FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Crescent

FINANCIAL STATEMENTS
June 30, 2011

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority

We have audited the accompanying basic financial statements of the Rental Program – Crescent (the Project) of the Fairfax County Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2011 as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011 on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Clifton Gunderson LLP

Baltimore, Maryland
October 19, 2011

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Crescent
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Introduction

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

The FCRHA presents this discussion and analysis of Crescent (the Project) for the fiscal year ended June 30, 2011 to assist the reader in focusing on significant financial issues. The Project consists of 180 rental units and is included in the overall Fairfax County Rental Program. The Project's land, buildings and debt associated with the Project are owned and recorded on the financial statements of Fairfax County. FCRHA has a lease with the County to operate the Project. Therefore, only the operations of the Project will be reflected in these financial statements.

The Project's Financial Highlights for Fiscal Year 2011 (FY 2011)

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

- At June 30, 2011, total assets and liabilities were $1,707,558 million and $203,365 million, respectively; thus, total net assets were $1,504,193 million. Of this amount, $675,043 (unrestricted net assets) may be used to meet the Project's future operational needs.

- Total revenues and expenses were $2,616,187 million and $2,848,502 million, respectively; thus, net assets decreased by approximately $232,315 million in FY 2011.

- Cash flows from operating activities amounted to $667,246. After considering investing and non-capital related financing activities, total cash decreased by $231,649.

Project Financial Statements

This discussion and analysis presents the Project's financial results in three financial statements – the statement of net assets, the statement of revenues, expenses, and changes in net assets and the statement of cash flows. The FY 2011 financial results are compared to those of FY 2010, thus allowing the readers to ascertain the reasons for changes in expenses, revenues, or net asset balances. These financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Summary of Net Assets

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

Table 1
Summary of Net Assets

	2011	2010	Increase (Decrease)
Current and restricted assets	$ 1,707,558	$ 1,909,267	$ (201,709)
Total assets	1,707,558	1,909,267	(201,709)
Current liabilities	203,365	172,759	30,606
Total liabilities	203,365	172,759	30,606
Net assets:			
Restricted	829,150	815,640	13,510
Unrestricted	675,043	920,868	(245,825)
Total net assets	$ 1,504,193	$ 1,736,508	$ (232,315)

The Project's net assets decreased by $232,315 in FY 2011. The decrease, on a year-to-year comparative basis, was primarily due to increased operating costs for personnel services and an increase in repairs and maintenance expenses.

Summary of Revenues, Expenses, and Changes in Net Assets

The Project's Statement of Revenues, Expenses, and Changes in Net Assets include operating revenues, such as rental income, operating expenses, such as personnel services, utilities, repairs and maintenance, and non-operating revenues and expenses, such as investment income and grant to County. Table 2 presents a condensed summary of data from the Project's statements of revenues, expenses, and changes in net assets. As previously stated, the Project's net assets decreased by $232,315 primarily as a result of increases in repairs and maintenance expenses and personnel costs.

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

	2011	2010	Increase (Decrease)
Revenues:			
Operating revenues	$ 2,615,082	$ 2,522,399	$ 92,683
Non-operating revenues	1,105	1,549	(444)
Total revenues	2,616,187	2,523,948	92,239
Expenses:			
Operating expenses	1,948,502	1,741,866	206,636
Non-operating expenses	900,000	900,000	-
Total expenses	2,848,502	2,641,866	206,636
Change in net assets	(232,315)	(117,918)	(114,397)
Total net assets, beginning of year	1,736,508	1,854,426	(117,918)
Total net assets, end of year	$ 1,504,193	$ 1,736,508	$ (232,315)

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

Contacting FCRHA Management

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

FINANCIAL STATEMENTS

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Crescent
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS

CURRENT ASSETS	
Cash in bank	$ 766,910
Accounts receivable (net of allowance of $22,690)	19,601
Prepaid items	48,057
Total current assets	834,568
RESTRICTED ASSETS	
Deposits held in trust	46,841
Restricted reserves	826,149
Total restricted assets	872,990
TOTAL ASSETS	$ 1,707,558

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 49,912
Due to the Authority (note 3)	88,316
Deposits held in trust	43,840
Deferred revenue	6,762
Accrued compensated absences	14,535
Total current liabilities	203,365
NET ASSETS	
Restricted net assets	829,150
Unrestricted net assets	675,043
Total net assets	1,504,193
TOTAL LIABILITIES AND NET ASSETS	$ 1,707,558

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Crescent
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

OPERATING REVENUES	
Dwelling rentals	$ 2,550,801
Other	64,281
Total operating revenues	2,615,082
OPERATING EXPENSES	
Personnel services	402,568
Utilities	292,177
Repairs and maintenance	1,118,010
Other supplies and expenses	135,747
Total operating expenses	1,948,502
Net operating income	666,580
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	1,105
Lease with Fairfax County	(900,000)
Total nonoperating expenses, net	(898,895)
CHANGE IN NET ASSETS	(232,315)
TOTAL NET ASSETS, BEGINNING OF YEAR	1,736,508
TOTAL NET ASSETS, END OF YEAR	$ 1,504,193

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Crescent
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Rental income received	$ 2,542,104
Other operating revenues received	64,281
Payments to employees for services	(486,567)
Payments to suppliers for goods and services	(1,450,973)
Net tenant security deposits paid	(1,599)
Net cash provided by operating activities	667,246
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	1,105
CASH FLOWS FROM NON CAPITAL RELATED FINANCING ACTIVITIES	
Grant to Fairfax County	(900,000)
NET DECREASE IN CASH	(231,649)
CASH, BEGINNING OF YEAR	1,871,549
CASH, END OF YEAR	$ 1,639,900
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating income	$ 666,580
Effects of changes in operating assets and liabilities:	
Tenant accounts receivable	(12,956)
Accounts payable and accrued liabilities	27,947
Prepaid items	(16,985)
Deposit held in trust	(1,599)
Deferred revenue	4,259
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 667,246

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The Fairfax County Redevelopment and Housing Authority (FCRHA) Rental Program – Crescent (the Project) is an affordable property built in 1963 and is comprised of a 5-building 180-unit apartment complex sitting on 16.49 acres. The purchase price for Crescent and the underlying land is $49,500,000. The majority of the acquisition funding, $40,500,000, is raised from a one-year Bond Anticipation Note issued by FCRHA. The remaining $9 million comes from the Board of Supervisors approved affordable housing budget. The Project's land, buildings and debt associated with the Project are owned and recorded on the financial statements of Fairfax County. FCRHA has a lease with the County to operate the Project. Therefore, only the operations of the Project will be reflected in these financial statements.

The accompanying financial statements present only the financial position, changes in financial position, and cash flows of the Project and are not intended to present fairly the financial position, changes in financial position, and cash flows of FCRHA in conformity with U.S. generally accepted accounting principles (GAAP).

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

Measurement Focus and Basis of Accounting

The activities of the Project are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Project applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989, unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

Use of Estimates in Preparing Financial Statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash in Bank and Restricted Assets

Cash in bank includes reserves set aside pursuant to internal management decisions. Restricted assets include the debt service reserve along with the corresponding accrued interest, and other refinancing related escrows. All amounts are fully insured and collateralized. Such restricted assets have been included in cash for purpose of the Statement of Cash Flows.

Accounts Receivable

Tenant accounts receivables are carried at the amount considered by management to be collectible.

Compensated Absences

Employees of the Project are granted vacation and sick leave based on their length of service. Unused vacation leave is payable to employees upon termination based on the employees' current rate of pay, up to certain limits. Sick leave does not vest with the employee. 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). All amounts are included as a current liability as the Project expects all accrued at June 30, 2011 to be liquidated in FY 2012.

Revenue Recognition

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

Operating Revenues and Expenses

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

Implementation of New GASB Pronouncement

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

NOTE 2 – CHANGES IN COMPENSATED ABSENCES PAYABLE

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences payable	$ 14,279	$ 256	$ -	$ 14,535	$ 14,535

NOTE 3 – DUE TO THE AUTHORITY

Due to the Authority represents $88,316 borrowed from the Authority to fund Project operations. During 2011, there were no additional advances from or amounts repaid to the Authority. Such debt is noninterest bearing and is due on demand.

NOTE 4 – LEASE WITH COUNTY

During February 2008, the Board of Supervisors approved an agreement with FCRHA to lease the Project at a cost of $900,000 annually to assist in the payment of principal and interest for the Project. The source of this increase was from the Project's excess operating revenues. The lease expires on March 1, 2013.

NOTE 5 – MANAGEMENT OF PROJECT

The Project is managed by an unrelated management company pursuant to management agreement. The management company is paid a fee for its services, which amounts to approximately 4.5% of rental receipts. Such fees amounted to $165,317 in 2011 and are reported in personnel services on the Statement of Revenues, Expenses, and Changes in Net Assets. Additionally, the management company is reimbursed for operating costs associated with managing the property. Such costs include a reimbursement for certain salary and related expenses of employees of the management company, and are included in personnel services on the Statement of Revenues, Expenses, and Changes in Net Assets.

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 claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2011.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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 Commissioners
Fairfax County Redevelopment and Housing Authority

We have audited the financial statements of the Rental Program – Crescent (the Project) of the Fairfax County Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

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accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Clifton Gunderson LLP

Baltimore, Maryland
October 19, 2011