FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

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

June 30, 2006

(With Independent Auditors' Reports Thereon)

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

June 30, 2006

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

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

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Virginia Housing Development Authority's *Mortgagor/Grantee's Audit Guide*. Those standards 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 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.

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a member of KPMG International, a Swiss cooperative.

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the Project's 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 19 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 September 13, 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 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

September 13, 2006

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

Management's Discussion and Analysis (MD&A)

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 Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project) as of and for the fiscal year ended June 30, 2006 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 2006 (FY 2006)

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

- As of June 30, 2006, total assets and liabilities were $721,115 and $305,208, respectively; thus total net assets were $415,907.
- Total revenues and expenses were $93,586 and $77,021, respectively; thus total net assets were increased by $16,565. Nearly half of this increase was due to increased interest income that has resulted from higher cash balances and interest rates.
- Total cash increased by $25,346 in FY 2006 compared to $10,619 in FY 2005. This increase is primarily attributable to reduced repairs and maintenance and higher interest income.

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 2006 financial results are compared to those of FY 2005, thus allowing the readers to ascertain the reasons for changes in revenues, expenses, 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 2006 and FY 2005 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, 2006 and 2005.

Table 1

Summary of Net Assets

June 30, 2006 and 2005

Description		2006	2005	Increase (decrease)
Current and restricted assets	$	515,563	490,217	25,346
Capital assets		205,552	219,123	(13,571)
Total assets		721,115	709,340	11,775
Current liabilities		23,794	15,134	8,660
Noncurrent liabilities		281,414	294,864	(13,450)
Total liabilities		305,208	309,998	(4,790)
Net assets:				
Invested in capital assets, net of related debt		(89,312)	(88,152)	(1,160)
Restricted		510,914	489,118	21,796
Unrestricted (deficit)		(5,695)	(1,624)	(4,071)
Total net assets	$	415,907	399,342	16,565

The Project's net assets increased by $16,565 from FY 2005 to FY 2006 primarily due to increases in interest income that has resulted from higher cash balances and interest rates.

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 administrative, maintenance, and depreciation, and nonoperating revenues and expenses, such as investment income, and interest expense. Table 2 presents a condensed summary of data from the Project's statements of revenues, expenses, and changes in net assets. This statement reflects an increase in net assets of $16,565 primarily attributable to a decrease in repair and maintenance expense and an increase in interest income due to higher cash balances and interest rates.

Table 2

Summary of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

Description		2006	2005	Increase (decrease)
Revenues:				
Operating revenues	$	73,122	76,351	(3,229)
Nonoperating revenues		20,464	12,292	8,172
Total revenues		93,586	88,643	4,943
Expenses:				
Operating expenses		52,760	54,733	(1,973)
Nonoperating expenses		24,261	25,226	(965)
Total expenses		77,021	79,959	(2,938)
Increase in net assets		16,565	8,684	7,881
Total net assets, beginning of year		399,342	390,658	8,684
Total net assets, end of year	$	415,907	399,342	16,565

Capital Assets and Debt Administration

Capital assets.

The Project's capital assets as of June 30, 2006 included land, buildings, and improvements and equipment that totaled $205,552, net of accumulated depreciation of $265,872. For further details, see note 4, page 12, 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 $294,864 and $307,275 at June 30, 2006 and 2005, respectively. The decrease in 2006 is a result of scheduled principal payments. For further details, see note 5, page 12 concerning debt and long-term liabilities of the Project.

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.

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

Statement of Net Assets

June 30, 2006

Assets	
Current assets:	
Cash on deposit with County of Fairfax, Virginia	$ 4,649
Total current assets	4,649
Restricted assets (note 5):	
Replacement reserves	37,207
Operating reserves	473,707
Total restricted assets	510,914
Capital assets (note 4):	
Nondepreciable:	
Land	168,059
Depreciable:	
Buildings and improvements	300,734
Equipment	2,631
Accumulated depreciation	(265,872)
Total capital assets, net	205,552
Total assets	721,115
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	7,803
Deferred revenue	2,541
Mortgage payable (note 5)	13,450
Total current liabilities	23,794
Noncurrent liabilities:	
Mortgage payable (note 5)	281,414
Total long term liabilities	281,414
Total liabilities	305,208
Net assets	
Invested in capital assets, net of related debt	(89,312)
Restricted net assets	510,914
Unrestricted net assets	(5,695)
Total net assets	$ 415,907

See accompanying notes to 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 Assets

Year ended June 30, 2006

Operating revenues:	
Dwelling rentals	$ 73,122
Total operating revenues	73,122
Operating expenses:	
Repairs and maintenance	27,512
Administrative expenses	11,677
Depreciation	13,571
Total operating expenses	52,760
Operating income	20,362
Nonoperating revenues (expenses):	
Interest revenue	20,464
Interest expense	(24,261)
Total nonoperating expenses, net	(3,797)
Change in net assets	16,565
Total net assets, beginning of year	399,342
Total net assets, end of year	$ 415,907

See accompanying notes to 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, 2006

Cash flows from operating activities:		
Rental income received	$	75,663
Administrative expenses paid		(11,677)
Operating and maintenance expenses paid		(22,872)
Net cash provided by operating activities		41,114
Cash flows from investing activities:		
Interest received		20,464
Net cash provided by investing activities		20,464
Cash flows from capital and related financing activities:		
Principal payments on mortgage payable		(12,411)
Interest payments on mortgage payable		(23,821)
Net cash used in capital and related financing activities		(36,232)
Net increase in cash		25,346
Cash, beginning of year		490,217
Cash, end of year	$	515,563
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	20,362
Depreciation		13,571
Increase in accounts payable		4,640
Increase in deferred revenue		2,541
Net cash provided by operating activities	$	41,114

See accompanying notes to financial statements.

(1) Narrative Profile

The Fairfax County Redevelopment and Housing Authority, 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 the Fairfax County Redevelopment and Housing Authority (the Authority) and is operated by the Fairfax-Falls Church Community Services Board pursuant to an agreement with the Authority. The Authority is a component unit of the County of Fairfax, Virginia.

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 the Authority 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 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 on Deposit with County of Fairfax, Virginia

The Project's cash is maintained within the treasury of the County of Fairfax, Virginia (the County). To optimize investment returns, the Project's funds are invested together with all other pooled funds, all of which are fully insured and collateralized. The County allocates investment income to the Project based on its average cash balance.

(c) 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.

(d) Capital Assets

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

(e) Revenue Recognition

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

(f) 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.

(g) 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*.

(3) Housing Assistance Payments Contract

The U.S. Department of Housing and Urban Development (the 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 the Authority 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 2006, the Project received HAP contract payments amounting to $53,700, which have been included as Dwelling Rentals on the Project's Statement of Revenues, Expenses, and Changes in Net Assets.

(4) Capital Assets

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

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 168,059	—	—	168,059
Capital assets being depreciated:				
Buildings and improvements	300,734	—	—	300,734
Equipment	2,631	—	—	2,631
Total capital assets being depreciated	303,365	—	—	303,365
Less accumulated depreciation for:				
Buildings and improvements	(249,670)	(13,571)	—	(263,241)
Equipment	(2,631)	—	—	(2,631)
Total accumulated depreciation	(252,301)	(13,571)	—	(265,872)
Capital assets, net	$ 219,123	(13,571)	—	205,552

(5) 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, 2006 is $477,830 and is due as follows:

	Principal	Interest
Year ending June 30:		
2007	$ 13,450	23,305
2008	14,577	22,179
2009	15,798	20,958
2010	17,121	19,635
2011	18,555	18,201
2012-2016	118,860	64,920
2017-2021	96,503	13,768
Total	$ 294,864	182,966

Changes in the mortgage payable for the year ended June 30, 2006 was as follows:

	Beginning balance	Additions	Reduction	Ending balance	Due within one year
Mortgage payable	$ 307,275	—	12,411	294,864	13,450

(6) Related-Party Transactions

(a) Agreement with CSB

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

During the year ended June 30, 2006, the CSB provided $19,422 in rent subsidies to the Authority.

(b) Management Agreement with the Authority

The Project pays monthly management fees to the Authority based on 4% of gross rental collections. For the year ended June 30, 2006, the Project paid $3,027 under the terms of the management agreement and no amounts are owed to the Authority at June 30, 2006.

(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 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, 2006.

SUPPLEMENTARY INFORMATION

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

Supplementary Information

June 30, 2006

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 as of June 30, 2005, confirmed by mortgagee	$	34,410
Monthly deposits		1,332
Interest earned		1,465
Balance as of June 30, 2006, confirmed by mortgagee	$	37,207

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, are as follows:

Balance as of June 30, 2005, confirmed by mortgagee	$	454,708
Interest earned		18,999
Balance as of June 30, 2006, confirmed by mortgagee	$	473,707

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	294,864

(Continued)

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

Supplementary Information

June 30, 2006

Related-Party Transactions

Entity	Description of services		Amount
Expenses – Fairfax County Redevelopment and Housing Authority	Management services performed during the year	$	3,027
Revenues – Fairfax-Falls Church Community Services Board	Monthly tenant rents		19,422

Schedule of Surplus Cash and Residual Receipts

Cash in treasury of County of Fairfax, Virginia	$	4,649
Mortgage interest payable July 1		(1,983)
Current obligations – accounts payable and accrued liabilities, excluding interest		(5,820)
Deferred revenue		(2,541)
Surplus Cash deficiency	$	(5,695)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
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Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2006

Part I	Description of account	Account No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	$ 19,422	
	Tenant Assistance Payments	5121	53,700	
	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			$ 73,122
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			$ 73,122
	Elderly and Congregate Services Income - 5300			
	Total Service Income (Schedule Attached)	5300	—	—
Financial Revenue	Interest Income - Project Operations	5410	18,999	
	Income from Investments – Residual Receipts	5430	—	
	Income from Investments – Reserve for Replacement	5440	1,465	
	Income from Investments – Miscellaneous	5490	—	
	Total Financial Revenue			$ 20,464
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) **(gain on lender refinancing)**	5990	—	
	Total Other Revenue			$ —
	Total Revenue			$ 93,586
Administrative Expenses 6200/6300	Advertising	6210	—	
	Other Administrative Expense	6250	650	
	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	8,000	
	Bookkeeping Fees / Accounting Service	6351	3,027	
	Telephone and Answering Service	6360	—	
	Bad Debts	6370	—	
	Miscellaneous Administrative Expenses (specify)	6390	—	
	Total Administrative Expenses			$ 11,677
Utilities Expenses 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	—	
	Water	6451	—	
	Gas	6452	—	
	Sewer	6453	—	
	Total Utilities Expense			$ —

(Continued)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
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Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2006

Part I	Description of account	Account 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	1,347	
	Security Payroll / Contract	6530	—	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	—	
	Grounds Contract	6537	3,933	
	Repairs Payroll	6540	5,631	
	Repairs Material	6541	113	
	Repairs Contract	6542	5,235	
	Elevator Maintenance / Contract	6545	—	
	Heating / Cooling Repairs and Maintenance	6546	25	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	—	
	Decorating Payroll / Contract	6560	—	
	Decorating Supplies	6561	—	
	Other	6570	11,228	
	Miscellaneous Operating and Maintenance Expenses	6590	—	
	Total Operating and Maintenance Expenses			$ 27,512
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	24,261	
	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			$ 24,261
Elderly and Congregate Service Expenses 6900	**Total Service Expenses (Schedule Attached)**	6900		$ —
	Total Cost of Operations Before Depreciation			$ 63,450
	Profit (Loss) Before Depreciation			$ 30,136
	Depreciation and Amortization	6600	—	$ 13,571
	Operating Profit or (Loss)		—	$ 16,565
Corporate or Mortgage 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)			$ 16,565

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

Supplementary Information

Changes in Capital Asset Accounts

Year ended June 30, 2006

	Capital Assets			Accumulated Depreciation			
	Balance June 30, 2005	**Additions**	**Balance June 30, 2006**	**Balance June 30, 2005**	**Current provision**	**Balance June 30, 2006**	**Net book value**
Land	$ 168,059	—	168,059	—	—	—	168,059
Buildings and improvements	300,734	—	300,734	249,670	13,571	263,241	37,493
Equipment	2,631	—	2,631	2,631	—	2,631	—
	$ 471,424	—	471,424	252,301	13,571	265,872	205,552

See accompanying independent auditors' report.

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

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

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the basic financial statements of the Fairfax County Redevelopment and Housing Authority, Section 8 – New Construction – Group Home (Project No. VA39-H027-017) (the Project) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Mortgagor/Grantee's Audit Guide*; issued by the Virginia Housing Development Authority.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting 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.*

KPMG LLP. KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss cooperative.

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

KPMG LLP

September 13, 2006

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

Identification of Engagement Auditor

June 30, 2006

Auditing firm:	KPMG LLP
Office mailing address:	2001 M Street NW Washington, DC 20036
Office telephone number:	(202) 533-3006
Office fax number:	(202) 315-2661
Lead auditor and primary contact:	Paul M. Geraty Partner
E-mail address:	pgeraty@kpmg.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, 2006

Project Name: Section 8 – New Construction – Group Home

Project Number: VA39-H027-017

Fiscal Year End: June 30, 2006

Answers to these questions should be based upon a review of procedures and/or an actual test of transactions. "No" answers may be indicative of an adverse condition which must be described in the audit report unless the Mortgagor/Grantee has written permission from VHDA to deviate from the regular mortgage/grant requirements.

The following questionnaire is a required part of this report per the VHDA Mortgagor's Audit Guide. The responses to the questions were entered by KPMG based on the results of inquiry and observations related to the item addressed. KPMG considered these items in preparing its report on internal control and this questionnaire should be read in conjunction with that report.

Examination status	Yes	No	N/A	WP reference
1. *Mortgage Status*				
a. Are payments on all mortgages current?	**X**			**I-Series**
b. Has the Mortgagor/Grantee complied with the terms and conditions of the modification, forbearance and/or workout arrangement?			**X**	**N/A**
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**	**N/A**
2. *Books and Records*				
a. Are a complete set of books and records maintained in a satisfactory manner?	**X**			**GB-M-3**
b. Does the Mortgagor/Grantee make frequent postings (at least monthly) to the ledger accounts?	**X**			**GB-M-3**
3. *Cash Activities*				
a. Are the cash receipts deposited in an account in the name of the development?		**X as approved by VHDA**		**B-Series**
b. Are all account balances federally insured?	**X**			**GB-P-3**

(Continued)

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, 2006

Examination status	Yes	No	N/A	WP reference
c. If a centralized account is used, is it limited to disbursements?		**X as approved by VHDA**		**B-Series**
d. On assisted developments, are security deposits kept in an account separate and apart from all other funds of the development?			**X**	**N/A**
e. On assisted developments, does the balance in the security deposit account equal or exceed the liability? Note: The liability should include the accrued interest payable.			**X**	**N/A**
f. Does a fidelity bond in an amount at least equal to potential collections for two months (one month on Section 8 uninsured developments) that provides coverage for all employees handling cash?	**X**			**PF-11-7**
g. Did cash disbursements exclude payments for items listed below:				
• Legal expenses incurred in the sale of partnership interest?			**X**	**N/A**
• The fee for the preparation of a partner's, shareholder's or individual's federal, state, or local income tax returns?			**X**	**N/A**
• Expenses for advice to an owner on tax consequences of foreclosure?			**X**	**N/A**
• 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**	**N/A**

(Continued)

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, 2006

Examination status	Yes	No	N/A	WP reference
• Were all disbursements from the operating account(s) made exclusively for operations or obligations of the development?	X			M-Series
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	N/A
Note: 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	N/A
Note: 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	N/A
i. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request of such deposit?			X	N/A
j. Were excess rental collections in Section 236 developments remitted to HUD each month?			X	N/A
k. Does the Mortgagor/Grantee have a formal rent collection policy?			X	N/A
l. Is the collection policy uniformly enforced?			X	N/A
m. Is there a formal procedure for write-off of bad debts?			X	N/A
n. Have write-offs of tenants' accounts been less than five percent of the gross rent?			X	N/A

(Continued)

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, 2006

Examination status	Yes	No	N/A	WP reference
o. Are accounts receivable other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?			X	N/A
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			M-Series
q. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	X			M-Series
4. *Management Compensation*				
a. Was compensation to the Management Agent limited to the amounts prescribed in the Management Agreement?	X			M-Series
b. Did agent not charge development for expenses which the Management Agreement requires agent to pay?	X			M-Series
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 maintained by the Management Agent?			X	N/A
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	N/A
c. On subsidized developments, are dwelling unit rents the same as those approved by VHDA on the most recent Rent Schedule, HUD No. 92458?			X	N/A

(Continued)

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, 2006

Examination status	Yes	No	N/A	WP reference
6. ***VHDA/HUD Subsidy Payments (Section 8/RAP Developments Only)***				
a. Were the amounts requested from VHDA/HUD adequately supported by the accounting records?	**X**			**L-Series**
b. Were subsidy receipts recorded in the proper accounts?	**X**			**L-Series**
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**	**N/A**
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**	**N/A**

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

Certificate of Assistant Secretary

June 30, 2006

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, 2006.

Mary A. Stevens
Assistant Secretary
Fairfax County Redevelopment and
Housing Authority
Employer Identification Number 52-1464034