

OTTAWA RIVER ESTATES, INC.

PROJECT NO. 042-HD072

FINANCIAL STATEMENTS

JUNE 30, 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
Ottawa River Estates, Inc.
Toledo, Ohio

We have audited the accompanying statements of financial position of Project No. 042-HD072, Ottawa River Estates, Inc., an Ohio non-profit corporation, as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Ottawa River Estates, 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 Ottawa River Estates, Inc. as of June 30, 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 September 15, 2010, on our consideration of Ottawa River Estates, 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 the 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 taken as a whole. The accompanying supplementary information on pages 19 to 24 is presented for the purpose of additional analysis and is not a required part of the basic financial statements for Ottawa River Estates, Inc. 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 also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Gilmore, Jason & Mahler, LTD

September 15, 2010

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	ASSETS	<u>2010</u>	<u>2009</u>
Current assets			
Cash		\$ 422	\$ 508
Tenant accounts receivable		408	12
Housing assistance receivable		4,338	4,586
	Total current assets	<u>5,168</u>	<u>5,106</u>
Deposits held in trust			
Tenant security deposits		2,958	2,956
Restricted deposits and funded reserves			
Minimum capital investment		0	6,380
Reserve for replacements		18,395	17,481
Property and equipment			
Land		216,000	216,000
Building and building improvements		1,996,807	1,993,657
	Total property and equipment	<u>2,212,807</u>	<u>2,209,657</u>
Less accumulated depreciation		191,471	141,217
	Net property and equipment	<u>2,021,336</u>	<u>2,068,440</u>
	Total assets	<u>\$ 2,047,857</u>	<u>\$ 2,100,363</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable		\$ 4,496	\$ 2,294
Prepaid rents		4,338	4,586
Payable to affiliate		22,797	42,484
	Total current liabilities	<u>31,631</u>	<u>49,364</u>
Deposit liabilities			
Tenant security deposits		2,958	2,956
	Total liabilities	<u>34,589</u>	<u>52,320</u>
Net assets			
Unrestricted		(154,190)	(119,415)
Temporarily restricted		2,167,458	2,167,458
	Total net assets	<u>2,013,268</u>	<u>2,048,043</u>
	Total liabilities and net assets	<u>\$ 2,047,857</u>	<u>\$ 2,100,363</u>

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

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2010 and 2009

	2010		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues			
Tenant assistance	\$ 52,541	\$ 0	\$ 52,541
Rental income, less vacancy loss of \$0 in 2010 and \$1,250 in 2009	37,507		37,507
Miscellaneous	236		236
Interest income	8		8
Total support and revenues	<u>90,292</u>	<u>0</u>	<u>90,292</u>
Expenses			
Management fees	7,864		7,864
Office expenses	2,505		2,505
Professional fees	6,225		6,225
Utilities	21,792		21,792
Operating and maintenance	19,018		19,018
Taxes and insurance	11,536		11,536
Other administrative expenses	5,873		5,873
Depreciation	50,254		50,254
Total expenses	<u>125,067</u>	<u>0</u>	<u>125,067</u>
Change in net assets	(34,775)	0	(34,775)
Net assets at beginning of year	<u>(119,415)</u>	<u>2,167,458</u>	<u>2,048,043</u>
Net assets at end of year	<u>\$ (154,190)</u>	<u>\$ 2,167,458</u>	<u>\$ 2,013,268</u>

2009		
Unrestricted	Temporarily Restricted	Total
\$ 51,800	\$ 0	\$ 51,800
34,355		34,355
256		256
15		15
<u>86,426</u>	<u>0</u>	<u>86,426</u>
7,712		7,712
2,476		2,476
5,434		5,434
26,051		26,051
26,554		26,554
11,819		11,819
7,471		7,471
49,841		49,841
<u>137,358</u>	<u>0</u>	<u>137,358</u>
(50,932)	0	(50,932)
(68,483)	2,167,458	2,098,975
<u>\$ (119,415)</u>	<u>\$ 2,167,458</u>	<u>\$ 2,048,043</u>

The accompanying notes are an integral part of these financial statements

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Rental receipts	\$ 89,652	\$ 87,801
Interest receipts	8	15
Other operating receipts	236	256
Total cash flows provided by operating activities	<u>89,896</u>	<u>88,072</u>
Administrative	(14,603)	(15,381)
Management fee	(12,825)	(3,218)
Utilities	(21,792)	(26,051)
Operating and maintenance	(31,542)	(26,038)
Real estate taxes and escrow deposits	(11,536)	(11,819)
Net cash provided by (used in) operating activities	<u>(2,402)</u>	<u>5,565</u>
Cash flows from investing activities		
Purchases of property and equipment	(3,150)	0
Change in minimum capital investment	6,380	(4)
Change in reserve for replacements	(914)	(6,419)
Net cash provided by (used in) investing activities	<u>2,316</u>	<u>(6,423)</u>
Net decrease in cash	(86)	(858)
Cash		
Cash at beginning of year	508	1,366
Cash at end of year	<u>\$ 422</u>	<u>\$ 508</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (34,775)	\$ (50,932)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	50,254	49,841
Increase in cash restricted for tenant security deposits	(2)	(79)
(Increase) decrease in tenant accounts receivable	(396)	1,646
(Increase) decrease in housing assistance receivable	248	(461)
Increase in accounts payable	2,202	596
Increase (decrease) in payable to affiliate	(19,687)	4,414
Increase in tenant security deposits	2	79
Increase (decrease) in prepaid rents	(248)	461
Net cash provided by (used in) operating activities	<u>\$ (2,402)</u>	<u>\$ 5,565</u>

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

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 1–Nature of business

Ottawa River Estates, Inc. was organized to provide living facilities for residents with physical and mental disabilities who are referred from Preferred Properties, Inc. (Corporation). Ottawa River Estates, Inc. is a separate legal entity that is sponsored and managed by the Corporation, which is a non-profit private corporation that provides living facilities for residents with physical and mental disabilities in Lucas County, Ohio. Ottawa River Estates, Inc. is under the control of the Corporation's Board of Trustees and management.

The operations of Ottawa River Estates, 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). Ottawa River Estates, Inc. is required to comply with the terms of the Regulatory Agreement.

The Corporation was incorporated in the State of Ohio on December 12, 1997. Construction of the project was completed in August 2006, and operations commenced on August 23, 2006.

Note 2–Summary of significant accounting and reporting policies

Basis of accounting

The financial statements of Ottawa River Estates, Inc. 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 related to Financial Statements of Not-for-Profit Organizations. Under the FASB ASC Topic related to Financial Statements of Not-for-Profit Organizations, Ottawa River Estates, Inc. 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 June 30, 2010 and 2009.

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 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 \$1,237,000 and grants from the City of Toledo HOME Investment Partnership Program (HOME funds), the State of Ohio Housing Development Assistance Program (State of Ohio) and the Federal Home Loan Bank of Cincinnati (Bank of Cincinnati) in the amounts of \$300,000, \$300,000 and \$330,458, 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 HOME funds grant requires the housing to remain available to very low-income-eligible persons for a period of 20 years; the State of Ohio grant requires the housing remain available to very low-income-eligible persons for a period of 30 years; and the Bank of Cincinnati grant requires the housing remain available to very low-income-eligible persons for a period of 40 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. Ottawa River Estates, Inc. had no cash equivalents at June 30, 2010 and 2009.

Accounts receivable

Tenant accounts receivable consists of rent due from tenants. The July 2010 and July 2009 housing assistance payments due from HUD are classified as housing assistance receivable. Accounts receivable are considered fully collectible at June 30, 2010 and 2009. Accordingly, no allowance for uncollectible accounts is required.

Property and equipment

The cost of the building and equipment is depreciated over their estimated useful lives (ranging from 7 to 40 years), using the straight-line method. Ottawa River Estates, Inc. has a capitalization policy for expenditures over \$1,000.

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2010 and 2009

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

Property and equipment—continued

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 or 2009.

Income taxes

Ottawa River Estates, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Effective July 1, 2009 the Project has adopted FASB's ASC Topic related to 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 June 30, 2010, through September 15, 2010, 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

Ottawa River Estates, Inc. consists of 14 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 are \$536 per unit from December 1, 2008 through June 30, 2010 and \$504 per month from July 1, 2008 through November 20, 2008. The rent subsidy contract with HUD expires in 2011.

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
NOTES TO FINANCIAL STATEMENTS – CONTINUED
June 30, 2010 and 2009

Note 4—Transactions with affiliate

In 2010 and 2009, Preferred Properties, Inc. charged Ottawa River Estates, Inc. a management fee equal to 9.14% of residential income collected. Management fees charged in 2010 and 2009 amounted to \$7,864 and \$7,712, respectively.

Preferred Properties, Inc. also charges Ottawa River Estates, Inc. a portion of payroll expenses for a maintenance employee, accounting services, office services and vehicle maintenance. Payroll expenses charged were \$10,056 for the years ended June 30, 2010 and 2009, respectively.

Note 5—Commitments

HUD requires that Ottawa River Estates, Inc. 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 June 30, 2010 and 2009 as no surplus cash existed.

Replacement reserve

Monthly funding payments of \$587 to this reserve are required. The funds are to be used for replacement of property with the approval of HUD. The Capital Advance Program Regulatory Agreement requires that the mortgagor make monthly deposits to the replacement reserve account. At June 30, 2010 and 2009, the replacement reserve balance was \$18,395 and \$17,481, respectively. HUD-approved withdrawals in 2010 and 2009 amounted to \$6,137 and \$635, 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.

SUPPLEMENTARY INFORMATION

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010 and 2009

<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	\$ 52,541
Supportive Housing for Persons with Disabilities Capital Advance	14.181	<u>1,237,000</u>
	Total expenditures of federal awards	<u>\$ 1,289,541</u>

The accompanying note is an integral part of this schedule.

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010 and 2009

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards, which includes all federal grant activity of Ottawa River Estates, 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, 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 *GOVERNMENT AUDITING
STANDARDS*

Board of Trustees
Ottawa River Estates, Inc.
Toledo, OH

We have audited the financial statements of Ottawa River Estates, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated September 15, 2010. 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 Ottawa River Estates, 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 Ottawa River Estates, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ottawa River Estates, 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 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 Ottawa River Estates, 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, 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

September 15, 2010





GILMORE, JASION & MAHLER, LTD
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Ottawa River Estates, Inc.
Toledo, OH

Compliance

We have audited the compliance of Ottawa River Estates, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Ottawa River Estates, 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 Ottawa River Estates, Inc.'s management. Our responsibility is to express an opinion on Ottawa River Estates, 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 Ottawa River Estates, 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 Ottawa River Estates, Inc.'s compliance with those requirements.

In our opinion, Ottawa River Estates, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Ottawa River Estates, 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 Ottawa River Estates, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our 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 Ottawa River Estates, 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 over compliance 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 pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gilmore, Jason & Mahler, LTD

September 15, 2010

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010 and 2009

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

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
SCHEDULE OF STATUS OF PRIOR YEAR (2009) AUDIT FINDINGS
For the Year Ended June 30, 2010 and 2009

There were no reportable findings for the year ended June 30, 2009.

HUD SUPPLEMENTARY INFORMATION

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
BALANCE SHEET
June 30, 2010

ASSETS

Current assets

1120	Cash—operations	\$	422
1130	Tenant accounts receivable		408
1135	Housing assistance receivable		4,338
			5,168
Total current assets			

Deposits held in trust

1191	Tenant security deposits		2,958
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Restricted deposits and funded reserves

1320	Reserve for replacements		18,395
Total restricted deposits and funded reserves			18,395

Property and equipment

1410	Land		216,000
1420	Building		1,996,807
			2,212,807
Total property and equipment			
1495	Less accumulated depreciation		191,471
Net property and equipment			2,021,336

Total assets **\$ 2,047,857**

LIABILITIES AND NET ASSETS

Current liabilities

2110	Accounts payable	\$	19,185
2123	Accrued management fee payable		8,108
2210	Prepaid revenues		4,338
			31,631
Total current liabilities			

Deposit liabilities

2191	Tenant security deposits		2,958
Total liabilities			34,589

Net assets

3131	Unrestricted		(154,190)
3132	Temporarily Restricted		2,167,458
Total net assets			2,013,268

Total liabilities and net assets **\$ 2,047,857**

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
STATEMENT OF PROFIT AND LOSS
For the Year Ended June 30, 2010

Rent revenue

5120	Rent revenue—gross potential	\$ 37,507	
5121	Tenant assistance payments	52,541	
	Total revenue	90,048	

Vacancies

5220	Vacancies—apartments	0	
	Total vacancies	0	
	Net rent revenue	90,048	

Financial revenue

5440	Revenue from investments—replacement reserve	8	
	Total financial revenue	8	

Other revenue

5920	Tenant charges	236	
	Total other revenue	236	
	Total revenue	90,292	

Administrative expenses

6203	Conventions and meetings	134	
6210	Advertising and marketing	158	
6310	Office salaries	4,464	
6311	Office expenses	2,505	
6320	Management fees	7,864	
6350	Auditing expenses	6,225	
6351	Bookkeeping	1,092	
6390	Miscellaneous administrative expense	25	
	Total administrative expenses	22,467	

Utilities expenses

6450	Electricity	11,355	
6451	Water	3,911	
6452	Gas	6,526	
	Total utilities expenses	21,792	

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
STATEMENT OF PROFIT AND LOSS-CONTINUED
For the Year Ended June 30, 2010

Operating and maintenance expenses

6510	Payroll	4,500
6515	Supplies	1,424
6520	Contracts	10,430
6546	Heating/cooling repairs and maintenance	2,019
6548	Snow removal	645
	Total operating and maintenance expenses	19,018

Taxes and insurance

6710	Real estate taxes	2,172
6720	Property and liability insurance	8,622
6790	Miscellaneous taxes, licenses, permits and insurance	742
	Total taxes and insurance	11,536

Total cost of operations before depreciation 74,813

Income before depreciation 15,479

6600	Depreciation	50,254
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Net loss \$ (34,775)

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
COMPUTATION OF SURPLUS CASH
For the Year Ended June 30, 2010

Current cash

	Cash (accounts 1120 and 1191)	\$	3,380
1135	Accounts receivable–HUD		4,338
	Total current cash		<u>7,718</u>

Current obligations

2110	Accounts payable–operations		19,185
2123	Accrued management fee payable		8,108
2191	Tenant security deposits		2,958
2210	Prepaid revenues		<u>4,338</u>
	Total current obligations		<u>34,589</u>
	Deficiency	\$	<u><u>(26,871)</u></u>
	Deposit due receipts	\$	<u><u>0</u></u>

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
SCHEDULE OF CHANGES IN FIXED ASSETS
For the Year Ended June 30, 2010

		Property and Equipment				
		Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	
	1410 Land	\$ 216,000	\$ 0	\$ 0	\$ 216,000	
	1420 Building	1,993,657	3,150		1,996,807	
		\$ 2,209,657	\$ 3,150	\$ 0	\$ 2,212,807	
Accumulated Depreciation						
		Balance June 30, 2009	Current Provisions	Retirements	Balance June 30, 2010	Net Book Value June 30, 2010
	Land	\$ 0	\$ 0	\$ 0	\$ 0	\$ 216,000
1495	Accumulated depreciation	141,217	50,254		191,471	1,805,336
		\$ 141,217	\$ 50,254	\$ 0	\$ 191,471	\$ 2,021,336

OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2010

Replacement reserve

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

Beginning balance, July 1, 2009	\$ 17,481
Monthly deposits (\$586.91 x 12)	7,043
Interest earned	8
Authorized withdrawals	<u>(6,137)</u>
Ending balance, June 30, 2010	<u>\$ 18,395</u>

Residual receipts

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

Beginning balance, July 1, 2009	\$ 0
Additions	0
Interest earned	0
Authorized withdrawals	0
Ending balance, June 30, 2010	<u>\$ 0</u>

**OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
MORTGAGOR'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplementary information of Ottawa River Estates, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: Signature on File
Lewis Ellis
Executive Director

By: Signature on File
Beverly A. Zadiraka
Finance Manager

Federal Employer Identification
Number 34-1852898

**OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
MANAGEMENT AGENT'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplementary information of Ottawa River Estates, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: Signature on File
Lewis Ellis
Executive Director
Preferred Properties, Inc.

By: Signature on File
Beverly A. Zadiraka
Finance Manager
Preferred Properties, Inc.

Federal Employer Identification
Number 34-1715222

**OTTAWA RIVER ESTATES, INC.
PROJECT NO. 042-HD072
GENERAL INFORMATION
For the Year Ended June 30, 2010**

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

Engagement Partner: Adele M. Jasion
Telephone Number: (419) 794-2000
Federal Employer I.D. Number: 34-1827159

The audit was performed between July 19 and July 22, 2010 at Ottawa River Estates, Inc.'s 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.