

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Financial Statements and Management's Discussion and Analysis

June 30, 2004

(With Independent Auditors' Report Thereon)

LITTLE RIVER GLEN LIMITED PARTNERSHIP

(Project No. 003993)

June 30, 2004

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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 financial statements of Little River Glen Limited Partnership (the Partnership), a component unit of the Fairfax County Redevelopment and Housing Authority, as of and for the year ended June 30, 2004, as listed in the accompanying table of contents. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Partnership are intended to present the financial position and changes in financial position and cash flows of only the Partnership. They do not purport to, and do not, present fairly the financial position of the Fairfax County Redevelopment and Housing Authority as of June 30, 2004, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little River Glen Limited Partnership at June 30, 2004, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

August 27, 2004

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Introduction

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

The FCRHA presents this discussion and analysis of its rental program – Little River Glen Limited Partnership (Project No. 003993) (the Partnership) for the fiscal year ended June 30, 2004 to assist the reader in focusing on significant financial issues. The Partnership, which was formed as the Little River Glen Limited Partnership in August 1996, is a 120 unit residential housing and community center facility for the elderly that is operated by the FCRHA.

The Partnership's Financial Highlights for FY2004

In summary, the Partnership's FY2004 financial highlights include the following:

- At June 30, 2004, total assets and liabilities were approximately \$7.5 million and \$5.9 million, respectively; thus total net assets were approximately \$1.6 million.
- Total revenues and expenses were approximately \$1.0 million and \$1.5 million, respectively; resulting in a net loss before the operating transfer from the County of approximately \$429,000. Taking into consideration the operating transfer from the County of approximately \$233,000, the net loss and decrease in net assets was reduced to approximately \$197,000. If the effect of depreciation expense of \$361,000 that was charged to operations is eliminated, the partnership would have net income of approximately \$164,000. The decrease in net assets was consistent with FY2003 during which net assets decreased by approximately \$222,000.
- Cash flows from operating activities amounted to approximately \$246,000. After considering investing, noncapital financing, and capital and related financing activities, total cash increased by approximately \$43,000.

Overall, these financial highlights present a strong financial position for the Partnership in FY2004.

Partnership Financial Statements

This discussion and analysis presents the Partnership's financial results in three financial statements – the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The FY2004 financial results are compared to those of FY2003, thus allowing the readers to ascertain the reasons for changes in expenses, revenues, or net asset balances. These financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, the financial statements recognize revenues in the period they are earned and expenses in the period they are incurred.

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Summary of Net Assets

The Partnership's FY2004 and FY2003 statements of net assets, which are similar to balance sheets, report all financial and capital assets of the Partnership and are presented in a format where assets, minus liabilities, equal net assets. The following table reflects a condensed summary of net assets as of June 30, 2004 and 2003.

Table 1
Summary of Net Assets
June 30, 2004 and 2003

<u>Description</u>	<u>2004</u>	<u>2003</u>	<u>Increase (decrease)</u>
Current and other assets	\$ 1,572,488	1,531,293	41,195
Capital assets	5,923,412	6,284,247	(360,835)
Total assets	<u>7,495,900</u>	<u>7,815,540</u>	<u>(319,640)</u>
Current liabilities	349,957	354,509	(4,552)
Long-term liabilities	5,543,067	5,661,460	(118,393)
Total liabilities	<u>5,893,024</u>	<u>6,015,969</u>	<u>(122,945)</u>
Net assets:			
Invested in capital assets, net of related debt	273,412	524,247	(250,835)
Restricted	803,124	756,250	46,874
Unrestricted	526,340	519,074	7,266
Total net assets	<u>\$ 1,602,876</u>	<u>1,799,571</u>	<u>(196,695)</u>

The Partnership's statement of net assets generally reflects a strong financial position for FY2004. The Partnership's net assets include unrestricted net assets of \$526,340, which is comprised of cash in the Treasury of Fairfax County and tenant accounts receivable.

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Summary of Revenues, Expenses, and Changes in Net Assets

The Partnership's statements of revenues, expenses, and changes in net assets (similar to income statements) include operating revenues, such as rental income, operating expenses, such as administrative, utilities, and maintenance, and depreciation, and nonoperating revenue and expenses, such as County contributions, investment income, and interest expense. After the County of Fairfax contributed \$233,000 and \$299,000, the statements reported a loss of approximately \$197,000 and \$222,000 in FY2004 and FY2003, respectively. Table 2 presents a condensed summary of data from the Partnership's statements of revenues, expenses, and changes in net assets.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2004 and 2003

Description	2004	2003	Increase (decrease)
Revenues:			
Operating revenues	\$ 1,040,163	1,020,603	19,560
Interest income	17,411	19,323	(1,912)
Total revenues	<u>1,057,574</u>	<u>1,039,926</u>	<u>17,648</u>
Expenses:			
Operating expenses	1,145,730	1,213,483	(67,753)
Interest expense	341,174	347,207	(6,033)
Total expenses	<u>1,486,904</u>	<u>1,560,690</u>	<u>(73,786)</u>
Decrease in net assets before transfer	(429,330)	(520,764)	91,434
Operating transfer from Fairfax County	<u>232,635</u>	<u>298,953</u>	<u>(66,318)</u>
Decrease in net assets	<u>\$ (196,695)</u>	<u>(221,811)</u>	<u>25,116</u>

In FY2004, the Partnership's operating expenses totaled \$1,145,730, which include administrative expenses related to personnel salaries and employee fringe benefit contributions, auditing costs, and office supplies, repairs and maintenance expense, utilities, and depreciation. The decrease in operating expenses is primarily attributable to a decrease in repair and maintenance expenses. The County contributes funds to properties to help offset losses. The decrease in the County operating transfer is due to a change in allocation bases among other housing projects for the elderly.

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Capital Assets and Debt Administration

The Partnership's capital assets as of June 30, 2004 included land, buildings and improvements, and furniture and equipment that totaled \$5,923,412, net of accumulated depreciation of \$5,080,290. A breakdown of these assets is shown on Table 3.

Table 3
Change in Capital Assets of the Little River Glen Limited Partnership

<u>Description</u>	<u>Beginning balance</u>	<u>Net changes</u>	<u>Ending balance</u>
Nondepreciable assets:			
Land	\$ 1,035,634	—	1,035,634
Depreciable capital assets:			
Buildings and improvements	9,922,950	—	9,922,950
Furniture and equipment	45,118	—	45,118
Accumulated depreciation on depreciable capital assets	<u>(4,719,455)</u>	(360,835)	<u>(5,080,290)</u>
Totals	<u>\$ 6,284,247</u>		<u>5,923,412</u>

Bonds payable for the Partnership at June 30, 2004 represent FHA-insured mortgage revenue bonds with an original principal balance amount of \$6,340,000 and interest rates which vary between 4.65% and 6.10% with final payments due September 1, 2026. The Partnership's capital assets are pledged as security for the bonds. There were no additions or disposals of capital assets during FY2004.

Partnership Challenges for the Future

The Authority's challenges for the future include maintaining the now 14-year-old property in good physical repair with limited financial resources. As this property ages, its maintenance issues undoubtedly will increase. Individual kitchen units were upgraded in FY2003, but other mechanical systems throughout the property, including but not limited to HVAC equipment and hot water heaters, will be reaching the end of their useful life in the next few years. Ongoing upkeep such as carpet replacement in the common areas, wallpaper, interior and exterior painting, landscape updates, and parking lot repair/replacement, needs to be maintained in order to provide necessary tenant services. If these items are not replaced or repaired on a scheduled basis, the physical condition of the property will deteriorate requiring replacement of items on an emergency basis.

LITTLE RIVER GLEN LIMITED PARTNERSHIP

(Project No. 003993)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Contacting FCRHA Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, tenants, and investors and creditors with a general overview of the Partnership's finances and to demonstrate the Partnership'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.

LITTLE RIVER GLEN LIMITED PARTNERSHIP

(Project No. 003993)

Statement of Net Assets

June 30, 2004

Assets

Current assets:

Cash on deposit with County of Fairfax, Virginia (note 2)	\$ 768,569
Accounts receivable (net of allowance for uncollectible accounts of \$743)	795
Total current assets	<u>769,364</u>

Restricted assets:

Cash with fiscal agent (note 2)	<u>803,124</u>
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Capital assets (notes 3 and 4):

Nondepreciable:

Land	1,035,634
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Depreciable:

Buildings and improvements	9,922,950
Equipment	45,118
Accumulated depreciation	<u>(5,080,290)</u>

Total capital assets, net	<u>5,923,412</u>
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Total assets	<u>7,495,900</u>
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Liabilities

Current liabilities:

Accounts payable and accrued liabilities	144,020
Deposits held in trust	48,018
Deferred revenue	21,794
Bonds payable (note 4)	120,000
Accrued compensated absences	16,125
Total current liabilities	<u>349,957</u>

Long-term liabilities:

Accrued compensated absences	13,067
Bonds payable (note 4)	5,530,000
Total long-term liabilities	<u>5,543,067</u>
Total liabilities	<u>5,893,024</u>

Net Assets

Invested in capital assets, net of related debt	273,412
Restricted net assets	803,124
Unrestricted net assets	526,340
Total net assets	<u>\$ 1,602,876</u>

See accompanying notes to financial statements.

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

Operating revenues:	
Dwelling rentals	\$ 1,031,401
Other	8,762
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Total operating revenues	1,040,163
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Operating expenses:	
Personnel services	445,792
Utilities	106,173
Repairs and maintenance	178,644
Administrative expenses	54,286
Depreciation	360,835
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Total operating expenses	1,145,730
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Operating loss	(105,567)
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Nonoperating revenues (expenses):	
Interest income	17,411
Interest expense	(341,174)
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Total nonoperating expenses, net	(323,763)
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Loss before transfers	(429,330)
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Operating transfer from County	232,635
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Change in net assets	(196,695)
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Total net assets, beginning of year	1,799,571
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Total net assets, end of year	\$ 1,602,876
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See accompanying notes to financial statements.

LITTLE RIVER GLEN LIMITED PARTNERSHIP

(Project No. 003993)

Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:	
Rental receipts	\$ 1,024,490
Other operating cash receipts	8,762
Personnel expenses paid	(440,287)
Payments to suppliers for goods and services	(346,243)
Net tenant security deposits received	(474)
Net cash provided by operating activities	<u>246,248</u>
Cash flows from noncapital financing activities:	
Operating transfer from County received	<u>232,635</u>
Cash flows from capital and related financing activities:	
Bond interest payments	(343,118)
Bond principal payments	(110,000)
Net cash used in capital and related financing activities	<u>(453,118)</u>
Cash flows from investing activities:	
Interest on investments	<u>17,411</u>
Net increase in cash	43,176
Cash, beginning of year	<u>1,528,517</u>
Cash, end of year	<u>\$ 1,571,693</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (105,567)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation	360,835
Increase in accounts receivable	1,981
Decrease in accounts payable and accrued liabilities	(4,779)
Increase in accrued compensated absences	3,144
Decrease in deposits held in trust	(474)
Decrease in deferred revenue	(8,892)
Net cash provided by operating activities	<u>\$ 246,248</u>

See accompanying notes to financial statements.

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Notes to Financial Statements

June 30, 2004

(1) Narrative Profile

The Little River Glen Limited Partnership (the Partnership) was formed in August 1996 as a limited partnership under the laws of the Commonwealth of Virginia for the purpose of acquiring, managing, and financing the Little River Glen Project No. 003993 (the Project). The Project is a 120 unit residential housing and community center facility for the elderly that is operated by the Fairfax County Redevelopment and Housing Authority (the Authority). The Authority controls both the general partnership and limited partnership interest in the Partnership. As such, the Partnership is reported as a component unit of the Authority. The facility serves low-and moderate-income elderly persons who are able to live independently and have attained at least 62 years of age.

The accompanying financial statements present only the financial position, changes in financial position, and cash flows of the Partnership and are not intended to present fairly the financial position, changes in financial position, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP).

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting

The activities of the Partnership are accounted for on an economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The Partnership applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989 unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of external financial reporting in accordance with GAAP, the Partnership is following the reporting guidance set forth in GAAP for "departmental" financial statements.

(b) Cash on Deposit with County of Fairfax, Virginia

Partnership cash is maintained within the treasury of the County of Fairfax, Virginia (the County). To optimize investment returns, the Partnership funds are invested together with all other County pooled funds, all of which are fully insured or collateralized. The County allocates investment income to the Partnership based on its average cash balances.

(c) Cash with Fiscal Agent

According to the terms of the indenture related to the bonds payable discussed in note 4, the Partnership is required to maintain funds to service the bonds in an interest-bearing debt service reserve fund. This amount and the interest earned on the reserve fund in addition to other various reserves are reflected as cash with fiscal agent in the accompanying statement of net assets and are fully insured or collateralized.

LITTLE RIVER GLEN LIMITED PARTNERSHIP

(Project No. 003993)

Notes to Financial Statements

June 30, 2004

(d) Capital Assets

Capital assets are defined by the Partnership as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at cost when purchased and at fair market value when donated. Depreciation on buildings and equipment is calculated using the straight-line method over estimated useful lives of 27.5 years for buildings and improvements and five to ten years for furniture and equipment. Depreciation is not recorded on land.

(e) Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned.

(f) 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 employee's current rate of pay, up to certain limits. Sick leave does not vest with the employee. Accumulated vacation is recorded as an expense and an accrued liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary-related payments (e.g., employer's share of social security taxes).

(g) Operating Revenues and Expenses

The Partnership's policy is to report all Project revenues and expenses as operating with the exception of interest income and interest expense and operating transfers from Fairfax County.

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Notes to Financial Statements

June 30, 2004

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, being depreciated – land	\$ 1,035,634	—	—	1,035,634
Capital assets, being depreciated:				
Buildings and improvements	9,922,950	—	—	9,922,950
Equipment	45,118	—	—	45,118
Total capital assets being depreciated	<u>9,968,068</u>	<u>—</u>	<u>—</u>	<u>9,968,068</u>
Less accumulated depreciation for:				
Buildings and improvements	4,674,337	360,835	—	5,035,172
Equipment	45,118	—	—	45,118
Total accumulated depreciation	<u>4,719,455</u>	<u>360,835</u>	<u>—</u>	<u>5,080,290</u>
Total capital assets, net	<u>\$ 6,284,247</u>			<u>5,923,412</u>

(4) Bonds Payable

Bonds payable at June 30, 2004 represent FHA insured mortgage revenue bonds with an original principal amount of \$6,340,000 and interest rates which vary between 4.65% and 6.10% with final payment due September 1, 2026. The Partnership's capital assets are pledged as security for the bonds. Bonds payable activity during 2004 was as follows:

Outstanding balance, beginning of year	\$ 5,760,000
Less principal payments	<u>(110,000)</u>
Outstanding balance, end of year	<u>\$ 5,650,000</u>

LITTLE RIVER GLEN LIMITED PARTNERSHIP
(Project No. 003993)

Notes to Financial Statements

June 30, 2004

The aggregate amount of the required principal and interest payments on the bonds as of June 30, 2004 is \$10,560,988 and is due as follows:

	Principal	Interest
2005	\$ 120,000	337,276
2006	125,000	330,916
2007	130,000	324,158
2008	140,000	317,135
2009	150,000	308,884
2010-2014	890,000	1,398,199
2015-2019	1,205,000	1,091,504
2020-2024	1,625,000	671,002
2025-2026	1,265,000	131,914
	\$ 5,650,000	4,910,988

(5) Related-Party Transactions

Operating Transfer from County of Fairfax, Virginia

The County of Fairfax, Virginia, Board of Supervisors appoints the Commissioners of the Authority. During 2004, the County made operating transfers to the Partnership amounting to \$232,635 to fund operating expenses. The County is committed to continuing to provide such operating transfers to ensure that the Project meets its obligations.

(6) Risk Management

The Partnership 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 Partnership 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 claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004.