

BETTYE RUTH KAY COMMUNITY HOMES, INC.

PROJECT NO. 042-HD136

**FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
WITH AUDITORS' REPORTS AND MORTGAGOR'S
AND MANAGEMENT AGENT'S CERTIFICATIONS**

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GILMORE, JASION & MAHLER, LTD

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Bettye Ruth Kay Community Homes, Inc.
Whitehouse, Ohio

We have audited the accompanying statements of financial position of Project No. 042-HD136, Bettye Ruth Kay Community Homes, Inc., an Ohio nonprofit corporation, as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Bettye Ruth Kay Community Homes, Inc.'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 audit 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 Bettye Ruth Kay Community Homes, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its 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 our report dated February 24, 2011, on our consideration of Bettye Ruth Kay Community Homes, Inc.'s internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary information shown on pages 20 to 25 is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements themselves. In our opinion, the information is fairly stated in all material respects to the financial statements as a whole.

Gilmore, Jason & Mahler, LTD

February 24, 2011

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash	\$ 169	\$ 131
Cash - construction	0	90
Housing assistance receivable	5,123	2,791
	Total current assets	3,012
Deposits held in trust		
Tenant security deposits	2,461	2,721
Restricted deposits and funded reserves		
Mortgage escrow deposit - capital advance	5,473	5,470
Reserve for replacements	9,851	13,413
Property and equipment		
Land	60,000	60,000
Building and building improvements	1,655,919	1,652,799
Office furniture and equipment	28,415	28,415
Maintenance equipment	9,895	9,895
	Total property and equipment	1,751,109
Less accumulated depreciation	152,625	84,705
	Net property and equipment	1,666,404
	Total assets	\$ 1,691,020
	\$ 1,624,681	\$ 1,624,681
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 9,405	\$ 7,889
Prepaid rents	4,079	2,873
Payable to affiliate	15,880	11,464
	Total current liabilities	22,226
Deposit liabilities		
Tenant security deposits	2,461	2,721
	Total liabilities	24,947
Net assets		
Unrestricted	(138,219)	(65,002)
Temporarily restricted	1,731,075	1,731,075
	Total net assets	1,666,073
	Total liabilities and net assets	\$ 1,691,020
	\$ 1,624,681	\$ 1,624,681

The accompanying notes are an integral part of these financial statements.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2010 and 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Tenant assistance	\$ 34,224	\$ 0	\$ 34,224
Rental income, less vacancy loss of \$0 in 2010 and 2009, respectively	34,212		34,212
Interest income	12		12
Total support and revenues	<u>68,448</u>	<u>0</u>	<u>68,448</u>
Expenses			
Management fees	7,199		7,199
Office expenses	6,045		6,045
Professional fees	7,850		7,850
Utilities	15,671		15,671
Operating and maintenance	21,841		21,841
Taxes and insurance	9,848		9,848
Other administrative expenses	5,291		5,291
Depreciation	67,920		67,920
Total expenses	<u>141,665</u>	<u>0</u>	<u>141,665</u>
Change in net assets	(73,217)	0	(73,217)
Net assets at beginning of year	<u>(65,002)</u>	<u>1,731,075</u>	<u>1,666,073</u>
Net assets at end of year	<u>\$ (138,219)</u>	<u>\$ 1,731,075</u>	<u>\$ 1,592,856</u>

2009		
Unrestricted	Temporarily Restricted	Total
\$ 46,292	\$ 0	\$ 46,292
24,870		24,870
9		9
<u>71,171</u>	<u>0</u>	<u>71,171</u>
7,628		7,628
4,327		4,327
8,600		8,600
16,455		16,455
10,155		10,155
8,554		8,554
6,150		6,150
<u>67,764</u>		<u>67,764</u>
<u>129,633</u>	<u>0</u>	<u>129,633</u>
(58,462)	0	(58,462)
<u>(6,540)</u>	<u>1,731,075</u>	<u>1,724,535</u>
<u>\$ (65,002)</u>	<u>\$ 1,731,075</u>	<u>\$ 1,666,073</u>

The accompanying notes are an integral part of these financial statements.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Rental receipts	\$ 67,310	\$ 77,459
Interest receipts	12	9
Total cash flows provided by operating activities	<u>67,322</u>	<u>77,468</u>
Administrative	(17,670)	(18,788)
Management fee	(7,199)	(9,450)
Utilities	(15,671)	(16,455)
Operating and maintenance	(17,425)	(10,155)
Real estate taxes and escrow deposits	(9,848)	(8,554)
Net cash provided by (used in) operating activities	<u>(491)</u>	<u>14,066</u>
Cash flows from investing activities		
Purchases of property and equipment	(3,120)	(282,024)
Change in minimum capital investment	(3)	(3)
Change in reserve for replacements	3,562	(11,799)
Net cash provided by (used in) investing activities	<u>439</u>	<u>(293,826)</u>
Cash flows from financing activities		
Grant revenue	0	233,352
Net cash provided by financing activities	<u>0</u>	<u>233,352</u>
Net decrease in cash	(52)	(46,408)
Cash		
Cash at beginning of year	221	46,629
Cash at end of year	<u>\$ 169</u>	<u>\$ 221</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (73,217)	\$ (58,462)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	67,920	67,764
Decrease in tenant accounts receivable	0	983
(Increase) decrease in housing assistance receivable	(2,332)	6,714
Increase (decrease) in accrued management fee	0	(1,822)
Increase in accounts payable	1,516	289
Increase in payable to affiliate	4,416	0
Increase (decrease) in prepaid rents	1,206	(1,400)
Net cash provided by (used in) operating activities	<u>\$ (491)</u>	<u>\$ 14,066</u>

The accompanying notes are an integral part of these financial statements.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

Note 1–Nature of business

Bettye Ruth Kay Community Homes, Inc. (Project) was organized to provide living facilities for residents with mental disabilities, specifically autism. Bettye Ruth Kay Community Homes, Inc. is a separate legal entity that is sponsored by Bittersweet Farms, Inc. The Project is managed by Preferred Properties, Inc. which is a nonprofit private corporation that provides living facilities for residents with physical and mental disabilities in Lucas County, Ohio. Bettye Ruth Kay Community Homes, Inc. is under the control of Bittersweet Farm Inc.'s Board of Trustees and management.

The operations of Bettye Ruth Kay Community Homes, Inc. are regulated by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD) under Section 811 of the National Housing Act, as amended (Regulatory Agreement). Bettye Ruth Kay Community Homes, Inc. is required to comply with the terms of the Regulatory Agreement.

The Corporation was incorporated in the State of Ohio on March 30, 1996. Construction of the project was completed in September 2008, and operations commenced on September 19, 2008.

Note 2–Summary of significant accounting and reporting policies

Basis of accounting

The financial statements of the Project have been prepared on the accrual basis of accounting. The accrual basis of accounting provides for the recognition of revenues when earned and the recognition of expenses when incurred.

Financial statement presentation

The accompanying financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, Not for Profit Entities, Presentation of Financial Statements, to be in accordance with accounting principles generally accepted in the United States of America. The Project is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Management is of the opinion that there were no permanently restricted net assets at December 31, 2010 and 2009.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

Note 2—Summary of significant accounting and reporting policies—continued

Temporarily restricted net assets

Temporarily restricted net assets consist of a capital advance from HUD in the amount of \$1,088,200 and grants from the State of Ohio Housing Development Assistance Program (State of Ohio) and the Federal Home Loan Bank of Cincinnati's Affordable Housing Program in the amounts of \$522,875 and \$120,000, respectively. The capital advance does not bear interest and need not be repaid as long as the housing remains available to very low-income-eligible persons, as approved by HUD, for no less than 40 years. Failure to comply with HUD requirements would result in HUD billing the owner for the entire capital advance outstanding plus interest since the date of the first advance. The State of Ohio grant requires the housing remain available to very low-income-eligible persons for a period of 30 years while the Bank of Cincinnati grants require the housing remain available to very low-income-eligible persons for a period of 15 years. Management believes the likelihood of required repayment is remote.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates

Cash and cash equivalents

For the purpose of the statement of cash flows, all unrestricted investments with original maturities of three months or less are cash equivalents. The Project had no cash equivalents at December 31, 2010 and 2009.

Accounts receivable

Accounts receivable consist of amounts due from tenants and housing assistance payments due from HUD. The January 2011 and 2010 housing assistance payments due from HUD are classified as housing assistance receivables in 2010 and 2009, respectively. Accounts receivable are considered fully collectible at December 31, 2010 and 2009. Accordingly, no allowance for uncollectible accounts is required.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

Note 2—Summary of significant accounting and reporting policies—continued

Property and equipment

The cost of the building and equipment is depreciated over their estimated useful lives (ranging from 5 to 27.5 years), using the straight-line method. The Project has a capitalization policy for expenditures over \$1,000.

The Project reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. Management believes there were no impairment losses in 2010 and 2009.

Income taxes

The Project is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

Effective January 1, 2009 the Project has adopted the FASB ASC Topic related to the Uncertainty in Income Taxes which requires management of the Project to determine whether a tax position of the Project is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Management of the Project is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. However, management's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, new tax laws, regulations, and administrative interpretations (including relevant court decisions). The Project's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

Subsequent events

The Project has evaluated all events subsequent to the statement of financial position date of December 31, 2010, through February 24, 2011, which is the date these financial statements were ready to be issued, and has determined that there are no subsequent events that require disclosure.

Note 3—Rental revenue

The Project consists of 12 one-bedroom units of housing for persons with disabilities, and one two-bedroom unit for resident staff, which receives monthly rentals as approved by HUD. The tenants are charged rental amounts based on a percentage of their income, and HUD subsidizes the remainder. HUD approved rentals per unit were \$555 per month for December 1, 2010 through December 31, 2010, and \$468 per month for January 1, 2009 through November 30, 2010. The rent subsidy contract with HUD expires in 2013.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

Note 4—Transactions with affiliate

The mortgage escrow deposit was set up during the construction phase to fund unexpected costs. HUD requires one-half of one percent of the total HUD-approved capital advance to be escrowed at initial closing as a mortgage escrow deposit. Bittersweet Farms, Inc. funded this account for the Project in the amount of \$5,441. Bittersweet Farms, Inc. also advanced the Project certain amounts for construction and start up costs. The accounts payable to affiliate balance at December 31, 2010 and 2009 is comprised of construction and start up funds, the mortgage escrow deposit, and maintenance and operating costs.

Bittersweet Farms, Inc. also performs maintenance services for the Project. Fees paid to Bittersweet Farms, Inc. for maintenance services were \$6,480 in both 2010 and 2009.

Note 5—Commitments

HUD requires the Project fund the following reserves:

Residual receipts reserve

Project funds in excess of funds needed for their intended purpose must be deposited with the mortgagee within 90 days after year-end. Withdrawals from this account can be made only with approval of HUD and only for project purposes. Funding of the residual receipts reserve was not required at December 31, 2010 and 2009 as no surplus cash existed.

Replacement reserve

The U.S. Department of Housing and Urban Development (HUD) under a Capital Advance Program Regulatory Agreement requires monthly funding payments of \$483 to this reserve. The funds are to be used for replacement of property with the approval of HUD. During 2009 an additional contribution was made to the replacement reserve of \$6,000. The replacement reserve balance was \$9,851 and \$13,413 at December 31, 2010 and 2009, respectively. HUD-approved withdrawals amounted to \$9,364 and \$0 in 2010 and 2009, respectively.

Note 6—Current vulnerability due to certain concentrations

The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the 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 7—Contingency

The Project submitted an application with Lucas County to request exemption from real estate taxes under Ohio Revised Code. The application is still pending, however management believes the Project qualifies and therefore will be granted exemption, thus no amounts have been accrued for real estate taxes.

SUPPLEMENTARY INFORMATION

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Supportive Housing for Persons with Disabilities PRAC	14.181	\$ 34,224
Supportive Housing for Persons with Disabilities Capital Advance	14.181	<u>1,088,200</u>
	Total expenditures of federal awards	<u>\$ 1,122,424</u>

The accompanying note is an integral part of this schedule.

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards, which includes all federal grant activity of Bettye Ruth Kay Community Homes, Inc., is prepared on the accrual basis of accounting. 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.



GILMORE, JASION & MAHLER, LTD

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNEMENT AUDITING
STANDARDS***

Board of Trustees
Bettye Ruth Kay Community Homes, Inc.
Whitehouse, OH

We have audited the financial statements of Bettye Ruth Kay Community Homes, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated February 24, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bettye Ruth Kay Community Homes, 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 Bettye Ruth Kay Community Homes, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bettye Ruth Kay Community Homes, Inc.'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bettye Ruth Kay Community Homes, 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*.

This report is intended solely for the information and use of the Board of Trustees, management, and the Department of Housing and Urban Development, and is not intended to be and should not be used by anyone other than these specified parties.

Gilmore, Jason & Mahler, LTD

February 24, 2011



GILMORE, JASION & MAHLER, LTD

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Board of Trustees
Bettye Ruth Kay Community Homes, Inc.
Whitehouse, OH

Compliance

We have audited Bettye Ruth Kay Community Homes, Inc.'s compliance with the types of compliance requirements described in the OMB *Circular A-133, Compliance Supplement* that that could have a direct and material effect on each of Bettye Ruth Kay Community Homes, Inc.'s major federal programs for the year ended December 31, 2010. Bettye Ruth Kay Community Homes, Inc.'s major federal programs are 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 each of its major federal programs is the responsibility of Bettye Ruth Kay Community Homes, Inc.'s management. Our responsibility is to express an opinion on Bettye Ruth Kay Community Homes, 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bettye Ruth Kay Community Homes, 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 of Bettye Ruth Kay Community Homes, Inc.'s compliance with those requirements.

In our opinion, Bettye Ruth Kay Community Homes, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Bettye Ruth Kay Community Homes, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bettye Ruth Kay Community Homes, 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 the 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 Bettye Ruth Kay Community Homes, 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, the Department of Housing and Urban Development, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gilmore, Jason & Mahler, LTD

February 24, 2011

**BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2010**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	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 that are not considered to be material weakness(es)?	None reported
Type of auditors' 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 OMB Circular A-133?	No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.181	Department of Housing and Urban Development Supportive Housing for Persons with Disabilities
Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
SCHEDULE OF STATUS OF PRIOR YEAR (2009) AUDIT FINDINGS
For the Year Ended December 31, 2010

There were no reportable findings for the year ended December 31, 2009.

HUD SUPPLEMENTARY INFORMATION

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
BALANCE SHEET
December 31, 2010

ASSETS

Current assets			
1120	Cash—operations	\$	169
1135	Housing assistance receivable		5,123
			5,292
	Total current assets		
Deposits held in trust			
1191	Tenant security deposits		2,461
Restricted deposits and funded reserves			
1310	Escrow deposits		5,473
1320	Reserve for replacements		9,851
Property and equipment			
1410	Land		60,000
1420	Building		1,655,919
1465	Office furniture and equipment		28,415
1470	Maintenance equipment		9,895
			1,754,229
	Total property and equipment		
1495	Less accumulated depreciation		152,625
			1,601,604
	Net property and equipment		
			1,624,681
	Total assets	\$	1,624,681

LIABILITIES AND NET ASSETS

Current liabilities			
2110	Accounts payable	\$	9,405
2113	Accounts payable - affiliate		15,880
2210	Prepaid revenues		4,079
			29,364
	Total current liabilities		
Deposit liabilities			
2191	Tenant security deposits		2,461
			31,825
	Total liabilities		
Net assets			
3131	Unrestricted		(138,219)
3132	Temporarily Restricted		1,731,075
			1,592,856
	Total net assets		
			1,624,681
	Total liabilities and net assets	\$	1,624,681

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
STATEMENT OF PROFIT AND LOSS
For the Year Ended December 31, 2010

Rent revenue

5120	Rent revenue—gross potential	\$ 34,212
5121	Tenant assistance payments	34,224
	Total rent revenue	68,436

Financial revenue

5440	Revenue from investments—replacement reserve	12
	Total financial revenue	12
	Total revenue	68,448

Administrative expenses

6203	Conventions and meetings	115
6310	Office salaries	4,105
6311	Office expenses	6,045
6320	Management fees	7,199
6350	Auditing expenses	7,850
6351	Bookkeeping	1,071
	Total administrative expenses	26,385

Utilities expenses

6450	Electricity	8,962
6451	Water	2,614
6452	Gas	4,095
	Total utilities expenses	15,671

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
STATEMENT OF PROFIT AND LOSS-CONTINUED
For the Year Ended December 31, 2010

Operating and maintenance expenses

6510	Payroll	6,501
6515	Supplies	2,727
6520	Contracts	9,335
6546	Heating/cooling repairs and maintenance	692
6548	Snow removal	2,586
	Total operating and maintenance expenses	21,841

Taxes and insurance

6710	Real estate taxes	80
6720	Property and liability insurance	9,540
6790	Miscellaneous taxes, licenses, permits and insurance	228
	Total taxes and insurance	9,848

	Total cost of operations before depreciation	73,745
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Loss before depreciation	(5,297)
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6600	Depreciation	67,920
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	Net loss	\$ (73,217)
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BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
COMPUTATION OF SURPLUS CASH
For the Year Ended December 31, 2010

Current cash

	Cash (accounts 1120 and 1191)	\$	2,630
1135	Accounts receivable–HUD		<u>5,123</u>
	Total current cash		<u>7,753</u>

Current obligations

	Accounts payable–operations		9,405
2114	Payable to affiliate		15,880
2191	Tenant security deposits		2,461
2210	Prepaid revenues		<u>4,079</u>
	Total current obligations		<u>31,825</u>
	Deficiency	\$	<u><u>(24,072)</u></u>
	Deposit due receipts	\$	<u><u>0</u></u>

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
SCHEDULE OF CHANGES IN FIXED ASSETS
For the Year Ended December 31, 2010

		Property and Equipment			
		Balance			Balance
		December 31, 2009	Additions	Retirements	December 31, 2010
1410	Land	\$ 60,000	\$ 0	\$ 0	\$ 60,000
1420	Building	1,652,799	3,120		1,655,919
1465	Office furniture and equipment	28,415			28,415
1470	Maintenance equipment	9,895			9,895
		<u>\$ 1,751,109</u>	<u>\$ 3,120</u>	<u>\$ 0</u>	<u>\$ 1,754,229</u>

		Accumulated Depreciation			Net
		Balance	Current	Balance	Book Value
		December 31, 2009	Provisions	December 31, 2010	December 31, 2010
	Land	\$ 0	\$ 0	\$ 0	\$ 60,000
1495	Accumulated depreciation	84,705	67,920	152,625	1,541,604
		<u>\$ 84,705</u>	<u>\$ 67,920</u>	<u>\$ 152,625</u>	<u>\$ 1,601,604</u>

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2010

Replacement reserve

In accordance with the provisions of the Regulatory Agreement, restricted cash is to be used for the replacement of property, with the approval of HUD, as follows:

Beginning balance, January 1, 2010	\$ 13,413
Monthly deposits (\$482.50 x 12)	5,790
Interest earned	12
Authorized withdrawals	(9,364)
Ending balance, December 31, 2010	<u>\$ 9,851</u>

Residual receipts

In accordance with the provisions of the Regulatory Agreement, restricted cash is to be used for the purposes determined to be necessary or appropriate by HUD.

Beginning balance, January 1, 2010	\$ 0
Additions	0
Interest earned	0
Authorized withdrawals	0
Ending balance, December 31, 2010	<u>\$ 0</u>

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
MORTGAGOR'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplementary information of Bettye Ruth Kay Community Homes, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: *Signature on file*
Lisa Lulfs
Business Operations Director

Federal Employer Identification
Number 20-4393279

BETTYE RUTH KAY COMMUNITY HOMES, INC.
PROJECT NO. 042-HD136
GENERAL INFORMATION
For the Year Ended December 31, 2010

Gilmore, Jasion & Mahler, LTD
1715 Indian Wood Circle, Suite 100
Maumee, OH 43537

Engagement Partner: Robert A. Bobek
Telephone Number: (419) 794-2000
Federal Employer I.D. Number: 34-1827159

The audit was performed between January 24, 2011 and January 26, 2011 at Bettye Ruth Kay Community Homes, Inc.'s management facility.

Records for the accounting and administration of the Federal Financial Assistance programs, and administration of the mortgagor and the management agent are located at 5555 Airport Highway, Suite 220, Toledo, OH 43615, telephone number (419) 244-9609.