

**FAIRFAX COUNTY REDEVELOPMENT
AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)**

**FINANCIAL STATEMENTS
June 30, 2011**

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Independent Auditor's Report

The Board of Supervisors
County of Fairfax, Virginia

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

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority

We have audited the accompanying basic financial statements of the Rental Program – Penderbrook, Project No. 880149 (the Project) of the Fairfax County Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2011 as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Project's management. 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, and the Virginia Housing Development Authority's *Mortgagor/Grantee's Audit Guide*. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the accounts of the Project and do not purport to, and do not, present fairly the financial position of the Authority as of June 30, 2011, and the results of its operations and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Project at June 30, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2011 on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Project's basic financial statements. The supplemental information on pages 17-26, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Baltimore, Maryland
September 15, 2011

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Introduction

The Fairfax County Redevelopment and Housing Authority (FCRHA) 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 created the Department of Housing and Community Development (DHCD) to act as the development and administrative agency for the FCRHA and the Board in meeting the housing and community development needs of the County's low- and moderate-income residents.

The FCRHA presents this discussion and analysis of Penderbrook, Project No. 880149 (the Project) for the fiscal year ended June 30, 2011 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 2011 (FY 2011)

In summary, the Project's FY 2011 financial highlights included the following:

- At June 30, 2011, total assets and liabilities were \$2,845,737 and \$460,219, respectively; thus, total net assets were \$2,385,518. Of this amount, \$782,448 (unrestricted net assets) may be used to meet the Project's future operational needs.
- Total revenues and expenses were \$513,067 and \$568,077, respectively; thus, net assets decreased by \$55,010 in FY 2011.
- Total cash decreased by \$22,882 in FY 2011 compared to an increase of \$32,562 in FY 2010. The decrease, on a year-to-year comparative basis, was primarily due to increased personnel costs, higher administrative and utility expenses, and payment of accrued liabilities from the prior year end.

Project Financial Statements

This discussion and analysis presents the Project's financial results in three financial statements – the statement of net assets, the statement of revenues, expenses, and changes in net assets and the statement of cash flows. The FY 2011 financial results are compared to those of FY 2010, thus allowing the readers to ascertain the reasons for changes in expenses, revenues, or net asset 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.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Summary of Net Assets

The Project's FY 2011 and FY 2010 statements of net assets report all financial and capital assets of the Project and are presented in a format where assets minus liabilities equals net assets. The following table reflects a condensed summary of net assets as of June 30, 2011 and 2010.

Table 1
Summary of Net Assets

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Current and restricted assets	\$ 1,657,964	\$ 1,679,529	\$ (21,565)
Capital assets	<u>1,187,773</u>	<u>1,281,863</u>	<u>(94,090)</u>
Total assets	<u>2,845,737</u>	<u>2,961,392</u>	<u>(115,655)</u>
Current liabilities	102,258	119,776	(17,518)
Non-current liabilities	<u>357,961</u>	<u>401,088</u>	<u>(43,127)</u>
Total liabilities	<u>460,219</u>	<u>520,864</u>	<u>(60,645)</u>
Net assets:			
Invested in capital assets, net of related debt	786,684	840,622	(53,938)
Restricted	816,386	789,680	26,706
Unrestricted	<u>782,448</u>	<u>810,226</u>	<u>(27,778)</u>
Total net assets	<u>\$ 2,385,518</u>	<u>\$ 2,440,528</u>	<u>\$ (55,010)</u>

The Project's net assets decreased by \$55,010 in FY 2011 compared to a decrease of \$56,004 in FY 2010. The decrease, on a year-to-year comparative basis, was primarily due to increased operating costs for personnel services, and administrative and utility.

Capital Assets and Debt Administration

Capital assets. The Project's capital assets as of June 30, 2011 included land, buildings and improvements, and equipment that totaled \$3,290,467, net of accumulated depreciation of \$2,102,694, providing net capital assets of \$1,187,773. 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. For further details, see Note 3 concerning debt and long-term liabilities of the Project.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Summary of Revenues, Expenses, and Changes in Net Assets

The Project's Statement of Revenues, Expenses, and Changes in Net Assets 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 assets. As previously stated, the Project's net assets decreased by \$55,010 primarily as a result of increases in administrative expenses, utilities expenses and personnel costs.

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

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Revenues:			
Operating revenues	\$ 507,714	\$ 479,841	\$ 27,873
Non-operating revenues	5,353	7,010	(1,657)
Total revenues	<u>513,067</u>	<u>486,851</u>	<u>26,216</u>
Expenses:			
Operating expenses	537,982	509,974	28,008
Non-operating expenses	<u>30,095</u>	<u>32,881</u>	<u>(2,786)</u>
Total expenses	<u>568,077</u>	<u>542,855</u>	<u>25,222</u>
Change in net assets	(55,010)	(56,004)	994
Total net assets, beginning of year	<u>2,440,528</u>	<u>2,496,532</u>	<u>(56,004)</u>
Total net assets, end of year	<u>\$ 2,385,518</u>	<u>\$ 2,440,528</u>	<u>\$ (55,010)</u>

Overall, the Project's financial position has declined as a result of the year's operation. However, the Project is in excellent physical condition and no major maintenance items are required at this time.

Contacting FCRHA 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 ASSETS
June 30, 2011

ASSETS

CURRENT ASSETS

Cash on deposit with County of Fairfax, Virginia	\$	819,039
Restricted cash:		
Deposits held in trust		19,830
Interest receivable		161
Accounts receivable (less allowance for doubtful accounts of \$3,771)		2,548
Total current assets		841,578

RESTRICTED ASSETS (Note 1)

Replacement reserves		816,386
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CAPITAL ASSETS (Note 2)

Nondepreciable:		
Land		649,636
Depreciable:		
Buildings and improvements		2,587,486
Equipment		53,345
Accumulated depreciation		(2,102,694)
Total capital assets, net		1,187,773

TOTAL ASSETS

\$ 2,845,737

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$	10,216
Deposits held in trust		19,830
Deferred revenue		11,721
Accrued compensated absences		17,363
Mortgage payable (Note 3)		43,128
Total current liabilities		102,258

NONCURRENT LIABILITIES

Mortgage payable (Note 3)		357,961
Total liabilities		460,219

NET ASSETS

Invested in capital assets, net of related debt		786,684
Restricted net assets		816,386
Unrestricted net assets		782,448
Total net assets		2,385,518

TOTAL LIABILITIES AND NET ASSETS

\$ 2,845,737

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

OPERATING REVENUES	
Dwelling rentals	\$ 502,552
Other	<u>5,162</u>
Total operating revenues	<u>507,714</u>
OPERATING EXPENSES	
Personnel services	250,024
Utilities	18,083
Repairs and maintenance	96,813
Administrative expenses	78,972
Depreciation	<u>94,090</u>
Total operating expenses	<u>537,982</u>
Operating loss	<u>(30,268)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	5,353
Interest expense	<u>(30,095)</u>
Total nonoperating revenues, net	<u>(24,742)</u>
CHANGE IN NET ASSETS	(55,010)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>2,440,528</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 2,385,518</u>

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Rental income received	\$ 503,118
Miscellaneous income received	5,162
Personnel expenses paid	(248,892)
Administrative expenses paid	(78,972)
Operating and maintenance expenses paid	(121,058)
Utilities paid	(18,083)
Net tenant security deposits received	<u>924</u>
 Net cash provided by operating activities	 <u>42,199</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on mortgage payable	(40,153)
Interest payments on mortgage payable	<u>(30,335)</u>
 Net cash used in capital and related financing activities	 <u>(70,488)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>5,407</u>
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NET DECREASE IN CASH (22,882)

CASH, BEGINNING OF YEAR 1,678,137

CASH, END OF YEAR \$ 1,655,255

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (30,268)
Depreciation	94,090
Effects of changes in operating assets and liabilities:	
Accounts receivable	(1,370)
Accounts payable and accrued liabilities	(29,700)
Accrued compensated absences	6,587
Deferred revenue	1,936
Security deposits	<u>924</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 42,199

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The Fairfax County Redevelopment and Housing Authority (FCRHA) 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 FCRHA 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). FCRHA is a component unit of the County.

The accompanying financial statements present only the financial position, changes in financial position, and cash flows of the Project and are not intended to present fairly the financial position, changes in financial position, and cash flows of FCRHA in conformity with U.S. generally accepted accounting principles (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 more 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 applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989, unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For 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

Project 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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash on Deposit with County of Fairfax, Virginia, Restricted Assets and Deposits Held in Trust
(continued)

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, as well as cash balances in accordance with certain bond indentures. Such restricted assets have been included in cash for the purposes of the Statement of Cash Flows. 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 values. The County allocates, on a monthly basis, any temporary investment earnings, less an administrative charge, based on FCRHA's average balance pooled cash and temporary investments.

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.

Foreign Currency Risk

The Project's cash is limited to U.S. dollar denominated instruments.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and construction in progress are reported in the financial statements at cost when purchased and at estimated fair value when donated. Capital assets are defined by FRCHA 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 5 to 27.5 years.

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 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).

Revenue Recognition

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred 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 deferred 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.

Implementation of New GASB Pronouncement

In fiscal year 2011, the Project implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this new standard had no impact on the Project's fiscal year 2011 financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 649,636	\$ -	\$ -	\$ 649,636
Total capital assets, non-depreciable	<u>649,636</u>	<u>-</u>	<u>-</u>	<u>649,636</u>
Capital assets being depreciated:				
Buildings and improvements	2,587,486	-	-	2,587,486
Equipment	53,345	-	-	53,345
Total capital assets being depreciated	<u>2,640,831</u>	<u>-</u>	<u>-</u>	<u>2,640,831</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,955,259)	(94,090)	-	(2,049,349)
Equipment	(53,345)	-	-	(53,345)
Total accumulated depreciation	<u>(2,008,604)</u>	<u>(94,090)</u>	<u>-</u>	<u>(2,102,694)</u>
Total capital assets, net	<u>\$ 1,281,863</u>	<u>\$ (94,090)</u>	<u>\$ -</u>	<u>\$ 1,187,773</u>

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 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, 2011 is \$516,902 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2012	\$ 43,128	\$ 27,359
2013	46,324	24,163
2014	49,757	20,730
2015	53,444	17,043
2016	57,404	13,083
2017-2019	<u>151,032</u>	<u>13,435</u>
Total	<u>\$ 401,089</u>	<u>\$ 115,813</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 – MORTGAGE PAYABLE (CONTINUED)

Noncurrent liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Mortgage payable	\$ 441,242	\$ -	\$ 40,153	\$ 401,089	\$ 43,128

NOTE 4 – 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, 2011.

NOTE 5 – OTHER POST-EMPLOYMENT BENEFITS

The Fairfax County OPEB Trust Fund is a single-employer defined benefit plan administered by Fairfax County 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. Beginning in fiscal year 2004, the amount of monthly subsidy provided by the County is based on years of service and ranges from \$30 per month to \$220 per month. Retirees receiving the subsidy prior to fiscal year 2004 are grandfathered at \$100 per month unless their years of service entitle them to receive a higher monthly subsidy.

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.

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.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Costs and related liability, if any, are recorded by the County. 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 FRCHA are not available. Information concerning the County's OPEB Trust Fund as a whole is available in the County's June 30, 2011 Comprehensive Annual Financial Report.

NOTE 6 – SUPPLEMENTAL INFORMATION

The supplemental information that is included on pages 17 - 21 is presented in accordance with VHDA requirements. As a result of these requirements, line item classifications may differ from amounts reported on the Statement of Revenues, Expenses and Changes in Net Assets, however, revenue and expenses will agree in total.

SUPPLEMENTAL INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
REQUIRED VHDA SCHEDULES
June 30, 2011

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

Accounts and Notes Receivable (Other than from Regular Tenants)

None

Accrued Liabilities

Accrued liabilities represent salaries and fringe benefits earned during the final payroll cycle of June 2011. The amount is \$7,386.

Delinquent Tenant Accounts Receivable

	Number of Tenants	Amounts Past Due
Delinquent 0-30 days	5	\$ 1,633
Delinquent 31-60 days	3	236
Delinquent over 60 days	3	4,450
Balance at June 30, 2011	11	\$ 6,319

Tenant Security Deposits

As of June 30, 2011, 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.

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:

Balance as of June 30, 2010, confirmed by mortgagee	\$ 770,774
Monthly deposits	43,008
Interest received	2,604
Balance as of June 30, 2011, confirmed by mortgagee	\$ 816,386

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
REQUIRED VHDA SCHEDULES
June 30, 2011

Accounts Payable and Accrued Liabilities

Payable within 30 days

Balance at June 30, 2011 \$ 10,216

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

<u>Creditor</u>	<u>Purpose</u>	<u>Date Refinanced</u>	<u>Terms</u>	<u>Original Amount</u>	<u>Amount Due</u>
VHDA	Mortgage	February 2006	12 Years	<u>\$ 587,942</u>	<u>\$ 401,089</u>

Schedule of Surplus Cash and Residual Receipts

Cash:

Cash in treasury of County of Fairfax, Virginia	\$ 819,039
Deposits held in trust	<u>19,830</u>

Total cash	<u>838,869</u>
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Less current obligations:

Tenant security deposits	19,830
Accounts payable and accrued liabilities (due within 30 days)	10,216
Accrued compensated absences	17,363
Deferred revenue	<u>11,721</u>

Total current obligations	<u>59,130</u>
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Surplus cash and residual receipts to be deposited to operating reserve account*	<u>\$ 779,739</u>
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* 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)
SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2011

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 502,552	
	Tenant Assistance Payments	5121	—	
	Furniture and Equipment	5130	—	
	Stores and Commercial	5140	—	
	Garage and Parking Spaces	5170	—	
	Flexible Subsidy Income	5180	—	
	Miscellaneous (specify)	5190	—	
	Total Rent Revenue Potential at 100% Occupancy			
Vacancies 5200	Apartments	5220	—	
	Furniture and Equipment	5230	—	
	Stores and Commercial	5240	—	
	Garage and Parking Spaces	5270	—	
	Miscellaneous (specify)	5290	—	
	Total Vacancies			
	Net Rental Revenue			\$ 502,552
	Elderly and Congregate Services Income – 5300			
	Total Service Income (Schedule Attached)	5300	—	
Financial Revenue	Interest Income – Project Operations	5410	—	
	Income from Investments – Residual Receipts	5430	—	
	Income from Investments – Reserve for Replacements	5440	2,551	
	Income from Investments – Miscellaneous	5490	2,802	
	Total Financial Revenue			
Other Revenue 5900	Laundry and Vending	5910	—	
	NSF and Late Charges	5920	2,092	
	Damages and Cleaning Fees	5930	—	
	Forfeited Tenant Security Deposits	5940	—	
	Other Revenue (specify) (gain on lender refinancing)	5990	3,070	
	Total Other Revenue			
	Total Revenue			\$ 513,067
Administrative Expenses 6200/6300	Advertising	6210	—	
	Other Administrative Expense	6250	26,785	
	Office Salaries	6310	189,194	
	Office Supplies	6310	611	
	Office or Model Apartment Rent	6312	—	
	Management	6320	35,783	
	Manager or Superintendent Salaries	6330	—	
	Manager or Superintendent Rent Free Unit	6331	—	
	Legal Expenses – Project	6340	917	
	Audit Expense – Project	6350	7,500	
	Bookkeeping Fees / Accounting Service	6351	—	
	Telephone and Answering Service	6360	—	
	Bad Debts	6370	4,196	
	Miscellaneous Administrative Expenses (specify)	6390	5,858	
Total Administrative Expenses				\$ 270,844
Utilities Expenses 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	2,230	
	Water	6451	15,853	
	Gas	6452	—	
	Sewer	6453	—	
	Total Utilities Expense			

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2011

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	\$ —	
	Janitor and Cleaning Supplies	6515	—	
	Janitor and Cleaning Contract	6517	—	
	Exterminating Payroll / Contract	6519	6,633	
	Exterminating Supplies	6520	—	
	Garbage and Trash Removal	6525	8,388	
	Security Payroll / Contract	6530	—	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	—	
	Grounds Contract	6537	3,825	
	Repairs Payroll	6540	—	
	Repairs Material	6541	64,899	
	Repairs Contract	6542	—	
	Elevator Maintenance / Contract	6545	—	
	Heating / Cooling Repairs and Maintenance	6546	—	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	—	
	Decorating Payroll / Contract	6560	—	
	Decorating Supplies	6561	—	
	Other	6570	10,109	
Miscellaneous Operating and Maintenance Expenses	6590	281		
Total Operating and Maintenance Expenses			\$ 94,135	
Taxes and Insurance 6700	Real Estate Taxes	6710	—	
	Payroll Taxes (FICA)	6711	—	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	—	
	Property and Liability Insurance (Hazard)	6720	—	
	Fidelity Bond Insurance	6721	—	
	Workmen's Compensation	6722	—	
	Health Insurance and Other Employee Benefits	6723	60,830	
	Other Insurance (specify)	6729	—	
Total Taxes and Insurance			\$ 60,830	
Financial Expenses 6800	Interest on Bonds Payable	6810	—	
	Interest on Mortgage Payable	6820	30,095	
	Interest on Notes Payable (Long-Term)	6830	—	
	Interest on Notes Payable (Short-Term)	6840	—	
	Mortgage Insurance Premium / Service Charge	6850	—	
	Miscellaneous Financial Expenses	6890	—	
Total Financial Expenses			\$ 30,095	
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)		\$ —	
	Total Cost of Operations Before Depreciation		\$ 473,987	
	Profit (Loss) Before Depreciation		\$ 39,080	
	Depreciation and Amortization	6600	\$ 94,090	
	Operating Profit or (Loss)		\$ (55,010)	
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)			\$ (55,010)	

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
CHANGES IN CAPITAL ASSET ACCOUNTS
Year Ended June 30, 2011

	Capital assets			Accumulated depreciation				Net book value	
	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011	Balance June 30, 2010	Current provision	Disposals		Balance June 30, 2011
Land	\$ 649,636	\$ -	\$ -	\$ 649,636	\$ -	\$ -	\$ -	\$ -	\$ 649,636
Buildings and improvements	2,587,486	-	-	2,587,486	1,955,259	94,090	-	2,049,349	538,137
Furniture and equipment	53,345	-	-	53,345	53,345	-	-	53,345	-
Total	<u>\$ 3,290,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,290,467</u>	<u>\$ 2,008,604</u>	<u>\$ 94,090</u>	<u>\$ -</u>	<u>\$ 2,102,694</u>	<u>\$ 1,187,773</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
IDENTIFICATION OF ENGAGEMENT AUDITOR
June 30, 2011

Auditing firm:	Clifton Gunderson LLP
Office mailing address:	9515 Deereco Road, Suite 500 Timonium, MD 21093
Office telephone number:	(410) 453-0900
Office fax number:	(410) 453-0914
Lead auditor and primary contact:	J. Michael Stephens, CPA
E-mail address:	mike.stephens@cliftoncpa.com

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2011

Project Name Rental Program – Penderbrook
 Project Number 880149
 Fiscal Year End June 30, 2011

The Management Agent certifies that the answers below are complete and accurate to the best of their knowledge and belief. “No” answers may be indicative of an adverse condition. Management’s response and a plan of action to any adverse findings must be included in Appendix A, A-13, Corrective Action Plan.

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Mortgage Status			
a. Are payments on all mortgages current?	X		
b. Has the Mortgagor/Grantee complied with the terms and conditions of the modification, forbearance and/or workout arrangement?			X
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?			X
2. Books and Records			
a. Are a complete set of books and records maintained in a satisfactory manner?	X		
b. Does the Mortgagor/Grantee make frequent postings (at least monthly) to the ledger accounts?	X		
3. Cash Activities			
a. Are the cash receipts deposited in an account in the name of the development?		X As approved by VHDA	
b. Are all account balances federally insured?	X		
c. If a centralized account is used, is it limited to disbursements?		X As approved by VHDA	
d. Are security deposits kept in an account separate and apart from all other funds of the development?		X As approved by VHDA	
e. Does the balance in the security deposit account equal or exceed the liability? Note: The liability should include the accrued interest payable.	X		
f. Does owner and/or management have a fidelity bond 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?	X		
g. Did cash disbursements exclude payments for items			

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2011

Examination status	Yes	No	N/A
listed below:			
• Legal expenses incurred in the sale of partnership interest?			X
• The fee for the preparation of a partner's, shareholder's or individual's federal, state, or local income tax returns?			X
• Expenses for advice to an owner on tax consequences of foreclosure?			X
• Reimbursement to the owners 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?			X
• Were all disbursements from the operating account(s) made exclusively for operations or obligations of the development?	X		
h. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of VHDA, while the development was in a "surplus cash" position?			X
• 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?			X
• In the use of rental proceeds to pay for costs included in the Mortgagor/Grantee's cost certification, are there no unauthorized distributions of development income?			X
i. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request of such deposit?			X
j. Were excess rental collections in Section 236 developments remitted to HUD each month?			X
k. Does the Mortgagor/Grantee have a formal rent collection policy?	X		
l. Is the collection policy uniformly enforced?	X		
m. Is there a formal procedure for write-off of bad debts?	X		
n. Have write-offs of tenants' accounts been less than five percent of the gross rent?	X		

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2011

Examination status	Yes	No	N/A
o. Are accounts receivable other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?			X
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 to the development?	X		
q. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	X		
4. Management Compensation			
a. Was compensation to the Management Agent limited to the amounts prescribed in the Management Agreement?	X		
b. Did agent not charge development for expenses which the Management Agreement requires agent to pay?			X
5. Rents and Occupancy			
a. On unassisted developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule(s) maintained by the Management Agent?	X		
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)?			X
c. On assisted developments, are dwelling unit rents the same as those approved by VHDA on the most recent Rent Schedule, HUD No. 92458?			X
6. HDA/HUD Subsidy Payments (Section 8/RAP Developments Only)			
a. Were the amounts requested from VHDA/HUD adequately supported by the accounting records?			X
b. Were subsidy receipts recorded in the proper accounts?			X
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?			X
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?			X

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
CERTIFICATE OF ASSISTANT SECRETARY
June 30, 2011

I hereby certify that I have examined the accompanying financial statements, supplementary information, and management's discussion and analysis and, to the best of my knowledge and belief, they are complete and accurate. There were no changes in ownership during the year ended June 30, 2011.



Paula C. Sampson
Assistant Secretary
Fairfax County Redevelopment and
Housing Authority
Employer Identification Number 52-1464034

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

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority

We have audited the financial statements of the Rental Program – Penderbrook, Project No. 880149 (the Project) of the Fairfax County Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 15, 2011. 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; and the *Mortgagor/Grantee's Audit Guide*, issued by the Virginia Housing Development Authority.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 the 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 the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Supervisors of Fairfax County, Virginia, the Board of Commissioners of the Fairfax County Redevelopment and Housing Authority, the Project's management, and the Virginia Housing Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Baltimore, Maryland
September 15, 2011