

**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, 2006

(With Independent Auditors' Report Thereon)

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

June 30, 2006

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	13



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, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% of the total assets and 100% of the total revenues of the discretely presented component units as of and for the year ended June 30, 2006. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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.

As discussed in note 2, the Authority implemented several new accounting standards effective July 1, 2005.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with U. S. generally accepted accounting principles.



Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by U. S. generally accepted accounting principles. We 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 30, 2006

**FAIRFAX COUNTY REDEVELOPMENT  
AND HOUSING AUTHORITY**  
(A Component Unit of the County of Fairfax, Virginia)  
Management's Discussion and Analysis (MD&A)

June 30, 2006

**Introduction**

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

The FCRHA's fiscal year (FY) 2006 annual financial report consists of two parts – the management's discussion and analysis (MD&A) and the basic financial statements and notes to those financial statements.

The FCRHA presents this MD&A of its financial performance during the fiscal year ended June 30, 2006, to assist the reader in focusing on significant financial issues and concerns. This year's MD&A presents a comparative analysis of financial data to help the reader ascertain the reasons for changes in assets, liabilities, expenses, revenues, and net asset balances from the previous year.

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

**Financial Highlights for FY 2006**

The FCRHA's FY 2006 financial highlights included the following:

- Total assets and liabilities of the FCRHA were approximately \$143.0 million and \$50.5 million, respectively; thus total net assets were approximately \$92.5 million at June 30, 2006. Of this amount, \$30.7 million (unrestricted net assets) may be used to meet the FCRHA's future operational needs.
- Total revenues and expenses were approximately \$75.7 million and \$60.6 million, respectively; resulting in an increase in net assets of approximately \$15.1 million during the fiscal year. This increase represents approximately a 20% increase in net assets as of FY 2005 and was primarily due to intergovernmental revenues from the County to acquire new capital assets.
- Cash and cash equivalents decreased by approximately \$676,000.

**FCRHA Financial Statements**

The FCRHA's mission in the County focuses on the planning, design, construction, preservation, rehabilitation, financing, and management of housing, primarily for low and moderate income households, and on assisting in the revitalization of neighborhoods in Fairfax County. The FCRHA, as of June 30, 2006, owned and/or operated over 2,700 residential units that were leased to low and moderate income families and individuals, 11 properties that served 177 individuals in supportive housing programs, and a 12-acre site with foundations for 115 mobile homes. In addition, housing assistance was paid to 3,204 households under the Federal Housing Choice Voucher program for privately owned existing housing.

**FAIRFAX COUNTY REDEVELOPMENT  
AND HOUSING AUTHORITY**  
(A Component Unit of the County of Fairfax, Virginia)  
Management's Discussion and Analysis (MD&A)  
June 30, 2006

In FY 2006, the County's Board of Supervisors set a goal and tasked the FCRHA to preserve 1,000 units of affordable housing as well as create 200 new affordable units by the end of FY 2007. Part of this goal was met during the year when the County acquired the Crescent Apartments which includes 180 units of affordable housing. A total of 882 units have been preserved as of June 30, 2006.

Also in FY 2006, the FCRHA promoted the production of Affordable Dwelling Units (ADUs) which included workforce housing for police and firefighters and affordable housing and facilities for seniors, persons with disabilities and persons with other special needs. For example, a 60-unit assisted living and adult day care facility, Braddock Glen, was opened to serve the residential and day care needs of low-to-moderate income elderly.

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

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

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

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

These financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**FAIRFAX COUNTY REDEVELOPMENT  
AND HOUSING AUTHORITY**  
(A Component Unit of the County of Fairfax, Virginia)  
Management's Discussion and Analysis (MD&A)  
June 30, 2006

**Summary of Net Assets**

The following table presents a summary of FCRHA's net assets as of June 30, 2006 and 2005.

**Table 1**

Summary of Net Assets

June 30, 2006 and 2005

(In millions)

<u>Description</u>	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>	<u>% Changed</u>
Current and other assets	\$ 61.6	\$ 52.8	\$ 8.8	16.7
Capital assets, net	81.4	71.4	10.0	14.0
Total assets	<u>143.0</u>	<u>124.2</u>	<u>18.8</u>	<u>15.1</u>
Current liabilities	17.5	12.0	5.5	45.8
Noncurrent liabilities	33.0	34.8	(1.8)	(5.2)
Total liabilities	<u>50.5</u>	<u>46.8</u>	<u>3.7</u>	<u>7.9</u>
Net assets:				
Invested in capital assets, net of related debt	56.2	45.0	11.2	24.9
Restricted	5.6	8.7	(3.1)	(35.6)
Unrestricted	30.7	23.7	7.0	29.5
Total net assets	<u>\$ 92.5</u>	<u>\$ 77.4</u>	<u>\$ 15.1</u>	<u>19.5</u>

As June 30, 2006, the FCRHA's net assets totaled approximately \$92.5 million, an increase of approximately \$15 million, or 20%, over the net asset balance as of June 30, 2005. This increase was due to a net change in capital assets during the year totaling approximately \$10.0 million, or a 14% increase. An increase also occurred in the current and other assets balances totaling approximately \$8.8 million, or 16.7%. This increase resulted from accounts receivable from the County of Fairfax of approximately \$6.9 million, which was established until the necessary permanent financing could be arranged by the FCRHA on behalf of the County.

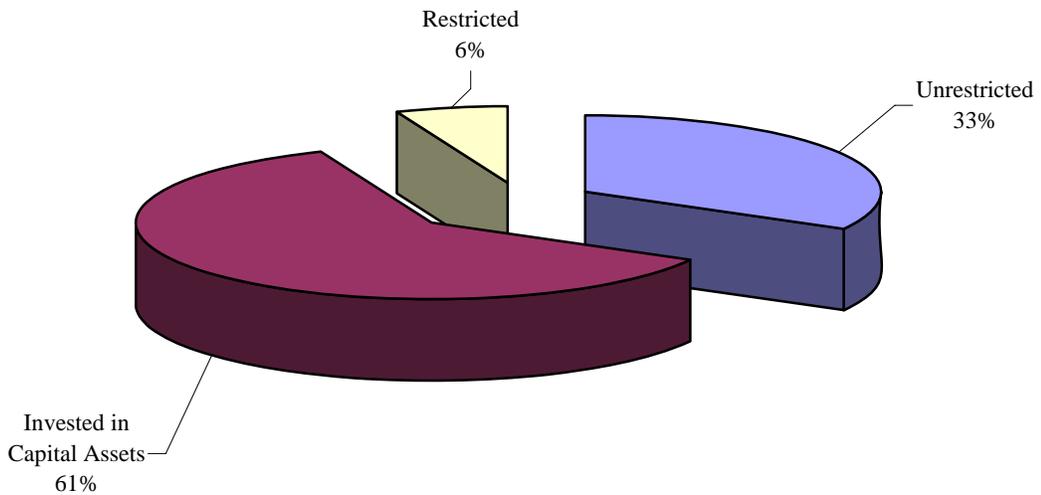
The FCRHA's current liabilities also increased during the year by \$5.5 million, or 45.8%. This increase resulted from the establishment of the FCRHA's liability to pay for the construction and/or acquisition of the new capital assets.

**FAIRFAX COUNTY REDEVELOPMENT  
AND HOUSING AUTHORITY**  
(A Component Unit of the County of Fairfax, Virginia)  
Management's Discussion and Analysis (MD&A)  
June 30, 2006

The FCRHA's total net assets also consisted of restricted net assets of \$5.6 million and \$8.7 million and unrestricted net assets of \$30.7 million and \$23.7 million at June 30, 2006 and 2005, respectively. Restricted net assets include cash and investments consisting of restricted deposits and funded reserves for repairs and replacements required by HUD and Virginia Housing Development Authority (the VHDA) guidelines, as well as cash balances in accordance with certain bond indentures. The following pie chart illustrates the relative percentage of the FCRHA's net assets invested in capital assets and the remaining restricted and unrestricted net assets at June 30, 2006.

**Composition of FCRHA's Net Assets**

June 30, 2006



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

Management's Discussion and Analysis (MD&A)

June 30, 2006

**Revenues, Expenses, and Changes in Net Assets**

The results of the FCRHA's operations are reported in the statement of revenues, expenses, and changes in net assets. In FY 2006, the FCRHA's enterprise programs realized an increase in net assets of approximately \$15 million. Table 2 presents a summary of data from the FCRHA's statement of revenues, expenses, and changes in net assets for FY 2006 and FY 2005 and a comparative analysis of activities in these years.

**Table 2**  
Summary of Revenues, Expenses, and Changes in Net Assets  
Years ended June 30, 2006 and 2005  
(In millions)

Description	FY 2006	FY 2005	Increase (decrease)	% Changed
Revenues:				
Operating revenues	\$ 14.6	\$ 16.0	\$ (1.4)	(8.8)
Nonoperating revenues, and contributions	61.1	49.0	12.1	24.7
Total revenues	75.7	65.0	10.7	16.5
Expenses:				
Operating expenses	58.6	58.6	—	—
Nonoperating expenses	2.0	2.1	(0.1)	(4.8)
Total expenses	60.6	60.7	(0.1)	(0.2)
Changes in net assets	15.1	4.3	10.8	251.2
Total net assets, beginning of year	77.4	73.1	4.3	5.9
Total net assets, end of year	\$ 92.5	\$ 77.4	\$ 15.1	19.5

The FCRHA's total overall revenues during the year were up by \$10.7 million, or approximately 16.5%. The majority of the increase occurred in nonoperating revenues, and contributions, which showed an increase of \$12.1 million, or 24.7%. This was the result of County funds being transferred to the FCRHA for the acquisition of capital assets; net proceeds from the FCRHA's disposition of its investment in a limited partnership amounting to approximately \$514,000; and effective in FY 2006, HUD mandated that Authorities who administer the Housing Choice Voucher program recognize revenue for Housing Assistance Payments (HAP) based on the current year's budget received, rather than the methodology used in previous years of recognizing revenue based on expenditures incurred. Although rental revenues were up during the year due to the start-up operations of the Crescent Apartments, operating revenues were down overall by \$1.4 million, or 8.8%, due primarily to the reduction of fees the FCRHA collects from

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

Management's Discussion and Analysis (MD&A)

June 30, 2006

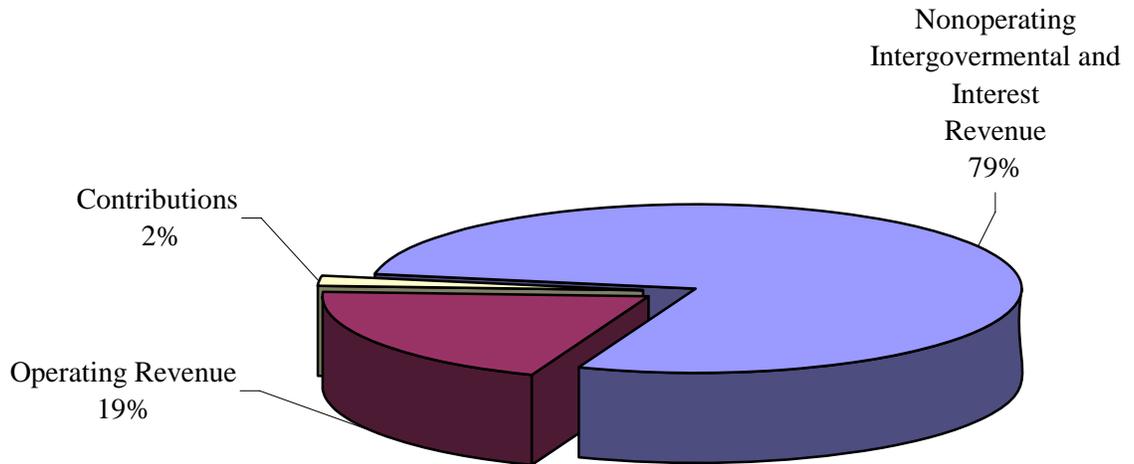
development, management, and financing activities. However, interest revenues were up slightly, because of higher interest rates on investments.

The FCRHA's total expenses in FY 2006 were approximately the same as those incurred in FY 2005. Nonoperating expenses were less due to a mortgage refinancing, which reduced the interest expense on the debt.

Approximately 81% of the FCRHA's total revenues in FY 2006 were nonoperating revenues, interest revenues, and contributions that were derived from federal grants from HUD, County contributions, and interest. The remaining 19% were operating revenues derived from rents and other user charges, and developer and financing fees. The following pie chart illustrates the major sources of these revenues and their relative percent of the total for FY 2006.

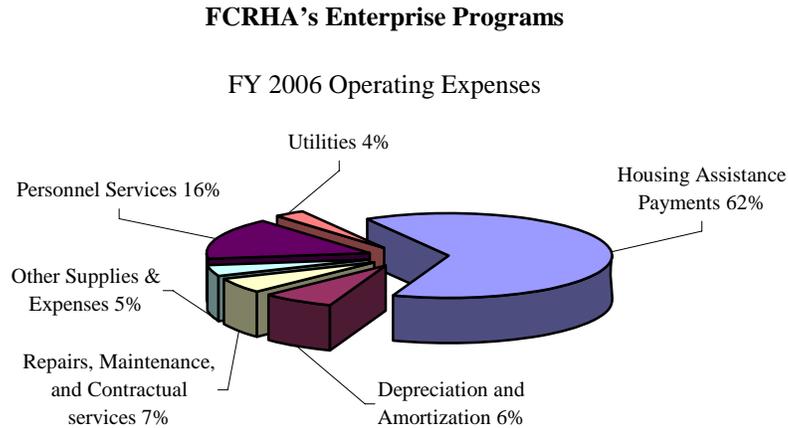
**FCRHA's Enterprise Programs**

FY 2006 Sources of Funds



**FAIRFAX COUNTY REDEVELOPMENT  
AND HOUSING AUTHORITY**  
(A Component Unit of the County of Fairfax, Virginia)  
Management's Discussion and Analysis (MD&A)  
June 30, 2006

In FY 2006, the FCRHA incurred operating expenses in its enterprise programs totaling approximately \$58.6 million. The following pie chart illustrates major operating expense groups and their relative percent of the total.



**Capital Assets and Debt Administration**

**Capital Assets.** The FCRHA capital assets at June 30, 2006 and 2005, included land, buildings and improvements, equipment, and construction in progress, which totaled \$81.4 million and \$71.4 million, respectively, net of accumulated depreciation of approximately \$67.0 million and \$63.3 million at June 30, 2006 and 2005, respectively. The approximately \$10 million net increase in capital assets was attributed to the acquisition of the Braddock Glen Assisted Living Facility and a number of ADUs. For further details see note 5, page 21, Capital Assets.

**Short-term and long-term debt.** The FCRHA's June 30, 2006 and 2005 statement of net assets includes debt – consisting of housing loans, notes, and bonds payable – of approximately \$38.6 million and \$37.7 million, respectively.

Public bond issues are project specific and have been rated by Standard and Poor's at either "AA" or "AAA" depending upon the collateral securing the debt. Other debt of the FCRHA is a direct placement with institutional lenders without the need for a credit rating. For further details, see note 6, page 21, Long-Term Obligations – Loans, Notes and Bonds Payable.

**Contacting FCRHA Management**

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

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

Statement of Net Assets

June 30, 2006

	<u>Enterprise fund</u>	<u>Component units</u>	<u>Total reporting entity</u>
Assets:			
Current assets:			
Cash in bank (note 2)	\$ 2,044,701	\$ 5,624,693	\$ 7,669,394
Cash on deposit with the County of Fairfax, Virginia (note 2)	29,166,890	—	29,166,890
Deposits held in trust	2,505,597	460,044	2,965,641
Cash reserves (note 2)	405,348	—	405,348
Investments (note 3)	3,897,433	—	3,897,433
Accrued interest receivable	185,374	5,907	191,281
Accounts receivable (net of allowances) (note 4)	8,186,239	116,467	8,302,706
Notes, mortgages, and other receivables (note 4)	977,608	—	977,608
Property held for sale	198,268	—	198,268
Prepaid items and other assets	2,944,375	13,130	2,957,505
Total current assets	<u>50,511,833</u>	<u>6,220,241</u>	<u>56,732,074</u>
Restricted assets:			
Cash reserves (note 2)	4,470,556	3,187,683	7,658,239
Investments (note 3)	1,101,198	—	1,101,198
Total restricted assets	<u>5,571,754</u>	<u>3,187,683</u>	<u>8,759,437</u>
Capital assets (note 5):			
Nondepreciable:			
Land	26,822,657	7,062,084	33,884,741
Construction in progress	3,154,678	—	3,154,678
Depreciable:			
Buildings and improvements	116,159,234	54,877,043	171,036,277
Equipment	2,350,854	606,112	2,956,966
Accumulated depreciation	(67,052,258)	(17,147,240)	(84,199,498)
Total capital assets, net	<u>81,435,165</u>	<u>45,397,999</u>	<u>126,833,164</u>
Other noncurrent assets:			
Notes, mortgages, and other receivables (note 4)	5,544,267	—	5,544,267
Prepaid items and other assets	2,430	—	2,430
Deferred financing fees (net of accumulated amortization of \$7,440)	21,961	290,879	312,840
Total other noncurrent assets	<u>5,568,658</u>	<u>290,879</u>	<u>5,859,537</u>
Total assets	<u>143,087,410</u>	<u>55,096,802</u>	<u>198,184,212</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	5,811,671	1,459,775	7,271,446
Accrued salaries and benefits	450,490	—	450,490
Due to the County of Fairfax, Virginia	1,290,072	3,913,960	5,204,032
Deposits held in trust	2,505,597	342,651	2,848,248
Deferred revenue	914,571	64,010	978,581
Accrued compensated absences (note 6)	449,752	—	449,752
Loans, notes, and bonds payables (note 6)	6,086,590	782,391	6,868,981
Total current liabilities	<u>17,508,743</u>	<u>6,562,787</u>	<u>24,071,530</u>
Noncurrent liabilities:			
Accrued compensated absences (note 6)	515,674	—	515,674
Loans, notes, and bonds payables (note 6)	32,550,534	30,926,070	63,476,604
Other accrued long-term interest	—	2,106,101	2,106,101
Total noncurrent liabilities	<u>33,066,208</u>	<u>33,032,171</u>	<u>66,098,379</u>
Total liabilities	<u>50,574,951</u>	<u>39,594,958</u>	<u>90,169,909</u>
Net assets:			
Invested in capital assets, net of related debt	56,224,261	13,689,538	69,913,799
Restricted	5,571,754	3,305,076	8,876,830
Unrestricted (deficit)	30,716,444	(1,492,770)	29,223,674
Total net assets	<u>\$ 92,512,459</u>	<u>\$ 15,501,844</u>	<u>\$ 108,014,303</u>

See accompanying notes to financial statements.

**FAIRFAX COUNTY REDEVELOPMENT  
AND HOUSING AUTHORITY**  
(A Component Unit of the County of Fairfax, Virginia)  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2006

	<u>Enterprise fund</u>	<u>Component units</u>	<u>Total reporting entity</u>
Operating revenues:			
Dwelling rentals	\$ 12,766,005	\$ 5,508,184	\$ 18,274,189
Other	1,859,303	1,217,362	3,076,665
Total operating revenues	<u>14,625,308</u>	<u>6,725,546</u>	<u>21,350,854</u>
Operating expenses:			
Personnel services	9,549,179	1,035,291	10,584,470
Contractual services	1,499,372	75,531	1,574,903
Utilities	2,254,843	844,226	3,099,069
Repairs and maintenance	2,739,438	1,306,207	4,045,645
Other supplies and expenses	2,494,483	1,527,618	4,022,101
Housing Assistance Payments (HAP)	36,358,064	—	36,358,064
Depreciation and amortization	3,758,226	1,894,212	5,652,438
Total operating expenses	<u>58,653,605</u>	<u>6,683,085</u>	<u>65,336,690</u>
Operating income (loss)	<u>(44,028,297)</u>	<u>42,461</u>	<u>(43,985,836)</u>
Nonoperating revenues (expenses):			
Intergovernmental revenue	57,888,898	—	57,888,898
Interest revenue	1,239,179	111,968	1,351,147
Interest expense	(1,974,853)	(1,179,531)	(3,154,384)
Gain on disposition of assets	514,323	—	514,323
Total nonoperating revenues (expenses), net	<u>57,667,547</u>	<u>(1,067,563)</u>	<u>56,599,984</u>
Income (loss) before contributions	<u>13,639,250</u>	<u>(1,025,102)</u>	<u>12,614,148</u>
Contributions:			
Investor capital contributions	—	100,000	100,000
HUD debt service contributions	239,205	—	239,205
HUD capital contributions	1,235,182	—	1,235,182
Total contributions	<u>1,474,387</u>	<u>100,000</u>	<u>1,574,387</u>
Change in net assets	<u>15,113,637</u>	<u>(925,102)</u>	<u>14,188,535</u>
Total net assets, beginning of year	<u>77,398,822</u>	<u>16,426,946</u>	<u>93,825,768</u>
Total net assets, end of year	<u>\$ 92,512,459</u>	<u>\$ 15,501,844</u>	<u>\$ 108,014,303</u>

See accompanying notes to financial statements.

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

Statement of Cash Flows  
Year ended June 30, 2006

	<b>Enterprise fund</b>	<b>Component units</b>	<b>Total reporting entity</b>
Cash flows from operating activities:			
Rental receipts	\$ 12,880,349	\$ 5,577,353	\$ 18,457,702
Other operating cash receipts	1,850,729	1,236,229	3,086,958
Purchase of property held for sale	(198,268)	—	(198,268)
Payments to employees for services	(9,458,895)	(1,035,291)	(10,494,186)
Housing Assistance Payments	(39,194,269)	—	(39,194,269)
Payments on behalf of the County	(9,070,410)	(4,301,956)	(13,372,366)
Net cash provided by (used in) operating activities	(43,190,764)	1,476,335	(41,714,429)
Cash flows from noncapital financing activities:			
Proceeds from the issuance of debt	3,100,000	—	3,100,000
Payments on behalf of the County	(3,756,574)	—	(3,756,574)
Intergovernmental revenues received	50,114,616	—	50,114,616
Net cash provided by noncapital financing activities	49,458,042	—	49,458,042
Cash flows from capital and related financing activities:			
Purchase of capital assets	(5,412,942)	(226,488)	(5,639,430)
Capital contributions	—	100,000	100,000
Proceeds from issuance of debt	25,000	118,595	143,595
Interest paid	(1,972,944)	(939,518)	(2,912,462)
Debt principal paid	(2,223,305)	(1,010,479)	(3,233,784)
HUD debt service and capital contributions	1,474,387	—	1,474,387
Net cash used in capital and related financing activities	(8,109,804)	(1,957,890)	(10,067,694)
Cash flows from investing activities:			
Receipt of loan and advance repayments	1,098,262	—	1,098,262
Disbursement of loans and advances receivable	(578,636)	—	(578,636)
Acquisition of investments	(1,056,404)	—	(1,056,404)
Interest and gain received on investments	1,703,080	109,748	1,812,828
Net cash provided by investing activities	1,166,302	109,748	1,276,050
Net decrease in cash and cash equivalents	(676,224)	(371,807)	(1,048,031)
Cash and cash equivalents, beginning of year	39,269,316	9,644,227	48,913,543
Cash and cash equivalents, end of year	\$ 38,593,092	\$ 9,272,420	\$ 47,865,512
Reconciliation to statement of net assets:			
Cash in bank	\$ 2,044,701	\$ 5,624,693	\$ 7,669,394
Cash on deposit with the County of Fairfax, Virginia	29,166,890	—	29,166,890
Cash deposits held in trust	2,505,597	460,044	2,965,641
Cash reserves	4,875,904	3,187,683	8,063,587
Cash and cash equivalents	\$ 38,593,092	\$ 9,272,420	\$ 47,865,512
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (44,028,297)	\$ 42,461	\$ (43,985,836)
Depreciation and amortization	3,758,226	1,894,212	5,652,438
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable	256,498	59,209	315,707
(Increase) decrease in prepaid items and other assets	(2,798,364)	26,172	(2,772,192)
Increase (decrease) in accounts payable and accrued liabilities	(336,045)	(574,546)	(910,591)
Increase (decrease) in accrued salaries and wages	87,410	—	87,410
Increase (decrease) in deposits held in trust	61,945	18,867	80,812
Increase (decrease) in deferred revenue	(192,137)	9,960	(182,177)
Net cash provided by (used in) operating activities	\$ (43,190,764)	\$ 1,476,335	\$ (41,714,429)

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2006

**(1) Organization Profile**

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

**(2) Summary of Significant Accounting Policies**

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

**(a) Reporting Entity**

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

**Blended Component Unit**

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

**Discretely Presented Component Units**

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

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

Notes to Financial Statements

June 30, 2006

All discretely presented component units have a December 31 fiscal year-end. Accordingly, the amounts included for each component unit are as of and for the year-end that falls within the year ended June 30, 2006. A copy of the most recently issued financial statements for each of the component units can be obtained by contacting: Fairfax County Redevelopment and Housing Authority; Financial Management Division, 3700 Pender Drive, Fairfax, Virginia 22030.

**(b) Basis of Presentation**

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

The Authority's activities include the following programs:

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

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

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

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

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

Notes to Financial Statements

June 30, 2006

- *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 that are supported wholly or partially by funds borrowed by the Authority or through the Authority's sale of notes or bonds. Housing development and improvement projects may be financed with funds borrowed from private lenders, the Virginia Housing Development Authority (VHDA), or the federal government.
- *Rehabilitation Loan Program* is used to account for the Authority's portion of the funding for the Home Improvement Loan Program (HILP). These funds are borrowed by the Authority from private lenders. The HILP, which is administered by HCD, provides a variety of home improvement or rehabilitation loans primarily to single family homeowners.
- *Fairfax County Rental Program (FCRP)* is used to provide affordable rental housing (other than federal public housing) in the County for low and moderate income families.
- *Grant Program* is used to account for programs receiving grant monies. This program includes the Resident Opportunities and Self Sufficiency project.

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

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

Notes to Financial Statements

June 30, 2006

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are rental charges and other charges related to use of property. The Authority also recognizes as operating revenues management and development fees, excess utility charges, and other tenant charges. Operating expenses include personnel services, contractual services, administrative expenses, utility expenses, ordinary repair and maintenance expenses, housing assistance payments, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as either nonoperating revenues or expenses or contributions.

**(d) *Cash and Temporary Investments***

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

**(e) *Investments***

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

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

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

Notes to Financial Statements

June 30, 2006

This investment policy applies to all financial assets of the Authority, all General Obligation bond funds, all funds deposited in the Authority's bank accounts, and the County's pooled cash. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in bond documents. All Authority investments are held by the financial institution's trust department in its name and are collateralized by United States Government securities.

**(f) Cash and Cash Equivalents**

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

**(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 27½ years.

**(h) Compensated Absences**

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

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

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

Notes to Financial Statements

June 30, 2006

Intergovernmental revenues are recognized in the period in which all grant requirements are satisfied, which is typically when the Authority has expended the funds on allowable costs. Grant funds received in advance of satisfying all requirements are recorded as deferred revenue. Effective in FY 2006, HUD has mandated that Authorities who administer the Housing Choice Voucher (HCV) program should recognize revenue for Housing Assistance Payments (HAP) based on the current year's budget received, rather than the methodology used in previous years of recognizing revenue based on expenditures incurred. Implementation of this new HUD reporting requirement, resulted in the recognition of additional revenues of approximately \$2 million in the HCV program.

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

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

Notes, mortgages, and other receivables are carried at amounts advanced, net of a reserve for uncollectible accounts, 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 reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(l) Restricted Assets**

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

**(m) Implementation of New GASB Standards**

In FY 2006, the Authority implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*; and GASB Statement No. 47, *Accounting for Termination Benefits*. The implementation of these new standards had no impact on the Authority's FY 2006 financial statements.

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

Notes to Financial Statements

June 30, 2006

**(3) Investments**

As of June 30, 2006, the Authority had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (Days)</b>
Federal Home Loan Bank Bond	\$ 1,901,308	184.73
Federal Home Loan Bank Note	2,121,210	72.43
U.S. Treasury Note	976,113	180.00
Total fair value	\$ 4,998,631	
Portfolio weighted average maturity		136.15

**(4) Receivables**

*(a) Accounts Receivable*

Accounts receivable at June 30, 2006, consisted of the following:

Tenant receivables (net of allowances of \$195,218)	\$ 200,013
Due from the County of Fairfax, Virginia	6,933,018
Due from U.S. Department of Housing and Urban Development	826,884
Due from other governments (Section 8 Portability)	188,921
Management fees due from component units	37,403
	\$ 8,186,239

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

Notes to Financial Statements

June 30, 2006

**(b) Notes Receivable**

Notes receivable at June 30, 2006, consisted of the following:

Lake Anne of Reston	Unsecured notes, bearing interest at 3.73% to 7.90%, maturing July 1, 2015, principal and interest payments of \$28,400 due annually.	\$	101,930
Herndon Harbor House I	Secured note bearing interest at 5.25%, maturing July 1, 2027, interest and principal payments of \$6,383 due monthly.		888,840
Herndon Harbor House II	Secured note bearing interest at 6%, maturing April 1, 2029, interest and principal payments of \$12,480 due monthly.		1,856,354
Castellani Meadows	Secured note bearing interest at 5.25%, maturing March 1, 2028, interest and principal payments of \$5,542 due monthly.		795,124
Homeowners' and Business Loan Program	Unsecured and secured notes with varying interest rates and repayment terms, net of allowance for uncollectible notes of \$1,738,989.		<u>2,266,921</u>
			5,909,169
Less current notes receivable			<u>(669,271)</u>
Noncurrent notes receivable		\$	<u><u>5,239,898</u></u>

**(c) Mortgages Receivable**

Under the Authority's Home Improvement Loan Program, qualified County residents who are unable to obtain financing from commercial sources, may be loaned funds by the Authority. The Authority has borrowed the funds used in the program from various commercial banks, with the mortgage receivables pledged as security. At June 30, 2006, long-term home improvement loans receivable under this program were \$42,432 bearing interest at varying rates up to 3%.

**(d) Other Receivables**

Under the Authority's Revolving Development Program, the Authority provides advances to other projects to fund start-up costs. At June 30, 2006, advances receivable consisted of \$570,274, of which \$308,337 is due within the next year.

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

Notes to Financial Statements

June 30, 2006

**(5) Capital Assets**

Capital asset activity for the year ended June 30, 2006, is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, non-depreciable:				
Land	\$ 25,762,502	1,060,155	—	\$ 26,822,657
Construction-in-progress	<u>3,382,126</u>	<u>1,235,184</u>	<u>(1,462,632)</u>	<u>3,154,678</u>
Total capital assets, non-depreciable	<u>29,144,628</u>	<u>2,295,339</u>	<u>(1,462,632)</u>	<u>29,977,335</u>
Capital assets, depreciable:				
Buildings and improvements	103,219,935	12,939,299	—	116,159,234
Equipment	<u>2,329,243</u>	<u>21,611</u>	<u>—</u>	<u>2,350,854</u>
Total capital assets, depreciable	<u>105,549,178</u>	<u>12,960,910</u>	<u>—</u>	<u>118,510,088</u>
Less accumulated depreciation for:				
Buildings and improvements	(61,242,757)	(3,644,166)	—	(64,886,923)
Equipment	<u>(2,053,401)</u>	<u>(111,934)</u>	<u>—</u>	<u>(2,165,335)</u>
Total accumulated depreciation	<u>(63,296,158)</u>	<u>(3,756,100)</u>	<u>—</u>	<u>(67,052,258)</u>
Total depreciable capital assets, net	<u>42,253,020</u>			<u>51,457,830</u>
Total enterprise fund capital assets, net	<u>\$ 71,397,648</u>			<u>\$ 81,435,165</u>

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

**(a) Public Housing Loans**

Public housing project debt is comprised of the following at June 30, 2006:

Public housing notes – Federal Financing Bank	\$ 1,056,210
Public housing bonds	<u>195,000</u>
	<u>\$ 1,251,210</u>

To permanently finance certain public housing projects, the Authority issued notes to the Federal Financing Bank. These notes are payable in annual installments each November 1 until maturity in 2015, with interest at 6.6% and are secured by the projects' land, structures, and equipment. Debt

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

Notes to Financial Statements

June 30, 2006

service on the notes (principal and interest) is paid annually by HUD under Annual Contributions Contract P-184.

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

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

**(b) Notes Payable**

Notes payable consist of the following at June 30, 2006:

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.	\$ 176,767
Bank of America	Secured by McLean Hills and Springfield Green rental properties, bearing interest at 4.54%, maturing April 1, 2015, principal and interest payments of \$7,306 monthly.	637,098
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.	294,863
SunTrust Bank	Secured by the United Community Ministries (UCM) office building, bearing interest at 4.71%, maturing April 1, 2013, principal and interest payments of \$3,164 monthly.	221,527
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 6.45% to 9.15%, maturing at varying dates through August 1, 2011, variable principal and interest payments due semiannually.	1,700,000
Virginia Housing Development Authority	Secured by Penderbrook rental property, bearing interest at 7.17%, maturing October 1, 2018, principal and interest payments of \$5,874 monthly.	575,996

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

Notes to Financial Statements

June 30, 2006

Note holder(s)	Terms	Outstanding balance
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 dates through December 31, 2007, principal and interest payments monthly.	\$ 43,668
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.	199,403
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.	215,921
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.	446,854
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.	674,503
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 3.73% to 7.90%, maturing at varying dates through August 1, 2013, variable principal and interest payments due semiannually.	910,000
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.	1,805,000

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

Notes to Financial Statements

June 30, 2006

Note holder(s)	Terms	Outstanding balance
United Bank	Secured by the One University Plaza office and maintenance building, bearing interest at 5%, maturing February 1, 2014, principal and interest payments of \$2,827 monthly.	\$ 215,650
Virginia Housing Development Authority	Secured by the First Stop Group Home property, bearing interest at 7.61%, maturing March 1, 2025, principal and interest payments of \$3,234 monthly.	386,914
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.	250,000
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.	30,000
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.	9,375,179
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.	487,951
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
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 \$5,417 monthly.	317,934

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

Notes to Financial Statements

June 30, 2006

Note holder(s)	Terms	Outstanding balance
Bank of America	Unsecured tax-exempt line of credit up to \$10,000,000, to provide interim financing for projects under development, bearing interest at 60.45% of the 30-day LIBOR rate, plus 1.428%, maturing December 31, 2008. The 30-day LIBOR rate was 5.33% at June 30, 2006.	\$ 4,259,000
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 1.21% to 5.29%, maturing at varying dates through August 1, 2017, variable principal and interest payments due semiannually.	430,000
SunTrust Bank	Secured by Hopkins Glen rental property, bearing interest at 4.33%, maturing October 1, 2016, principal and interest payments due monthly.	445,600
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.	458,235
		<u>\$ 25,875,596</u>

(c) **Bonds Payable**

Bonds payable consist of the following at June 30, 2006:

	Outstanding balance
On August 29, 1996, on behalf of the Little River Glen project, the Authority issued Federal Housing Authority insured mortgage revenue bonds with an original principal amount of \$6,340,000, and interest rates, which vary between 4.65% and 6.10%, with final payment due September 1, 2026, to advance refund the Elderly Bonds, Series 1989A, with an original principal amount of \$6,120,000 and interest rate of 8.95%. The land, buildings, and equipment of the Little River Glen project are pledged as security for the bonds. The old bonds were fully redeemed in fiscal year 1999.	\$ 5,405,000

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

Notes to Financial Statements

June 30, 2006

	<u>Outstanding balance</u>
<p>In June 1998, the Authority issued Series 1998 Lease Revenue bonds with an original principal amount of \$3,630,000 and an interest rate of 4.71%, with final payment due June 15, 2018, to advance refund certain previously issued special limited obligation bonds. The new bonds are secured by the Authority's interest in payments under a lease agreement between the Authority and the County, whereby the Authority leases its Pender Drive Office building to the County, and a first deed of trust on the office building. Proceeds from the new bonds, along with other cash sources totaling approximately \$4,000,000, were placed in irrevocable escrow accounts to provide for all future debt service payments on the old bonds, which were fully redeemed in 2003.</p>	\$ 2,565,000
<p>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 Limited Partnership to finance a portion of the cost for the acquisition, construction, and equipping of the rental facility.</p>	888,840
<p>In May 1999, on behalf of Herndon Harbor House II Limited Partnership, the Authority issued Series 1999A Multifamily Housing Revenue Bonds with a principal amount totaling \$2,000,000. The Series A, 1999 Term bonds have an original principal amount of \$225,000 with an interest rate of 4.875% with final payment due May 1, 2009. The Series A, 1999 Term bond has an original principal payment amount of \$1,775,000 with an interest rate of 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.</p>	1,856,354

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

Notes to Financial Statements

June 30, 2006

	<b>Outstanding balance</b>
In April 1998, on behalf of Castellani Meadows Limited Partnership, the Authority issued Tax-exempt revenue bonds with a principal amount totaling \$1,700,000 and an interest rate of 5.25% with final payment due March 1, 2028. Prior to March 1, 2001, a principal payment in the amount of \$825,000 was due, at which time the interest rate changed to 6.15% per annum. The land, building, and equipment of the Castellani Meadows 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.	\$ 795,124
	\$ 11,510,318

**(d) Annual Principal Requirements**

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

	<b>Principal</b>	<b>Interest</b>
Year ending June 30:		
2007	\$ 368,305	656,784
2008	393,143	637,236
2009	418,383	615,444
2010	438,954	592,321
2011	464,876	567,812
2012 – 2016	2,742,141	2,421,527
2017 – 2021	2,707,445	1,614,345
2022 – 2026	2,954,794	817,160
2027 – 2031	1,022,277	56,235
	\$ 11,510,318	7,978,864

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

Notes to Financial Statements

June 30, 2006

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2007	\$ 5,557,670	1,274,768
2008	1,375,776	1,202,987
2009	1,373,749	1,126,791
2010	1,403,568	1,046,362
2011	1,353,955	963,287
2012 – 2016	4,345,003	3,815,012
2017 – 2021	2,151,504	2,854,214
2022 – 2026	1,943,530	2,129,061
2027 – 2031	2,411,307	1,388,217
2032 – 2036	3,959,534	397,621
	<u>\$ 25,875,596</u>	<u>16,198,320</u>

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2007	\$ 160,615	79,710
2008	166,926	70,149
2009	173,497	60,327
2010	115,814	49,511
2011	123,457	41,868
2012 – 2016	510,901	88,428
	<u>\$ 1,251,210</u>	<u>389,993</u>

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

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Bonds payable	\$ 11,870,354	—	360,036	11,510,318	368,305
Notes payable	24,464,170	3,125,000	1,713,574	25,875,596	5,557,670
Public housing loans	1,400,905	—	149,695	1,251,210	160,615
Compensated absences payable	951,160	415,516	401,250	965,426	449,752
	<u>\$ 38,686,589</u>	<u>3,540,516</u>	<u>2,624,555</u>	<u>39,602,550</u>	<u>6,536,342</u>

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

Notes to Financial Statements

June 30, 2006

**(7) Conduit Debt**

The Authority is empowered by the Commonwealth of Virginia to issue tax-exempt bonds on behalf of qualified businesses to develop or rehabilitate low income housing within the County. Principal and interest on the tax-exempt bonds is paid entirely by the owners of the properties, which have entered into binding contracts to develop or rehabilitate the subject property. The terms of the tax-exempt bonds stipulate that neither the Authority, nor the County, guarantee the repayment of principal and interest to the bondholders. The bondholders' sole remedy in the event of default on the tax-exempt bonds is the subject property and third-party beneficiaries. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2006, the cumulative total of bonds outstanding under the Authority's name was approximately \$90,010,000.

From 1996 through 2003, the FCRHA issued a total of \$15,420,000 of lease revenue bonds for the purpose of financing the construction, renovation, and expansion of Mott Community Center and Gum Springs Community Center, Baileys Community Center, the construction of Herndon Harbor II Adult Day Care Center, and Gum Springs Glen Head Start facility for child care and ancillary training programs. As of June 30, 2006, the cumulative balance of the above bonds outstanding was \$11,207,476. In August 2004, the FCRHA issued \$10,870,000 of lease revenue bonds to finance the construction and renovation of the James Lee Community Center. As of June 30, 2006, the outstanding principal balance of this bond was \$9,420,000. In June 2005, the FCRHA issued \$8,105,000 to finance the construction of the Herndon Harbor House Senior Center. As of June 30, 2006, the outstanding principal balance of this bond was \$7,290,000. As the County is responsible, under the related documents and subject to annual appropriation, to make payments to a trustee sufficient to pay principal and interest on these bonds, the related transactions, including the liability for these bonds, have been recorded in the County's financial statements and not on those of the FCRHA.

On February 16, 2006 the Authority issued a bond anticipation note (BAN) in the amount of \$40,600,000 with Wachovia bank. The terms of the BAN call for either the full payment of principal and accrued interest within one year or the payment of interest only with a renewal option for up to two additional terms. The proceeds of the BAN were provided to the County to be used, along with \$9,136,825 of other County funds from The Penny for Affordable Housing Fund, to acquire the Crescent Apartments, a 180 unit multi-family complex located in Reston, Virginia. Based on terms of the agreements between the County, the Authority, and Wachovia, the Authority's obligation to make payments under the BAN are limited to any payments received from the County. As such, the Authority has no obligation to repay the BAN from its net assets. Consequently, the Authority has treated this transaction as conduit debt in the accompanying financial statements. The County holds title to the property and will pay off the BAN. As such, it reports both the property and the liability to Wachovia as its asset and liability, respectively. In consideration for making available the proceeds of the BAN, and a nominal fee, the County recognized that the Authority prepaid its lease for the use of the property.

In addition, in March 1997, the Authority facilitated a \$345,000 Federal HOME loan between the County and the Tavenner Lane Limited Partnership. Funds paid by Tavenner are deposited directly into the County's bank account. Accordingly, the loan is not reported as a receivable in the accompanying financial statements. At December 31, 2005 the outstanding balance of the loan was \$295,574.

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

Notes to Financial Statements

June 30, 2006

**(8) Contingencies**

The Authority, as the 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 the payment of certain special distributions to the limited partners. The amount of these distributions, if any, is to be determined using a formula based on the amount of tax credits that are disallowed. The maximum amount of this distribution is not to exceed the amount contributed by the limited partners to the partnership, plus any penalties and interest costs incurred as a result of the disqualification.

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

In addition, on August 7, 2000, the Authority entered into a guaranty agreement with SunTrust Community Development Corporation (SunTrust) in order to induce SunTrust to make a loan of \$400,000 to The Green Limited Partnership. The guarantee is for the balance of the loan, which was \$378,497 as of December 31, 2005. In addition, SunTrust has collateralized their loan with the first deed of trust on this property.

The Authority receives grant funds, principally from the federal government, for various programs. Certain expenses of these funds are subject to audit by the grantor and the reporting entity is contingently liable to refund amounts received in excess of allowable expenses. The management of the Authority believes that any possible disallowed expenses arising from such an audit, if any, would not have a material adverse impact on the Authority's net assets as of June 30, 2006.

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

Notes to Financial Statements

June 30, 2006

**(9) Risk Management**

The FCRHA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and citizens; and natural disasters. For all of these risks, the FCRHA participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claim settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's insurance program is available in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006.

**(10) 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, 2006, are either 4.0% or 5.33% of salary, depending on the plan selected by the employee. The County funds the remaining portion required to meet the actuarially determined funding requirements. Data concerning the amounts contributed by the County for employees of the Authority, accumulated pension benefit liability, and net assets specifically applicable to employees of the Authority are not available. Information concerning the System as a whole is available in the County's June 30, 2006 Comprehensive Annual Financial Report.