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

FINANCIAL STATEMENTS
June 30, 2008

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Independent Auditor's Report

Board of Supervisors
County of Fairfax, Virginia

Board of Commissioners
Fairfax County Redevelopment
and Housing Authority
Fairfax, Virginia

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, 2008, 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, 2008. 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, FCRHA HCDC One, FCRHA HCDC Two, Tavenner Lane, Cedar Ridge, and The Green were not audited in accordance with *Government Auditing Standards*. An audit also 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 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 other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2008, 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 accordance with *Government Auditing Standard*s, we have also issued our report dated October 27, 2008 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 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Baltimore, Maryland
October 27, 2008

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) 2008 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, 2008, 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 2008

The FCRHA's FY 2008 financial highlights included the following:

- Total assets and liabilities of the FCRHA were approximately $162.6 million and $47.5 million, respectively; thus total net assets were approximately $115.1 million at June 30, 2008. Of this amount, $42.6 million (unrestricted net assets) may be used to meet the FCRHA's future operational needs.
- Total revenues and expenses were approximately $78.7 million and $72.4 million, respectively; resulting in an increase in net assets of approximately $6.3 million during the fiscal year. This increase represents approximately a 5.8% increase in net assets from June 30, 2007 and was primarily due to increased rental revenues from the acquisition of new properties.
- Cash and cash equivalents increased by approximately $8.1 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, 2008, owned and/or operated over 3,750 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.

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. An additional 812 units were preserved in FY 2008 for an overall total of 2,224 as of June 30, 2008.

Also in FY 2008, the FCRHA continued to promote 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 15 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 non-operating 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.

Summary of Net Assets

The following table presents a summary of FCRHA's net assets as of June 30, 2008 and 2007.

Table 1
Summary of Net Assets
(in millions)

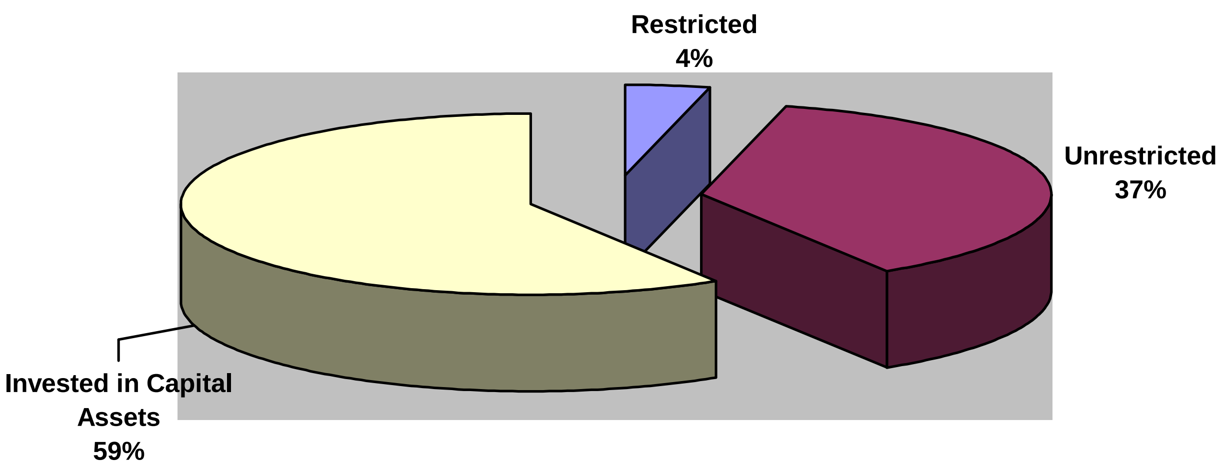
Description	2008	2007	Increase (Decrease)	% Changed
Current and other assets	$ 77.6	$ 69.9	$ 7.7	11.0
Capital assets	85.0	83.5	1.5	1.8
Total assets	162.6	153.4	9.2	6.0
Current liabilities	12.3	16.4	(4.1)	(25.0)
Noncurrent liabilities	35.2	28.2	7.0	25.0
Total liabilities	47.5	44.6	2.9	6.5
Net assets:				
Invested in capital assets, net of related debt	67.7	67.0	0.7	1.0
Restricted	4.8	4.5	0.3	6.7
Unrestricted	42.6	37.3	5.3	14.2
Total net assets	$ 115.1	$ 108.8	$ 6.3	5.8

As of June 30, 2008, the FCRHA's net assets totaled approximately $115.1 million, an increase of approximately $6.3 million, or 5.8%, over the net asset balance as of June 30, 2007. 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 $7.7 million, or 11.0%, which was primarily due to the acquisition of the Wedgewood Apartments, a 672 unit apartment complex. Also, during the period, HUD required that the Section 8 Housing Choice Voucher's Housing Assistance Payment (HAP) Reserve balance be increased and that repayment agreements for fraud and damage claims be booked as a receivable.

Current liabilities decreased by approximately $4.1 million, or approximately 25%, primarily due to the repayment of a loan on the FCRHA's line-of-credit which was used to acquire, rehabilitate and preserve the Janna Lee Village apartment complex.

The FCRHA's total net assets also consisted of restricted net assets of $4.8 million and $4.5 million, and unrestricted net assets of $42.6 million and $37.3 million at June 30, 2008 and 2007, 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, 2008.

Composition of FCRHA's Net Assets



Capital Assets and Debt Administration

Capital Assets. The FCRHA capital assets at June 30, 2008 and 2007, included land, buildings and improvements, equipment, and construction in progress, which totaled $85.0 million and $83.5 million, respectively, net of accumulated depreciation of approximately $68.5 million and $64.7 million at June 30, 2008 and 2007, respectively. The approximately $1.5 million net increase in capital assets was attributed to the acquisition of a number of ADUs in FY 2008. For further details see note 4, page 23, Capital Assets.

Short-term and long-term debt. The FCRHA's June 30, 2008 and 2007 statement of net assets includes debt – consisting of housing loans, notes, and bonds payable – of approximately $36.5 million and $35.3 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 5, page 24, Short-Term and Long-Term Obligations – Loans, Notes and Bonds Payable.

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 2008, the FCRHA's enterprise programs realized an increase in net assets of approximately $6.3 million. Table 2 presents a summary of data from the FCRHA's statement of revenues, expenses, and changes in net assets for FY 2008 and FY 2007 and a comparative analysis of activities in these years.

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

Description	FY 2008	FY 2007	Increase (Decrease)	% Changed
Revenues:				
Operating revenues	$ 24.0	$ 18.1	$ 5.9	32.6
Nonoperating revenues and contributions	54.7	63.1	(8.4)	(13.3)
Total revenues	78.7	81.2	(2.5)	(3.1)
Expenses:				
Operating expenses	65.2	63.1	2.1	3.3
Nonoperating expenses	7.2	1.8	5.4	300.0
Total expenses	72.4	64.9	7.5	11.6
Changes in net assets	6.3	16.3	(10.0)	(61.3)
Total net assets, beginning of year	108.8	92.5	16.3	17.6
Total net assets, end of year	$ 115.1	$ 108.8	$ 6.3	5.8

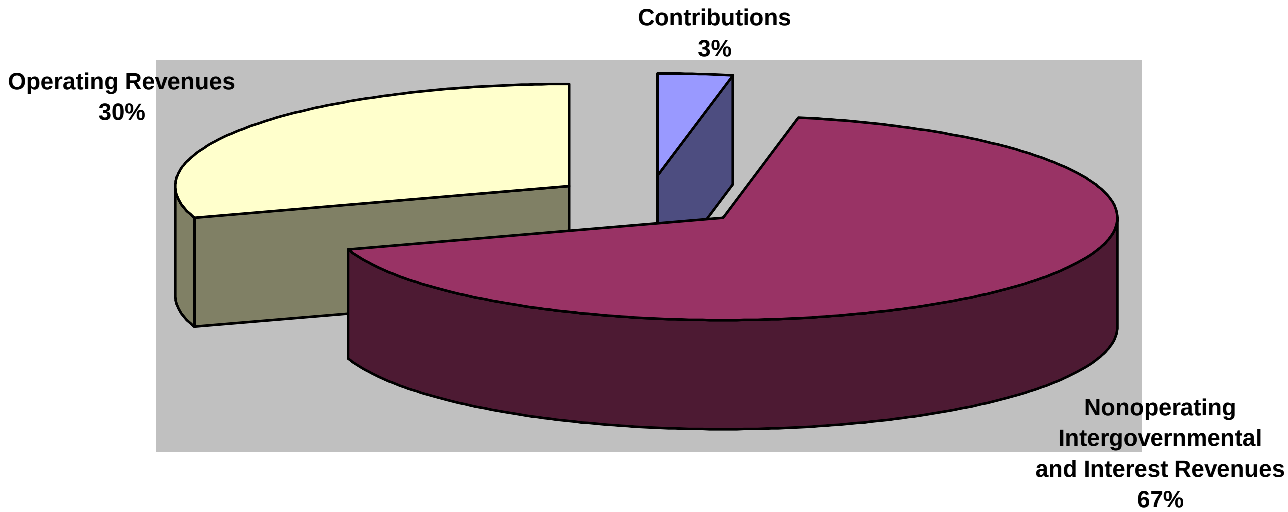
The FCRHA's total overall revenues during the year were down by approximately $2.5 million, or 3.1%. Although operating revenues were up by approximately $5.9 million, or 32.6% as a result of increase rental revenues associated with new property acquisitions, the majority of the decrease occurred in nonoperating revenues and contributions, which showed a decrease of approximately $8.4 million, or 13.3%. This decrease was due to fewer rental property acquisitions during the year which caused the contributions from the County for intergovernmental revenues - capital grants to be less in FY 2008.

The FCRHA's operating expenses in FY 2008 were up by approximately $2.1 million, or 3.3%, due to new property acquisitions. Non-operating expenses were up by approximately $5.4 million, or 300.0%, which was primarily related to a one-time loss on disposal of assets that occurred this fiscal year.

Approximately 70% of the FCRHA's total revenues in FY 2008 were non-operating revenues, interest revenues, and contributions that were derived from federal grants from HUD, County contributions, and interest. The remaining 30% 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 2008.

FCRHA's Enterprise Programs

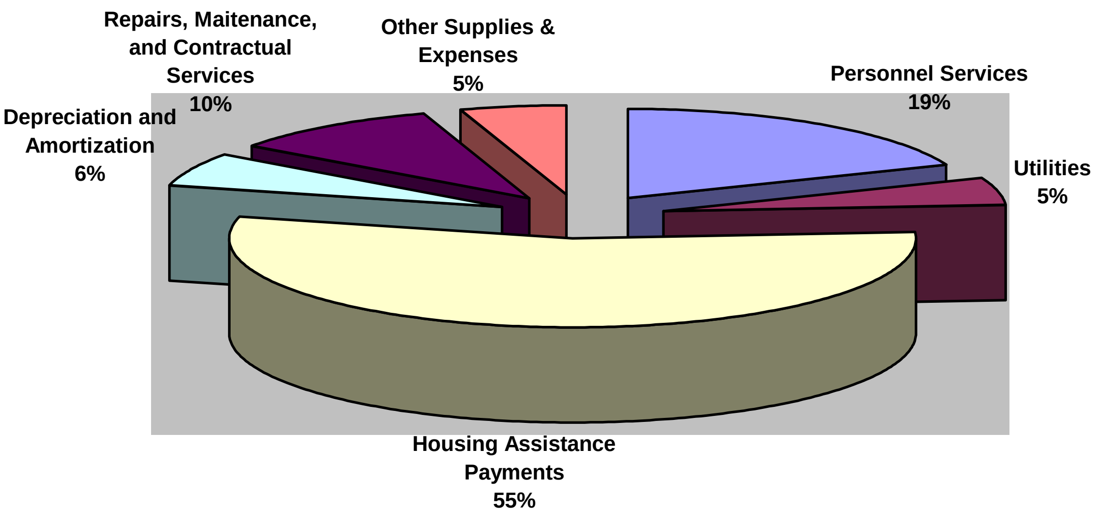
Sources of Funds



In FY 2008, the FCRHA incurred operating expenses in its enterprise programs totaling approximately $65.2 million. The following pie chart illustrates major operating expense groups and their relative percent of the total.

FCRHA's Enterprise Programs

Operating Expenses



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.

FINANCIAL STATEMENTS

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)
STATEMENT OF NET ASSETS
June 30, 2008

	Enterprise Fund	Component Units	Total Reporting Entity
ASSETS			
Current assets:			
Cash in bank (note 1)	$ 9,326,628	$ 5,293,537	$ 14,620,165
Cash on deposit with the County of Fairfax, Virginia (note 1)	27,955,950	-	27,955,950
Cash reserves	169,009	-	169,009
Investments (note 2)	4,567,682	-	4,567,682
Accrued interest receivable	54,687	7,101	61,788
Accounts receivable (net of allowances) (note 3)	2,227,864	346,375	2,574,239
Notes, mortgages, and other receivables (note 3)	1,274,563	-	1,274,563
Property held for sale	1,402,838	-	1,402,838
Prepaid items and other assets	2,976,714	64,673	3,041,387
Total current assets	49,955,935	5,711,686	55,667,621
Noncurrent assets:			
Restricted assets:			
Deposits held in trust	2,973,600	467,642	3,441,242
Cash reserves	3,941,063	6,280,622	10,221,685
Investments (note 2)	1,414,958	-	1,414,958
Total restricted assets	8,329,621	6,748,264	15,077,885
Capital assets (note 4):			
Nondepreciable:			
Land	29,930,359	8,764,242	38,694,601
Construction in progress	2,850,773	-	2,850,773
Depreciable:			
Buildings and improvements	120,146,227	68,981,401	189,127,628
Equipment	554,375	765,653	1,320,028
Accumulated depreciation	(68,519,032)	(21,180,028)	(89,699,060)
Total capital assets, net	84,962,702	57,331,268	142,293,970
Other noncurrent assets:			
Notes, mortgages and other receivables (note 3)	19,339,767	-	19,339,767
Prepaid items and other assets	13,571	-	13,571
Deferred financing fees (net of accumulated amortization of $11,690)	17,711	1,972,550	1,990,261
Total other noncurrent assets	19,371,049	1,972,550	21,343,599
Total assets	162,619,307	71,763,768	234,383,075
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	2,440,571	2,807,725	5,248,296
Accrued salaries and benefits	557,760	-	557,760
Due to the County of Fairfax, Virginia	1,237,335	2,566,998	3,804,333
Deposits held in trust	2,973,600	442,501	3,416,101
Deferred revenue	2,739,574	90,672	2,830,246
Accrued compensated absences (note 6)	459,521	-	459,521
Loans, notes, and bonds payable (note 5)	1,848,467	850,360	2,698,827
Total current liabilities	12,256,828	6,758,256	19,015,084
Noncurrent liabilities:			
Accrued compensated absences (note 6)	548,070	-	548,070
Loans, notes, and bonds payable (note 5)	34,653,765	45,950,490	80,604,255
Other accrued long-term interest	-	2,301,593	2,301,593
Total noncurrent liabilities	35,201,835	48,252,083	83,453,918
Total liabilities	47,458,663	55,010,339	102,469,002
NET ASSETS			
Invested in capital assets, net of related debt	67,673,740	10,530,418	78,204,158
Restricted	4,807,873	6,305,763	11,113,636
Unrestricted (deficit)	42,679,031	(82,752)	42,596,279
TOTAL NET ASSETS	$ 115,160,644	$ 16,753,429	$ 131,914,073

The accompanying notes are an integral part of the 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, 2008

	Enterprise Fund	Component Units	Total Reporting Entity
OPERATING REVENUES			
Dwelling rentals	$ 19,938,463	$ 7,387,979	$ 27,326,442
Other	4,070,910	943,522	5,014,432
Total operating revenues	24,009,373	8,331,501	32,340,874
OPERATING EXPENSES			
Personnel services	12,393,343	1,506,920	13,900,263
Contractual services	1,433,492	102,857	1,536,349
Utilities	3,164,120	1,000,601	4,164,721
Repairs and maintenance	5,103,604	1,687,048	6,790,652
Other supplies and expenses	3,421,632	1,568,170	4,989,802
Housing Assistance Payments (HAP)	35,801,237	-	35,801,237
Depreciation and amortization	3,849,165	2,158,151	6,007,316
Total operating expenses	65,166,593	8,023,747	73,190,340
Operating loss	(41,157,220)	307,754	(40,849,466)
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenue	49,700,332	62,278	49,762,610
Interest revenue	1,632,780	205,020	1,837,800
Interest expense	(1,244,893)	(1,823,938)	(3,068,831)
Loss on disposition of assets	(5,925,768)	-	(5,925,768)
Total nonoperating revenues (expenses), net	44,162,451	(1,556,640)	42,605,811
Income (loss) before contributions	3,005,231	(1,248,886)	1,756,345
CONTRIBUTIONS			
Intergovernmental revenue - capital grants	1,708,436	-	1,708,436
Investor capital contributions	-	3,494,217	3,494,217
HUD debt service contributions	239,205	-	239,205
HUD capital contributions	1,383,900	-	1,383,900
Total contributions	3,331,541	3,494,217	6,825,758
CHANGE IN NET ASSETS	6,336,772	2,245,331	8,582,103
TOTAL NET ASSETS, BEGINNING OF YEAR	108,823,872	14,508,098	123,331,970
TOTAL NET ASSETS, END OF YEAR	$ 115,160,644	$ 16,753,429	$ 131,914,073

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

	Enterprise Fund	Component Units	Total Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES			
Rental receipts	$ 19,930,101	$ 7,192,325	$ 27,122,426
Other operating cash receipts	2,498,481	1,055,817	3,554,298
Purchase of property held for sale	(3,066,561)	-	(3,066,561)
Receipts from sale of property held for sale	2,582,063	-	2,582,063
Payments to employees for services	(12,278,793)	(1,506,920)	(13,785,713)
Housing assistance payments	(35,949,974)	-	(35,949,974)
Payments to suppliers for goods and services	(12,652,796)	(5,520,948)	(18,173,744)
Net cash provided by (used in) operating activities	(38,937,479)	1,220,274	(37,717,205)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Retirement of loans, notes and bond payables	(10,773,240)	-	(10,773,240)
Proceeds from the issuance of debt	13,200,000	-	13,200,000
Receipts (payments) on behalf of Fairfax County	(646,306)	-	(646,306)
Intergovernmental revenues received	51,235,748	62,278	51,298,026
Net cash provided by noncapital financing activities	53,016,202	62,278	53,078,480
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(5,346,187)	(15,715,353)	(21,061,540)
Intergovernmental revenue - capital grants	1,708,436	3,494,217	5,202,653
Proceeds from issuance of debt	856,465	16,469,776	17,326,241
Interest paid	(1,252,141)	(2,015,146)	(3,267,287)
Debt principal paid	(2,031,743)	(779,725)	(2,811,468)
HUD debt service and capital contributions	1,623,105	-	1,623,105
Net cash provided by (used in) capital and related financing activities	(4,442,065)	1,453,769	(2,988,296)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of loan and advance repayments	12,084,488	-	12,084,488
Disbursement of loans and advances receivable	(14,493,418)	-	(14,493,418)
Acquisition of investments	(898,349)	-	(898,349)
Interest and gain received on investments	1,785,750	205,020	1,990,770
Net cash provided by (used in) investing activities	(1,521,529)	205,020	(1,316,509)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,115,129	2,941,341	11,056,470
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,251,121	9,100,460	45,351,581
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 44,366,250	$ 12,041,801	$ 56,408,051
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash in bank	$ 9,326,628	$ 5,293,537	$ 14,620,165
Cash on deposit with the County of Fairfax, Virginia	27,955,950	-	27,955,950
Cash deposits held in trust	2,973,600	467,642	3,441,242
Cash reserves	4,110,072	6,280,622	10,390,694
CASH AND CASH EQUIVALENTS	$ 44,366,250	$ 12,041,801	$ 56,408,051
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	$ (41,157,220)	$ 307,754	$ (40,849,466)
Depreciation and amortization	3,849,165	2,158,151	6,007,316
Effects of changes in operating assets and liabilities:			
Accounts receivable	(1,604,430)	(214,866)	(1,819,296)
Prepaid items and other assets	(674,634)	(1,759,140)	(2,433,774)
Accounts payable and accrued liabilities	499,903	596,868	1,096,771
Accrued salaries and wages	114,550	-	114,550
Deposits held in trust	(9,143)	112,295	103,152
Deferred revenue	44,330	19,212	63,542
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (38,937,479)	$ 1,220,274	$ (37,717,205)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2008. 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.

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 component 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:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

- *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.

- *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 financing fees earned from the issuance of bonds, monitoring and service fees charged to developers.

- *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 the HUD Resident Opportunities and Self Sufficiency grant.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (continued)

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 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 non-operating revenues or expenses or contributions.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

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

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.

Interest Rate Risk

The Authority's policy is to minimize the risk that the market value of securities in its portfolio will fall due to changes in market interest rates. To achieve this minimization of risk, the County structures the pooled investment portfolio so that sufficient securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Pooled investments that are purchased to meet liquidity needs shall have a target weighted average maturity of 90 days. All other pooled funds are invested primarily in shorter-term securities, with a maximum maturity of one year.

Credit Risk

The Authority's policy is to minimize the risk of loss due to the failure of an issuer or other counterparty to an investment to fulfill its obligations. The Authority limits its investments to the safest types of securities.

Concentration of Credit Risk

The Authority's investment policy limits the investment of assets to Money Market Accounts, Certificates of Deposit, and U.S. Treasury Securities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the Authority may not recover its deposits. In accordance with the Virginia Security for Public Deposits Act (Act), all of the Authority's deposits are covered by federal depository insurance or collateralized in accordance with the Act, which provides for the pooling of collateral pledged by financial institutions with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for one public depositor, and public depositors are prohibited from holding collateral in their name as security for deposits. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts are assessed on a pro rata basis to the members of the pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by participating financial institutions. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance, therefore, funds deposited in accordance with the requirements of the Act are considered to be fully insured.

For investments, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Project will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Per policy, all of the investments purchased by the Authority are insured or registered or are securities held by the Authority or its agent in the Authority's name.

Foreign Currency Risk

Per the Authority's policy, investments are limited to U.S. dollar denominated instruments.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. In addition, employees may accrue compensatory leave for hours worked in excess of their scheduled hours. Compensatory leave in excess of 240 hours at the end of the calendar year is forfeited. The current pay rate, including certain additional employer-related fringe benefits, is used to calculate compensated absences accruals at June 30.

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, 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.

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.

Notes, Mortgages, and Other Receivables

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Implementation of New GASB Pronouncement

In FY 2008, the Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB).

The Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues; GASB Statement No. 50, Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.* The implementation of these new standards had no impact on the Authority's FY 2008 financial statements.

NOTE 2 – INVESTMENTS

As of June 30, 2008, the Authority had the following investment type:

	Fair Value	Weighted Average Maturity (Days)
Investment type:		
Federal Home Loan Bank Discount Notes	$ 5,982,640	67.37
Total fair value	$ 5,982,640	
Portfolio weighted average maturity		67.37

NOTE 3 – RECEIVABLES

Accounts Receivable

Accounts receivable at June 30, 2008, consisted of the following:

Tenant receivable (net of allowances of $62,797)	$	113,625
Landlord and HCV tenant receivables (net of allowances of $603,189)		1,546,678
Due from the County of Fairfax, Virginia		45,595
Due from U.S. Department of Housing and Urban Development		335,661
Due from other governments (Section 8 Portability)		173,239
Management fees due from component units		13,066
Total	$	2,227,864

Notes Receivable

Notes receivable at June 30, 2008, consisted of the following:

Lake Ann 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.	$ 75,694
Herndon Harbor House I	Secured note bearing interest at 6.35%, maturing July 1, 2027, interest and principal payments of $6,383 due monthly.	845,988
Herndon Harbor House II	Secured note bearing interest at 6%, maturing April 1, 2029, interest and principal payments of $12,480 due monthly.	1,775,025
Castellani Meadows	Secured note bearing interest at 6.15%, maturing March 1, 2028, interest and principal payments of $5,542 due monthly.	757,759
Cedar Ridge LP	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.	892,412
Homeowners' and Business Loan Program	Unsecured and secured notes with varying interest rates and repayment terms, net of allowance for uncollectible notes of $1,717,595.	2,034,456
Cedar Ridge LP	Secured note bearing interest at 5.984%, maturing October 1, 2048, interest and principal payments beginning December 1, 2008 of $72,481 are due monthly.	13,200,000
		19,581,334
Less current notes		(456,567)
Noncurrent notes receivable		$ 19,124,767

NOTE 3 – RECEIVABLES (CONTINUED)

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, 2008, long-term home improvement loans receivable under this program were $26,440 bearing interest at varying rates up to 3%.

Other Receivables

Under the Authority's Revolving Development Program, the Authority provides advances to other projects to fund start-up costs. At June 30, 2008, advances receivable consisted of $621,296, of which $432,736 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, 2008, short term advances receivable amounted to $385,260.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable:				
Land	$ 29,810,292	$ 813,018	$ (692,951)	$ 29,930,359
Construction-in-progress	4,634,781	1,356,953	(3,140,961)	2,850,773
Total capital assets, non-depreciable	34,445,073	2,169,971	(3,833,912)	32,781,132
Capital assets, depreciable:				
Buildings and improvements	113,244,571	6,901,656	-	120,146,227
Equipment	531,694	26,949	(4,268)	554,375
Total capital assets, depreciable	113,776,265	6,928,605	(4,268)	120,700,602
Less accumulated depreciation for:				
Buildings and improvements	(64,283,345)	(3,777,507)	-	(68,060,852)
Equipment	(392,914)	(69,534)	4,268	(458,180)
Total accumulated depreciation	(64,676,259)	(3,847,041)	4,268	(68,519,032)
Total depreciable capital assets, net	49,100,006			52,181,570
Total enterprise fund capital assets, net	$ 83,545,079			$ 84,962,702

NOTE 5 – SHORT-TERM AND LONG-TERM OBLIGATIONS – LOANS, NOTES AND BONDS PAYABLE

Public Housing Loans

Public housing project debt is comprised of the following at June 30, 2008:

	Principal	Interest
Public housing notes – Federal Financing Bank	$ 858,669	$ 236,634
Public housing bonds	65,000	3,500
Total	$ 923,669	$ 240,134

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 non-operating revenues in the basic financial statements.

Notes Payable

Notes payable consist of the following at June 30, 2008:

Note Holder(s)	Terms	Outstanding Balance
U.S. Dept. of Housing and Urban Development	Secured by Hopkins Glen rental property, bearing interest at 3%, maturing April 2010, principal and interest payments of $4,073 monthly.	$ 87,072
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.	514,337
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.	266,836
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.	163,889

NOTE 5 – SHORT-TERM AND LONG-TERM OBLIGATIONS – LOANS, NOTES AND BONDS PAYABLE (CONTINUED)

Notes Payable (continued)

Note Holder(s)	Terms	Outstanding Balance
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.	$ 1,130,000
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.	513,427
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. The entire note was paid on July 31, 2007.	-
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.	449,068
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. The entire note was paid on July 31, 2007.	-
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.	449,068
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.	591,286
United Bank	Secured by Holly Acres rental property, bearing interest at 6.21%, maturing December 1, 2021, principal and interest payments of $943 monthly.	138,565
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.	804,203
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.	491,646

NOTE 5 – SHORT-TERM AND LONG-TERM OBLIGATIONS – LOANS, NOTES AND BONDS PAYABLE (CONTINUED)

Notes Payable (continued)

Note Holder(s)	Terms	Outstanding Balance
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.	$ 227,415
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 2.47% at June 30, 2008.	-
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.	383,188
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.	631,243
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.	690,000
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 4.15% to 7.18%, maturing at varying dates through August 1, 2013, variable principal and interest payments due semiannually.	1,315,000
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.	167,086
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.	366,768
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.	200,000
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.	20,000

NOTE 5 – SHORT-TERM AND LONG-TERM OBLIGATIONS – LOANS, NOTES AND BONDS PAYABLE (CONTINUED)

Notes Payable (continued)

Note Holder(s)	Terms	Outstanding Balance
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.	$ 360,000
SunTrust Bank	Secured by Hopkins Glen rental property, bearing interest at 4.33%, maturing October 1, 2016, principal and interest payments due monthly.	426,400
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.	347,469
United Bank	Secured by East Market rental property, bearing interest at 6.14%, maturing December 1, 2022, principal and interest payments of $619 monthly.	93,158
United Bank	Secured by East Market rental property, bearing interest at 6.14%, maturing December 1, 2022, principal and interest payments of $1,130 monthly.	170,023
United Bank	Secured by Fair Oaks rental property, bearing interest at 6.14%, maturing December 1, 2022, principal and interest payments of $1,857 monthly.	279,483
United Bank	Secured by Bryson at Woodland Park rental property, bearing interest at 6.14%, maturing December 1, 2022, principal and interest payments of $2,033 monthly.	305,940
Total		$ 11,629,791

Bonds Payable

Bonds payable consist of the following at June 30, 2008:

	Outstanding Balance
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.	$ 5,135,000

NOTE 5 – SHORT-TERM AND LONG-TERM OBLIGATIONS – LOANS, NOTES AND BONDS PAYABLE (CONTINUED)

Bonds Payable (continued)

	Outstanding Balance
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.	$ 2,235,000
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.	845,988
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.	1,775,025
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.	757,759
In March 2007, on behalf of Cedar Ridge Limited Partnership, the Authority issued a tax-exempt multi-family housing revenue bond with a principal amount totaling $13,200,000 and an interest rate of 5.984% with final payment due October 1, 2048. Interest only is payable monthly through November 1, 2008. Beginning on December 1, 2008, monthly payments of principal and interest of $72,481 are payable until the maturity date of the note. The note is collateralized by a first deed of trust on the rental property of the Cedar Ridge Limited Partnership. Proceeds from the bonds were loaned to the Cedar Ridge Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility.	13,200,000
Total	$ 23,948,772

NOTE 5 – SHORT-TERM AND LONG-TERM OBLIGATIONS – LOANS, NOTES AND BONDS PAYABLE (CONTINUED)

Annual Principal Requirements

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

	Principal	Interest
Year ended June 30:		
2009	$ 480,628	$ 1,249,498
2010	536,650	1,222,123
2011	568,442	1,192,791
2012	590,508	1,162,008
2013	638,298	1,129,446
2014-2018	3,746,847	5,085,867
2019-2023	3,348,506	4,099,031
2024-2028	3,965,498	2,984,194
2029-2033	1,653,615	2,224,951
2034-2038	2,031,523	1,795,904
2039-2043	2,672,049	1,235,052
2044-2048	3,513,966	497,512
2049-2053	202,242	1,624
Total	$ 23,948,772	$ 23,880,001

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

	Principal	Interest
Year ended June 30:		
2009	$ 1,194,342	$ 682,882
2010	1,262,480	611,355
2011	1,248,938	536,814
2012	1,273,071	459,381
2013	958,019	395,084
2014-2018	2,347,779	1,432,220
2019-2023	3,281,768	678,899
2024-2028	63,394	4,516
Total	$ 11,629,791	$ 4,801,151

NOTE 5 – SHORT-TERM AND LONG-TERM OBLIGATIONS – LOANS, NOTES AND BONDS PAYABLE (CONTINUED)

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

	Principal	Interest
Year ended June 30:		
2009	$ 173,497	$ 60,327
2010	115,814	49,511
2011	123,457	41,868
2012	131,606	33,719
2013	140,223	25,102
2014-2017	239,072	29,607
Total	$ 923,669	$ 240,134

Changes in Short–Term and Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Bonds payable	$ 11,142,012	$ 13,200,000	$ 393,240	$ 23,948,772	$ 480,628
Notes payable - long-term	17,518,143	856,465	6,744,817	11,629,791	1,194,342
Notes payable - short-term	5,500,000	-	5,500,000	-	-
Public housing loans	1,090,595	-	166,926	923,669	173,497
Total	$ 35,250,750	$ 14,056,465	$ 12,804,983	$ 36,502,232	$ 1,848,467

NOTE 6 – CHANGES IN COMPENSATED ABSENCES PAYABLE

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Compensated absences payable	$ 991,680	$ 433,593	$ 417,682	$ 1,007,591	$ 459,521

NOTE 7 – 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.

NOTE 7 – TAX CREDIT LIMITED PARTNERSHIPS (CONTINUED)

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.

NOTE 8 – 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, 2008, the cumulative total of bonds outstanding under the Authority's name was approximately $93,505,000.

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, 2008, the cumulative balance of the above bonds outstanding was $9,858,011. 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, 2008, the outstanding principal balance of these bonds was $7,970,000. 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, 2008, the outstanding principal balance of this bond was $5,670,000. 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, 2008, the outstanding principal balance of this bond was $5,935,000. 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.

NOTE 8 – CONDUIT DEBT (CONTINUED)

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, 2007, the outstanding balance of the loan was $279,947.

On February 16, 2006, the Authority issued a $40,600,000 bond anticipation note (BAN) 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 BAN. The note matured on February 12, 2008, and was repaid through the issuance of a long-term note and funding available in the County's Penny for Affordable Housing capital projects fund. In February 2008, the Authority issued a $37,615,000 refunding BAN. The long-term note matures on March 1, 2013. The note may be redeemed prior to maturity.

On November 28, 2007, the Authority issued a $105,485,000 BAN to finance a portion of the purchase price of a multi-family rental housing property as part of the County's affordable housing initiative. The note bears interest at 3.29 percent and matures on October 9, 2008. As the County is responsible, under the related documents and subject to appropriation, to pay timely the principal of and interest on the note, 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.

NOTE 9 – 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.

NOTE 9 – CONTINGENCIES (CONTINUED)

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 $367,743 as of December 31, 2007. 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, 2008.

NOTE 10 – 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, 2008.

NOTE 11 – 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, 2008, 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, 2008 Comprehensive Annual Financial Report.

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS

The Fairfax County OPEB Trust Fund is a single-employer defined benefit plan administered by Fairfax County which the Project's employees participate. The County provides medical/dental, vision, and life insurance benefits to eligible retirees and their spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

benefit coverage in a plan provided by the County. Retirees must have five years of service in order to participate in this program. Beginning in fiscal year 2004, the amount of monthly subsidy provided by the County is based on years of service and ranges from $30 per month to $220 per month. Retirees receiving the subsidy prior to fiscal year 2004 are grandfathered at $100 per month unless their years of service entitle them to receive a higher monthly subsidy.

In addition, the Board of Supervisors has established a program to subsidize the continuation of term life insurance, at reduced coverage amounts, for retirees. Retirees generally pay for fifty percent of their coverage amounts at age-banded premium rates, with the County incurring the balance of the cost. Benefit provisions are established and may be amended by the Board of Supervisors.

The contributions to the OPEB Trust Fund are established and may be amended by the Board of Supervisors. The contributions are typically based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits. GASB Statement No. 45 requires recognition of the current expense of OPEB based on each governing body's annual required contribution, but does not require funding of the related liability.

Costs and related liability, if any, are recorded by the County. The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Data concerning the ARC specifically applicable to employees of the Authority are not available. Information concerning the County's OPEB Trust Fund as a whole is available in the County's June 30, 2008 Comprehensive Annual Financial Report.

NOTE 13 – 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, 2007 is as follows:

NOTE 13 – RELATED PARTY TRANSACTIONS (CONTINUED)

	Castellani Meadows	Gum Springs Glen	Herndon Harbor House	Herndon Harbor House II	Morris Glen	FCRHA HCDC Two	FCRHA HCDC One	Tavenner Lane	Cedar Ridge	The Green	Total
					ASSETS						
ASSETS											
Cash, restricted cash and investments	$ 239,367	$ 513,080	$ 1,119,054	$ 511,926	$ 254,389	$ 1,799,397	$ 2,355,364	$ 706,698	$ 3,593,042	$ 949,484	$ 12,041,801
Accounts receivable, prepaid expenses, and other assets	50,424	32,699	39,916	93,563	8,427	261,725	114,346	11,418	1,734,245	43,936	2,390,699
Investments in real estate - net	2,270,355	5,302,806	4,411,162	5,476,692	2,957,454	6,867,418	8,703,848	2,575,116	15,477,066	3,289,351	57,331,268
TOTAL	$ 2,560,146	$ 5,848,585	$ 5,570,132	$ 6,082,181	$ 3,220,270	$ 8,928,540	$ 11,173,558	$ 3,293,232	$ 20,804,353	$ 4,282,771	$ 71,763,768
					LIABILITIES AND PARTNERS' CAPITAL						
LIABILITIES											
Other liabilities	$ 753,706	$ 518,457	$ 645,196	$ 562,066	$ 270,128	$ 1,828,610	$ 2,570,591	$ 63,858	$ 1,312,765	$ 534,472	$ 9,059,849
Liabilities related to investment in real estate	1,994,667	2,666,955	4,334,626	4,855,361	2,593,599	4,230,125	4,352,282	3,054,626	16,136,998	1,731,251	45,950,490
PARTNERS' CAPITAL (DEFICIT)	(188,227)	2,663,173	590,310	664,754	356,543	2,869,805	4,250,685	174,748	3,354,590	2,017,048	16,753,429
TOTAL	$ 2,560,146	$ 5,848,585	$ 5,570,132	$ 6,082,181	$ 3,220,270	$ 8,928,540	$ 11,173,558	$ 3,293,232	$ 20,804,353	$ 4,282,771	$ 71,763,768
INCOME											
Rental	$ 254,347	$ 494,646	$ 511,019	$ 514,741	$ 480,028	$ 1,294,729	$ 1,512,109	$ 184,222	$ 1,628,018	$ 514,120	$ 7,387,979
Other	16,595	79,915	71,429	35,444	30,568	245,718	366,128	69,276	100,590	297,573	1,313,236
Total income	270,942	574,561	582,448	550,185	510,596	1,540,447	1,878,237	253,498	1,728,608	811,693	8,701,215
EXPENSES											
Property	163,927	419,498	336,349	394,066	309,510	894,122	1,455,408	101,679	861,415	544,225	5,480,199
Property management	11,845	26,700	26,700	2,600	26,707	79,570	75,479	9,679	59,121	37,122	355,523
Legal and accounting	12,641	10,270	12,299	12,055	15,748	12,801	16,606	7,385	19,583	12,901	132,289
Interest expense	106,399	138,553	152,373	170,291	97,639	115,045	118,004	144,945	702,938	77,752	1,823,939
Depreciation and amotrization	117,678	152,174	148,521	214,834	206,233	345,495	529,924	78,558	225,178	139,556	2,158,151
Total expenses	412,490	747,195	676,242	793,846	655,837	1,447,033	2,195,421	342,246	1,868,235	811,556	9,950,101
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION	$ (141,548)	$ (172,634)	$ (93,794)	$ (243,661)	$ (145,241)	$ 93,414	$ (317,184)	$ (88,748)	$ (139,627)	$ 137	$ (1,248,886)

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority
Fairfax, Virginia

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, 2008, and have issued our report thereon dated October 27, 2008. 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, 2008. 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, 2008. 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, FCRHA HCDC One, FCRHA HCDC Two, Cedar Ridge 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 our 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.

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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fairfax County Redevelopment and Housing 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 27, 2008.

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.

Clifton Gunderson LLP

Baltimore, Maryland
October 27, 2008