

Ability Housing of Northeast Florida, Inc. and Affiliates

**(a non-profit organization)
Jacksonville, Florida**

**Consolidated Financial Statements and Supplemental Information
June 30, 2011 and 2010**

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)

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RALSTON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
8777 SAN JOSE BOULEVARD, BUILDING E
JACKSONVILLE, FLORIDA 32217-4213

R. BRUCE SHEALY
MICHAEL R. RITCH
KEVIN M. FRITZ

ROBERT E. RALSTON
(1921-1986)

BERT J. PITTMAN, JR.
(RETIRED)

TELEPHONE (904) 730-0440
FAX (904) 730-0993
EMAIL cpas@ralstonco.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ability Housing of Northeast Florida, Inc. and Affiliates
Jacksonville, Florida

We have audited the accompanying consolidated statements of financial position of Ability Housing of Northeast Florida, Inc. and Affiliates as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Ability Mayfair II, LLC, a consolidated organization, which statements reflect total assets of \$9,919,247 as of June 30, 2011, and total contributions, grants and revenues of \$216,497 for the period then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ability Mayfair II, LLC, is based solely on the report of the other auditor.

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 the 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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ability Housing of Northeast Florida, Inc. and Affiliates as of June 30, 2011 and 2010, and the changes in their net assets and their 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 October 25, 2011, on our consideration of Ability Housing of Northeast Florida, Inc. and Affiliates' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Ability Housing of Northeast Florida, Inc. and Affiliates taken as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis or so as required by Chapter 10.650, *Rules of the Auditor General*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.


October 25, 2011

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidated Statements of Financial Position
June 30, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 370,144	\$ 245,990
Grants and support receivable	395,641	21,643
Other receivables and deposits	94,958	61,902
Construction in process	7,261,347	675,233
Prepaid expenses	22,602	16,933
Buildings and improvements	7,478,202	7,658,574
Less accumulated depreciation - buildings	(972,781)	(761,628)
Equipment and furniture	20,163	22,530
Less accumulated depreciation - equipment	<u>(9,688)</u>	<u>(13,664)</u>
Net property and equipment	<u>6,515,896</u>	<u>6,905,812</u>
Total assets	<u>\$ 14,660,588</u>	<u>\$ 7,927,513</u>

See accompanying notes to financial statements.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidated Statements of Financial Position
June 30, 2011 and 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Accounts payable	\$ 70,880	\$ 47,730
Accrued expenses	25,915	18,888
Deferred revenue	-	383
Notes payable	11,298,756	6,605,458
Security deposits	40,842	35,704
	<hr/>	<hr/>
Total liabilities	11,436,393	6,708,163
	<hr/>	<hr/>
Net assets		
Controlling interest net assets unrestricted	1,822,027	1,219,350
Noncontrolling interest net assets unrestricted	1,402,168	-
Unrestricted net assets	3,224,195	1,219,350
	<hr/>	<hr/>
Total net assets	3,224,195	1,219,350
	<hr/>	<hr/>
Total liabilities and net assets	\$ 14,660,588	\$ 7,927,513
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidated Statement of Activities
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets:		
Contributions, grants and revenues		
Program income	\$ 613,277	\$ 646,811
Contributions	85,407	111,826
Grants	870,209	139,618
Interest income and dividends	<u>2,563</u>	<u>2,290</u>
Total contributions, grants and revenues	<u>1,571,456</u>	<u>900,545</u>
Expenses		
Program services	963,406	1,010,526
Supporting services-management and general	55,544	48,856
Fund raising	<u>10,419</u>	<u>12,477</u>
Total expenses	<u>1,029,369</u>	<u>1,071,859</u>
Change in unrestricted net assets	542,087	(171,314)
Consolidated contributions	1,462,758	-
Consolidated net assets, beginning of year	<u>1,219,350</u>	<u>1,390,664</u>
Consolidated net assets, end of year	3,224,195	1,219,350
Noncontrolling interest in subsidiary loss	60,590	-
Noncontrolling interest contribution	<u>(1,462,758)</u>	<u>-</u>
Controlling interest net assets	<u>\$ 1,822,027</u>	<u>\$ 1,219,350</u>

See accompanying notes to financial statements.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidated Statement of Functional Expenses
For the year ended June 30, 2011

	Program Services	Supporting Services Management and General	Fundraising	Total
Staff	\$ 293,477	\$ 27,564	\$ 3,243	\$ 324,285
Depreciation	216,663	-	-	216,663
Repairs and maintenance	120,853	-	-	120,853
Professional services	96,443	11,315	-	107,757
Interest	68,185	-	-	68,185
Telephone and utilities	67,898	2,045	-	69,943
Taxes and licenses	35,843	1,411	-	37,254
Memberships, meetings, and training	16,279	4,070	-	20,349
Rent	14,348	3,587	-	17,935
Office expense	8,584	2,146	-	10,730
Insurance - general	19,846	2,205	-	22,051
Insurance - workers' compensation	2,347	261	-	2,608
Postage	538	442	1,229	2,209
Printing	411	75	3,334	3,820
Marketing	-	-	2,613	2,613
Miscellaneous expense	1,691	423	-	2,114
	<u>\$ 963,406</u>	<u>\$ 55,544</u>	<u>\$ 10,419</u>	<u>\$ 1,029,369</u>

See accompanying notes to financial statements.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidated Statement of Functional Expenses
For the year ended June 30, 2010

	Program Services	Supporting Services Management and General	Fundraising	Total
Staff	\$ 267,685	\$ 25,142	\$ 2,958	\$ 295,785
Depreciation	207,584	-	-	207,584
Interest	186,974	-	-	186,974
Repairs and maintenance	131,742	-	-	131,742
Telephone and utilities	76,379	2,300	-	78,680
Insurance - general	46,678	5,186	-	51,865
Taxes and licenses	23,649	1,846	-	25,495
Professional services	19,606	2,299	-	21,905
Memberships, meetings, and training	14,971	3,743	-	18,714
Rent	14,052	3,513	-	17,564
Office expense	10,753	2,688	-	13,441
Insurance - workers' compensation	5,209	579	-	5,788
Postage	471	386	1,075	1,932
Printing	281	51	2,279	2,611
Marketing	-	-	6,165	6,165
Miscellaneous expense	4,491	1,123	-	5,614
	<u>\$ 1,010,526</u>	<u>\$ 48,856</u>	<u>\$ 12,477</u>	<u>\$ 1,071,859</u>

See accompanying notes to financial statements.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidated Statements of Cash Flows
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 542,087	\$ (171,314)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	216,663	207,584
(Increase) decrease in:		
Grants and support receivables	(373,995)	1,293
Other receivables and deposits	(33,059)	3,853
Prepaid expenses	(5,669)	(1,649)
Increase (decrease) increase in:		
Accounts payable and accrued expenses	30,178	(28,468)
Deferred revenue	(383)	(2,769)
Security deposits	5,138	(3,616)
Net cash provided by operating activities	<u>380,960</u>	<u>4,914</u>
Cash flows from investing activities		
Increase in construction in process	(6,586,113)	(592,618)
Changes in buildings and equipment	173,251	(46,229)
Net cash used by investing activities	<u>(6,412,862)</u>	<u>(638,847)</u>
Cash flows from financing activities		
Capital contribution	1,462,758	
Proceeds from long-term debt	8,966,405	724,508
Repayments of long-term debt	(4,273,107)	(60,808)
Net cash provided by financing activities	<u>6,156,056</u>	<u>663,700</u>
Increase in cash	124,154	29,767
Cash at beginning of year	<u>245,990</u>	<u>216,223</u>
Cash at end of year	<u>\$ 370,144</u>	<u>\$ 245,990</u>

See accompanying notes to financial statements.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidated Statements of Cash Flows
For the years ended June 30, 2011 and 2010

<u>Supplemental Disclosures</u>	<u>2011</u>	<u>2010</u>
Cash paid for interest	<u>\$ 50,072</u>	<u>\$ 186,974</u>
Cash paid for income taxes	<u>N/A</u>	<u>N/A</u>

See accompanying notes to financial statements.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

1. Organization

Ability Housing of Northeast Florida, Inc. is a tax-exempt, 501(c)(3) non-profit organization incorporated in the State of Florida in 1992 (then named Grove House of Jacksonville, Inc.). In 2004, Ability Housing revised its mission and focus from that of a service organization interested in affordable housing to that of an organization dedicated solely to the development and operation of quality, affordable housing.

The mission of Ability Housing is to provide quality, affordable, community inclusive housing for individuals and families experiencing or at risk of homelessness and adults with a disability. The foundation of this mission is not the housing created but the residents of the housing and their neighborhoods. The output is housing units; the outcomes are an improved quality of life for each resident and the community.

To fulfill its mission, Ability Housing develops and operates quality rental housing. At present, Ability Housing operates two rental projects: CASA and Mayfair Village; asset manages a third, Oakland Terrace; and has two projects in various stages of development.

CASA is a scattered-site project consisting of 29 single-family and multi-family homes dispersed throughout Jacksonville, Florida. CASA is designed specifically for adults with disabilities wishing to live independently with roommates. CASA is a shared housing program; the 29 homes provide housing to 60 or more adults with a disability, the majority of which are cognitive. Rents average \$225 per month.

In 2008, Ability Housing established Ability Mayfair, LLC, a single-asset entity with Ability Housing as its sole member. In January 2008, Ability Mayfair, LLC purchased Mayfair Village Apartments, an 83-unit apartment community located on the south side of Jacksonville, Florida. The single based asset was sold to Ability Mayfair II, LLC in October 2010. Ability Housing of Northeast Florida, Inc. is the managing member and exercises effective control. Accordingly, Ability Mayfair II, LLC is a consolidated organization. Financial ownership is .01%. The property has been awarded low income housing tax credits, a Tax Credit Exchange Program loan and a HOME loan to substantially rehabilitate the property. Mayfair Village shall provide 41 units of quality affordable housing to households earning 50% or less of the Area Median Income and 42 units to households earning 30% or less of the Area Median Income. Fifty percent of the units shall be reserved for persons experiencing homelessness.

Ability Housing has acquired and is in the rehabilitation stage of the redevelopment of a 52-unit project which shall provide quality housing affordable to individuals experiencing or at risk of homelessness. Ability Housing has also assisted a local nonprofit preserve an affordable housing project. The project was at risk of losing its rental assistance contract. Ability Housing was able to help stabilize the property and is in the process of obtaining HUD approval to purchase and substantially rehab the property.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

In fiscal year 2010, Ability Housing also administered HousingLink Jax, a tenant based rental assistance (TBRA) program. The program provides qualified households with one year of rental assistance coupled with financial literacy training. Ability Housing conducts all intake and selection activities. Qualified applicants are then referred to another local nonprofit, Family Foundations, for financial literacy training. Upon completion of the training, the household is then referred to the Jacksonville Housing Authority for final approval and issuance of a rental assistance voucher. Due to budget cuts, the project was discontinued in fiscal year 2011.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Ability Housing have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements include the accounts of Ability Housing of Northeast Florida, Inc., Ability Mayfair, LLC, and Ability Mayfair II, LLC presented on a consolidated basis. All significant inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Grants, contracts and accounts receivable are stated at the amount management expects to collect from outstanding balances. If amounts become uncollectible, they will be charged to the program when the determination is made. At June 30, 2011 and 2010, there was no allowance for doubtful accounts.

Construction in Process

Construction in process is stated at cost.

Property and Equipment

Property and equipment are stated at cost. Donated assets are valued at fair market appraisal value. Depreciation is computed using the straight-line and accelerated method over the estimated useful lives of the individual assets, ranging from 5 to 40 years. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Notes Payable

Notes Payable are recorded at their outstanding principal amounts.

Income Taxes

Ability Housing is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as confirmed in an exemption letter dated July 31, 1992.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

As Ability Housing was the sole member (100% owner) of Ability Mayfair, LLC, the LLC takes on the taxable attributes of the single member 501(c)(3). The single based asset Ability Mayfair, LLC was sold during the fiscal year ended June 30, 2011. A consolidated tax return is filed reflecting the transactions of both entities.

Ability Mayfair II, LLC has no provision or liability for income taxes because members are taxed individually on their proportionate share of the Organization's income.

Rental Income

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

Cash and Cash Equivalents

Ability Housing considers all highly liquid debt instruments with a maturity from year-end of three months or less to be cash equivalents. All certificates of deposit are considered cash.

Contributions

Financial statement presentation also follows the recommendations of SFAS No. 116 "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Materials, Long-lived Assets, Facilities & Services

Donated materials are recorded as contributions at their estimated fair value at the date of donation. Long-lived assets or the use of facilities are recorded as contributions in the period received at fair value. Contributions of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills and are provided by individuals possessing those skills.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events of changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. No impairment losses were recognized in 2011.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

3. Notes Payable

Ability Housing had the following mortgages at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Mortgage payable from Florida Housing Finance Corporation. No interest, collateral-specific real property and rent assignment. Annual principal payments of \$8,400 begin December 2022 with a maturity balloon in December 2037.	\$ 252,000	\$ 252,000
Mortgage payable from Florida Housing Finance Corporation. No interest, collateral-specific real property. Annual principal payments of \$8,400 begin March 2023 with a maturity balloon in March 2038.	252,000	252,000
Mortgage payable to the City of Jacksonville. No interest. Collateral-specific real properties. Due 2023, the mortgages will be forgiven at the end of a 10-20 year period if all agreement requirements are met.	396,130	396,130
Mortgage payable to Commercial Bank. Rate - 6.427%. Monthly payments of \$10,060 with a balloon maturity in October 2010. Collateral - specific real property. Paid off with sale of specific property in year ended June 30, 2011.	-	1,436,755
Mortgage payable to a not-for-profit corporation. Rate - 7.0%. Maturity - November 2010. Collateral - second mortgage on specific real property and assignment of rent. Paid off with sale of specific property in year ended June 30, 2011.	-	1,966,000
Various mortgages payable, in aggregate monthly installments of \$3,166. Bearing interest ranging from 6.0% to 6.25% at June 30, 2011. Matures between 2019 and 2020. Secured by real estate.	319,147	336,437
Acquisition and development loans from a not-for-profit corporation. No interest. Unsecured. If the development and purchase occurs, the note is to be repaid. If development and purchase do not take place, the loans will be forgiven.	31,863	40,124
Acquisition and development loan from a not-for-profit corporation. Total available - \$410,000. Rate - 5.0%. Matures - April 2011. Collateral - specific real property. During the year ended June 30, 2011 total draws totalling \$371,820 were paid off with permanent funding.	-	188,401

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

Development loan from Florida Housing Finance Corporation. Rate - 1%. Matures April 2013. Collateral - specific real property. Total available - \$424,475. The total available was drawn in current year and was paid off at the sale of the related property.	-	375,337
Development loan from Florida Housing Finance Corporation in the amount of \$750,000. Rate - 1%. Matures July 2012. Collateral - specific real property.	35,801	35,801
Development loan from Florida Housing Finance Corporation in the amount of \$750,000. Rate - 1%. Matures November 2013. Collateral - specific real property.	83,060	-
Construction contract - City of Jacksonville. Total available - \$6,606,000. Collateral - specific real property. No interest. Note will be forgiven in 2052 if the property remains affordable housing.	611,568	-
Twelve mortgages from Florida Housing Finance Corporation, all are no interest mortgages. Ten mortgages payable in total of \$16,652 annually. Matures 2034. Two mortgages payable in installments of \$4,200 beginning in 2021. Matures 2036.	506,501	523,153
\$447,240 obtained on various dates beginning in 1999 from the Jacksonville Housing Commission as a HOME Grant. Grant proceeds are down payment assistance in the form of a second mortgage, not to exceed 25% of the purchase price of any one home. \$343,370 of the mortgages will be forgiven at the end of a 15-year period, provided all agreement requirements are met. \$103,780 of the mortgages beginning in 2005 will be forgiven at the end of a 10-year period, provided all agreement requirements are met.	447,240	447,240
\$356,080 obtained on various dates beginning in 1999 from the Jacksonville Housing Commission as a SHIP Grant. Grant proceeds are down payment assistance in the form of a second mortgage, not to exceed 20% of the purchase price of any one home. The mortgage will be forgiven at the end of a 15-year period, provided all agreement requirements are met.	356,080	356,080
Ability Mayfair II, LLC has a construction loan with Ally Bank. The loan has an interest rate of LIBOR plus 4%. At June 30, 2011, the interest rate was 4.19%. Payments of interest are due monthly. The payment of the loan is due upon securing permanent financing which is expected in early 2012. The construction loan has a maturity date of October 1, 2012.	2,723,744	-

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

Ability Mayfair II, LLC has a mortgage payable under the Tax Credit Exchange Program administered by the Florida Housing Finance Corporation. The original principal amount was \$2,485,000. The mortgage bears no interest, and the full amount of the mortgage will be forgiven at the end of the fifteen year compliance period.

2,485,000

Ability Mayfair II, LLC has a mortgage payable under the HOME program administered with the Florida Housing Finance Corporation. Principal of up to \$4,000,000 can be used for the acquisition, rehabilitation, and permanent financing of the Project.

2,798,622

Total

11,298,756

6,605,458

Current portion

2,759,248

3,625,544

Long term debt

\$ 8,539,508

\$ 2,979,914

Maturities by year are as follows:

Fiscal Year Ending June 30,

2012	\$ 2,759,248
2013	72,476
2014	38,015
2015	39,365
2016	40,944
thereafter	8,348,708
	<u>\$ 11,298,756</u>

4. Properties and Sources of Revenue

Ability Housing owns 21 single family and eight multi-family homes throughout Jacksonville, Florida. The homes are rented to qualifying, low-income, adults with disabilities. Rents are based on ability to pay. Excess costs to maintain and service the debt on the homes are made up through contributions, grants and fund raisers.

In January 2008, Ability Mayfair, LLC (wholly owned by Ability Housing) purchased an existing apartment complex. The complex was appraised at \$4,509,130. The purchase price was \$3,209,130. The \$1,300,000 difference in purchase price and appraised value was recognized as a contribution. The apartment complex was sold at a loss of \$1,371,831 to Ability Mayfair II, LLC of which Ability Housing has .1% ownership with effective contractual control. The sales price of the apartment complex was \$2,650,000. The loss is eliminated in consolidation.

Also at June 30, 2011 and 2010, there was \$6,598,016 and \$370,689, respectively of ongoing rehabilitation construction on an apartment complex owned by Ability Mayfair II, LLC. The construction in process at June 30, 2011 included \$120,686 developer fees paid to Ability Housing of Northeast Florida, Inc. that were eliminated in consolidation.

Ability Housing of Northeast Florida, Inc. and Affiliates
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Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

At June 30, 2011 and 2010, Ability Housing had two sites in the initial stage of study and development. Total associated costs were \$170,242 and \$100,319, respectively.

In April 2010, Ability Housing purchased an existing complex. Rehabilitation of the complex began during the year ending June 30, 2011. Total purchase and construction in process costs were \$613,714 and \$204,228 at June 30, 2011 and 2010, respectively.

5. Grants

The following table is an analysis of grants received for the year ended June 30, 2011:

<u>Grant</u>	<u>Program</u>	<u>Date</u>	<u>Total Available Grant</u>	<u>Expenditures 6/30/11</u>	<u>Deferred Grant 6/30/11</u>
Florida Department of Children and Families Pass Through	Homeless Housing Assistance Grant	04/11	\$ 728,984	\$ 728,984	\$ -
Local Incentive Support through City of Jacksonville	Development of Affordable Housing	12/10	125,000	121,559	-
Local Incentive Support through HUD	Development of Affordable Housing	12/10	20,000	18,795	-
Local Incentive Support	Development of Affordable Housing	07/08	5,000	871	-
				<u>\$ 870,209</u>	<u>\$ -</u>

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2011 and 2010

The following table is an analysis of grants received for the year ended June 30, 2010:

<u>Grant</u>	<u>Program</u>	<u>Date</u>	<u>Total Available Grant</u>	<u>Expenditures 6/30/10</u>	<u>Deferred Grant 6/30/10</u>
Local Incentive Support	Development of Affordable Housing	12/09	\$ 110,000	\$ 67,465	\$ -
Local Incentive Support	Development of Affordable Housing	12/08	35,000	22,124	-
Local Incentive Support	Development of Affordable Housing	02/08	110,000	45,026	-
Local Incentive Support	Development of Affordable Housing	7/08	5,000	5,000	-
				<u>\$ 139,615</u>	<u>\$ -</u>

6. Retirement Plan

Ability Housing adopted a Simple IRA plan in 1998 for its employees. Ability Housing contributed \$4,850 and \$4,715 on behalf of its employees for the year ending June 30, 2011 and 2010.

7. Leases

Beginning February 2007, Ability Housing was obligated on a 36 month lease at \$1,234 plus taxes per month, with a 3% annual increase. Beginning March 2010, the lease became a month to month lease.

Total rent expense was \$17,935 and \$17,564 for June 30, 2011 and 2010, respectively.

8. Concentration of Credit Risk

Ability Housing's services are offered to those who have lower incomes and disabilities. This creates an inherent risk for ongoing rental collections.

9. Reclassifications

Certain reclassifications were made to 2010 balances to enhance comparability.

SUPPLEMENTARY INFORMATION

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidating Statement of Financial Position
Year Ended June 30, 2011

	Ability Housing of Northeast Florida, Inc.	Ability Mayfair, LLC	Ability Mayfair II, LLC	Eliminations	Combined Totals
Assets					
Cash and cash equivalents	\$ 313,748	-	\$ 56,396	-	\$ 370,144
Grants receivable	395,641	-	-	-	395,641
Other receivables and deposits	157,919	-	17,044	(80,005)	94,958
Construction in process	784,017	-	6,598,016	(120,686)	7,261,347
Prepaid expenses	22,602	-	-	-	22,602
Related party advance	346,916	-	563,408	(910,324)	-
Real property & improvements	3,040,458	-	2,734,464	1,703,280	7,478,202
Less accumulated depreciation - buildings	(552,946)	-	(50,972)	(368,863)	(972,781)
Equipment & furniture	18,772	-	1,391	-	20,163
Less accumulated depreciation - equipment	(9,688)	-	-	-	(9,688)
Total assets	\$ 4,517,439	-	\$ 9,919,747	\$ 223,402	\$ 14,660,588

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidating Statement of Financial Position
Year Ended June 30, 2011

	Ability Housing of Northeast Florida, Inc.	Ability Mayfair, LLC	Ability Mayfair II, LLC	Eliminations	Combined Totals
Liabilities and net assets					
Accounts payable	\$ 62,633	\$ -	\$ 8,247	\$ -	\$ 70,880
Accrued expenses	12,476	-	13,439	-	25,915
Security deposits	16,644	-	24,198	-	40,842
Related party payable	563,408	-	80,005	(643,413)	-
Note and mortgage payable	3,291,390	-	8,354,282	(346,916)	11,298,756
Total liabilities	3,946,551	-	8,480,171	(990,329)	11,436,393
Unrestricted net assets	570,888	-	1,439,576	1,213,731	3,224,195
Total liabilities and net assets	\$ 4,517,439	\$ -	\$ 9,919,747	\$ 223,402	\$ 14,660,588

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidating Statement of Activities
Year Ended June 30, 2011

	Ability Housing of Northeast Florida, Inc.	Ability Mayfair, LLC	Ability Mayfair II, LLC	Eliminations	Combined Totals
Public Support and Revenue					
Program income	\$ 418,718	\$ 98,748	\$ 216,497	\$ (120,686)	\$ 613,277
Contributions	85,407	-	-	-	85,407
Grants	870,209	-	-	-	870,209
Other	2,563	-	-	-	2,563
Loss on sale of asset	(555,876)	(815,955)	-	1,371,831	-
Total public support and revenue	821,021	(717,207)	216,497	1,251,145	1,571,456
Expenses	613,477	138,799	239,679	37,414	1,029,369
Change in unrestricted net assets	207,544	(856,006)	(23,182)	1,213,731	542,087
Capital contributions	-	-	1,462,758	-	1,462,758
Unrestricted net assets - beginning of period	363,344	856,006	-	-	1,219,350
Unrestricted net assets - end of period	\$ 570,888	\$ -	\$ 1,439,576	\$ 1,213,731	\$ 3,224,195

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidating Statement of Functional Expenses
Year Ended June 30, 2011

	Ability Housing of Northeast Florida, Inc.	Ability Mayfair, LLC	Ability Mayfair II, LLC	Eliminations	Combined Totals
Professional services	\$ 54,747	\$ 467	\$ 52,543	\$ -	\$ 107,757
Marketing	1,791	822	-	-	2,613
Depreciation	88,703	39,574	50,972	37,414	216,663
Memberships, meeting, and training	20,265	84	-	-	20,349
Insurance - general	14,927	7,124	-	-	22,051
Insurance - worker's compensation	1,950	658	-	-	2,608
Interest	38,006	30,179	-	-	68,185
Miscellaneous expense	1,654	43	417	-	2,114
Office expense	8,050	2,680	-	-	10,730
Postage	2,209	-	-	-	2,209
Printing	3,820	-	-	-	3,820
Rent	17,935	-	-	-	17,935
Repairs and maintenance	53,087	19,388	48,378	-	120,853
Staff	285,839	15,634	22,812	-	324,285
Taxes and licenses	8,663	1,788	26,803	-	37,254
Telephone and utilities	11,831	20,358	37,754	-	69,943
Total expenses	\$ 613,477	\$ 138,799	\$ 239,679	\$ 37,414	\$ 1,029,369

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidating Statement of Cash Flows
Year Ended June 30, 2011

	Ability Housing of Northeast Florida, Inc.	Ability Mayfair, LLC	Ability Mayfair II, LLC	Eliminations	Combined Totals
Cash flows from operating activities					
Change in unrestricted net assets	\$ 207,545	\$ (856,006)	\$ (23,182)	\$ 1,213,731	\$ 542,088
Depreciation	88,703	39,574	50,972	37,414	216,663
Loss on asset sale	555,876	815,955	-	(1,371,831)	-
Decrease (increase) in accounts and grants receivable	(377,830)	3,835	-	-	(373,995)
Decrease (increase) in prepaid expenses	(5,669)	-	-	-	(5,669)
Decrease (increase) in other receivables and deposits	(102,890)	6,870	(17,044)	80,005	(33,059)
Decrease (increase) in related party advance receivable	(346,916)	-	(563,408)	910,324	-
Increase (decrease) in accounts payable and accrued expenses	128,893	(120,402)	21,686	-	30,177
Increase (decrease) deferred revenue	-	(383)	-	-	(383)
Increase (decrease) in security deposits	113	(19,173)	24,198	-	5,138
Net cash provided (used) by operating activities	147,825	(129,730)	(506,778)	869,643	380,960
Cash flows from investing activities					
Decrease (increase) in construction in process	(108,783)	-	(6,598,016)	120,686	(6,586,113)
Capital expenditures/changes	(23,626)	-	(2,735,855)	2,932,732	173,251
Related party advance payable	563,408	-	80,005	(643,413)	-
Proceeds from sale of assets	(555,876)	3,488,608	-	(2,932,732)	-
Net cash provided (used) by investing activities	(124,877)	3,488,608	(9,253,866)	(522,727)	(6,412,862)

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Consolidating Statement of Cash Flows
Year Ended June 30, 2011

	Ability Housing of Northeast Florida, Inc.	Ability Mayfair, LLC	Ability Mayfair II, LLC	Eliminations	Combined Totals
Cash flows from financing activities					
Capital contributions	-	-	1,462,758		1,462,758
Proceeds from long-term debt	959,039	-	8,354,282	(346,916)	8,966,405
Repayments of long-term debt	(870,352)	(3,402,755)	-	-	(4,273,107)
Net cash provided (used) by financing activities	88,687	(3,402,755)	9,817,040	(346,916)	6,156,056
Increase (decrease) in cash and cash equivalents	111,635	(43,877)	56,396	-	124,154
Cash and cash equivalents - beginning of year	202,113	43,877	-	-	245,990
Cash and cash equivalents - end of year	\$ 313,748	\$ -	\$ 56,396	\$ -	\$ 370,144
Supplemental disclosures:					
Interest paid	\$ 36,893	\$ 30,179	\$ -	\$ -	\$ 67,072
Income taxes paid	N/A	N/A	N/A	N/A	N/A

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2011

FEDERAL PROGRAMS

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA CFAS Number</u>	<u>Amount</u>
HUD Affordable Housing Development Through Local Incentive Support	14.878	\$ 18,795

STATE PROGRAMS

Homeless Housing Assistance Grant through Emergency Services & Homeless Coalition, Inc.	60.015	\$ 728,984
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Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2011

Basis of Presentation

The schedule of expenditures of state projects includes the state projects of Ability Housing of Northeast Florida, Inc. The information in this schedule is presented in accordance with the requirements of Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements which are presented on the accrual basis of accounting.

Ability Housing of Northeast Florida, Inc. and Affiliates
(a non-profit organization)
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the organization.
2. No material weaknesses or reportable conditions were identified during the audit of the financial statements.
3. Instances of noncompliance material to financial statements of the organization: none.
4. No material weaknesses or reportable conditions were identified during the audit of state projects.
5. The auditor's report on compliance for state projects expressed an unqualified opinion.
6. There were no audit findings required to be reported under the Rules of the Auditor General Section 10.656.
7. Major programs:

<u>Federal</u>	<u>None</u>		
<u>State Projects</u>	CSFA NO		
Florida Department of Children and Families - Homeless Challenge Assistance Grants Through Emergency Services and Homeless Coalition	60.015	DF228	<u>\$ 728,984</u>

8. Dollar threshold used to distinguish between Type A and Type B state projects was \$300,000.
9. As there were no prior year audit findings related to federal programs or state projects, no Summary of Prior Audit Findings is required.
10. No Corrective Action Plan is required because there were no findings to be reported.

Findings – Financial Statement Audit

None.

Findings and Questioned Costs – Major State Projects Audit

None.

RALSTON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
8777 SAN JOSE BOULEVARD, BUILDING E
JACKSONVILLE, FLORIDA 32217-4213

R. BRUCE SHEALY
MICHAEL R. RITCH
KEVIN M. FRITZ

ROBERT E. RALSTON
(1921-1986)

BERT J. PITTMAN, JR.
(RETIRED)

TELEPHONE (904) 730-0440
FAX (904) 730-0993
EMAIL cpas@ralstonco.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Ability Housing of Northeast Florida, Inc. and Affiliates
Jacksonville, Florida

We have audited the consolidated financial statements of Ability Housing of Northeast Florida, Inc. and Affiliates, as of and for the year ended June 30, 2011 and have issued our report thereon dated September 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ability Housing of Northeast Florida, Inc. and Affiliates' 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 Ability Housing of Northeast Florida, Inc. and Affiliates' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Ability Housing of Northeast Florida, Inc. and Affiliates' 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 affect 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*.

We noted certain matters that we reported to the management of Ability Housing of Northeast Florida, Inc. and Affiliates in a separate letter dated October 25, 2011.

This report is intended solely for the information and use of the audit committee, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ratston + Company, PA

October 25, 2011

RALSTON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
8777 SAN JOSE BOULEVARD, BUILDING E
JACKSONVILLE, FLORIDA 32217-4213

R. BRUCE SHEALY
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FAX (904) 730-0993
EMAIL cpas@ralstonco.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR STATE PROJECT**

To the Board of Directors
Ability Housing of Northeast Florida, Inc. and Affiliates
Jacksonville, Florida

Compliance

We have audited the compliance of Ability Housing of Northeast Florida, Inc. and Affiliates (the "Organization") with the types of compliance requirements described in the *Department of Financial Services State Projects Compliance Supplement*, that are applicable to each of its major projects for the year ended June 30, 2011. The Organization's major state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state financial assistance projects is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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 Chapter 10.650, *Rules of the Auditor General*. Those standards, Chapter 10.650, *Rules of the Auditor General*, 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 state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization has complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state financial assistance projects. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ability Housing of Northeast Florida, Inc. and Affiliates' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state financial assistance project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state financial assistance project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state financial assistance project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state financial assistance project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

We have audited the financial statements of Ability Housing of Northeast Florida, Inc. and Affiliates as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 25, 2011, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements as a whole.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding and state financial assistance agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Relston & Company, PA

October 25, 2011