Castellani Meadows Limited Partnership
(A Virginia Limited Partnership)

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2017 and 2016

CohnReznick
Accounting • Tax • Advisory

Castellani Meadows Limited Partnership
(A Virginia Limited Partnership)

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Independent Auditor's Report

To the Partners
Castellani Meadows Limited Partnership

Report on the Financial Statements

We have audited the accompanying financial statements of Castellani Meadows Limited Partnership which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in partners' equity (deficit) and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Castellani Meadows Limited Partnership as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 15 and 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to 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.

CohnReznick LLP

Bethesda, Maryland
April 3, 2018

Castellani Meadows Limited Partnership

Balance Sheets
December 31, 2017 and 2016

Assets

	2017	2016
Investment in rental property, net	$ 1,489,114	$ 1,559,528
Cash and cash equivalents	402,926	337,688
Restricted cash		
Tenants' security deposits	13,595	13,581
Replacement reserve	91,610	86,766
Other reserves	49,779	49,754
Total restricted cash	154,984	150,101
Tenants' accounts receivable, net	6,045	42
Due from general partner	-	9,785
Total assets	$ 2,053,069	$ 2,057,144

Liabilities and Partners' Equity (Deficit)

	2017	2016
Liabilities		
Accounts payable - operations	$ 6,338	$ 5,601
Accrued property management fees	971	1,130
Other accrued liabilities	5,768	4,640
Accrued interest - first mortgage	-	2,763
Accrued interest - other loans	939,557	890,472
Tenants' security deposits liability	9,937	10,362
Payable to general partner	779,589	697,968
Mortgages and notes payable, net of unamortized debt issuance costs	1,709,348	1,743,053
Total liabilities	3,451,508	3,355,989
Contingency	-	-
Partners' equity (deficit)	(1,398,439)	(1,298,845)
Total liabilities and partners' equity (deficit)	$ 2,053,069	$ 2,057,144

See Notes to Financial Statements.

Castellani Meadows Limited Partnership

Statements of Operations
Years Ended December 31, 2017 and 2016

	2017	2016
Revenue		
Rental income	$ 240,965	$ 241,345
Vacancies and concessions	(9,008)	(3,559)
Other operating income	6,485	1,533
Total revenue	238,442	239,319
Operating expenses		
Salaries and employee benefits	25,943	24,972
Repairs and maintenance	35,669	49,609
Utilities	9,777	9,089
Property management fee	11,643	12,586
Real estate taxes	206	331
Miscellaneous operating expenses	67,154	65,491
Total operating expenses	150,392	162,078
Net operating income (loss)	88,050	77,241
Other income (expense)		
Interest income	91	82
Interest expense - first mortgage	(35,579)	(37,857)
Interest expense - other loans	(49,085)	(49,085)
Other financial income (expense)	(13,178)	(9,883)
Other related party fees and expenses	(19,479)	(18,730)
Depreciation	(70,414)	(70,181)
Total other income (expense)	(187,644)	(185,654)
Net loss	$ (99,594)	$ (108,413)

See Notes to Financial Statements.

Castellani Meadows Limited Partnership

Statements of Partners' Equity (Deficit)
Years Ended December 31, 2017 and 2016

	Total partners' equity (deficit)
Balance, January 1, 2016	$ (1,190,432)
Net loss	(108,413)
Balance, December 31, 2016	(1,298,845)
Net loss	(99,594)
Balance, December 31, 2017	$ (1,398,439)

See Notes to Financial Statements.

Castellani Meadows Limited Partnership

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net loss	$ (99,594)	$ (108,413)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	70,414	70,181
Amortization of debt issuance costs	3,560	3,786
Changes in		
Tenants' accounts receivable, net	(6,003)	1,990
Accounts payable - operations	737	(1,957)
Accrued property management fees	(159)	(55)
Other accrued liabilities	1,128	45
Accrued interest - first mortgage	(2,763)	2,763
Accrued interest - other loans	49,085	49,085
Tenants' security deposits liability, net	(439)	(437)
Payable to general partner and affiliates	81,621	60,575
Net cash provided by operating activities	97,587	77,563
Cash flows from investing activities		
Change in reserve for replacements	(4,844)	(4,842)
Change in other reserves	(25)	(25)
Due from general partner	9,785	(9,785)
Net cash provided by (used in) investing activities	4,916	(14,652)
Cash flows from financing activities		
Principal payments on mortgage note payable	(37,265)	(29,655)
Net cash used in financing activities	(37,265)	(29,655)
Net increase in cash and cash equivalents	65,238	33,256
Cash and cash equivalents, beginning	337,688	304,432
Cash and cash equivalents, end	$ 402,926	$ 337,688
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 34,782	$ 31,308

See Notes to Financial Statements.

Note 1 - Organization and nature of operations

Castellani Meadows Limited Partnership (the "Partnership") was formed as a limited Partnership under the laws of the Commonwealth of Virginia on December 1, 1997 for the purpose of constructing and operating a rental housing project. The project consists of 24 townhomes located in Centreville, Virginia and is currently operating under the name of Castellani Meadows.

The project had qualified for and been allocated low-income housing credits pursuant to Internal Revenue Code Section 42 ("Section 42"), which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. The project met the provisions of these regulations during the 15-year compliance period in order to remain qualified to receive the credits.

In addition, Castellani Meadows Limited Partnership has executed an Extended Use Agreement which requires the utilization of the project pursuant to Section 42 for a minimum of 30 years, even if disposition of the project by the Partnership occurs.

The Partnership consists of the general partners, Fairfax County Redevelopment and Housing Authority ("FCRHA") at 0.0051% interest and FCRHA Housing Assistance Corporation (“FCRHA HAC”) at 0.0049% interest, and the limited partner is FCRHA at 99.99% interest.

Note 2 - Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tenant receivables

Tenant receivables are reported net of an allowance for doubtful accounts of $2,659 and $4,285 as of December 31, 2017 and 2016, respectively. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

Rental property

Rental property is stated at cost. Depreciation is recorded using the following methods and estimated useful lives.

	Estimated useful lives	Method
Land and improvements	15 years	Straight-line
Buildings and improvements	40 years	Straight-line
Furniture, fixtures and equipment	10 years	Declining balance

Impairment of long-lived assets

The Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment losses have been recognized for the years ended December 31, 2017 and 2016.

Debt issuance costs
Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Income taxes
The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. For tax years beginning January 2, 2015, the Partnership is no longer required to file tax returns with the Internal Revenue Service.

Rental income
Rental income is recognized as rents become due. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Partnership and tenants of the property are operating leases.

Cash equivalents
For purposes of the statement of cash flows, the Partnership considers all highly-liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2017 and 2016, these instruments consisted of U.S. Treasury money market funds and overnight investments of $370,125 and $285,092, respectively.

Note 3 - Rental property

Rental property is comprised of the following as of December 31, 2017 and 2016:

	2017	2016
Land improvements	$ 214,040	$ 214,040
Builidings and improvements	2,696,247	2,696,247
Furniture	298,871	298,871
Subtotal	3,209,158	3,209,158
Accumulated depreciation	(1,720,044)	(1,649,630)
Net	$ 1,489,114	$ 1,559,528

Note 4 - Mortgages payable

Tax-exempt bonds
FCRHA provided construction financing in an amount up to $1,700,000. The loan was financed through Tax-Exempt Revenue Bonds issued by FCRHA. The note bears interest at 5.25% per annum. The note calls for payments of interest-only until March 1, 2001. On April 1, 2001, monthly payments of principal and interest of $5,542 commenced. Prior to March 1, 2001, a principal

payment in the amount of $825,000 was due, at which time the interest rate on the note changed to 6.15% per annum. The note will mature in April 2028. As of December 31, 2017 and 2016, the principal balance is $501,781 and $539,046, respectively. The loan is secured by a first deed of trust on the rental property. Accrued interest payable at December 31, 2017 and 2016 was $0 and $2,763, respectively. Interest expense at December 31, 2017 and 2016 was $35,579 and $37,857, inclusive of amortization of unamortized debt issuance costs of $3,560 and $3,786, respectively.

In April 1998, the Partnership entered into a Risk-Sharing Regulatory Agreement for Multifamily Housing Projects (“Agreement”) with FCRHA in connection with the Tax-Exempt Revenue Bonds. Under the Agreement, the U.S. Department of Housing and Urban Development ("HUD") provides an endorsement for mortgage insurance on the note. In return for the endorsement, the Partnership must meet certain conditions as defined in the Agreement.

The Agreement may not be terminated as long as any portion of the note is outstanding. The Partnership is required to pay an annual fee for the mortgage insurance premium. The fee is based on 0.5% of the outstanding principal balance. The amount charged to operations for the years ended December 31, 2017 and 2016, is $2,623 and $2,375, respectively.

Mortgage notes payable, net of unamortized debt issuance costs at December 31, 2017 and 2016 are as follows:

	2017	2016
Mortgage note payable	$ 501,781	$ 539,046
Unamortized debt issuance costs (based on imputed interest rate of 7.438%)	(19,566)	(23,126)
Net	$ 482,215	$ 515,920

CDBG loan

The CDBG Loan, in the original amount of $880,000, is payable to FCRHA at maturity, including simple interest at 4% per annum, on April 1, 2028. The note is collateralized by a second deed of trust on the rental property. During the years ended December 31, 2017 and 2016, $8,328 and $8,328, of interest was incurred, respectively. The principal balance and accrued interest at December 31, 2017 and 2016 are $208,211 and $208,211, respectively, and $160,080 and $151,752, respectively.

HOME loan

The HOME Loan, in the original principal amount of $1,040,000, is payable to FCRHA. The note is payable at maturity, including simple interest at 4% per annum, on April 1, 2028. The note is collateralized by a third deed of trust on the rental property and an assignment of rents and income of the property. During the years ended December 31, 2017 and 2016, $40,757 and $40,757, of interest was incurred, respectively. The principal balance and accrued interest at December 31, 2017 and 2016 are $1,018,922 and $1,018,922, respectively, and $779,477 and $738,720, respectively.

The liability of the Partnership under the mortgage notes is limited to the underlying value of the real estate collateral and an assignment of rents and income of the property. Future maturities of the mortgages payable for the next five years and thereafter are as follows:

	Principal	Interest
December 31, 2018	$ 36,668	$ 29,840
2019	38,987	27,518
2020	41,454	25,051
2021	44,076	22,429
2022	46,865	19,640
Thereafter	1,520,864	1,492,535
Total	$ 1,728,914	$ 1,617,013

Note 5 - Reserves

According to the Partnership, loan and other regulatory agreements, the Partnership is required to maintain the following reserves:

Operating reserve
The Partnership is required to fund an operating reserve from development financing proceeds and operating income as defined in the partnership agreement, in the initial amount of $48,000. Subsequent to the initial funding, deposits will be made from available operating income. As of December 31, 2017 and 2016, the balance is $49,779 and $49,754, respectively, and is included in other reserves on the accompanying balance sheets.

Replacement reserve
The Partnership is required to fund a replacement reserve equal to monthly deposits of $400 beginning the date that amortization commences on the first mortgage (April 1, 2001). As of December 31, 2017 and 2016, the balance is $91,610 and $86,766, respectively. During the years ended December 31, 2017 and 2016, the Partnership has deposited the required amount into the replacement reserve.

Note 6 - Related party transactions

Partnership management fee
Pursuant to the partnership agreement, the general partner shall be paid an annual partnership management fee for its services in overseeing the operation of the Partnership. The fee is equal to $10,000 due March 1 of the year subsequent to which the fee was earned. The fee shall increase cumulatively by 4% each year after the initial year. For the years ended December 31, 2017 and 2016, a fee of $19,479 and $18,730, respectively, was incurred and $136,394 and $116,915 remains payable at December 31, 2017 and 2016, respectively, and is included in payable to general partner on the accompanying balance sheets.

Contingent incentive fee
Pursuant to the partnership agreement, the general partner shall earn a contingent partnership management fee equal to 33-1/3% of net operating cash flow, if any, prior to deduction of such incentive fee, which amount shall be set aside as a capital reserve and utilized in accordance with the requirements of such reserve. To the extent of any such capital reserve, the remaining balance available upon the sale or other disposition of the project shall be paid to the general partner. The fee is noncumulative. No fee was earned for the years ended December 31, 2017 and 2016.

Property management fee

The project is managed by the general partner, subject to an agreement which expired July 2003. Upon expiration, the agreement renews automatically for one-year periods thereafter. For its services, the management agent receives a monthly fee equal to 5% of gross rental income. Unpaid fees shall accrue interest at 10%. No interest was accrued as of December 31, 2017 and 2016. Management fees of $11,643 and $12,586 were earned for the years ended December 31, 2017 and 2016, respectively, and $971 and $1,130 remains payable at December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, the general partner waived the 10% interest on the unpaid fees.

Due to general partner

Certain expenses of the property, primarily payroll and contract services, are paid by FCRHA and subsequently reimbursed by the Partnership. At December 31, 2017 and 2016, $939 and $0, respectively, remains payable and is included in payable to general partner on the accompanying balance sheets.

Real estate tax reimbursement

FCRHA pays the real estate taxes on behalf of the property. The property is not obligated to reimburse FCRHA for these costs. For the years ended December 31, 2017 and 2016, $206 and $331, respectively, was covered by FCRHA.

Insurance

FCRHA pays for the insurance coverage of the project and there is no reimbursement made. No expense or income related to the FCRHA-covered insurance is recorded by the project.

Note 7 - Ground lease commitment

On January 1, 2000, the Partnership entered into a land-lease agreement with FCRHA, the general partner. The lease calls for annual payments of $48,000 due on March 1 of the following year, payable from net cash flow, as defined in the lease agreement. Any unpaid amounts are cumulative and shall be payable on the next payment date. If the unpaid amount is not paid at the following payment date, the amount accrues interest at the Applicable Federal Rate. The lease expires on December 31, 2050. For the years ended December 31, 2017 and 2016, $48,000 and $48,000 was charged to operations and $500,000 and $452,000, respectively, remains payable and is included in payable to general partner on the balance sheets. For the years ended, December 31, 2017 and 2016, $13,203 and $9,908, respectively, of interest was charged to operations. The Applicable Federal Rate at December 31, 2017 is 2.61%. Accrued interest payable as of December 31, 2017 and 2016 is $142,256 and $129,053, respectively, and is included in payable to general partner on the accompanying balance sheets.

Minimum lease payments due under the agreement are as follows:

December 31, 2018	$	548,000
2019		48,000
2020		48,000
2021		48,000
2022		48,000
Thereafter		1,344,000
Total	$	2,084,000

Note 8 - Concentration of credit risk

The Partnership maintains cash and cash equivalents with financial institutions. At times, these balances may exceed the federal insurance limits; however, the Partnership has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances at December 31, 2017.

Note 9 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Partnership through April 3, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Supplementary Information

Castellani Meadows Limited Partnership
(A Virginia Limited Partnership)

Schedules of Certain Income and Expenses
Years Ended December 31, 2017 and 2016

	2017	2016
Rental income		
Rent revenue - gross potential	$ 240,965	$ 241,345
Total rental income	$ 240,965	$ 241,345
Vacancies and concessions		
Apartments vacancies	$ 9,008	$ 3,559
Total vacancies and concessions	$ 9,008	$ 3,559
Other operating income		
Tenant charges	$ 310	$ 150
Late fees	2,497	983
Excess utilities	-	69
Miscellaneous other income	3,678	331
Total other operating income	$ 6,485	$ 1,533
Salaries and employee benefits		
Salaries - administrative	$ 18,741	$ 18,016
Health insurance and other benefits	7,202	6,956
Total salaries and employee benefits	$ 25,943	$ 24,972
Repairs and maintenance		
Exterminating	$ 390	$ 5,100
Grounds	8,831	9,727
Supplies	2,607	1,671
Repairs and maintenance - contracts	19,035	31,802
Miscellaneous maintenance expenses	4,806	1,309
Total repairs and maintenance	$ 35,669	$ 49,609
Utilities		
Electricity	$ 1,001	$ 825
Water	90	(34)
Trash removal	8,280	8,280
Gas	406	18
Total utilities	$ 9,777	$ 9,089

Castellani Meadows Limited Partnership
(A Virginia Limited Partnership)

Schedules of Certain Income and Expenses
Years Ended December 31, 2017 and 2016

	2017	2016
Miscellaneous operating expenses		
Other rent expense	$ 328	$ -
Lease expense	48,000	48,000
Miscellaneous administrative	326	10
Legal	931	296
Audit	10,990	10,881
Other professional fees	121	86
MIP expense	2,623	2,375
Other taxes, licenses and insurance	3,835	3,843
Total miscellaneous operating expenses	$ 67,154	$ 65,491
Interest expense - other loans		
Interest expense - CDBG	$ 8,328	$ 8,328
Interest expense - HOME	40,757	40,757
Total interest expense - other loans	$ 49,085	$ 49,085
Other financial income (expense)		
Miscellaneous financial income	$ 25	$ 25
Interest expense on ground lease	(13,203)	(9,908)
Total other financial income (expense)	$ (13,178)	$ (9,883)
Other related party fees and expenses		
Partnership management fee	$ 19,479	$ 18,730
Total other related party fees and expenses	$ 19,479	$ 18,730

See Independent Auditor's Report.

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