

**FAIRFAX COUNTY REDEVELOPMENT
AND HOUSING AUTHORITY**
(A Component Unit of the County of Fairfax, Virginia)

Basic Financial Statements and Management's Discussion and Analysis

June 30, 2007

(With Independent Auditors' Reports Thereon)

**FAIRFAX COUNTY REDEVELOPMENT
AND HOUSING AUTHORITY**
(A Component Unit of the County of Fairfax, Virginia)

June 30, 2007

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the accompanying financial statements of the business-type activities of Fairfax County Redevelopment and Housing Authority (the Authority), a component unit of the County of Fairfax, Virginia, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% of the total assets, revenues and net assets of the discretely presented component units as of and for the year ended June 30, 2007. Additionally, we did not audit the financial statements of one of the Authority owned rental properties which represents less than 1% of the total assets, 2% of the total revenues, and less than 1% of the total net assets of the primary government as of and for the year ended June 30, 2007. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the one rental property and the discretely presented component units, is based solely on the reports of the other auditors.

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. The component unit financial statements of Castellani Meadows, Gum Springs Glen, Herndon Harbor House, Herndon Harbor House II, Morris Glen, Tavenner Lane, and The Green were not audited in accordance with *Government Auditing Standards*. 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 Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007, 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 accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007 on our consideration of the Authority'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.

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the 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.

KPMG LLP

November 20, 2007

**FAIRFAX COUNTY REDEVELOPMENT
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Management's Discussion and Analysis (MD&A)
June 30, 2007

Introduction

The Fairfax County Redevelopment and Housing Authority (the FCRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment and revitalization programs within Fairfax County (the County), as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors (the Board) 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's fiscal year (FY) 2007 annual financial report consists of two parts – the management's discussion and analysis (MD&A) and the basic financial statements and notes to those financial statements.

The FCRHA presents this MD&A of its financial performance during the fiscal year ended June 30, 2007, to assist the reader in focusing on significant financial issues and concerns. This year's MD&A presents a comparative analysis of financial data to help the reader ascertain the reasons for changes in assets, liabilities, expenses, revenues, and net asset balances from the previous year.

This MD&A is focused solely on the primary activities of the FCRHA's Enterprise Fund and does not include a discussion of the financial results of the discretely presented component units.

Financial Highlights for FY 2007

The FCRHA's FY 2007 financial highlights included the following:

- Total assets and liabilities of the FCRHA were approximately \$153.4 million and \$44.6 million, respectively; thus total net assets were approximately \$108.8 million at June 30, 2007. Of this amount, \$37.3 million (unrestricted net assets) may be used to meet the FCRHA's future operational needs.
- Total revenues and expenses were approximately \$81.2 million and \$64.9 million, respectively; resulting in an increase in net assets of approximately \$16.3 million during the fiscal year. This increase represents approximately a 17.6% increase in net assets from June 30, 2006 and was primarily due to increased interest revenues and a gain on the sale of a capital asset.
- Cash and cash equivalents decreased by approximately \$2.3 million.

FCRHA Financial Statements

The FCRHA's mission in the County focuses on the planning, design, construction, preservation, rehabilitation, financing, and management of housing, primarily for low-and-moderate income households, and on assisting in the revitalization of neighborhoods in Fairfax County. The FCRHA, as of June 30, 2007, owned and/or operated over 2,900 residential units that were leased to low-and-moderate income families and individuals; 11 properties that served 177 individuals in supportive housing programs; and a 12-acre site with foundations for 115 mobile homes. In addition, housing assistance was paid to 3,204 households under the Federal Housing Choice Voucher program for privately owned housing.

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In FY 2007, the County's Board of Supervisors set a goal and tasked the FCRHA to preserve 1,000 units of affordable housing as well as create 200 new affordable units by the end of FY 2008. That goal was met when a total of 1,412 units were preserved as of June 30, 2007.

Also in FY 2007, the FCRHA promoted the production of Affordable Dwelling Units (ADUs) which included workforce housing for police and firefighters and affordable housing and facilities for seniors, persons with disabilities and persons with other special needs. A total of 37 ADU units were acquired during the year to serve the residential needs of low-to-moderate income households.

The FCRHA presents its financial results in three basic financial statements – the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The statement of net assets reports all financial and capital resources of the FCRHA and is presented in a format where assets minus liabilities equals net assets. Net assets are broken down into the following three categories:

- *Net assets, invested in capital assets, net of related debt* consist of all capital assets net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- *Restricted net assets* consist of assets on which constraints are placed by creditors (such as debt covenants), grantors, contributors, laws, or regulations.
- *Unrestricted net assets* consist of net assets that do not meet the definition of net assets that fall in either one of the two categories discussed above – invested in capital assets, net of related debt, or restricted net assets.

The statement of revenues, expenses, and changes in net assets includes operating revenues, such as rental income; operating expenses, such as administrative, utilities, maintenance, and depreciation expense; and nonoperating revenues and expenses, such as grant revenue, investment income, interest expense, and gain on disposition of assets. The statement's focus is the change in net assets.

Finally, a statement of cash flows is included, which discloses net cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

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.

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Summary of Net Assets

The following table presents a summary of FCRHA's net assets as of June 30, 2007 and 2006.

Table 1

Summary of Net Assets

June 30, 2007 and 2006

(in millions)

Description	2007	2006	Increase (decrease)	% Changed
Current and other assets	\$ 69.9	\$ 61.6	\$ 8.3	13.5
Capital assets	83.5	81.4	2.1	2.6
Total assets	153.4	143.0	10.4	7.3
Current liabilities	16.4	17.5	(1.1)	(6.3)
Noncurrent liabilities	28.2	33.0	(4.8)	(14.5)
Total liabilities	44.6	50.5	(5.9)	(11.7)
Net assets:				
Invested in capital assets, net of related debt	67.0	56.2	10.8	19.2
Restricted	4.5	5.6	(1.1)	(19.6)
Unrestricted	37.3	30.7	6.6	21.5
Total net assets	\$ 108.8	\$ 92.5	\$ 16.3	17.6

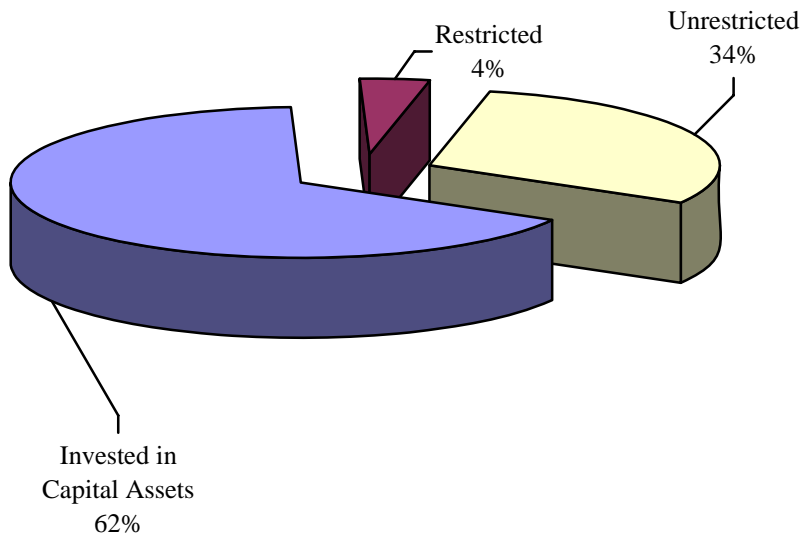
As of June 30, 2007, the FCRHA's net assets totaled approximately \$108.8 million, an increase of approximately \$16.3 million, or 17.6%, over the net asset balance as of June 30, 2006. This increase was due to certain transactions that affected the FCRHA's asset and liability balances during the year. Current and other assets increased by a net of \$8.3 million which was primarily due to the issuance of a deferred loan for approximately \$11 million to a nonprofit corporation for the acquisition, rehabilitation and preservation of Janna Lee Village, a 319 unit apartment complex. The FCRHA's capital assets were increased by a net of \$2.1 million, or 2.6%, as a result of acquiring new ADU units and land at the Janna Lee Village complex. Finally, the FCRHA's total liabilities balance was reduced by approximately \$5.9 million, or 11%, as a result of the sale of the FCRHA's Cedar Ridge property to investors of a low income housing tax credit limited partnership, which was partially offset by loans for the acquisition, rehabilitation and preservation of Janna Lee Village.

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The FCRHA's total net assets also consisted of restricted net assets of \$4.5 million and \$5.6 million, and unrestricted net assets of \$37.3 million and \$30.7 million at June 30, 2007 and 2006, respectively. Restricted net assets include cash and investments consisting of restricted deposits and funded reserves for repairs and replacements required by HUD and Virginia Housing Development Authority (the VHDA) guidelines, as well as cash balances in accordance with certain bond indentures. The following pie chart illustrates the relative percentage of the FCRHA's net assets invested in capital assets and the remaining restricted and unrestricted net assets at June 30, 2007.

Composition of FCRHA's Net Assets

June 30, 2007



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Revenues, Expenses, and Changes in Net Assets

The results of the FCRHA's operations are reported in the statement of revenues, expenses, and changes in net assets. In FY 2007, the FCRHA's enterprise programs realized an increase in net assets of approximately \$16.3 million. Table 2 presents a summary of data from the FCRHA's statement of revenues, expenses, and changes in net assets for FY 2007 and FY 2006 and a comparative analysis of activities in these years.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2007 and 2006
(in millions)

<u>Description</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>Increase (decrease)</u>	<u>% Changed</u>
Revenues:				
Operating revenues	\$ 18.1	\$ 14.6	\$ 3.5	24.0
Nonoperating revenues, and contributions	<u>63.1</u>	<u>61.1</u>	<u>2.0</u>	<u>3.3</u>
Total revenues	<u>81.2</u>	<u>75.7</u>	<u>5.5</u>	<u>7.3</u>
Expenses:				
Operating expenses	63.1	58.6	4.5	7.7
Nonoperating expenses	<u>1.8</u>	<u>2.0</u>	<u>(0.2)</u>	<u>(10.0)</u>
Total expenses	<u>64.9</u>	<u>60.6</u>	<u>4.3</u>	<u>7.1</u>
Changes in net assets	16.3	15.1	1.2	7.9
Total net assets, beginning of year	<u>92.5</u>	<u>77.4</u>	<u>15.1</u>	<u>19.5</u>
Total net assets, end of year	<u>\$ 108.8</u>	<u>\$ 92.5</u>	<u>\$ 16.3</u>	<u>17.6</u>

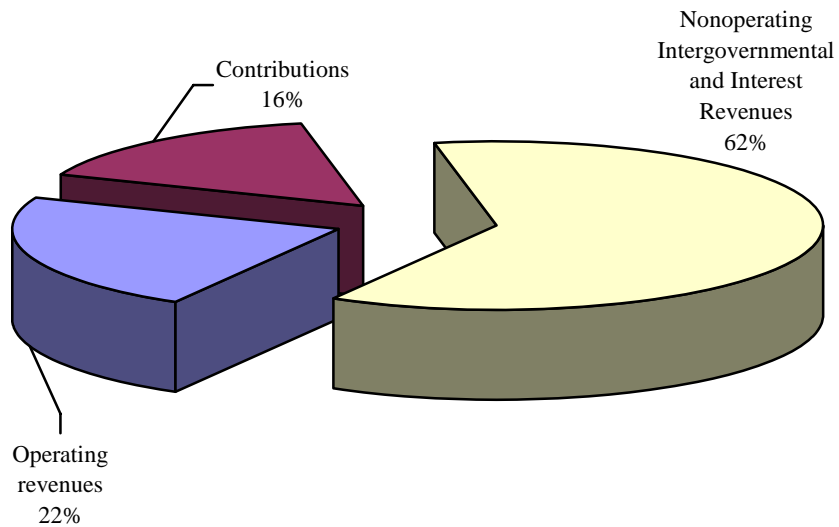
The FCRHA's total overall revenues during the year were up by approximately \$5.5 million, or 7.3%. The majority of the increase occurred in operating revenues, which showed an increase of approximately \$3.5 million, or 24%. There were two property changes that caused this increase. The first was an increase of rental revenues as a result of the addition of the Braddock Glen Assisted Living facility to the FCRHA's Elderly Housing Programs. The second was an increase in other income and was the result of the FCRHA earning a series of bond financing, developer, and close-out fees related to the sale of the FCRHA's Cedar Ridge property to investors of a newly formed low income housing tax credit limited partnership, which the FCRHA is the general partner. The FCRHA also recognized a gain on the sale of the property in the amount of approximately \$2.7 million.

The FCRHA's operating expenses in FY 2007 were up by approximately \$4.5 million, or 7.7%. The majority of the increase in operating expenses occurred in two FCRHA programs – the FCRHA Rental and Elderly Programs – as a result of the addition of the Braddock Glen Elderly property.

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Approximately 78% of the FCRHA's total revenues in FY 2007 were nonoperating revenues, interest revenues, and contributions that were derived from federal grants from HUD, County contributions, and interest. The remaining 22% were operating revenues derived from rents and other user charges, and developer and financing fees. The following pie chart illustrates the major sources of these revenues and their relative percent of the total for FY 2007.

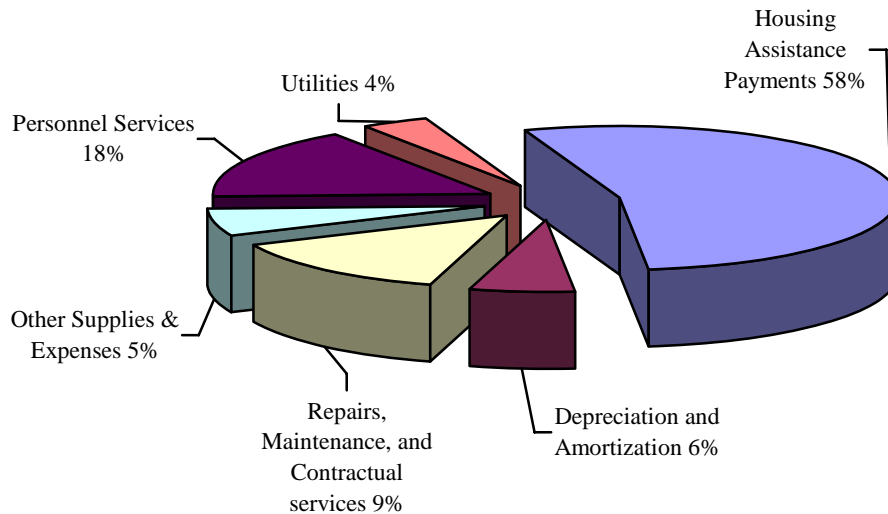
FCRHA's Enterprise Programs
FY 2007 Sources of Funds



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In FY 2007, the FCRHA incurred operating expenses in its enterprise programs totaling approximately \$63.1 million. The following pie chart illustrates major operating expense groups and their relative percent of the total.

FCRHA's Enterprise Programs
FY 2007 Operating Expenses



Capital Assets and Debt Administration

Capital Assets. The FCRHA capital assets at June 30, 2007 and 2006, included land, buildings and improvements, equipment, and construction in progress, which totaled \$83.5 million and \$81.4 million, respectively, net of accumulated depreciation of approximately \$64.7 million and \$67.0 million at June 30, 2007 and 2006, respectively. The approximately \$2.1 million net increase in capital assets was attributed to the acquisition of a number of ADUs and of land at the Janna Lee Village complex. For further details see note 6, page 22, Capital Assets.

Short-term and long-term debt. The FCRHA's June 30, 2007 and 2006 statement of net assets includes debt – consisting of housing loans, notes, and bonds payable – of approximately \$35.3 million and \$38.6 million, respectively.

Public bond issues are project specific and have been rated by Standard and Poor's at either "AA" or "AAA" depending upon the collateral securing the debt. Other debt of the FCRHA is a direct placement with institutional lenders without the need for a credit rating. For further details, see note 7, page 23, Short-Term and Long-Term Obligations – Loans, Notes and Bonds Payable.

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Contacting FCRHA Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, customers, investors, and creditors with a general overview of the FCRHA's operations and finances and to demonstrate the FCRHA'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.

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Statement of Net Assets

June 30, 2007

	<u>Enterprise fund</u>	<u>Component units</u>	<u>Total reporting entity</u>
Assets:			
Current assets:			
Cash in bank (note 2)	\$ 3,954,646	5,349,216	9,303,862
Cash on deposit with the County of Fairfax, Virginia (note 2)	24,654,478	—	24,654,478
Cash reserves (note 2)	560,948	—	560,948
Investments (note 3)	3,982,438	—	3,982,438
Accrued interest receivable	244,990	6,944	251,934
Accounts receivable (net of allowances) (note 5)	577,430	131,509	708,939
Notes, mortgages, and other receivables (note 5)	2,245,550	—	2,245,550
Property held for sale	918,340	—	918,340
Prepaid items and other assets	2,791,796	8,602	2,800,398
Total current assets	<u>39,930,616</u>	<u>5,496,271</u>	<u>45,426,887</u>
Restricted assets:			
Deposits held in trust	2,982,743	392,854	3,375,597
Cash reserves (note 2)	4,098,306	3,358,390	7,456,696
Investments (note 3)	1,101,853	—	1,101,853
Total restricted assets	<u>8,182,902</u>	<u>3,751,244</u>	<u>11,934,146</u>
Capital assets (note 6):			
Nondepreciable:			
Land	29,810,292	7,168,525	36,978,817
Construction in progress	4,634,781	—	4,634,781
Depreciable:			
Buildings and improvements	113,244,571	55,021,306	168,265,877
Equipment	531,694	606,112	1,137,806
Accumulated depreciation	(64,676,259)	(19,045,560)	(83,721,819)
Total capital assets, net	<u>83,545,079</u>	<u>43,750,383</u>	<u>127,295,462</u>
Other noncurrent assets:			
Investment in tax credit limited partnerships (note 4)	5,844,245	—	5,844,245
Notes, mortgages, and other receivables (note 5)	15,929,958	—	15,929,958
Prepaid items and other assets	1,644	—	1,644
Deferred financing fees (net of accumulated amortization of \$7,440)	19,836	269,638	289,474
Total other noncurrent assets	<u>21,795,683</u>	<u>269,638</u>	<u>22,065,321</u>
Total assets	<u>153,454,280</u>	<u>53,267,536</u>	<u>206,721,816</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	1,979,489	1,371,898	3,351,387
Accrued salaries and benefits	485,794	—	485,794
Due to the County of Fairfax, Virginia	1,933,547	3,405,958	5,339,505
Deposits held in trust	2,982,743	330,206	3,312,949
Deferred revenue	1,006,405	71,460	1,077,865
Accrued compensated absences (note 7)	417,682	—	417,682
Loans, notes, and bonds payables (note 7)	7,606,953	744,582	8,351,535
Total current liabilities	<u>16,412,613</u>	<u>5,924,104</u>	<u>22,336,717</u>
Noncurrent liabilities:			
Accrued compensated absences (note 7)	573,998	—	573,998
Loans, notes, and bonds payables (note 7)	27,643,797	30,366,217	58,010,014
Other accrued long-term interest and liabilities	—	2,469,117	2,469,117
Total noncurrent liabilities	<u>28,217,795</u>	<u>32,835,334</u>	<u>61,053,129</u>
Total liabilities	<u>44,630,408</u>	<u>38,759,438</u>	<u>83,389,846</u>
Net assets:			
Invested in capital assets, net of related debt	67,007,532	12,639,584	79,647,116
Restricted	4,500,848	3,421,038	7,921,886
Unrestricted (deficit)	37,315,492	(1,552,524)	35,762,968
Total net assets	<u>\$ 108,823,872</u>	<u>14,508,098</u>	<u>123,331,970</u>

See accompanying notes to financial statements.

**FAIRFAX COUNTY REDEVELOPMENT
AND HOUSING AUTHORITY**

(A Component Unit of the County of Fairfax, Virginia)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2007

	<u>Enterprise fund</u>	<u>Component units</u>	<u>Total reporting entity</u>
Operating revenues:			
Dwelling rentals	\$ 14,875,668	5,672,972	20,548,640
Other	3,296,797	1,047,679	4,344,476
Total operating revenues	<u>18,172,465</u>	<u>6,720,651</u>	<u>24,893,116</u>
Operating expenses:			
Personnel services	11,255,469	1,156,428	12,411,897
Contractual services	1,459,070	84,747	1,543,817
Utilities	2,450,610	904,158	3,354,768
Repairs and maintenance	4,060,686	1,227,951	5,288,637
Other supplies and expenses	2,852,882	1,519,778	4,372,660
Housing Assistance Payments (HAP)	36,925,895	—	36,925,895
Depreciation and amortization	4,129,731	1,919,561	6,049,292
Total operating expenses	<u>63,134,343</u>	<u>6,812,623</u>	<u>69,946,966</u>
Operating loss	<u>(44,961,878)</u>	<u>(91,972)</u>	<u>(45,053,850)</u>
Nonoperating revenues (expenses):			
Intergovernmental revenue	46,053,103	83,502	46,136,605
Interest revenue	1,762,225	147,433	1,909,658
Interest expense	(1,838,317)	(1,132,709)	(2,971,026)
Gain on disposition of assets (note 14)	2,714,949	—	2,714,949
Total nonoperating revenues (expenses), net	<u>48,691,960</u>	<u>(901,774)</u>	<u>47,790,186</u>
Income (loss) before contributions	3,730,082	(993,746)	2,736,336
Contributions:			
Intergovernmental revenue – capital grants	11,238,015	—	11,238,015
HUD debt service contributions	239,205	—	239,205
HUD capital contributions	1,104,111	—	1,104,111
Total contributions	<u>12,581,331</u>	<u>—</u>	<u>12,581,331</u>
Change in net assets	16,311,413	(993,746)	15,317,667
Total net assets, beginning of year	<u>92,512,459</u>	<u>15,501,844</u>	<u>108,014,303</u>
Total net assets, end of year	<u>\$ 108,823,872</u>	<u>14,508,098</u>	<u>123,331,970</u>

See accompanying notes to financial statements.

**FAIRFAX COUNTY REDEVELOPMENT
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Statement of Cash Flows
Year ended June 30, 2007

	<u>Enterprise fund</u>	<u>Component units</u>	<u>Total reporting entity</u>
Cash flows from operating activities:			
Rental receipts	\$ 15,104,535	5,665,380	20,769,915
Other operating cash receipts	3,427,516	1,035,234	4,462,750
Purchase of property held for sale	(2,436,531)	—	(2,436,531)
Receipts from sale of property held for sale	1,716,459	—	1,716,459
Payments to employees for services	(11,202,376)	(1,156,428)	(12,358,804)
Housing Assistance Payments	(36,798,022)	—	(36,798,022)
Payments to suppliers for goods and services	(10,491,993)	(4,307,782)	(14,799,775)
Net cash provided by (used in) operating activities	<u>(40,680,412)</u>	<u>1,236,404</u>	<u>(39,444,008)</u>
Cash flows from noncapital financing activities:			
Retirement of loans, notes, and bond payables	(3,100,000)	—	(3,100,000)
Proceeds from the issuance of debt	10,690,000	—	10,690,000
Receipts from the County	7,080,387	—	7,080,387
Payments on behalf of the County	(3,576,778)	—	(3,576,778)
Intergovernmental revenues received	46,933,798	83,502	47,017,300
Net cash provided by noncapital financing activities	<u>58,027,407</u>	<u>83,502</u>	<u>58,110,909</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(14,956,493)	(250,704)	(15,207,197)
Proceeds from sale of capital assets	11,433,920	—	11,433,920
Intergovernmental revenue – capital grants	11,238,015	—	11,238,015
Proceeds from issuance of debt	3,011,365	83,218	3,094,583
Interest paid	(2,001,774)	(769,693)	(2,771,467)
Debt principal paid	(13,987,739)	(680,880)	(14,668,619)
HUD debt service and capital contributions	1,343,316	—	1,343,316
Net cash used in capital and related financing activities	<u>(3,919,390)</u>	<u>(1,618,059)</u>	<u>(5,537,449)</u>
Cash flows from investing activities:			
Receipt of loan and advance repayments	1,019,063	—	1,019,063
Disbursement of loans and advances receivable	(12,568,559)	—	(12,568,559)
Acquisition of investments	(5,929,905)	—	(5,929,905)
Interest and gain received on investments	1,709,825	126,193	1,836,018
Net cash provided by (used in) investing activities	<u>(15,769,576)</u>	<u>126,193</u>	<u>(15,643,383)</u>
Net decrease in cash and cash equivalents	<u>(2,341,971)</u>	<u>(171,960)</u>	<u>(2,513,931)</u>
Cash and cash equivalents, beginning of year	38,593,092	9,272,420	47,865,512
Cash and cash equivalents, end of year	<u>\$ 36,251,121</u>	<u>9,100,460</u>	<u>45,351,581</u>
Reconciliation to statement of net assets:			
Cash in bank	\$ 3,954,646	5,349,216	9,303,862
Cash on deposit with the County of Fairfax, Virginia	24,654,478	—	24,654,478
Cash deposits held in trust	2,982,743	392,854	3,375,597
Cash reserves	4,659,254	3,358,390	8,017,644
Cash and cash equivalents	<u>\$ 36,251,121</u>	<u>9,100,460</u>	<u>45,351,581</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (44,961,878)	(91,972)	(45,053,850)
Depreciation and amortization	4,129,731	1,919,561	6,049,292
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(470)	(15,042)	(15,512)
(Increase) decrease in prepaid items and other assets	153,699	24,732	178,431
(Increase) decrease in property held for sale	(720,072)	—	(720,072)
Increase (decrease) in accounts payable and accrued liabilities	265,696	(595,880)	(330,184)
Increase (decrease) in accrued salaries and wages	55,060	—	55,060
Increase (decrease) in deposits held in trust	477,145	(12,445)	464,700
Increase (decrease) in deferred revenue	(79,323)	7,450	(71,873)
Net cash provided by (used in) operating activities	<u>\$ (40,680,412)</u>	<u>1,236,404</u>	<u>(39,444,008)</u>

See accompanying notes to financial statements.

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(1) Organization Profile

These financial statements include the activities of the Fairfax County Redevelopment and Housing Authority (the Authority or FCRHA). The Authority administers various housing and community development programs within the County of Fairfax, Virginia (the County). The Authority is a political subdivision of the Commonwealth of Virginia created pursuant to Chapter 1 of Title 36 of the Code of Virginia of 1950, as amended, by resolution of the Board of Supervisors of Fairfax County and approved in a referendum of voters in the County on November 2, 1965. On February 23, 1966, the Board of Supervisors declared the Authority activated. The powers, duties, and responsibilities of the Authority are set forth in Title 36 of the Code of Virginia of 1950, as amended. The Authority is a component unit of the County.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to U.S. generally accepted accounting principles (GAAP) as applicable to proprietary funds of governmental units. The following is a summary of the Authority's more significant accounting policies.

(a) Reporting Entity

As required by GAAP, the accompanying financial statements present the financial position and result of operations of the Authority (the primary government) and its component units. The financial results of the component units are included in the Authority's basic financial statements because of the significance of their operational or financial relationships with the Authority. The Authority and its component units are together referred to as the Reporting Entity.

Blended Component Unit

The Authority is the general partner of one real estate partnership (Little River Glen) that is considered a component unit of the Authority for the same reasons discussed in the following paragraph. However, because the Authority is not only the general partner, but also controls the limited partnership interests, it is considered a blended component unit. The blended component unit has a June 30 fiscal year-end.

Discretely Presented Component Units

Additionally, the Authority is also the general partner in ten other real estate limited partnerships (Fairfax County Redevelopment and Housing Authority/HCDC One, L.P., Fairfax County Redevelopment and Housing Authority/HCDC Two, L.P., Herndon Harbor House I L.P., Herndon Harbor House II L.P., Tavenner Lane, L.P., Castellani Meadows L.P., The Green L.P., Morris Glen L.P., Gum Springs Glen L.P. and Cedar Ridge, L.P.). However, the limited partnership interests are held by third parties unrelated to the Authority. As the general partner, the Authority has certain rights and responsibilities, which enable it to impose its will on the limited partnerships. Additionally, the Authority is financially accountable for the limited partnerships as the Authority is legally obligated to fund operating deficits up to a maximum limit per partnership, in accordance with the terms of the partnership agreements.

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All discretely presented component units have a December 31 fiscal year-end. Accordingly, the amounts included for each component unit are as of and for the year-end that falls within the year ended June 30, 2007. A copy of the most recently issued financial statements for each of the component units can be obtained by contacting: Fairfax County Redevelopment and Housing Authority; Financial Management Division, 3700 Pender Drive, Fairfax, Virginia 22030.

(b) Basis of Presentation

The accounts of the Authority are presented in single proprietary fund financial statements consisting of various programs. This financial statement presentation provides an indication of the financial performance of the Authority as a whole. The operations of the Authority are accounted for in the three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These statements report information on all activities of the Authority and its components units. Likewise, the Authority is reported separately from legally separate component units for which the Authority is financially accountable.

The Authority's activities include the following programs:

The following two programs include programs provided by the County through its Department of Housing and Community Development (HCD). The HCD was established by the Board of Supervisors on December 12, 1973, to assume the administrative functions of the Authority and to function as the County's agency for administration of all housing and community development programs. In this action, the Board of Supervisors also established that the County executive would be the executive director and the secretary of the Authority.

- *Elderly Housing Programs* are used to account for the affordable rental housing owned by the Authority and occupied by the elderly.
- *Homeowners and Business Loan Program* is used to account for funds used to assist low and moderate income families to become homeowners in the County or to improve their current living space through repair or rehabilitation. It is also used to account for the operation of small and minority business loan programs that are funded by the federal government.

The Authority's other programs, described below, are financed primarily by federal grants from the U.S. Department of Housing and Urban Development (HUD), rents, and other user charges resulting from the operations of subsidized housing, development and financing fees, investment income, and loan proceeds. These funds provide rental housing, housing for the elderly/group homes, loans for home ownership and home improvement, tenant rental assistance, community development, and the development and administration of these programs. A description of each of these programs follows:

- *Public Housing Program* is used to account for operating and capital costs of rental housing owned and operated by the Authority and subsidized by the HUD public housing program. Other funding sources include rental income and other user charges.

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- *Housing Choice Voucher Program* is a federal housing assistance program for lower income families seeking housing in the private market place. HUD provides funds to pay a portion of the family's rent.
- *Operating Program* is used to account for projects and for real property that is not accounted for in other Authority programs. The primary source of revenue is development and financing fees earned by the Authority from private developers of affordable multifamily housing.
- *Revolving Development Program* is used to provide funds for initial project costs, such as new site investigations, architectural and engineering plans, studies, and fees. This funding ensures that adequate plans and proposals are completed prior to application for project financing from federal, state, or private sources. These initial costs are anticipated to be recovered from permanent project financing.
- *Private Finance Program* is used to budget and report costs for capital projects that are supported wholly or partially by funds borrowed by the Authority or through the Authority's sale of notes or bonds. Housing development and improvement projects may be financed with funds borrowed from private lenders, the Virginia Housing Development Authority (VHDA), or the federal government.
- *Rehabilitation Loan Program* is used to account for the Authority's portion of the funding for the Home Improvement Loan Program (HILP). These funds are borrowed by the Authority from private lenders. The HILP, which is administered by HCD, provides a variety of home improvement or rehabilitation loans primarily to single family homeowners.
- *Fairfax County Rental Program (FCRP)* is used to provide affordable rental housing (other than federal public housing) in the County for low and moderate income families.
- *Grant Program* is used to account for programs receiving grant monies. This program includes the Resident Opportunities and Self Sufficiency project.

(c) ***Measurement Focus and Basis of Accounting***

The proprietary fund financial statements 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 Authority 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).

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are rental charges and other charges related to use of

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property. The Authority also recognizes as operating revenues management and development fees, excess utility charges, and other tenant charges. Operating expenses include personnel services, contractual services, administrative expenses, utility expenses, ordinary repair and maintenance expenses, housing assistance payments, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as either nonoperating revenues or expenses or contributions.

(d) Cash and Temporary Investments

Cash in Bank is maintained by the County's Investment and Cash Management Division (ICM) in a separate bank account in order to comply with the provisions of bond indentures. Cash on Deposit with the County of Fairfax, Virginia, is also maintained by ICM, in a single pooled account. Deposits held in trust reflect amounts collected as security deposits from tenants, as well as accrued interest on these deposits. Such amounts are reported as current assets to be consistent with the reporting of the related liabilities. Cash Reserves primarily consist of restricted deposits and funded reserves for repairs and replacements required to be maintained under HUD and VHDA guidelines, as well as cash balances in accordance with certain bond indentures. All of the primary government's cash deposits are covered by federal depository insurance and have been fully insured or collateralized. Temporary investments consist of money market investments that have a remaining maturity at the time of purchase of one year or less and are reported at amortized cost, which approximates fair values. The County allocates, on a monthly basis, any temporary investment earnings, less an administrative charge, based on the Authority's average balance pooled cash and temporary investments.

(e) Investments

The Authority maintains an investment policy, the overall objectives of which are the preservation of capital and the protection of investment principal; maintenance of sufficient liquidity to meet operating requirements; conformance with federal, state and other legal requirements and attainment of a market rate of return. Oversight of the investment activity is the responsibility of the Investment Committee, which is comprised of the Deputy Directors, HCD, Director of Financial Management Division (FMD), Director of Real Estate Finance and Grants Management Division (REFGM), Associate Director, REFGM and Fiscal Administrators, FMD.

Authorized investments for public funds are set forth in the "Investment of Public Funds Act" of the Code of Virginia. Within the permitted statutory framework, the Authority limits the investment of assets to the Money Market Accounts, Certificates of Deposit and U.S. Treasury Securities. Temporary investments consist of money market investments that have a remaining maturity at the time of purchase of one year or less and are reported at amortized cost, which approximates fair value.

This investment policy applies to all financial assets of the Authority, all General Obligation bond funds, all funds deposited in the Authority's bank accounts, and the County's pooled cash. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in bond

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documents. All Authority investments are held by the financial institution's trust department in its name and are collateralized by United States Government securities.

(f) *Investment in Tax Credit Limited Partnership*

Investment in Tax Credit Limited Partnerships represents the Authority's interest in ten (10) tax credit limited partnerships. These investments are accounted for under the equity method because the Authority either holds a controlling interest or has "significant influence" over the operations of the partnerships. Under the equity method, the initial investment is recorded at cost and is increased or decreased by the Authority's share of income or losses and is increased by contributions and decreased by distributions.

(g) *Cash and Cash Equivalents*

For purposes of preparing the statement of cash flows, cash and cash equivalents include unrestricted cash in bank, cash on deposit with the County of Fairfax, Virginia, deposits held in trust and restricted cash reserves. In addition, only the changes in the operating portion of assets and liabilities are accounted for in this statement's reconciliation of operating income (loss) to net cash provided by (used in) operating activities.

(h) *Capital Assets*

Capital assets, which include land, buildings and improvements, equipment, and construction in progress are reported in the financial statements at cost when purchased and at estimated fair value when donated. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Depreciation has been provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated useful lives using the straight line method. The estimated useful lives range from 5 to 27½ years.

(i) *Compensated Absences*

Employees 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 employees however, it is converted to years of service upon retirement. Accumulated vacation is recorded as an expense and a liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary-related payments (i.e., employer's share of social security taxes).

(j) *Revenue Recognition*

The Authority has entered into Annual Contributions Contracts with HUD to develop, manage, and own public housing projects and to administer the Housing Choice Voucher Program, whereby monthly housing assistance payments are made to landlords on behalf of eligible lower income individuals and families. HUD makes annual debt service contributions and monthly operating subsidy contributions within the Public Housing Program and monthly contributions for housing assistance payments and administration fees for the Housing Choice Voucher Program. In addition,

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the County makes annual contributions to various programs (e.g., Elderly Housing program) to support operational costs. Such contributions are reflected as intergovernmental revenue in the accompanying financial statements. Other intergovernmental revenues are reported under the legal contractual requirements of the individual programs.

Intergovernmental revenues are recognized in the period in which all grant requirements are satisfied, which is typically when the Authority has expended the funds on allowable costs. Grant funds received in advance of satisfying all requirements are recorded as deferred revenue. Effective in FY 2006, HUD mandated that authorities who administer the Housing Choice Voucher (HCV) program should recognize revenue for Housing Assistance Payments (HAP) based on the current year's budget received, rather than the methodology used in previous years of recognizing revenue based on expenditures incurred. Implementation of this new HUD reporting requirement, resulted in the recognition of additional revenues of approximately \$1.4 million in the HCV program.

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned. Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. The allowance method is used to recognize bad debts.

(k) Notes, Mortgages, and Other Receivables

Notes, mortgages, and other receivables are carried at amounts advanced, net of a reserve for uncollectible accounts, if any.

(l) Use of Estimates in Preparing Financial Statements

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

(m) Restricted Assets

Restricted assets are liquid assets which have third-party limitations on their use. When both restricted and unrestricted resources are available for capital use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed. In regard to operating reserves, it is the Authority's policy to use unrestricted resources first, and then restricted resources. In accordance with requirements of HUD and VHDA, the Authority is required to maintain certain restricted deposits and funded reserves for repairs and replacements.

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(3) Investments

As of June 30, 2007, the Authority had the following investment type:

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (days)</u>
Federal Home Loan Bank Discount Notes	\$ 5,084,291	35.10
Total fair value	<u>\$ 5,084,291</u>	
Portfolio weighted average maturity		35.10

(4) Investments in Tax Credit Limited Partnerships

The Authority's investments in the tax credit limited partnerships consist of the following at June 30, 2007:

Castellani Meadows Limited Partnership	\$ (108)
Gum Springs Glen Limited Partnership	184,921
Herndon Harbor House I Limited Partnership	23,865
Herndon Harbor House II Limited Partnership	182,658
Morris Glen Limited Partnership	432,699
Fairfax County Redevelopment and Housing Authority/HCDC Two Limited Partnership	2,099,071
Fairfax County Redevelopment and Housing Authority/HCDC One Limited Partnership	2,317,952
Tavenner Lane Limited Partnership	215,580
The Green Limited Partnership	132,753
Cedar Ridge Limited Partnership	254,854
Total investments in tax credit limited partnerships	<u>\$ 5,844,245</u>

(5) Receivables

(a) Accounts Receivable

Accounts receivable at June 30, 2007, consisted of the following:

Tenant receivables (net of allowances of \$130,258)	\$ 102,422
Due from the County of Fairfax, Virginia	243,549
Due from U.S. Department of Housing and Urban Development	86,928
Due from other governments (Section 8 Portability)	131,416
Management fees due from component units	13,115
	<u>\$ 577,430</u>

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(b) Notes Receivable

Notes receivable at June 30, 2007, consisted of the following:

Lake Anne of Reston	Unsecured notes, bearing interest at 3.73% to 7.90%, maturing July 1, 2015, principal and interest payments of \$28,400 due annually.	\$ 88,559
Herndon Harbor House I	Secured note bearing interest at 6.35%, maturing July 1, 2027, interest and principal payments of \$6,383 due monthly.	868,092
Herndon Harbor House II	Secured note bearing interest at 6%, maturing April 1, 2029, interest and principal payments of \$12,480 due monthly.	1,816,906
Castellani Meadows	Secured note bearing interest at 6.15%, maturing March 1, 2028, interest and principal payments of \$5,542 due monthly.	777,014
Cedar Ridge Apartments	Secured note bearing interest at 5.01%, maturing October 1, 2048, Principal interest deferred until January 1, 2022. Until this date, interest will compound and be added to the outstanding principal balance of the loan annually	849,835
Janna Lee Village Partners I & II	Secured note bearing simple interest at 2%, deferred for 50 years unless property is sold, refinanced or fails to comply with AHPP requirements. Accrued interest and principal will be payable upon maturity of note.	10,690,000
Homeowners' and Business Loan Program	Unsecured and secured notes with varying interest rates and repayment terms, net of allowance for uncollectible notes of \$1,705,068.	2,060,163
		<hr/>
		17,150,569
Less current notes receivable		<hr/> (1,831,909) <hr/>
Noncurrent notes receivable		\$ <u><u>15,318,660</u></u>

(c) Mortgages Receivable

Under the Authority's Home Improvement Loan Program, qualified County residents who are unable to obtain financing from commercial sources, may be loaned funds by the Authority. The Authority has borrowed the funds used in the program from various commercial banks, with the mortgage receivables pledged as security. At June 30, 2007, long-term home improvement loans receivable under this program were \$26,440 bearing interest at varying rates up to 3%.

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(d) Other Receivables

Under the Authority's Revolving Development Program, the Authority provides advances to other projects to fund start-up costs. At June 30, 2007, advances receivable consisted of \$535,548, of which \$413,641 is due within the next year.

The Authority provides advances for certain payroll and contract services expense to certain tax credit limited partnership properties. At June 30, 2007, long term advances receivable amounted to \$462,951.

(6) Capital Assets

Capital asset activity for the year ended June 30, 2007, is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, non-depreciable:				
Land	\$ 26,822,657	5,479,900	(2,492,265)	29,810,292
Construction-in-progress	<u>3,154,678</u>	<u>3,089,001</u>	<u>(1,608,898)</u>	<u>4,634,781</u>
Total capital assets, non-depreciable	<u>29,977,335</u>	<u>8,568,901</u>	<u>(4,101,163)</u>	<u>34,445,073</u>
Capital assets, depreciable:				
Buildings and improvements	116,159,234	7,931,895	(10,846,558)	113,244,571
Equipment	<u>2,350,854</u>	<u>64,595</u>	<u>(1,883,755)</u>	<u>531,694</u>
Total capital assets, depreciable	<u>118,510,088</u>	<u>7,996,490</u>	<u>(12,730,313)</u>	<u>113,776,265</u>
Less accumulated depreciation for:				
Buildings and improvements	(64,886,923)	(4,032,058)	4,635,636	(64,283,345)
Equipment	<u>(2,165,335)</u>	<u>(95,549)</u>	<u>1,867,970</u>	<u>(392,914)</u>
Total accumulated depreciation	<u>(67,052,258)</u>	<u>(4,127,607)</u>	<u>6,503,606</u>	<u>(64,676,259)</u>
Total depreciable capital assets, net	<u>51,457,830</u>			<u>49,100,006</u>
Total enterprise fund capital assets, net	<u>\$ 81,435,165</u>			<u>83,545,079</u>

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(7) Short-Term and Long-Term Obligations – Loans, Notes and Bonds Payable

(a) Public Housing Loans

Public housing project debt is comprised of the following at June 30, 2007:

Public housing notes – Federal Financing Bank	\$ 960,595
Public housing bonds	<u>130,000</u>
	<u>\$ 1,090,595</u>

To permanently finance certain public housing projects, the Authority issued notes to the Federal Financing Bank. These notes are payable in annual installments each November 1 until maturity in 2015, with interest at 6.6% and are secured by the projects' land, structures, and equipment. Debt service on the notes (principal and interest) is paid annually by HUD under Annual Contributions Contract P-184.

To permanently finance the Rosedale Manor public housing project, the Authority issued bonds in the original principal amount of \$1,260,000 with interest at 5% maturing April 1, 2009. Debt service on the bonds (principal and interest) is paid semiannually by HUD under Annual Contributions Contract P-184.

All principal and interest paid under the Annual Contributions Contracts by HUD is recorded as nonoperating revenues in the basic financial statements.

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(b) *Notes Payable*

Notes payable consist of the following at June 30, 2007:

<u>Note holder(s)</u>	<u>Terms</u>	<u>Outstanding balance</u>
U.S. Dept. of Housing and Urban Development	Secured by Hopkins Glen rental property, bearing interest at 3%, maturing April 1, 2010, principal and interest payments of \$4,073 monthly.	\$ 132,592
Bank of America	Secured by McLean Hills and Springfield Green rental properties, bearing interest at 4.54%, maturing April 1, 2015, principal and interest payments of \$7,306 monthly.	577,106
Virginia Housing Development Authority	Secured by Minerva Fisher-Hall Group Home property, bearing interest at 8.07%, maturing June 1, 2019, principal and interest payments of \$3,063 monthly.	281,412
SunTrust Bank	Secured by the United Community Ministries (UCM) office building, bearing interest at 4.71%, maturing April 1, 2013, principal and interest payments of \$3,164 monthly.	193,385
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 6.45% to 9.15%, maturing at varying dates through August 1, 2011, variable principal and interest payments due semiannually.	1,415,000
Virginia Housing Development Authority	Secured by Penderbrook rental property, bearing interest at 7.17%, maturing October 1, 2018, principal and interest payments of \$5,874 monthly.	545,829
The City of Fairfax	Unsecured funds provided by the City of Fairfax to the FCRHA for the purpose of making Home Improvement Loans (HILP) to City of Fairfax residences. These funds are only paid back to the City of Fairfax when the program is terminated.	47,221
Virginia Housing Development Authority	Secured by the Rolling Road Group Home property, bearing interest at 8%, maturing September 1, 2020, principal and interest payments of \$1,952 monthly. On July 31, 2007, the principal balance was repaid. Therefore, the entire note has been classified as current note payable.	191,654

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Note holder(s)	Terms	Outstanding balance
United Bank	Secured by Faircrest North rental property, bearing interest at 6.21%, maturing December 1, 2021, principal and interest payments of \$3,056 monthly.	\$ 457,106
Virginia Housing Development Authority	Secured by the Patrick Street Group Home property, bearing interest at 8%, maturing May 1, 2022, principal and interest payments of \$1,997 monthly. On July 31, 2007, the principal balance was repaid. Therefore, the entire note has been classified as current note payable.	208,978
United Bank	Secured by Laurel Hill rental property, bearing interest at 6.21%, maturing December 1, 2021, principal and interest payments of \$3,056 monthly.	457,106
United Bank	Secured by the Courts of Westcott Ridge rental property, bearing interest at 6.21%, maturing December 1, 2021, principal and interest payments of \$4,023 monthly.	601,868
United Bank	Secured by Holly Acres rental property, bearing interest at 6.21% maturing December 1, 2021, principal and interest payments of \$943 monthly.	141,045
United Bank	Secured by Legato Corner rental property, bearing interest at 6.21% maturing December 1, 2021, principal and interest payments of \$5,472 monthly.	818,596
United Bank	Secured by Willow Oaks rental property, bearing interest at 6.21% maturing December 1, 2021, principal and interest payments of \$3,345 monthly.	500,446
SunTrust Bank	Secured by a first deed of trust on Creghton Square Property a.k.a Mondloch House and an assignment of all rents and lease payments related to the Project, bearing interest at 7.10%, maturing July 1, 2012, principal and interest payments of \$5,417 monthly.	274,276
Bank of America	Unsecured tax-exempt line of credit up to \$10,000,000, to provide interim financing for projects under development, bearing interest at 60.45% of the 30-day LIBOR rate, plus 1.428%, maturing December 31, 2008. The 30-day LIBOR rate was 5.13% at June 30, 2007.	5,500,000

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Note holder(s)	Terms	Outstanding balance
SunTrust Bank	Secured by the LeLand Road Group Home property, bearing interest at 5.5%, maturing April 1, 2017, principal and interest payments of \$4,581 monthly.	\$ 415,902
Virginia Housing Development Authority	Secured by the West Ox Group Home Property, bearing interest at 8%, maturing October 1, 2022, principal and interest payments of \$6,176 monthly.	653,735
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 3.73% to 7.90%, maturing at varying dates through August 1, 2013, variable principal and interest payments due semiannually.	800,000
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest a 4.15% to 7.18%, maturing at varying dates through August 1, 2013, variable principal and interest payments due semiannually.	1,560,000
United Bank	Secured by the One University Plaza office and maintenance building, bearing interest at 5%, maturing February 1, 2014, principal and interest payments of \$2,827 monthly.	191,974
Virginia Housing Development Authority	Secured by the First Stop Group Home property, bearing interest at 7.61%, maturing March 1, 2025, principal and interest payments of \$3,234 monthly.	377,291
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 5.36% to 7.66%, maturing at varying dates through August 1, 2015, variable principal and interest payments due semiannually.	225,000
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 5.36% to 7.66%, maturing at varying dates through August 1, 2011, variable principal and interest payments due semiannually.	25,000

**FAIRFAX COUNTY REDEVELOPMENT
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<u>Note holder(s)</u>	<u>Terms</u>	<u>Outstanding balance</u>
County of Fairfax	Unsecured note of which the proceeds were to be used to make a loan to Janna Lee Village (JLV) Partners I & II LP for the acquisition, rehabilitation and preservation of Janna Lee Village. Repayment will be deferred to correspond with the terms of the notes receivable between the FCRHA and JLV Partners I & II LP	\$ 5,190,000
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 1.21% to 5.39%, maturing at varying dates through August 1, 2017, variable principal and interest payments due semiannually.	395,000
SunTrust Bank	Secured by Hopkins Glen rental property, bearing interest at 4.33%, maturing October 1, 2016, principal and interest payments due monthly.	436,000
Federal Financing Bank	Unsecured note bearing interest at 6.6%, interest and principal payments in the amount of \$83,856, due annually, maturing November 1, 2012. Debt service on the note (principal and interest) is paid annually by HUD under Annual Contributions Contract P-184.	404,621
		<u>\$ 23,018,143</u>

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Notes to Financial Statements

June 30, 2007

(c) ***Bonds Payable***

Bonds payable consist of the following at June 30, 2007:

	<u>Outstanding balance</u>
<p>On August 29, 1996, on behalf of the Little River Glen project, the Authority issued Federal Housing Authority insured mortgage revenue bonds with an original principal amount of \$6,340,000, and interest rates, which vary between 4.65% and 6.10%, with final payment due September 1, 2026, to advance refund the Elderly Bonds, Series 1989A, with an original principal amount of \$6,120,000 and interest rate of 8.95%. The land, buildings, and equipment of the Little River Glen project are pledged as security for the bonds. The old bonds were fully redeemed in fiscal year 1999.</p>	\$ 5,275,000
<p>In June 1998, the Authority issued Series 1998 Lease Revenue bonds with an original principal amount of \$3,630,000 and an interest rate of 4.71%, with final payment due June 15, 2018, to advance refund certain previously issued special limited obligation bonds. The new bonds are secured by the Authority's interest in payments under a lease agreement between the Authority and the County, whereby the Authority leases its Pender Drive Office building to the County, and a first deed of trust on the office building. Proceeds from the new bonds, along with other cash sources totaling approximately \$4,000,000, were placed in irrevocable escrow accounts to provide for all future debt service payments on the old bonds, which were fully redeemed in 2003.</p>	2,405,000
<p>In August 1997, on behalf of Herndon Harbor House I Limited Partnership, the Authority issued Tax-exempt revenue bonds with a principal amount totaling \$2,875,000 and interest rate of 6.35% with final payment due July 1, 2027. The land, building, and equipment of the Herndon Harbor House I Limited Partnership are pledged as security for the bonds. Proceeds from the bonds were loaned to the Herndon Harbor House I Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility.</p>	868,092

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	<u>Outstanding balance</u>
<p>In May 1999, on behalf of Herndon Harbor House II Limited Partnership, the Authority issued Series 1999A Multifamily Housing Revenue Bonds with a principal amount totaling \$2,000,000. The Series A, 1999 Term bonds have an original principal amount of \$225,000 with an interest rate of 4.875% with final payment due May 1, 2009. The Series A, 1999 Term bond has an original principal payment amount of \$1,775,000 with an interest rate of 6% with final payment due May 1, 2029. The land, building, and equipment of the Herndon Harbor House II Limited Partnership are pledged as security for the bonds. Proceeds from the bonds were loaned to the Herndon Harbor House II Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility.</p>	\$ 1,816,906
<p>In April 1998, on behalf of Castellani Meadows Limited Partnership, the Authority issued Tax-exempt revenue bonds with a principal amount totaling \$1,700,000 and an interest rate of 5.25% with final payment due March 1, 2028. Prior to March 1, 2001, a principal payment in the amount of \$825,000 was due, at which time the interest rate changed to 6.15% per annum. The land, building, and equipment of the Castellani Meadows Limited Partnership are pledged as security for the bonds. Proceeds from the bonds were loaned to the Castellani Meadows Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility.</p>	<div style="text-align: right;"> <u>777,014</u> \$ <u><u>11,142,012</u></u> </div>

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June 30, 2007

(d) *Annual Principal Requirements*

Annual debt service requirements to maturity for bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ended June 30:		
2008	\$ 393,143	637,236
2009	418,383	615,444
2010	438,954	592,321
2011	464,876	567,812
2012	481,171	542,130
2013 – 2017	2,905,101	2,267,960
2018 – 2022	2,583,987	1,458,380
2023 – 2027	3,154,782	625,630
2028 – 2032	301,615	15,167
	<u>\$ 11,142,012</u>	<u>7,322,080</u>

Annual debt service requirements to maturity for notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ended June 30:		
2008	\$ 7,046,884	700,527
2009	1,226,292	630,481
2010	1,199,010	559,933
2011	1,231,649	486,432
2012	1,254,810	409,971
2013 – 2017	2,863,892	1,353,696
2018 – 2022	2,881,009	728,837
2023 – 2027	124,597	11,268
2028 – 2057	5,190,000	—
	<u>\$ 23,018,143</u>	<u>4,881,145</u>

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Annual debt service requirements to maturity for Public Housing Loans are as follows:

	Principal	Interest
Year ended June 30:		
2008	\$ 166,926	70,149
2009	173,497	60,327
2010	115,814	49,511
2011	123,457	41,868
2012	131,606	33,719
2013 – 2017	379,295	54,709
	\$ 1,090,595	310,283

(e) Changes in Short-Term and Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning balance	Additions	Reduction	Ending balance	Due within one year
Bonds payable	\$ 11,510,318	—	368,306	11,142,012	393,143
Notes payable – Long-Term	21,616,596	8,201,365	12,299,818	17,518,143	1,546,884
Notes payable – Short-Term	4,259,000	5,500,000	4,259,000	5,500,000	5,500,000
Public housing loans	1,251,210	—	160,615	1,090,595	166,926
Compensated absences payable	965,426	476,006	449,752	991,680	417,682
	\$ 39,602,550	14,177,371	17,537,491	36,242,430	8,024,635

(8) Tax Credit Limited Partnerships

The tax credit program is the result of Federal legislation that allows investors certain incentives for investing in low-income housing. Under terms of the federal tax code and extended use agreements with the State of Virginia, the buildings must continue to serve the targeted population for 30 years; after 15 years the Authority has the option to purchase the property from the partnership.

Tax Credit Limited Partnerships are created to finance and own affordable housing. The Authority acts as Managing General Partner of each partnership. Although each tax credit limited partnership is structured differently, they are generally financed via loans to the partnership, contributions of equity by the general and limited partners, and other sources. In some transactions, the Authority issues bonds and loans the proceeds to the tax credit limited partnership. Tax-exempt bond issuances are secured by the underlying partnership real estate and, in some cases, by the general revenues of the Authority. The Authority may receive grant funds or other loans to assist in purchasing the properties and in preserving affordability within the projects.

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This year, the Authority added the Cedar Ridge Limited Partnership to its tax credit portfolio. The Authority is the sole general partner with a 0.01% ownership interest in the partnership and has the option to purchase the property after fifteen years at the expiration of the compliance period.

(9) Conduit Debt

The Authority is empowered by the Commonwealth of Virginia to issue tax-exempt bonds on behalf of qualified businesses to develop or rehabilitate low income housing within the County. Principal and interest on the tax-exempt bonds is paid entirely by the owners of the properties, which have entered into binding contracts to develop or rehabilitate the subject property. The terms of the tax-exempt bonds stipulate that neither the Authority, nor the County, guarantee the repayment of principal and interest to the bondholders. The bondholders' sole remedy in the event of default on the tax-exempt bonds is the subject property and third-party beneficiaries. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2007, the cumulative total of bonds outstanding under the Authority's name was approximately \$107,255,000.

From 1996 through 2003, the FCRHA issued a total of \$15,420,000 of lease revenue bonds for the purpose of financing the construction, renovation, and expansion of Mott Community Center, and Gum Springs Community Center, Baileys Community Center, the construction of Herndon Harbor II Adult Day Care Center, and Gum Springs Glen Head Start facility for child care and ancillary training programs. As of June 30, 2007, the cumulative balance of the above bonds outstanding was \$10,549,481. In August 2004, the FCRHA issued \$10,870,000 of lease revenue bonds to finance the construction and renovation of the James Lee Community Center. As of June 30, 2007, the outstanding principal balance of these bonds were \$8,695,000. In June 2005, the FCRHA issued bonds in the amount of \$8,105,000 to finance the construction of the Herndon Harbor House Senior Center. As of June 30, 2007, the outstanding principal balance of this bond was \$6,480,000. In July 2006, the FCRHA issued \$8,065,000 of lease revenue bonds to finance the construction of the Braddock Glen Adult Day Health Care Center and Southgate Neighborhood Community Center. As of June 30, 2007, the outstanding principal balance of this bond was \$7,125,000. As the County is responsible, under the related documents and subject to annual appropriation, to make payments to a trustee sufficient to pay principal and interest on these bonds, the related transactions, including the liability for these bonds, have been recorded in the County's financial statements and not on those of the FCRHA.

On February 16, 2006, the Authority issued a \$40,600,000 bond anticipation note to partially finance the purchase of a multi-family rental housing complex as part of the County's affordable housing initiative. The note matured on February 15, 2007, and was repaid through the issuance of another note and funding available in the County's Penny for Affordable Housing capital projects fund. On February 13, 2007, the Authority issued the \$40,465,000 refunding bond anticipated note, which matures on February 12, 2008. The note may not be redeemed prior to maturity. As the County is responsible, under the related documents and subject to appropriation, to pay the principal and interest on the note at maturity, the related transactions, including the liability for the note, have been recorded in the County's financial statements and not in those of the Authority. The note is not a general obligation debt of the County, and the full faith and credit of the County is not pledged to the note.

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In addition, in March 1997, the Authority facilitated a \$345,000 Federal HOME loan between the County and the Tavenner Lane Limited Partnership. Funds paid by Tavenner are deposited directly into the County's bank account. Accordingly, the loan is not reported as a receivable in the accompanying financial statements. At December 31, 2006 the outstanding balance of the loan was \$287,955.

(10) Contingencies

The Authority, as the general partner of the tax credit limited partnerships reported as discretely presented component units, is responsible for ensuring that the partnerships maintain the properties as qualified low income housing projects for a period of 15 years (the tax credit compliance period). In the event that the qualified status of the properties is not maintained for the full period of 15 years, the Authority is contingently liable for the payment of certain special distributions to the limited partners. The amount of these distributions, if any, is to be determined using a formula based on the amount of tax credits that are disallowed. The maximum amount of this distribution is not to exceed the amount contributed by the limited partners to the partnership, plus any penalties and interest costs incurred as a result of the disqualification.

The Authority originated various deferred loans to the limited partnerships to help build, acquire or rehabilitate properties. The funding source for these loans include the federal Community Development Block Grant program, HOME program, and other County or FCRHA funds. The loans, along with accrued interest, are due and payable to the FCRHA well beyond the tax compliance period, year sixteen, of the Partnerships. As a result, the loans are anticipated to be defeased at the end of the tax compliance period, as the Partnership conveys to the Authority, as General Partner, the non-cash, market value of the property for the Authority's use.

In addition, on August 7, 2000, the Authority entered into a guaranty agreement with SunTrust Community Development Corporation (SunTrust) in order to induce SunTrust to make a loan of \$400,000 to The Green Limited Partnership. The guarantee is for the balance of the loan, which was \$373,744 as of December 31, 2006. In addition, SunTrust has collateralized their loan with the first deed of trust on this property.

The Authority receives grant funds, principally from the federal government, for various programs. Certain expenses of these funds are subject to audit by the grantor and the reporting entity is contingently liable to refund amounts received in excess of allowable expenses. The management of the Authority believes that any possible disallowed expenses arising from such an audit, if any, would not have a material adverse impact on the Authority's net assets as of June 30, 2007.

(11) Risk Management

The FCRHA 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 FCRHA participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claim settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's insurance program is available in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007.

**FAIRFAX COUNTY REDEVELOPMENT
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June 30, 2007

(12) Retirement Plans

Employees of the Authority participate in the Fairfax County Employees' Retirement System (System), which covers substantially all County employees who are not members of the Virginia Retirement System or other County-funded retirement plans. Employee contributions to the System for the year ended June 30, 2007, are either 4.0% or 5.33% of salary, depending on the plan selected by the employee. The County funds the remaining portion required to meet the actuarially determined funding requirements. Data concerning the amounts contributed by the County for employees of the Authority, accumulated pension benefit liability, and net assets specifically applicable to employees of the Authority are not available. Information concerning the System as a whole is available in the County's June 30, 2007 Comprehensive Annual Financial Report.

(13) On-Behalf Payments

The accompanying statement of revenues, expenses, and changes in net assets does not include certain on-behalf payments of Authority expenses made by the County, a result of the Authority's incorporation in a larger, integrated reporting entity, which provides shared services at no direct charge to the Authority. On-behalf payments may include salaries, pension plan contributions, employee health and life insurance premiums, salary supplements, homeowner association dues, condominium fees, trash pick up services, automobile, property and liability insurance coverage, County fleet vehicle maintenance, attorney fees, and information technology funding. The Authority incurs no obligation to the County for these payments. The inclusion of on-behalf payments would have no effect on net assets; therefore, on-behalf payments have been excluded from the financial statements of the Authority. For the year ended June 30, 2007 total salaries and fringe benefits paid for by the County on behalf of the Authority were approximately \$6.7 million.

**FAIRFAX COUNTY REDEVELOPMENT
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June 30, 2007

(14) Related Party Transactions

The Authority is a General Partner and holds 0.01% to 1% interest in each of the following limited partnerships (see note 4). Summarized partnership information for the year ended December 31, 2006 is as follows:

	<u>Castellani Meadows</u>	<u>Gum Springs Glen</u>	<u>Herndon Harbor House</u>	<u>Herndon Harbor House II</u>	<u>Morris Glen</u>	<u>FCRHA HCDC Two</u>	<u>FCRHA HCDC One</u>	<u>Tavenner Lane</u>	<u>The Green</u>	<u>Total</u>
Assets										
Cash, restricted cash and investments	\$ 252,487	545,058	1,057,291	519,023	209,044	2,266,801	2,247,737	663,220	1,339,799	9,100,460
Accounts receivable, prepaid expenses, and other assets	54,934	23,673	42,788	104,840	10,466	43,702	108,781	5,601	21,908	416,693
Investments in real estate-net	<u>2,381,243</u>	<u>5,454,306</u>	<u>4,556,726</u>	<u>5,687,399</u>	<u>3,147,806</u>	<u>7,210,993</u>	<u>9,230,966</u>	<u>2,653,673</u>	<u>3,427,271</u>	<u>43,750,383</u>
Total	<u>\$ 2,688,664</u>	<u>6,023,037</u>	<u>5,656,805</u>	<u>6,311,262</u>	<u>3,367,316</u>	<u>9,521,496</u>	<u>11,587,484</u>	<u>3,322,494</u>	<u>4,788,978</u>	<u>53,267,536</u>
Liabilities and Partners' Capital										
Liabilities:										
Other liabilities	\$ 722,001	377,036	593,488	506,839	236,342	2,122,833	2,052,517	101,405	1,034,814	7,747,275
Liabilities related to investment in real estate	2,013,342	2,810,194	4,379,213	4,896,008	2,629,190	4,622,272	4,967,098	2,957,593	1,737,253	31,012,163
Partners' capital (deficit)	<u>(46,679)</u>	<u>2,835,807</u>	<u>684,104</u>	<u>908,415</u>	<u>501,784</u>	<u>2,776,391</u>	<u>4,567,869</u>	<u>263,496</u>	<u>2,016,911</u>	<u>14,508,098</u>
Total	<u>\$ 2,688,664</u>	<u>6,023,037</u>	<u>5,656,805</u>	<u>6,311,262</u>	<u>3,367,316</u>	<u>9,521,496</u>	<u>11,587,484</u>	<u>3,322,494</u>	<u>4,788,978</u>	<u>53,267,536</u>
	<u>Meadows</u>	<u>Glen</u>	<u>House</u>	<u>House II</u>	<u>Glen</u>	<u>Murraygate</u>	<u>Stonegate</u>	<u>Lane</u>	<u>The Green</u>	<u>Total</u>
Income:										
Rental	\$ 227,551	494,494	472,220	478,445	470,854	1,315,858	1,498,554	191,901	523,095	5,672,972
Other	<u>195,045</u>	<u>59,277</u>	<u>38,978</u>	<u>101,308</u>	<u>27,400</u>	<u>224,718</u>	<u>352,174</u>	<u>37,683</u>	<u>242,031</u>	<u>1,278,614</u>
Total	<u>422,596</u>	<u>553,771</u>	<u>511,198</u>	<u>579,753</u>	<u>498,254</u>	<u>1,540,576</u>	<u>1,850,728</u>	<u>229,584</u>	<u>765,126</u>	<u>6,951,586</u>
Expenses:										
Property	137,875	398,428	280,265	348,629	346,465	1,021,226	1,336,922	107,353	500,467	4,477,630
Property management	11,445	26,700	26,700	26,000	26,707	77,594	74,729	9,369	36,842	316,086
Legal and accounting	14,815	9,350	14,825	9,614	7,991	10,608	12,235	7,055	12,853	99,346
Interest expense	106,829	140,160	154,554	172,653	99,460	123,367	126,926	136,407	72,353	1,132,709
Depreciation and amortization	<u>117,678</u>	<u>153,151</u>	<u>147,455</u>	<u>215,573</u>	<u>203,458</u>	<u>338,961</u>	<u>525,172</u>	<u>78,558</u>	<u>139,555</u>	<u>1,919,561</u>
Total expenses	<u>388,642</u>	<u>727,789</u>	<u>623,799</u>	<u>772,469</u>	<u>684,081</u>	<u>1,571,756</u>	<u>2,075,984</u>	<u>338,742</u>	<u>762,070</u>	<u>7,945,332</u>
Net income (loss)	<u>\$ 33,954</u>	<u>(174,018)</u>	<u>(112,601)</u>	<u>(192,716)</u>	<u>(185,827)</u>	<u>(31,180)</u>	<u>(225,256)</u>	<u>(109,158)</u>	<u>3,056</u>	<u>(993,746)</u>

**FAIRFAX COUNTY REDEVELOPMENT
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(A Component Unit of the County of Fairfax, Virginia)

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(15) Sale of Asset to Limited Partnership

In March 2007, the Authority transferred title to the Cedar Ridge apartments (the Project), a 198 unit multi-family residential apartment project located in northwestern Fairfax County, to Cedar Ridge Limited Partnership (the Partnership). The Authority is the sole general partner in the Partnership. The limited partnership interests were acquired in March, 2007 by an unrelated third-party. The net book value of the Project's capital assets and certain other assets transferred to the Partnership, net of certain operating liabilities assumed by the Partnership amounted to approximately \$9.5 million. The sales price for the net assets of the Project amounted to approximately \$12.2 million. During FY2007, developer fee of approximately \$0.2 million was paid to the authority. The resulting gain on the sale of approximately \$2.7 million is reflected in non-operating revenues in the accompanying statement of revenues, expenses and changes in net assets. Proceeds from the sale were used by the Authority to payoff all outstanding balances due to the Project's first, second and third mortgage holders, which amounted to approximately \$11.2 million. The Authority has also taken back a note in the amount of approximately \$0.8 million related to this transaction. Additionally, in March 2007, the Authority issued revenue bonds in the amount of \$13.2 million on behalf of the Partnership. This debt meets the criteria to be accounted for as conduit debt of the Authority and is included in the cumulative amount of conduit debt outstanding at June 30, 2007 reflected in note 9.

The fiscal year end of the Partnership is December 31st. While the Partnership meets the criteria to be included in the reporting entity of the Authority as a discretely presented component unit in 2007, it has not been included in the accompanying financial statements as the Authority's policy is to include the financial activities for component unit limited partnerships in its reporting entity for the partnership year end that falls within the Authority's fiscal year. Since the Partnership has not completed its first full year of operations, they have not been included in the accompanying financial statements.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

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

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the business-type activities of Fairfax County Redevelopment and Housing Authority (the Authority), a component unit of the County of Fairfax, Virginia, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 20, 2007. That report recognized that we did not audit the financial statements of the discretely presented component units, which represent 100% of the total assets, revenues, and net assets of the discretely presented component units as of and for the year ended June 30, 2007. Additionally, we did not audit the financial statements of one of the Authority owned rental properties which represents less than 1% of the total assets, 2% of the total revenues, and less than 1% of the total net assets of the primary government as of and for the year ended June 30, 2007. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the one rental property and the discretely presented component units, is based solely on the reports of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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. The component unit financial statements of Castellani Meadows, Gum Springs Glen, Herndon Harbor House, Herndon Harbor House II, Morris Glen, Tavenner Lane, and The Green were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

KPMG noted that the Authority's internal controls over financial reporting need to be improved to ensure:

- 1 All intragovernmental (County to Authority) and intra-entity transactions are properly identified, documented, reviewed, recorded and when necessary eliminated in accordance with U.S. generally accepted accounting principles (GAAP);
- 2 All significant and/or unusual transactions and estimates are properly identified, analyzed, documented, reviewed, and recorded in accordance with GAAP; and
- 3 Fund year-end closing procedures (e.g., account analysis, reconciliations, and conversion entries) are executed and documented consistently and effectively by all fund accountants.

As a result, the Authority recorded eleven adjusting journal entries identified by KPMG so that its financial statements were not materially misstated. KPMG also identified an additional 25 adjusting journal entries that were not recorded by the Authority as the net effect of such differences in the aggregate was not material to the Authority financial statements.

We recommend that the Authority improve its preventive and detective internal controls to ensure:

- 1 All intragovernmental and intra-entity transactions are properly identified, documented, reviewed, recorded and, when necessary, eliminated in accordance with GAAP;
- 2 All significant and/or unusual transactions and estimates are properly identified, analyzed, documented, reviewed, and recorded in accordance with GAAP; and
- 3 Fund year-end closing procedures are executed and documented consistently and effectively by all fund accountants.



Management Response:

The Authority strongly disagrees with KPMG's assessment that stronger internal controls are needed to properly initiate, authorize, record, process, or report Authority financial transactions in accordance with GAAP. We believe that the unique, long standing, interrelationship between the County and the Authority is what has led to these complex reporting issues and that the Authority has been consistent in its adherence to County, VHDA, and HUD policies and procedures. As a result, the Authority believes strong internal controls are already in place.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

The Authority's response to the findings identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the County Board of Supervisors, and the Authority Board of Commissioners, and should not be used by anyone other than these specified parties.

KPMG LLP

November 20, 2007