

FAUQUIER HOUSING CORPORATION
EXAMINATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND DECEMBER 31, 2005

FAUQUIER HOUSING CORPORATION

WARRENTON, VIRGINIA

EXAMINATION OF FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND DECEMBER 31, 2005

FAUQUIER HOUSING CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fauquier Housing Corporation
Warrenton, Virginia

We have audited the accompanying statements of financial position of Fauquier Housing Corporation as of December 31, 2006 and December 31, 2005, and the related statements of activities and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fauquier Housing Corporation as of December 31, 2006 and December 31, 2005, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dooley & Vicars
Certified Public Accountants L.L.P.

Richmond, Virginia
February 22, 2008

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND DECEMBER 31, 2005**

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 439,186	\$ 292,632
Accounts and Notes Receivable	214,132	288,195
Prepaid Insurance	2,351	1,108
Prepaid Other	10,991	-0-
Deposits	<u>300</u>	<u>300</u>
Total Current Assets	<u>666,960</u>	<u>582,235</u>
Fixed Assets:		
WIP - Construction Stuart Street	1,044,564	-0-
Land	19,500	19,500
Building	54,139	54,139
Equipment	27,938	26,265
Accumulated Depreciation	<u>< 38,718 ></u>	<u>< 35,764 ></u>
Total Fixed Assets	<u>1,107,423</u>	<u>64,140</u>
Other Assets:		
Long-Term Notes Receivable - Oak Springs Associates, L.P.	1,527,675	1,388,796
Countryside Associates, L.P.	98,278	102,793
The Oaks II Associates, L.P.	<u>357,145</u>	<u>333,780</u>
Total Other Assets	<u>1,983,098</u>	<u>1,825,369</u>
TOTAL ASSETS	<u>\$ 3,757,481</u>	<u>\$ 2,471,744</u>

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

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND DECEMBER 31, 2005
(CONTINUED)**

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
Current Liabilities:		
Accounts Payable	\$ 2,274	\$ 2,055
Compensated Absences	41,473	39,587
Security Deposits	1,670	1,600
Deferred Compensation	<u>123,366</u>	<u>54,000</u>
Total Current Liabilities	<u>168,783</u>	<u>97,242</u>
Other Liabilities:		
Construction Loan Stuart Street	912,586	-0-
Housing Assistance Grants	<u>577,457</u>	<u>489,829</u>
Total Other Liabilities	<u>1,490,043</u>	<u>488,829</u>
Net Assets:		
Unrestricted	2,038,655	1,834,673
Temporarily Restricted	<u>60,000</u>	<u>50,000</u>
Total Net Assets	<u>2,098,655</u>	<u>1,884,673</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,757,481</u>	<u>\$ 2,471,744</u>

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

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005**

	<u>2006</u>	<u>2005</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenues		
Contributions and Grants	\$ 170,339	\$ 288,058
Program Fees	70,524	38,102
Development Fees	-0-	-0-
Donated Occupancy	7,200	7,200
Investment Earnings and Other	288,684	186,046
Management Income	<u>50,738</u>	<u>41,529</u>
	<u>587,485</u>	<u>560,935</u>
Expenses		
Program Services	216,538	290,222
Management and General	<u>216,965</u>	<u>176,233</u>
	<u>433,503</u>	<u>466,455</u>
Increase <Decrease> in Unrestricted Net Assets	153,982	94,480
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Contributions	<u>60,000</u>	<u>50,000</u>
INCREASE <DECREASE> IN NET ASSETS	<u>213,982</u>	<u>144,480</u>
BEGINNING NET ASSETS	<u>1,884,673</u>	<u>1,740,193</u>
ENDING NET ASSETS	<u>\$ 2,098,655</u>	<u>\$ 1,884,673</u>

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

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Payroll and Related Taxes	\$ 101,973	\$193,623	\$ 295,596
Donations	60,544	-0-	60,544
Office Expense	6,855	2,409	9,264
Repairs Expense	311	109	420
Legal and Professional Fees	-0-	-0-	-0-
Utilities	265	93	358
Conference and Travel	3,383	1,189	4,572
Insurance	-0-	1,979	1,979
Depreciation	-0-	2,954	2,954
Program Services	5,800	-0-	5,800
Real Estate Development	20,512	7,207	27,719
Stuart Street Operating Expense	16,895	-0-	16,895
Miscellaneous	-0-	202	202
Donated Occupancy	<u>-0-</u>	<u>7,200</u>	<u>7,200</u>
	<u>\$ 216,538</u>	<u>\$ 216,965</u>	<u>\$ 433,503</u>

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

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Payroll and Related Taxes	\$ 89,803	\$152,443	\$ 242,246
Donations	187,564	467	188,031
Office Expense	5,927	3,658	9,585
Repairs Expense	1,638	575	2,213
Legal and Professional Fees	-0-	4,108	4,108
Utilities	-0-	102	102
Conference and Travel	3,046	1,070	4,116
Insurance	-0-	1,975	1,975
Depreciation	-0-	4,007	4,007
Program Services	456	-0-	456
Real Estate Development	1,788	628	2,416
Donated Occupancy	<u>-0-</u>	<u>7,200</u>	<u>-0-</u>
	<u>\$ 290,222</u>	<u>\$ 176,233</u>	<u>\$ 459,255</u>

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

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005**

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Excess <Deficiency> of Revenues	\$ 213,982	\$ 144,480
Adjustments to Reconcile to Net Cash:		
Depreciation	2,954	4,006
Deferred Compensation	69,366	28,000
Changes in Assets and Liabilities:		
Accounts and Notes Receivable	74,063	< 78,815>
Deposits	70	1,165
Prepaid Insurance	< 1,243>	< 1,108>
Prepaid Other	< 10,991>	-0-
Accounts Payable	2,105	887
Housing Assistance Grants	<u>87,628</u>	<u>89,161</u>
NET CASH FROM OPERATING ACTIVITIES	<u>437,934</u>	<u>187,776</u>

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

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005
(Continued)**

	<u>2006</u>	<u>2005</u>
Cash Flows from Investing Activities:		
Non-Cash Interest Income	< 167,829>	< 168,030>
Decrease in Notes Receivable	10,100	-0-
WIP Stuart Street	<1,044,564>	-0-
Purchase of Equipment	< 1,673>	-0-
Construction Loan	<u>912,586</u>	<u>-0-</u>
NET CASH FROM INVESTING ACTIVITIES	<u>< 291,380></u>	<u>< 168,030></u>
INCREASE <DECREASE> IN CASH	146,554	19,746
CASH AT BEGINNING OF YEAR	<u>292,632</u>	<u>272,886</u>
CASH AT END OF YEAR	<u>\$ 439,186</u>	<u>\$ 292,632</u>
Supplemental Information:		
Interest Paid	<u>\$ 10,100</u>	<u>\$ -0-</u>

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

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND DECEMBER 31, 2005**

NOTE 1: Summary of Significant Accounting Policies

Entity -- Fauquier Housing Corporation is organized to assist in meeting the housing needs of low and moderate income families who are unable to meet these needs on their own in Fauquier County Virginia. It addresses long-term needs as well as emergency needs. To accomplish this purpose, funds are solicited from public and private sources. In 2003, Fauquier Housing Corporation formed Stuart Street LLC, as the sole member, with the purpose of developing a low income multifamily housing project, and carries all assets, liabilities, income and expenses of Stuart Street LLC on their financial statements. Stuart Street is in the process of constructing a new multifamily building at this time.

Cash and Cash Equivalents - For purposes of reporting the statement of cash flows, the Corporation includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents.

Accounts Receivable -- Management believes accounts and notes receivable to be fully collectible; therefore, no allowance for doubtful accounts has been set up.

Fixed Assets -- Fixed assets are stated at cost. Expenditures for renewals and betterments are capitalized, and maintenance and repairs are charged to income. Depreciation of office equipment is provided by the straight-line method over the estimated useful life of five years; buildings are depreciated over 40 years.

Contributed Services - The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Corporation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND DECEMBER 31, 2005
(Continued)**

NOTE 1: Summary of Significant Accounting Policies - (Cont.)

expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grants and Loans -- Housing assistance grants and loans are in the form of non-interest bearing loans and are restricted for use in meeting housing needs of low and moderate income families. The grants and loans are due on demand if not used to meet the housing needs of low and moderate income families or not otherwise used as intended.

Income Taxes -- The Fauquier Housing Corporation is a not-for-profit Corporation organized under the laws of the Commonwealth of Virginia. The organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

Use of Estimates in the Preparation of Financial Statements - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Recognition of Donor Restrictions - Fauquier Housing Corporation reports contributions that are restricted by the donor as an increase in unrestricted net assets if the restriction expires in the year in which the contribution is recognized. It reports all other donor-restricted contributions as an increase in temporarily restricted net assets and reclassifies them as unrestricted net assets when the restrictions expire.

Reclassification -- Certain prior year balances have been reclassified to conform to the current year presentation.

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND DECEMBER 31, 2005
(Continued)**

NOTE 2: Long-Term Notes Receivable

Notes receivable consists of a \$1,403,601 loan (including accrued interest of \$896,403) at 5% and a \$124,074 loan (including accrued interest of \$74,073) at 10% for payment of construction management fees from Oak Springs Associates, L.P. These notes are secured by real estate. These notes are to be paid from excess cash flows, if any, from operations. Principal balances of these notes plus all unpaid accrued interest is payable upon the earlier of 90 days following the expiration of the compliance period (15 years) or the sale, conveyance, or refinancing of the project. At this time it is not anticipated that any payments will be received prior to expiration of the compliance period.

The corporation is also due \$98,278 including accrued interest for construction management fees from Countryside Associates, L.P. This note is to be paid from excess cash flows, if any, from operations. Principal balances of these notes plus all unpaid accrued interest is payable upon the earlier of 90 days following the expiration of the compliance period (15 years) or the sale, conveyance, or refinancing of the project. At this time it is not anticipated that any payments will be received prior to expiration of the compliance period. The corporation is also due \$357,145 including accrued interest of \$122,771 at 7% for payment of construction management fees from The Oaks II Associates L.P. This note is secured by real estate. The note is to be upon the earlier of the tenth anniversary of the placement in service of The Oaks II Apartments or the sale or conveyance of the project.

NOTE 3: Investments

Fauquier Housing Corporation is a 51% owner of Oak Springs L.L.C., which owns a 1% general partners interest in Oak Springs Associates, L.P. As a general partner in Oak Springs Associates, L.P., Oak Springs L.L.C. potentially is liable for all debts of Oak Springs Associates, L.P. Fauquier Housing Corporation's investment (if any) in Oak Springs L.L.C., therefore, is at risk to the extent of debt of Oak Springs Associates, L.P. Fauquier Housing Corporation's investment at December 31, 2005 is \$-0-.

Fauquier Housing Corporation is also a .01% general partner in Countryside Associates, L.P. Countryside Associates, L.P. owns an 8-unit apartment building

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND DECEMBER 31, 2005
(Continued)**

NOTE 3: Investments (Cont)

in Warrenton, Virginia. Fauquier Housing Corporation's investment at December 31, 2005 is \$-0-. Fauquier Housing Corporation accounts for these investments under the equity method.

NOTE 4: Construction Loan

The Construction loan issued by the Fauquier Bank is interest only payable monthly. The interest rate is prime plus .5%. The loan will be replaced with permanent financing in 2008.

NOTE 5: Fixed Assets

A summary of the Corporation's fixed assets at December 31, 2006 is as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 19,500	\$ 19,500
Building	54,139	54,139
Other Equipment	27,938	26,265
Accumulated Depreciation	<u>< 38,718 ></u>	<u>< 35,764 ></u>
NET ASSETS	<u>\$ 62,859</u>	<u>\$ 64,140</u>

NOTE 6: Voluntary Salary Deferral Plan

In 2003 the corporation established a 403(b) plan for voluntary elective employee contributions. The plan is voluntary. The corporation does not contribute to the plan.

**FAUQUIER HOUSING CORPORATION
WARRENTON, VIRGINIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND DECEMBER 31, 2005
(Continued)**

NOTE 7: Deferred Compensation Plan

In 2003 the corporation established a 457(b) plan for the Executive Director. The plan is unfunded. The corporation may make contributions at its sole discretion. In 2005, \$28,000 was accrued and in 2006, \$30,000 was accrued. The total liability at December 31, 2006 was \$84,000.

NOTE 8: Compensation Due at Retirement

In 2003 the corporation agreed to pay the Executive Director compensation due at retirement. The payment is subject to a substantial risk of forfeiture because it will not be paid unless the Executive Director remains in full-time employment with the corporation through December 31, 2006 or in the event she dies or ceases employment for reason of total and permanent disability prior to that time. The agreement was amended in 2007 for the Executive Director to continue employment past December 31, 2006. The liability at December 31, 2006 was \$39,366.

NOTE 9: Risk and Uncertainties

Financial instruments which potentially subject the corporation to concentration of credit risks consist principally of temporary cash investments. The corporation places its temporary cash investments with high-credit quality financial institutions, and, by policy, limits the amount of temporary cash investments held at any one financial institution. At December 31, 2006, the corporation had cash investments in one bank in excess of FDIC limits.