

**Manhattan Beach Housing
Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028**

Financial Statements and
Supplementary Information

June 30, 2017 and 2016



BAKER TILLY

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Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

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June 30, 2017 and 2016

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Independent Auditors' Report

Board of Trustees
Manhattan Beach Housing Development Fund Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Manhattan Beach Housing Development Fund Corporation (the "Corporation"), HUD Project No. 012-11287, NY HAP Contract No. NY36-T781-028, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the June 30, 2017 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2017, and the changes in its net deficit and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of the Corporation as of and for the year ended June 30, 2016 were audited by other auditors and, in their report dated September 23, 2016, they expressed an unmodified opinion on those financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information required by HUD included in the report (shown on pages 20 to 26) is presented for purposes of additional analysis and is not a required part of the financial statements. The aforementioned information has been prepared in the prescribed format and following the instructions of the United States Department of Housing and Urban Development. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017, 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 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* in considering the Corporation's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

New York, New York
September 25, 2017

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Statements of Financial Position
June 30, 2017 and 2016

		<u>2017</u>	<u>2016</u>
Assets			
Current Assets			
1120	Cash, operations	\$ 597,803	\$ 554,127
1130	Tenant accounts receivable	13,389	12,314
1131	Allowance for doubtful accounts	(9,254)	(6,606)
1135	Accounts receivable, HUD	4,557	7,679
1140	Accounts and notes receivable, operations	7,024	101
1200	Prepaid expenses	<u>190,774</u>	<u>187,023</u>
1100T	Total current assets	<u>804,293</u>	<u>754,638</u>
Deposits Held in Trust, Funded			
1191	Tenant deposits	<u>38,490</u>	<u>38,246</u>
Restricted Deposits and Funded Reserves			
1310	Escrow deposits	213,855	182,506
1320	Reserve for replacements	320,098	268,121
1340	Residual receipts reserve	<u>303,171</u>	<u>150,425</u>
1300T	Total restricted deposits and funded reserves	<u>837,124</u>	<u>601,052</u>
Fixed Assets			
1410	Land	574,089	553,089
1420	Buildings	14,365,784	12,589,390
1440	Building equipment, portable	35,882	33,717
1450	Furniture for project/tenant use	100,322	64,762
1460	Furnishings	13,318	-
1490	Miscellaneous fixed assets	<u>115,750</u>	<u>1,331,686</u>
1400T	Total fixed assets	15,205,145	14,572,644
1495	Less accumulated depreciation	<u>(8,893,028)</u>	<u>(8,410,635)</u>
1400N	Net fixed assets	<u>6,312,117</u>	<u>6,162,009</u>
1000T	Total assets	<u>\$ 7,992,024</u>	<u>\$ 7,555,945</u>

See notes to financial statements

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Statements of Financial Position
June 30, 2017 and 2016

		<u>2017</u>	<u>2016</u>
Liabilities and Net Deficit			
Current Liabilities			
2110	Accounts payable, operations	\$ 219,560	\$ 103,511
2111	Accounts payable, construction/development	133,234	-
2120	Accrued wages payable	16,972	19,504
2121	Accrued payroll taxes payable	1,298	1,419
2123	Accrued management fee payable	9,541	8,779
2131	Accrued interest payable, first mortgage	26,279	26,864
2170	Mortgage payable, first mortgage, current maturities	186,492	179,334
2190	Miscellaneous current liabilities	265,671	265,584
2210	Prepaid revenue	2,165	2,557
		<u>861,212</u>	<u>607,552</u>
2122T	Total current liabilities	<u>861,212</u>	<u>607,552</u>
Deposits Liabilities			
2191	Tenant deposits held in trust (contra)	38,490	37,932
		<u>38,490</u>	<u>37,932</u>
Long-Term Liabilities			
2320	Mortgage payable, first mortgage, net of current maturities	7,857,956	8,044,448
2340	Debt issuance costs	(11,437)	(11,884)
		<u>7,846,519</u>	<u>8,032,564</u>
2300T	Total long-term liabilities	<u>7,846,519</u>	<u>8,032,564</u>
2000T	Total liabilities	<u>8,746,221</u>	<u>8,678,048</u>
Contingencies			
Net Deficit			
3131	Unrestricted net deficit	(1,001,027)	(1,368,933)
3132	Temporarily restricted net assets	246,830	246,830
		<u>246,830</u>	<u>246,830</u>
3130	Total net deficit	<u>(754,197)</u>	<u>(1,122,103)</u>
2033T	Total liabilities and net deficit	<u>\$ 7,992,024</u>	<u>\$ 7,555,945</u>

See notes to financial statements

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Statements of Activities

Years Ended June 30, 2017 and 2016

		<u>2017</u>	<u>2016</u>
Revenue			
Rental Revenue			
5120	Rental revenue - gross potential	\$ 453,579	\$ 432,948
5121	Tenant assistance payments	<u>1,983,738</u>	<u>1,953,280</u>
5100T	Total rental revenue	<u>2,437,317</u>	<u>2,386,228</u>
Vacancies			
5220	Apartments	<u>(28,919)</u>	<u>(23,526)</u>
5200T	Total vacancies	<u>(28,919)</u>	<u>(23,526)</u>
5152N	Net rental revenue	<u>2,408,398</u>	<u>2,362,702</u>
5300	Nursing home/Assisted living/board and care/ other elderly care/Coop and other revenue	<u>26,496</u>	<u>56,428</u>
Financial Revenue			
5430	Revenue from investments - residual receipts	90	1
5440	Revenue from investments - replacement reserve	<u>101</u>	<u>34</u>
5400T	Total financial revenue	<u>191</u>	<u>35</u>
Other Revenue			
5910	Laundry and vending machine revenue	5,902	4,970
5920	Tenant charges	100	32
5990	Miscellaneous revenue	<u>147,696</u>	<u>47,488</u>
5900T	Total other revenue	<u>153,698</u>	<u>52,490</u>
5000T	Total revenue	<u>2,588,783</u>	<u>2,471,655</u>
Expenses			
Administrative Expenses			
6203	Conventions and meetings	79	1,674
6204	Management consultants	-	5,300
6310	Office salaries	90,337	93,327
6311	Office expenses	22,082	26,086
6320	Management fee	110,331	108,274
6330	Manager or superintendent salaries	50,442	48,687
6331	Administrative rent - free unit	19,248	18,312
6340	Legal expense - project	-	2,200
6350	Auditing expense	12,000	13,490
6351	Bookkeeping fees/accounting services	37,904	44,506
6370	Bad debts	3,607	5,426
6390	Miscellaneous administrative expenses	<u>10,552</u>	<u>17,026</u>
6263T	Total administrative expenses	<u>356,582</u>	<u>384,308</u>
Utilities Expenses			
6420	Fuel oil/coal	3,538	2,258
6450	Electricity	54,962	60,653
6451	Water	37,748	34,550
6452	Gas	58,010	52,019
6453	Sewer	<u>60,020</u>	<u>54,934</u>
6400T	Total utilities expenses	<u>214,278</u>	<u>204,414</u>

See notes to financial statements

Manhattan Beach Housing Development Fund Corporation
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Statements of Activities

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating and Maintenance Expenses		
6510 Payroll	\$ 73,499	\$ 59,669
6515 Supplies	38,871	54,468
6520 Contracts	86,173	111,104
6530 Security payroll/contract	137,725	127,287
6546 Heating/cooling repairs and maintenance	<u>14,505</u>	<u>23,875</u>
6500T Total operating and maintenance expenses	<u>350,773</u>	<u>376,403</u>
Taxes and Insurance		
6710 Real estate taxes	355,594	312,930
6711 Payroll taxes (project's share)	15,989	15,504
6720 Property and liability insurance (hazard)	93,631	100,814
6722 Workmen's compensation	9,539	6,620
6723 Health insurance and other employee benefits	83,740	79,772
6790 Miscellaneous taxes, licenses, permits and insurance	<u>1,291</u>	<u>2,436</u>
6700T Total taxes and insurance expense	<u>559,784</u>	<u>518,076</u>
Financial Expense		
6820 Interest on first mortgage payable	319,034	325,939
6850 Mortgage insurance premium/service charge	36,569	37,362
6890 Miscellaneous financial expenses	<u>87</u>	<u>152,660</u>
6800T Total financial expense	<u>355,690</u>	<u>515,961</u>
6900 Nursing home/assisted living/board and care/ other elderly care expenses	<u>73,813</u>	<u>71,618</u>
6000T Total cost of operations before depreciation	<u>1,910,920</u>	<u>2,070,780</u>
5060T Profit before depreciation	<u>677,863</u>	<u>400,875</u>
Depreciation		
6600 Depreciation expense	<u>482,393</u>	<u>430,593</u>
Total depreciation	<u>482,393</u>	<u>430,593</u>
5060N Operating income (loss)	195,470	(29,718)
Corporate or mortgagor entity revenue		
7105 Entity revenue	<u>(172,436)</u>	<u>(595,482)</u>
Total expenses	<u>2,220,877</u>	<u>1,905,891</u>
3250 Change in net deficit	367,906	565,764
Unrestricted Net deficit, Beginning of Year	<u>(1,368,933)</u>	<u>(1,934,697)</u>
Unrestricted Net deficit, End of Year	<u>(1,001,027)</u>	<u>(1,368,933)</u>
Temporarily Restricted Net Assets, Beginning of Year	<u>246,830</u>	<u>246,830</u>
Temporarily Restricted Net Assets, End of Year	<u>246,830</u>	<u>246,830</u>
Net deficit, End of Year	<u>\$ (754,197)</u>	<u>\$ (1,122,103)</u>

See notes to financial statements

Manhattan Beach Housing Development Fund Corporation
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Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
S1200-010 Rental receipts	\$ 2,441,485	\$ 2,335,726
S1200-020 Interest receipts	191	35
S1200-030 Other operating receipts	180,194	108,918
S1200-040 Total receipts	<u>2,621,870</u>	<u>2,444,679</u>
S1200-050 Administrative expenses paid	(35,142)	(97,769)
S1200-070 Management fees paid	(109,569)	(102,290)
S1200-090 Utilities paid	(207,341)	(208,729)
S1200-100 Salaries and wages paid	(354,535)	(325,370)
S1200-110 Operating and maintenance paid	(55,205)	(157,315)
S1200-120 Real estate taxes paid	(362,438)	(312,930)
S1200-140 Property insurance paid	(93,631)	(100,814)
S1200-150 Miscellaneous taxes and insurance paid	(1,412)	(2,322)
S1200-160 Net tenant security deposits paid	-	(314)
S1200-170 Other operating expenses paid	(127,735)	(177,151)
S1200-180 Interest paid on first mortgage	(319,619)	(326,057)
S1200-210 Mortgage insurance premium paid	(36,096)	(36,907)
S1200-225 Entity/construction disbursements	<u>(74,350)</u>	<u>-</u>
S1200-230 Total disbursements	<u>(1,777,073)</u>	<u>(1,847,968)</u>
S1200-240 Net cash provided by operating activities	<u>844,797</u>	<u>596,711</u>
Cash Flows from Investing Activities		
S1200-245 Net deposits to mortgage escrows	(31,349)	(10,839)
S1200-250 Net deposits to reserve for replacement	(51,977)	(201,066)
S1200-260 Net deposits to residual receipts reserve	(152,746)	(1)
S1200-330 Net purchases of fixed assets	<u>(385,715)</u>	<u>(194,793)</u>
S1200-350 Net cash used in investing activities	<u>(621,787)</u>	<u>(406,699)</u>
Cash Flows from Financing Activities		
S1200-360 Mortgage principal payments, first mortgage	(179,334)	(172,451)
S1200-455 Entity/construction financing activities	-	245,158
S1200-456 Due from affiliates	<u>-</u>	<u>245,158</u>
S1200-460 Net cash (used in) provided by financing activities	<u>(179,334)</u>	<u>72,707</u>
S1200-470 Net increase in cash	43,676	262,719
S1200-480 Cash, Beginning of Year	<u>554,127</u>	<u>291,408</u>
S1200T Cash, End of Year	<u>\$ 597,803</u>	<u>\$ 554,127</u>

See notes to financial statements

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
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Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Significant Noncash Investing and Financing Activities		
Additions to rental property included in accounts payable	\$ 74,350	\$ -
Payments of prior year accounts payable included in rental property	\$ -	\$ (69,480)
Contributed rental property improvements	\$ 172,436	\$ 595,482
Reconciliation of Change in Net Deficit to Net Cash Provided by Operating Activities		
3250 Change in net deficit	\$ 367,906	\$ 565,764
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
6600 Depreciation	482,393	430,593
S1200-486 Interest expense on debt issuance cost	447	446
S1200-600 Bad debts	3,607	-
S1200-600 Residual receipts obligation	87	152,660
S1200-600 Contributed rental property improvements	(172,436)	(595,482)
Changes in asset and liability accounts:		
(Increase) decrease in assets:		
S1200-490 Tenant accounts receivable	(2,034)	2,034
S1200-500 Accounts receivable, other	(3,801)	(5,041)
S1200-520 Prepaid expenses	(3,751)	(3,182)
S1200-530 Tenant security deposits funded	(244)	(2,298)
Increase (decrease) in liabilities:		
S1200-540 Accounts payable	174,933	41,819
S1200-560 Accrued liabilities	(1,891)	8,310
S1200-570 Accrued interest payable	(585)	(564)
S1200-580 Tenant security deposits held in trust	558	1,984
S1200-590 Prepaid revenue	(392)	(332)
Total adjustments	<u>476,891</u>	<u>30,947</u>
S1200-610 Net cash provided by operating activities	<u>\$ 844,797</u>	<u>\$ 596,711</u>

See notes to financial statements

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

1. Description of the Organization

Manhattan Beach Housing Development Fund Corporation (the "Corporation") was organized in 1978 as a nonprofit corporation for the purpose of developing and operating a rental housing project for aged persons of low income under Section 202 of the National Housing Act. Such projects are regulated by the U.S. Department of Housing and Urban Development ("HUD") as to rent charges and operating methods. The project consists of 150 units located in Brooklyn, New York and is currently operating under the name of Scheuer House of Manhattan Beach (the "Project"). The Corporation receives a significant portion of its revenue from government subsidy payments.

The Corporation is wholly-controlled by the JASA Corporation, its sole member. JASA Corporation also wholly controls the Jewish Association for Services for the Aged ("JASA"), JASA Housing Management Services for the Aged, Inc. ("JHM") and seven other housing entities, in its capacity as their sole member. The Corporation is related to JASA, JHM and the seven other housing entities by virtue of this control.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. In addition, the Corporation presents its financial statements in accordance with the accounting principles generally accepted in the United States of America for nonprofit entities. Under this guidance, the Corporation 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. Furthermore, information is required to segregate program service expenses from management and general expenses.

Contributions received, if any, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Corporation considers all highly liquid investments with an original maturity of three months or less on the date of purchase to be cash equivalents.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

Accounts Receivable and Allowance for Doubtful Accounts

Tenant receivables and accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the receivables. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2017 and 2016, the balance in the allowance for doubtful accounts was \$9,254 and \$6,606, respectively.

Fixed Assets and Depreciation

Fixed Assets are carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives by use of the straight-line method. It is the Corporation's policy to capitalize items of \$5,000 or greater and items purchased with replacement reserves that have a useful life that is greater than one year. Useful lives range from 10 to 40 years.

Impairment of Long-Lived Assets

The Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss was recognized during the years ended June 30, 2017 or 2016.

Deferred Financing Costs

Financing costs are amortized as interest expense over the term of the related loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective interest method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method. Interest expense for the years ended June 30, 2017 and 2016 was \$447 and \$446, respectively. Estimated annual interest expense for each of the ensuing years through June 30, 2043 is \$447.

During the year ended June 30, 2015, the Corporation refinanced its mortgage with the lender (Note 3). As part of the refinancing, the entity wrote off deferred financing costs, net of accumulated amortization, in the amount of \$187,225, which has been recognized as loss on extinguishment of debt.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

Revenue

Rental Income

The Corporation's revenue is derived principally from the renting of apartments to eligible very low income individuals. Tenants rental fees are supplemented by tenant assistance payments from HUD.

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and the tenants of the property are operating leases.

Grant Income

The Corporation was awarded a cost reimbursement grant from HUD (see Note 5). Revenue is recognized as costs are incurred.

The Corporation was awarded a grant from the Fund for the City of New York (see Note 9). Revenue was recognized as the funds became unconditionally committed for a specific purpose, and unspent funds are included as temporarily restricted net assets.

Income Taxes

The Corporation has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax-exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended June 30, 2017 or 2016. Due to its tax-exempt status, the Corporation is not subject to income taxes. The Corporation is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Corporation has no other tax positions which must be considered for disclosure.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The guidance requires that debt issuance costs related to a recognized debt liability be reported on the statements of financial position as a direct deduction from the carrying amount of that debt liability. The guidance is effective for fiscal years and interim periods beginning after December 15, 2015, and is required to be applied retrospectively. Management has adopted ASU 2015-03 and has reclassified debt issuance costs related to existing debt liabilities from assets to liabilities on the statements of financial position, and the related amortization expense to interest expense on the statements of activities. The adoption of ASU 2015-03 did not have a material impact on the Corporation's financial statements.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
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In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The core principle of ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 defines the term substantial doubt and requires an assessment for a period of one year after the date the financial statements are issued (or available to be issued). ASU 2014-15 is effective for fiscal years ending after December 15, 2016. The adoption of ASU 2014-15 did not have a material impact on the Corporation's financial statements.

Reclassifications

Certain 2016 amounts have been reclassified to conform with the 2017 presentation.

Subsequent Events

Subsequent events have been evaluated through September 25, 2017, which is the date the financial statements were available to be issued.

3. Mortgage Payable

On December 27, 2007, the Corporation entered into a mortgage in the original amount of \$9,133,300. The mortgage note was insured by HUD and was collateralized by a deed of trust on the rental property. The mortgage bore interest at a rate of 6% per annum. Principal and interest were payable by the Corporation in monthly installments of \$52,077 through maturity on January 1, 2043.

Effective January 1, 2015, the Corporation refinanced its mortgage with the lender. The remaining balance at the time of the refinancing was \$8,466,120. The mortgage note continues to be insured by HUD and is collateralized by a deed of trust on the rental property. The note bears interest at the rate of 3.92% per annum. Principal and interest are payable by the Corporation in monthly installments of \$41,542 through maturity on January 1, 2043. As of June 30, 2017 and 2016, the outstanding principal and accrued interest balances were \$8,044,448 and \$8,223,782, and \$26,279 and \$26,864, respectively.

Under agreements with the mortgage lender and HUD, the Corporation is required to make monthly escrow deposits for taxes and insurance, and replacement of project assets, and is subject to restrictions as to operating policies, rental charges, operating expenditures and distributions.

As a provision of refinancing the Corporation's original mortgage in 2007, the Corporation is also required by HUD to use the funds saved by a reduction in the debt service costs for programs and building improvements for the benefit of the tenants, as outlined in the agreement. Annual required expenditures are \$15,218, with any unspent funds required to be deposited to the replacement reserve in the subsequent year. For the years ended June 30, 2017 and 2016, \$15,943 and \$15,190, respectively, of annual debt service savings were spent, and are included in elderly and congregate services expenses on the statements of activities. The residual amount of the annual debt service savings are required to be deposited into the replacement reserve in the subsequent year. As of June 30, 2017, the annual funds were spent and no funds will be deposited into the reserve. As of June 30, 2016, a deposit of \$28 was required to be deposited into the reserve.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter are as follows:

Years ending June 30:		
2018	\$	186,492
2019		192,935
2020		201,675
2021		209,724
2022		218,095
Thereafter		<u>7,035,527</u>
Total	\$	<u>8,044,448</u>

4. Funded Reserves

Reserve for Replacements

The Corporation is required by HUD to fund a replacement reserve, to be used for the replacement of property and equipment. The use of the funds requires prior approval from HUD. Required monthly deposits are \$4,315. As of June 30, 2017 and 2016, the balance in the reserve for replacements was \$320,098 and \$268,121, respectively.

During the year ended June 30, 2015, HUD approved withdrawal of \$150,000 to advance to JASA to fund resiliency efforts at the project (as further described in Note 8). JASA was required to return the funds to the replacement reserve by June 30, 2016. As of June 30, 2016, the full amount of the advance was reimbursed.

Residual Receipts Reserve

Deposits are made into the reserve when the Corporation has surplus cash at the end of the fiscal year. The use of these funds requires prior approval from HUD. See Note 13 for additional information on residual receipt releases. During the year a deposit of \$152,656 was made for the operating surplus from the prior year. As of June 30, 2017 and 2016, the balance in the residual receipts reserve was \$303,171 and \$150,425, respectively.

During the year ended June 30, 2015, HUD approved withdrawal of \$150,000 to advance to JASA to fund resiliency efforts at the project (as further described in Note 9). JASA was required to return the funds to the replacement reserve by June 30, 2016. As of June 30, 2015, \$122,579 was due from JASA and included in due from affiliates on the statements of financial position and \$27,421 was in operating cash and included as a reduction on the computation of surplus cash, distributions and residual receipts. As of June 30, 2016, the full amount of the advance was reimbursed.

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Notes to Financial Statements
June 30, 2017 and 2016

5. Grant Revenue

The Corporation was awarded a service coordinator grant from HUD to use toward payment of the service coordinator's salary, benefits and other administrative costs. The Corporation reimburses JASA with the grant. The Corporation received a seven month renewal grant totaling \$36,460 for the period June 1, 2016 to December 31, 2016 and \$61,462 for the period June 1, 2015 through May 31, 2016. Revenue recognized for the years ended June 30, 2017 and 2016 were \$26,496 and \$56,428, respectively. Grant expense for the years ended June 30, 2017 and 2016 were \$57,870 and \$56,428, respectively. As of June 30, 2017 and 2016, \$4,557 and \$7,679, respectively, remain receivable from HUD and are included in accounts receivable, HUD. As of June 30, 2017, HUD had not yet approved a new award and therefore no grant revenue is recorded for the period January 2017 through June 30, 2017.

6. Related Party Transactions

JASA

The Corporation is a participant in a general insurance plan with JASA, sponsored by UJA-Federation, which also includes health insurance and workmen's compensation. Property and liability insurance expense for the years ended June 30, 2017 and 2016 was \$93,631 and \$100,814, respectively. Workmen's compensation, health insurance and other employee benefits for the years ended June 30, 2017 and 2016 were \$82,436 and \$76,106, respectively.

JASA pays the Corporation a "use-of-premises" fee for the use of the Senior Center and the JASA Social Services Offices located at the Corporation's facility. Use-of-premises revenue for the years ended June 30, 2017 and 2016 was \$48,012 and \$47,076, respectively, and is included in other revenue in the statements of activities.

The Corporation pays JASA, through a HUD grant, for the Service Coordinator Program, which provides social services for the tenants. The program expenses for the years ended June 30, 2017 and 2016 were \$57,870 and \$56,428, respectively.

JASA is a participant in a multi-employer, defined-benefit retirement plan sponsored by the UJA-Federation. The Corporation does not make any direct contributions into the plan on behalf of its employees, instead, contributions to the plan were made by JASA for its employees and the Corporation's employees. For the years ended June 30, 2017 and 2016, the Corporation reimbursed JASA for pension costs in the amount of \$8,952 and \$8,724, respectively.

As of June 30, 2017 and 2016, \$44,490 and \$17,074, respectively, remain due to JASA and are included in accounts payable - operations on the statements of financial position.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

JHM

The rental property is managed by JHM pursuant to a management agreement approved by HUD. The management agreement provides for a fee of 4.51% of rental receipts. Management fees earned for the years ended June 30, 2017 and 2016 were \$110,331 and \$108,274, respectively. As of June 30, 2017 and 2016, management fees of \$9,541 and \$8,779, respectively, remain payable and are included in accrued management fee payable on the statements of financial position.

The Corporation pays a HUD-approved monthly fee to JHM for accounting and bookkeeping services. These expenses for the years ended June 30, 2017 and 2016 were \$33,660 and \$37,056, respectively.

7. Housing Assistance Payment Contract Agreement

HUD has contracted with the Corporation pursuant to Section 8 of the Housing Act of 1937 to make housing assistance payments to the Corporation on behalf of qualified tenants. The agreement expired on May 26, 2012 and was renewed through May 26, 2022. For the years ended June 30, 2017 and 2016, rental assistance payments of \$1,983,738 and \$1,953,280, respectively, were earned under the terms of the agreement.

8. Superstorm Sandy

During the year ended December 31, 2013, the Corporation received a grant from the Fund for the City of New York in the amount of \$300,000, which was included in other revenue. The funds are donor restricted for resiliency planning (equipping the project to reduce the impact of future natural disasters) and are included as temporarily restricted net assets. For the year ended June 30, 2015, the Corporation applied \$53,170 of this grant to qualified costs. As of June 30, 2017 and 2016, the remaining balance of this grant was \$246,830 and is included in temporarily restricted net assets.

9. Contributions

During fiscal year 2015, JASA obtained a cost reimbursement Social Service Block Grant (the "SSBG") from the New York State Office for the Aging. The purpose of the grant was to allow JASA to incur resiliency costs to better prepare the eight housing entities it sponsors for potential future weather events like Superstorm Sandy. JASA incurs the costs under various contracts with unrelated third parties and simultaneously contributes the resulting assets to the housing entities. The assets contributed are recorded as contribution revenue and as additions to rental property at fair value. During the years ended June 30, 2017 and 2016, noncash contributions of \$172,436 and \$595,482, respectively, were recognized by the Corporation as entity revenue on the statements of activities.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

10. Functional Expenses

The costs of providing various programs and other activities for the years ended June 30, 2017 and 2016 are summarized on a functional basis as follows:

	<u>2017</u>	<u>2016</u>
Program services:		
HUD-assisted elderly housing project	\$ 2,196,837	\$ 2,281,265
Management and general	196,476	220,108
	<u> </u>	<u> </u>
Total	<u>\$ 2,393,313</u>	<u>\$ 2,501,373</u>

11. Concentrations of Credit Risk

The Corporation maintains its cash balances in several accounts in one bank. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, these balances may exceed the federal insurance limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2017.

12. Commitment and Contingencies

The Corporation has entered into a housing assistance payments contract under the revised regulations of 24 Code of Federal Regulations ("CFR"). As such, upon termination of the contract, whether initiated by the Corporation opting out of the contract or by HUD, any unused balances in the reserve for replacements and residual receipts reserve must be remitted to HUD.

The Corporation applied for and received awards from Federal Emergency Management Agency ("FEMA") to cover damages that were sustained to the property during Superstorm Sandy. Subsequent to the FEMA application submission, JASA received a lump sum insurance settlement that was allocated across all of its corporations. Management believes that FEMA may request the reimbursement of its award to the extent damages covered by FEMA may have also been covered by the allocation of the insurance settlement resulting in a contingent liability to FEMA. At this time, management is unable to reasonably estimate such liability.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

Pursuant to the Corporation's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of the Corporation with regard to transactions relating to these contracts. The accompanying financial statements contain no provision for possible disallowances resulting from such reviews. Although such possible disallowances could be substantial, in the opinion of management, actual disallowances resulting from such reviews, if any, would be immaterial.

The Corporation has entered into several construction contracts with vendors related to the rehabilitation of the project. For the year ended June 30, 2016, a significant portion of the costs were related to the installation of the emergency generators. Such construction was completed and the asset was placed in service.

The Corporation has a construction contract with CCTV Services in the maximum amount of \$122,300 to install security cameras. As of June 30, 2017, costs totaling \$91,725 have been incurred under the contract and are included in miscellaneous fixed assets.

The Corporation has a construction contract with Sure Service Door Corporation in the maximum amount of \$15,030 to install door locks. As of June 30, 2017, costs totaling \$7,515 have been incurred under the contract and are included in miscellaneous fixed assets.

The Corporation has a construction contract with Sure Service Door Corporation in the maximum amount of \$27,539 to install entry doors. As of June 30, 2017, costs totaling \$13,770 have been incurred under the contract and are included in miscellaneous fixed assets.

The Corporation has a contract with Laura Heim, Architect to design the plans for the lobby renovations. As of June 30, 2017, costs totaling \$2,740 have been incurred and are included in miscellaneous fixed assets.

13. Liability for HUD Use of Excess Balance of Residual Receipts

In connection with its HAP contract, HUD has notified the Corporation that, in accordance with Notice H-2012-14 (the "Notice"), which was issued by HUD on August 3, 2012, any balance in its residual receipts reserve account in excess of \$37,500 (the "Retained Balance") will be used by HUD to offset HAP payments. Under the Notice, the Corporation would be allowed to retain up to the amount of its Retained Balance for general project purposes. During the years ended June 30, 2017 and 2016, the Corporation recorded \$-0- and \$152,660 of expenses for the amount of its residual receipts reserve account plus any current required deposit to residual receipts in excess of its Retained Balance.

As of June 30, 2017 and 2016, the Corporation has a liability of \$265,671 and \$265,584, respectively, which reflects the remaining excess amount of its residual receipts account. The liability includes an accrual for the amount, if any, of surplus cash that is required to be deposited into the residual receipts account after the end of the year that would cause the balance of the account to exceed the Retained Balance amount.

Manhattan Beach Housing Development Fund Corporation
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Notes to Financial Statements
June 30, 2017 and 2016

14. Current Vulnerability Due to Certain Concentrations

The Corporation's principal asset is a 150-unit apartment project comprised of four buildings. 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 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.

Manhattan Beach Housing Development Fund Corporation
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Supplementary Data Required by HUD
Statement of Activities Data
Year Ended June 30, 2017

S1000-010	Total first mortgage (or bond) principal payments required during the audit period (12 monthly payments). Applies to all direct loans and HUD-held and fully-insured first mortgages.	<u>\$ 179,334</u>
S1000-020	Total of 12 monthly deposits in the audit year made to the replacement reserve account, as required by the regulatory agreement, even if payments may be temporarily suspended or reduced.	<u>\$ 51,848</u>
S1000-030	Replacement reserves, or residual receipts and releases which are included as expense items on the statement of activities.	<u>\$ -</u>
S1000-040	Project improvement reserve releases under the flexible subsidy program which are included as expense items on the statement of activities.	<u>\$ -</u>

Manhattan Beach Housing Development Fund Corporation

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Supplementary Data Required by HUD

Reserve Account Data

Year Ended June 30, 2017

Reserve for Replacements

1320P	Balance, beginning of year	\$	268,121
1320DT	Total monthly deposits		51,848
1320ODT-010	Approved deposits		28
1320INT	Interest income		101
			<hr/>
1320	Balance, end of year	\$	<u>320,098</u>

Residual Receipts Reserve

1340P	Balance, beginning of year	\$	150,425
1340OD	Approved deposits		152,656
1340INT	Interest income		90
			<hr/>
1340	Balance, end of year	\$	<u>303,171</u>

Manhattan Beach Housing Development Fund Corporation**HUD Project No. 012-11287****NY HAP Contract No. NY36-T781-028**

Supplementary Data Required by HUD

Surplus Cash

Year Ended June 30, 2017

Surplus Cash, Distributions and Residual Receipts

S1300-010	Cash	\$ 636,293
1135	Accounts receivable, HUD	<u>4,557</u>
S1300-040	Total cash	<u>640,850</u>
S1300-050	Accrued mortgage interest payable	26,279
S1300-060	Delinquent mortgage principal payments	-
S1300-070	Delinquent deposits to reserve for replacements	-
S1300-075	Accounts payable (due within 30 days)	219,560
S1300-080	Loans and notes payable (due within 30 days)	-
S1300-090	Deficient tax, insurance or MIP escrow deposits	-
S1300-100	Accrued expenses (not escrowed)	27,811
2210	Prepaid revenue	2,165
2191	Tenant deposits held in trust	38,490
S1300-110	Other current obligations, (describe in detail)	-
S1300-120	Restricted funds received but not spent, Fund for the City of New York grant	<u>246,830</u>
S1300-140	Total current obligations	<u>561,135</u>
S1300-150	Surplus cash (deficiency)	<u>\$ 79,715</u>
S1300-210	Deposit due residual receipts reserve	<u>\$ 79,715</u>

See independent auditors' report

Manhattan Beach Housing Development Fund Corporation

HUD Project No. 012-11287

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Supplementary Data Required by HUD

Fixed Asset Data

Year Ended June 30, 2017

		Assets			
		Balance			Balance
		July 1, 2016	Additions	Deletions	June 30, 2017
1410	Land	\$ 553,089	\$ 21,000	\$ -	\$ 574,089
1420	Buildings	12,589,390	1,776,394	-	14,365,784
1440	Building Equipment, Portable	33,717	2,165	-	35,882
1450	Furniture for Project/Tenant Use	64,762	35,560	-	100,322
1460	Furnishings	-	13,318	-	13,318
1490	Miscellaneous Fixed Assets	1,331,686	500,918	(1,716,854)	115,750
1400T	Total fixed assets	<u>\$ 14,572,644</u>	<u>\$ 2,349,355</u>	<u>\$ (1,716,854)</u>	<u>\$ 15,205,145</u>
1495T	Total accumulated depreciation	<u>\$ 8,410,635</u>	<u>\$ 482,393</u>	<u>\$ -</u>	<u>\$ 8,893,028</u>
1400N	Total net book value	<u>\$ 6,162,009</u>			<u>\$ 6,312,117</u>

Amount

1410AT	Additions for 1410 Details	
	Installed fence	\$ 21,000
	Total	<u>\$ 21,000</u>

Amount

1420AT	Additions for 1420 Details	
	Emergency generators	\$ 1,488,222
	LED lighting	38,172
	Flooring	5,540
	Bathroom renovations	3,750
	Common area renovations	240,060
	Air Conditioner Sleeves	650
	Total	<u>\$ 1,776,394</u>

Amount

1440AT	Additions for 1440 Details	
	Stoves & refrigerators	\$ 2,165
	Total	<u>\$ 2,165</u>

Amount

1450AT	Additions for 1450 Details	
	HVAC units for offices	\$ 17,800
	Patio furniture	16,310
	Wiring/cabling	1,450
	Total	<u>\$ 35,560</u>

Amount

1460AT	Additions for 1460 Furnishings	
	Chairs	\$ 13,318
	Total	<u>\$ 13,318</u>

Amount

1490AT	Additions for 1490 Details	
	Construction-in-progress	\$ 500,918
	Total	<u>\$ 500,918</u>

Amount

1490AT	Deletions from 1490 Details	
	Construction-in-progress placed in service	\$ 1,716,854
	Total	<u>\$ 1,716,854</u>

Manhattan Beach Housing Development Fund Corporation

HUD Project No. 012-11287

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Supplementary Data Required by HUD

Statement of Financial Position Data

June 30, 2017

Statement of Financial Position, Detail

2190	Miscellaneous current liabilities	
	Residual receipts obligation	\$ <u>265,671</u>

Manhattan Beach Housing Development Fund Corporation

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NY HAP Contract No. NY36-T781-028

Supplementary Data Required by HUD

Statement of Activities Data

Year Ended June 30, 2017

Statement of Activities, Detail

5300	Description, nursing home/assisted living/board and care/other elderly care/coop and other revenue	
5390	Other service revenue	<u>\$ 26,496</u>
	Total	<u><u>\$ 26,496</u></u>
5990	Description, miscellaneous other revenue	
	Use of premises fee	\$ 48,012
	Security deposit administrative fee income	177
	Miscellaneous other revenue - Real Estate Tax Credit	<u>99,507</u>
	Total	<u><u>\$ 147,696</u></u>
6900	Description, nursing home/assisted living/board and care/other elderly care expenses	
6990	Other service expenses	<u>\$ 73,813</u>
	Total	<u><u>\$ 73,813</u></u>

See independent auditors' report

Manhattan Beach Housing Development Fund Corporation

HUD Project No. 012-11287

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Supplementary Data Required by HUD

Other Information

Year Ended June 30, 2017

Related Party Transactions, Detail

S3100-210	JHM (management fee)	\$	110,331
S3100-210	JHM (bookkeeping/accounting)		33,660
S3100-210	JASA (service coordinator)		<u>57,870</u>
	Total	\$	<u>201,861</u>

See independent auditors' report

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Supportive Housing for the Elderly - Section 202 Direct Loan	14.157	N/A	\$ 8,223,782
Section 8 Project Based Cluster Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation Total Section 8 Project Based Cluster	14.856	N/A	<u>1,983,738</u>
Multi-Family Housing Service Coordinators	14.191	N/A	<u>26,496</u>
Total U.S. Department of Housing and Urban Development			<u>10,234,016</u>
Total expenditures of federal awards			<u>\$ 10,234,016</u>

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
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Notes to Schedule of Expenditures of Federal Awards
 June 30, 2017 and 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Manhattan Beach Housing Development Fund Corporation (the "Corporation"), HUD Project No. 012-11287, NY HAP Contract No. NY36-T781-028, under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Corporation. The Corporation did not provide any funding to subrecipients during the year ended June 30, 2017.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance.

3. Indirect Cost Rate

The Corporation has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. U.S. Department of Housing and Urban Development Loan Program

The Corporation has received a U.S. Department of Housing and Urban Development direct loan under Section 202 of the National Housing Act. The loan balance outstanding at the beginning of the year is included in the federal expenditures presented in the Schedule. The Corporation received no additional loans during the year. The balance of the loan outstanding at June 30, 2017 consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2017
14.157	Supportive Housing for the Elderly - Section 202 Direct Loan	\$ 8,044,448

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

Board of Trustees
Manhattan Beach Housing Development Fund Corporation

We have audited, 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, the financial statements of Manhattan Beach Housing Development Fund Corporation (the "Corporation"), HUD Project No. 012-11287, NY HAP Contract No. NY36-T781-028, which comprise the statements of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

New York, New York
September 25, 2017

**Independent Auditors' Report on Compliance
for Each Major Federal Program and Report on
Internal Control Over Compliance
Required by the Uniform Guidance**

Board of Trustees
Manhattan Beach Housing Development Fund Corporation

Report on Compliance for Each Major Federal Program

We have audited Manhattan Beach Housing Development Fund Corporation's (the "Corporation"), HUD Project No. 012-11287, NY HAP Contract No. NY36-T781-028, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2017. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of federal awards applicable to its federal programs.

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2017.

Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

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

Baker Tilly Virchow Krause, LLP

New York, New York
September 25, 2017

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.157	U.S. Department of Housing and Urban Development: Supportive Housing for the Elderly – Section 202 Direct Loan
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Summary Schedule of Prior Year's Audit Findings
June 30, 2017

Section IV - Summary Schedule of Prior Year's Audit Findings

Finding 2016-001 - Federal Award Findings and Questioned Costs

Condition: It was noted that for one tenant that moved out of the Project during the year, management failed to refund the tenant security deposit within thirty days after the move-out date.

Current Status: JASA Housing Management implemented an electronic Security Deposit Reimbursement tracking system that is linked with the Housing Managers, Accounting and Housing Compliance Manager, and the Director of Housing. Housing Managers are required to immediately submit move-out documentations to JASA Central Office electronically to ensure security deposit reimbursement checks are issued within 30-days after the move-out date.

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Mortgagor's Certification
June 30, 2017

We hereby certify that we have examined the accompanying financial statements and supplementary data of Manhattan Beach Housing Development Fund Corporation, HUD Project No. 012-11287, NY HAP Contract No. NY36-T781-028 and, to the best of our knowledge and belief, the same are accurate and complete.



Signature of Chief Administrative Officer

Heidi Aronin

Name of Chief Administrative Officer

DATE: September 25, 2017

Employer Identification No: 13-3035718

Manhattan Beach Housing Development Fund Corporation
HUD Project No. 012-11287
NY HAP Contract No. NY36-T781-028

Management Agent's Certification
June 30, 2017

We hereby certify that we have examined the accompanying financial statements and supplementary data of Manhattan Beach Housing Development Fund Corporation, HUD Project No. 012-11287, NY HAP Contract No. NY36-T781-028 and, to the best of our knowledge and belief, the same are accurate and complete.



Signature of Director of Housing

Donald Manning

Name of Director of Housing

DATE: September 25, 2017

JASA Housing Management Services for the Aged, Inc.
Management Agent's Name

Employer Identification No: 13-3078676