FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY RENTAL PROGRAM – PENDERBROOK (Project No. 880149)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
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CPAs & Advisors

Report of Independent Auditors

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment and Housing Authority

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

Report on the Financial Statements

We have audited the accompanying financial statements of the Rental Program - Penderbook (the "Project"), Virginia Housing Development Authority No. 880149, of the Fairfax County Redevelopment and Housing Authority, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, 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 these 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.

Auditor's 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Virginia Housing Development Authority's Mortgagor/Grantee's Audit Guide (the "VHDA Audit Guide"), and the *Consolidated Audit Guide for Audits of HUD Programs* (the "IG Guide"), issued by the U.S. Department of Housing and Urban Development, Office of Inspector General in August 1997. Those standards and guides 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 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 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 that 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 Project as of June 30, 2016, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, the financial statements of the Project are intended to present the financial position, the changes in financial position, and cash flows of the Project. They do not purport to and do not, present fairly the financial position of the Fairfax County Redevelopment and Housing Authority as of June 30, 2016, the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other VHDA Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules and supporting data required by VHDA shown on pages 16 to 32 is presented for purposes of additional analysis as required by the VHDA Audit Guide and the IG Guide, issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General and is not a required part of the financial statements. 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.

Report Issued in Accordance with *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2016 on our consideration of the Project's internal controls over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 entity's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
October 21, 2016

Introduction

The Fairfax County Redevelopment and Housing Authority (the "Authority") is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment and revitalization programs within Fairfax County (the "County") as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors (the "Board") created the Department of Housing and Community Development (DHCD) to act as the development and administrative agency for the Authority and the Board in meeting the housing and community development needs of the County's low and moderate income residents.

The Authority presents this discussion and analysis of Rental Program – Penderbrook, Project No. 880149 (the "Project") for the fiscal year ended June 30, 2016 to assist the reader in focusing on significant financial issues. The Project consists of 48 rental units and is included in the overall Fairfax County Rental Program.

The Project's Financial Highlights for Fiscal Year 2016 (FY 2016)

In summary, the Project's FY 2016 financial highlights included the following:

- At June 30, 2016, total assets and liabilities were $2,145,669 and $225,185, respectively; thus, total net position was $1,920,484. Of this amount, $425,063 (unrestricted net position) may be used to meet the Project's future operational and capital needs.

- Total revenues and expenses were $511,707 and $512,916, respectively; thus, net position decreased by $1,209 in FY 2016.

Project Financial Statements

This discussion and analysis presents the Project's financial results in three financial statements – the statement of net position, the statement of revenues, expenses, and changes in net position and the statement of cash flows. The FY 2016 financial results are compared to those of FY 2015, thus providing the readers with more information regarding changes in expenses, revenues, or net position balances. These financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Summary of Net Position

The Project's FY 2016 and FY 2015 statements of net position report all financial and capital assets of the Project and are presented in a format where assets minus liabilities equals net position. The following table reflects a condensed summary of net position as of June 30, 2016 and 2015.

Table 1
Summary of Net Position

	2016	2015	Increase (Decrease)
Current and restricted assets	$ 1,385,167	1,380,230	$ 4,937
Capital assets	760,502	811,411	(50,909)
Total Assets	2,145,669	2,191,641	(45,972)
Current liabilities	135,811	118,916	16,895
Non-current liabilities	89,374	151,032	(61,658)
Total Liabilities	225,185	269,948	(44,763)
Net Position:			
Net investment in capital assets	609,470	602,975	6,495
Restricted	885,951	840,318	45,633
Unrestricted	425,063	478,400	(53,337)
Total Net Position	$ 1,920,484	$ 1,921,693	$ (1,209)

The Project's net position decreased by $1,209 in FY 2016 compared to a decrease of $46,155 in FY 2015. The decrease, on a year-to-year comparative basis, was primarily due to lower operating expenses in FY 2016 and greater revenue.

Summary of Revenues, Expenses, and Changes in Net Position

The Project's statement of revenues, expenses, and changes in net position include operating revenues, such as rental income; operating expenses, such as personnel services, utilities, repairs and maintenance, and depreciation; and non-operating revenues and expenses, such as investment income and interest expense. Table 2 presents a condensed summary of data from the Project's statements of revenues, expenses, and changes in net position. As previously stated, the Project's net position decreased by $1,209, which is comparable to the previous year.

Table 2
Summary of Revenues, Expenses, and Changes in Net Position

	2016	2015	Increase (Decrease)
Revenues:			
Operating revenues	$ 506,598	$ 477,623	$ 28,975
Non-operating revenues	5,109	2,739	2,370
Total Revenues	511,707	480,362	31,345
Expenses:			
Operating expenses	500,176	509,793	(9,617)
Non-operating expenses	12,740	16,724	(3,984)
Total Expenses	512,916	526,517	(13,601)
Change in net position	(1,209)	(46,155)	44,946
Total net position, beginning of year	1,921,693	1,967,848	(46,155)
Total net position, end of year	$ 1,920,484	$ 1,921,693	$ (1,209)

The Project's financial position declined slightly in FY 2016 noting no significant change.

Capital Assets and Debt Administration

Capital Asset – The Project's capital assets as of June 30, 2016 included land, buildings and improvements, and equipment that totaled $3,290,467, net of accumulated depreciation of $2,529,965, providing net capital assets of $760,502. For further details, see Note 2, Capital assets.

Long-Term Debt – The Virginia Housing Development Authority (the "VHDA") provided the permanent financing for the purchase of the land and buildings that totaled $151,032. For further details, see Note 3 concerning debt and long-term liabilities of the Project.

Contacting Authority Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, tenants, and investors and creditors with a general overview of the Project's finances, and to demonstrate the Project's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia, 22030.

FINANCIAL STATEMENTS

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
STATEMENT OF NET POSITION

June 30, 2016

ASSETS		
Current Assets:		
Cash on deposit with County of Fairfax, Virginia	$	473,324
Deposits held in trust		16,727
Accrued interest receivable		1,076
Accounts receivable		8,089
Total Current Assets		499,216
Restricted Deposits and Funded Reserves:		
Replacement reserves		885,951
Total Restricted Assets		885,951
Capital Assets:		
Nondepreciable:		
Land		649,636
Depreciable:		
Buildings and improvements		2,587,486
Equipment		53,345
Accumulated depreciation		(2,529,965)
Total Capital Assets, Net		760,502
Total Assets	$	2,145,669
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued liabilities	$	22,242
Deposits held in trust		16,727
Unearned revenue		17,219
Accrued compensated absences		17,965
Mortgage payable		61,658
Total Current Liabilities		135,811
Noncurrent Liabilities:		
Mortgage payable		89,374
Total Liabilities		225,185
Net Position:		
Net investment in capital assets		609,470
Restricted net position		885,951
Unrestricted net position		425,063
Total Net Position		1,920,484
Total Liabilities and Net Position	$	2,145,669

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2016

Operating Revenues:		
Dwelling rentals	$	500,092
Other revenue		6,506
Total Operating Revenues		506,598
Operating Expenses:		
Personnel services		217,217
Utilities		21,054
Repairs and maintenance		139,417
Administrative expenses		71,579
Depreciation and amortization		50,909
Total Operating Expenses		500,176
Operating Income		6,422
Nonoperating Revenues (Expenses):		
Interest revenue		5,109
Interest expense		(12,740)
Total Nonoperating Revenues (Expenses)		(7,631)
Change in net position		(1,209)
Total net position, beginning of year		1,921,693
Total net position, end of year	$	1,920,484

The accompanying notes to the financial statements are an integral part of this statement.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

Cash flows from operating activities:		
Rental income received	$	502,233
Miscellaneous income received		6,506
Personnel expenses paid		(216,628)
Administrative expenses paid		(71,579)
Operating and maintenance expenses paid		(130,392)
Utilities paid		(21,054)
Net cash provided by operating activities		69,086
Cash flows from capital and related financing activities:		
Principal payments on mortgage payable		(57,404)
Interest payments on mortgage payable		(13,083)
Net cash used in capital and related financing activities		(70,487)
Cash flows from investing activities:		
Deposits to replacement reserve		(43,008)
Interest received		2,389
Net cash used in financing activities		(40,619)
Net decrease in cash and cash equivalents		(42,020)
Cash and cash equivalents, beginning of year		515,344
Cash and cash equivalents, end of year	$	473,324
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income	$	6,422
Depreciation		50,909
Effects of changes in operating assets and liabilities:		
Accounts receivable		(3,448)
Accounts payable and accrued liabilities		9,025
Accrued compensated absences		589
Unearned revenue		5,589
Net cash provided by operating activities	$	69,086

Note 1—Nature of operations and summary of significant accounting policies

Organization – The Fairfax County Redevelopment and Housing Authority (the "Authority") Rental Program - Penderbrook, Project No. 880149 (the Project"), is comprised of two 24-unit apartment buildings included in the Fairfax County Rental Program. The Project is part of the privately owned Penderbrook community, which consists of approximately 1,800 housing units. The developers sold the land and buildings to the Authority on September 7, 1988. The purchase price of the Project was financed by appropriations from the County of Fairfax, Virginia (the "County") and a 30-year mortgage from the Virginia Housing Development Authority ("VHDA"). The Authority is a component unit of the County.

The accompanying financial statements present the financial position, the changes in financial position, and cash flows of the Project and are not intended to present fairly the financial position of the Authority, the changes in its financial position, and its cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP").

The accounting policies of the Project conform to GAAP as applicable to proprietary fund types of governmental units. The following is a summary of the Project's significant accounting policies:

Measurement Focus and Basis of Accounting –The activities of the Project are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Project is required to follow all statements of the Governmental Accounting Standards Board ("GASB"). For purposes of external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

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

Cash on Deposit with County of Fairfax, Virginia, Restricted Assets, and Deposits Held in Trust – The Project's cash is maintained by the County's Investment and Cash Management Division (ICM) in a single pooled account. Deposits held in trust reflect amounts collected as security deposits from tenants, as well as accrued interest on these deposits. Such amounts are reported as current assets to be consistent with the reporting of the related liabilities. Cash reserves primarily consist of restricted deposits and funded reserves for repairs and replacements required to be maintained under HUD and VHDA guidelines. All of the Project's cash deposits are covered by federal depository insurance and have been fully insured or collateralized. Temporary investments consist of money market investments that have a remaining maturity at the time of purchase of one year or less and are reported at amortized cost, which approximates fair value. The County allocates, on a monthly basis, any temporary investment earnings, less an administrative charge, based on the Authority's average balance of pooled cash and temporary investments.

Note 1—Nature of operations and summary of significant accounting policies (continued)

Custodial Credit Risk – For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the Project may not recover its deposits. In accordance with the Virginia Security for Public Deposits Act ("Act"), all of the Project's deposits are covered by federal depository insurance or collateralized in accordance with the Act, which provides for the pooling of collateral pledged by financial institutions with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for one public depositor, and public depositors are prohibited from holding collateral in their name as security for deposits. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts are assessed on a pro rata basis to the members of the pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by participating financial institutions. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance, therefore, funds deposited in accordance with the requirements of the Act are considered to be fully insured.

For investments, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Project will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Per policy, all of the investments purchased by the Project are insured or registered or are securities held by the Project or its agent in the Project's name.

Interest Rate Risk – The Project's policy is to minimize the risk that the market value of securities in its portfolio will fall due to changes in market interest rates. To achieve this minimization of risk, the County structures the pooled investment portfolio so that sufficient securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Pooled investments that are purchased to meet liquidity needs shall have a target weighted average maturity of 90 days. All other pooled funds are invested primarily in shorter-term securities, with a maximum maturity of one year.

Foreign Currency Risk – The Project's cash is limited to U.S. dollar denominated instruments.

Capital Assets – Capital assets, which include land, buildings and improvements, and equipment, are reported in the financial statements at cost when purchased and at estimated fair value when donated. Capital assets are defined by the Authority as assets with an initial individual cost of more than $5,000 and an estimated useful life of more than one year. Depreciation has been provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated useful lives using the straight line method. The estimated useful lives range from 15 to 28 years for buildings and improvements and from 5 to 15 years for equipment.

Compensated Absences – Employees of the Project are granted vacation and sick leave based on their length of service. Unused vacation leave is payable to employees upon termination based on the employees' current rate of pay, up to certain limits. Sick leave does not vest with the employee; however, it is converted to years of service upon retirement. Accumulated vacation is recorded as an expense and an accrued liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary-related payments (e.g., employer's share of social security taxes).

Note 1—Nature of operations and summary of significant accounting policies (continued)

Revenue Recognition – Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are recognized as unearned revenue until earned. Revenue from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Grant revenues received in advance of satisfying all requirements are reported as unearned revenue.

Operating Revenues and Expenses – The Project's policy is to report all Project revenues and expenses as operating with the exception of interest revenue, interest expense, gain or loss on disposal of capital assets, and intergovernmental revenue.

Net Position Classification – Net position is displayed in three components:

> *Net Investment in Capital Assets* – This component of net position consists of all capital assets, reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> *Restricted Net Position* – This component of net position consists of restricted assets when constraints are placed on the asset by creditors, grantors, contributors, laws, regulations, etc.
>
> *Unrestricted Net Position* – This component of net position consists of those resources that do not meet the definition of "Net investment in capital assets" or "Restricted net position."

It is the Project's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Note 2—Capital assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	$ 649,636	$ -	$ -	$ 649,636
Total capital assets, not being depreciated	649,636	-	-	649,636
Capital assets being depreciated:				
Buildings and improvements	2,587,486	-	-	2,587,486
Equipment	53,345	-	-	53,345
Total capital assets being depreciated	2,640,831	-	-	2,640,831
Less accumulated depreciation for:				
Buildings and improvements	2,425,711	50,909	-	2,476,620
Equipment	53,345		-	53,345
Total accumulated depreciation	2,479,056	50,909	-	2,529,965
Total capital assets being depreciated, net	161,775	(50,909)	-	110,866
Total capital assets, net	$ 811,411	$ (50,909)	$ -	$ 760,502

Note 3—Mortgage payable

The VHDA provided the permanent financing for the purchase of the Project's land and buildings. The outstanding balance of the mortgage loan was refinanced in February 2006 at a rate of 7.17% with final payment due October 1, 2018, the same date as the original loan. The monthly principal and interest payment is $5,874.

The land, buildings, and equipment of the Project are pledged as security for the mortgage loan. The Project maintains capital replacement reserves in accordance with provisions of the Regulatory Agreement. This restricted cash is held by VHDA to be used for replacement of property.

The aggregate amount of the required principal and interest payments on the mortgage loan as of June 30, 2016 is $164,468 and is due as follows:

Years ending June 30:	Principal	Interest
2017	$ 61,658	$ 8,829
2018	66,227	4,260
2019	23,147	347
Total	$ 151,032	$ 13,436

Note 3—Mortgage payable (continued)

Noncurrent liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgage payable	$ 208,436	$ -	$ 57,404	$ 151,032	$ 61,658

Note 4—Changes in compensated absences payable

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Compensated absences payable	$ 17,376	$ 10,348	$ 9,759	$ 17,965	$ 17,965

Note 5—Risk management

The Project is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and citizens, and natural disasters. For all of these risks, the Project participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2016.

Note 6—Related party transactions

The Project pays monthly management fees to the Authority based on 7% of gross rental collections. For the year ended June 30, 2016, the Project paid $35,317 which is in compliance with the VHDA agreement.

Note 7—Other post-employment benefits

The Fairfax County OPEB Trust Fund is a single-employer defined benefit plan administered by Fairfax County in which the Project's employees participate. The County provides medical/dental, vision, and life insurance benefits to eligible retirees and their spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health benefit coverage in a plan provided by the County. Retirees must have five years of service in order to participate in this program.

In addition, the Board of Supervisors has established a program to subsidize the continuation of term life insurance, at reduced coverage amounts, for retirees. Retirees generally pay for fifty percent of their coverage amounts at age-banded premium rates, with the County incurring the balance of the cost. Benefit provisions are established and may be amended by the Board of Supervisors.

Note 7—Other post-employment benefits (continued)

The contributions to the OPEB Trust Fund are established and may be amended by the Board of Supervisors. The contributions are typically based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits. GASB Statement No. 45 requires recognition of the current expense of OPEB based on each governing body's annual required contribution, but does not require funding of the related liability.

Costs and related liability, if any, are recorded by the Authority but are not allocated further to the Project. The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Data concerning the ARC specifically applicable to employees of the Authority or the Project are not available. Information concerning the County's OPEB Trust Fund as a whole is available in the County's June 30, 2016 Comprehensive Annual Financial Report.

Note 8—Retirement plan

Plan Description

Employees of the Authority are provided with pensions through the Fairfax County Employees' Retirement System ("ERS"), a single-employer defined benefit pension plan which covers full-time and certain part-time employees of Fairfax County and component units of the County, who are not covered by other plans of the County or the Virginia Retirement System. The pension expense and liability allocated to the Authority is recorded on the books of the Authority but is not allocated further to the projects. Information concerning the County's retirement plan as a whole is available in the County's June 30, 2016 Comprehensive Annual Financial Report.

Benefits Provided

Benefit provisions are established and may be amended by County ordinances. All benefits vest at five years of creditable service. Members who were hired before January 1, 2013 may elect to join Plan A or Plan B and members who were hired on or after January 1, 2013 may elect to join Plan C or Plan D. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 65 with five years of creditable service, (b) for Plans A and B, attain the age of 50 with age plus years of creditable service being greater than or equal to 80, or (c) for Plans C and D, attain the age of 55 with age plus years of service being greater than or equal to 85. The normal retirement benefit is calculated using average final compensation (i.e., the highest 78 consecutive two week pay periods or the highest 36 consecutive monthly pay periods) and years (or partial years) of creditable service at date of termination. In addition, if normal retirement occurs before Social Security benefits are scheduled to begin, an additional monthly benefit is paid to retirees. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. Those who commenced employment on or after January 1, 2013, may not use more than 2,080 hours of accrued sick leave toward service credit for retirement or DROP entry. The benefit for early retirement is actuarially reduced and payable at early termination.

Note 8—Retirement plan (continued)

Effective July 1, 2005, a Deferred Retirement Option Program ("DROP") was established for eligible members of the ERS. Members who are eligible for normal service retirement are eligible to participate in this program. DROP provides the ability for an employee to retire for purposes of the pension plan, while continuing to work and receive a salary for a period of three years. During the DROP period, the pension plan accumulates the accrued monthly benefit into an account balance identified as belonging to the member. The account balance is credited with interest in the amount of 5.0% per annum, compounded monthly. The monthly benefit is calculated using service and final compensation as of the date of entry in DROP, with increases equal to the annual cost-of-living adjustment provided for retirees.

Funding Policy

The contribution requirements of ERS members are established and may be amended by County ordinances. Plan A and Plan C require member contributions of 4.0% of compensation up to the Social Security wage base and 5.33% of compensation in excess of the wage base. Plan B and Plan D require member contributions of 5.33% of compensation.

The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2014, was 18.49% of annual covered payroll. The decision was made to commit additional funding and a rate of 19.05% was adopted for fiscal year 2014. In the event the ERS's funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) exceeds 120% or falls below 90%, the contribution rate will be adjusted to bring the funded ratio back within these parameters.

SUPPLEMENTAL INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
MORTGAGOR/GRANTEE CERTIFICATION

June 30, 2016

We hereby certify that we have examined the accompanying financial statements and other VHDA information of Rental Program – Penderbrook (Project No. 88019) (Mortgagor/Grantee Entity), and to the best of our knowledge and belief, the same is complete and accurate. Additionally, we certify that no additions, deletions, and/or changes were made to the electronically submitted formats for the VHDA Balance Sheet and Statement of Profit and Loss.

There were changes in ownership during the year ended June 30, 2016 as noted in Other VHDA Information, Ownership Entity.

There were no changes in ownership during the year ended June 30, 2016.

(MORTGAGOR/GRANTEE ENTITY)

BY:

Name

Assistant Secretary

Title

Date 10/21/2016

Name

Director of Financial Management

Title

Date 10/21/16

Mortgagor/Grantee Employer/Taxpayer (EIN/TIN) Identification Number:	52-1464034
Mortgagor/Grantee Mailing Address:	3700 Pender Drive, Suite 300 Fairfax, Virginia 22030
Mortgagor/Grantee Telephone:	(703) 246-5000
Mortgagor/Grantee Fax:	(703) 246-5115
Mortgagor/Grantee E-Mail Address:	

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
MANAGEMENT AGENT CERTIFICATION

June 30, 2016

We hereby certify that we have examined the accompanying financial statements and other VHDA information of Rental Program – Penderbrook (Project No. 88019) (Mortgagor/Grantee Entity), and to the best of our knowledge and belief, the same is complete and accurate. Additionally, any "No" answers on the Audit Compliance and Internal Control Questionnaire are detailed in the Corrective Action Plan.

(MANAGEMENT AGENT)

BY:

[illegible]
Name

Assistant Secretary
Title

10/4/2016
Date

Management Agent Employer/Taxpayer (EIN/TIN) Identification Number:	52-1464034
Management Agent Mailing Address:	3700 Pender Drive, Suite 300 Fairfax, Virginia 22030
Management Agent Telephone:	(703) 246-5000
Management Agent Fax:	(703) 246-5115
Management Agent E-Mail Address:	______________________

June 30, 2016

BALANCE SHEET

Rental Program - Penderbrook
(Project No. 880149)
AS OF JUNE 30, 2016

A S S E T S

CURRENT ASSETS		
Cash on Hand	$ -	
Cash in Bank	$ 473,324.00	
Cash - Investments	$ -	
Cash - Mortgagor Entity	$ -	
Accounts Receivable - Tenant	$ 7,590.00	
Accounts Receivable - Net HAP	$ -	
Accounts Receivable - Other	$ 1,575.00	
Prepaid Expenses		
Property Insurance	$ -	
Mortgage Insurance	$ -	
Taxes	$ -	
Miscellaneous (Attach detail in Other VHDA Information)	$ -	$ 482,489.00
DEPOSITS HELD IN TRUST - FUNDED		
Tenant Security Deposits	$ 16,727.00	
Other Deposits	$ -	$ 16,727.00
RESTRICTED DEPOSITS & FUNDED RESERVES		
Mortgage Escrow Deposits (Attach detail in Other VHDA Information)	$ -	
Replacement Reserve	$ 885,951.00	
Miscellaneous Reserve	$ -	
Operating/Residual Receipts Reserve	$ -	
Development-Held Reserve	$ -	$ 885,951.00
FIXED ASSETS		
Net Book Value		
Land	$ 649,636.00	
Land Improvements	$ -	
Buildings	$ 110,866.00	
Equipment	$ -	
Furniture and Fixtures	$ -	
Other	$ -	$ 760,502.00
OTHER ASSETS		
(Attach detail in Other VHDA Information)	$ -	$ -
TOTAL ASSETS		**$ 2,145,669.00**

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
VHDA BALANCE SHEET (CONTINUED)

June 30, 2016

LIABILITY & OWNER EQUITY

L I A B I L I T I E S

CURRENT LIABILITIES

Accounts Payable - 30 Days	$	15,144.00		
Accounts Payable - Over 30 Days	$	-		
Accrued Mortgage Interest Payable - VHDA	$	902.00		
Accrued Mortgage Interest Payable - Other	$	-		
Accrued Interest Payable - Other	$	-		
Accrued Expenses Not Escrowed	$	6,196.00		
Net HAP Payable	$	-		
Notes Payable - Short Term	$	-		
Rent Deferred Credits	$	-		
VHDA Mortgage Payable	$	61,658.00		
Non-VHDA Mortgage Payable	$	-		
Miscellaneous Current Liabilites (Attach detail in Other VHDA Information)	$	17,965.00	$	101,865.00

DEPOSIT & PREPAYMENT LIABILITIES

Tenant Security Deposits	$	16,727.00		
Other Deposits	$	-		
Interest Deferred Credit	$	-	$	16,727.00

LONG TERM LIABILITIES

VHDA Mortgage Payable	$	89,374.00		
Non-VHDA Mortgage Payable	$	-		
Notes Payable (Attach detail in Other VHDA Information)	$	-	$	89,374.00

OTHER LIABILITIES

(Attach detail in Other VHDA Information)	$	17,219.00	$	17,219.00

TOTAL LIABILITIES	**$**	**225,185.00**

O W N E R E Q U I T Y

TOTAL OWNER EQUITY/PARTNERS CAPITAL (DEFICIT)	**$**	**1,920,484.00**
TOTAL LIABILITIES & OWNER EQUITY	**$**	**2,145,669.00**

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
VHDA STATEMENT OF PROFIT AND LOSS

June 30, 2016

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments	5120	$ 500,092	
	Tenant Assistance Payments	5121	-	
	Furniture and Equipment	5130	-	
	Stores and Commercial	5140	-	
	Garage and Parking Spaces	5170	-	
	Flexible Subsidy Income	5180	-	
	Miscellaneous (attach detail in Other VHDA information)	5190	-	
	Total Rent Income Potential at 100% Occupancy			$ 500,092
Vacancies 5200	Apartments	5220	-	
	Furniture and Equipment	5230	-	
	Stores and Commercial	5240	-	
	Garage and Parking Spaces	5270	-	
	Miscellaneous (attach detail in Other VHDA information)	5290	-	
	Total Vacancies			$ -
	Net Rental Income - Rental Income Less Vacancies			$ 500,092
	Elderly and Congregate Services Income – 5300 Total Service Income (attach detail in Other VHDA Information)	5300	-	
Financial Income 5400	Interest Income – Development Operations	5410	-	
	Income from Investments – Residual Receipts	5430	-	
	Income from Investments – Reserve for Replacements	5440	2,625	
	Income from Investments – Miscellaneous	5490	2,484	
	Total Financial Income			$ 5,109
Other Income 5900	Laundry and Vending	5910		
	NSF and Late Charges	5920	2,292	
	Damages and Cleaning Fees	5930	-	
	Forfeited Tenant Security Deposits	5940	(202)	
	Other Revenue (attach detail in Other VHDA information)	5990	4,416	
	Total Other Income			$ 6,506
	Total Income			$ 511,707
Administrative Expenses 6200/6300	Advertising	6210		
	Other Administrative Expense	6250	18,838	
	Office Salaries	6310	156,472	
	Office Supplies	6311		
	Office or Model Apartment Rent	6312		
	Management Fee	6320	35,317	
	Manager or Superintendent's Salaries	6330	-	
	Manager or Superintendent's Rent Free Unit	6331	-	
	Legal Expenses (Development)	6340	925	
	Audit Expense (Development)	6350	12,000	
	Bookkeeping Fees / Accounting Services	6351	-	
	Telephone and Answering Service	6360	-	
	Bad Debts	6370	3,154	
	Miscellaneous Administrative Expenses (attach detail in Other VHDA information)	6390	44,517	
	Total Administrative Expenses			$ 271,223
Utilities Expense 6400	Fuel Oil / Coal	6420	-	
	Electricity (Light and Miscellaneous Power)	6450	2,623	
	Water	6451	18,431	
	Gas	6452	-	
	Sewer	6453	-	
	Total Utilities Expense			$ 21,054

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
VHDA STATEMENT OF PROFIT AND LOSS (CONTINUED)

June 30, 2016

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	$ -	
	Janitor and Cleaning Supplies	6515	9	
	Janitor and Cleaning Contract	6517	9,663	
	Exterminating Payroll / Contract	6519	183	
	Exterminating Supplies	6520	-	
	Garbage and Trash Removal	6525	2,535	
	Security Payroll / Contract	6530	-	
	Grounds Payroll	6535	-	
	Grounds Supplies	6536	-	
	Grounds Contract	6537	3,289	
	Repairs Payroll	6540	-	
	Repairs Material	6541	5,670	
	Repairs Contract	6542	52,267	
	Elevator Maintenance / Contract	6545	-	
	Heating / Cooling Repairs and Maintenance	6546	5,887	
	Swimming Pool Maintenance / Contract	6547	-	
	Snow Removal	6548	7,918	
	Decorating Payroll / Contract	6560	-	
	Decorating Supplies	6561	-	
	Other	6570	8,824	
	Miscellaneous Operating and Maintenance Expenses	6590	-	
	Total Operating and Maintenance Expenses			$ 96,245
Taxes and Insurance 6700	Real Estate Taxes	6710	-	
	Payroll Taxes (Development's Share)	6711	2,868	
	Miscellaneous Taxes, Licenses, Permits	6719	-	
	Property and Liability Insurance (Hazard)	6720	-	
	Fidelity Bond Insurance	6721	-	
	Workmen's Compensation	6722	-	
	Health Insurance and Other Employee Benefits	6723	57,877	
	Other Insurance (attach detail in Other VHDA information)	6729	-	
	Total Taxes and Insurance			$ 60,745
Financial Expenses 6800	Interest on Bonds Payable	6810	-	
	Interest on Mortgages Payable - VHDA	6820	12,740	
	Interest on Mortgages Payable - Other	6825		
	Interest on Notes Payable (Short-Term)	6830	-	
	Interest on Notes Payable (Long-Term)	6840	-	
	Mortgage Insurance Premium / Service Charges	6850	-	
	Miscellaneous Financial Expenses	6890	-	
	Total Financial Expenses			$ 12,740
Service Expenses 6900 Depreciation 6600	**Total Service Expenses (attach detail in Other VHDA information)**	6900		$ -
	Total Cost of Operations Before Depreciation			$ 462,007
	Profit (Loss) Before Depreciation			$ 49,700
	Depreciation (Total) -- 6600	6600	$ 50,909	$ 50,909
	Operating Profit or (Loss)			$ (1,209)
Corporate or Mortgagor or Entity Expenses 7100	Officer Salaries	7110	-	
	Legal Expenses (Entity)	7120	-	
	Taxes (Federal – State – Entity)	7130-32	-	
	Other Expenses (Entity)	7190	-	
	Total Corporate Expenses			$ -
	Net Profit or (Loss)			$ (1,209)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
VHDA STATEMENT OF PROFIT AND LOSS (CONTINUED)

June 30, 2016

Part II		
1a. Total principal payments **required** under the VHDA mortgage(s), even if payments under a Workout Agreement are less or more than those required under the mortgage(s).	$	57,404
1b. Total principal payments **required** under non-VHDA mortgage(s), even if payments under a Workout Agreement are less or more than those required under the mortgage(s).	$	-
2. Replacement, Miscellaneous and Operating Reserve deposits **required** by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.	$	43,008
3. Replacement, Miscellaneous and Operating Reserve releases included as expense items on this Profit and Loss Statement.	$	-
4. Development Improvement Reserve Releases under the Flexible Subsidy Program that are included as expense items on this Profit and Loss Statement.	$	-

STATEMENT OF CASH FLOWS

Rental Program - Penderbrook
880149
AS OF JUNE 30, 2016

Cash Flows From Operating Activities:	
Revenue:	
Rental Receipts	$499,578.00
Interest Receipts	$4,515.00
Other Receipts	$6,506.00
Total Revenue	$510,599.00
Expenditures:	
Administrative	$76,280.00
Management Fees	$35,317.00
Utilities	$21,054.00
Salaries and Wages	$154,484.00
Operating and Maintenance	$88,619.00
Real Estate Taxes	
Property Insurance	
Miscellaneous Taxes and Insurance	$60,745.00
Tenant Security and Other Deposits	
Interest on Mortgage	$13,083.00
Total Expenditures	$449,582.00
Net Cash Provided By (Used In) Operating Activities	**$61,017.00**
Cash flows From Investing Activities:	
Deposits to Replacement Reserve	($43,008.00)
Withdrawals from Replacement Reserve	
Deposits to Miscellaneous Reserve	
Withdrawals from Miscellaneous Reserve	
Deposits to Operating Reserve	
Withdrawals from Operating Reserve	
Purchase of Property and Equipment	
Deposits to Development-Held Reserve	
Withdrawals from Development-Held Reserve	
Other (Attach Detail in Other VHDA Information	($2,625.00)
Net Cash Used In Investing Activities	**($45,633.00)**

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
VHDA STATEMENT OF CASH FLOWS (CONTINUED)

June 30, 2016

Cash Flows From Financing Activities:		
Mortgage Principal Payments		($57,404.00)
Distribution from Operating Account(s)		
Distribution from Mortgagor Entity Account(s)		
Contributions from Mortgagor Entity		
Other (Attach Detail in Other VHDA Information)		
Net Cash Used In Financing Activities		**($57,404.00)**
Net Increase (Decrease) In Cash and Cash Equivalents		**($42,020.00)**
Cash and Cash Equivalents:		
Beginning of Period		$515,344.00
Operating Account(s)	$515,344.00	
Mortgagor Entity Account(s)		
End of Period		**$473,324.00**
Operating Account(s)	$473,324.00	
Mortgagor Entity Account(s)		
Cash Flows From Operating Activities:		
Net Profit (Loss)		($1,209.00)
Adjustments to reconcile Net Profit (Loss) to Net Cash Provided By (Used In) Operating Activities:		
Depreciation		$50,909.00
Amortization		
Bad Debt Provision		$3,154.00
Other (Attach Detail in Other VHDA Information)		
(Increase) Decrease in Accounts Receivable - Tenant		($6,103.00)
(Increase) Decrease in Prepaid Insurance		
(Increase) Decrease in Prepaid Mortgage Payments		
(Increase) Decrease in Cash Restricted for Tenant Security Deposits		$2,219.00
(Increase) Decrease in Accounts Receivable - Other		($594.00)
(Increase) Decrease in Real Estate Tax Escrow		
(Increase) Decrease in Insurance Escrow		
(Increase) Decrease in Accounts Payable		$7,626.00
(Increase) Decrease in Accrued Liabilities		$1,645.00
(Increase) Decrease in Excess Rent Due to HUD		
(Increase) Decrease in Tenant Security Deposits		($2,219.00)
(Increase) Decrease in Deferred Revenue		$5,589.00
Total		$62,226.00
Net Cash Provided By (Used In) Operating Activities		**$61,017.00**

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
VHDA SUPPLEMENTAL SCHEDULES FOR BALANCE SHEET, STATEMENT PROFIT AND LOSS, AND STATEMENT OF CASH FLOWS

June 30, 2016

Supplemental Schedules for VHDA Balance Sheet

Miscellaneous current liabilities		
Accrued compensated absences	$	17,965
Other liabilities		
Unearned revenue	$	17,219

Supplemental Schedules for VHDA Statement of Profit and Loss

Line 5990, Other income		
Attorney judgment fees	$	290
Maintenance charges		707
State set-off debt service		25
Other tenant charges		160
Non tax interest		16
Excess utilities		997
Miscellaneous		2,221
	$	4,416
Line 6390, Miscellaneous administrative expenses		
Condominium fees	$	38,400
Housing relocation costs		1,336
Services - other agency		4,781
	$	44,517
Line 6590, Miscellaneous operating and maintenance expenses		
Other maintenance and repairs	$	8,824

Supplemental Schedules for VHDA Statement of Cash Flows

Cash Flows from Investing Activities - Other		
Interest earned on Replacement Reserve	$	(2,625)

The following supplemental information is presented for the purpose of additional analysis:

Accrued Expenses

Accrued liabilities of $2,514 represent salaries and fringe benefits earned during the final payroll cycle of June 2016.

Accrued liabilities of $3,682 primarily represent monthly VHDA payments.

Accounts and Notes Receivable (Other than from Regular Tenants)

None

Delinquent Tenant Accounts Receivable

Tenant accounts receivable represent amounts past due from current tenants of $14,227 less allowance for doubtful accounts of $6,637.

	Amounts Past Due Current Tenants
Delinquent 0-30 days	$ 7,117
Delinquent 31-60 days	779
Delinquent over 60 days	6,331
Balance at June 30, 2016	$ 14,227

Tenant Security Deposits

As of June 30, 2016, consistent with County of Fairfax, Virginia treasury procedures, tenant security deposits are not maintained in a separate trust fund. The VHDA has waived the requirement to deposit tenant security deposits in a separate account from all other funds of the Project. However, tenant security deposits, and the corresponding accrued interest associated with them, are restricted from use on the operations of the property. As of June 30, 2016, tenant security deposits were $16,727.

Reserve for Replacements

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

June 30, 2016

Balance as of June 30, 2015, confirmed by mortgagee	$	840,318
Monthly deposits		43,008
Interest earned		2,625
Withdrawals (capitalized)		
Withdrawals (expensed)		-
Balance as of June 30, 2016, confirmed by mortgagee	$	885,951

Accounts Payable and Accrued Liabilities

Payable within 30 days	$	22,242
Balance at June 30, 2016	$	22,242

Payables due in more than 60 days, all payables due mortgagee:

Creditor	Purpose	Date Refinanced	Terms	Original Amount	Amount Due
VHDA	Mortgage	February 2006	12 Years	$ 587,942	$ 151,032

Schedule of Surplus Cash and Residual Receipts

Cash:		
Operating account - cash on hand	$	473,324
Security deposit account		16,727
Total Cash		490,051
Less Current Obligations:		
Mortgage interest payable first of next month		902
Accounts payable (due within 30 days)		15,144
Accrued expenses not escrowed		6,196
Tenant security deposits		16,727
Accrued compensated absences		17,965
Unearned revenue		17,219
Total Current Obligations		74,153
Surplus cash and residual receipts to be deposited to operating reserve account*	$	415,898

* The VHDA has waived the requirements to deposit surplus cash and residual receipts for the Project.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
RENTAL PROGRAM – PENDERBROOK (Project No. 880149)
CHANGES IN CAPITAL ASSET ACCOUNTS

June 30, 2016

	Capital Assets				Accumulated Depreciation				
	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016	Balance June 30, 2015	Current Provision	Disposals	Balance June 30, 2016	Net Book Value
Land	$ 649,636	$ -	$ -	$ 649,636	$ -	$ -	$ -	$ -	$ 649,636
Buildings and improvements	2,587,486	-	-	2,587,486	2,425,711	50,909	-	2,476,620	110,866
Equipment	53,345	-	-	53,345	53,345	-	-	53,345	-
Total	$ 3,290,467	$ -	$ -	$ 3,290,467	$ 2,479,056	$ 50,909	$ -	$ 2,529,965	$ 760,502

OWNERSHIP ENTITY

Year Ended June 30, 2016

There were no changes in ownership interests during the year ended June 30 2016.

Examination Item Reference	Yes	No	N/A
1. *Mortgage Status*			
a. Are payments on the mortgage current?	✓		
b. Has the Mortgagor/Grantee complied with the terms and conditions of the modification, forbearance and/or workout agreement?			✓
c. If the workout agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within thirty days after the end of the specified period?			✓
2, *Books and Records*			
a. Are a complete set of books and records maintained in a satisfactory manner?	✓		
b. Does the Mortgagor/Grantee make frequent postings (at least monthly) to the ledger accounts?	✓		
3. *Cash Activities*			
a. Are the cash receipts deposited in an account in the name of the development?		✓ - As approved by VHDA	
b. Are all account balances federally insured?	✓		
c. If a centralized account is used, can all deposits and disbursements be reconciled to the audited development?		✓ - As approved by VHDA	
d. On assisted developments, are security deposits kept in an account separate and apart from all other funds of the development?		✓ - As approved by VHDA	
e. On assisted development, does the balance in the security deposit account equal or exceed the liability? Note: The liability should include the accrued interest payable.	✓		
f. If required by the VHDA Housing Management Agreement, does a fidelity bond exist in an amount at least equal to potential collections for two months (one month on Section 8 uninsured developments) that provides coverage for all employees handling cash?			✓
g. Did cash disbursements exclude payments for items listed below?			
(1) Legal expenses incurred in the sale of ownership interest?			✓
(2) The fee for the preparation of a mortgagor's (partner's, shareholder's, individuals, etc.) federal, state or local income tax returns?			✓
(3) Expenses for advice to a mortgagor on tax consequences of foreclosure?			✓
(4) Reimbursement to the mortgagor or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance or provisional workout arrangements?			✓
(5) Were all disbursements from the operating account(s) made exclusively for operations or obligations of the development?	✓		
h. Were distributions made to, or on behalf of, the mortgagor limited to those authorized by the Regulatory Agreement or were the distributions made in accordance with prior written approval of VHDA, while the development was in a "surplus cash" position?			✓
(1) If development was operating under a modification or forbearance agreement and/or a provisional workout arrangement, is it not in a "surplus cash" position for the purposes of distributions?			✓
(2) In the use of rental proceeds to pay for costs included in the Mortgagor/Grantee's costs certification, are there no unauthorized distributions of development income?			✓

Examination Item Reference	Yes	No	N/A
i. Were residual receipts deposited with the mortgagee within thirty days after mortgagee's request for such deposit?			✓
j. Were excess rental collections in Section 236 developments remitted to HUD each month?			✓
k. Does the Mortgagor/Grantee have a formal rent collection policy?	✓		
l. Is the collection policy uniformly enforced?	✓		
m. Is there a formal procedure for write-off of bad debts?	✓		
n. Have write-offs of tenant's accounts been less than five percent of the gross rent?	✓		
o. Are accounts receivable other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?			✓
p. Were there indications that payments for services, supplies or materials were not substantially in excess of amounts normally paid for such services in order to assure the most advantageous terms for the development?	✓		
q. Were accounts payable remitted in a timely manner as not to incur late charges/penalties?	✓		
4. *Management Compensation*			
a. Was compensation to the Management Agent limited to the amounts prescribed in the Management Agreement?	✓		
b. Did Management Agent not charge development for expenses that the Management Agreement requires them to pay?			✓
5. *Rents and Occupancy*			
a. On unassisted developments, is the gross potential rental income from apartments shown on the most recent rent schedule(s), if applicable, maintained by the management agent?	✓		
b. On an unassisted development with federal tax credits, are rents in conformance with Federal Low Income Housing Tax Credit (IRS Section 42) program guidelines and the Extended Use Agreement (EUA)?			✓
c. On assisted developments, are dwelling unit rents the same as those approved by VHDA on the most recent Rent Schedule, HUD No. 92458?			✓
6. *VHDA/HUD Subsidy Payments (Section 8/RAP Developments Only)*			
a. Were the amounts requested from VHDA/HUD adequately supported by the accounting records?			✓
b. Were subsidy receipts recorded in the proper accounts?			✓
c. Were utility allowance payments paid to residents within five business days of receipt from VHDA and in an amount equal to the corresponding utility allowance subsidy amounts received?			✓
d. Were all uncashed utility allowance payments refunded to VHDA (via a Part II adjustment to the monthly Housing Assistance Payment) within six months of initial issuance by VHDA?			✓

Prepared by: Cherry Bekaert LLP

IDENTIFICATION OF ENGAGEMENT AUDITOR

Year Ended June 30, 2016

Auditing firm:	Cherry Bekaert LLP
Lead auditor and primary contact:	Krista Edoff
Office mailing address:	222 Central Park Avenue, Suite 1400 Virginia Beach, Virginia 23462
Office telephone number:	757-456-2400
Office fax number:	757-456-2404
Email address:	kedoff@cbh.com

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditors 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*

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment and Housing Authority

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

We have audited, in accordance with the 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, the Virginia Housing Development Authority's Mortgagor/Grantee's Audit Guide (the "VHDA Audit Guide"), and the *Consolidated Audit Guide for Audits of HUD Programs* (the "IG Guide"), issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, the financial statements of the Rental Program – Penderbrook, Project No. 880149 (the "Project"), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Project'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project'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 purposes 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 Project's financial statements are free from 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.

Cherry Bekaert LLP

Virginia Beach, Virginia
October 21, 2016