

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the**  
**City of Long Beach, California)**

**Annual Financial Report**  
**For the Fiscal Year Ended September 30, 2008**

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**September 30, 2008**

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**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**September 30, 2008**

**Board of Directors**

Patrick Brown, Chair

Kevin Cwayna, M.D.

Ivy Goolsby

Jonathan D. Gotz

Michael McCarthy

Stacy McDaniel

Kristie Kinney Pabst

Jack Smith

Patrice Wong

**Management**

Dennis J. Thys, President

Ellie Tolentino, Vice President

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KPMG LLP  
Suite 2000  
355 South Grand Avenue  
Los Angeles, CA 90071-1568

## Independent Auditors' Report

The Honorable Mayor and City Council  
City of Long Beach, California

The Board of Directors of the Housing Development Company  
City of Long Beach, California:

We have audited the accompanying financial statements of the government activities and major fund of the Long Beach Housing Development Company (the Company), a component financial reporting unit of the City of Long Beach, California, as of and for the year ended September 30, 2008, which collectively comprise the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

As discussed more fully in note 1, the accompanying financial statements of the Company are intended to present the financial position and the changes in the financial position attributable to the Company. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2008, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities and major fund of the Long Beach Housing Development Company as of September 30, 2008, and the respective changes in financial position and the budgetary comparison for the Company's government fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009 on our consideration of the Company's internal control over financial reporting and on our tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation or the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

July 17, 2009

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**Management's Discussion and Analysis**  
**September 30, 2008**

The information presented in the "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of The Long Beach Housing Development Company's (the Company) financial activities for the fiscal year ended September 30, 2008. We encourage readers to consider this information in conjunction with the basic financial statements, which can be found on pages 12 through 18 of this report.

**Financial Highlights**

- The Company's assets exceeded its liabilities at September 30, 2008 by \$60,590,000. Of this amount, \$59,468,000 was recorded as unrestricted for financial reporting purposes. However, the funds are committed for the ongoing operations of the Company in fiscal year 2009.
- The net assets of the Company increased by \$14,083,000 in fiscal year 2008. This is the result of total revenues of \$19,039,000 exceeding total program and interest expenses of \$4,956,000. The increase in net assets is mainly attributable to \$9,013,000 Housing and Urban Development (HUD) grant funds received from the City of Long Beach's Housing Rehabilitation Fund and \$4,365,000 received from the City's Redevelopment Agency.
- At the close of fiscal year 2008, the Company reported a fund balance of \$19,768,000, a decrease of \$5,852,000 from the prior year. The Company's unreserved fund balance of \$480,000 has been appropriated for the 2009 fiscal year budget.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Company's basic financial statements. The Company's basic financial statements include three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements.

**Entity-Wide Financial Statements**

The *entity-wide* financial statements are designed to provide readers with a broad overview of the Company's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Company's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Company is improving or deteriorating.

The *statement of activities* presents information showing how the Company's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the transaction causing the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Company reports all of its financial transactions as a governmental activity. Specific activities include housing, community and economic development, general projects, and debt service.

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**Management's Discussion and Analysis**  
**September 30, 2008**

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Company, like other units of state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Company accounts for its activities in a special revenue fund, under a broader classification called a governmental fund. Such special revenue fund is used by the Company to account for the proceeds of specific revenue sources restricted for specified purposes.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. In so doing, readers may better understand the long-term impact of the Company's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate comparisons between governmental funds and governmental activities. These reconciliations can be found on pages 15 and 17, respectively, of this annual report.

The Company maintains a special revenue fund as a governmental fund. The Company's governmental fund financial statements can be found on pages 14 and 16 of this report.

The Company adopts an annual appropriated budget. A budgetary comparison statement has been provided for the Company's governmental fund on page 18 of this report to demonstrate the Company's compliance with its budget policy.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 38 of this report.

**Entity-Wide Financial Analysis**

The Company's basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and its related pronouncements. The focus of the analysis is on the current fiscal year's net assets and changes in net assets.



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**September 30, 2008**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The assets of the Company exceeded its liabilities at September 30, 2008 by \$60,590,000. Of this amount, \$46,428,000 arises from other non-current loan receivables, as described in Note 8 of the notes to the basic financial statements. The \$22,559,000 increase in current and other assets is primarily due to an increase in non-current loan receivables.

The following table summarizes the Company's net assets (in thousands):

Net Assets September 30, 2008 (In thousands)				
	2008	2007	Change	
			Amount	Percentage
<b><u>Assets</u></b>				
Current and other assets	\$ 75,493	\$ 52,934	\$ 22,559	42.62%
Capital assets	2,086	1,650	436	26.42%
Total assets	77,579	54,584	22,995	42.13%
<b><u>Liabilities</u></b>				
Current liabilities	9,297	854	8,443	988.64%
Noncurrent liabilities	7,692	7,223	469	6.49%
Total liabilities	16,989	8,077	8,912	110.34%
<b>Net assets:</b>				
Invested in capital assets, net of related debt	1,071	635	436	68.66%
Restricted	51	42	9	21.43%
Unrestricted	59,468	45,830	13,638	29.76%
Total net assets	\$ 60,590	\$ 46,507	\$ 14,083	30.28%

**Governmental Activities**

During the 2008 fiscal year, governmental activities increased net assets by \$14,083,000 or 30 percent of the prior year's net assets. The key element contributing to the change was a \$19,563,000 increase in long-term loan receivables. In 2008, the Company financed multiple new construction residential and rental projects, most notably Family Commons at Villages at Cabrillo, Meta Housing Project, and Lyon West Gateway.

In fiscal year 2008, it was determined that the property located at 3361 Andy Street is being used by the Company to support low- and moderate-income housing. The property was removed from Land Held for Resale and capitalized, increasing capital assets by \$436,000.

Current liabilities increased primarily as a result of an \$8,431,000 account payable for Family Commons at Villages at Cabrillo project.

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**Management's Discussion and Analysis**  
**September 30, 2008**

Changes in Net Assets  
September 30, 2008  
(In Thousands)

	Governmental Activities		Change	
	2008	2007	Amount	Percentage
<b>Revenues</b>				
<b>Program Revenues</b>				
Charges for services	\$ 253	\$ 528	\$ (275)	-52.1%
<b>General Revenues</b>				
Property tax increment - 20% set-aside	5,157	4,651	506	10.88%
Unrestricted investment earnings	251	321	(70)	-21.81%
Land reconveyance	(750)	7,092	(7,842)	-110.58%
<b>Total Revenues</b>	<b>4,911</b>	<b>12,592</b>	<b>(7,681)</b>	<b>-61.00%</b>
<b>Expenses</b>				
<b>Program Expenses</b>				
Community and cultural/housing	4,142	1,050	3,092	294.48%
Interest on long-term debt	64	69	(5)	-7.25%
<b>Total Expenses</b>	<b>4,206</b>	<b>1,119</b>	<b>3,087</b>	<b>275.87%</b>
Increase in Net Assets before Transfers	705	11,473	(10,768)	-93.86%
Transfers (to) from the City	9,013	-	9,013	100.00%
Transfers (to) from Redevelopment Agency	4,365	6,734	(2,369)	-35.18%
Change in net assets	14,083	18,207	(4,124)	-22.65%
Net assets, October 1	46,507	28,300	18,207	64.34%
Net assets, September 30	<b>\$ 60,590</b>	<b>\$ 46,507</b>	<b>\$ 14,083</b>	<b>30.28%</b>

**Financial Analysis of the Company's Activities**

In fiscal year 2008, the Company reconveyed \$750,000 in property to the Redevelopment Agency, a net change of \$7,842,000 in land reconveyance over the prior fiscal year.

As noted earlier, the Company uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - the focus of the Company's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Company's financing requirements. In particular, the unreserved/designated - future projects fund balance serves as a useful measure of the Company's net resources available for spending at the end of the fiscal year.

As of September 30, 2008, the Company's governmental funds reported an ending fund balance of \$19,768,000, a decrease of \$5,852,000 compared to the prior year. The decrease is primarily due to increased expenditures for low- and moderate-income housing loans and grants. The unreserved fund balance at fiscal year end is \$480,000, and has been appropriated for the fiscal year 2009 budget.

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**Management's Discussion and Analysis**  
**September 30, 2008**

**Governmental Fund Budgetary Highlights**

A comparison between the initial budget and the final amended budget for the Company's governmental fund expenditures shows net appropriations increase of \$25,029,000 or 47 percent. The increase in appropriations is attributable to an increased number of new rental housing development loans and land acquisitions.

Actual expenditures in the Company's budgetary basis of accounting were \$30,163,000, representing 39 percent of the \$78,335,000 final budget. Unspent budget amounts of \$48,172,000 were primarily related to housing loans and project improvement costs. The unexpended budget is committed to funding residential and rental housing projects as well as second mortgage assistance to qualified first-time homebuyers.

**Capital Assets**

The Company's investments in capital assets, net of accumulated depreciation, for its governmental activities as of September 30, 2008 total \$2,086,000. The Company's capital assets are as follows (in thousands):

Capital Assets, Net of Depreciation September 30, 2008	
Non-depreciated capital assets	
Land	\$ 1,015
Capital assets subject to depreciation, net	
Building	424
Improvements other than buildings	647
Total capital assets subject to depreciation	1,071
Total capital assets, net	\$ 2,086

Additional information on the Company's capital assets can be found in Note 3 of the notes to the basic financial statements (page 28 of this report).

**Debt Administration**

At September 30, 2008, the Company's long-term liabilities totaled \$7,208,000 as follows (in thousands):

Long-term Debt	
Advances from the City of Long Beach	\$ 5,259
Notes payable	1,949
Total long-term debt	\$ 7,208

The notes payable include State loans of \$1,015,000 for the construction and rehabilitation of Company property and \$933,575 for a housing development project. The advance from

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**Management's Discussion and Analysis**  
**September 30, 2008**

the City of Long Beach for the acquisition of parcels of land was subsequently conveyed to a developer for rehabilitation of the property, a childcare and community center, and open space.

Additional information on the Company's long-term debt can be found in Notes 4 and 5 of the notes to the basic financial statements (pages 28 and 29 of this report).

**Economic Factors and Next Year's Budget**

Tax increment housing set-aside revenues increased during previous years due to the Redevelopment Agency's increased property tax increment revenues, which were generated by rising home values, new residential and retail developments, and substantial increases in possessory interest from Port area leases within the Redevelopment Agency project areas. However, due to the decline in the housing market and the value of residential properties, tax increment housing set-aside revenues are expected to decline in fiscal year 2009 and beyond.

On June 1, 2004, the Long Beach City Council adopted a five-year Housing Action Plan (HAP) covering fiscal years 2005-2009 and authorized the Long Beach Housing Development Company (LBHDC) to administer the HAP. The HAP will serve as the framework for the allocation of the City's limited resources for affordable housing.

**Requests for Information**

This financial report is designed to provide a general overview of the Company's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Long Beach  
Department of Financial Management  
333 W. Ocean Boulevard, 6<sup>th</sup> Floor  
Long Beach, CA 90802

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**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**

Statement of Net Assets  
September 30, 2008  
(In Thousands)

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 1,460
Investments non-performing	3
Accounts receivable	3
Other assets	16
Due from other governments	8,431
Properties held for resale	17,567
Total current assets	27,480
Noncurrent Assets:	
Advances to the Redevelopment Agency	1,585
Other noncurrent receivables, net	46,428
Capital assets:	
Land and other assets not being depreciated	1,015
Building and improvements, net of accumulated depreciation	1,071
Total noncurrent assets	50,099
Total assets	77,579
<b>LIABILITIES</b>	
Current liabilities:	
Vouchers/accounts payable	9,266
Deposits/collections held in trust	31
Total current liabilities	9,297
Noncurrent liabilities:	
Accrued interest payable	484
Advances from the City of Long Beach	5,259
Other long-term obligations - notes payable	1,949
Total noncurrent liabilities	7,692
Total liabilities	16,989
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,071
Restricted	51
Unrestricted	59,468
Total Net Assets	\$ 60,590

The notes to the basic financial statements are an integral part of this statement.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**

Statement of Activities  
Year Ended September 30, 2008  
(In Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services	<u>Net (Expense) Revenues and Change in Net Assets Special Revenue Fund - Governmental Activities</u>
<b>Primary Government:</b>			
Community and cultural/housing	\$ 4,142	\$ 253	\$ (3,889)
Interest on long-term debt	64	-	(64)
<b>Total government activities</b>	<b><u>\$ 4,206</u></b>	<b><u>\$ 253</u></b>	<b><u>(3,953)</u></b>
 <b>General Revenues:</b>			
Property tax increment - 20% set-aside			5,157
Investment earnings			251
Land reconveyance			(750)
Transfers from the City, net			9,013
Transfers from the Redevelopment Agency			<u>4,365</u>
<b>Total general revenues and transfers</b>			<b><u>18,036</u></b>
Change in net assets			14,083
Net assets - October 1, 2007			<u>46,507</u>
Net assets - September 30, 2008			<b><u>\$ 60,590</u></b>

The notes to the basic financial statements are an integral part of this statement.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**

Balance Sheet - Governmental Fund  
September 30, 2008  
(In Thousands)

**Assets**

Cash and investments	\$	1,460
Short-term investments non-performing		3
Accounts receivable		3
Due from other governments		8,431
Receivables - loan, long-term, net		46,428
Advances to the Redevelopment Agency		1,585
Properties held for resale		17,567
Other assets		16
Total assets	\$	<u>75,493</u>

**Liabilities and Fund Balance**

Liabilities

Accrued interest payable		
Vouchers/accounts payable	\$	9,266
Deferred revenues		46,428
Deposits/collections held in trust		31
Total liabilities		<u>55,725</u>

Fund balance

Reserved:

Replacement and operations		51
Properties held for resale		17,567
Long-term advances		1,585
Encumbrances		85
Unreserved/designated - future projects		480
Total fund balance		<u>19,768</u>
Total liabilities and fund balance	\$	<u>75,493</u>

The notes to the basic financial statements are an integral part of this statement.



**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
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Reconciliation of the Balance Sheet of Governmental Fund  
to the Statement of Net Assets  
September 30, 2008  
(In Thousands)

Total governmental fund balance	\$ 19,768
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	2,086
Advances due to the primary government is considered to be external activity that is reported only in the government-wide financial statements.	(5,259)
The focus of governmental fund is short-term financing; some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the fund financial statements.	46,428
Governmental long-term liabilities are not due and payable in the current period and therefore, are not reported in the fund financial statements.	<u>(2,433)</u>
Net assets of governmental activities	<u>\$ 60,590</u>

The notes to the basic financial statements are an integral part of this statement.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY,  
(A Component Financial Reporting Unit of the City of Long Beach, California)**

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Fund  
Year Ended September 30, 2008  
(In Thousands)

<b>Revenues</b>	
Property tax increment - 20% set-aside	\$ 5,157
Licenses and permits	3
Rental income	126
Interest income	314
Loan repayments	2,223
Other	45
Total revenues	7,868
 <b>Expenditures</b>	
Administrative costs	601
Professional services	342
Operation of acquired property	263
Low- and moderate-income housing loans/grants	24,382
Project improvement/construction costs	441
Interdepartmental charges	42
Loss on sale of land	200
Property and other taxes	77
Debt service payments:	
Principal	347
Interest	58
Total expenditures	26,753
Excess of revenues over expenditures	(18,885)
 <b>Other financing sources (uses)</b>	
Proceeds from advance	405
Transfers from the Redevelopment Agency	4,365
Transfers from the City	9,013
Reconveyance of land	(750)
Total other financing sources (uses), net	13,033
 Excess of expenditures and uses over revenues and others sources	
Fund balance, October 1	(5,852)
Fund balance, September 30	25,620
Fund Balance, September 30	\$ 19,768

The notes to the basic financial statements are an integral part of this statement.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY,  
(A Component Financial Reporting Unit of the City of Long Beach, California)**

Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balance of Governmental Fund  
to the Statement of Activities  
Year Ended September 30, 2008  
(In Thousands)

Excess expenditures and other uses over revenues and other sources -  
governmental fund \$ (5,852)

Amounts reported for governmental activities in the statement of activities are  
different because:

Governmental funds report capital outlay as expenditures. However,  
in the statement of activities the cost of those assets is allocated over  
their estimated useful life and reported as depreciation expense.  
This is the amount by which capital outlay exceeds depreciation in  
the current period. 436

Governmental funds report expenditures pertaining to the  
establishment of certain long-term loans made. Payments on these  
long-term receivables are recorded as revenue in the governmental  
funds. These deferred credits are not reported on the statement of  
net assets and, therefore, the corresponding net expense is not  
reported on the statement of activities. 19,563

Some expenses reported in the statement of activities do not require  
the use of current financial resources and, therefore, are not reported  
as expenditures in governmental funds. (64)

Change in net assets of governmental activities \$ 14,083

The notes to the basic financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - Governmental Fund  
Year Ended September 30, 2008  
(In Thousands)

	Budgeted Amounts		Actual On GAAP Basis	Actual On Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final			
<b>Revenues:</b>					
Property tax increment - 20% set-aside	\$ 5,896	\$ 16,949	\$ 5,157	\$ 5,157	\$ (11,792)
License and permits	-	-	3	3	3
Rental income	72	112	126	126	14
Interest income	144	144	314	314	170
Loan repayments - principal	95	1,953	2,223	2,223	270
Other	40	1,690	45	(548)	(2,238)
Total revenues	6,247	20,848	7,868	7,275	(13,573)
<b>Expenditures:</b>					
Administration costs	9	38	601	603	(565)
Acquisition costs	-	6	-	-	6
Disposition costs	-	1	-	-	1
Professional services	80	186	342	425	(239)
Operation of acquired property	66	108	263	263	(155)
Low- and moderate-income housing loans/grants	44,142	57,199	24,382	24,382	32,817
Project improvement/construction costs	8,970	9,430	441	441	8,989
Interdepartmental charges	39	39	42	42	(3)
Capital outlay	-	-	-	-	-
Loss on disposition of land	-	-	200	200	(200)
Land purchases	-	10,229	-	3,325	6,904
Property and other taxes	-	12	77	77	(65)
Debt service payments:					
Principal	-	758	347	347	411
Interest	-	329	58	58	271
Total expenditures	53,306	78,335	26,753	30,163	48,172
Excess of expenditures over revenues	(47,059)	(57,487)	(18,885)	(22,888)	34,599
<b>Other financing sources and (uses):</b>					
Proceeds from issuance of long-term debt	-	1,087	-	-	(1,087)
Proceeds from advance	-	-	405	405	405
Transfers (to) from the Redevelopment Agency	-	10,229	4,365	4,365	(5,864)
Transfers (to) from the City	46,708	46,553	9,013	9,013	(37,540)
Reconveyance of land	-	-	(750)	500	500
Total other financing sources (uses)	46,708	57,869	13,033	14,283	(43,586)
Excess of revenues and other sources over (under) expenditures and other uses	(351)	382	(5,852)	(8,605)	(8,987)
Fund balance - October 1, budgetary basis	8,836	8,836	25,620	8,836	-
Encumbrances, beginning of year	301	301	-	301	-
Fund balance - September 30, budgetary basis	\$ 8,786	\$ 9,519	19,768	\$ 532	\$ (8,987)

The notes to the basic financial statements are an integral part of this statement.

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**Note 1 - Summary of Significant Accounting Policies**

Organization

The Long Beach Housing Development Company (the Company) was established by the City of Long Beach, California (City), on July 25, 1989 for the purpose of planning, performing, and assisting in meeting the housing needs of low- and moderate-income residents. The Company is a California non-profit public benefit corporation governed by a board comprising up to fourteen members appointed by the Mayor and confirmed by the City Council. The City Council approves the Company's bylaws and changes thereto, and the City provides all staff and administrative support, including most of the Company's annual funding.

Reporting Entity

The Company's financial activities are accounted for in the City's Special Revenue Housing Development Fund (the Fund) along with other City housing-related activities. Inasmuch as the Company meets the criteria established by the Governmental Accounting Standards Board for inclusion as a component financial reporting unit of the City of Long Beach, the accompanying basic financial statements are included in the City's Comprehensive Annual Financial Report (CAFR). The City's CAFR may be obtained by contacting the City's Department of Financial Management at 333 W. Ocean Blvd., Long Beach, CA 90802.

The Company's expenditures are paid through the City's centralized accounting system and are therefore subject to all City internal control procedures.

Basis of Accounting and Measurement Focus and Financial Statement Presentation

Entity-wide basic financial statements are reported 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 related cash flows.

The Company's activities have been determined to be best reported as a special revenue fund type. Consistent with U.S. generally accepted accounting principles (GAAP) for governmental fund types, the fund financial statements are reported using the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they become measurable and available. The Company considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred with the exception of debt service expenditures. The matured principal and accrued interest on long-term debt are recorded when payment is due.

Generally, only current assets and current liabilities are included on the governmental fund balance sheets. However, non-current portions of long-term receivables related to the governmental fund are also reported on the balance sheet and are offset by deferred revenue. The statement of revenues, expenditures, and changes in fund balance for the governmental fund generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current financial resources.

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The Company's net assets include capital assets, net of long-term obligations, restricted, and unrestricted assets. Restricted assets for the Company pertain to monies that have been required under the regulatory agreement with the State of California Department of Housing and Community Development to be segregated for capital improvements and for unanticipated or unusually high maintenance expenditures.

Cash and Investments

In order to enhance investment return, the Company pools its available general cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating units.

Interest income and realized gains and losses arising from pooled cash and investments are apportioned to each participating unit of the pool based on the relationship of its respective daily cash balance to aggregate pooled cash and investments. The Company's share of pooled cash and investments is stated at fair value at September 30, 2008.

Long-Term Obligations

In the entity-wide financial statements, long-term debt and other liabilities are reported as liabilities in the Statement of Net Assets.

Properties Held for Resale

To aid in the development of low- and moderate-income housing for residents, the Company acquires selected parcels of land and makes such sites available for sale to qualified developers. The purchase price of the land acquired is capitalized as "Properties Held for Resale" and the fund balance is reserved for the investment of the land in the fund financial statements.

The purchased land is recorded at the lower of cost or estimated fair market value, excluding demolition and relocation costs, which are considered by the Company to be expenditures in the year incurred.

Capital Assets

The Company has adopted the City's policy regarding the recording of capital assets. Such policy defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost.

Capital assets are depreciated on a straight-line basis, over the estimated useful lives of the assets as follows:

Land Improvements	15-35 years
Buildings	20-50 years

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Budgetary Principles

The Company is required to adopt an annual budget as part of the City's budget process on or before September 30 for the ensuing fiscal year. The legal level of budgetary control is at the fund. The Company identifies prospective projects, develops a work program and budget, and submits them to the City for approval. The Company implements programs within the approved budget limits.

Budget information is presented in the accompanying basic financial statements on the budgetary basis of accounting for both the original and final amended budget.

Accounting for Encumbrances

In accordance with accounting practices adopted by the City, the Company utilizes an encumbrance system of accounting wherein encumbrances outstanding at fiscal year end are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. Under the budgetary basis of accounting, the Company records an encumbrance as a charge against appropriations in the accounting period in which a purchase order is issued, rather than when goods or services are received.

Estimates

The preparation of the City's basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2 - Cash and Investments**

The Company pools its cash and investments with other City funds maintained by the City Treasurer. The Company's individual cash deposits and investments within this pool are not specifically segregated. Interest income earned on pooled cash and investments is allocated monthly to the various pool participants based on their average daily cash balances.

As a component financial reporting unit of the City, the Company is authorized to participate in investments in obligations issued or guaranteed by the Federal Government and its agencies and instrumentalities, high quality commercial paper and medium term corporate notes rated by Standard and Poor's Corporation or Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified investment management companies. The City's bank deposits are either covered by federal insurance, or are collateralized in accordance with the California Government Code. Pooled cash and investment detail is included in the City's CAFR.



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Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustee, which are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years*	30%	None
Local agency bonds	5 years *	30%	None
Federal agency securities	5 years *	40%	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years *	30%	10%
Time certificates of deposit	5 years *	100%	10%
Repurchase agreements	90 days	100%	None
Reverse repurchase agreements	92 days	20%	None
Securities lending program	92 days	20%	None
Medium-term notes	5 years *	30%	10%
Money market funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed securities	5 years	20%	None
Mortgage-backed securities	5 years	20%	None

\* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing evenly over time as necessary to provide cash flow and liquidity need for operations.

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The following schedule indicates the interest rate risk of the City's investments, which includes the amount the Company has invested with the City as of September 30 (in thousands):

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Cash and Investments in City Pool		
Inter-Department Loan (Health SAVRS)	\$ 2,892	10.60
U.S. Treasury Notes	55,817	0.41
Federal Agency Securities	1,289,370	1.96
Medium-Term Notes	84,148	0.99
Short-term Commercial Paper	-	-
Local Agency Investment Fund (LAIF)	160,849	0.09
Government Managed Rate Account	<u>69,931</u>	-
Subtotal City Pool	1,663,007	
Cash and Deposits	60,313	
Outstanding Checks	<u>(19,752)</u>	
Total City Pool	<u>\$ 1,703,568</u>	
Non Performing Short-term Investment	<u>\$ 3,963</u>	-

The Housing Development Company's cash and investments amount of \$1,460,000 is approximately 0.09 percent of the City's pooled cash and investments of \$1,707,531,000.

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2008. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

Risks and Uncertainties

The City may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

The City invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to change in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

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Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

City's Pooled Investments Investment Type	Minimum legal rating		Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Cash and Investments in City Pool								
Inter-Department Loan (Health Savrs)	N/A	\$ 2,892	\$ 2,892	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	N/A	55,817	55,817	-	-	-	-	-
Federal Agency Securities	N/A	1,289,370	-	-	-	1,289,370	-	-
Medium-term Notes	A	84,148	-	-	-	84,148	-	-
Short-term Commercial Paper	N/A	-	-	-	-	-	-	-
Local Agency Investment Fund (LAIF)	N/A	160,849	160,849	-	-	-	-	-
Government Managed Rate Account	N/A	69,931	69,931	-	-	-	-	-
Subtotal City Pool		1,663,007	289,489	-	-	1,373,518	-	-
Cash and Deposits		60,313	-	-	-	-	-	60,313
Outstanding Checks		(19,752)	-	-	-	-	-	(19,752)
Total City Pool		<u>\$ 1,703,568</u>	<u>289,489</u>	<u>-</u>	<u>-</u>	<u>1,373,518</u>	<u>-</u>	<u>40,561</u>
Non-performing Short-term Investment	N/A	<u>\$ 3,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,963</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent five percent or more on the City's total pooled investments are as follows (in thousands):

Issuer	Investment Type	2008
Federal Farm Credit Bank	Federal agency securities	\$ 93,000
Federal Home Loan Bank	Federal agency securities	477,696
Federal Home Loan Mortgage Association	Federal agency securities	359,571
Federal National Mortgage Association	Federal agency securities	359,103
U.S. Treasury	U.S. Treasury notes & bonds	55,817
Commercial Paper	Unsecured corporate debt	-
Local Agency Investment Fund (LAIF)	State pool investment	160,849

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its

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investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Agency Investment Fund (LAIF).

As of September 30, 2008, the City reports deposits of \$60,313,000 less \$19,752,000 for checks outstanding.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2008.

Securities Lending

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2008. However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreements with the City's contract bank. These agreements limit the nature and amount of the transactions, and provide for full collateralization of each transaction.

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**Note 3 - Capital Assets**

Capital asset activity for the year ended September 30, 2008 was as follows (in thousands):

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 815	\$ 200	\$ -	\$ 1,015
Total capital assets not being depreciated:	<u>815</u>	<u>200</u>	<u>-</u>	<u>1,015</u>
Capital assets, being depreciated:				
Building	236	300	-	536
Land Improvements	1,053	-	-	1,053
Total capital assets being depreciated:	<u>1,289</u>	<u>300</u>	<u>-</u>	<u>1,589</u>
Less: Accumulated depreciation for:				
Building	(93)	(19)	-	(112)
Land Improvements	(361)	(45)	-	(406)
Total accumulated depreciation	<u>(454)</u>	<u>(64)</u>	<u>-</u>	<u>(518)</u>
Total capital assets being depreciated, net	<u>835</u>	<u>236</u>	<u>-</u>	<u>1,071</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,650</u>	<u>\$ 436</u>	<u>\$ -</u>	<u>\$ 2,086</u>

Depreciation was charged to functions/programs of governmental activities as follows (in thousands):

Community and cultural/housing	<u>\$ 64</u>
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**Note 4 – Long-Term Obligations**

In the accompanying entity-wide financial statements, long-term debt of \$7,208,000 is reported as a liability in the Statement of Net Assets. Long-term debt activity for the year ended September 30, 2008 was as follows (in thousands):

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2008</u>	<u>Due within one year</u>
Governmental Activities:					
Advances from the City of Long Beach	\$ 4,854	\$ 405	\$ -	\$ 5,259	\$ -
Notes Payable	2,296	-	(347)	1,949	-
Long-Term Liabilities	<u>\$ 7,150</u>	<u>\$ 405</u>	<u>\$ (347)</u>	<u>\$ 7,208</u>	<u>\$ -</u>

**State Loans**

In fiscal year 1992, the Company entered into a loan agreement totaling \$1,015,000 with the State of California Department of Housing and Community Development for construction and rehabilitation of Company property. The project was completed in fiscal year 1993. Interest on the loan accrues from the date the funds were disbursed by the State

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at an annual simple interest rate of three percent, with the interest payment due within 60 days of fiscal year end if sufficient funds are available. The Company made an interest payment of \$14,108 in fiscal year 1997. The principal and any unpaid interest are due in January 2022. As of September 30, 2008, the entire amount remains payable to the State.

In fiscal years 1999 and 2000, the Company received \$1,978,000 from the City, generated from a State HELP loan of \$2,000,000. The HELP loans were used for a housing development project. The HELP loans have an annual simple interest rate of three percent and payments may be deferred for a period of ten years. As of September 30, 2008, the Company has repaid \$1,044,425 in principal and \$396,000 in interest. The Company will not utilize the remaining available loan commitment of \$22,000. The Company will repay the outstanding HELP loans of \$933,575 over time.

Aggregate annual debt service requirements to maturity are summarized as follows (in thousands):

Year Ending September 30	Principal	Interest	Total
2009	\$ -	\$ -	\$ -
2010	934	45	979
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014-2018	-	-	-
2019-2023	1,015	880	1,895
Total	<u>\$ 1,949</u>	<u>\$ 925</u>	<u>\$ 2,874</u>

**Note 5 - Advances from the City of Long Beach**

City loans of \$5,259,000 have been recorded in the accompanying Statement of Net Assets.

In fiscal year 2001, the Company entered into a zero interest loan agreement with the City for \$4,000,000 of HOME grant funds, to be used as gap financing for the acquisition of 26 parcels of land, each containing a four-unit apartment building. The 26 parcels were subsequently conveyed to the developer for \$7,680,000, pursuant to an amended Disposition and Development Agreement and a restated Promissory Note. The Developer has completed rehabilitation of the 24 four-plexes, and construction of a childcare center and community center. The Promissory Note requires the developer to make annual payments based on residual receipts generated from the project, with any remaining balance fully payable on April 1, 2034. In turn, the Company is required to make principal payments to the City using 25 percent of the payments received from the developer. The outstanding loan balance at September 30, 2008 is \$3,819,000.

In 2008, the City advanced \$405,000 to the Company for the repayment of debt related to HELP loans outstanding with the California Housing Finance Agency. The advance consisted of \$347,000 in principal and \$58,000 in interest, increasing the balance to \$1,440,000.

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**Note 6 – Fund Balance**

In the fund financial statements, a portion of the fund balance is reserved for specific use that is not available for appropriation and the remaining balance is designated for future projects. The composition of the reserved and unreserved portion of fund balance at September 30, 2008 is as follows (in thousands):

Reserved for:	
Replacement and operations	\$ 51
Properties held for resale	17,567
Long-term advances	1,585
Encumbrances	85
Unreserved/designated for future projects	480
Total fund balance	\$ 19,768

**Note 7 – Revenues and Other Financing Sources**

The Company is funded by the City of Long Beach's Housing Development Fund (Fund). The Fund's principal revenue sources include the State mandated 20 percent property tax increment housing set-aside from the Redevelopment Agency of the City of Long Beach. The Agency transferred \$5,157,000 to the Company in the fiscal year ended September 30, 2008, which represents a \$506,000 increase from prior fiscal year.

**Note 8 – Long-Term Loans Receivable**

In the fund financial statements, Company monies loaned out are treated as expenditures when disbursed, as most of the proceeds from these loans will not be available to finance the Company's operations for a minimum of two years, if at all. For financial reporting purposes, those loans for which repayment is reasonably expected have been recorded as a receivable and deferred revenue in the liabilities portion of the balance sheet. Some or all of the Company's remaining loans receivable may be forgiven upon attainment of future conditions. These loans are shown net of an allowance for loans not obligated to be repaid. In the entity-wide financial statements, no deferred revenue is recorded as the financial statements are on the accrual basis of accounting.

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**Note 8 – Long-Term Loans Receivable (cont.)**

Long-term receivables consisted of the following at September 30, 2008 (in thousands):

Borrower/Program	Principal Outstanding	Interest Rate	Payment Terms
Renaissance Walk Second Mortgage Assistance Various	\$ 476	0%-5%	Repayment obligation is triggered when the property is sold or transferred, or 30 years from the date of note if property is primary residence. If the maturity date is before 30 years, repayment equals the sum of principal, profit participation, and interest. There are seven loans outstanding at September 30, 2008.
First-time Homebuyer Interest Rate Reduction Grant Program	21	0%-10%	Funding assistance is in the form of a conditional grant to permanently buy down the interest rate of an approved real estate loan. No repayment is required unless the property is sold or transferred during the first 10 years. Repayment equals the sum of the principal, less 10 percent reduction per year, plus five percent profit participation and accrued interest. There are six loans outstanding at September 30, 2008.
Livable Places, Inc.	2,630	0%	Deed to property was transferred to Clearinghouse CDFI during fiscal year 2008 in lieu of foreclosure. In December 2008, Bank of America foreclosed on the property. Remaining balance of loan has been reclassified to "allowance for loans not obligated to be repaid."
Habitat for Humanity	261	0%	These loans do not accrue interest and are not obligated to be repaid if provisions of the contract are fulfilled. There are two loans with Habitat at September 30, 2008.
Habitat for Humanity Assignment and Assumptions	181	0%	These loans, formerly with Habitat for Humanity, have been assigned and assumed by individual borrowers. Terms and conditions of original loan with Habitat for Humanity remain in effect. There are 12 loans outstanding at September 30, 2008.



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Long-term receivables, continued (in thousands):

Borrower/Program	Principal Outstanding	Interest Rate	Payment Terms
Habitat for Humanity	\$ 120	0%	Habitat is to repay \$50,000 of the note. The balance of the note, or \$70,000, is to be repaid by way of a 10 percent share of the increase, if any, between Affordable Housing Cost (AHC) as of date of sale and AHC as of date of next subsequent sale of the property.
Second Mortgage Assistance Program Various	390	0%	Repayment obligation is triggered when the property is sold or transferred, or 30 years from the date of the note. If repayment occurs during the first 10 years, the Company is entitled to a proportionate share of any profit realized. There are 15 loans outstanding at September 30, 2008.
Jamboree Housing Corp. West Gateway 715-745 W. 3rd St. &301-307 Marine Avenue	11,816	0%	Annual payments equal to 50 percent of residual receipts for the prior calendar year are due April 1.
Mental Health Association 814 Atlantic Ave	280	3%	Amortized payments from residual receipts were to commence in May 2008. Entire principal balance, accrued interest, and any other sums are due May 2023.
Merit Hall Apartments, Inc	400	8%	Principal and interest are due upon the maturity of the note, which is July 1, 2033.
Multi-Family Rehabilitation Various	4	4%	Monthly principal and interest payments are being made by the borrower to the Company.
Los Angeles Community Design Center	425	3%	Annual payments of principal and interest began in November 2002 using 50 percent of residual receipts. Interest began accruing in November 1999 and amounted to \$83,346 at September 30, 2008.
Moderate Income Homeowner Rehabilitation Loan Program Various	676	3%	Monthly principal and interest payments for 20 years from the date of each individual loan are to be made by the borrowers to the Company. There are 18 loans outstanding at September 30, 2008.

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Long-term receivables, continued (in thousands):

Borrower/Program	Principal Outstanding	Interest Rate	Payment Terms
Down payment Assistance Various	\$ 309	0%	Funding assistance is in the form of a conditional grant. No repayment is required unless the borrower violates the terms of the agreement. Repayment is triggered if the property is sold or transferred by the borrower within the first 10 years, whereby the Company is entitled to five percent of any realized profit. There are 104 loans outstanding at September 30, 2008.
Atlantic Villas 2nd Mortgage Assistance	30	0%	Repayment obligation is triggered when the property is sold or transferred, or 30 years from the date of the note. If repayment occurs during the first 10 years, the Company is entitled to a proportionate share of any profit realized. There are two loans outstanding at September 30, 2008.
Casa Carino 408 Elm Ave	286	6.625%	Principal and interest will be due and payable upon the maturity date of a separate Housing and Urban Development (HUD) note in 2035 or upon satisfaction of the HUD loan, whichever occurs first.
Grisham Community Housing Limited Partnership	7,680	3%	Annual payments equal to 50 percent of residual receipts, if any, for the prior calendar year plus interest in arrears is due April 1 of each year. The entire outstanding principal, accrued interest, and any other sums payable are due April 1, 2034.
Clifford Beers Housing	1,868	3%	Principal and interest payments are due annually on April 30 in an amount equal to 50 percent of residual receipts for the prior calendar year immediately preceding such annual payment date. Compound interest accrues annually.

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Long-term receivables, continued (in thousands):

Borrower/Program	Principal Outstanding	Interest Rate	Payment Terms
Parwood Preservation	\$ 599	3%	Annual payments equal to 50 percent of residual receipts, if any, for the prior calendar year plus interest in arrears is due April 30. Entire outstanding principal, accrued interest, and any other sums payable are due the earlier of 55 years from recordation of regulatory agreement or 2042 (the maturity date of a separate note payable to the City).
Olive Court Second Mortgage Assistance 45 Year Loans	2,467	0%	Note amount is due after 45 years upon transfer of property or an event of acceleration. There are 16 loans outstanding at September 30, 2008.
Olive Court Second Mortgage Assistance 30 Year Loans	526	0%	Note amount is due after 30 years upon sale or transfer of property or an event of acceleration. There are 10 loans outstanding at September 30, 2008.
Lyon West Gateway 421 Broadway	5,554	0%	The principal balance is due following the maturity date upon the event of default, an assignment not in accordance with the loan agreement, sale of the units, or upon assignment subsequent to the expiration of the affordability period.
Meta Housing	4,154	3%	The entire principal balance is due and payable March 29, 2010.
Villages at Cabrillo	8,431	0%	Principal and interest payments are due annually on April 1 in an amount equal to 50 percent of residual receipts for the prior calendar year immediately preceding such annual payment date. Outstanding principal balance and any other sums payable are due 55 years from date of recordation of release of construction covenants.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**Notes to Basic Financial Statements**  
**September 30, 2008**

Long-term receivables, continued (in thousands):

Multi-Family Set-Aside	\$	246	0%	These loans are for 20 years. There are no payments due during the first five years of the loan. Beginning in the sixth year, principal payments are due in 180 equal monthly installments. There are three loans outstanding at September 30, 2008.
Various				
Total		49,830		
Allowance for loans not obligated to be repaid		(3,402)		
Long-term loan receivables, net	\$	46,428		

Allowance for loans not obligated to be repaid consists of the following (in thousands):

Down Payment Assistance Program	\$	309	
Habitat for Humanity		442	
Interest Rate Reduction Grant Program		21	
Livable Places, Inc.		2,630	
Total	\$	3,402	

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
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**Notes to Basic Financial Statements**  
**September 30, 2008**

In the accompanying fund financial statements, the components of deferred revenue as of September 30, 2008, are as follows (in thousands):

Long-term loan receivables:

Renaissance Walk Second Mortgage Assistance	\$	476
Habitat for Humanity		120
Second Mortgage Assistance Program		390
Jamboree Housing Corp. West Gateway		11,816
Mental Health Association		280
Merit Hall		400
Multi Family Rehabilitation Program		4
Los Angeles Community Design Center		425
Moderate Income Homeowner Rehab Loan Program		676
Atlantic Villas Second Mortgage Assistance Program		30
Casa Carino		286
Grisham Community Housing Limited Partnership		7,680
Clifford Beers Housing		1,868
Parwood Preservation		599
Olive Court Second Mortgage Assistance		2,993
Lyon West Gateway		5,554
Long Beach & Burnett, LP		4,154
Villages at Cabrillo		8,431
Multi Family Set-Aside		246
Total	\$	<u>46,428</u>

**Note 9 - Properties Held for Resale**

The purchase price of the land and buildings acquired by the Company is capitalized as "Properties Held for Resale". In the fund financial statements, the fund balance is reserved for the investment in the land and buildings.

In fiscal year 2008, the Company acquired \$3,325,000 in property. One of these properties will be conveyed to Habitat for Humanity, rehabilitated, and sold to a very low-income buyer. Land valued at \$750,000 was reconveyed to Redevelopment Agency of the City of Long Beach. In addition, it was determined that the property located at 3361 Andy Street is being used by the Company to support low- and moderate-income housing. The property, valued at \$500,000, was transferred from Properties Held for Resale to capital assets.

**Note 10 - Budgetary Accounting**

The Company's annual budget is adopted by the Company's Board of Directors and approved by the City Council before the beginning of the new fiscal year. Any amendments to the budget within the fiscal year are normally caused by changes in available resources and project expenditures. The Company's Board of Directors and the City Council must approve any change in the total budget.

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**Notes to Basic Financial Statements**  
**September 30, 2008**

The portion of the Company's budget that relates to projects and grants are mostly allocated over a number of years. Unspent appropriations at the end of a fiscal year are "carried over" to the next fiscal year. The carry-over budget, in addition to unspent fund balances from the prior fiscal year, is the basis for the carry-over amendment. The carry-over budget is reallocated to meet the goals, objectives, and commitments of the Company.

The following reconciles actual revenues and expenditures for Company funds to the non-GAAP budgetary basis for the fiscal year ended September 30, 2008 (in thousands):

Beginning fund balance at October 1, 2007, on an actual GAAP basis	\$ 25,620
Cumulative effect of capitalization of land held for resale at October 1, 2007	(15,492)
Advances (to) from other funds	<u>(991)</u>
Beginning fund balance at October 1, 2007, on a budgetary basis	<u>\$9,137</u>
<b>Actual GAAP basis revenue</b>	7,868
Adjustment to GAAP basis revenue:	
Advances (to) from other funds	<u>(593)</u>
<b>Revenues on a budgetary basis</b>	<u>7,275</u>
<b>Actual GAAP basis expenditures</b>	26,753
Adjustments to GAAP basis expenditures:	
Encumbrances outstanding at September 30, 2008	85
Current effect of capitalization of land held for resale	<u>3,325</u>
<b>Expenditures on a budgetary basis</b>	<u>30,163</u>
<b>Excess of expenditures and other uses over revenues and other sources on a budgetary basis</b>	<u>(22,888)</u>
Other financing sources (uses), on an actual GAAP basis	13,033
Adjustment to GAAP basis other financing sources (uses):	
Reconveyance of land	<u>1,250</u>
<b>Other financing sources (uses) on a budgetary basis</b>	<u>14,283</u>
<b>Excess of expenditures and other uses over revenues and other sources on a budgetary basis</b>	<u>(8,605)</u>
<b>Ending fund balance at September 30, 2008, on a budgetary basis</b>	<u><u>\$532</u></u>

**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**Notes to Basic Financial Statements**  
**September 30, 2008**

**Note 11 - Commitments and Contingencies**

Commitments

Available fund balance as of September 30, 2008 is committed to fund development projects, first-time homebuyer programs, and moderate-income rehabilitation loan program.

Litigation

The Company is subject to claims and lawsuits arising from the normal course of business. The Company's general and/or special legal counsel routinely evaluates such claims. In the event of litigation, the Company's management may make provision for probable losses if deemed appropriate on advice of legal counsel. In cases where such provision for damages would be considered necessary, appropriate amounts would be reflected in the accompanying basic financial statements. Based upon information obtained from the Company's legal counsel, it is the opinion of management that there are no existing or potential liabilities for claims and suits, which could have a material impact on the Company's basic financial statements.

**Note 12 – Segment Information for Long Beach Housing Trust Fund**

The Long Beach Housing Trust Fund was created in 2006 as a source of revenue to meet, in part, the housing needs of the City's extremely low- and above-moderate-income households. Section 1. Chapter 3.92.100 of the Long Beach Municipal code requires that financial information for the Long Beach Housing Trust Fund be reported separately within the Company's annual financial report. Summary financial information for the Fund is presented below (in thousands) as of September 30, 2008:

Long Beach Housing Trust Fund Balance Sheet - Governmental Fund September 30, 2008	
<u>Assets</u>	
Pooled cash and investments	\$ 275
Short-term investments - non-performing	1
Total assets	\$ 276
<u>Fund Balance</u>	
Reserved:	\$ 276
Total fund balance	\$ 276

Long Beach Housing Trust Fund Statement of Revenues, Expenses, and Changes in Fund Balance - Governmental Fund Year Ended September 30, 2008	
<u>Revenues</u>	
Interest income	\$ 9
Total revenues	9
<u>Excess of revenues and other sources over expenditures and other uses</u>	
Fund balance, October 1	267
Fund balance, September 30	\$ 276

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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

The Honorable Mayor and City Council  
City of Long Beach, California

The Board of Directors of the Housing Development Company  
City of Long Beach, California:

We have audited the financial statements of the government activities and major fund of the Long Beach Housing Development Company (the Company) as of and for the year ended September 30, 2008, and have issued our report thereon dated July 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we considered to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as FS-08-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not considered to be a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City's mayor, City Council, the City's management, the Company's and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 17, 2009

## LONG BEACH HOUSING DEVELOPMENT COMPANY

### Schedule of Findings and Responses

September 30, 2008

#### **Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards***

##### ***FS-08-01: Accrued Liabilities***

###### *Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described below represents a significant deficiency in internal controls.

###### *Condition and Context*

The Company does not have an effective process or controls in place to ensure that all expenses or liabilities are recorded in the proper fiscal year. During our audit we noted certain invoices for goods and services provided in fiscal year 2007 were recorded in fiscal year 2008. Additionally, we noted certain invoices for goods and services provided for in fiscal year 2008 have been recorded in fiscal year 2009. Reporting expenditures in a period other than the period of service may result in a potential misstatement of expenditures and liabilities.

###### *Cause*

Although the Company has certain controls in place to approve valid expenditures, the control in place to properly post and review invoices for recording in the proper period is not occurring.

###### *Effect of Potential Effect*

The lack of effective controls over the recording of expenditures in the proper period based on the date goods or services are provided may result in the misstatement of expenditures and liabilities.

###### *Recommendation*

We recommend that management enhance its internal control procedures over the review of invoices received for goods and services prior to posting to the general ledger in the proper period.

###### *Views of Responsible Officials*

The Company's Financial Management staff does review subsequent payments over \$10,000 to ensure that the transactions are posted in the appropriate fiscal period. Staff acknowledges that the invoices recorded incorrectly were an oversight due, in part, to the process being predominately manual in nature. The Company will continue to enhance its internal control procedures related to the review of invoices received for goods and services to ensure that all expenses or liabilities are recorded in the proper fiscal year. During the current fiscal year, procedures were automated to assure that all invoices over \$10,000 are reviewed by the Company's Financial Management staff prior to posting. The Company's Financial Management staff will meet with Company staff to review year-end procedures and the proper recording of expenditures and liabilities.