

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

**FINANCIAL STATEMENTS
June 30, 2013**

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the Rental Program – Penderbrook (the Project), which comprises the statement of net position as of June 30, 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Project'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 Project's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Project as of June 30, 2013, and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 through 5 are 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The required VHDA schedules are presented for purposes of additional analysis and are 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. Such 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 required VHDA schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, on our consideration of the Project’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 Project’s internal control over financial reporting and compliance.



Baltimore, Maryland
September 16, 2013

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013

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, 2013 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 2013 (FY 2013)

In summary, the Project’s FY 2013 financial highlights included the following:

- At June 30, 2013, total assets and liabilities were \$2,392,295 and \$387,918, respectively; thus, total net position was \$2,004,377. Of this amount, \$565,717 (unrestricted net position) may be used to meet the Project’s future operational needs.
- Total revenues and expenses were \$535,611 and \$779,378, respectively; thus, net position decreased by \$243,767 in FY 2013.
- Total cash decreased by \$188,865 in FY 2013 compared to a decrease of \$77,278 in FY 2012. The decrease, on a year-to-year comparative basis, was primarily due to increased maintenance costs for balcony repairs, an increase in condominium fees, and an increase in salary costs.

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 2013 financial results are compared to those of FY 2012, thus allowing the readers to ascertain the reasons for 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.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013

Summary of Net Position

The Project’s FY 2013 and FY 2012 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, 2013 and 2012.

Table 1
Summary of Net Position

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Current and restricted assets	\$ 1,392,704	\$ 1,579,609	\$ (186,905)
Capital assets	<u>999,591</u>	<u>1,093,682</u>	<u>(94,091)</u>
Total assets	<u>2,392,295</u>	<u>2,673,291</u>	<u>(280,996)</u>
Current liabilities	126,038	113,510	12,528
Non-current liabilities	<u>261,880</u>	<u>311,637</u>	<u>(49,757)</u>
Total liabilities	<u>387,918</u>	<u>425,147</u>	<u>(37,229)</u>
Net position:			
Net investment in capital assets	687,954	735,721	(47,767)
Restricted	750,706	861,748	(111,042)
Unrestricted	<u>565,717</u>	<u>650,675</u>	<u>(84,958)</u>
Total net position	<u>\$ 2,004,377</u>	<u>\$ 2,248,144</u>	<u>\$ (243,767)</u>

The Project’s net position decreased by \$243,767 in FY 2013 compared to a decrease of \$137,374 in FY 2012. The decrease, on a year-to-year comparative basis, was primarily due to increased maintenance costs for repairs on the balconies at Penderbrook and increased condominium fees.

Capital Assets and Debt Administration

Capital assets. The Project’s capital assets as of June 30, 2013 included land, buildings and improvements, and equipment that totaled \$3,290,467, net of accumulated depreciation of \$2,290,876, providing net capital assets of \$999,591. 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, 2013

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 assets decreased by \$243,767 primarily as a result of increases in maintenance costs due to balcony repairs and increases in condominium fees.

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

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Revenues:			
Operating revenues	\$ 530,532	\$ 516,688	\$ 13,844
Non-operating revenues	<u>5,079</u>	<u>4,531</u>	<u>548</u>
Total revenues	<u>535,611</u>	<u>521,219</u>	<u>14,392</u>
Expenses:			
Operating expenses	755,492	631,492	124,000
Non-operating expenses	<u>23,886</u>	<u>27,101</u>	<u>(3,215)</u>
Total expenses	<u>779,378</u>	<u>658,593</u>	<u>120,785</u>
Change in net position	(243,767)	(137,374)	(106,393)
Total net position, beginning of year	<u>2,248,144</u>	<u>2,385,518</u>	<u>(137,374)</u>
Total net position, end of year	<u><u>\$ 2,004,377</u></u>	<u><u>\$ 2,248,144</u></u>	<u><u>\$ (243,767)</u></u>

Overall, the Project’s financial position has declined as a result of the year’s operation. The Project has received major repairs to the balconies and no further 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 POSITION
June 30, 2013

ASSETS

CURRENT ASSETS

Cash on deposit with County of Fairfax, Virginia	\$	618,688
Restricted cash:		
Deposits held in trust		19,718
Accrued interest receivable		1,434
Accounts receivable (less allowance for doubtful accounts of \$2,230)		<u>2,158</u>

Total current assets		<u>641,998</u>
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RESTRICTED ASSETS (Note 1)

Replacement reserves		<u>750,706</u>
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CAPITAL ASSETS (Note 2)

Nondepreciable:		
Land		649,636
Depreciable:		
Buildings and improvements		2,587,486
Equipment		53,345
Accumulated depreciation		<u>(2,290,876)</u>

Total capital assets, net		<u>999,591</u>
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TOTAL ASSETS

\$ 2,392,295

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$	22,383
Deposits held in trust		19,718
Unearned revenue		13,606
Accrued compensated absences		20,574
Mortgage payable (Note 3)		<u>49,757</u>

Total current liabilities		126,038
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NONCURRENT LIABILITIES

Mortgage payable (Note 3)		<u>261,880</u>
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Total liabilities		<u>387,918</u>
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NET POSITION

Net investment in capital assets		687,954
Restricted net position		750,706
Unrestricted net position		<u>565,717</u>

Total net position		<u>2,004,377</u>
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TOTAL LIABILITIES AND NET POSITION

\$ 2,392,295

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 POSITION
Year Ended June 30, 2013

OPERATING REVENUES	
Dwelling rentals	\$ 526,812
Other	<u>3,720</u>
 Total operating revenues	 <u>530,532</u>
OPERATING EXPENSES	
Personnel services	325,382
Utilities	24,529
Repairs and maintenance	182,760
Administrative expenses	128,730
Depreciation	<u>94,091</u>
 Total operating expenses	 <u>755,492</u>
 Operating loss	 <u>(224,960)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	5,079
Interest expense	<u>(23,886)</u>
 Total nonoperating expenses, net	 <u>(18,807)</u>
 CHANGE IN NET POSITION	 <u>(243,767)</u>
 TOTAL NET POSITION, BEGINNING OF YEAR	 <u>2,248,144</u>
 TOTAL NET POSITION, END OF YEAR	 <u>\$ 2,004,377</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Rental income received	\$ 522,139
Miscellaneous income received	3,720
Personnel expenses paid	(316,933)
Administrative expenses paid	(128,730)
Operating and maintenance expenses paid	(176,049)
Utilities paid	(24,529)
Net tenant security deposits received	<u>(130)</u>
Net cash used in operating activities	<u>(120,512)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on mortgage payable	(46,324)
Interest payments on mortgage payable	<u>(26,454)</u>
Net cash used in financing activities	<u>(72,778)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>4,425</u>
NET DECREASE IN CASH	(188,865)
CASH, BEGINNING OF YEAR	<u>1,577,977</u>
CASH, END OF YEAR	<u><u>\$ 1,389,112</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (224,960)
Depreciation	94,091
Effects of changes in operating assets and liabilities:	
Accounts receivable	(1,306)
Accounts payable and accrued liabilities	10,416
Accrued compensated absences	4,744
Deferred revenue	(3,367)
Security deposits	<u>(130)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (120,512)</u></u>

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, 2013

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 is required to follow all statements of the Governmental Accounting Standards Board (GASB). GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued to incorporate FASB and AICPA guidance into GASB authoritative literature. 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.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 2013

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 28 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 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.

New Accounting Pronouncements

In fiscal year 2013, the Project implemented GASB Statement Nos. 61, 62, and 63 as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. This includes the concept of financial burden or benefit on the relationship between the primary government and the component unit. The implementation of this new standard had no impact on the Project's 2013 financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, APB, and AICPA guidance issued before November 30, 1989. The implementation of this new standard modified certain language in disclosures related to the applicable basis of accounting in the Project’s 2013 financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* revised the financial reporting for elements of the financial statements as a consumption or acquisition of net assets that are applicable to the future reporting period. These items are distinct from assets and liabilities. This statement also identifies net position. The implementation of this new standard revised the presentation in the financial statements for those items identified as deferred outflows and inflows and revised the names of the statements presented and certain classifications within those statements.

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 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	2,143,440	94,091	-	2,237,531
Equipment	53,345	-	-	53,345
Total accumulated depreciation	<u>2,196,785</u>	<u>94,091</u>	<u>-</u>	<u>2,290,876</u>
Total capital assets, net	<u>\$ 1,093,682</u>	<u>\$ (94,091)</u>	<u>\$ -</u>	<u>\$ 999,591</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.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 – MORTGAGE PAYABLE (CONTINUED)

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, 2013 is \$375,929 and is due as follows:

	Principal	Interest
Years ending June 30:		
2014	\$ 49,757	\$ 20,730
2015	53,444	17,043
2016	57,404	13,083
2017	61,658	8,829
2018	66,228	4,260
2019	23,146	347
Total	\$ 311,637	\$ 64,292

Noncurrent liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Mortgage payable	\$ 357,961	\$ -	\$ 46,324	\$ 311,637	\$ 49,757

NOTE 4 – CHANGES IN COMPENSATED ABSENCES PAYABLE

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Compensated absences payable	\$ 15,830	\$ 20,574	\$ (15,830)	\$ 20,574	\$ 20,574

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, 2013.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 – 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.

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, 2013 Comprehensive Annual Financial Report.

NOTE 7 – 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 Position, 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, 2013

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

Accounts and Notes Receivable (Other than from Regular Tenants)

None

Accrued Liabilities

The portion of accrued liabilities that represent salaries and fringe benefits earned during the final payroll cycle of June 2013. The amount is \$9,604.

Delinquent Tenant Accounts Receivable

	Number of Tenants	Amounts Past Due
Delinquent 0-30 days	4	\$ 2,158
Delinquent 31-60 days	-	-
Delinquent over 60 days	2	2,230
Balance at June 30, 2013	6	\$ 4,388

Tenant Security Deposits

As of June 30, 2013, 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, 2013, tenant security deposits were \$19,718.

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, 2012, confirmed by mortgagee	\$ 861,748
Monthly deposits	43,009
Interest received	1,949
Withdrawals	(156,000)
Balance as of June 30, 2013, confirmed by mortgagee	\$ 750,706

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
REQUIRED VHDA SCHEDULES
June 30, 2013

Accounts Payable and Accrued Liabilities

Payable within 30 days	\$ 22,383
Balance at June 30, 2013	\$ 22,383

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	<u>\$ 587,942</u>	<u>\$ 311,637</u>

Schedule of Surplus Cash and Residual Receipts

Cash:	
Cash in treasury of County of Fairfax, Virginia	\$ 618,688
Deposits held in trust	<u>19,718</u>
Total cash	<u>638,406</u>
Less current obligations:	
Tenant security deposits	19,718
Accounts payable and accrued liabilities (due within 30 days)	22,383
Accrued compensated absences	20,574
Deferred revenue	<u>13,606</u>
Total current obligations	<u>76,281</u>
Surplus cash and residual receipts to be deposited to operating reserve account*	\$ 562,125

* 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, 2013

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 526,812	
	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			\$ 526,812
	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	1,966	
	Income from Investments – Miscellaneous	5490	3,113	
	Total Financial Revenue			
Other Revenue 5900	Laundry and Vending	5910	—	
	NSF and Late Charges	5920	1,930	
	Damages and Cleaning Fees	5930	—	
	Forfeited Tenant Security Deposits	5940	—	
	Other Revenue (specify) (gain on lender refinancing)	5990	1,790	
	Total Other Revenue			
	Total Revenue			\$ 535,611
Administrative Expenses 6200/6300	Advertising	6210	—	
	Other Administrative Expense	6250	81,578	
	Office Salaries	6310	235,373	
	Office Supplies	6310	1,238	
	Office or Model Apartment Rent	6312	—	
	Management	6320	37,050	
	Manager or Superintendent Salaries	6330	—	
	Manager or Superintendent Rent Free Unit	6331	—	
	Legal Expenses – Project	6340	345	
	Audit Expense – Project	6350	11,000	
	Bookkeeping Fees / Accounting Service	6351	—	
	Telephone and Answering Service	6360	—	
	Bad Debts	6370	(2,481)	
	Miscellaneous Administrative Expenses (specify)	6390	—	
Total Administrative Expenses				\$ 364,103
Utilities Expenses 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	2,117	
	Water	6451	22,412	
	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, 2013

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	—	
	Exterminating Supplies	6520	—	
	Garbage and Trash Removal	6525	3,769	
	Security Payroll / Contract	6530	—	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	—	
	Grounds Contract	6537	18,599	
	Repairs Payroll	6540	—	
	Repairs Material	6541	158,258	
	Repairs Contract	6542	—	
	Elevator Maintenance / Contract	6545	—	
	Heating / Cooling Repairs and Maintenance	6546	—	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	929	
	Decorating Payroll / Contract	6560	—	
	Decorating Supplies	6561	—	
Other	6570	1,172		
Miscellaneous Operating and Maintenance Expenses	6590	33		
	Total Operating and Maintenance Expenses			\$ 182,760
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	90,009	
	Other Insurance (specify)	6729	—	
	Total Taxes and Insurance			\$ 90,009
Financial Expenses 6800	Interest on Bonds Payable	6810	—	
	Interest on Mortgage Payable	6820	23,886	
	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			\$ 23,886
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)	6900	\$ —	
	Total Cost of Operations Before Depreciation			\$ 685,287
	Profit (Loss) Before Depreciation			\$ (149,676)
	Depreciation and Amortization	6600	\$ 94,091	
	Operating Profit or (Loss)			\$ (243,767)
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)			\$ (243,767)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
CHANGES IN CAPITAL ASSET ACCOUNTS
Year Ended June 30, 2013

	Capital assets			Accumulated depreciation				Net book value	
	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013	Balance June 30, 2012	Current provision	Disposals		Balance June 30, 2013
Land	\$ 649,636	\$ -	\$ -	\$ 649,636	\$ -	\$ -	\$ -	\$ -	\$ 649,636
Buildings and improvements	2,587,486	-	-	2,587,486	2,143,440	94,091	-	2,237,531	349,955
Furniture and equipment	53,345	-	-	53,345	53,345	-	-	53,345	-
Total	\$ 3,290,467	\$ -	\$ -	\$ 3,290,467	\$ 2,196,785	\$ 94,091	\$ -	\$ 2,290,876	\$ 999,591

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
IDENTIFICATION OF ENGAGEMENT AUDITOR
June 30, 2013

Auditing firm:	CliftonLarsonAllen 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@claconnect.com

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2013

Project Name Rental Program – Penderbrook

Project Number 880149

Fiscal Year End June 30, 2013

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.

Examination status	Yes	No	N/A
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		

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Penderbrook
(Project No. 880149)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2013

Examination status	Yes	No	N/A
g. Did cash disbursements exclude payments for items 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, 2013

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, 2013

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, 2013.

A handwritten signature in black ink that reads "Paula C. Sampson". The signature is written in a cursive style with a large initial "P" and "S".

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rental Program – Penderbrook, Project No. 880149 (the Project) of the Fairfax County Redevelopment and Housing Authority (the Authority), which comprise the statement of net position as of June 30, 2013, 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 September 16, 2013.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 result of that testing, and not to provide an opinion on the effectiveness of the Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Baltimore, Maryland
September 16, 2013