

**FAIRFAX COUNTY REDEVELOPMENT
AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)**

**FINANCIAL STATEMENTS
June 30, 2013**

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Independent Auditor's Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment and Housing Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Section 8 – New Construction – Group Home (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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
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 its Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project) as of and for the fiscal year ended June 30, 2013 to assist the reader in focusing on significant financial issues. The Project is a housing facility for developmentally disabled adults.

The Project’s Financial Highlights for Fiscal Year 2013 (FY 2013)

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

- As of June 30, 2013, total assets and liabilities were \$512,934 and \$242,911, respectively; thus total net position was \$270,023.
- Total revenues and expenses were \$107,861 and \$91,303, respectively; thus total net position increased by \$16,558.
- Total restricted cash increased by \$2,042 in FY 2013 compared to a decrease of \$103,017 in FY 2012. This increase is attributable to the contributions and interest earned in the Project’s reserves.

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 revenues, expenses, 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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
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 | \$ 295,224 | \$ 293,167 | \$ 2,057 |
| Capital assets | <u>217,710</u> | <u>223,832</u> | <u>(6,122)</u> |
| Total assets | <u>512,934</u> | <u>516,999</u> | <u>(4,065)</u> |
| Current liabilities | 93,074 | 90,078 | 2,996 |
| Non-current liabilities | <u>149,837</u> | <u>173,456</u> | <u>(23,619)</u> |
| Total liabilities | <u>242,911</u> | <u>263,534</u> | <u>(20,623)</u> |
| Net position: | | | |
| Net investment in capital assets | 44,254 | 28,582 | 15,672 |
| Restricted | 295,156 | 293,114 | 2,042 |
| Unrestricted (deficit) | <u>(69,387)</u> | <u>(68,231)</u> | <u>(1,156)</u> |
| Total net position | <u><u>\$ 270,023</u></u> | <u><u>\$ 253,465</u></u> | <u><u>\$ 16,558</u></u> |

The Project’s net position increased by \$16,558 in FY 2013 compared to a decrease of \$84,560 in FY 2012. The increase in the change in net position between FY 2013 and FY 2012 was primarily due to a decrease in Project operations.

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 \$523,264, net of accumulated depreciation of \$305,554, providing net capital assets of \$217,710. For further details, see Note 3, Capital Assets.

Long-term Debt

The Virginia Housing Development Authority (the VHDA) provided permanent financing for the purchase of the land and buildings. The outstanding balance of the mortgage amounted to \$173,456 and \$195,250 at June 30, 2013 and 2012, respectively. The decrease in 2013 is a result of scheduled principal payments. For further details, see Note 4 concerning debt and long-term liabilities of the Project.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2013

Summary of Revenues, Expenses, and Changes in Net Position

The Project’s Statements of Revenues, Expenses, and Changes in Net Position include operating revenues, such as rental income, operating expenses, such as administrative, 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.

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

| | <u>2013</u> | <u>2012</u> | <u>Increase (Decrease)</u> |
|--|-------------------|-------------------|--------------------------------|
| Revenues: | | | |
| Operating revenues | \$ 107,136 | \$ 87,735 | \$ 19,401 |
| Non-operating revenues | <u>725</u> | <u>1,076</u> | <u>(351)</u> |
| Total revenues | <u>107,861</u> | <u>88,811</u> | <u>19,050</u> |
| Expenses: | | | |
| Operating expenses | 76,487 | 156,860 | (80,373) |
| Non-operating expenses | <u>14,816</u> | <u>16,511</u> | <u>(1,695)</u> |
| Total expenses | <u>91,303</u> | <u>173,371</u> | <u>(82,068)</u> |
| Increase (decrease) in net position | 16,558 | (84,560) | 101,118 |
| Total net position beginning of year | <u>253,465</u> | <u>338,025</u> | <u>(84,560)</u> |
| Total net position, end of year | <u>\$ 270,023</u> | <u>\$ 253,465</u> | <u>\$ 16,558</u> |

This statement reflects a decrease of \$80,373 in operating expenses as compared to FY 2012. The decrease is primarily attributable to higher repair and maintenance expenses in FY 2012 for major repairs and work to make several units compliant with the Americans with Disabilities Act.

Contacting FCRHA Management

This financial report is designed to provide the citizens of the 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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
STATEMENT OF NET POSITION
June 30, 2013

ASSETS

CURRENT ASSETS

| | |
|-----------------------------|--------------|
| Accrued interest receivable | \$ <u>68</u> |
|-----------------------------|--------------|

RESTRICTED ASSETS (Note 1)

| | |
|-------------------------|----------------|
| Replacement reserves | 51,670 |
| Operating reserves | <u>243,486</u> |
| Total restricted assets | <u>295,156</u> |

CAPITAL ASSETS (Note 3)

| | |
|----------------------------|------------------|
| Nondepreciable: | |
| Land | 168,059 |
| Depreciable: | |
| Buildings and improvements | 355,205 |
| Accumulated depreciation | <u>(305,554)</u> |
| Total capital assets, net | <u>217,710</u> |

| | |
|---------------------|---------------------------------|
| TOTAL ASSETS | \$ <u><u>512,934</u></u> |
|---------------------|---------------------------------|

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

| | |
|--|---------------|
| Accounts payable and accrued liabilities | \$ 2,181 |
| Due to Authority | 67,274 |
| Mortgage payable (Note 4) | <u>23,619</u> |
| Total current liabilities | 93,074 |

NONCURRENT LIABILITIES

| | |
|---------------------------|----------------|
| Mortgage payable (Note 4) | <u>149,837</u> |
| Total liabilities | <u>242,911</u> |

NET POSITION

| | |
|----------------------------------|-----------------|
| Net investment in capital assets | 44,254 |
| Restricted net position | 295,156 |
| Unrestricted net position | <u>(69,387)</u> |
| Total net position | <u>270,023</u> |

| | |
|---|---------------------------------|
| TOTAL LIABILITIES AND NET POSITION | \$ <u><u>512,934</u></u> |
|---|---------------------------------|

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2013

| | |
|--|--------------------------|
| OPERATING REVENUES | |
| Dwelling rentals | \$ 72,032 |
| Other | <u>35,104</u> |
| Total operating revenues | <u>107,136</u> |
| OPERATING EXPENSES | |
| Repairs and maintenance | 55,167 |
| Administrative expenses | 15,198 |
| Depreciation | <u>6,122</u> |
| Total operating expenses | <u>76,487</u> |
| Operating income | <u>30,649</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest revenue | 725 |
| Interest expense | <u>(14,816)</u> |
| Total nonoperating expenses, net | <u>(14,091)</u> |
| CHANGE IN NET POSITION | 16,558 |
| TOTAL NET POSITION, BEGINNING OF YEAR | <u>253,465</u> |
| TOTAL NET POSITION, END OF YEAR | <u><u>\$ 270,023</u></u> |

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

| | |
|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Rental income received | \$ 72,032 |
| Miscellaneous income received | 35,104 |
| Administrative expenses paid | (15,198) |
| Operating and maintenance expenses paid | <u>(53,849)</u> |
| Net cash provided by operating activities | <u>38,089</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | <u>710</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal payments on mortgage payable | (21,794) |
| Interest payments on mortgage payable | <u>(14,963)</u> |
| Net cash used in capital and related financing activities | <u>(36,757)</u> |
| NET INCREASE IN CASH | 2,042 |
| CASH, BEGINNING OF YEAR | <u>293,114</u> |
| CASH, END OF YEAR | <u><u>\$ 295,156</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating income | \$ 30,649 |
| Depreciation | 6,122 |
| Effects of changes in operating assets and liabilities: | |
| Accounts payable | <u>1,318</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u><u>\$ 38,089</u></u> |

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The Fairfax County Redevelopment and Housing Authority (FCRHA), Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project) is a housing facility for developmentally disabled adults. The goal of the Project is to increase the ability of its residents to become self-sufficient. Contained within the single-story structure is a central kitchen, a community dining room, two living room areas, offices for the counselors, a laundry room, and 12 single bedrooms for the residents. The Project is owned by FCRHA and is operated by the Fairfax-Falls Church Community Services Board pursuant to an agreement with FCRHA. FCRHA is a component unit of the County of Fairfax, Virginia (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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

Restricted assets represent funded reserves held by the Virginia Housing Development Authority (the VHDA), a state-housing-finance agency, pursuant to the regulatory agreement. All amounts are fully insured and collateralized. Such restricted assets have been included in cash for purposes of the Statement of Cash Flows.

Due to FCRHA

Project cash is maintained by the County's Investment and Cash Management Division (ICM) in a single pooled account. All of the Project's cash deposits are covered by federal depository insurance and have been fully insured or collateralized. The Project has numerous transactions with FCRHA to finance operations and provide services. To the extent that funds to finance certain transactions of the Project had not been paid or collected as of year-end, interfund payables and receivables are recorded.

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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
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 FCRHA as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Capital assets are recorded at cost when purchased and at fair market value when donated. 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.

Revenue Recognition

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

Operating Revenues and Expenses

The Project's policy is to report all Project revenues and expenses as operating, with the exception of interest income and expenses.

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.

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.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 – HOUSING ASSISTANCE PAYMENTS CONTRACT

The U.S. Department of Housing and Urban Development (HUD), through the VHDA, provides federal housing assistance for lower-income persons under the Section 8 Program to the Project’s residents. HUD provides funds to pay the difference between 30% of an eligible person’s income and the HUD-established fair market rent for a housing unit, which includes rent and utilities. A Housing Assistance Payments (HAP) contract between the VHDA and FCRHA provides the funding received under Section 8 to operate the Project. The contract was entered into on July 27, 1979 and has a term of 40 years. During 2013, the Project received HAP contract payments amounting to \$54,104, which have been included as Dwelling Rentals on the Project’s Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

| | Beginning | | | Ending |
|--|-------------------|-------------------|------------------|-------------------|
| | Balance | Additions | Disposals | Balance |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 168,059 | \$ - | \$ - | \$ 168,059 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | <u>355,205</u> | <u>-</u> | <u>-</u> | <u>355,205</u> |
| | 523,264 | - | - | 523,264 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | <u>(299,432)</u> | <u>(6,122)</u> | <u>-</u> | <u>(305,554)</u> |
| Capital assets, net | <u>\$ 223,832</u> | <u>\$ (6,122)</u> | <u>\$ -</u> | <u>\$ 217,710</u> |

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 – MORTGAGE PAYABLE

The VHDA provided construction and permanent financing for the Project. The outstanding mortgage loan carries an interest rate of 8.07% with final payment due June 1, 2019. The monthly principal and interest payment is \$3,063.

The land, structures, and equipment of the Project are pledged as security for the mortgage loan. The HAP contract is also pledged as security for the mortgage loan.

The Project maintains certain restricted deposits and funded reserves as required by VHDA. The aggregate amount of the required principal and interest payments on the mortgage loan as of June 30, 2013 is \$173,456 and is due as follows:

| | Principal | Interest |
|----------------------|-------------------|------------------|
| Year Ending June 30: | | |
| 2014 | \$ 23,619 | \$ 13,137 |
| 2015 | 25,597 | 11,159 |
| 2016 | 27,741 | 9,015 |
| 2017 | 30,064 | 6,692 |
| 2018 | 32,582 | 4,174 |
| 2019 | 33,853 | 2,903 |
| Total | \$ 173,456 | \$ 47,080 |

Changes in the mortgage payable for the year ended June 30, 2013 were as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Mortgage payable | \$ 195,250 | \$ - | \$ (21,794) | \$ 173,456 | \$ 23,619 |

NOTE 5 – RELATED PARTY TRANSACTIONS

Agreement with CSB

The County Board of Supervisors appoints the Commissioners of FCRHA and a majority of Board members of the Fairfax-Falls Church Community Services Board (CSB). Based on an agreement between FCRHA and the CSB, the CSB provides monthly rent subsidies on behalf of all of the Project's residents.

During the year ended June 30, 2013, the CSB provided \$ 17,928 in rent subsidies to FCRHA.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)

Management Agreement with FCRHA

The Project pays monthly management fees to FCRHA based on 4% of gross rental collections. For the year ended June 30, 2013, the Project paid \$2,882 under the terms of the management agreement and \$1,015 is owed to FCRHA from FY 2012.

NOTE 6 – 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 claim 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.

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.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
REQUIRED VHDA SCHEDULES
June 30, 2013

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

Accounts and Notes Receivable (Other than from Regular Tenants)

None

Delinquent Tenant Accounts Receivable

None

Tenant Security Deposits

None

Reserve for Replacements

In accordance with the provisions of the regulatory agreement, the restricted cash components held by the VHDA to be used for replacement of property with the approval of the VHDA, are as follows:

| | | |
|--|-----------|----------------------|
| Balance, June 30, 2012 | \$ | 50,256 |
| Monthly deposits | | 1,332 |
| Interest earned | | <u>82</u> |
| Balance as of June 30, 2013, confirmed by mortgagee | \$ | <u>51,670</u> |

Operating Reserve

Operating reserves are held by the VHDA or with VHDA approval, by the mortgagor in a restricted account and may be disbursed only as provided in the regulatory agreement with the approval of the VHDA. Operating reserves are as follows:

| | | |
|--|-----------|-----------------------|
| Balance, June 30, 2012 | \$ | 242,858 |
| Interest received | | <u>628</u> |
| Balance as of June 30, 2013, confirmed by mortgagee | \$ | <u>243,486</u> |

Mortgage Payable

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

| Creditor | Purpose | Date Incurred | Terms | Original Amount | Amount Due |
|----------|----------|---------------|----------|-----------------|------------|
| VHDA | Mortgage | July 1978 | 40 Years | \$ 437,157 | \$ 173,456 |

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
REQUIRED VHDA SCHEDULES
June 30, 2013

Related-Party Transactions

| <u>Entity</u> | <u>Description of services</u> | <u>Amount</u> |
|--|--|---------------|
| Expenses - Fairfax County Redevelopment and Housing Authority | Management services performed during the year | \$ 2,882 |
| Revenues - Fairfax - Falls Church Community Services Board | Monthly tenant rents | 17,928 |

Schedule of Surplus Cash and Residual Receipts

| | |
|--|---------------------------|
| Accrued interest receivable | \$ 68 |
| Mortgage interest payable July 1 | (1,166) |
| Current obligations - accounts payable and accrued liabilities, excluding interest | <u>(68,289)</u> |
| Surplus cash deficit | <u><u>\$ (69,387)</u></u> |

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
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 | \$ 72,032 | |
| | 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 | | | \$ 72,032 |
| | Elderly and Congregate Services Income – 5300 | | | |
| | Total Service Income (Schedule Attached) | 5300 | — | |
| Financial Revenue | Interest Income – Project Operations | 5410 | 725 | |
| | Income from Investments – Residual Receipts | 5430 | — | |
| | Income from Investments – Reserve for Replacements | 5440 | — | |
| | Income from Investments – Miscellaneous | 5490 | — | |
| | Total Financial Revenue | | | |
| Other Revenue 5900 | Laundry and Vending | 5910 | — | |
| | NSF and Late Charges | 5920 | — | |
| | Damages and Cleaning Fees | 5930 | — | |
| | Forfeited Tenant Security Deposits | 5940 | — | |
| | Other Revenue (specify) | 5990 | 35,104 | |
| | Total Other Revenue | | | |
| | Total Revenue | | | \$ 107,861 |
| Administrative Expenses 6200/6300 | Advertising | 6210 | — | |
| | Other Administrative Expense | 6250 | 1,316 | |
| | Office Salaries | 6310 | — | |
| | Office Supplies | 6310 | — | |
| | Office or Model Apartment Rent | 6312 | — | |
| | Management | 6320 | — | |
| | Manager or Superintendent Salaries | 6330 | — | |
| | Manager or Superintendent Rent Free Unit | 6331 | — | |
| | Legal Expenses – Project | 6340 | — | |
| | Audit Expense – Project | 6350 | 11,000 | |
| | Bookkeeping Fees / Accounting Service | 6351 | 2,882 | |
| | Telephone and Answering Service | 6360 | — | |
| | Bad Debts | 6370 | — | |
| | Miscellaneous Administrative Expenses (specify) | 6390 | — | |
| Total Administrative Expenses | | | | \$ 15,198 |
| Utilities Expenses 6400 | Fuel Oil / Coal | 6420 | — | |
| | Electricity (Light and Misc. Power) | 6450 | — | |
| | Water | 6451 | — | |
| | Gas | 6452 | — | |
| | Sewer | 6453 | — | |
| | Total Utilities Expense | | | \$ — |

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2013
(continued)

| 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 | 707 | |
| | Security Payroll / Contract | 6530 | — | |
| | Grounds Payroll | 6535 | — | |
| | Grounds Supplies | 6536 | — | |
| | Grounds Contract | 6537 | 2,773 | |
| | Repairs Payroll | 6540 | 26,120 | |
| | Repairs Material | 6541 | — | |
| | Repairs Contract | 6542 | 25,567 | |
| | 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 | — | |
| Miscellaneous Operating and Maintenance Expenses | 6590 | — | | |
| | Total Operating and Maintenance Expenses | | | \$ 55,167 |
| 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 | — | |
| | Other Insurance (specify) | 6729 | — | |
| | Total Taxes and Insurance | | | \$ — |
| Financial Expenses 6800 | Interest on Bonds Payable | 6810 | — | |
| | Interest on Mortgage Payable | 6820 | 14,816 | |
| | 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 | | | \$ 14,816 |
| Elderly and Congregate Service Expenses 6900 | Total Service Expenses (Schedule Attached) | 6900 | | \$ — |
| | Total Cost of Operations Before Depreciation | | | \$ 85,181 |
| | Profit (Loss) Before Depreciation | | | \$ 22,680 |
| | Depreciation and Amortization | 6600 | | \$ 6,122 |
| | Operating Profit or (Loss) | | | 16,558 |
| 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) | | | \$ 16,558 |

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
CHANGES IN CAPITAL ASSETS 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 | \$ 168,059 | \$ - | \$ - | \$ 168,059 | \$ - | \$ - | \$ - | \$ - | \$ 168,059 |
| Buildings and improvements | 355,205 | - | - | 355,205 | 299,432 | 6,122 | - | 305,554 | 49,651 |
| Total | <u>\$ 523,264</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 523,264</u> | <u>\$ 299,432</u> | <u>\$ 6,122</u> | <u>\$ -</u> | <u>\$ 305,554</u> | <u>\$ 217,710</u> |

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2013

Project Name Section 8 – New Construction – Group Home

Project Number VA39-H027-017

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 | | |
| b. Are all account balances federally insured? | X | | |
| c. If a centralized account is used, is it limited to disbursements? | | As approved by VHDA X | |
| d. Are security deposits kept in an account separate and apart from all other funds of the development? | | | X |
| 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) | | | X |

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2013

| Examination status | Yes | No | N/A |
|--|----------|----|----------|
| that provides coverage for all employees handling cash? | | | |
| 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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
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
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
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, appearing to read "Paula C. Sampson". The signature is written in a cursive style with a large initial 'P'.

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
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority

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 Section 8 – New Construction – Group Home (Project No. VA39-H027-017) (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.

The image shows a handwritten signature in cursive script that reads "CliftonLarsonAllen LLP". The signature is written in black ink and is positioned above the typed address and date.

Baltimore, Maryland
September 16, 2013