-WDD, Friends of Good Shepherd Manor Housing Organization, Inc., and to the best of our knowledge and belief, the same is a true statement of the financial condition as of December 31, 2010.

\_\_\_\_\_  
Lewis S. Ellis, Executive Director of  
Preferred Properties, Inc. as  
Management Agent

\_\_\_\_\_  
Beverly A. Zadiraka, Finance  
Manager

\_\_\_\_\_  
April 27, 2011  
Date

\_\_\_\_\_  
(419) 244-9609  
Telephone Number

\_\_\_\_\_  
ID# 31-1715222  
Management Company Employer  
Identification Number

\_\_\_\_\_  
Charles Freeman  
Property Manager

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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## Independent Auditor's Report

To the Board of Directors  
Friends of Good Shepherd Manor  
Housing Organization, Inc.

We have audited the accompanying balance sheet of HUD Project No. 043-HH008-NP-WDD, Friends of Good Shepherd Manor Housing Organization, Inc. (the "Corporation"), as of December 31, 2010 and 2009 and the related statements of activities, changes in deficiency in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HUD Project No. 043-HH008-NP-WDD, Friends of Good Shepherd Manor Housing Organization, Inc., as of December 31, 2010 and 2009 and results of its operations, changes in deficiency in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2011 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Plante & Moran, PLLC*

April 27, 2011

By: Jason Giha  
Engagement Partner  
65 East State Street, Suite 600  
Columbus, Ohio 43215-4227  
Federal ID Number: 38-1357951  
Phone Number: (614) 849-3000

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Balance Sheet**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash - Operations	\$ 2	\$ 428
Tenant accounts receivable	-	234
Accounts receivable - HUD	-	1,964
	<hr/>	<hr/>
Total current assets	2	2,626
<b>Deposits - Held in Trust</b>		
Tenant deposits held in trust	3,975	4,305
<b>Deposits - Funded</b>		
Replacement reserve	30,231	33,064
Residual receipts reserve	23,852	23,840
	<hr/>	<hr/>
Total deposits - Funded	54,083	56,904
<b>Fixed Assets</b>		
Land and land improvements	69,527	69,527
Buildings and building improvements	601,025	597,925
Building equipment (portable)	3,199	3,199
	<hr/>	<hr/>
Total fixed assets	673,751	670,651
Accumulated depreciation	<hr/> (242,632)	<hr/> (227,426)
Net fixed assets	<hr/> 431,119	<hr/> 443,225
Total assets	<hr/> <b>\$ 489,179</b>	<hr/> <b>\$ 507,060</b>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Balance Sheet (Continued)**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Liabilities and Deficiency in Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable - Operations	\$ 1,492	\$ 4,236
Accrued management fee payable (Notes 3 and 4)	-	9,271
Accrued property taxes	-	6,906
Accounts payable to related party (Note 3)	65,000	91,908
Prepaid revenue	1,009	-
	<hr/>	<hr/>
Total current liabilities	67,501	112,321
Tenant deposits held in trust (contra)	3,881	4,211
<b>Long-term Liabilities</b>		
Capital advance (Note 2)	668,800	668,800
	<hr/>	<hr/>
Total liabilities	740,182	785,332
<b>Deficiency in Net Assets</b>		
Deficiency in unrestricted net assets	(251,003)	(278,272)
	<hr/>	<hr/>
Total deficiency in net assets	(251,003)	(278,272)
	<hr/>	<hr/>
Total liabilities and deficiency in net assets	<b>\$ 489,179</b>	<b>\$ 507,060</b>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Activities**

	Year Ended	
	December 31, 2010	December 31, 2009
<b>Rent Revenue</b>		
Rent revenue - Gross potential	\$ 54,224	\$ 57,241
Tenant assistance payments	23,356	3,419
Total rent revenue (potential at 100% occupancy)	77,580	60,660
<b>Vacancies</b>		
Apartments	(4,102)	-
Total vacancies	(4,102)	-
Net rent revenue (rent revenue less vacancies)	73,478	60,660
<b>Financial Revenue</b>		
Investments - Residual receipts	12	4
Investments - Replacement reserve	16	9
Total financial revenue	28	13
<b>Other Revenue</b>		
Miscellaneous revenue	26,821	-
Total other revenue	26,821	-
Total revenue	100,327	60,673
<b>Administrative Expenses</b>		
Conventions and meetings	143	-
Office salaries (Note 4)	5,040	5,040
Office expenses	2,894	1,769
Management fee (Note 4)	8,274	6,672
Auditing expenses	9,200	4,400
Bookkeeping fees/Accounting services (Note 4)	1,260	3,010
Total administrative expenses	26,811	20,891
<b>Utilities Expense</b>		
Electricity	7,354	6,671
Water	3,746	4,958
Gas	3,775	4,056
Total utilities expense	14,875	15,685

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Activities (Continued)**

	Year Ended	
	December 31, 2010	December 31, 2009
<b>Operating and Maintenance Expenses</b>		
Payroll	\$ 7,764	\$ 7,764
Supplies	3,288	877
Contracts	1,946	4,631
Garbage and trash removal	574	-
Security payroll/contract	-	211
Snow removal	631	913
Total operating and maintenance expenses	14,203	14,396
<b>Taxes and Insurance</b>		
Real estate taxes	-	6,945
Property and liability insurance (hazard)	1,763	2,334
Miscellaneous taxes, licenses, permits, and insurance	200	-
Total taxes and insurance	1,963	9,279
<b>Total Costs of Operations Before Depreciation</b>	<b>57,852</b>	<b>60,251</b>
<b>Change in Net Assets Before Depreciation</b>	<b>42,475</b>	<b>422</b>
<b>Depreciation Expense</b>	<b>15,206</b>	<b>14,948</b>
<b>Change in Total Net Assets</b>	<b>\$ 27,269</b>	<b>\$ (14,526)</b>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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**Statement of Changes in Deficiency in Net Assets**

Deficiency in Net Assets - January 1, 2009	\$ (263,746)
Increase in deficiency in net assets	<u>(14,526)</u>
<b>Deficiency in Net Assets - December 31, 2009</b>	<b>(278,272)</b>
Decrease in deficiency in net assets	<u>27,269</u>
<b>Deficiency in Net Assets - December 31, 2010</b>	<b><u>\$ (251,003)</u></b>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Cash Flows**

	Year Ended	
	December 31, 2010	December 31, 2009
<b>Cash Flows from Operating Activities</b>		
Receipts:		
Rental	\$ 75,698	\$ 58,462
Interest	28	13
Other cash receipts	26,821	-
Total receipts	102,547	58,475
Disbursements:		
Administrative	(15,254)	(4,945)
Management fee	(17,545)	(3,336)
Utilities	(14,875)	(15,685)
Salaries and wages	(12,804)	(12,804)
Operating and maintenance	(6,439)	(6,632)
Real estate taxes	(6,906)	(6,768)
Property insurance	(1,763)	(1,508)
Miscellaneous taxes and insurance	(200)	-
Total disbursements	(75,786)	(51,678)
Net cash provided by operating activities	26,761	6,797
<b>Cash Flows from Investing Activities</b>		
Net withdrawal from (deposit to) the reserve for replacement account	2,833	(1,117)
Net deposit to the residual receipts account	(12)	(10,596)
Purchase of fixed assets	(3,100)	-
Net cash used in investing activities	(279)	(11,713)
<b>Cash Flows from Financing Activities</b>		
(Repayment of) proceeds from related party advance	(26,908)	647
Net cash (used in) provided by financing activities	(26,908)	647
<b>Net Decrease in Cash</b>	(426)	(4,269)
<b>Cash - Beginning of year</b>	428	4,697
<b>Cash - End of year</b>	<u>\$ 2</u>	<u>\$ 428</u>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Cash Flows (Continued)**

A reconciliation of change in net assets to net cash from operating activities is as follows:

	Year Ended	
	December 31, 2010	December 31, 2009
Change in net assets	\$ 27,269	\$ (14,526)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	15,206	14,948
Decrease (increase) in assets:		
Tenant accounts receivable	234	(234)
Accounts receivable - Other	1,964	(1,964)
Prepaid expenses	-	826
Cash restricted for tenant security deposits	330	(221)
(Decrease) increase in liabilities:		
Accounts payable - Operations	(2,744)	4,234
Accrued liabilities	(16,177)	3,513
Tenant security deposits held in trust	(330)	221
Prepaid revenue	1,009	-
Net cash provided by operating activities	<u>\$ 26,761</u>	<u>\$ 6,797</u>

# Friends of Good Shepherd Manor Housing Organization, Inc.

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## Notes to Financial Statements December 31, 2010 and 2009

### Note 1 - Nature of Business and Significant Accounting Policies

**Nature of Business** - Friends of Good Shepherd Manor Housing Organization, Inc. (the "Corporation") is incorporated as a nonstock, nonprofit charitable corporation. The Corporation was formed for the purpose of operating three separate five-unit apartment complexes (a total of 15 non-employee tenants) located throughout Pike County, Ohio for low-rent housing, particularly for the handicapped.

The Corporation is operated under Section 811 of the National Housing Act and is regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods.

Significant accounting policies are as follows:

**Basis of Accounting** - The Corporation maintains its accounting records and prepares its financial statements on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the same basis of accounting as the financial statements. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Deposits Held in Trust** - In accordance with the Regulatory Agreement with HUD, the Corporation is required to maintain a tenant security deposit trust account. The amount must at all times be equal to or exceed the aggregate of all outstanding obligations to tenants for refundable security deposits. The tenant security deposits fund consists of cash.

**Deposits - Funded** - The funds held by the Corporation represent restricted funds for a replacement reserve and a residual receipts reserve. The replacement reserve consists of deposits by the Corporation to offset specific expenses and to replace structural elements and mechanical equipment upon consent of HUD. Any surplus cash is deposited to the residual receipts reserve annually and can only be withdrawn with HUD's approval.

# Friends of Good Shepherd Manor Housing Organization, Inc.

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## Notes to Financial Statements December 31, 2010 and 2009

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Fixed Assets** - Fixed assets are recorded at cost when purchased or appraised value if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. Maintenance, repairs, and renewals that do not involve any substantial betterments are charged to expense when incurred. Expenditures that increase the useful life of the property are capitalized.

**Impairment of Assets** - The Corporation recognizes impairment of long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. No impairment of the Corporation's rental property has occurred at December 31, 2010 or 2009.

**Tenant Accounts Receivable** - Accounts receivable represent amounts due from tenants. Tenant accounts receivable generally are collectible as long as the tenant is occupying the unit. When the tenant vacates the unit, any unpaid balance remaining after application of the security deposit is charged to the allowance for doubtful accounts. There was no allowance for doubtful accounts at December 31, 2010 or 2009.

**Classification of Net Assets** - Net assets of the Corporation are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Corporation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. All net assets of the Corporation at December 31, 2010 and 2009 are considered unrestricted.

**Rental Income** - The Corporation records apartment rentals at gross potential rent as prescribed by HUD. Rental value of vacancies is stated separately to present net rental income on the accrual basis.

Units that are designated for occupancy by eligible low-income tenants under a project rental assistance contract require tenants to contribute a portion of the contract rent based on formulas prescribed by HUD. Rental assistance payments are received for the balance of contract rent from HUD. The current contract expires during January 2015.

**Federal Income Taxes** - No provision for income taxes has been included in the financial statements since the Corporation is exempt from such taxes under Section 501(c)(3) of the Internal Revenue Code.

**Regulatory Agreement** - A Regulatory Agreement with HUD was signed in connection with the capital advance. Violations of this agreement were noted for both years ended December 31, 2010 and December 31, 2009 as described in the schedule of findings and questioned costs.

# Friends of Good Shepherd Manor Housing Organization, Inc.

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## Notes to Financial Statements December 31, 2010 and 2009

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Reclassification** - Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including April 27, 2011, which is the date the financial statements were available to be issued.

### **Note 2 - Capital Advance**

The Corporation obtained a capital advance from HUD which was used to assist in financing the construction of the project in accordance with the provisions of Section 811 of the Housing Act of 1959. The capital advance totaled \$668,800 at both December 31, 2010 and 2009, bears no interest, and is not required to be repaid as long as the housing remains available to very-low income households and the aged and/or handicapped for a period of 40 years through May 2033. In addition, the Corporation is subject to the additional requirements of the HUD Section 811 program. If default occurs, then HUD, at its option, may accelerate the entire principal balance and charge interest. It is the Corporation's intent to comply with the time requirement and Section 811. Based on the time and provision requirements, the advance is recorded as a long-term liability. The capital advance is collateralized by the land and building of the Corporation.

### **Note 3 - Related Party Transactions**

**Related Party Payables** - Related party payables consist of advances made by Friends of Good Shepherd Manor, Inc. (hereby referred to as the "Manor") which has the same board of directors as the Corporation, to cover expenses incurred by the Corporation when the need arises due to lags in cash receipts. The amount outstanding at December 31, 2010 and 2009 totaled \$65,000 and \$91,908, respectively. The amount paid to the Manor during the years ended December 31, 2010 and 2009 totaled \$26,908 and \$0, respectively.

**Management Fees** - The Manor was the management agent through December 31, 2008. Amounts due the Manor for management fees were accrued separately and totaled \$0 and \$5,935 as of December 31, 2010 and 2009, respectively.

# **Friends of Good Shepherd Manor Housing Organization, Inc.**

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## **Notes to Financial Statements December 31, 2010 and 2009**

### **Note 4 - Management Agent**

The property management agreement effective January 1, 2009 provides that a management fee in the amount of 11 percent of gross rents collected and is capped at \$43 per unit per month plus a special fee of \$5 per unit per month, a bookkeeping fee of \$125 per month, and an office salaries accounting fee of \$435 per month be paid to Preferred Properties, Inc. Management fees for the years ended December 31, 2010 and 2009 totaled \$8,274 and \$6,672, respectively. Bookkeeping fees for the years ended December 31, 2010 and 2009 totaled \$1,260 and \$3,010, respectively, and have been included in bookkeeping fees/accounting services on the statement of activities. Office salaries fees totaled \$5,040 for both years ended December 31, 2010 and 2009, and are included in office salaries on the statement of activities. Amounts due Preferred Properties, Inc. for management fees were accrued separately and totaled \$0 and \$3,336 as of December 31, 2010 and 2009, respectively.

### **Note 5 - Current Vulnerability Due to Certain Concentrations**

The Corporation's sole assets are the three group homes. The Corporation's operations are concentrated in the multifamily real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation 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 additional administrative burden, to comply with a change.

## **Supplemental Information**

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To the Board of Directors  
Friends of Good Shepherd Manor  
Housing Organization, Inc.

We have audited the financial statements of HUD Project No. 043-HH008-NP-WDD, Friends of Good Shepherd Manor Housing Organization, Inc., for the year ended December 31, 2010. Our audit was performed for the purpose of forming an opinion on the financial statements of Friends of Good Shepherd Manor Housing Organization, Inc. taken as a whole. The accompanying supplemental information, including the schedule of expenditures of federal awards, is presented for the purpose of additional analysis as required by HUD and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information utilizes the same basis of accounting as the financial statements and has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Plante & Moran, PLLC*

April 27, 2011

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Balance Sheet Data  
December 31, 2010**

		<b>Assets</b>	
<b>Current Assets</b>			
1120	Cash - Operations		\$ 2
1100T	Total current assets		2
<b>Deposits - Held in Trust</b>			
1191	Tenant deposits held in trust		3,975
<b>Deposits - Funded</b>			
1320	Replacement reserve		30,231
1340	Residual receipts reserve		23,852
1300T	Total deposits - Funded		54,083
<b>Fixed Assets</b>			
1410	Land and land improvements		69,527
1420	Buildings and building improvements		601,025
1440	Building equipment (portable)		3,199
1400T	Total fixed assets		673,751
1495	Accumulated depreciation		(242,632)
1400N	Net fixed assets		431,119
1000T	Total assets		<u>\$ 489,179</u>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Balance Sheet Data (Continued)  
December 31, 2010**

**Liabilities and Deficiency in Net Assets**

**Current Liabilities**

2110	Accounts payable - Operations	\$	1,492
2190	Accounts payable to related party		65,000
2210	Prepaid revenue		<u>1,009</u>
2122T	Total current liabilities		67,501
2191	Tenant deposits held in trust (contra)		3,881

**Long-term Liabilities**

2320	Capital advance		<u>668,800</u>
2000T	Total liabilities		740,182

**Deficiency in Net Assets**

3131	Deficiency in unrestricted net assets		<u>(251,003)</u>
3130	Total deficiency in net assets		<u>(251,003)</u>
2033T	Total liabilities and deficiency in net assets	\$	<u><u>489,179</u></u>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Activities Data  
Year Ended December 31, 2010**

**Rent Revenue**

5120	Rent revenue - Gross potential	\$	54,224
5121	Tenant assistance payments		<u>23,356</u>
5100T	Total rent revenue (potential at 100% occupancy)		77,580

**Vacancies**

5220	Apartments		<u>(4,102)</u>
5200T	Total vacancies		<u>(4,102)</u>
5152N	Net rent revenue (rent revenue less vacancies)		73,478

**Financial Revenue**

5430	Investments - Residual receipts		12
5440	Investments - Replacement reserve		<u>16</u>
5400T	Total financial revenue		28

**Other Revenue**

5990	Miscellaneous revenue		<u>26,821</u>
5900T	Total other revenue		<u>26,821</u>
5000T	Total revenue		100,327

**Administrative Expenses**

6203	Conventions and meetings		143
6310	Office salaries		5,040
6311	Office expenses		2,894
6320	Management fee		8,274
6350	Auditing expenses		9,200
6351	Bookkeeping fees/Accounting services		<u>1,260</u>
6263T	Total administrative expenses		26,811

**Utilities Expense**

6450	Electricity		7,354
6451	Water		3,746
6452	Gas		<u>3,775</u>
6400T	Total utilities expense		14,875

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Activities Data (Continued)  
Year Ended December 31, 2010**

**Operating and Maintenance Expenses**

6510	Payroll	\$	7,764
6515	Supplies		3,288
6520	Contracts		1,946
6525	Garbage and trash removal		574
6548	Snow removal		631
			<hr/>
6500T	Total operating and maintenance expenses		14,203

**Taxes and Insurance**

6720	Property and liability insurance (hazard)		1,763
6790	Miscellaneous taxes, licenses, permits, and insurance		200
			<hr/>
6700T	Total taxes and insurance		1,963
6000T	<b>Total Costs of Operations Before Depreciation</b>		<hr/> <b>57,852</b>
5060T	<b>Change in Net Assets Before Depreciation</b>		<b>42,475</b>
6600	<b>Depreciation Expense</b>		<hr/> <b>15,206</b>
3250	<b>Change in Total Net Assets</b>	<b>\$</b>	<hr/> <b>27,269</b>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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**Statement of Activities Data (Continued)  
Supplemental Information  
Year Ended December 31, 2010**

S1000-010	1	Total principal required under the mortgage, even if payments under a workout agreement are less or more than those required under the mortgage	\$	0
S1000-020	2	Replacement reserve deposits required by the Regulatory Agreement or amendments thereto, even if payments may be temporarily suspended or waived		2,104
S1000-030	3	Replacement reserve or residual receipt releases that are included as expense items on this profit and loss statement		2,204
S1000-040	4	Project improvement reserve releases under the flexible subsidy program that are included as expense items on this profit and loss statement		0

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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**Statement of Changes in Deficiency in Net Assets Data  
Year Ended December 31, 2010**

S1100-060	Deficiency in Net Assets - January 1, 2010	\$ (278,272)
3250	Decrease in deficiency in net assets	<u>27,269</u>
3130	Deficiency in Net Assets - December 31, 2010	<u>\$ (251,003)</u>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Cash Flows Data  
Year Ended December 31, 2010**

<b>Cash Flows from Operating Activities</b>		
Receipts:		
S1200-010	Rental	\$ 75,698
S1200-020	Interest	28
S1200-030	Other cash receipts	<u>26,821</u>
S1200-040	Total receipts	102,547
Disbursements:		
S1200-050	Administrative	(15,254)
S1200-070	Management fee	(17,545)
S1200-090	Utilities	(14,875)
S1200-100	Salaries and wages	(12,804)
S1200-110	Operating and maintenance	(6,439)
S1200-120	Real estate taxes	(6,906)
S1200-140	Property insurance	(1,763)
S1200-150	Miscellaneous taxes and insurance	<u>(200)</u>
S1200-230	Total disbursements	<u>(75,786)</u>
S1200-240	Net cash provided by operating activities	26,761
<b>Cash Flows from Investing Activities</b>		
S1200-250	Net withdrawal from the reserve for replacement account	2,833
S1200-260	Net deposit to the residual receipts account	(12)
S1200-330	Purchase of fixed assets	<u>(3,100)</u>
S1200-350	Net cash used in investing activities	(279)
<b>Cash Flows from Financing Activities</b>		
S1200-450	Repayment of related party advance	<u>(26,908)</u>
S1200-460	Net cash used in financing activities	<u>(26,908)</u>
S1200-470	<b>Net Decrease in Cash</b>	(426)
S1200-480	<b>Cash - Beginning of year</b>	<u>428</u>
S1200T	<b>Cash - End of year</b>	<u><u>\$ 2</u></u>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Statement of Cash Flows Data (Continued)  
Year Ended December 31, 2010**

A reconciliation of change in net assets to net cash from operating activities is as follows:

3250	Change in net assets	\$	27,269
	Adjustments to reconcile change in net assets to net cash from operating activities:		
6600	Depreciation		15,206
	Decrease in assets:		
SI200-490	Tenant accounts receivable		234
SI200-500	Accounts receivable - Other		1,964
SI200-530	Cash restricted for tenant security deposits		330
	(Decrease) increase in liabilities:		
SI200-540	Accounts payable - Operations		(2,744)
SI200-560	Accrued liabilities		(16,177)
SI200-580	Tenant security deposits held in trust		(330)
SI200-590	Prepaid revenue		1,009
SI200-610	Net cash provided by operating activities	<u>\$</u>	<u>26,761</u>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Supplemental Information  
Year Ended December 31, 2010**

1. **Schedule of Reserve for Replacements** - In accordance with the provisions of the Regulatory Agreement, restricted cash is held by Fifth Third Bank to be used for replacement of property with the approval of HUD as follows:

1320P	<b>Balance</b> - January 1, 2010	\$ 33,064
1320DT	Monthly deposits (\$175.33 x 12)	2,104
1320ODT	Other deposits - Prior year underfunding	351
1320INT	Interest	16
1320WT	Approved withdrawals	<u>(5,304)</u>
1320	<b>Balance</b> - December 31, 2010	<u><u>\$ 30,231</u></u>

2. **Schedule of Residual Receipts** - In accordance with the provisions of the Regulatory Agreement, surplus cash is calculated per the HUD formula and deposited into the residual receipts account. Restricted cash is held by Fifth Third Bank to be used for any project purpose with the approval of HUD as follows:

1340P	<b>Balance</b> - January 1, 2010	\$ 23,840
1340INT	Interest	<u>12</u>
1340	<b>Balance</b> - December 31, 2010	<u><u>\$ 23,852</u></u>

3. **Computation of Surplus Cash - Form HUD 93486** - See attached

4. **Schedule of Changes in Fixed Asset Accounts** - See attached

5. **Schedule of 5300 Accounts** - N/A

6. **Schedule of 6900 Accounts** - N/A

7. **Nursing Home Data** - N/A

8. **Detail of Accounts:**

2190	Accounts payable to related party	<u><u>\$ 65,000</u></u>
5990	Real estate tax refund	<u><u>\$ 26,821</u></u>

**Friends of Good Shepherd Manor Housing Organization, Inc.**  
**HUD Project No. 043-HH008-NP-WDD**

**Schedule of Changes in Fixed Asset Accounts**  
**Year Ended December 31, 2010**

	Assets			Accumulated Depreciation			Net Book Value December 31, 2010		
	Balance January 1, 2010	Additions	Deductions	Balance December 31, 2010	Balance January 1, 2010	Current Provision		Deductions	Balance December 31, 2010
1410 Land and land improvements	\$ 69,527	\$ -	\$ -	\$ 69,527	\$ -	\$ -	\$ -	\$ -	\$ 69,527
1420 Buildings and building improvements	597,925	3,100	-	601,025	224,227	15,206	-	239,433	361,592
1440 Building equipment (portable)	3,199	-	-	3,199	3,199	-	-	3,199	-
<b>Total</b>	<b>\$ 670,651</b>	<b>\$ 3,100</b>	<b>\$ -</b>	<b>\$ 673,751</b>	<b>\$ 227,426</b>	<b>\$ 15,206</b>	<b>\$ -</b>	<b>\$ 242,632</b>	<b>\$ 431,119</b>

**Fixed Asset Addition Detail:**

Buildings and building improvements -  
 Air conditioners

**\$ 3,100**

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2010**

<u>Federal Agency/Pass-through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Supportive Housing for Persons with Disabilities (Section 811) - Capital Advance	14.181	\$ 668,800
Supportive Housing for Persons with Disabilities (Section 811) - Project Rental Assistance Payments	14.181	<u>23,356</u>
Total federal awards		<u><b>\$ 692,156</b></u>

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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**Computation of Surplus Cash  
Year Ended December 31, 2010**

SI300-010	Cash	\$ 3,977
SI300-040	Total Cash	3,977
<b>Current Obligations</b>		
SI300-075	Accounts Payable - 30 Days	1,492
2210	Prepaid Revenue	1,009
2191	Tenant Deposits Held In Trust (Contra)	<u>3,881</u>
SI300-140	Total Current Obligations	<u>6,382</u>
SI300-150	Surplus Cash (Deficiency)	<u>\$ (2,405)</u>
SI300-210	Deposit Due Residual Receipts	<u>\$ -</u>

**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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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  
Friends of Good Shepherd Manor  
Housing Organization, Inc.

We have audited the financial statements of Friends of Good Shepherd Manor Housing Organization, Inc. (the "Corporation") as of and for the year ended December 31, 2010 and have issued our report thereon dated April 27, 2011. We have 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Friends of Good Shepherd Manor Housing Organization, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above; however, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as item 2010-1. 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.

To the Board of Directors  
Friends of Good Shepherd Manor  
Housing Organization, Inc.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Friends of Good Shepherd Manor Housing Organization, Inc.'s financial statements are free of 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*.

Friends of Good Shepherd Manor Housing Organization, Inc.'s written response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Friends of Good Shepherd Manor Housing Organization, Inc.'s responses and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the Corporation, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Morse, PLLC*

April 27, 2011

**Report on Compliance with Requirements  
That Could Have a Direct and Material  
Effect on the Major Program and on  
Internal Control Over Compliance in  
Accordance with OMB Circular A-133**

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Report on Compliance with Requirements That Could Have a Direct  
and Material Effect on the Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

To the Board of Directors  
Friends of Good Shepherd Manor  
Housing Organization, Inc.

### Compliance

We have audited Friends of Good Shepherd Manor Housing Organization, Inc.'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2010. Friends of Good Shepherd Manor Housing Organization, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Friends of Good Shepherd Manor Housing Organization, Inc.'s management. Our responsibility is to express an opinion on Friends of Good Shepherd Manor Housing Organization, Inc.'s compliance based on our audit.

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. 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 Friends of Good Shepherd Manor Housing Organization, 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. Our audit does not provide a legal determination on Friends of Good Shepherd Manor Housing Organization, Inc.'s compliance with those requirements.

In our opinion, Friends of Good Shepherd Manor Housing Organization, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-2.

To the Board of Directors  
Friends of Good Shepherd Manor  
Housing Organization, Inc.

### **Internal Control Over Compliance**

Management of Friends of Good Shepherd Manor Housing Organization, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Friends of Good Shepherd Manor Housing Organization, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Corporation's internal control over compliance.

A deficiency in internal control over compliance 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 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 a 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.

This report is intended solely for the information and use of the board of directors, management, others within the Corporation, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Morse, PLLC*

April 27, 2011

## **Schedule of Findings and Questioned Costs**

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**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2010**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  No
- Noncompliance material to financial statements noted?  Yes  None reported

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster	Opinion
14.181	U.S. Department of Housing and Urban Development - Supportive Housing for Persons with Disabilities (Section 811)	Unqualified

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2010**

**Section II - Financial Statement Audit Findings**

Reference Number	Finding	Questioned Costs
Current Year:		
2010-1	<p><b>Statement of Condition</b> - Significant deficiency on internal controls over financial reporting - Depreciation expense and real estate tax expense were not properly recorded for the year ended December 31, 2010.</p> <p><b>Criteria</b> - HUD requires that the financial statements be prepared in accordance with accounting principles generally accepted in the United States of America.</p> <p><b>Effect</b> - Audit adjustments were made to correct the financial statements of the Corporation to conform with accounting principles generally accepted in the United States of America.</p> <p><b>Cause</b> - Management did not properly record depreciation expense and recorded an expense for real estate taxes despite the Corporation being exempt from real estate taxes.</p> <p><b>Recommendation</b> - Management should implement a process to record monthly depreciation expense based on the estimated useful lives assigned to the fixed assets. In addition, management should stop recording real estate tax expense unless the Corporation's exemption is repealed.</p> <p><b>Auditor Noncompliance Code</b> - S - Internal control deficiency</p> <p><b>Auditor's Summary of Auditee's Comments on the Findings and Recommendations</b> - Management agrees with the audit adjustments that were made to correct the financial statements</p> <p><b>Response Indicator</b> - Agree</p> <p><b>Completion Date</b> - December 31, 2010</p> <p><b>Response</b> - Management has reviewed and accepted the proposed audit adjustments.</p> <p><b>Contact Person</b> - Jackie Bowling</p>	None

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2010**

**Section II - Financial Statement Audit Findings (Continued)**

Reference Number	Finding	Questioned Costs
Prior Year:  2009-1	<p><b>Status Indicator</b> - Cleared</p> <p><b>Reporting Period</b> - December 31, 2009</p> <p><b>Statement of Condition</b> - Material weakness in internal control over financial reporting - The Corporation did not maintain accurate accounting records and the internal controls over financial reporting were not operating effectively to prevent or detect financial statement misstatements which resulted in several adjusting journal entries being proposed during the course of the audit. Management reviewed and accepted the proposed adjustments</p> <p><b>Narrative</b> - Audit adjustments were recorded to ensure the accounting records were accurate.</p>	None
2009-3	<p><b>Status Indicator</b> - Cleared</p> <p><b>Reporting Period</b> - December 31, 2009</p> <p><b>Statement of Condition</b> - Material weakness in internal control over financial reporting - Management lacked proper segregation of duties over the cash cycle for the period beginning January 1, 2009 through June 30, 2009.</p> <p><b>Narrative</b> - The management company took over responsibility of maintaining the books and records as of July 1, 2009 to ensure there was appropriate segregation of duties over the cash cycle.</p>	

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2010**

**Section III - Federal Program Audit Findings**

Reference Number	Finding	Questioned Costs
Current Year:  2010-2	<p><b>Statement of Condition</b> - The Corporation has unapproved owner advances received in prior years from Friends of Good Shepherd Manor, Inc. (the "Manor").</p> <p><b>Criteria</b> - HUD requires the Corporation to comply with the requirements specified in the Regulatory Agreement.</p> <p><b>Effect</b> - Advances from the Manor were made to the Corporation in previous years to pay for expenses related directly to the project, which has resulted in encumbering the Corporation through a liability owed to the Manor.</p> <p><b>Cause</b> - The project had a low operating cash balance and did not request release of funds from reserves, which has resulted in the need for financing support from the sponsor in previous years.</p> <p><b>Recommendation</b> - Management should request the remaining balance of the owners advance be converted into a surplus cash note payable.</p> <p><b>Auditor Noncompliance Code</b> - F - Acquisition of liabilities (encumbering project assets)</p> <p><b>Auditor's Summary of Auditee's Comments on the Findings and Recommendations</b> - Management obtained approval in April 2011 from their local HUD representative for the repayment of \$26,908 of these advances during 2010.</p> <p><b>Response Indicator</b> - Agree</p> <p><b>Completion Date</b> - December 31, 2011</p> <p><b>Response</b> - Management acknowledged the issue of noncompliance in the prior years and will request the remaining balance of the owner advances payable be converted to a surplus cash note payable from residual receipts upon consent from HUD.</p> <p><b>Contact Person</b> - Jackie Bowling</p>	None

**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2010**

**Section III - Federal Program Audit Findings (Continued)**

Reference Number	Finding	Questioned Costs
Prior Year:  2009-2	<b>Status Indicator</b> - Outstanding  <b>Reporting Period</b> - December 31, 2009  <b>Statement of Condition</b> - Significant deficiency in internal controls over major programs - The Corporation failed to comply with the HUD compliance requirements specified in the Regulatory Agreement, by receiving an additional \$647 in related party (Friends of Good Shepherd Manor, Inc.) advances in the current year without prior written consent from HUD.  <b>Previous Response for Finding</b> - Management will contact their HUD representative to determine the appropriate course of action relative to obtaining HUD's approval for advanced funds made on a historical basis and establish a protocol for any future advances.  <b>Narrative</b> - See finding 2010-2.	None

## **Corrective Action Plan**

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**Friends of Good Shepherd Manor Housing  
Organization, Inc.  
HUD Project No. 043-HH008-NP-WDD**

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**Corrective Action Plan  
Year Ended December 31, 2010**

A. **Comments on Findings and Recommendations** - 2010-1: Management has reviewed and accepted the proposed audit adjustments.

2010-2: Management acknowledged the issue of noncompliance in the prior years and has communicated the status with their HUD representative.

B. **Actions Taken or Planned** - 2010-1: Management will record depreciation expense based on the depreciation report going forward.

2010-2: Management will request the remaining balance of the owner advances payable be converted to a surplus cash note payable from residual receipts upon consent from HUD.

C. **Status of Corrective Actions on Prior Findings** - Finding 2009-2 is still outstanding as finding 2010-2 in the current year. See comments above.