

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Rental Program – Cedar Ridge
(Project No. 000-55074)

Financial Statements, Supplementary Information, and
Management's Discussion and Analysis

June 30, 2006

(With Independent Auditors' Reports Thereon)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

June 30, 2006

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Supplementary Information	15
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

United States Department of Housing
and Urban Development

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Cedar Ridge (Project No. 000-55074) (the Project), as of and for the year ended June 30, 2006 as listed in the accompanying table of contents. These 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 U.S. generally accepted auditing standards 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. 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 of the Project are intended to present the financial position and changes in financial position and cash flows of only the Project. They do not purport to, and do not, present fairly the financial position of the Fairfax County Redevelopment and Housing Authority, as a whole, as of June 30, 2006 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements of the Project referred to above present fairly, in all material respects, the financial position of the Project at June 30, 2006 and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2(h), in 2006, the Authority implement several new accounting standards.



Management's Discussion and Analysis on pages 3 through 6 is not a required part of the Project's basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the Project's financial statements taken as a whole. The supplementary information on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the Project's financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the Project's financial statements, and, in our opinion, is fairly stated in all material respects in relation to the Project's financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006 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 the 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 an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

December 8, 2006

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

June 30, 2006

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, 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 (HCD) 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 rental program – Cedar Ridge, Project No. 000-55074 (the Project) for the fiscal years ended June 30, 2006 and 2005 to assist the reader in focusing on significant financial issues. The Project, consisting of 198 rental units, is included in the overall Fairfax County Rental Program.

The Project's Financial Highlights for Fiscal Year 2006 (FY 2006)

In summary, the Project's FY 2006 financial highlights include the following:

- At June 30, 2006, total assets and liabilities were approximately \$10.6 million and \$11.6 million, respectively, resulting in a total net assets deficit of approximately \$1.0 million. The deficit is due to a \$1.5 million HUD deferred loan for Project rehabilitation.
- Total revenues and expenses were approximately \$2.6 million and \$2.3 million, respectively; thus, net assets were increased by approximately \$0.3 million. The net asset increase and resulting decrease in the net asset deficit was attributed to new Federal and FCRHA grants that were used during the year for capital improvements and project liabilities.
- Cash flows from operations amounted to approximately \$1.0 million. After considering investing and capital and related financing activities, there is a net decrease in cash of \$176,012, primarily due to the acquisition of capital assets.

Project Financial Statements

This discussion and analysis presents the Project's FY 2006 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 2006 financial results are also compared to FY 2005 thus allowing readers to ascertain the reasons for changes in revenues, expenses, and net asset (deficit) balances. These financial statements were prepared using the economic resources measurement and 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 – Cedar Ridge
(Project No. 000-55074)

June 30, 2006

Summary of Net Assets

The Project’s statement of net assets reports all financial and capital assets of the Project and is presented in a format where assets minus liabilities equal net assets (deficit). The following table reflects a condensed summary of net assets (deficit) as of June 30, 2006 and 2005:

Table 1

Summary of Net Assets

June 30, 2006 and 2005

<u>Description</u>	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>
Current and restricted assets	\$ 1,558,190	1,786,754	(228,564)
Capital assets, net	9,021,651	8,996,358	25,293
Total assets	<u>10,579,841</u>	<u>10,783,112</u>	<u>(203,271)</u>
Current liabilities	477,857	802,585	(324,728)
Long-term liabilities	11,084,876	11,283,199	(198,323)
Total liabilities	<u>11,562,733</u>	<u>12,085,784</u>	<u>(523,051)</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	(2,159,012)	(2,385,639)	226,627
Restricted	1,350,059	1,196,641	153,418
Unrestricted	<u>(173,939)</u>	<u>(113,674)</u>	<u>(60,265)</u>
Total net assets (deficit)	\$ <u><u>(982,892)</u></u>	<u><u>(1,302,672)</u></u>	<u><u>319,780</u></u>

The increase in net assets and resulting decrease in the net asset deficit is due to the use of new Federal and County grants to acquire capital assets for the Project.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

June 30, 2006

Summary of Revenues, Expenses, and Changes in Net Assets

The Project’s statement of revenues, expenses, and changes in net assets includes operating revenues, such as rental income, operating expenses, such as personnel services, utilities, repairs and maintenance, and depreciation, and nonoperating revenues and expenses, which include intergovernmental revenues, investment income and interest expense. The Project experienced an increase in net assets of \$319,780 in FY 2006. Table 2 presents a condensed summary of information from the Project’s statements of revenues, expenses, and changes in net assets. As previously stated, Federal and FCRHA grants were recognized as income during FY 2006.

Table 2

Summary of Revenues, Expenses, and Changes in Net Assets (Deficit)

Years ended June 30, 2006 and 2005

<u>Description</u>	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>
Revenues:			
Operating revenues	\$ 2,102,451	2,065,828	36,623
Intergovernmental revenues	464,650	—	464,650
Interest income	29,649	11,021	18,628
Total revenues	<u>2,596,750</u>	<u>2,076,849</u>	<u>519,901</u>
Expenses:			
Operating expenses	1,583,622	1,502,160	81,462
Interest expense	693,348	702,991	(9,643)
Total expenses	<u>2,276,970</u>	<u>2,205,151</u>	<u>71,819</u>
Change in net assets	319,780	(128,302)	448,082
Total net assets (deficit), beginning of year	<u>(1,302,672)</u>	<u>(1,174,370)</u>	<u>(128,302)</u>
Total net assets (deficit), end of year	<u><u>\$ (982,892)</u></u>	<u><u>(1,302,672)</u></u>	<u><u>319,780</u></u>

The Project’s operations resulted in a change in net assets of \$319,780. The increase is due to the recognition of capital grant revenues from Federal and County funding, which was deferred in FY 2005. In addition, the Project acquired capital assets totaling \$417,170.

Capital Assets and Debt Administration

Capital assets. The Project’s net capital assets as of June 30, 2006 included land, buildings, and improvements and furniture and equipment that totaled \$9,021,651, net of accumulated depreciation of \$4,480,084. For further details, see note 3, page 12 Capital Assets.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

June 30, 2006

Long-term debt. The Project was sold to the FCRHA on May 23, 1995 and was financed by the FCRHA assuming the original first mortgage of \$1,503,259. The outstanding balance of the mortgage loan carries an interest rate of 3.0% with the final payment due September 1, 2010. In addition, the Project obtained a HUD Section 241(f) mortgage in the amount of \$10,131,000 at an interest rate of 7.05%, with final payment due July 1, 2035. On May 24, 1995, HUD and the Authority signed a promissory note for a Capital Improvement Loan for an amount of \$1,510,000 to fund certain costs in connection with the rehabilitation of the Project. Interest on the loan accrues at 1% each year on the principal amount. HUD has deferred all principal and interest payments on this loan until the Project is sold or the underlying mortgage is refinanced or expires. For further details, see note 4, page 12, Mortgages and Note Payable.

Contacting FCRHA Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, customers, 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.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Statement of Net Assets

June 30, 2006

Assets

Current assets:

Cash in bank	\$	71,027
Deposit held in trust		89,353
Accounts receivable (net of allowance for uncollectible accounts of \$388)		7,319
Prepaid expenses		40,432

Total current assets 208,131

Restricted assets:

Reserves and mortgage escrows		1,350,059
-------------------------------	--	-----------

Total restricted assets 1,350,059

Capital assets (notes 3 and 4):

Nondepreciable:

Land		2,492,265
------	--	-----------

Depreciable:

Buildings and improvements		10,841,196
Equipment		168,274
Accumulated depreciation		(4,480,084)

Total capital assets, net 9,021,651

Total assets 10,579,841

Liabilities

Current liabilities:

Accounts payable and accrued liabilities		152,388
Deposits held in trust		89,353
Deferred revenue (note 5)		5,899
Accrued compensated absences		18,714
Mortgages and notes payable (note 4)		211,503

Total current liabilities 477,857

Noncurrent liabilities:

Accrued interest (note 4)		115,716
Mortgages and notes payable (note 4)		10,969,160

Total long-term liabilities 11,084,876

Total liabilities 11,562,733

Net Assets (deficit)

Invested in capital assets, net of related debt		(2,159,012)
Restricted net assets		1,350,059
Unrestricted net assets (deficit)		(173,939)
Total net assets (deficit)	\$	<u>(982,892)</u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2006

Operating revenues:	
Dwelling rentals (note 8)	\$ 2,044,181
Other	58,270
Total operating revenues	<u>2,102,451</u>
Operating expenses:	
Personnel services	417,305
Utilities	158,322
Repairs and maintenance	289,654
Other supplies and expenses	326,464
Depreciation	391,877
Total operating expenses	<u>1,583,622</u>
Net operating income	<u>518,829</u>
Nonoperating revenues (expenses):	
Intergovernmental revenue	47,480
Interest revenue	29,649
Interest expense	(693,348)
Total nonoperating expenses, net	<u>(616,219)</u>
Loss before capital grant revenues	(97,390)
Intergovernmental revenues – capital grants	<u>417,170</u>
Change in net assets	319,780
Total net assets (deficit) – beginning of year	<u>(1,302,672)</u>
Total net assets (deficit) – end of year	<u>\$ (982,892)</u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Statement of Cash Flows

Year ended June 30, 2006

Cash flows from operating activities:	
Rental receipts	\$ 2,050,282
Other operating cash receipts	58,270
Payments to employees for services	(411,684)
Payments to suppliers for goods and services	(275,709)
Repairs and maintenance paid	(289,654)
Utilities paid	(158,322)
Net tenant security deposits paid	(1,922)
	<hr/>
Net cash provided by operating activities	971,261
Cash flows from noncapital related financing activities:	
Intergovernmental grant received	47,480
	<hr/>
Net cash provided by noncapital related financing activities	47,480
Cash flows from capital and related financing activities:	
Purchases of capital assets	(379,240)
Principal payments on mortgages payable	(201,334)
Intergovernmental capital grant received	37,170
Interest payments on notes payable	(680,998)
	<hr/>
Net cash used in capital and related financing activities	(1,224,402)
Cash flows from investing activities:	
Interest received	29,649
	<hr/>
Net cash provided by investing activities	29,649
	<hr/>
Net decrease in cash	(176,012)
Cash, beginning of year	1,686,451
	<hr/>
Cash, end of year	\$ 1,510,439
	<hr/> <hr/>
Reconciliation of net operating income to net cash provided by operating activities	
Net operating income	\$ 518,829
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	391,877
Decrease in tenant accounts receivable	8,650
Decrease in prepaid expenses	43,902
Increase in accounts payable and accrued liabilities	6,854
Increase in accrued compensated absences	5,620
Decrease in deposits held in trust	(1,922)
Decrease in deferred revenue	(2,549)
	<hr/>
Net cash provided by operating activities	\$ 971,261
	<hr/> <hr/>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Notes to Financial Statements

June 30, 2006

(1) Narrative Profile

The Fairfax County Redevelopment Authority (the Authority), Rental Program – Cedar Ridge, No. 000-55074 (the Project) land and buildings were acquired by the Authority on May 23, 1995 and are located in northwestern Fairfax County, Virginia. The Project consists of 198 residential apartment units that were originally financed by the previous owners. The Authority financed the acquisition by assuming the original first mortgage and a new HUD-insured Section 241(f) mortgage. The Authority 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, or cash flows of the Authority as a whole in conformity with U.S. generally accepted accounting principles (GAAP).

(2) Summary of Significant Accounting Policies

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:

(a) *Measurement Focus and Basis of Accounting*

The activities of the Project are reported using the economic resources measurement focus and use 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 purposes of external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

(b) *Cash*

Cash represents operating cash, which is maintained in various FDIC-insured accounts which are fully insured or collateralized.

(c) *Restricted Assets*

Restricted assets represent restricted security deposits collected from tenants, funded reserves held by the Project or the mortgage servicers pursuant to the HUD regulatory agreement or capital improvement loan agreement, and unspent grant proceeds. All amounts are fully insured or collateralized. Such amounts are included in cash for purposes of the statement of cash flows.

(d) *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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Notes to Financial Statements

June 30, 2006

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 amounts accrued at June 30, 2005 to be liquidated in 2006.

(e) 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.

(f) Capital Assets

Capital assets are defined by the Authority as assets with initial individual costs of more than \$5,000 and have a useful life of greater than one year. Capital assets are recorded at cost when purchased and at fair market value when donated. Depreciation on buildings and equipment is calculated using the straight-line method over estimated useful lives of 27.5 years for buildings and improvements, consistent with federal guidance and five to 10 years for equipment. Depreciation is not recorded on land.

(g) Operating Revenues and Expenses

The Project’s policy is to report all revenues and expenses as operating, except for interest income and expense and intergovernmental grants.

(h) Implementation of New GASB Standards

In FY 2006, the Authority implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* – an amendment of GASB Statement No. 34, and GASB Statement No. 47, *Accounting for Termination Benefits*. The implementation of these new standards had no impact on the accompanying financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Notes to Financial Statements

June 30, 2006

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 2,492,265	—	—	2,492,265
Capital assets being depreciated:				
Buildings and improvements	10,441,898	399,298	—	10,841,196
Equipment	<u>150,402</u>	<u>17,872</u>	<u>—</u>	<u>168,274</u>
Total capital assets being depreciated	<u>10,592,300</u>	<u>417,170</u>	<u>—</u>	<u>11,009,470</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,960,265)	(379,705)	—	(4,339,970)
Equipment	<u>(127,942)</u>	<u>(12,172)</u>	<u>—</u>	<u>(140,114)</u>
Total accumulated depreciation	<u>(4,088,207)</u>	<u>(391,877)</u>	<u>—</u>	<u>(4,480,084)</u>
Capital assets, net	\$ <u><u>8,996,358</u></u>	<u><u>25,293</u></u>	<u><u>—</u></u>	<u><u>9,021,651</u></u>

(4) Mortgages and Note Payable

In connection with the acquisition of the Project, the Authority assumed a mortgage with a balance of \$1,503,259 as of May 23, 1995. This mortgage carries an interest rate of 3.0%, with final payment due September 1, 2010. The monthly principal and interest payment is approximately \$10,203. The land and buildings of the Project are pledged as security for the mortgage loan.

In addition, the Project obtained a HUD Section 241(f) mortgage in the amount of \$10,131,000. This mortgage carries an interest rate of 7.05%, with final payment due July 1, 2035. The monthly principal and interest payment is approximately \$63,325. The Project's land and buildings and an assignment of income is pledged as security for the mortgage loan.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Notes to Financial Statements

June 30, 2006

The aggregate amount of required principal and interest payments on the mortgage loans as of June 30, 2006 is \$23,875,213 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2007	\$ 211,503	670,833
2008	222,271	660,065
2009	233,682	648,654
2010	245,778	636,557
2011	165,852	624,654
2012 – 2016	840,098	2,959,428
2017 – 2021	1,193,908	2,605,618
2022 – 2026	1,696,726	2,102,800
2027 – 2031	2,411,307	1,388,218
2032 – 2036	3,959,538	397,723
Total	\$ <u>11,180,663</u>	<u>12,694,550</u>

On May 24, 1995, HUD and the Authority signed a promissory note for a Capital Improvement Loan not to exceed an amount of \$1,510,000 to fund certain costs in connection with the rehabilitation of the Project. Interest on the loan accrues at 1% each year on the principal amount. HUD has deferred all principal and interest payments on this loan until the Project is sold or the underlying mortgage is refinanced or expires. The Project is ultimately responsible for all principal and interest payments. At June 30, 2006, outstanding principal and interest on the loan amounted to \$1,317,533 and \$115,716, respectively.

The changes in the long-term liabilities during 2006 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Acquisition mortgage note	\$ 594,008	—	(106,057)	487,951	109,287
HUD Section 241(f) mortgage	9,470,456	—	(95,277)	9,375,179	102,216
HUD Capital Improvement note	1,317,533	—	—	1,317,533	—
	\$ <u>11,381,997</u>	<u>—</u>	<u>(201,334)</u>	<u>11,180,663</u>	<u>211,503</u>

(5) Intergovernmental Revenues – Capital Grants

Intergovernmental revenues – capital grants for the year ended June 30, 2006 includes \$380,000 received from the County through the HUD Community Development Block Grant program in FY 2005. In addition, the Project received \$37,170 in FY 2006, consequently, the total reported grant revenue is \$417,170.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Notes to Financial Statements

June 30, 2006

(6) Management of Project

The Project is run by an unrelated management company pursuant to a management agreement. The management company was paid a fixed monthly fee of \$6,569 for its services in 2006. Such fees amounted to \$78,828 in 2006, and are reported in other supplies and expenses on the statements 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.

(7) 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 cost of which is 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 ended June 30, 2006.

(8) Housing Assistance Payments

The Federal Housing Administration (FHA) has contracted with the Authority under Section 8 of Title II of the Housing and Community Development Act of 1974 to make housing assistance payments to the Project on behalf of qualified tenants. The agreement expires April 30, 2007. It is expected to be renewed annually. During 2006, the Project received \$997,533 under this agreement which is included in dwelling rentals on the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2006.

SUPPLEMENTARY INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Supplementary Information

June 30, 2006

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

Reserve for Replacements

In accordance with the provisions of the regulatory agreement, restricted cash held by Prudential Huntoon Paige Associates to be used for replacement of property with the approval of HUD is as follows:

Balance, June 30, 2005, confirmed by mortgagee	\$	482,942
Interest		2,352
Monthly deposits		82,680
Withdrawals		(6,382)
		<hr/>
Balance, June 30, 2006, confirmed by mortgagee	\$	<u>561,592</u>

Residual Receipts Reserve

In accordance with the provisions of the regulatory agreement, restricted cash held by United Bank and Prudential Huntoon Paige Associates to be used with the approval of HUD is as follows:

Balance, June 30, 2005	\$	335,028
Interest earned		8,851
		<hr/>
Balance, June 30, 2006	\$	<u>343,879</u>

Reserve for Improvements

In accordance with the provisions of the Capital Improvement loan agreement, restricted cash held by United Bank to be used for project improvements.

Balance, June 30, 2005	\$	698,848
Withdrawal		(348,893)
Interest earned		18,256
		<hr/>
Balance, June 30, 2006	\$	<u>368,211</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Supplementary Information

June 30, 2006

Mortgage Escrow Deposits

In accordance with the provisions of the regulating agreements, mortgage escrow deposits held by Midland Loan Services and Prudential Huntoon Paige Associates for the payment of property taxes and insurance are as follows:

Balance, June 30, 2005	\$	59,823
Deposits		66,004
Withdrawals		<u>(49,450)</u>
Balance, June 30, 2006	\$	<u><u>76,377</u></u>

Other Information

Total mortgage principal payments required during the audit year (12 monthly payments). Applies to all direct loans and HUD-held and fully insured mortgages. Any HUD-approved second mortgages are included.

\$ 201,334

Total of 12 monthly deposits in the audit year made to the replacement reserve account, as required by the regulatory agreement, even if payments are temporarily suspended or reduced.

\$ 82,680

**Computation of Surplus Cash,
Distributions and Residual
Receipts**

**U.S. Department of Housing
and Urban Development**

Office of Housing
Federal Housing Commissioner

Project Name Cedar Ridge		Fiscal Period Ended: June 30, 2006	Project Number HUD Project No: 000-55074		
Part A – Compute Surplus Cash					
Cash					
1. Cash (Accounts 1110, 1120, 1191, 1192)		\$	160,380		
2. Tenant subsidy vouchers due for period covered by financial statement		\$	3,734		
3. Other (describe)		\$			
(a) Total Cash (Add Lines 1, 2, and 3)				\$ 164,114	
Current Obligations					
4. Accrued mortgage interest payable		\$	56,299		
5. Delinquent mortgage principal payments		\$	—		
6. Delinquent deposits to reserve for replacements		\$	—		
7. Accounts payable (due within 30 days)		\$	84,440		
8. Loans and notes payable (due within 30 days)		\$			
9. Deficient Tax Insurance or MIP Escrow Deposits		\$	—		
10. Accrued expenses (not escrowed)		\$	11,649		
11. Prepaid Rents (Account 2210)		\$	5,899		
12. Tenant security deposits liability (Account 2191)		\$	89,353		
13. Other (Describe)		\$	—		
(b) Less Total Current Obligations (Add Lines 4 through 13)					\$ 247,640
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))					\$ (83,526)
Part B – Compute Distributions to Owners and Required Deposit to Residual Receipts					
1. Surplus Cash			\$	None	
Limited Dividend Projects					
2a. Annual Distribution Earned During Fiscal Period Covered by the Statement		\$			
2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period		\$			
2c. Distributions Paid During Fiscal Period Covered by Statement		\$			
3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)		\$	—		
4. Amount Available for Distribution During Next Fiscal Period			\$	None	
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period e			\$	None	
Prepared By		Reviewed By			
Loan Technician	Date	Loan Servicer	Date		

form HUD-93486 (12-80)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Supplementary Information – Supporting Data Required by HUD

Changes in Capital Asset Accounts

Year ended June 30, 2006

	Capital assets			Accumulated depreciation			Net book value
	Balance June 30, 2005	Additions	Balance June 30, 2006	Balance June 30, 2005	Current provision	Balance June 30, 2006	
Land	\$ 2,492,265	—	2,492,265	—	—	—	2,492,265
Buildings and improvements	10,441,898	399,298	10,841,196	3,960,265	379,705	4,339,970	6,501,226
Equipment	150,402	17,872	168,274	127,942	12,172	140,114	28,160
	<u>\$ 13,084,565</u>	<u>417,170</u>	<u>13,501,735</u>	<u>4,088,207</u>	<u>391,877</u>	<u>4,480,084</u>	<u>9,021,651</u>

See accompanying independent auditors' report.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2006

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 1,061,167	
	Tenant Assistance Payments	5121	997,533	
	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			\$ 2,058,700
Vacancies 5200	Apartments	5220	(14,519)	
	Furniture and Equipment	5230		
	Stores and Commercial	5240		
	Garage and Parking Spaces	5270		
	Miscellaneous (specify)	5290		
	Total Vacancies			\$ (14,519)
	Net Rental Revenue			\$ 2,044,181
	Elderly and Congregate Services Income – 5300			
	Total Service Income (Schedule Attached)	5300		
Financial Revenue	Interest Income – Project Operations	5410	190	
	Income from Investments– Residual Receipts	5430	8,851	
	Income from Investments– Reserve for Replacements	5440	2,352	
	Income from Investments– Reserve for Improvements	5490	18,256	
	Total Financial Revenue			\$ 29,649
Other Revenue 5900	Laundry and Vending	5910	44,183	
	NSF and Late Charges	5920	841	
	Damages and Cleaning Fees	5930	11,294	
	Forfeited Tenant Security Deposits	5940	—	
	Other (Intergovernmental Revenues \$464,650 and Other Revenues \$1,952)	5990	466,602	
	Total Other Revenue			\$ 522,920
	Total Revenue			\$ 2,596,750
Administrative Expenses 6200/6300	Advertising	6210	206	
	Other Renting Expense	6250	86,137	
	Office Salaries	6310	58,487	
	Office Supplies	6311	13,969	
	Office or Model Apartment Rent	6312	12,580	
	Management Fees	6320	78,828	
	Manager or Superintendent Salaries	6330	59,093	
	Manager or Superintendent Rent Free Unit	6331	31,636	
	Legal Expenses – Project	6340	3,168	
	Audit Expense – Project	6350	8,000	
	Bookkeeping Fees / Accounting Service	6351	—	
	Telephone and Answering Service	6360	10,548	
Bad Debts	6370	19,819		
Miscellaneous Administrative Expenses (specify)	6390	10,701		
	Total Administrative Expenses			\$ 393,172
Utilities Expenses 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	20,378	
	Water	6451	53,667	
	Gas	6452	84,277	
	Sewer	6453	—	
	Total Utilities Expense			\$ 158,322

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge
(Project No. 000-55074)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2006

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	76,795	
	Janitor and Cleaning Supplies	6515	14,162	
	Janitor and Cleaning Contract	6517	2,880	
	Exterminating Payroll / Contract	6519	24,090	
	Exterminating Supplies	6520	—	
	Garbage and Trash Removal	6525	21,155	
	Security Payroll / Contract	6530	32,889	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	98	
	Grounds Contract	6537	25,837	
	Repairs Payroll	6540	127,277	
	Repairs Material	6541	50,273	
	Repairs Contract	6542	28,271	
	Elevator Maintenance / Contract	6545	—	
	Heating / Cooling Repairs and Maintenance	6546	23,325	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	6,155	
	Decorating Payroll / Contract	6560	54,344	
	Decorating Supplies	6561	1,000	
	Other	0	—	
Miscellaneous Operating and Maintenance Expenses	6590	5,175		
	Total Operating and Maintenance Expenses			\$ 493,726
Taxes and Insurance 6700	Real Estate Taxes	6710	—	
	Payroll Taxes (FICA)	6711	50,446	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	—	
	Property and Liability Insurance (Hazard)	6720	—	
	Fidelity Bond Insurance	6721	—	
	Workmen's Compensation	6722	3,997	
	Health Insurance and Other Employee Benefits	6723	45,208	
	Other Insurance (specify)	6729	299	
	Total Taxes and Insurance			\$ 99,950
Financial Expenses 6800	Interest on Bonds Payable	6810	13,175	
	Interest on Mortgage Payable	6820	680,173	
	Interest On Notes Payable (Long-Term)	6830	—	
	Interest on Notes Payable (Short-Term)	6840	—	
	Mortgage Insurance Premium / Service Charge	6850	46,575	
	Miscellaneous Financial Expenses	6890	—	
	Total Financial Expenses			\$ 739,923
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)	6900		\$ —
	Total Cost of Operations Before Depreciation			\$ 1,885,093
	Profit (Loss) Before Depreciation			\$ 711,657
	Depreciation and Amortization	6600		\$ 391,877
	Operating Profit or (Loss)			319,780
Corporate or Mortgagor 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)			\$ 319,780



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' 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

United States Department of Housing
and Urban Development

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Cedar Ridge (Project No. 000-55074) (the Project) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 8, 2006. Our report recognized that the Project implemented certain new accounting standards effective July 1, 2005. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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



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

KPMG LLP

December 8, 2006