

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, 2005

(With Independent Auditors' Report Thereon)

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

June 30, 2005

Table of Contents

	Page
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 the 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, 2005, 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, 2005. 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.

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, 2005, 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 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We 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 7, 2005

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2005

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) 2005 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, 2005, 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 2005

The FCRHA's FY 2005 financial highlights included the following:

- Total assets and liabilities of the FCRHA were approximately \$124.2 million and \$46.8 million, respectively; thus total net assets were approximately \$77.4 million at June 30, 2005.
- Total revenues and expenses were approximately \$65.0 million and \$60.7 million, respectively; resulting in an increase in net assets of approximately \$4.3 million during the fiscal year. This increase represents the net effects of operating, nonoperating, and contributions revenues and expenses.
- Cash and cash equivalents increased by approximately \$2.6 million.

FCRHA Financial Statements

The FCRHA's mission in the County focuses on the planning, design, construction, preservation, rehabilitation, financing, and management of housing, primarily for low and moderate income households, and on assisting in the revitalization of neighborhoods in Fairfax County. The FCRHA, as of June 30, 2005, owned over 2,500 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 3,168 households under the Federal Housing Choice Voucher program for privately owned existing housing and to 23 households who received payments through the Housing Opportunities for Persons with AIDS (HOPWA) program.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2005

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, and interest expense. 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 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 in which they are earned and expenses are recognized in the period when they are incurred.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2005

Summary of Net Assets

The following table presents a summary of FCRHA's net assets as of June 30, 2005 and 2004.

Table 1

Summary of Net Assets

June 30, 2005 and 2004

(In millions)

Description	2005	2004	Increase (decrease)	% Changed
Current and other assets	\$ 52.8	\$ 57.3	(4.5)	(7.9)
Capital assets	71.4	71.6	(0.2)	(0.3)
Total assets	<u>124.2</u>	<u>128.9</u>	<u>(4.7)</u>	<u>(3.7)</u>
Current liabilities	12.0	16.8	(4.8)	(28.6)
Noncurrent liabilities	34.8	39.0	(4.2)	(10.8)
Total liabilities	<u>46.8</u>	<u>55.8</u>	<u>(9.0)</u>	<u>(16.1)</u>
Net assets:				
Invested in capital assets, net of related debt	45.0	44.3	0.7	1.6
Restricted	8.7	8.5	0.2	2.4
Unrestricted	23.7	20.3	3.4	16.7
Total net assets	<u>\$ 77.4</u>	<u>\$ 73.1</u>	<u>4.3</u>	<u>5.9</u>

Current and noncurrent liabilities decreased by 28.6% and 10.8%, respectively in FY 2005. These decreases resulted from the County lease revenue bonds which were used to pay off the FCRHA's bond anticipation note funding and the reduction of outstanding mortgages.

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

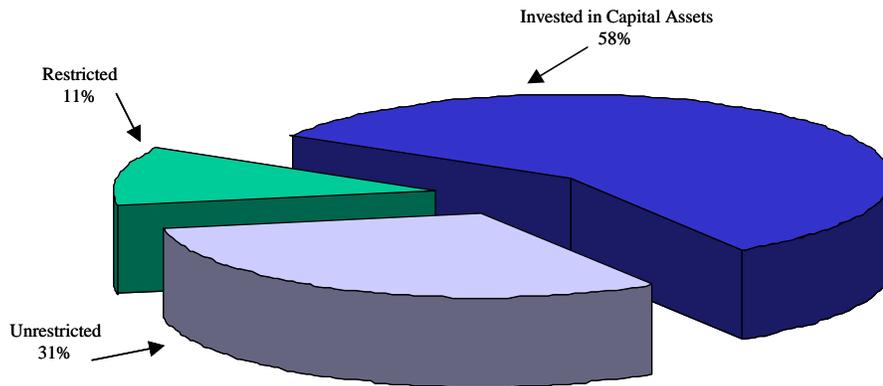
Management's Discussion and Analysis (MD&A)

June 30, 2005

The FCRHA's total net assets also consisted of restricted net assets of \$8.7 million and \$8.5 million and unrestricted net assets of \$23.7 million and \$20.3 million at June 30, 2005 and 2004, 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, 2005.

Composition of FCRHA's Net Assets

June 30, 2005



FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2005

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 2005, the FCRHA's enterprise programs realized an increase in net assets of approximately \$4.3 million. Table 2 presents a summary of data from the FCRHA's statement of revenues, expenses, and changes in net assets for FY 2005 and FY 2004 and a comparative analysis of activities in these years.

Table 2

Summary of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

(In millions)

<u>Description</u>	<u>FY 2005</u>	<u>FY 2004</u>	<u>Increase (decrease)</u>	<u>% Changed</u>
Revenues:				
Operating revenues	\$ 16.0	\$ 14.0	2.0	14.3
Nonoperating revenues and contributions	49.0	49.0	—	—
Total revenues	<u>65.0</u>	<u>63.0</u>	<u>2.0</u>	<u>3.2</u>
Expenses:				
Operating expenses	58.6	57.7	0.9	1.6
Nonoperating expenses	2.1	2.3	(0.2)	(8.7)
Total expenses	<u>60.7</u>	<u>60.0</u>	<u>0.7</u>	<u>1.2</u>
Changes in net assets	<u>4.3</u>	<u>3.0</u>	<u>1.3</u>	<u>43.3</u>
Total net assets, beginning of year	<u>73.1</u>	<u>70.1</u>	<u>3.0</u>	<u>4.3</u>
Total net assets, end of year	<u>\$ 77.4</u>	<u>\$ 73.1</u>	<u>4.3</u>	<u>5.9</u>

Approximately 76% of the FCRHA's total revenues in FY 2005 were nonoperating revenues, interest revenues, and contributions that were derived from federal grants from HUD, County contributions, and interest. The remaining 24% 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 2005.

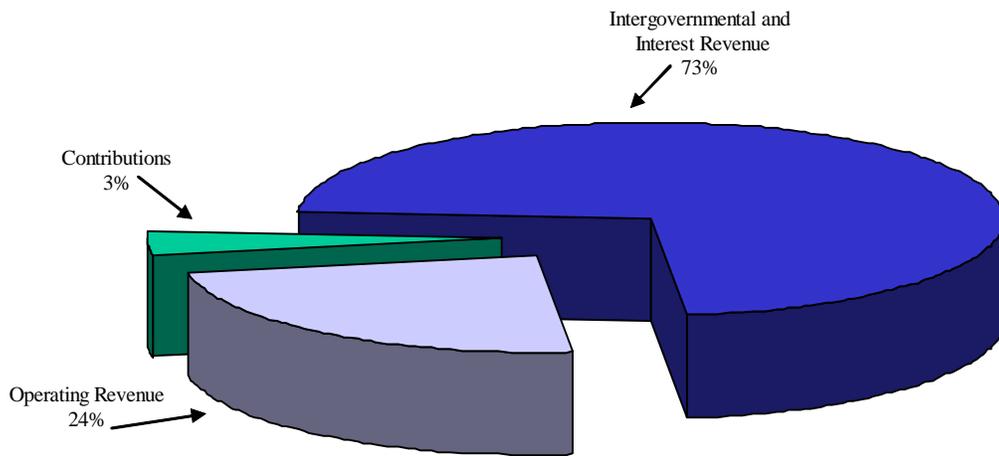
FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY
(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2005

FCRHA Enterprise Programs

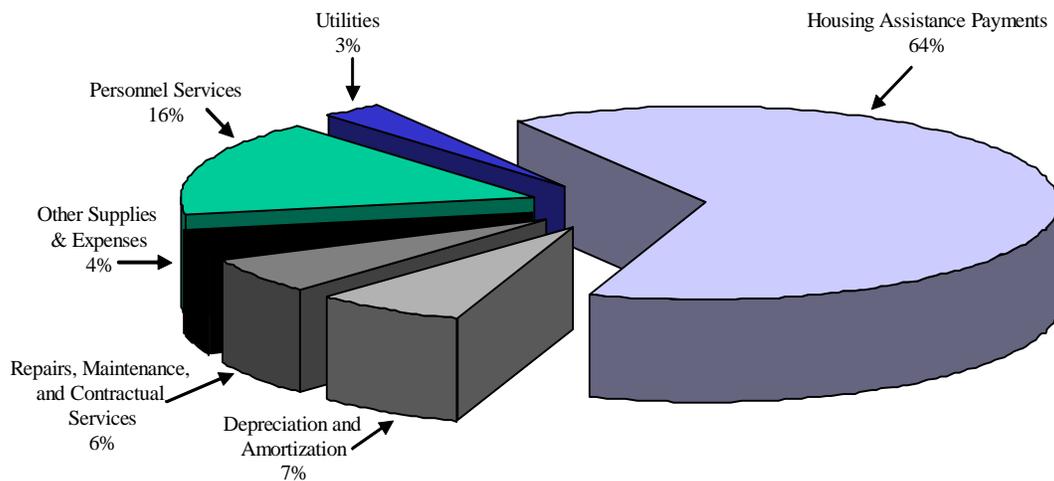
FY 2005 Sources of Funds



In FY 2005, the FCRHA incurred operating expenses in its enterprise programs totaling approximately \$58.5 million. The following pie chart illustrates major operating expense groups and their relative percent of the total.

FCRHA Enterprise Programs

FY 2005 Operating Expenses



FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

(A Component Unit of the County of Fairfax, Virginia)

Management's Discussion and Analysis (MD&A)

June 30, 2005

Capital Assets and Debt Administration

Capital Assets

The FCRHA capital assets at June 30, 2005 and 2004, included land, buildings and improvements, equipment, and construction in progress, which totaled \$71.4 million and \$71.6 million, respectively. A breakdown of these assets is shown in Table 3.

Table 3

Capital Assets of the FCRHA

June 30, 2005 and 2004

(In millions)

Description	2005	2004	Increase (decrease)	% Changed
Non-depreciable:				
Land	\$ 25.8	\$ 25.6	0.2	0.8
Construction in progress	3.4	2.1	1.3	61.9
Depreciable:				
Buildings and improvements	103.2	101.2	2.0	2.0
Equipment	2.3	2.3	—	0.0
Accumulated depreciation	(63.3)	(59.6)	(3.7)	6.2
Total Capital Assets, Net	\$ 71.4	\$ 71.6	(0.2)	(0.3)

Debt Administration

The FCRHA's June 30, 2005 and 2004 statement of net assets includes long-term debt – consisting of housing loans, notes, and bonds payable – of approximately \$37.7 million and \$50.0 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.

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, 2005

Assets	Enterprise Fund	Component Units	Total Reporting Entity
Current assets:			
Cash in bank (note 2)	\$ 1,972,256	\$ 5,967,548	\$ 7,939,804
Cash on deposit with the County of Fairfax, Virginia (note 2)	32,167,455	—	32,167,455
Accrued interest receivable	113,851	3,687	117,538
Accounts receivable (net of allowances) (note 3)	1,485,925	175,676	1,661,601
Notes, mortgages, and other receivables (note 3)	1,036,742	—	1,036,742
Property held for sale	692,948	—	692,948
Prepaid items and other assets	146,890	20,271	167,161
Total current assets	<u>37,616,067</u>	<u>6,167,182</u>	<u>43,783,249</u>
Noncurrent assets:			
Restricted assets (note 2):			
Cash reserves	5,129,605	3,103,070	8,232,675
Investments	3,942,227	—	3,942,227
Deposits held in trust	—	573,609	573,609
Total restricted assets	<u>9,071,832</u>	<u>3,676,679</u>	<u>12,748,511</u>
Capital assets (note 4):			
Non-depreciable:			
Land	25,762,502	6,966,628	32,729,130
Construction in progress	3,382,126	—	3,382,126
Depreciable:			
Buildings and improvements	103,219,935	54,746,011	157,965,946
Equipment	2,329,243	606,112	2,935,355
Accumulated depreciation	(63,296,158)	(15,274,279)	(78,570,437)
Total capital assets, net	<u>71,397,648</u>	<u>47,044,472</u>	<u>118,442,120</u>
Other noncurrent assets:			
Notes, mortgages, and other receivables (note 3)	6,063,846	—	6,063,846
Prepaid items and other assets	1,550	312,130	313,680
Deferred financing fees (net of accumulated amortization of \$5,314)	24,087	—	24,087
Total other noncurrent assets	<u>6,089,483</u>	<u>312,130</u>	<u>6,401,613</u>
Total assets	<u>124,175,030</u>	<u>57,200,463</u>	<u>181,375,493</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	2,561,128	1,198,222	3,759,350
Accrued salaries and benefits	364,569	—	364,569
Due to the County of Fairfax, Virginia	1,846,227	4,750,058	6,596,285
Deposits held in trust	2,511,941	323,784	2,835,725
Deferred revenue	805,754	54,050	859,804
Accrued compensated absences (note 5)	401,250	—	401,250
Loans, notes, and bonds payables (note 5)	3,546,289	844,902	4,391,191
Total current liabilities	<u>12,037,158</u>	<u>7,171,016</u>	<u>19,208,174</u>
Noncurrent liabilities:			
Accrued compensated absences (note 5)	549,910	—	549,910
Loans, notes, and bonds payables (note 5)	34,189,140	31,214,650	65,403,790
Other accrued long-term interest	—	2,387,851	2,387,851
Total noncurrent liabilities	<u>34,739,050</u>	<u>33,602,501</u>	<u>68,341,551</u>
Total liabilities	<u>46,776,208</u>	<u>40,773,517</u>	<u>87,549,725</u>
Net Assets			
Invested in capital assets, net of related debt	45,043,768	14,984,920	60,028,688
Restricted	8,691,832	3,352,895	12,044,727
Unrestricted (deficit)	23,663,222	(1,910,869)	21,752,353
Total net assets	<u>\$ 77,398,822</u>	<u>\$ 16,426,946</u>	<u>\$ 93,825,768</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, 2005

	Enterprise Fund	Component Units	Total Reporting Entity
Operating revenues:			
Dwelling rentals	\$ 11,445,221	\$ 5,393,379	\$ 16,838,600
Other	4,556,548	832,721	5,389,269
Total operating revenues	16,001,769	6,226,100	22,227,869
Operating expenses:			
Personnel services	9,174,193	1,058,910	10,233,103
Contractual services	1,386,317	88,190	1,474,507
Utilities	1,979,166	819,116	2,798,282
Repairs and maintenance	2,355,149	1,071,067	3,426,216
Other supplies and expenses	2,569,942	1,520,620	4,090,562
Housing Assistance Payments (HAP)	37,393,241	—	37,393,241
Depreciation and amortization	3,690,250	1,893,471	5,583,721
Total operating expenses	58,548,258	6,451,374	64,999,632
Operating loss	(42,546,489)	(225,274)	(42,771,763)
Nonoperating revenues (expenses)			
Intergovernmental revenue	46,253,741	—	46,253,741
Interest revenue	655,102	41,594	696,696
Interest expense	(2,112,293)	(1,238,025)	(3,350,318)
Total nonoperating revenues (expenses), net	44,796,550	(1,196,431)	43,600,119
Income (loss) before contributions	2,250,061	(1,421,705)	828,356
Contributions:			
Investor capital contributions	—	1,109,113	1,109,113
HUD debt service contributions	239,205	—	239,205
HUD capital contributions	1,812,256	—	1,812,256
Total contributions	2,051,461	1,109,113	3,160,574
Change in net assets	4,301,522	(312,592)	3,988,930
Total net assets, beginning of year	73,097,300	16,739,538	89,836,838
Total net assets, end of year	\$ 77,398,822	\$ 16,426,946	\$ 93,825,768

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, 2005

	Enterprise Fund	Component Units	Total Reporting Entity
Cash flows from operating activities:			
Rental receipts	\$ 12,323,277	\$ 5,416,276	\$ 17,739,553
Other operating cash receipts	3,820,310	843,139	4,663,449
Proceeds from sale of property held for sale	205,498	—	205,498
Payments to employees for services	(9,101,072)	(1,058,910)	(10,159,982)
Housing Assistance Payments	(37,415,242)	—	(37,415,242)
Payments to suppliers for goods and services	(8,006,683)	(4,647,678)	(12,654,361)
Net cash provided by (used in) operating activities	(38,173,912)	552,827	(37,621,085)
Cash flows from noncapital financing activities:			
Retirement of loans, notes, and bond payables	(15,700,000)	—	(15,700,000)
Proceeds from the issuance of debt	5,100,000	—	5,100,000
Receipt of loan and advance repayment	11,816,488	—	11,816,488
Intergovernmental revenues received	46,659,029	—	46,659,029
Net cash provided by non-capital financing activities	47,875,517	—	47,875,517
Cash flows from capital and related financing activities:			
Purchase of capital assets	(3,508,891)	(43,139)	(3,552,030)
Capital contributions	—	1,109,113	1,109,113
Proceeds from issuance of debt	1,432,500	208,873	1,641,373
Interest paid	(2,167,914)	(33,679)	(2,201,593)
Debt principal paid	(3,137,060)	(975,235)	(4,112,295)
HUD debt service and capital contributions	2,051,461	—	2,051,461
Net cash provided by (used in) capital and related financing activities	(5,329,904)	265,933	(5,063,971)
Cash flows from investing activities:			
Receipt of loan and advance repayments	1,519,675	—	1,519,675
Disbursement of loans and advances receivable	(76,277)	—	(76,277)
Acquisition of investments	(3,760,773)	—	(3,760,773)
Interest received on investments	575,782	41,594	617,376
Net cash provided by (used in) investing activities	(1,741,593)	41,594	(1,699,999)
Net increase in cash and cash equivalents	2,630,108	860,354	3,490,462
Cash and cash equivalents, beginning of year	36,639,208	8,783,873	45,423,081
Cash and cash equivalents, end of year	\$ 39,269,316	\$ 9,644,227	\$ 48,913,543
Reconciliation to statement of net assets:			
Cash in bank	\$ 1,972,256	\$ 5,967,548	\$ 7,939,804
Cash on deposit with the County of Fairfax, Virginia	32,167,455	—	32,167,455
Cash deposits held in trust	—	573,609	573,609
Cash reserves	5,129,605	3,103,070	8,232,675
Cash and cash equivalents	\$ 39,269,316	\$ 9,644,227	\$ 48,913,543
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (42,546,489)	\$ (225,274)	\$ (42,771,763)
Depreciation and amortization	3,690,250	1,893,471	5,583,721
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(984,012)	24,756	(959,256)
(Increase) decrease in prepaid items and other assets	205,807	(3,182)	202,625
Increase (decrease) in accounts payable and accrued liabilities	223,753	(1,145,503)	(921,750)
Increase (decrease) in accrued salaries and wages	73,122	—	73,122
Increase (decrease) in deposits held in trust	1,130,879	10,418	1,141,297
Increase (decrease) in deferred revenue	32,778	(1,859)	30,919
Net cash provided by (used in) operating activities	\$ (38,173,912)	\$ 552,827	\$ (37,621,085)
Noncash investing, capital, and financing activities:			
Increase in fair value of restricted investments	\$ 27,713	\$ —	\$ 27,713

See accompanying notes to financial statements.

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

Notes to the Financial Statements

June 30, 2005

(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 generally accepted accounting principles (GAAP) in the United States of America 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 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 the Financial Statements

June 30, 2005

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, 2005. 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 the Financial Statements

June 30, 2005

- *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* 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 Housing Opportunities for Persons with AIDS project and the Resident Opportunities and Self Sufficiency project.

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

Notes to the Financial Statements

June 30, 2005

(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. 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 pronouncements of the Governmental Accounting Standards Board (GASB).

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

(d) *Cash on Deposit with the 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's Investment and 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 and 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, Investments, and Deposit Held in Trust*

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's cash deposits are covered by federal depository insurance and have been fully collateralized. Restricted investments consist of repurchase agreements, which are managed by the County and reported at fair value. 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. All Authority investments are held by the financial institution's trust department in its name and are collateralized by United States Government securities.

Deposits held in trust reflect amounts collected as security deposits from tenants, which are included in the Authority's Cash on Deposit with County of Fairfax, Virginia in the basic financial statements.

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

Notes to the Financial Statements

June 30, 2005

(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, 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 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 27 ½ 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 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. In addition, the County makes annual contributions to various programs (e.g., Elderly Housing program) to support operational costs. Such contributions are reflected as intergovernmental revenue in the accompanying financial statements. Other intergovernmental revenues are reported under the legal contractual requirements of the individual programs.

Intergovernmental revenues are recognized in the period in which all grant requirements are satisfied, which is typically when the Authority has expended the funds on allowable costs. Grant funds received in advance of satisfying all requirements are recorded as deferred revenue.

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.

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

Notes to the Financial Statements

June 30, 2005

(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) *Implementation of New GASB Standards*

In FY 2005, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Implementation of this new standard did not have an impact on the Authority's disclosures.

(3) **Receivables**

(a) *Accounts Receivable*

Accounts receivable at June 30, 2005, consisted of the following:

Tenant receivables (net of allowances of \$197,479)	\$ 172,384
Due from the County of Fairfax, Virginia	255,394
Due from U.S. Department of Housing and Urban Development	505,265
Due from other governments (Section 8 Portability)	488,277
Management fees due from component units	<u>64,605</u>
	<u>\$ 1,485,925</u>

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

Notes to the Financial Statements

June 30, 2005

(b) Notes Receivable

Notes receivable at June 30, 2005, 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.	\$	115,769
Herndon Harbor House I	Secured note bearing interest at 5.25%, maturing July 1, 2027, interest and principal payments of \$6,383 due monthly.		908,314
Herndon Harbor House II	Secured note bearing interest at 6%, maturing April 1, 2029, interest and principal payments of \$12,480 due monthly.		1,893,511
Castellani Meadows	Secured note bearing interest at 5.25%, maturing March 1, 2028, interest and principal payments of \$5,542 due monthly.		813,529
Homeowners' and Business Loan Program	Unsecured and secured notes with varying interest rates and repayment terms, net of allowance for uncollectible notes of \$1,676,777.		<u>2,792,539</u>
			6,523,662
Less current notes receivable			<u>(797,748)</u>
Noncurrent notes receivable		\$	<u><u>5,725,914</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, 2005, home improvement loans receivable under this program were \$42,431 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, 2005, advances receivable consisted of \$534,495, of which \$238,994 is due within the next year.

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

Notes to the Financial Statements

June 30, 2005

(4) Capital Assets

Capital asset activity for the year ended June 30, 2005, is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, non-depreciable:				
Land	\$ 25,550,999	211,503	—	\$ 25,762,502
Construction-in-progress	2,058,823	1,323,303	—	3,382,126
Total capital assets, non-depreciable	<u>27,609,822</u>	<u>1,534,806</u>	<u>—</u>	<u>29,144,628</u>
Capital assets, depreciable:				
Buildings and improvements	101,245,850	1,974,085	—	103,219,935
Equipment	2,329,243	—	—	2,329,243
Total capital assets, depreciable	<u>103,575,093</u>	<u>1,974,085</u>	<u>—</u>	<u>105,549,178</u>
Less accumulated depreciation for:				
Buildings and improvements	(57,674,296)	(3,568,461)	—	(61,242,757)
Equipment	(1,933,738)	(119,663)	—	(2,053,401)
Total accumulated depreciation	<u>(59,608,034)</u>	<u>(3,688,124)</u>	<u>—</u>	<u>(63,296,158)</u>
Total depreciable capital assets, net	<u>43,967,059</u>			<u>42,253,020</u>
Total enterprise fund capital assets, net	<u>\$ 71,576,881</u>			<u>\$ 71,397,648</u>

(5) Long Term Obligations – Loans, Notes and Bonds Payable

(a) Public Housing Loans

Public housing project debt is comprised of the following at June 30, 2005:

Public housing notes – Federal Financing Bank	\$ 1,145,905
Public housing bonds	<u>255,000</u>
	<u>\$ 1,400,905</u>

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

Notes to the Financial Statements

June 30, 2005

To permanently finance certain public housing projects, the Authority issued notes to the Federal Financing Bank. These notes are payable in annual installments each November 1 until maturity in 2015, with interest at 6.6% and are secured by the projects' land, structures, and equipment. Debt service on the notes (principal and interest) is paid annually by HUD under Annual Contributions Contract P-184.

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

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

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

Notes to the Financial Statements

June 30, 2005

(b) *Notes Payable*

Notes payable consist of the following at June 30, 2005:

<u>Note holder(s)</u>	<u>Terms</u>	<u>Outstanding balance</u>
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.	\$ 219,637
Bank of America	Secured by Colchester Town, McLean Hills, and Springfield Green rental properties, bearing interest at 4.54%, maturing April 1, 2015, principal and interest payments of \$7,306 monthly.	694,428
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.	307,275
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.	248,375
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.	1,985,000
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.	600,650
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, 2006, 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.	206,559
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.	205,000

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

Notes to the Financial Statements

June 30, 2005

Note holder(s)	Terms	Outstanding balance
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.	\$ 222,332
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.	200,035
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.	476,139
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.	693,680
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.	1,020,000
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.	2,045,000
United Bank	Secured by the One University Plaza office and maintenance building, bearing interest at 5%, maturing February 1, 2014, principal and interest payments of \$2,827 monthly.	238,174
Virginia Housing Development Authority	Secured by the First Stop Group Home property, bearing interest at 8%, maturing December 1, 2005, principal and interest payments of \$3,325 monthly.	395,485
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.	275,000
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.	35,000

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

Notes to the Financial Statements

June 30, 2005

Note holder(s)	Terms	Outstanding balance
U.S. Dept. of Housing and Urban Development	Section 108 notes secured by various Authority rental properties, bearing interest at 5.36% to 7.66%, maturing at varying dates through August 1, 2005, variable principal and interest payments due semiannually.	\$ 50,000
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.	9,470,456
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.	594,008
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.	358,609
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 0.37%, maturing December 31, 2005. The 30-day LIBOR rate was 3.03% at June 30, 2005.	1,134,000
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.	465,000

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

Notes to the Financial Statements

June 30, 2005

<u>Note holder(s)</u>	<u>Terms</u>	<u>Outstanding balance</u>
SunTrust Bank	Secured by Hopkins Glen rental property, bearing interest at 4.33%, maturing October 1, 2016, principal and interest payments due monthly.	\$ 454,600
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.	508,527
		<u>\$ 24,464,170</u>

(c) **Bonds Payable**

Bonds payable consist of the following at June 30, 2005:

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.

	<u>Outstanding balance</u>
	\$ 5,530,000

In June 1998, the Authority issued Series 1998 Lease Revenue bonds with an original principal amount of \$3,630,000 and an interest rate of 4.71%, with final payment due June 15, 2018, to advance refund certain previously issued special limited obligation bonds. The new bonds are secured by the Authority's interest in payments under a lease agreement between the Authority and the County, whereby the Authority leases its Pender Drive Office building to the County, and a first deed of trust on the office building. Proceeds from the new bonds along with other cash sources, totaling approximately \$4,000,000, were placed in irrevocable escrow accounts to provide for all future debt service payments on the old bonds, which were fully redeemed in 2003.

2,725,000

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

Notes to the Financial Statements

June 30, 2005

	<u>Outstanding balance</u>
<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>	\$ 908,314
<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>	1,893,511
<p>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.</p>	<div style="text-align: right;"> <u>813,529</u> \$ <u><u>11,870,354</u></u> </div>

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

Notes to the Financial Statements

June 30, 2005

(d) **Annual Principal Requirements**

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

	Principal	Interest
Year ending June 30:		
2006	\$ 358,577	\$ 675,716
2007	368,213	656,784
2008	393,143	637,236
2009	418,383	615,444
2010	438,954	592,321
2011–2015	2,596,433	2,566,357
2016–2020	2,828,961	1,774,209
2021–2025	2,778,960	990,507
2026–2030	1,688,730	146,005
	\$ 11,870,354	\$ 8,654,579

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

	Principal	Interest
Year ending June 30:		
2006	\$ 3,038,017	\$ 1,372,091
2007	1,333,976	1,278,256
2008	1,323,513	1,206,551
2009	1,365,430	1,130,080
2010	2,713,175	1,049,257
2011–2015	5,117,716	4,110,690
2016–2020	2,299,818	2,979,204
2021–2025	1,830,570	2,243,048
2026–2030	2,247,628	1,551,898
2031–2035	3,194,327	605,303
	\$ 24,464,170	\$ 17,526,378

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

Notes to the Financial Statements

June 30, 2005

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

	Principal	Interest
Year ending June 30:		
2006	\$ 149,695	\$ 88,630
2007	160,616	79,710
2008	166,926	70,149
2009	173,497	60,327
2010	115,814	49,511
2011–2015	576,318	126,464
2016–2020	58,039	3,832
	\$ 1,400,905	\$ 478,623

(e) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Bonds payable	\$ 12,204,568	\$ —	\$ 334,214	\$ 11,870,354	\$ 358,577
Notes payable	36,290,582	6,532,500	18,358,912	24,464,170	3,038,017
Public housing loans	1,544,839	—	143,934	1,400,905	149,695
Compensated absences payable	913,768	462,000	424,608	951,160	401,250
	\$ 50,953,757	\$ 6,994,500	\$ 19,261,668	\$ 38,686,589	\$ 3,947,539

(6) 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.

The Authority also has issued tax-exempt lease-revenue bonds to finance the operating costs of community centers and the adult day health care center, which are leased to the County. These bonds are reported as liabilities of the County in the County's June 30, 2005 Comprehensive Annual Financial Report.

As of June 30, 2005, the cumulative total of the above described bonds outstanding under the Authority's name was approximately \$119,143,300.

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

Notes to the Financial Statements

June 30, 2005

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, 2004 the outstanding balance of the loan was \$302,822.

(7) 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.

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 \$383,194 as of December 31, 2004. 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, 2005.

(8) 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, 2005.

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

Notes to the Financial Statements

June 30, 2005

(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, 2005, 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, 2005 Comprehensive Annual Financial Report.