

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

**Annual Financial Report**

**Fiscal Year Ended September 30, 2007**

**CITY OF LONG BEACH, CALIFORNIA**

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

**For the Fiscal Year Ended September 30, 2007**

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**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**September 30, 2007**

**Board of Directors**

Patrick Brown, Chair

Kevin Cwayna, M.D.

Ivy Goolsby

Jonathan D. Gotz

Michael McCarthy

Kristie Kinney Pabst

Patrice Wong

**Management**

Patrick H. West, 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 Board of Directors of the Housing Development Company  
of the City of Long Beach, California  
The Honorable Mayor and City Council  
of the City of Long Beach, California  
The Citizens of the 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, 2007, 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 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, 2007, 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, 2007, 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 July 3, 2008 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 of 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 an 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 of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

July 3, 2008

**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, 2007**

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, 2007. We encourage readers to consider this information in conjunction with the basic financial statements, which can be found on pages 13 through 38 of this report.

**Financial Highlights**

- The Company's assets exceeded its liabilities at September 30, 2007 by \$46,507,000. Of this amount, \$45,830,000 was recorded as unrestricted for financial reporting purposes. However, the funds are committed for the ongoing operations of the Company in fiscal year 2008.
- The net assets of the Company increased by \$18,207,000 in fiscal year 2007. This is the result of total revenues and transfers from the Redevelopment Agency of \$19,326,000 exceeding program expenses, and interest expense of \$1,119,000. Overall, the properties held for resale increased due to the conveyance of land from the Redevelopment Agency. The \$4,651,000 portion received from the City of Long Beach's Housing Development Fund, which accounts for the State mandated 20% tax increment housing set-aside from the Redevelopment Agency of the City of Long Beach for the development of low- and moderate-income housing, is utilized for housing development projects.
- At the close of fiscal year 2007, the Company reported a fund balance of \$25,620,000, an increase of \$16,517,000 from the prior year. The Company's unreserved fund balance of \$8,255,000 has been appropriated for the 2008 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.

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**Management's Discussion and Analysis**  
**September 30, 2007**

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.

**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 16 and 18, 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 15 and 17 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 19 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 21 through 38 of this report.



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**(A Component Financial Reporting Unit of the City of Long Beach, California)**  
**Management's Discussion and Analysis**  
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**Entity-Wide Financial Analysis**

The Company's basic financial statements are presented in accordance with GASB Statement No. 34 and its related pronouncements. The focus of the analysis is on the current fiscal year's net assets and changes in net assets.

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, 2007 by \$46,507,000. Of this amount, \$26,865,000 arises from other non-current loan receivables, as described in Note 8 of the notes to the basic financial statements. The increase in current and other assets of \$18,113,000 is due mainly to an increase in properties held for resale.

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

Net Assets September 30, 2007 (In thousands)		Change		
	2007	2006	Amount	Percentage
<u>Assets</u>				
Current and other assets	\$ 52,934	\$ 34,821	\$ 18,113	52.02
Capital assets	1,650	1,708	(58)	(3.40)
Total assets	54,584	36,529	18,055	49.43
<u>Liabilities</u>				
Current liabilities	854	1,125	(271)	(24.09)
Noncurrent liabilities	7,223	7,104	119	1.68
Total liabilities	8,077	8,229	(152)	(1.85)
Net assets:				
Invested in capital assets, net of related debt	635	692	(57)	(8.24)
Restricted	42	31	11	35.48
Unrestricted	45,830	27,577	18,253	66.19
Total net assets	\$ 46,507	\$ 28,300	\$ 18,207	64.34

**Governmental Activities**

During the 2007 fiscal year, governmental activities increased net assets by \$18,207,000 or 64.34% of the prior year's net assets. The key elements contributing to the change were a \$14,497,000 increase in properties held for resale and \$3,302,000 increase in long-term loans receivable.

In 2007, the Company financed multiple rehabilitation and acquisition projects within Barcelona, Jamboree, Olive Villas and Northpointe Apartments with housing set-aside allocations from the Redevelopment Agency.

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

	Changes in Net Assets September 30, 2007 (In Thousands)			
	Governmental Activities		Change	
	2007	2006	Amount	Percentage
<u>Revenues</u>				
Program Revenues				
Charges for services	\$ 528	\$ 687	\$ (159)	(23.14) %
General Revenues				
Property tax increment - 20% set-aside	4,651	2,378	2,273	95.58
Unrestricted investment earnings	321	222	99	44.59
Land reconveyance	7,092	-	7,092	N/A
Total Revenues	<u>12,592</u>	<u>3,287</u>	<u>9,305</u>	283.08
<u>Expenses</u>				
Program Expenses				
Community and cultural/housing	1,050	232	818	352.59
Interest on long-term debt	69	66	3	4.55
Total Expenses	<u>1,119</u>	<u>298</u>	<u>821</u>	275.50
Increase in Net Assets before Transfers	11,473	2,989	8,484	283.84
Transfers from the City	-	1,323	(1,323)	(100.00)
Transfers(to)/from Redevelopment Agency	6,734	(2,330)	9,064	(389.01)
Change in net assets	<u>18,207</u>	<u>1,982</u>	<u>16,225</u>	818.62
Net assets, October 1	<u>28,300</u>	<u>26,318</u>	<u>1,982</u>	7.53
Net assets, September 30	<u>\$ 46,507</u>	<u>\$ 28,300</u>	<u>\$ 18,207</u>	64.34

Property tax increment revenue of \$4,651,000, a \$2,273,000 increase over the previous fiscal year is a result of additional housing development start up projects. Reconveyance of land and property contributed \$7,092,000 in revenues. The Company received \$6,734,000 in transfers from the Redevelopment Agency.

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 funds 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 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, 2007, the Company's governmental funds reported an ending fund balance of \$25,620,000, an increase of \$16,517,000 compared to the prior year. The ending fund balance includes \$17,365,000 reserved for long-term receivables, replacement and operations, encumbrances and properties held for resale. The remaining fund balance of \$8,255,000 is designated for housing development projects.

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**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 increased of \$9,427,000 or 26.73%. The increase in appropriations is attributable to an increased number of housing rehabilitation loans.

Actual expenditures in the Company's budgetary basis of accounting were \$13,149,000, representing 29.42% of the \$44,692,000 final budget. Unspent budget amounts of \$31,543,000 related primarily to housing loans, caused by changes in the timing of expenditures and the development of a strategy to implement the City's Housing Action Plan (HAP) by the Company. Prior to the actual implementation of the HAP, additional studies had to be undertaken, contributing to the delay in incurring the expenditures.

**Capital Assets**

The Company's investments in capital assets, net of accumulated depreciation, for its governmental activities as of September 30, 2007 total \$1,650,000. The Company's capital assets are as follows (in thousands):

Capital Assets, Net of Depreciation September 30, 2007	
Non depreciated capital assets	
Land	\$ 815
Capital assets subject to depreciation, net	
Building	143
Improvements other than buildings	692
Total capital assets subject to depreciation	835
Total capital assets, net	\$ 1,650

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, 2007, the Company's long-term liabilities totaled \$7,150,000 as follows (in thousands):

Long-Term Debt	
Advances from the City of Long Beach	\$ 4,854
Notes payable	2,296
Total long-term debt	\$ 7,150

The notes payable include State loans of \$1,015,000 for the construction and rehabilitation of Company property and \$1,281,000 for a housing development project. The advance from the City for the acquisition of parcels of land was subsequently conveyed to a developer for

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**September 30, 2007**

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 Note 4 and 5 of the notes to the basic financial statements (pages 29 - 30 of this report).

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

The receipt of tax increment housing set-aside revenues has been increasing over the 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. With the exception of rising home values these trends are expected to continue and will provide additional resources for the Company's fiscal year 2008 budget.

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, 2007  
(In Thousands)

	Governmental Activities
	Housing Development Company
<b>ASSETS</b>	
Current assets:	
Pooled cash and cash equivalents	\$ 9,045
Interest receivable	1
Other Assets	1
Properties held for resale	15,492
Total current assets	24,539
Noncurrent Assets:	
Advances to the Redevelopment Agency	1,530
Other noncurrent receivables, net	26,865
Capital assets:	
Land and other assets not being depreciated	815
Building and improvements, net of accumulated depreciation	835
Total noncurrent assets	30,045
Total assets	54,584
<b>LIABILITIES</b>	
Current liabilities:	
Vouchers/accounts payable	419
Deposits/Collections Held in Trust	30
Accrued interest payable	38
Other notes payable	367
Total current liabilities	854
Noncurrent liabilities:	
Accrued interest payable	440
Advances from the City of Long Beach	4,854
Other long-term obligations - notes payable	1,929
Total noncurrent liabilities	7,223
Total liabilities	8,077
<b>NET ASSETS</b>	
Invested in capital assets	
Net of related debt	635
Restricted	
Unrestricted	42
Unrestricted	45,830
Total Net Assets	\$ 46,507

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, 2007  
(In Thousands)

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenues and Change in Net Assets Special Revenue Fund- Governmental Activities Housing Development Company
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities Housing Development Company</u>
<b>Primary Government:</b>					
Community and cultural/housing	\$ 1,050	\$ 528	\$ -	\$ -	\$ (522)
Interest on long-term debt	69	-	-	-	(69)
Total government activities	<u>\$ 1,119</u>	<u>\$ 528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(591)</u>
<b>General Revenues:</b>					
Property tax increment - 20% set-aside					4,651
Unrestricted investment earnings					321
Land reconveyance					7,092
Transfers from the Redevelopment Agency					<u>6,734</u>
Total general revenues and transfers					<u>18,798</u>
Change in net assets					18,207
Net assets - October 1					28,300
Net assets - September 30					<u>\$ 46,507</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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Balance Sheet - Governmental Fund  
September 30, 2007  
(In Thousands)

	<u>Housing Development Company</u>
<b>Assets</b>	
Pooled cash and investments	\$ 9,045
Interest receivable	1
Receivables-loan, long-term, net	26,865
Advances to the Redevelopment Agency	1,530
Properties held for resale	15,492
Other assets	1
Total assets	<u>\$ 52,934</u>
 <b>Liabilities and Fund Balance</b>	
Liabilities	
Vouchers/ accounts payable	\$ 419
Deferred revenues	26,865
Deposits/Collections Held in Trust	30
Total liabilities	<u>27,314</u>
 Fund balance	
Reserved:	
Replacement and operations	42
Properties held for resale	15,492
Long term advances	1,530
Encumbrances	301
Unreserved/designated - future projects	8,255
Total fund balance	<u>25,620</u>
Total liabilities and fund balance	<u>\$ 52,934</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)**

Reconciliation of the Balance Sheet of Governmental Fund  
to the Statement of Net Assets  
September 30, 2007  
(In Thousands)

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

Total governmental fund balance	\$ 25,620
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	1,650
Advances due to the primary government is considered to be external activity that is reported only in the government-wide financial statements.	(4,854)
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.	26,865
Governmental long-term liabilities are not due and payable in the current period and therefore, are not reported in the fund financial statements.	<u>(2,774)</u>
Net assets of governmental activities	<u><u>\$ 46,507</u></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, 2007  
(In Thousands)

	<u>Housing Development Company</u>
<b>Revenues</b>	
Property tax increment - 20% set-aside	\$ 4,651
Rental income	91
Interest income	296
Loan repayments	755
Other	406
Total revenues	<u>6,199</u>
<b>Expenditures</b>	
Administrative costs	71
Acquisition costs	15
Professional services	166
Planning, survey and design	6
Operation of acquired property	226
Low and moderate income housing loans/ grants	4,032
Project improvement/construction costs	473
Interdepartmental charges	39
Property and other taxes	10
Debt service payments:	
Principal	358
Interest	47
Total expenditures	<u>5,443</u>
Excess of revenues over expenditures	<u>756</u>
<b>Other financing sources (uses)</b>	
Proceeds from Advance	405
Transfers (to)/from the Redevelopment Agency	8,264
Reconveyance of land	7,092
Total other financing sources (uses), net	<u>15,761</u>
Excess of revenues and other sources over expenditures and other uses	16,517
Fund balance, October 1	9,103
FUND BALANCE, SEPTEMBER 30	<u>\$ 25,620</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)**

Reconciliation of the Statement of Revenues,  
Expenditures and Changes in the Fund Balance of Governmental Fund  
to the Statement of Activities  
Year Ended September 30, 2007  
(In Thousands)

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

Excess of revenue and other sources over expenditures and other  
uses - governmental fund. \$ 16,517

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. (58)

Effective October 1, 2004, the Company changed its method of  
accounting for advances from the primary government based on  
additional guidance issued by the Governmental Accounting  
Standards Board. The governmental fund now records these  
advances only in its government-wide financial statements. (1,485)  
Revenue in the statement of activities that do not provide current  
financial resources are not reported as revenue in the funds.

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. 3,302

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. (69)

Change in net assets of governmental activities \$ 18,207

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 - Budget and Actual (Non-GAAP Budgetary Basis) - Governmental Fund  
Year Ended September 30, 2007  
(In Thousands)

	Budgeted Amounts		Actual On Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property tax increment - 20% set-aside	\$ 4,000	\$ 37,811	\$ 4,651	\$ (33,160)
Rental income	339	339	91	(248)
Interest income	(169)	(169)	296	465
Loan repayments-principal	(1,501)	(1,501)	755	2,256
Proceeds from the sale of land	321	387	-	(387)
Other	(8)	(8)	406	414
Total revenues	<u>2,982</u>	<u>36,859</u>	<u>6,199</u>	<u>(30,660)</u>
<b>Expenditures:</b>				
Administration costs	50	36	72	(36)
Professional services	(515)	-	166	(166)
Planning, survey & design	(39)	-	6	(6)
Acquisition costs	10	9	15	(6)
Relocation costs	(65)	-	-	-
Disposition costs	(79)	-	-	-
Operation of acquired property	(215)	75	507	(432)
Low and moderate income housing loans/grants	35,053	43,639	4,032	39,607
Project improvement/construction costs	1,769	754	492	262
Interdepartmental charges	39	39	39	-
Capital outlay	(34)	-	-	-
Debt service payments:				
Principal	(375)	-	358	(358)
Interest	(291)	-	47	(47)
Property and other taxes	153	140	10	130
Land purchases	(196)	-	7,405	(7,405)
Total expenditures	<u>35,265</u>	<u>44,692</u>	<u>13,149</u>	<u>31,543</u>
Excess of expenditures over revenues	<u>(32,283)</u>	<u>(7,833)</u>	<u>(6,950)</u>	<u>883</u>
<b>Other financing sources and (uses):</b>				
Proceeds from issuance of long-term debt	(3,449)	(3,430)	-	3,430
Proceeds from Advance	(1,037)	-	-	-
Transfers to the Redevelopment Agency	(1,056)	(1,056)	1,530	2,586
Transfer out to other funds	(1,392)	(1,392)	-	1,392
Capitalized interest	-	-	44	44
Transfers in	37,079	-	-	-
Transfers in from other funds	5,375	13,081	-	(13,081)
Transfers from the Redevelopment Agency	(8)	(8)	6,734	6,742
Total other financing sources (uses)	<u>35,512</u>	<u>7,195</u>	<u>8,308</u>	<u>1,113</u>
Excess of revenues and other sources over (under) expenditures and other uses	3,229	(638)	1,358	1,996
Fund balance- October 1, budgetary basis	<u>7,478</u>	<u>7,478</u>	<u>7,478</u>	<u>-</u>
<b>FUND BALANCE- SEPTEMBER 30, BUDGETARY BASIS</b>	<u><b>\$ 10,707</b></u>	<u><b>\$ 6,840</b></u>	<u><b>\$ 8,836</b></u>	<u><b>\$ 1,996</b></u>

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

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**THE LONG BEACH HOUSING DEVELOPMENT COMPANY**  
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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 comprised of 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 best operate 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 one year at the end of the current fiscal period, with the exception of property taxes which are considered available if collected within 60 days of the end of the current fiscal period. Expenditures are recorded at the time liabilities are incurred, if measurable, except for unmatured principal and interest on long-term debt, which is recognized when due.

Generally, only current assets and current liabilities are included on the governmental fund balance sheets. However, noncurrent 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 which have been required under the regulatory agreement with the State to be segregated for capital improvements and for unanticipated or unusually high maintenance expenditures.

Pooled 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, 2007.

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. Initial-issue bond premium and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense. As of September 30, 2007 there are no bonds outstanding.

In the Company's fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the period issued. The face amount of the debt is reported as another financing source. Premiums received are reported as other financing uses. Bond issuance costs are reported as debt service expenditures, whether or not withheld from the actual bond proceeds.

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 market value (when a definite market value can be determined) 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.

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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

**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 - Pooled 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



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companies. The City's bank deposits are either covered by appropriate federal insurance, or are collateralized in accordance with the California Government Code. Pooled cash and investment detail is included in the City's Comprehensive Annual Financial Report.

Cash and Investments

The Company's cash and investments are maintained by the City Treasurer and are pooled with other City funds and investments to enhance the investment returns for these funds. Interest income earned on pooled cash and investments is allocated monthly to the various participating entities based on their average daily cash balances. The City's bank deposits are either covered by appropriate Federal Deposit Insurance Corporation, or are collateralized in accordance with the California Government Code. Pooled cash and investment for each fund type is included in the City's Comprehensive Annual Financial Report Statement of Net Assets under the caption entitled "Pooled Cash and Cash Equivalents."

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 trustees that 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 *	None	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.

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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 maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2007 (in thousands):

**Disclosures Relating to Interest Rate Risk**

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Inter-Department Loan (Health Savrs)	\$ 3,098	11.60
U.S. Treasury Notes	145,149	0.90
Federal Agency Securities	1,190,784	2.28
Medium-Term Notes	49,881	1.83
Short-term Commercial Paper	135,874	0.02
Local Agency Investment Fund (LAIF)	139,156	0.01
Subtotal City Pool	<u>1,663,942</u>	
Cash on Hand	32,878	
Outstanding Checks	<u>(10,379)</u>	
Total City Pool	<u>\$ 1,686,441</u>	

The Housing Development Company's pooled cash and cash equivalents amount of \$9,045,000 is approximately 0.5% of the City's pooled cash and cash equivalents of \$1,686,441,000.

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, 2007. 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.

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

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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):

Investment Type	Rating as of Year End							
	Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated	
Inter-Department Loan (Health Savrs) \$	3,098	N/A	\$ 3,098	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	145,149	N/A	145,149	-	-	-	-	-
Federal agency securities	1,190,784	N/A	-	-	1,190,784	-	-	-
Medium-Term Notes	49,881	A	-	-	44,861	5,020	-	-
Short-term Commercial Paper	135,874	N/A	-	54,350	81,524	-	-	-
Local Agency Investment Fund (LAIF)	139,156	N/A	139,156	-	-	-	-	-
Subtotal City Pool	1,663,942		287,403	54,350	81,524	1,235,645	5,020	-
Cash on Hand	34,816		-	-	-	-	-	34,816
Outstanding Checks	(10,379)		-	-	-	-	-	(10,379)
Total City Pool	\$ 1,688,379		\$ 287,403	\$ 54,350	\$ 81,524	\$ 1,235,645	\$ 5,020	\$ 24,437

**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 5% or more on the City's total pooled investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	\$ 89,334
Federal Home Loan Bank	Federal Agency Securities	354,763
Federal Home Loan Mortgage Association	Federal Agency Securities	307,865
Federal National Mortgage Association	Federal Agency Securities	438,822
U.S. Treasuries	U.S. Treasury Notes & bonds	145,149
Commercial Paper	Unsecured Corporate debt	135,874
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	139,156

**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 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% of the total amount deposited by the public agencies. California law also allows financial

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institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% 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.

As of September 30, 2007, the City reports deposits of \$32,878,000 less \$10,379,000 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.

GASB 31

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2007 and 2006, the effect of valuating the City's investments at fair value did not have a material impact on its financial position.

Securities Lending

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2007. 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, 2007 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	\$ -	\$ -	\$ 815
Total capital assets not being depreciated:	<u>815</u>	<u>-</u>	<u>-</u>	<u>815</u>
Capital assets, being depreciated:				
Building	236	-	-	236
Land Improvements	1,053	-	-	1,053
Total capital assets being depreciated:	<u>1,289</u>	<u>-</u>	<u>-</u>	<u>1,289</u>
Less: Accumulated depreciation for:				
Building	(81)	(12)	-	(93)
Land Improvements	(315)	(46)	-	(361)
Total accumulated depreciation	<u>(396)</u>	<u>(58)</u>	<u>-</u>	<u>(454)</u>
Total capital assets being depreciated, net	<u>893</u>	<u>(58)</u>	<u>-</u>	<u>835</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,708</u>	<u>\$ (58)</u>	<u>\$ -</u>	<u>\$ 1,650</u>

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

Community & cultural/ housing	<u>\$ 58</u>
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**Note 4 – Long-Term Obligations**

In the accompanying entity-wide financial statements, long-term debt of \$7,268,000 is reported as a liability in the Statement of Net Assets. Long-term debt activity for the year ended September 30, 2007 was as follows (in thousands):

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30 2007</u>	<u>Due within one year</u>
Governmental Activities:					
Advances from the City of Long Beach (Note 5)	\$ 4,449	\$ 405	\$ -	\$ 4,854	\$ -
State Loans	2,655	-	(359)	2,296	367
Long-Term Liabilities	<u>\$ 7,104</u>	<u>\$ 405</u>	<u>\$ (359)</u>	<u>\$ 7,150</u>	<u>\$ 367</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 (State) for construction and rehabilitation of Company property. The project was completed in fiscal

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year 1993. Interest on the loan accrues from the date the funds were disbursed by the State at a simple interest rate of three percent (3%) per year, with the interest payment due within sixty 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, 2007, the entire amount remains payable to the State.

In fiscal year 1999 and fiscal year 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 interest rate of 3% and payments could be deferred for a period of ten years. The outstanding HELP loans of \$1,281,000 will be repaid by the Company. As of September 30, 2007, the Company has repaid \$697,000 in principal and \$338,000 in interest. The remaining available loan commitment of \$22,000 will not be utilized by the Company.

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

Year Ending September 30	Principal	Interest	Total
2008	\$ 367	\$ 38	\$ 405
2009	633	27	660
2010	281	31	312
2011	-	30	30
2012	-	31	31
2013 - 2017	-	152	152
2018 - 2022	1,015	680	1,695
Total	<u>\$ 2,296</u>	<u>\$ 989</u>	<u>\$ 3,285</u>

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

City loans of \$4,854,000 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% of the payments received from the developer. The outstanding loan balance at September 30, 2007 is \$4,854,000.

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In 2007, 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 \$359,000 in principal and \$46,000 in interest.

**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, 2007 is as follows (in thousands):

Reserved for:		
Replacement and operations	\$	42
Properties held for resale		15,492
Long term advances		1,530
Encumbrances		301
Unreserved/designated for future projects		8,255
Total fund balance	\$	25,620

**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% property tax increment housing set-aside from the Redevelopment Agency of the City of Long Beach. An amount of \$4,651,000 was transferred to the Company in the fiscal year ended September 30, 2007, which represents a \$2,273,000 increase from prior fiscal year. The increase was attributed to housing projects and development activity that required funding during the current 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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Long-term receivables consisted of the following at September 30, 2007 (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Habitat for Humanity	\$ 298	0%	These loans do not accrue interest, and are not obligated to repay funds if provisions of the contract are fulfilled. There are three agreements with Habitat for Humanity at September 30, 2007.
HDC-Various	145	0%	These loans, formerly Habitat for Humanity, have been reassigned and transferred to borrowers. Current loan agreements are between the LBHDC and borrowers.
Second Mortgage Assistance Program	435	0%	Repayment obligation is triggered when the property is sold or transferred, or 30 years from the date of the promissory note. If repayment is triggered during the first 10 years, the Company is also entitled to a proportionate share in any profit realized. After 10 years, only the principal amount is due. There are eighteen loans outstanding at September 30, 2007.
Various			
Mental Health Association 814 Atlantic Avenue	280	3%	Monthly principal payments of \$1,883 will begin on May 8, 2008. Interest begins accruing on May 8, 2008 and is due and payable in full on May 8, 2023.



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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Merit Hall Apartments, Inc. 1035 Lewis Avenue	\$ 400	8%	The loan principal and interest shall be due and payable upon the maturity date of note on July 1, 2033, unless Merit Hall does not fulfill HUD's restrictions, at which the entire principal is due immediately at 8.375%.
Parwood Preservation	599	3%	Interest and principal payments due annually on April 30 of each year, in an amount equal to the applicable percentage rate multiplied by the Remaining Residual Receipts for the calendar year immediately preceding such annual payment date. Note matures in 2042.
Los Angeles Community Design Center 1528-32 Freeman Avenue	415	3%	Annual payments of principal and interest began in November 2002 using 50% of residual receipts. Interest began accruing in November 1999 and amounted to \$73,087 at September 30, 2007.
Down Payment Assistance Program  Various	327	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 to a non-qualified buyer within the first 10 years, along with 5% of the profit. There are 107 loans outstanding at September 30, 2007.
Atlantic Villas Second Mortgage Assistance Program  Various	30	0%	No payment until property defined in the note is sold or transferred, or 30 years from the date of the promissory note. If repayment is triggered during the first 10 years, the Company is also entitled to a proportionate share in any profit realized. After 10 years, only the principal amount is due. There are two loans outstanding at September 30, 2007.

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Multi-Family Rehabilitation Program  Various	\$ 20	4%	Monthly principal and interest payments for 15 years from the date of each individual loan are to be made by the mortgagees to the Company. There are three loans outstanding at September 30, 2006.
Interest Rate Reduction Grant Programs  Various	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% reduction per year, plus 5% profit participation and accrued interest. There are six loans outstanding at September 30, 2007.
Renaissance Walk -Second Mortgage Assistance Program  Various	476	0% - 5%	Repayment obligation is triggered when the property defined in the note is sold or transferred, or 30 years from the date of the promissory note. If the maturity date is before 30 years, repayment equals the sum of the principal and profit participation and interest. There are seven loans outstanding at September 30, 2007.
Grisham Community Housing Limited Partnership  Various	7,680	3%	Annual payments in an amount equal to 50% of Residual Receipts is due each April 1 through 2034.
Casa Carino 408 Elm Avenue	286	6.625%	Principal amount accrues simple interest. Principal and interest will be due and payable on the maturity date of the HUD note which is October 1, 2035, or upon satisfaction of the HUD loan, whichever is earlier.

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Moderate Income Homeowner Rehabilitation Loan Program  Various	\$ 661	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 seventeen loans outstanding as of September 30, 2007.
Jamboree Housing Corporation 715 - 745 W. 3rd Street	10,444	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due under the terms of the Promissory Note. Payments of principal and interest (if any) are due annually on April 1, 2006 and each year thereafter, under the residual receipts provision.
Livable Places, Inc. 1856 Long Beach Blvd.-Olive Court	3,345	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due.
Clifford Beers Housing, Inc. 530 Elm Avenue	661	0%	Principal and interest payments are due annually on April 30 of each year from residual receipts commencing in the year in which the release of construction covenants is recorded. Note is due the earlier of 54 years from the date of recordation of the release of construction covenants or December 31, 2062.

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Clifford Beers Housing 530 Elm Avenue	\$ 1,133	0%	Principal and interest payments are due annually on April 30 of each year commencing in the calendar year in which the outstanding principal and interest due on HOME Funds has been paid in full. Note is due the earlier of 54 years from the date of the recordation of the release of construction covenants or December 31, 2062.
Total:	<u>27,656</u>		
Allowance for loans not obligated to be repaid:	<u>(791)</u>		
Long-term loan receivables, net:	<u>\$ 26,865</u>		

Details for the allowance for loans not obligated to be repaid are as follows (in thousands):

Habitat for Humanity	\$ 443
Down Payment Assistance Program	327
Interest Rate Reduction Grant Program	<u>21</u>
Total	<u>\$ 791</u>

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In the accompanying fund financial statements, the components of deferred revenue as of September 30, 2007, are as follows (in thousands):

Long-term loan receivables:

Moderate Income Homeowner Rehabilitation Loan Program	\$ 661
Jamboree Housing Corp./West Gateway	10,444
Clifford Beers Housing	661
Clifford Beers Housing	1,133
Livable Places, Inc.	3,345
Mental Health Association	280
Merit Hall	400
Los Angeles Community Design Center	415
Atlantic Villas Second Mortgage Assistance Program	30
Casa Carino	286
Parwood Preservation	599
Renaissance Walk Second Mortgage Assistance Program	476
Multi Family Rehabilitation Program	20
Second Mortgage Assistance Program	435
Grisham Community Housing Limited Partnership	7,680
Total	<u><u>\$ 26,865</u></u>

**Note 9 - Properties Held for Resale**

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

In 2000, the Company purchased a vacant parcel of land for \$750,000 for the development of market rate or affordable housing. In 2005, the Company purchased City-owned land and improvements for \$245,000 for the development of a special needs housing project targeting emancipated youth. In 2007, the Company acquired \$14,497,000 in property for various projects such as the Atlantic Avenue workforce housing development, a 48 unit moderate-income ownership project, and for scattered sites in the Central and Washington HAP Focus Areas.

**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. Any change in the total budget must be approved by the Company's Board of Directors and the City Council.

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

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balances from the prior fiscal year, are the basis for the carry-over amendment. The carry-over budget is reallocated to meet the goals, objectives and commitments of the Company.

The Budgetary Comparison Statement on page 19 reflects a positive variance of \$1,996,000, mainly due to the decrease in anticipated expenditures caused by changes in the timing of project expenditures. The unspent appropriation for the projects may be carried-over to the new fiscal year and allocated to various projects.

The following reconciles actual revenues and expenditures for Company funds to the non-GAAP budgetary basis for the fiscal year ended September 30, 2007 (in thousands):

Beginning fund balance at October 1, 2006, on an actual GAAP basis	\$ 9,103
Encumbrance outstanding at October 1, 2006	-
Advances to/from Other Funds	(630)
Cumulative effect of capitalization of land held for resale at October 1, 2006	<u>(995)</u>
Beginning fund balance at October 1, 2006, on a budgetary basis	<u>7,478</u>
<b>Actual GAAP basis revenue</b>	6,199
Adjustment to GAAP basis revenues:	
Proceeds from the sale of land for resale	<u>6,199</u>
Revenues on a budgetary basis	<u>6,199</u>
<b>Actual GAAP basis expenditures</b>	5,443
Adjustments to GAAP basis expenditures:	
Encumbrances outstanding at September 30, 2007	301
Current effect of capitalization of land held for resale	7,405
Loss on sale of land held for resale	-
<b>Expenditures on a budgetary basis</b>	<u>13,149</u>
<b>Excess of revenues under expenditures on a budgetary basis</b>	<u>(6,950)</u>
Other financing sources (uses), on a GAAP basis	15,761
Adjustment to GAAP basis other financing source:	
Reconveyance of land	(7,092)
Capitalized Interest	44
Advances from Other Funds	<u>(405)</u>
<b>Other financing uses on a budgetary basis</b>	<u>8,308</u>
Excess of revenues and other sources under expenditures and other uses, on a budgetary basis	<u>1,358</u>
Ending fund balance at September 30, 2007, on a budgetary basis	<u>\$ 8,836</u>

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**Note 11 - Commitments and Contingencies**

Commitments

Available fund balance as of September 30, 2007 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. Such claims are routinely evaluated by the Company's general and/or special legal counsel. 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.

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