

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

**FINANCIAL STATEMENTS
June 30, 2010**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statement of Net Assets.....	7
Statement of Revenues, Expenses, and Changes in Net Assets.....	8
Statement of Cash Flows	9
Notes to Financial Statements.....	10
SUPPLEMENTAL INFORMATION	
Required VHDA Schedules	16
Identification of Engagement Auditor.....	21
Audit Compliance and Internal Control Questionnaire	22
Certificate of Assistant Secretary	25
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 <i>GOVERNMENT AUDITING STANDARDS</i>	26

Independent Auditor's Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment and Housing Authority

We have audited the accompanying basic financial statements of the Section 8 – New Construction – Group Home (Project No. A39-H027-017) (the Project) of the Fairfax County Redevelopment and Housing Authority (the Authority) as of and for the year ended June 30, 2010 as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Virginia Housing Development Authority's *Mortgagor/Grantee's Audit Guide*. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the accounts of the Project and do not purport to, and do not, present fairly the financial position of the Authority as of June 30, 2010, and the results of its operations and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Project at June 30, 2010, and the results of its operations 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 Standards*, we have also issued our report dated September 29, 2010 on our consideration of the Project's internal control over financial reporting and 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 our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3–5 is not a required part of the basic financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Project's basic financial statements. The supplemental information on pages 16–25 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gundersen LLP

Baltimore, Maryland
September 29, 2010

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2010

Introduction

The Fairfax County Redevelopment and Housing Authority (FCRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment, and revitalization programs within Fairfax County (the County) as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors created the Department of Housing and Community Development (DHCD) to act as the development and administrative agency for the FCRHA and the Board in meeting the housing and community development needs of the County’s low- and moderate-income residents.

The FCRHA presents this discussion and analysis of its Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project) as of and for the fiscal year ended June 30, 2010 to assist the reader in focusing on significant financial issues. The Project is a housing facility for developmentally disabled adults.

The Project’s Financial Highlights for Fiscal Year 2010 (FY 2010)

In summary, the Project’s FY 2010 financial highlights included the following:

- As of June 30, 2010, total assets and liabilities were \$629,826 and \$304,531, respectively; thus total net assets were \$325,295.
- Total revenues and expenses were \$90,813 and \$80,710, respectively; thus total net assets increased by \$10,103.
- Total restricted cash increased by \$2,837 in FY 2010 compared to a decrease of \$172,482 in FY 2009. This increase is primarily attributable to a decrease in the Project’s repairs and maintenance costs in FY 2010.

Project Financial Statements

This discussion and analysis presents the Project’s financial results in three financial statements – the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The FY 2010 financial results are compared to those of FY 2009, thus allowing the readers to ascertain the reasons for changes in revenues, expenses, or net asset balances. These financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2010

Summary of Net Assets

The Project’s FY 2010 and FY 2009 Statements of Net Assets report all financial and capital assets of the Project and are presented in a format where assets minus liabilities equals net assets. The following table reflects a condensed summary of net assets as of June 30, 2010 and 2009.

Table 1
Summary of Net Assets

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Current and restricted assets	\$ 393,751	\$ 390,991	\$ 2,760
Capital assets	<u>236,075</u>	<u>242,196</u>	<u>(6,121)</u>
Total assets	<u>629,826</u>	<u>633,187</u>	<u>(3,361)</u>
Current liabilities	89,171	84,079	5,092
Non-current liabilities	<u>215,360</u>	<u>233,916</u>	<u>(18,556)</u>
Total liabilities	<u>304,531</u>	<u>317,995</u>	<u>(13,464)</u>
Net assets:			
Invested in capital assets, net of related debt	2,159	(8,841)	11,000
Restricted	393,641	390,804	2,837
Unrestricted (deficit)	<u>(70,505)</u>	<u>(66,771)</u>	<u>(3,734)</u>
Total net assets	<u><u>\$ 325,295</u></u>	<u><u>\$ 315,192</u></u>	<u><u>\$ 10,103</u></u>

The Project’s net assets increased by \$10,103 in FY 2010 compared to a decrease of \$169,259 in FY 2009. The increase in the change in net assets between FY 2010 and FY 2009 was primarily due to lower operating expenses for major repairs and maintenance work on the Project during the year.

Capital Assets and Debt Administration

Capital Assets

The Project’s capital assets as of June 30, 2010 included land, buildings, and improvements and equipment that totaled \$523,264, net of accumulated depreciation of \$287,189, providing net capital assets of \$236,075. For further details, see Note 3, page 13, Capital Assets.

Long-term Debt

The Virginia Housing Development Authority (the VHDA) provided permanent financing for the purchase of the land and buildings. The outstanding balance of the mortgage amounted to \$233,916 and \$251,037 at June 30, 2010 and 2009, respectively. The decrease in 2010 is a result of scheduled principal payments. For further details, see Note 4, page 13 concerning debt and long-term liabilities of the Project.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2010

Summary of Revenues, Expenses, and Changes in Net Assets

The Project’s Statements of Revenues, Expenses, and Changes in Net Assets include operating revenues, such as rental income, operating expenses, such as administrative, maintenance and depreciation, and non-operating revenues and expenses, such as investment income and interest expense. Table 2 presents a condensed summary of data from the Project’s Statements of Revenues, Expenses, and Changes in Net Assets.

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

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Revenues			
Operating revenues	\$ 89,384	\$ 82,014	\$ 7,370
Non-operating revenues	<u>1,429</u>	<u>9,928</u>	<u>(8,499)</u>
Total revenues	<u>90,813</u>	<u>91,942</u>	<u>(1,129)</u>
Expenses			
Operating expenses	61,191	240,349	(179,158)
Non-operating expenses	<u>19,519</u>	<u>20,852</u>	<u>(1,333)</u>
Total expenses	<u>80,710</u>	<u>261,201</u>	<u>(180,491)</u>
Increase (decrease) in net assets	10,103	(169,259)	(179,362)
Total net assets, beginning of year	<u>315,192</u>	<u>484,451</u>	<u>(169,259)</u>
Total net assets, end of year	<u>\$ 325,295</u>	<u>\$ 315,192</u>	<u>\$ 10,103</u>

This statement reflects a decrease of \$179,158 in operating expenses as compared to FY 2009. The decrease is primarily attributable to reduced repair and maintenance expenses. Overall, the Project’s financial position improved resulting from lower operating expenses during the year.

Contacting FCRHA Management

This financial report is designed to provide the citizens of the County, taxpayers, tenants, and investors and creditors with a general overview of the Project’s finances and to demonstrate the Project’s accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia, 22030.

FINANCIAL STATEMENTS

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
STATEMENT OF NET ASSETS
June 30, 2010

ASSETS

CURRENT ASSETS	
Accrued interest receivable	<u>\$ 110</u>
RESTRICTED ASSETS (Note 4)	
Replacement reserves	47,295
Operating reserves	<u>346,346</u>
Total restricted assets	<u>393,641</u>
CAPITAL ASSETS (Note 3)	
Nondepreciable:	
Land	168,059
Depreciable:	
Buildings and improvements	355,205
Accumulated depreciation	<u>(287,189)</u>
Total capital assets, net	<u>236,075</u>
TOTAL ASSETS	<u>\$ 629,826</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 2,743
Due to Authority	67,872
Mortgage payable (Note 4)	<u>18,556</u>
Total current liabilities	89,171
NONCURRENT LIABILITIES	
Mortgage payable (Note 4)	<u>215,360</u>
Total liabilities	<u>304,531</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,159
Restricted net assets	393,641
Unrestricted net assets	<u>(70,505)</u>
Total net assets	<u>325,295</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 629,826</u>

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2010

OPERATING REVENUES	
Dwelling rentals	<u>\$ 89,384</u>
OPERATING EXPENSES	
Repairs and maintenance	43,907
Administrative expenses	11,163
Depreciation	<u>6,121</u>
Total operating expenses	<u>61,191</u>
Operating income	<u>28,193</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	1,429
Interest expense	<u>(19,519)</u>
Total nonoperating expenses, net	<u>(18,090)</u>
CHANGE IN NET ASSETS	10,103
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>315,192</u>
TOTAL NET ASSETS, END OF YEAR	<u><u>\$ 325,295</u></u>

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Rental income received	\$ 89,460
Administrative expenses paid	(11,163)
Operating and maintenance expenses paid	<u>(40,134)</u>
 Net cash provided by operating activities	 <u>38,163</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>1,429</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on mortgage payable	(17,121)
Interest payments on mortgage payable	<u>(19,634)</u>
 Net cash used in capital and related financing activities	 <u>(36,755)</u>
 NET INCREASE IN CASH	 2,837
 CASH, BEGINNING OF YEAR	 <u>390,804</u>
 CASH, END OF YEAR	 <u>\$ 393,641</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 28,193
Depreciation	6,121
Effects of changes in operating assets and liabilities:	
Accounts receivable	76
Accounts payable	<u>3,773</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 38,163</u></u>

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

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The Fairfax County Redevelopment and Housing Authority (FCRHA), Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project) is a housing facility for developmentally disabled adults. The goal of the Project is to increase the ability of its residents to become self-sufficient. Contained within the single-story structure is a central kitchen, a community dining room, two living room areas, offices for the counselors, a laundry room, and 12 single bedrooms for the residents. The Project is owned by FCRHA and is operated by the Fairfax-Falls Church Community Services Board pursuant to an agreement with FCRHA. FCRHA is a component unit of the County of Fairfax, Virginia (the County).

The accompanying financial statements present only the financial position, changes in financial position and cash flows of the Project, and are not intended to present fairly the financial position, changes in financial position, and cash flows of FCRHA in conformity with U.S. generally accepted accounting principles (GAAP).

The accounting policies of the Project conform to GAAP as applicable to proprietary fund types of governmental units. The following is a summary of the Project's more significant accounting policies.

Measurement Focus and Basis of Accounting

The activities of the Project are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Project applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989 unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 represent funded reserves held by the Virginia Housing Development Authority (the VHDA), a state-housing-finance agency, pursuant to the regulatory agreement. All amounts are fully insured and collateralized. Such restricted assets have been included in cash for purposes of the Statement of Cash Flows.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due to FCRHA

Project cash is maintained by the County's Investment and Cash Management Division (ICM) in a single pooled account. All of the Project's cash deposits are covered by federal depository insurance and have been fully insured or collateralized. The Project has numerous transactions with FCRHA to finance operations and provide services. To the extent that funds to finance certain transactions of the Project had not been paid or collected as of year-end, interfund payables and receivables are recorded.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the Project may not recover its deposits. In accordance with the Virginia Security for Public Deposits Act (Act), all of the Project'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 Project are insured or registered or are securities held by the Project or its agent in the Project's name.

Foreign Currency Risk

The Project's cash is 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 FCRHA as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Capital assets are

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (continued)

recorded at cost when purchased and at fair market value when donated. 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 27.5 years.

Revenue Recognition

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

Operating Revenues and Expenses

The Project's policy is to report all Project revenues and expenses as operating, with the exception of interest income and expenses.

Implementation of New GASB Pronouncement

In fiscal year 2010, the Project implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The implementation of these new standards had no impact on the Project's fiscal year 2010 financial statements.

NOTE 2 – HOUSING ASSISTANCE PAYMENTS CONTRACT

The U.S. Department of Housing and Urban Development (HUD), through the VHDA, provides federal housing assistance for lower-income persons under the Section 8 Program to the Project's residents. HUD provides funds to pay the difference between 30% of an eligible person's income and the HUD-established fair market rent for a housing unit, which includes rent and utilities. A Housing Assistance Payments (HAP) contract between the VHDA and FCRHA provides the funding received under Section 8 to operate the Project. The contract was entered into on July 27, 1979 and has a term of 40 years. During 2010, the Project received HAP contract payments amounting to \$69,433, which have been included as Dwelling Rentals on the Project's Statement of Revenues, Expenses, and Changes in Net Assets.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 168,059	\$ -	\$ -	\$ 168,059
Capital assets, being depreciated:				
Buildings and improvements	355,205	-	-	355,205
Less accumulated depreciation:				
Buildings and improvements	<u>(281,068)</u>	<u>(6,121)</u>	<u>-</u>	<u>(287,189)</u>
Capital assets, net	<u>\$ 242,196</u>	<u>\$ (6,121)</u>	<u>\$ -</u>	<u>\$ 236,075</u>

NOTE 4 – MORTGAGE PAYABLE

The VHDA provided construction and permanent financing for the Project. The outstanding mortgage loan carries an interest rate of 8.07% with final payment due June 1, 2019. The monthly principal and interest payment is \$3,063.

The land, structures, and equipment of the Project are pledged as security for the mortgage loan. The HAP contract is also pledged as security for the mortgage loan.

The Project maintains certain restricted deposits and funded reserves as required by VHDA. The aggregate amount of the required principal and interest payments on the mortgage loan as of June 30, 2010 is \$329,346 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Year Ending June 30:		
2011	\$ 18,556	\$ 18,201
2012	20,109	16,647
2013	21,794	14,962
2014	23,619	13,137
2015	25,597	11,159
2016-2019	<u>124,241</u>	<u>21,324</u>
Total	<u>\$ 233,916</u>	<u>\$ 95,430</u>

Changes in the mortgage payable for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Mortgage payable	<u>\$ 251,037</u>	<u>\$ -</u>	<u>\$ 17,121</u>	<u>\$ 233,916</u>	<u>\$ 18,556</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5 – RELATED PARTY TRANSACTIONS

Agreement with CSB

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

During the year ended June 30, 2010, the CSB provided \$17,928 in rent subsidies to FCRHA.

Management Agreement with FCRHA

The Project pays monthly management fees to FCRHA based on 4% of gross rental collections. For the year ended June 30, 2010, the Project paid \$3,494 under the terms of the management agreement and no amounts are owed to FCRHA at June 30, 2010.

NOTE 6 – RISK MANAGEMENT

The Project is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and citizens, and natural disasters. For all of these risks, the Project participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claim settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2010.

NOTE 7 – SUPPLEMENTAL INFORMATION

The supplemental information that is included on pages 16–20 is presented in accordance with VHDA requirements. As a result of these requirements, line item classifications may differ from amounts reported on the Statement of Revenues, Expenses and Changes in Net Assets, however, revenue and expenses will agree in total.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
REQUIRED VHDA SCHEDULES
June 30, 2010

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

Accounts and Notes Receivable (Other than from Regular Tenants)

None

Delinquent Tenant Accounts Receivable

None

Tenant Security Deposits

None

Reserve for Replacements

In accordance with the provisions of the regulatory agreement, the restricted cash components held by the VHDA to be used for replacement of property with the approval of the VHDA, are as follows:

Balance, June 30, 2009	\$ 45,789
Monthly deposits	1,332
Interest earned	<u>174</u>
Balance as of June 30, 2010, confirmed by mortgagee	<u>\$ 47,295</u>

Operating Reserve

Operating reserves are held by the VHDA or with VHDA approval, by the mortgagor in a restricted account and may be disbursed only as provided in the regulatory agreement with the approval of the VHDA. Operating reserves are as follows:

Balance as of June 30, 2009, confirmed by mortgagee	\$ 345,015
Interest received	<u>1,331</u>
Balance as of June 30, 2010, confirmed by mortgagee	<u>\$ 346,346</u>

Mortgage Payable

Payables due in more than 60 days, all payables due mortgagee:

Creditor	Purpose	Date Incurred	Terms	Original Amount	Amount Due
VHDA	Mortgage	July 1978	40 Years	<u>\$ 437,157</u>	<u>\$ 233,916</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
REQUIRED VHDA SCHEDULES
June 30, 2010

Related-Party Transactions

<u>Entity</u>	<u>Description of services</u>	<u>Amount</u>
Expenses – Fairfax County Redevelopment and Housing Authority	Management services performed during the year	\$ 3,494
Revenues – Fairfax – Falls Church Community Services Board	Monthly tenant rents	17,928

Schedule of Surplus Cash and Residual Receipts

Accrued interest receivable	\$ 110
Mortgage interest payable July 1	(1,573)
Current obligations – accounts payable and accrued liabilities, excluding interest	<u>(69,042)</u>
Surplus cash deficit	<u>\$ (70,505)</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2010

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 17,928	
	Tenant Assistance Payments	5121	71,456	
	Furniture and Equipment	5130	—	
	Stores and Commercial	5140	—	
	Garage and Parking Spaces	5170	—	
	Flexible Subsidy Income	5180	—	
	Miscellaneous (specify)	5190	—	
	Total Rental Revenue Potential at 100% Occupancy			
Vacancies 5200	Apartments	5220	—	
	Furniture and Equipment	5230	—	
	Stores and Commercial	5240	—	
	Garage and Parking Spaces	5270	—	
	Miscellaneous (specify)	5290	—	
	Total Vacancies			
	Net Rental Revenue			\$ 89,384
	Elderly and Congregate Services Income – 5300			
	Total Service Income (Schedule Attached)	5300	—	
Financial Revenue	Interest Income – Project Operations	5410	1,429	
	Income from Investments – Residual Receipts	5430	—	
	Income from Investments – Reserve for Replacements	5440	—	
	Income from Investments – Miscellaneous	5490	—	
	Total Financial Revenue			
Other Revenue 5900	Laundry and Vending	5910	—	
	NSF and Late Charges	5920	—	
	Damages and Cleaning Fees	5930	—	
	Forfeited Tenant Security Deposits	5940	—	
	Other Revenue (specify) (gain on lender refinancing)	5990	—	
	Total Other Revenue			
	Total Revenue			\$ 90,813
Administrative Expenses 6200/6300	Advertising	6210	—	
	Other Administrative Expense	6250	1,169	
	Office Salaries	6310	—	
	Office Supplies	6310	—	
	Office or Model Apartment Rent	6312	—	
	Management	6320	—	
	Manager or Superintendent Salaries	6330	—	
	Manager or Superintendent Rent Free Unit	6331	—	
	Legal Expenses – Project	6340	—	
	Audit Expense – Project	6350	6,500	
	Bookkeeping Fees / Accounting Service	6351	3,494	
	Telephone and Answering Service	6360	—	
	Bad Debts	6370	—	
	Miscellaneous Administrative Expenses (specify)	6390	—	
	Total Administrative Expenses			
Utilities Expenses 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	—	
	Water	6451	—	
	Gas	6452	—	
	Sewer	6453	—	
	Total Utilities Expense			

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2010
(continued)

Part I	Description of Account	Acct. No.	Amount
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	\$ —
	Janitor and Cleaning Supplies	6515	—
	Janitor and Cleaning Contract	6517	—
	Exterminating Payroll / Contract	6519	—
	Exterminating Supplies	6520	39
	Garbage and Trash Removal	6525	1,391
	Security Payroll / Contract	6530	—
	Grounds Payroll	6535	—
	Grounds Supplies	6536	—
	Grounds Contract	6537	3,900
	Repairs Payroll	6540	1,207
	Repairs Material	6541	451
	Repairs Contract	6542	36,344
	Elevator Maintenance / Contract	6545	—
	Heating / Cooling Repairs and Maintenance	6546	575
	Swimming Pool Maintenance / Contract	6547	—
	Snow Removal	6548	—
	Decorating Payroll / Contract	6560	—
	Decorating Supplies	6561	—
	Other	6570	—
Miscellaneous Operating and Maintenance Expenses	6590	—	
	Total Operating and Maintenance Expenses		\$ 43,907
Taxes and Insurance 6700	Real Estate Taxes	6710	—
	Payroll Taxes (FICA)	6711	—
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	—
	Property and Liability Insurance (Hazard)	6720	—
	Fidelity Bond Insurance	6721	—
	Workmen's Compensation	6722	—
	Health Insurance and Other Employee Benefits	6723	—
	Other Insurance (specify)	6729	—
	Total Taxes and Insurance		\$ —
Financial Expenses 6800	Interest on Bonds Payable	6810	—
	Interest on Mortgage Payable	6820	19,519
	Interest on Notes Payable (Long-Term)	6830	—
	Interest on Notes Payable (Short-Term)	6840	—
	Mortgage Insurance Premium / Service Charge	6850	—
	Miscellaneous Financial Expenses	6890	—
	Total Financial Expenses		\$ 19,519
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)	6900	\$ —
	Total Cost of Operations Before Depreciation		\$ 74,589
	Profit (Loss) Before Depreciation		\$ 16,224
	Depreciation and Amortization	6600	\$ 6,121
	Operating Profit or (Loss)		10,103
Corporate or Mortgagor or Entity Expenses 7100	Officer Salaries	7110	—
	Legal Expenses – (Entity)	7120	—
	Taxes – (Federal – State – Entity)	7130-32	—
	Other Expenses – (Entity)	7190	—
	Total Corporate Expenses		\$ —
	Net Profit or (Loss)		\$ 10,103

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
CHANGES IN CAPITAL ASSETS ACCOUNTS
Year Ended June 30, 2010

	Capital assets			Accumulated depreciation				Net Book Value	
	Balance June 30, 2009	Additions	Disposals	Balance June 30, 2010	Balance June 30, 2009	Current Provision	Disposals		Balance June 30, 2010
Land	\$ 168,059	\$ -	\$ -	\$ 168,059	\$ -	\$ -	\$ -	\$ -	\$ 168,059
Buildings and improvements	355,205	-	-	355,205	281,068	6,121	-	287,189	68,016
Total	\$ 523,264	\$ -	\$ -	\$ 523,264	\$ 281,068	\$ 6,121	\$ -	\$ 287,189	\$ 236,075

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
IDENTIFICATION OF ENGAGEMENT AUDITOR
June 30, 2010

Auditing firm:	Clifton Gunderson LLP
Office mailing address:	9515 Deereco Road, Suite 500 Timonium, MD 21093
Office telephone number:	(410) 453-0900
Office fax number:	(410) 453-0914
Lead auditor and primary contact:	J. Michael Stephens, CPA
E-mail address:	mike.stephens@cliftoncpa.com

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2010

Project Name Section 8 – New Construction – Group Home

Project Number VA39-H027-017

Fiscal Year End June 30, 2010

The Management Agent certifies that the answers below are complete and accurate to the best of their knowledge and belief. “No” answers may be indicative of an adverse condition. Management’s response and a plan of action to any adverse findings must be included in Appendix A, A-13, Corrective Action Plan.

Examination status	Yes	No	N/A
1. Mortgage Status			
a. Are payments on all mortgages current?	X		
b. Has the Mortgagor/Grantee complied with the terms and conditions of the modification, forbearance and/or workout arrangement?			X
c. If the workout agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within thirty days after the end of the specified period?			X
2. Books and Records			
a. Are a complete set of books and records maintained in a satisfactory manner?	X		
b. Does the Mortgagor/Grantee make frequent postings (at least monthly) to the ledger accounts?	X		
3. Cash Activities			
a. Are the cash receipts deposited in an account in the name of the development?	X		
b. Are all account balances federally insured?	X		
c. If a centralized account is used, is it limited to disbursements?		As approved by VHDA X	
d. Are security deposits kept in an account separate and apart from all other funds of the development?			X
e. Does the balance in the security deposit account equal or exceed the liability? Note: The liability should include the accrued interest payable.			X
f. Does owner and/or management have a fidelity bond in an amount at least equal to potential collections for two months (one month on Section 8 uninsured developments) that provides coverage for all employees handling cash?			X

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2010

Examination status	Yes	No	N/A
g. Did cash disbursements exclude payments for items listed below:			
• Legal expenses incurred in the sale of partnership interest?			X
• The fee for the preparation of a partner's, shareholder's or individual's federal, state, or local income tax returns?			X
• Expenses for advice to an owner on tax consequences of foreclosure?			X
• Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance, or provisional workout arrangements?			X
• Were all disbursements from the operating account(s) made exclusively for operations or obligations of the development?	X		
h. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of VHDA, while the development was in a "surplus cash" position?			X
• If development was operating under a modification or forbearance agreement and/or a provisional workout arrangement, is it not in a "surplus cash" position for the purposes of distributions?			X
• In the use of rental proceeds to pay for costs included in the Mortgagor/Grantee's cost certification, are there no unauthorized distributions of development income?			X
i. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request of such deposit?			X
j. Were excess rental collections in Section 236 developments remitted to HUD each month?			X
k. Does the Mortgagor/Grantee have a formal rent collection policy?	X		
l. Is the collection policy uniformly enforced?	X		
m. Is there a formal procedure for write-off of bad debts?	X		
n. Have write-offs of tenants' accounts been less than five percent of the gross rent?	X		

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE
June 30, 2010

Examination status	Yes	No	N/A
o. Are accounts receivable other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?	X		
p. Were there indications that payments for services, supplies, or materials were not substantially in excess of amounts normally paid for such services in order to assure the most advantageous terms to the development?	X		
q. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	X		
4. Management Compensation			
a. Was compensation to the Management Agent limited to the amounts prescribed in the Management Agreement?	X		
b. Did agent not charge development for expenses which the Management Agreement requires agent to pay?			X
5. Rents and Occupancy			
a. On unassisted developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule(s) maintained by the Management Agent?	X		
b. On an unassisted development with federal tax credits, are rents in conformance with Federal Low Income Housing Tax Credit (IRS Section 42) program guidelines and the Extended Use Agreement (EUA)?			X
c. On assisted developments, are dwelling unit rents the same as those approved by VHDA on the most recent Rent Schedule, HUD No. 92458?			X
6. HDA/HUD Subsidy Payments (Section 8/RAP Developments Only)			
a. Were the amounts requested from VHDA/HUD adequately supported by the accounting records?	X		
b. Were subsidy receipts recorded in the proper accounts?	X		
c. Were utility allowance payments paid to residents within five business days of receipt from VHDA and in an amount equal to the corresponding utility allowance subsidy amounts received?			X
d. Were all uncashed utility allowance payments refunded to VHDA (via a Part II adjustment to the monthly Housing Assistance Payment) within six months of initial issuance by VHDA?			X

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)
CERTIFICATE OF ASSISTANT SECRETARY
June 30, 2010

I hereby certify that I have examined the accompanying financial statements, supplementary information, and management's discussion and analysis and, to the best of my knowledge and belief, they are complete and accurate. There were no changes in ownership during the year ended June 30, 2010.



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

**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

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

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority (the Authority), Section 8 – New Construction – Group Home (Project No. VA39-H027-017) (the Project) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Mortgage/Grantee's Audit Guide, issued by the Virginia Housing Development Authority.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting 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 Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting.

A deficiency in internal control 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 material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Clifton Gundersen LLP

Baltimore, Maryland
September 29, 2010