# FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
# (A COMPONENT UNIT OF THE COUNTY OF FAIRFAX, VIRGINIA)

Basic Financial Statements and Management's Discussion and Analysis

June 30, 2003

(With Independent Auditors' Report Thereon)

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

June 30, 2003

## Table of Contents

**KPMG LLP**
2001 M Street, NW
Washington, DC 20036

# Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the accompanying basic financial statements of the 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, 2003, 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 component unit financial statements of the discretely presented component units, which represent 100% of the total assets and 100% of the total revenues of the discretely presented component units as of and for the year ended June 30, 2003. 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 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. 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 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 Authority as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 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.

KPMG LLP

October 10, 2003

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Management's Discussion and Analysis (MD&A)

June 30, 2003

## 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 presents this discussion and analysis of its financial performance during the fiscal year ended June 30, 2003, 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.

The FCRHA's FY2003 annual financial report consists of two parts – the management's discussion and analysis, and the basic financial statements and notes to those financial statements.

This discussion and analysis is focused on the primary activities of the FCRHA. The financial results of discretely presented component units are not addressed in this discussion and analysis.

## Financial Highlights For FY2003

The FCRHA's FY2003 financial highlights included the following:

- Total assets and liabilities of the FCRHA were approximately $127.4 million and $57.4 million, respectively; thus total net assets were approximately $70.0 million at June 30, 2003.
- Total revenues and expenses were approximately $55.7 million and $56.4 million, respectively; resulting in a net loss of approximately $698,000 during the fiscal year. This loss represents the net effects of operating and non-operating revenues and expenses, which includes some non-cash items such as depreciation expense, loss on sale of land, HUD debt service and capital contributions.
- Revenues in the FCRHA's programs are derived from various sources with approximately 89% from non-County sources, primarily funds transferred from the U.S. Department of Housing and Urban Development (HUD). For example, approximately 63%, or $35.2 million of the $55.7 million in total revenues, are derived from the Public Housing and Housing Choice Voucher (formerly Section 8) programs. Rental revenues from FCRHA-owned properties were approximately $10.5 million, or 19% of total revenues.
- Total cash flows increased by approximately $2.0 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 assisting in the revitalization of neighborhoods in Fairfax County. The FCRHA, as of June 30, 2003, owned over 2,500 residential units that are leased to low and moderate income families and individuals, 11 properties that serve 177 individuals in supportive housing programs, and a 12-acre site with

115 foundations for mobile homes. In addition, housing assistance was being paid to 3,146 households under the Federal Housing Choice Voucher program for privately owned existing housing and to 35 households who receive payments through the Housing Opportunities for Persons with AIDS (HOPWA) program.

In view of this mission, the FCRHA's financial reporting objective under GASB 34 in FY2003 focuses on the financial activities of the FCRHA as a whole, and specifically the financial transactions of the housing programs and activities that support its mission and objectives.

The FCRHA's presented FY2003 discussion and analysis is based on the financial results of its enterprise programs 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, which is similar to a balance sheet, reports all financial and capital assets 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* consists of all capital assets, 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* consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, or regulations.
- *Unrestricted net assets* consists of net assets that do not meet the definition of net assets 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, depreciation, and nonoperating revenue and expenses, such as grant revenue, investment income, and interest expense. The statement's focus is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, noncapital financing activities, and capital and related financing activities.

These financial statements utilize the economic resources measurement focus and the full accrual basis of accounting and report the FCRHA's net assets and changes in net assets. Under the full accrual basis of accounting, revenues are recognized in the period they are earned and expenses in the period when they are incurred.



(Continued)

### Summary of Net Assets

The following table presents a summary of FCRHA's net assets as of June 30, 2003 and 2002.

**Table 1**
**Summary of Net Assets**
**As of June 30, 2003 and 2002**
**(in millions)**

| Description | 2003 | 2002 | Increase (decrease) | % Changed |
|---|---|---|---|---|
| Current and other assets | $ 53.4 | $ 45.7 | $ 7.7 | 16.8 |
| Capital assets | 74.0 | 81.4 | (7.4) | (9.1) |
| Total assets | 127.4 | 127.1 | 0.3 | 0.2 |
| Current liabilities | 16.2 | 13.0 | 3.2 | 24.6 |
| Long-term liabilities | 41.2 | 43.4 | (2.2) | (5.1) |
| Total liabilities | 57.4 | 56.4 | 1.0 | 1.8 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 45.9 | 38.0 | 7.9 | 20.8 |
| Restricted | 7.8 | 8.1 | (0.3) | (3.7) |
| Unrestricted | 16.3 | 24.6 | (8.3) | (33.7) |
| Total net assets | $ 70.0 | $ 70.7 | $ (0.7) | (1.0) |

The total net assets of these programs were $70.0 million and $70.7 million at June 30, 2003 and 2002, respectively. Investments in capital assets comprise about 58% of the FCRHA's total assets, while these assets carry related debt amounting to about 49% of its total liabilities. However, capital assets net of related debt amounts to about 66% of total net assets.

The FCRHA's total net assets also consisted of restricted net assets of $7.8 million and $8.1 million and unrestricted net assets of $16.3 million and $24.6 million at June 30, 2003 and 2002, 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 guidelines, as well as cash balances in accordance with certain bond indentures. Unrestricted net assets include cash in the bank, cash on deposit with the County of Fairfax, receivables net of allowances, prepaids, and other assets. The following graph illustrates the relative percentage of the FCRHA's net assets in its enterprise programs invested in capital assets and those assets that are restricted and unrestricted.


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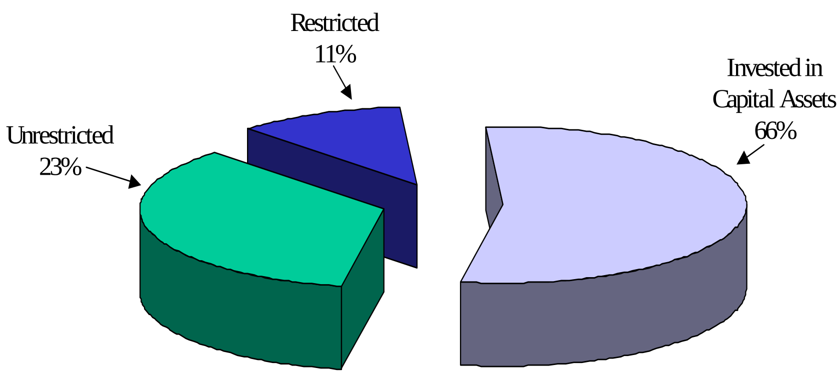
**FCRHA'S Net Assets**

As of June 30, 2003




## 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, and in FY2003, the FCRHA's enterprise programs realized a decrease in net assets of approximately $698,000. Table 2 presents a summary of data from the FCRHA's statement of revenues, expenses, and changes in net assets for FY2003 and 2002 and a comparative analysis of activities in these years.

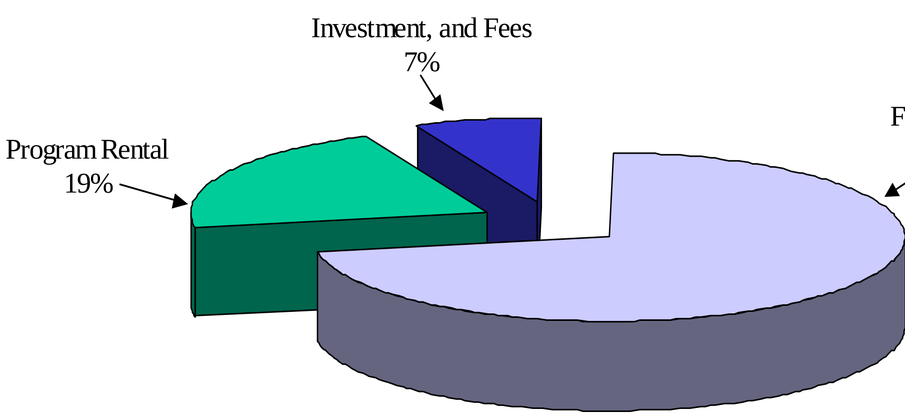
**Table 2**
**Summary of Revenues, Expenses, and Changes in Net Assets**
**For the years ended June 30, 2003 and 2002**
**(in millions)**

| Description | FY 2003 | FY 2002 | Increase (decrease) | % Changed |
|---|---|---|---|---|
| Revenues: | | | | |
| Operating revenues | $ 13.7 | $ 12.8 | $ 0.9 | 7.0 |
| Nonoperating revenues | 42.0 | 35.4 | 6.6 | 18.6 |
| Total revenues | 55.7 | 48.2 | 7.5 | 15.6 |
| Expenses: | | | | |
| Operating expenses | 52.3 | 45.6 | 6.7 | 14.7 |
| Nonoperating expenses | 4.1 | 2.5 | 1.6 | 64.0 |
| Total expenses | 56.4 | 48.1 | 8.3 | 17.3 |
| Increase (decrease) in net assets | $ (0.7) | $ 0.1 | $ (0.8) | (800.0) |

About 74% of the FCRHA's total revenues in FY2003 and FY2002 were nonoperating revenues that are derived from federal grants from HUD. The remaining 26% were operating revenues derived from rents and other user charges, development and financing fees, and investment income. The following graph illustrates the major sources of these revenues and related percentages.

**FCRHA Enterprise Programs**

FY2003 Sources of Funds



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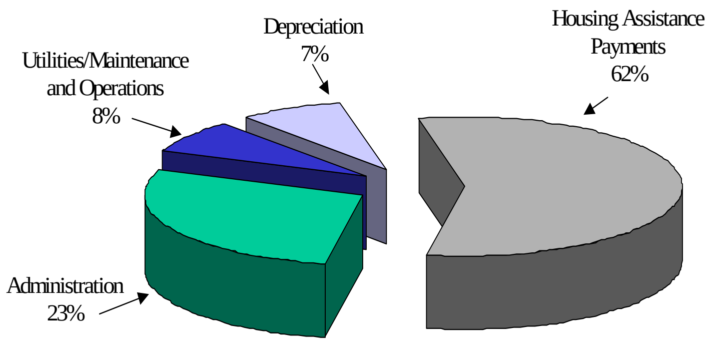
In FY2003, the FCRHA incurred expenses in its enterprise programs totaling $52.3 million, most of which are operating expenses related to its role as a public housing authority. About $32.7 million, or 62%, of the $52.3 million in operating expenses are housing assistance payments made in the Housing Choice Voucher program. The second largest operating expense is the costs related to program administration. These costs amounted to $12.1 million, or 23%, and include personnel salaries and employee fringe benefit contributions, auditing costs, insurance, and office supplies. The following graph illustrates these major expense groups and the percent of the total expense each represent.

**FCRHA Enterprise Programs Operating Expenses Incurred in Fiscal Year 2003**



## Capital Asset and Debt Administration

### *Capital Assets*

The FCRHA capital assets as of June 30, 2003 and 2002, included land, buildings and improvements, equipment, and construction in progress that totaled $74.0 million and $81.4 million, respectively. A breakdown of these assets is shown in Table 3.

**Table 3**
**Capital Assets of the FCRHA**
**As of June 30, 2003 and 2002**
**(in millions)**

| Description | 2003 | 2002 | Increase (Decrease) | % Changed |
|---|---|---|---|---|
| Nondepreciable assets: | | | | |
| Land | $ 25.5 | $ 23.6 | 1.9 | 8.0 |
| Construction in progress | 2.7 | 11.0 | (8.3) | (75.5) |
| Depreciable assets: | | | | |
| Buildings and improvements | 99.6 | 97.4 | 2.2 | 2.3 |
| Equipment | 2.2 | 1.9 | 0.3 | 15.8 |
| Accumulated depreciation | (56.0) | (52.5) | (3.5) | 6.7 |
| Totals | $ 74.0 | $ 81.4 | (7.4) | (9.1) |

FCRHA had approximately $8.3 million in net deletions to construction in progress (CIP) in FY2003. The reduction in CIP is primarily a result of a change in FCRHA's classification of development accounts receivable. In prior years, such amounts were included in CIP, and in FY2003 these amounts are included in accounts receivable on the statement of net assets. The County's FY2004 – FY2008 Capital Improvement Program, which was approved by the Board of Supervisors on April 28, 2003, proposes six housing development projects, totaling $46.3 million. These projects will provide housing and home ownership opportunities under programs to assist first-time homebuyers, and assisted living and elderly living units. Also, a planned project called Magnet Housing is in the development pipeline with the goal of completing the project in FY2007. The FCRHA also completed and brought online in FY2003 the Gum Springs Elderly Housing Project, a mixed-use project consisting of 60 units of housing for the elderly and nonresidential space.

### *Debt Administration*

The FCRHA's FY2003 and 2002 financial statements include long-term debt, consisting of housing loans, notes, and bonds payable, of approximately $49.5 million.

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. Certain debt of the FCRHA is a direct placement with institutional lenders without the need for a credit rating.

**Risk Management**

The FCRHA's property, general liability, and automobile insurance programs were converted into the Fairfax County Insurance and Self-Insurance program effective July 1, 2003, due to the large increases in the cost of purchasing commercial insurance in the open market.

**Contacting FCRHA Management**

This financial report is designed to provide the citizens of Fairfax County, taxpayers, customers, and investors and creditors with a general overview of the FCRHA's 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 Mr. Stanley A. Underwood, CPA, CGFM, Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia 22030.

## FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Net Assets

June 30, 2003

| ASSETS | | Enterprise Fund | Component Units | Total Reporting Entity |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash in bank (note 2) | $ | 1,933,508 | 5,123,610 | 7,057,118 |
| Cash on deposit with County of Fairfax, Virginia (note 2) | | 20,147,838 | — | 20,147,838 |
| Accrued interest receivable | | 27,423 | 3,232 | 30,655 |
| Accounts receivable (net of allowances) | | 11,687,833 | 267,847 | 11,955,680 |
| Notes, mortgages and other receivables (note 3) | | 728,365 | — | 728,365 |
| Deposits held in trust | | 166,536 | 486,140 | 652,676 |
| Property held for sale | | 2,595,172 | — | 2,595,172 |
| Prepaid items and other assets | | 254,939 | 72,446 | 327,385 |
| Total current assets | | 37,541,614 | 5,953,275 | 43,494,889 |
| Noncurrent assets: | | | | |
| Restricted assets (note 2): | | | | |
| Cash reserves | | 7,647,423 | 2,497,973 | 10,145,396 |
| Investments | | 190,148 | — | 190,148 |
| Total restricted assets | | 7,837,571 | 2,497,973 | 10,335,544 |
| Capital assets (note 4) | | | | |
| Land | | 25,511,767 | 6,451,651 | 31,963,418 |
| Buildings and improvements | | 99,619,676 | 49,111,345 | 148,731,021 |
| Equipment | | 2,238,835 | 450,905 | 2,689,740 |
| Construction in progress | | 2,674,619 | — | 2,674,619 |
| Accumulated depreciation | | (56,025,648) | (11,599,355) | (67,625,003) |
| Total capital assets, net | | 74,019,249 | 44,414,546 | 118,433,795 |
| Other noncurrent assets | | | | |
| Notes, mortgages and other receivables (note 3) | | 8,030,254 | — | 8,030,254 |
| Other assets | | 3,540 | 287,791 | 291,331 |
| Total other noncurrent assets | | 8,033,794 | 287,791 | 8,321,585 |
| Total assets | | 127,432,228 | 53,153,585 | 180,585,813 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | | 3,558,661 | 1,882,068 | 5,440,729 |
| Due to County of Fairfax, Virginia | | 1,656,679 | 4,132,951 | 5,789,630 |
| Deposits held in trust | | 808,506 | 292,498 | 1,101,004 |
| Deferred revenue | | 1,006,969 | 86,778 | 1,093,747 |
| Accrued compensated absences (note 5) | | 392,233 | — | 392,233 |
| Bonds, notes, loans and other payables (note 5) | | 8,799,742 | 2,012,933 | 10,812,675 |
| Total current liabilities | | 16,222,790 | 8,407,228 | 24,630,018 |
| Noncurrent liabilities: | | | | |
| Accrued compensated absences (note 5) | | 441,550 | — | 441,550 |
| Bonds, notes, loans and other payables (note 5) | | 40,735,985 | 29,291,164 | 70,027,149 |
| Total noncurrent liabilities | | 41,177,535 | 29,291,164 | 70,468,699 |
| Total liabilities | | 57,400,325 | 37,698,392 | 95,098,717 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | | 45,936,073 | 13,110,449 | 59,046,522 |
| Restricted | | 7,837,571 | 2,984,113 | 10,821,684 |
| Unrestricted | | 16,258,259 | (639,369) | 15,618,890 |
| Total net assets | $ | 70,031,903 | 15,455,193 | 85,487,096 |

See accompanying notes to the financial statements.

## FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

| | | Enterprise Fund | Component Units | Total Reporting Entity |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Dwelling Rentals | $ | 10,462,742 | 4,720,029 | 15,182,771 |
| Other | | 3,271,026 | 604,942 | 3,875,968 |
| Total operating revenues | | 13,733,768 | 5,324,971 | 19,058,739 |
| Operating Expenses: | | | | |
| Personnel services | | 8,118,309 | 940,778 | 9,059,087 |
| Contractual services | | 1,326,328 | 94,123 | 1,420,451 |
| Utilities | | 1,908,356 | 627,667 | 2,536,023 |
| Repairs and maintenance | | 2,120,199 | 1,123,587 | 3,243,786 |
| Other supplies and expenses | | 2,695,333 | 1,200,328 | 3,895,661 |
| Housing Assistance Payments | | 32,677,767 | — | 32,677,767 |
| Depreciation and amortization | | 3,535,913 | 1,737,242 | 5,273,155 |
| Total operating expenses | | 52,382,205 | 5,723,725 | 58,105,930 |
| Operating loss | | (38,648,437) | (398,754) | (39,047,191) |
| Nonoperating revenues (expenses) | | | | |
| Intergovernmental revenue | | 39,038,142 | — | 39,038,142 |
| Interest revenue | | 497,770 | 62,470 | 560,240 |
| Interest expense | | (2,546,228) | (1,148,410) | (3,694,638) |
| Gain (loss) on disposition of capital assets and lender refinancing | | (1,564,737) | — | (1,564,737) |
| Total nonoperating revenues (expenses), net | | 35,424,947 | (1,085,940) | 34,339,007 |
| Loss before contributions | | (3,223,490) | (1,484,694) | (4,708,184) |
| Contributions: | | | | |
| Investor capital contributions | | — | 1,579,168 | 1,579,168 |
| HUD debt service contributions | | 239,205 | — | 239,205 |
| HUD capital contributions | | 2,286,384 | — | 2,286,384 |
| Total contributions | | 2,525,589 | 1,579,168 | 4,104,757 |
| Change in net assets | | (697,901) | 94,474 | (603,427) |
| Total net assets, beginning of year | | 70,729,804 | 15,360,719 | 86,090,523 |
| Total net assets, end of year | $ | 70,031,903 | 15,455,193 | 85,487,096 |

See accompanying notes to the financial statements.

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Statement of Cash Flows

Year ended June 30, 2003

| | Enterprise Fund | Component Units | Total Reporting Entity |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Rental receipts | $ 10,536,310 | 4,676,170 | 15,212,480 |
| Management and developer fee receipts | 1,749,559 | — | 1,749,559 |
| Other operating cash receipts | 1,381,700 | 739,906 | 2,121,606 |
| Payments to employees for services | (8,076,072) | (940,778) | (9,016,850) |
| Housing Assistance Payments made | (32,370,443) | — | (32,370,443) |
| Purchase of property held for sale | (813,564) | — | (813,564) |
| Payments to suppliers for goods and services | (8,669,107) | (1,782,415) | (10,451,522) |
| Net cash provided by (used in) operating activities | (36,261,617) | 2,692,883 | (33,568,734) |
| Cash flows from non-capital financing activities: | | | |
| Intergovernmental revenues received | 37,056,289 | — | 37,056,289 |
| Net cash provided by non-capital financing activities | 37,056,289 | — | 37,056,289 |
| Cash flows from capital financing activities and related activities: | | | |
| Purchase of capital assets | (2,320,634) | (56,949) | (2,377,583) |
| Proceeds from sale of capital assets | 2,251,530 | — | 2,251,530 |
| Capital contributions | — | 1,579,168 | 1,579,168 |
| Proceeds from issuance of debt | 6,087,152 | 1,642,624 | 7,729,776 |
| Interest paid | (2,497,642) | (1,321,631) | (3,819,273) |
| Debt principal paid | (4,334,370) | (4,028,139) | (8,362,509) |
| Intergovernmental revenues received | 2,525,589 | — | 2,525,589 |
| Net cash provided by (used in) financing activities | 1,711,625 | (2,184,927) | (473,302) |
| Cash flows from investing activities: | | | |
| Receipt of loan and advance repayments | 2,216,458 | — | 2,216,458 |
| Disbursement of loans and advances receivable | (5,601,012) | — | (5,601,012) |
| Maturity of investments | 2,404,105 | — | 2,404,105 |
| Interest received on investments | 509,844 | 62,470 | 572,314 |
| Net cash provided by (used in) investing activities | (470,605) | 62,470 | (408,135) |
| Net increase (decrease) in cash and cash equivalents | 2,035,692 | 570,426 | 2,606,118 |
| Cash and cash equivalents, beginning of year | 27,859,613 | 7,537,297 | 35,396,910 |
| Cash and cash equivalents, end of year | $ 29,895,305 | 8,107,723 | 38,003,028 |
| Reconciliation to statement of net assets: | | | |
| Cash in bank | $ 1,933,508 | 5,123,610 | 7,057,118 |
| Cash on deposit with County of Fairfax, Virginia | 20,147,838 | — | 20,147,838 |
| Cash deposits held in trust | 166,536 | 486,140 | 652,676 |
| Cash with fiscal agents | 7,647,423 | 2,497,973 | 10,145,396 |
| Cash and cash equivalents | $ 29,895,305 | 8,107,723 | 38,003,028 |
| Reconciliation of operating loss to net cash provided by (used in) operating activities: | | | |
| Operating loss | $ (38,648,437) | (398,754) | (39,047,191) |
| Depreciation and amortization | 3,535,913 | 1,737,242 | 5,273,155 |
| (Increase) decrease in accounts receivable | (713,899) | (59,730) | (773,629) |
| (Increase) decrease in prepaid items and other assets | (828,613) | 31,733 | (796,880) |
| Increase (decrease) in accounts payable and accrued liabilities | (316,398) | 1,358,639 | 1,042,241 |
| Increase (decrease) in accrued salaries and wages | 45,514 | — | 45,514 |
| Increase (decrease) in deposit held in trust | (8,179) | 7,882 | (297) |
| Increase (decrease) in deferred revenue | 672,482 | 15,871 | 688,353 |
| Net cash provided by (used in) operating activities | $ (36,261,617) | 2,692,883 | (33,568,734) |
| Noncash investing, capital, and financing activities: | | | |
| Increase in fair value of restricted investments | $ 16,711 | — | 16,711 |

See accompanying notes to the financial statements.

## (1) Narrative Profile

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

## (2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to proprietary fund types of governmental units. The following is a summary of the Authority's more significant accounting policies.

### *(a) Reporting Entity*

As required by GAAP, the accompanying financial statements present the financial data of the Authority (the primary government) and its component units. The financial data 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 herein as the reporting entity.

*Discretely Presented Component Units*

The Authority is the managing general partner in a number of real estate limited partnership. The limited partnership interests are held by third parties unrelated to the Authority. As the managing 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 in accordance with the terms of the partnership agreements.

*Blended Component Units*

Additionally, the Authority is the managing general partner of one other real estate partnerships that is also considered a component unit of the Authority for the same reasons discussed above. However, because the Authority is not only the managing 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. 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 respective year-ends that fall within the year ended June 30, 2003. 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; Office of Finance, 3700 Pender Drive, Fairfax, Virginia 22030.

***(b) Basis of Presentation***

The accounts of the Authority are presented in single proprietary fund financial statements consisting of various programs. This financial statement presentation will provide 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. The statement of net assets and the statement of changes in net assets report information on all activities of the Authority and its components units. Likewise, the Authority is reported separately from legally separate component units for which the Authority is financially accountable.

The Authority's activities include the following programs:

The first two programs described below 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.

The 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 is provided below.

*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.

*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 source of funding includes 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 development and financing fees earned by the Authority from private developers of affordable multifamily housing.

*Revolving Development Program* is used to provide funds for initial project costs, such as new site investigations, architectural and engineering plans, studies, and fees. This funding ensures that adequate plans and proposals are completed prior to application for project financing from federal, state, or private sources. These initial costs are anticipated to be recovered from permanent project financing.

*Capital Contributions Program* is used to account for equity and project improvements so that a project or program is financially feasible.

*Private Finance Program* is used to budget and report costs for capital projects which 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* is used to provide affordable rental housing (other than federal public housing) in the County for low and moderate income families.

*Grant Program* is used to account for programs receiving grant monies. This program includes the Drug Elimination project, the Cedar Lakes Transitional Housing project, the Housing Opportunities for Persons with AIDS project and the Resident Opportunities and Self Sufficiency project.

### *(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The Authority applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989 unless these pronouncements conflict with GASB pronouncements.

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 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 nonoperating revenues and expenses.



(Continued)

### *(d) Cash on Deposit with County of Fairfax, Virginia*

The primary government maintains the majority of its available cash in the County's cash and investment pool administered by the County Investment/Cash Management Division. To optimize investment returns, the Authority's funds are invested together with all other County pooled funds, all of which are fully insured or collateralized. The County allocates, on a monthly basis, any investment earnings, less an administrative charge, based on the Authority's average balance in pooled cash and investments.

### *(e) Restricted Cash and Investments*

Restricted cash and investments 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 cash deposits are covered by federal depository insurance or have been fully collateralized. Restricted investments consist of repurchase agreements which are reported at fair value and which are managed by the County. The County's investment policy requires that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement. The market value of the securities underlying repurchase agreements is monitored on a daily basis during the year by the County to ensure compliance with the policy. These investments are collateralized by United States Government securities held by the financial institution's trust department in the name of the County.

### *(f) Cash and Cash Equivalents*

For purposes of preparing the statement of cash flows, cash and cash equivalents include unrestricted cash on deposit in banks, cash on deposit with the County of Fairfax, Virginia, and restricted cash.

### *(g) 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 27 ½ years.

Beginning in FY2003, the FCRHA no longer includes development advances in construction in progress. Such amounts are now included in accounts receivable on the statement of net assets, as the Authority is to be reimbursed for such amounts.

### *(h) Compensated Absences*

Employees of the Authority are granted vacation and sick leave based on their length of service. Unused vacation leave is payable to employees upon termination based on the employees' current rate of pay, up to certain limits. Sick leave does not vest with the employee. Accumulated vacation is recorded as an expense and a liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary-related payments (i.e., employer's share of social security taxes).

### *(i) 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. 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.

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.

### *(j) Notes, Mortgages, and Other Receivables*

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

### *(k) 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 report 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.

## (3) Receivables

### *(a) Notes Receivable*

Notes receivable at June 30, 2003, consist of the following:

| | | | |
|---|---|---|---|
| Island Walk Cooperative | Unsecured note, bearing simple interest at 6%, maturing July 1, 2020, interest payments due annually and shall be deferred and paid from surplus cash. | $ | 24,500 |
| Lake Anne of Reston | Unsecured notes, bearing interest at 3.73% to 7.90%, maturing July 1, 2015, principal and interest payments due annually. | | 144,708 |
| Herndon Harbor House I | Secured note bearing interest at 5.25%, maturing July 1, 2027, interest and principal payments of $6,383 due monthly. | | 943,750 |
| Herndon Harbor House II | Secured note bearing interest at 6%, maturing April 1, 2029, interest and principal payments of $12,480 due monthly | | 1,961,474 |
| Stonegate | Unsecured note bearing interest at 90% of the 30-day LIBOR rate which is 1.1232% at June 30, 2003. Interest and principal payments of $10,281 due monthly. | | 1,263,158 |
| Castellani Meadows | Secured note bearing interest at 5.25%, maturing March 1, 2028, interest and principal payments of $5,542 due monthly. | | 844,456 |
| Homeowners' and Business Loan Program | Unsecured and secured notes with varying interest rates and repayment terms, net of allowance for uncollectible notes of $2,368,344. | | 3,071,223 |
| | | $ | 8,253,269 |

### *(b) 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, 2003, home improvement loans receivable under this program were $42,432 bearing interest at varying rates up to 3%.

### *(c) Other Receivables*

Under the Authority's Revolving Development Program, the Authority provides advances to other projects to fund start-up costs. At June 30, 2003, net long-term advances receivable consisted of $462,918.

## (4) Capital assets

Capital asset activity for the year ended June 30, 2003, is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 23,646,815 | 1,921,251 | 56,299 | 25,511,767 |
| Construction-in-progress | 10,942,126 | 1,755,325 | 10,022,832 | 2,674,619 |
| Total capital assets, not being depreciated | 34,588,941 | 3,676,576 | 10,079,131 | 28,186,386 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 97,394,539 | 2,439,644 | 214,507 | 99,619,676 |
| Equipment | 1,900,166 | 338,669 | — | 2,238,835 |
| Total capital assets being depreciated | 99,294,705 | 2,778,313 | 214,507 | 101,858,511 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 50,743,439 | 3,442,825 | — | 54,186,264 |
| Equipment | 1,747,359 | 92,025 | — | 1,839,384 |
| Total accumulated depreciation | 52,490,798 | 3,534,850 | — | 56,025,648 |
| Total capital assets, being depreciated, net | 46,803,907 | | | 45,832,863 |
| Enterprise fund capital assets, net | $ 81,392,848 | | | 74,019,249 |

## (5) Long-term Debt

### *(a) Public Housing Loans*

Public housing project debt is comprised of the following at June 30, 2003:

| | | |
|---|---|---|
| Public housing notes – Federal Financing Bank | $ | 1,308,784 |
| Public housing bonds | | 370,000 |
| | $ | 1,678,784 |

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 semi-annually by HUD under Annual Contributions Contract P-184.

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



(Continued)

### *(b) Notes Payable*

Notes payable consist of the following at June 30, 2003:

| 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 1, 2010, principal and interest payments of $4,073 monthly. | $ 301,619 |
| Bank of America | Secured by Colchester Town, McLean Hills and Springfield Green rental properties, bearing interest at 8.5%, maturing April 1, 2005, principal and interest payments of $9,546 monthly. | 796,393 |
| 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. | 329,294 |
| SunTrust Bank | Secured by the United Community Ministries (UCM) office building, bearing inerest at 4.71%, maturing April 1, 2013, principal and interest payments of $3,164 monthly. | 298,391 |
| 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. | 2,555,000 |
| Virginia Housing Development Authority | Secured by Penderbrook rental property, bearing interest at 10.25%, maturing October 1, 2018, principal and interest payments of $6,900 monthly. | 638,900 |
| Various Note holders within the Home Improvement Loan Program | Secured by various properties owned by note holders, bearing interest at rates ranging from 9% to 12.5%, maturing at various times through 2004, principal and interest payments monthly. | 52,028 |

| Note holder(s) | Terms | | Outstanding balance |
|---|---|---|---|
| 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. | $ | 219,267 |
| U.S. Dept. of Housing and Urban Development | Section 108 notes secured by Stonegate Village rental property, bearing interest at 8.00% to 9.25%, maturing at varying dates through August 1, 2005, variable principal and interest payments due semiannually. | | 555,000 |
| 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. | | 233,717 |
| Virginia Housing Development Authority | Secured by the Mount Vernon Group Home property, bearing interest at 8%, maturing April 1, 2022, principal and interest payments of $1,789 monthly. | | 210,628 |
| SunTrust Bank | Secured by the LeLand Road Group Home property, bearing interest at 5.55%, maturing April 1, 2017, principal and interest payments of $4,581 monthly. | | 530,011 |
| 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. | | 727,737 |
| 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, 2012, variable principal and interest payments due semiannually. | | 1,550,000 |
| U.S. Dept. of Housing and Urban Development | Section 108 notes secured by various Authority rental properties, bearing interest at 4.75% to 7.18%, maturing at varying dates through August 1, 2013, variable principal and interest payments due semiannually. | | 2,215,000 |



(Continued)

| Note holder(s) | Terms | | Outstanding balance |
|---|---|---|---|
| United Bank | Secured by the One University Plaza office and maintenance building, bearing interest at 5.75%, maturing January 31, 2004, principal and interest payments of $2,817 monthly. | $ | 278,106 |
| Virginia Housing Development Authority | Secured by the First Stop Group Home property, bearing interest at 8%, maturing March 1, 2005, principal and interest payments of $3,325 monthly. | | 410,708 |
| 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. | | 325,000 |
| 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. | | 45,000 |
| 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, 2005, variable principal and interest payments due semiannually. | | 150,000 |
| Midland Loan Services, Inc. | Secured by Cedar Ridge rental property, bearing interest at 7.05%, maturing July 1, 2035, principal and interest payments of $63,325 monthly. | | 9,642,049 |
| WMF Huntoon Paige | Secured by Cedar Ridge rental property, bearing interest at 3%, maturing September 1, 2010, principal and interest payments of $10,203 monthly. | | 796,830 |
| U.S. Dept. of Housing and Urban Development | Promissory note for a Capital Improvement Loan, secured by Cedar Ridge rental property, for an amount of $1,510,000 bearing interest at 1% on the principal amount. No scheduled maturity date. | | 1,317,533 |

| Note holder(s) | Terms | | Outstanding balance |
|---|---|---|---|
| SunTrust Bank | Secured by a first deed of trust on Creighton 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 of $5,417 monthly. | $ | 431,809 |
| SunTrust Bank | Unsecured tax-exempt line of credit up to $10,000,000, to provide interim financing for projects under development, bearing interest at 83% of the 30-day LIBOR rate, plus .37%, maturing October 1, 2005. The 30-day LIBOR rate was 1.1232% at June 30, 2003. | | 177,810 |
| SunTrust Bank | Unsecured taxable line of credit up to $5,000,000, to provide funding for taxable ventures, bearing interest at 30-day LIBOR rate plus .50%, maturing October 1, 2005. The 30-day LIBOR was 1.1232% at June 30, 2003. | | 1,263,158 |
| U.S. Dept. of Housing and Urban Development | Section 108 lines of credit up to $1,000,000 to be used for the minority small business loan program, bearing interest determined on the day of the cash advance where interest equals 0.2% plus the LIBOR rate on the day of the advance, thereafter the interest rate will be adjusted monthly on the first day of each month to an interest rate equal to 0.2% plus the LIBOR rate on that day, maturing August 1, 2017. | | 215,000 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 6.13%, interest only payments due annually, maturing November 17, 2004.(Gum Springs Glen) | | 200,000 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 1.41%, interest only payments due annually, maturing March 20, 2005. (Gum Springs Glen) | | 500,000 |



(Continued)

| Note holder(s) | Terms | Outstanding balance |
|---|---|---|
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 1.20%, interest only payments due annually, maturing June 26, 2005. (James Lee Community Center) | $ 1,000,000 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 4.39%, interest only payments due annually, maturing July 13, 2003. (Gum Springs Glen) | 700,000 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 2.86%, interest only payments due annually, maturing October 16, 2003. (Gum Springs Glen) | 1,000,000 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 1.56%, interest only payments due annually, maturing February 21, 2005. (James Lee Community (Center) | 500,000 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 1.67%, interest only payments due annually, maturing March 7, 2005. (Gum Springs Glen) | 400,000 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 1.80%, interest only payments due annually, maturing May 6, 2005. (James Lee Community Center) | 500,000 |
| SunTrust Bank | Secured by Hopkins Glen rental property, bearing interest at 4.33%, maturing October 1, 2016, principal and interest payments due monthly. | 471,400 |
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 1.50%, interest only payments due annually, maturing May 6, 2005. (James Lee Community Center) | 800,000 |



(Continued)

| Note holder(s) | Terms | | Outstanding balance |
|---|---|---|---|
| Board of Supervisors of Fairfax County | Unsecured bond anticipation notes, bearing interest at 3.17%, interest only payments due annually, maturing February 13, 2004. | | 2,400,000 |
| Federal Financing Bank | Unsecured note bearing interest at 6.6%, interest and principal payments in the amount of $83,856, due annually, maturing November 1, 2012. Debt service on the note (principal and interest) is paid annually by HUD under Annual Contributions Contract P-184. | | 599,875 |
| | | $ | 35,337,263 |

### *(c) Bonds Payable*

On August 29, 1996, on behalf of the Little River Glen project, the Authority issued FHA-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. At June 30, 2003, $5,760,000 was outstanding on these bonds.

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. At June 30, 2003, $3,010,000 was outstanding on the new bonds.

In August 1997, on behalf of Herndon Harbor House Limited Partnership, the Authority issued Tax-exempt revenue bonds with a principal amount totaling $2,875,000 and interest rate of 6.1% with final payment due July 1, 2027. The land, building, and equipment of the Herndon Harbor House Limited Partnership are pledged as security for the bonds. Proceeds from the bonds were loaned to the Herndon Harbor House Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility. At June 30, 2003, $943,750 was outstanding.

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 5.5% 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. At June 30, 2003, $1,961,474 was outstanding on the bonds.

In April 1998, on behalf of Castellani Meadows Limited Partnership, the Authority issued Tax-exempt revenue bonds with a principal amount totaling $875,000 and interest rate of 6.15% with final payment due March 1, 2028. 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. At June 30, 2003, $844,456 was outstanding.

***(d) Annual Principal Requirements***

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

| | Principal | Interest |
|---|---|---|
| Year ending June 30: | | |
| 2004 | $ 315,114 | 710,278 |
| 2005 | 334,214 | 693,620 |
| 2006 | 358,577 | 675,716 |
| 2007 | 368,213 | 656,785 |
| 2008 | 393,143 | 637,236 |
| 2009-2013 | 2,326,247 | 2,832,662 |
| 2014-2018 | 3,065,455 | 2,105,327 |
| 2019-2023 | 2,453,781 | 1,306,191 |
| 2024-2028 | 2,795,378 | 437,906 |
| 2029-2033 | 109,558 | 2,757 |
| | $ 12,519,680 | 10,058,478 |

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

| | | Principal | Interest |
|---|---|---|---|
| Year ending June 30: | | | |
| 2004 | $ | 8,350,683 | 1,768,777 |
| 2005 | | 4,708,519 | 1,576,022 |
| 2006 | | 2,164,409 | 1,400,478 |
| 2007 | | 1,185,647 | 1,309,279 |
| 2008 | | 1,200,854 | 1,225,940 |
| 2009-2013 | | 7,127,672 | 4,825,212 |
| 2014-2018 | | 2,546,961 | 3,316,798 |
| 2019-2023 | | 1,910,625 | 2,511,602 |
| 2024-2028 | | 1,952,846 | 1,846,680 |
| 2029-2033 | | 2,775,293 | 1,024,233 |
| 2034-2038 | | 1,413,754 | 106,161 |
| | $ | 35,337,263 | 20,911,182 |

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

| | | Principal | Interest |
|---|---|---|---|
| Year ending June 30: | | | |
| 2004 | $ | 133,945 | 105,130 |
| 2005 | | 143,933 | 97,392 |
| 2006 | | 149,695 | 88,630 |
| 2007 | | 160,616 | 79,710 |
| 2008 | | 166,926 | 70,149 |
| 2009-2013 | | 684,597 | 210,528 |
| 2014-2018 | | 239,072 | 29,606 |
| | $ | 1,678,784 | 681,145 |

### *(e) Changes in Long-Term Liabilities*

Long term liability activity for the year ended June 30, 2003 was as follows:

| | | Beginning balance | Additions | Reductions | Ending balance | Due within one year |
|---|---|---|---|---|---|---|
| Bonds payable | $ | 11,972,378 | 858,552 | 311,250 | 12,519,680 | 315,114 |
| Notes payable | | 34,007,726 | 5,228,599 | 3,899,062 | 35,337,263 | 8,350,683 |
| Public housing loans | | 1,802,842 | — | 124,058 | 1,678,784 | 133,945 |
| Compensated absences payable | | 840,211 | 375,746 | 382,174 | 833,783 | 392,233 |
| | $ | 48,623,157 | 6,462,897 | 4,716,544 | 50,369,510 | 9,191,975 |



(Continued)

## (6) Conduit Debt Obligations

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 to the subject property and third-party beneficiaries. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The Authority also has issued tax-exempt lease-revenue bonds to finance costs of community centers and an adult day health care center which are leased to the County. These bonds are reported as liabilities of the County.

As of June 30, 2003, the cumulative total of the above described bonds outstanding under the Authority's name was approximately $173,500,000.

## (7) Contingencies

The Authority, as the managing general partner of the 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 payment of certain special distributions to the limited partners. The amount of these distributions, if any, will be determined using a formula based on the amount of tax credits that are disallowed. The maximum amount of this distribution will not 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 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. In the opinion of the management of Authority, no material refunds will be required as a result of expenses disallowed, if any, by the grantors.

## (8) Risk Management

The Authority 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 natural disasters. For all these risks, the Authority has purchased insurance coverage through June 30, 2003 and participated in the County's insurance program, which includes self-insurance and purchase of certain commercial insurance. Effective July 1, 2003, the Authority's insurance program has been transferred to the County Department of Finance, Risk Management Division at no cost to the Authority. All future coverage will be placed by the County and all premium costs borne by the County.



(Continued)

## (9) 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, 2003 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 specific accumulated pension benefit liability and net assets applicable to employees of the Authority are not available. Information concerning the System as a whole is available in the County's June 30, 2003 Comprehensive Annual Financial Report.