

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, 2005

(With Independent Auditors' Reports Thereon)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

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

June 30, 2005

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11
Supplementary Information	16
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>	23



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, 2005 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 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, 2005 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2005 and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the Project's 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.



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 16 through 22 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 2, 2005 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

September 2, 2005

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Management’s Discussion and Analysis

June 30, 2005

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, 2005 and 2004 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 2005 (FY 2005)

In summary, the Project’s FY 2005 financial highlights include the following:

- At June 30, 2005, total assets and liabilities were approximately \$10.8 million and \$12.1 million, respectively, resulting in a total net assets deficit of approximately \$1.3 million.
- Total revenues and expenses were approximately \$2.1 million and \$2.2 million, respectively; thus, net assets were reduced by approximately \$0.1 million.
- Cash flows from operations amounted to \$935,226. After considering investing and capital and related financing activities, there is a net increase in cash of \$418,000.

Project Financial Statements

This discussion and analysis presents the Project’s FY 2005 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 2005 financial results are also compared to FY 2004 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 full accrual basis of accounting. Under the full accrual basis of accounting, the financial statements recognize revenues in the period they are earned and expenses in the period in which they are incurred.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Management’s Discussion and Analysis

June 30, 2005

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, 2005 and 2004:

Table 1

Summary of Net Assets

June 30, 2005 and 2004

<u>Description</u>	<u>2005</u>	<u>2004</u>	<u>Increase (decrease)</u>
Current and other assets	\$ 1,786,754	1,357,945	428,809
Capital assets, net	8,996,358	9,361,503	(365,145)
Total assets	<u>10,783,112</u>	<u>10,719,448</u>	<u>63,664</u>
Current liabilities	802,585	422,454	380,131
Long-term liabilities	11,283,199	11,471,364	(188,165)
Total liabilities	<u>12,085,784</u>	<u>11,893,818</u>	<u>191,966</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	(2,385,639)	(2,301,601)	(84,038)
Restricted	1,196,641	1,150,427	46,214
Unrestricted	(113,674)	(23,196)	(90,478)
Total net assets (deficit)	<u>\$ (1,302,672)</u>	<u>(1,174,370)</u>	<u>(128,302)</u>

Current assets and liabilities increased in FY 2005 as a result of the Project receiving United States Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds in advance in the amount of \$380,000. This amount was recognized as deferred revenue at June 30, 2005 because the funds have not been expended.

The Project’s net assets consist of an unrestricted net asset deficit of \$113,674 and restricted net assets composed of deposits and fund reserves of approximately \$1.2 million. Restricted assets of the Project include escrow deposits from the mortgagees and funded reserves.

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 administrative, utilities, repairs and maintenance, and depreciation, and nonoperating revenues and expenses, such as investment income and interest expense. The Project

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Management’s Discussion and Analysis

June 30, 2005

experienced a decrease in net assets of \$128,302 in FY 2005. Table 2 presents a condensed summary of data from the Project’s statements of revenues, expenses, and changes in net assets.

Table 2

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

Years ended June 30, 2005 and 2004

Description	2005	2004	Increase (decrease)
Revenues:			
Operating revenues	\$ 2,065,828	1,974,538	91,290
Interest income	11,021	5,584	5,437
Total revenues	<u>2,076,849</u>	<u>1,980,122</u>	<u>96,727</u>
Expenses:			
Operating expenses	1,502,160	1,434,133	68,027
Interest expense	702,991	712,097	(9,106)
Total expenses	<u>2,205,151</u>	<u>2,146,230</u>	<u>58,921</u>
Change in net assets	(128,302)	(166,108)	(37,806)
Total net assets (deficit), beginning of year	<u>(1,174,370)</u>	<u>(1,008,262)</u>	<u>(166,108)</u>
Total net assets (deficit), end of year	<u>\$ (1,302,672)</u>	<u>(1,174,370)</u>	<u>(203,914)</u>

In FY 2005, operating revenues were \$2,065,828 and the Project’s operating expenses totaled \$1,502,160.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Management’s Discussion and Analysis

June 30, 2005

Capital Assets and Debt Administration

The Project’s net capital assets as of June 30, 2005 included land, buildings, and improvements and furniture and equipment that totaled \$8,996,358 net of accumulated depreciation of \$4,088,207. A breakdown of these assets is shown in table 3.

Table 3
Change in Capital Assets of the Cedar Ridge Project

Description	Beginning balance	Net change	Ending balance
Nondepreciable assets:			
Land	\$ 2,492,265	—	2,492,265
Depreciable assets:			
Buildings and improvements	10,415,208	26,690	10,441,898
Equipment	150,402	—	150,402
Accumulated depreciation	(3,696,372)	(391,835)	(4,088,207)
Totals	\$ 9,361,503	(365,145)	8,996,358

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. The monthly principal and interest payment is \$10,203, and the land, buildings, and equipment of the Project are pledged as security for the mortgage loan. During 2005, the Project made scheduled principal payments of approximately \$103,000 and the outstanding balance at June 30, 2005 amounted to \$594,008.

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. The monthly principal and interest payment is \$63,325. The land and an assignment of income is pledged as security on the loan. During 2005, the Project made scheduled principal payments of \$88,811, and the outstanding balance at June 30, 2005 amounted to \$9,470,456.

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. The Project is ultimately responsible for all principal and interest payments. At June 30, 2005, outstanding principal and interest on the loan amounted to \$1,317,533 and \$102,541, respectively.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Management's Discussion and Analysis

June 30, 2005

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, 2005

Assets

Current assets:

Cash	\$	18,535
Accounts receivable (net of allowance for uncollectible accounts of \$6,148)		15,969
Prepaid expenses		84,334
Total current assets		<u>118,838</u>

Restricted assets:

Reserves and mortgage escrows (note 4)		1,576,641
Deposits held in trust		91,275
Total restricted assets		<u>1,667,916</u>

Capital assets (notes 3 and 4):

Land		2,492,265
Buildings and improvements		10,441,898
Equipment		150,402
Accumulated depreciation		(4,088,207)
Total capital assets, net		<u>8,996,358</u>
Total assets		<u>10,783,112</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities		103,343
Deposits held in trust		91,275
Deferred revenue (note 5)		388,448
Accrued compensated absences		18,180
Mortgage and note payable (note 4)		201,339
Total current liabilities		<u>802,585</u>

Noncurrent liabilities:

Mortgages and note payable (note 4)		11,180,658
Accrued interest (note 4)		102,541
Total noncurrent liabilities		<u>11,283,199</u>
Total liabilities		<u>12,085,784</u>

Net Assets (deficit)

Invested in capital assets, net of related debt		(2,385,639)
Restricted net assets		1,196,641
Unrestricted net assets (deficit)		(113,674)
Total net assets (deficit)	\$	<u><u>(1,302,672)</u></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, 2005

Operating revenues:		
Dwelling rentals	\$	2,006,496
Other		59,332
		<hr/>
Total operating revenues		2,065,828
Operating expenses:		
Personnel services		379,989
Utilities		182,622
Repairs and maintenance		249,023
Other supplies and expenses		298,691
Depreciation		391,835
		<hr/>
Total operating expenses		1,502,160
Net operating income		<hr/> 563,668 <hr/>
Nonoperating revenues (expenses):		
Interest revenue		11,021
Interest expense		(702,991)
		<hr/>
Total nonoperating expenses, net		(691,970)
Change in net assets		(128,302)
Total net assets (deficit) – beginning of year		<hr/> (1,174,370)
Total net assets (deficit) – end of year	\$	<hr/> <hr/> (1,302,672)

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, 2005

Cash flows from operating activities:	
Rental receipts	\$ 1,996,073
Other operating cash receipts	59,332
Payments to employees for services	(388,988)
Payments to suppliers for goods and services	(301,011)
Repairs and maintenance paid	(249,023)
Utilities paid	(182,622)
Net refund of tenant security deposits	1,465
Net cash provided by operating activities	<u>935,226</u>
Cash flows from investing activities:	
Interest received	11,021
Net cash provided by investing activities	<u>11,021</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(26,690)
Principal payments on mortgages payable	(191,741)
Intergovernmental capital grant received	380,000
Interest payments on mortgages payable	(689,816)
Net cash used in capital and related financing activities	<u>(528,247)</u>
Net increase in cash	418,000
Cash, beginning of year	<u>1,268,451</u>
Cash, end of year	<u>\$ 1,686,451</u>
Reconciliation of net operating income to net cash provided by operating activities:	
Net operating income	\$ 563,668
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	391,835
(Increase) decrease in tenant accounts receivable	(6,030)
(Increase) decrease in prepaid expenses	(4,779)
(Increase) decrease in accounts payable and accrued liabilities	2,459
Increase (decrease) in accrued compensated absences	(8,999)
Increase (decrease) in tenant security deposits	1,465
Increase (decrease) in deferred revenue	(4,393)
Net cash provided by operating activities	<u>\$ 935,226</u>

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, 2005

(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 generally accepted accounting principles in the United States of America (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) Basis of Accounting

The activities of the Project are accounted for on an economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. 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.

(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 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.,

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Notes to Financial Statements

June 30, 2005

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, 2004 to be liquidated in 2005.

(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 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 2005, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Implementation of this standard did not impact the Project's note disclosures.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

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

Notes to Financial Statements

June 30, 2005

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 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	10,415,208	26,690	—	10,441,898
Equipment	<u>150,402</u>	<u>—</u>	<u>—</u>	<u>150,402</u>
Total capital assets being depreciated	<u>10,565,610</u>	<u>26,690</u>	<u>—</u>	<u>10,592,300</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,581,369)	(378,896)	—	(3,960,265)
Equipment	<u>(115,003)</u>	<u>(12,939)</u>	<u>—</u>	<u>(127,942)</u>
Total accumulated depreciation	<u>(3,696,372)</u>	<u>(391,835)</u>	<u>—</u>	<u>(4,088,207)</u>
Capital assets, net	\$ <u><u>9,361,503</u></u>	<u><u>(365,145)</u></u>	<u><u>—</u></u>	<u><u>8,996,358</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 \$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 \$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, 2005

The aggregate amount of required principal and interest payments on the mortgage loans as of June 30, 2005 is \$23,440,012 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2006	\$ 201,339	680,997
2007	211,503	670,833
2008	222,271	660,065
2009	233,682	648,654
2010	245,778	636,557
2011–2015	813,519	3,016,606
2016–2020	1,112,865	2,686,660
2021–2025	1,581,552	2,217,974
2026–2030	2,247,628	1,551,898
2031–2035	3,194,223	605,303
2036	104	1
Total	<u>\$ 10,064,464</u>	<u>13,375,548</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, 2005, outstanding principal and interest on the loan amounted to \$1,317,533 and \$102,541, respectively.

The changes in the long-term liabilities during 2005 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	\$ 696,938	—	102,930	594,008	106,061
HUD Section 241(f) mortgage	9,559,267	—	88,811	9,470,456	95,278
HUD Capital Improvement note	1,317,533	—	—	1,317,533	—
	<u>\$ 11,573,738</u>	<u>—</u>	<u>191,741</u>	<u>11,381,997</u>	<u>201,339</u>

(5) Deferred Revenue

Of the \$388,448 total deferred revenue, \$380,000 represents CDBG funds received for capital improvement and \$8,448 represents prepaid rents. The amount was recognized as deferred revenue at June 30, 2005 because the funds have not been expended. It is held in a separate bank account that is fully insured.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Cedar Ridge

(Project No. 000-55074)

Notes to Financial Statements

June 30, 2005

(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 2005. Such fees amounted to \$78,828 in 2005, 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, 2005.

(8) Project Transfer Agreement

In 1995, upon acquiring the Cedar Ridge Apartment Complex, FCRHA entered into a Project Transfer and Operating Agreement (Agreement) with Reston Interfaith Inc. (RII). The Agreement defines the following option for future ownership and management by RII: "The FCRHA would transfer ownership of the project to RII, subject to assumption by RII of the existing debt on the property, but without additional consideration required and without retention by the Authority of any legal interest in the Project." The Agreement originally required the transfer to occur on or before July 27, 2000; this date was extended in subsequent amendments of the Agreement to June 30, 2005, and was approved by the Authority. RII requested modification to the Regulatory and Use Agreements that are attached to the HUD-financed mortgages on the property; however, HUD rejected RII's proposal to modify the restrictions in the Regulatory and Use Agreement established at the time of the purchase of the property by the FCRHA in 1995. As a result, RII has indicated that it is no longer able to proceed with plans to purchase the property.

SUPPLEMENTARY INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

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

Supplementary Information

June 30, 2005

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, 2004, confirmed by mortgagee	\$	474,258
Interest		1,499
Monthly deposits		82,680
Withdrawals		<u>(75,495)</u>
Balance, June 30, 2005, confirmed by mortgagee	\$	<u><u>482,942</u></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, 2004	\$	330,529
Interest earned		<u>4,499</u>
Balance, June 30, 2005	\$	<u><u>335,028</u></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, 2004	\$	314,025
Deposit of CDBG Grant Proceeds		380,000
Interest earned		<u>4,823</u>
Balance, June 30, 2005	\$	<u><u>698,848</u></u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

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

Supplementary Information

June 30, 2005

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, 2004	\$	31,615
Deposits		79,653
Withdrawals		<u>(51,445)</u>
Balance, June 30, 2005	\$	<u><u>59,823</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.

\$ 191,741

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, 2005	Project Number HUD Project No: 000-55074		
Part A – Compute Surplus Cash					
Cash					
1. Cash (Accounts 1110, 1120, 1191, 1192)		\$	109,810		
2. Tenant subsidy vouchers due for period covered by financial statement		\$			
3. Other (describe)		\$			
(a) Total Cash (Add Lines 1, 2, and 3)			\$	109,810	
Current Obligations					
4. Accrued mortgage interest payable		\$	57,124		
5. Delinquent mortgage principal payments		\$			
6. Delinquent deposits to reserve for replacements		\$			
7. Accounts payable (due within 30 days)		\$	46,219		
8. Loans and notes payable (due within 30 days)		\$			
9. Deficient Tax Insurance or MIP Escrow Deposits		\$			
10. Accrued expenses (not escrowed)		\$	18,180		
11. Prepaid Rents (Account 2210)		\$	8,448		
12. Tenant security deposits liability (Account 2191)		\$	91,275		
13. Other (Describe)		\$			
(b) Less Total Current Obligations (Add Lines 4 through 13)			\$		221,246
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))			\$		(111,436)
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 ends)				\$ 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, 2005

	Capital Assets			Accumulated Depreciation			Net book value
	Balance June 30, 2004	Additions	Balance June 30, 2005	Balance June 30, 2004	Current provision	Balance June 30, 2005	
Land	\$ 2,492,265	—	2,492,265	—	—	—	2,492,265
Buildings and improvements	10,415,208	26,690	10,441,898	3,581,369	378,896	3,960,265	6,481,633
Equipment	150,402	—	150,402	115,003	12,939	127,942	22,460
	<u>\$ 13,057,875</u>	<u>26,690</u>	<u>13,084,565</u>	<u>3,696,372</u>	<u>391,835</u>	<u>4,088,207</u>	<u>8,996,358</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, 2005

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 2,015,154	
	Tenant Assistance Payments	5121		
	Furniture and Equipment	5130		
	Stores and Commercial	5140		
	Garage and Parking Spaces	5170		
	Flexible Subsidy Income	5180		
	Miscellaneous (specify)	5190		
	Total Rent Revenue Potential at 100% Occupancy			
Vacancies 5200	Apartments	5220	(8,658)	
	Furniture and Equipment	5230		
	Stores and Commercial	5240		
	Garage and Parking Spaces	5270		
	Miscellaneous (specify)	5290		
	Total Vacancies			
	Net Rental Revenue			\$ 2,006,496
	Elderly and Congregate Services Income - 5300			
	Total Service Income (Schedule Attached)	5300		—
Financial Revenue	Interest Income - Project Operations	5410	5,023	
	Income from Investments - Residual Receipts	5430	4,499	
	Income from Investments - Reserve for Replacement	5440	1,499	
	Income from Investments - Miscellaneous	5490		
	Total Financial Revenue			
Other Revenue 5900	Laundry and Vending	5910	40,024	
	NSF and Late Charges	5920	3,290	
	Damages and Cleaning Fees	5930	4,598	
	Forfeited Tenant Security Deposits	5940	50	
	Other Revenue (specify) (Schedule attached)	5990	11,370	
	Total Other Revenue			
	Total Revenue			\$ 2,076,849
Administrative Expenses 6200/6300	Advertising	6210	1,432	
	Other Administrative Expense	6250	72,136	
	Office Salaries	6310	56,748	
	Office Supplies	6311	14,128	
	Office or Model Apartment Rent	6312	12,296	
	Management Fees	6320	78,828	
	Manager or Superintendent Salaries	6330	54,155	
	Manager or Superintendent Rent Free Unit	6331	31,008	
	Legal Expenses - Project	6340	4,571	
	Audit Expense - Project	6350	8,000	
	Bookkeeping Fees / Accounting Service	6351	—	
	Telephone and Answering Service	6360	10,646	
	Bad Debts	6370	—	
	Miscellaneous Administrative Expenses (specify)	6390	14,878	
Total Administrative Expenses				\$ 358,826
Utilities Expense 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	20,968	
	Water	6451	87,658	
	Gas	6452	73,996	
	Sewer	6453	—	
	Total Utilities Expense			\$ 182,622

(Continued)

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, 2005

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	82,231	
	Janitor and Cleaning Supplies	6515	13,460	
	Janitor and Cleaning Contract	6517	—	
	Exterminating Payroll / Contract	6519	28,889	
	Exterminating Supplies	6520	—	
	Garbage and Trash Removal	6525	18,823	
	Security Payroll / Contract	6530	30,204	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	144	
	Grounds Contract	6537	28,947	
	Repairs Payroll	6540	106,695	
	Repairs Material	6541	53,343	
	Repairs Contract	6542	27,028	
	Elevator Maintenance / Contract	6545	1,562	
	Heating / Cooling Repairs and Maintenance	6546	—	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	10,595	
	Decorating Payroll / Contract	6560	31,053	
	Decorating Supplies	6561	—	
	Other	0	—	
Miscellaneous Operating and Maintenance Expenses	6590	4,975		
	Total Operating and Maintenance Expenses			\$ 437,949
Taxes and Insurance 6700	Real Estate Taxes	6710	—	
	Payroll Taxes (FICA)	6711	46,581	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	—	
	Property and Liability Insurance (Hazard)	6720	—	
	Fidelity Bond Insurance	6721	—	
	Workmen's Compensation	6722	1,634	
	Health Insurance and Other Employee Benefits	6723	33,579	
	Other Insurance (specify)	6729	778	
		Total Taxes and Insurance		
Financial Expenses 6800	Interest on Bonds Payable	6810	13,175	
	Interest on Mortgage Payable	6820	689,816	
	Interest On Notes Payable (Long-Term)	6830	—	
	Interest on Notes Payable (Short-Term)	6840	—	
	Mortgage Insurance Premium / Service Charge	6850	48,356	
	Miscellaneous Financial Expenses	6890	—	
		Total Financial Expenses		
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)	6900	—	\$ —
	Total Cost of Operations Before Depreciation			\$ 1,813,316
	Profit (Loss) Before Depreciation			\$ 263,533
	Depreciation and Amortization	6600	—	\$ 391,835
	Operating Profit or (Loss)			\$ (128,302)
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)			\$ (128,302)

**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, 2005, and have issued our report thereon dated September 2, 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.

September 2, 2005