

**The Long Beach Housing Development Company**  
**A Blended Component Unit**  
**of the City of Long Beach, California**  
**Annual Financial Report**  
**for the Fiscal Year Ended September 30, 2009**

# The Long Beach Housing Development Company

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## A BLENDED COMPONENT UNIT OF THE CITY OF LONG BEACH, CALIFORNIA ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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# The Long Beach Housing Development Company



*Affordable Housing For All*

## **Board of Directors**

Patrick Brown, Chair

Kevin Cwayna, M.D, Director

Johnathan Gotz, Vice Chair

Michael McCarthy, Director

Stacy McDaniel, Director

Kristie Kinney Pabst, Director

Patrice Wong, Director

Anna Ulaszewski, Director

## **Management**

Dennis Thys, President

Ellie Tolentino, Vice President

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KPMG LLP  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

## 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 blended component unit of the City of Long Beach, California, as of and for the year ended September 30, 2009, 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 to the financial statements, 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, 2009, 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, 2009, and the respective changes in financial position and the budgetary comparison for the Long Beach Housing Development Company 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 22, 2010 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 of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

June 22, 2010

# **The Long Beach Housing Development Company**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The information presented in "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview and analysis of The Long Beach Housing Development Company's (the Company) financial activities for the fiscal year ended September 30, 2009. We encourage readers to consider this information in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Company's assets exceeded its liabilities at September 30, 2009 by \$74.7 million (net assets). Of this amount, \$73.6 million was recorded as unrestricted for financial reporting purposes. However, the funds are committed for the ongoing operations of the Company in fiscal year 2010.
- Net assets increased by \$14.1 million, or 23.3 percent, in fiscal year 2009. This is largely attributable to a 64.4 percent reduction in program expenditures.
- The Company received \$8.0 million in Housing and Urban Development (HUD) grant funds from the City of Long Beach's Community Development Grants Fund. Those funds were used to finance The Family Commons at Villages at Cabrillo project and the Second Mortgage Assistance Program (SMAP).

### **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.

# The Long Beach Housing Development Company

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### 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 uses fund accounting to ensure and demonstrate compliance with legal requirements. All of the Company's services are reported in a governmental fund. This fund is reported using modified accrual accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. The governmental fund statements provide a detailed view of the Company's operations.

### 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.

As 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'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 19 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) guidance. The focus of the analysis is on the current fiscal year's net assets and changes in net assets.



# The Long Beach Housing Development Company

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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, 2009 by \$74.7 million. Of this amount, \$61.6 million arises from other non-current loan receivables, as described in note 8 of the accompanying notes to the basic financial statements. The \$7.4 million increase (9.6 percent) in assets is primarily due to the increase in non-current loan receivables. The Company issued \$15 million in second mortgage assistance, developer and rehabilitation loans during fiscal year 2009. The 62.3 percent decrease in current liabilities is mainly attributable to the payment of an \$8.4 million account payable related to a developer loan disbursement. The portion of long-term debt that came due and payable in fiscal year 2009 contributed to the 11.5 percent reduction in non-current liabilities. Depreciation charges reduced net assets invested in capital assets (net of related debt) by \$63 thousand.

The following table summarizes the Company's net assets:

	Net Assets September 30, 2009 (In thousands)		Change	
	2009	2008	Amount	Percentage
<u>Assets</u>				
Current assets	\$ 19,728	\$ 27,480	\$ (7,752)	(28.2) %
Non-current assets				
Other non-current assets	63,252	48,013	15,239	31.7
Capital assets	2,023	2,086	(63)	(3.0)
Total assets	<u>85,003</u>	<u>77,579</u>	<u>7,424</u>	<u>9.6</u>
<u>Liabilities</u>				
Current liabilities	3,502	9,297	(5,795)	(62.3)
Non-current liabilities	<u>6,809</u>	<u>7,692</u>	<u>(883)</u>	<u>(11.5)</u>
Total liabilities	<u>10,311</u>	<u>16,989</u>	<u>(6,678)</u>	<u>(39.3)</u>
<u>Net assets:</u>				
Invested in capital assets, net of related debt	1,008	1,071	(63)	(5.9)
Restricted	61	51	10	19.6
Unrestricted	<u>73,623</u>	<u>59,468</u>	<u>14,155</u>	<u>23.8</u>
Total net assets	<u>\$ 74,692</u>	<u>\$ 60,590</u>	<u>\$ 14,102</u>	<u>23.3 %</u>

# The Long Beach Housing Development Company

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### GOVERNMENTAL ACTIVITIES

Governmental activities increased net assets by \$14.1 million (23.3 percent) during fiscal year 2009. Program revenues increased by 346.2 percent over the prior fiscal year. This is largely attributable to the Company's receipt of \$740 thousand in CalHome grant funds. There were fewer allowances for uncollectible receivables, which reduced program expenses—community and cultural housing, by 64.4 percent over fiscal year 2008. Transfers from the City of Long Beach in the form of Housing and Urban Development grant funds decreased by \$1.1 million or 12.0 percent. There were no transfers of funds related to land transfers between the Company and the Redevelopment Agency of the City of Long Beach (Agency), as was the case in the prior fiscal year. This contributed to a \$4.5 million or 102.4 percent decrease in activity with the Agency. These factors produced a 23.3 percent increase over the prior year's net assets.

The following table summarizes the changes in the Company's net assets:

Changes in Net Assets  
September 30, 2009  
(In Thousands)

	<u>Governmental Activities</u>		<u>Change</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>Percentage</u>
Revenues				
Program Revenues				
Charges for services	\$ 389	\$ 253	\$ 136	53.8%
Operating grants and contributions	740	-	740	100.0%
General Revenues				
Property tax increment - 20% set-aside	7,581	5,157	2,424	47.0%
Unrestricted investment earnings	-	251	(251)	-100.0%
Total Revenues	<u>8,710</u>	<u>5,661</u>	<u>3,049</u>	<u>53.9%</u>
<u>Expenses</u>				
Program Expenses				
Community and cultural housing	1,473	4,142	(2,669)	-64.4%
Interest on long-term debt	58	64	(6)	-9.4%
Total Expenses	<u>1,531</u>	<u>4,206</u>	<u>(2,675)</u>	<u>-63.6%</u>
Increase in Net Assets before Transfers	7,179	1,455	5,724	393.4%
Land transfers, net	(903)	(750)	(153)	20.4%
Transfers (to) from the City	7,930	9,013	(1,083)	-12.0%
Transfers (to) from Redevelopment Agency	<u>(104)</u>	<u>4,365</u>	<u>(4,469)</u>	<u>-102.4%</u>
Change in net assets	14,102	14,083	19	0.1%
Net assets, October 1	<u>60,590</u>	<u>46,507</u>	<u>14,083</u>	<u>30.3%</u>
Net assets, September 30	<u>\$ 74,692</u>	<u>\$ 60,590</u>	<u>\$ 14,102</u>	<u>23.3%</u>

# The Long Beach Housing Development Company

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### FINANCIAL ANALYSIS OF THE COMPANY'S ACTIVITIES

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

Governmental fund – 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, 2009, the Company's governmental fund reported an ending fund balance of \$18.9 million, a decrease of \$916 thousand, or 4.6 percent, from the prior year's ending balance. This is primarily due to increased expenditures for low- and moderate-income housing loans and grants. The unreserved fund balance at fiscal year end is \$682 thousand, and has been appropriated for the fiscal year 2010 budget.

### GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures for the Company using the budgetary basis of accounting were \$16.6 million, representing 26.0 percent of the \$64.1 million final budgeted appropriations. Unspent budget amounts of \$47.5 million were primarily related to administration costs, professional services, and housing loans. The unexpended budget is committed to funding residential and rental housing projects as well as second mortgage assistance to qualified homebuyers.

### CAPITAL ASSETS

At September 30, 2009, the Company's governmental activity investment in capital assets, net of accumulated depreciation, totaled \$2.0 million. The Company's capital assets are as follows (in thousands):

Capital Assets, Net of Depreciation	
September 30, 2009	
Non-depreciated capital assets	
Land	\$ 1,015
Capital assets subject to depreciation, net	
Building	406
Improvements other than buildings	602
Total capital assets subject to depreciation	1,008
Total capital assets, net	<u>\$ 2,023</u>

Additional information on the Company's capital assets can be found in note 3 of the accompanying notes to the basic financial statements (page 29).

# The Long Beach Housing Development Company

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### LONG-TERM LIABILITIES

At September 30, 2009, the Company's long-term liabilities totaled \$7.3 million as follows (in thousands):

<u>Long-Term Liabilities</u>	
Advances from the City of Long Beach	\$ 5,259
Notes payable	1,949
Environmental Remediation	50
Total long-term liabilities	<u>\$ 7,258</u>

Advances from the City of Long Beach were for the acquisition of parcels of land that were subsequently conveyed to the Los Angeles Community Design Center for the rehabilitation and development of Grisham Community Housing project. The notes payable include State loans of \$1.015 million for the construction and rehabilitation of Company property (Lois Apartments), and \$934 thousand for the Grisham Community Housing project. Environmental remediation is the estimated cost associated with the continued monitoring of the acquired property located at 2085 Atlantic Boulevard. Additional information on the Company's long-term liabilities can be found in notes 4 and 5 of the accompanying notes to the basic financial statements (pages 29 and 30).

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The housing market was a sector of the economy particularly hard hit by the recession. The most recent property tax valuation data issued by the Los Angeles County Assessor's Office indicates that assessed valuations for the Redevelopment Agency of the City of Long Beach (Agency) have decreased. This will reduce the amount of property tax increment set-aside funds the Agency is able to transfer to the Housing Development Fund—the Company's primary source of funding. Additionally, the Agency will use fiscal year 2010 tax increment set-aside funds to satisfy a \$30 million State mandated fiscal year 2010 payment to the Supplemental Educational Reimbursement Assistance Fund (SERAF).

The Company entered into a Memorandum of Understanding (MOU) with the Agency whereby the Agency shall keep its fiscal year 2010 tax increment set-aside funds, estimated at \$19 million, to help satisfy the SERAF payment. The Agency shall repay the funds beginning fiscal year 2011 and continuing through fiscal year 2015. This borrowing will not affect the Company's ability to fund projects that are underway as there are sufficient prior year set-aside funds with the Housing Development Fund.

### 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

**BASIC FINANCIAL STATEMENTS**

# The Long Beach Housing Development Company

## Statement of Net Assets September 30, 2009 (In thousands)

Governmental Activities

### ASSETS

#### Current assets:

Cash and investments	\$ 2,924
Non-performing investments	3
Accounts receivable	6
Other assets	1
Due from other governments	320
Properties held for resale	16,474
Total current assets	<u>19,728</u>

#### Non-current Assets:

Advances to the Redevelopment Agency	1,634
Other non-current receivables, net	61,618
Capital assets:	
Land and other assets not being depreciated	1,015
Building and improvements, net of accumulated depreciation	<u>1,008</u>
Total non-current assets	<u>65,275</u>
Total assets	<u>85,003</u>

### LIABILITIES

#### Current liabilities:

Vouchers/accounts payable	2,477
Deposits/collections held in trust	33
Accrued interest payable	46
Other long-term obligations - current portion	946
Total current liabilities	<u>3,502</u>

#### Non-current liabilities:

Accrued interest payable	497
Advances from the City of Long Beach	5,259
Other long-term obligations	1,053
Total non-current liabilities	<u>6,809</u>
Total liabilities	<u>10,311</u>

### NET ASSETS

Invested in capital assets, net of related debt	1,008
Restricted	61
Unrestricted	73,623
Total Net Assets	<u>\$ 74,692</u>

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

# The Long Beach Housing Development Company

## Statement of Activities for the Year Ended September 30, 2009 (In thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenues and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
Governmental Activities				
Community and cultural/housing	\$ 1,473	\$ 389	\$ 740	\$ (344)
Interest on long-term debt	58	-	-	(58)
Total government activities	<u>\$ 1,531</u>	<u>\$ 389</u>	<u>\$ 740</u>	<u>(402)</u>
General Revenues:				
Property tax increment - 20% set-aside				7,581
Land transfers, net				(903)
Transfers from the City, net				7,930
Transfers to the Redevelopment Agency, net				(104)
Total general revenues and transfers				<u>14,504</u>
Change in net assets				<u>14,102</u>
Net assets - October 1, 2008				<u>60,590</u>
Net assets - September 30, 2009				<u>\$ 74,692</u>

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

# The Long Beach Housing Development Company

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## Balance Sheet – Governmental Fund September 30, 2009 (In thousands)

<b>Assets</b>	
Cash and investments	\$ 2,924
Short-term investments non-performing	3
Accounts receivable	6
Due from other governments	320
Receivables - loan, long-term, net	61,618
Advances to the Redevelopment Agency	1,634
Properties held for resale	16,474
Other assets	1
Total assets	<u>\$ 82,980</u>
<b>Liabilities and Fund Balance</b>	
<b>Liabilities</b>	
Vouchers/accounts payable	\$ 2,477
Deferred revenues	61,618
Deposits/collections held in trust	33
Total liabilities	<u>64,128</u>
<b>Fund balance</b>	
Reserved:	
Replacement and operations	61
Properties held for resale	16,474
Long-term advances	1,634
Encumbrances	1
Unreserved:	
Designated for future projects	682
Total fund balance	<u>18,852</u>
Total liabilities and fund balance	<u>\$ 82,980</u>

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



# 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, 2009 (In thousands)

Total governmental fund balance \$ 18,852

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 (note 3). 2,023

Advances due to the primary government is considered  
to be external activity that is reported only in the government-  
wide financial statements (note 4). (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 (note 8). 61,618

Governmental long-term liabilities, including accrued interest  
payable of \$46 and \$497, are not due and payable in the current  
period and, therefore, are not reported in the fund financial  
statements (note 5). (2,542)

Net assets of governmental activities \$ 74,692

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

# The Long Beach Housing Development Company

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## Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund for the Year Ended September 30, 2009 (In thousands)

<b>Revenues</b>	
Property tax increment - 20% set-aside	\$ 7,581
Rental income	107
Interest income	77
Loan repayments	99
Gain on sale of land held for resale	25
Other	908
Total revenues	<u>8,797</u>
<b>Expenditures</b>	
Administrative costs	50
Disposition costs	4
Professional services	373
Operation of acquired property	411
Low- and moderate-income housing loans/grants	15,390
Project improvement/construction costs	284
Interdepartmental charges	105
Property and other taxes	19
Total expenditures	<u>16,636</u>
Excess of revenues over expenditures	<u>(7,839)</u>
<b>Other financing sources (uses)</b>	
Land transfers, net	(903)
Transfers to the Redevelopment Agency, net	(104)
Transfers from the City, net	7,930
Total other financing sources (uses), net	<u>6,923</u>
Net change in fund balance	(916)
Fund balance, October 1	19,768
Fund Balance, September 30	<u>\$ 18,852</u>

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

# The Long Beach Housing Development Company

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## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities September 30, 2009 (In thousands)

Excess expenditures and other uses over revenues and other sources -  
governmental fund \$ (916)

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. (63)

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. 15,190

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. (109)

Change in net assets of governmental activities \$ 14,102

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

# The Long Beach Housing Development Company

## Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Non-GAAP Budgetary Basis) – Governmental Fund for the Year Ended September 30, 2009 (In thousands)

	Budgeted Amounts		Actual on GAAP Basis	Encumbrance Ending	Land Held for Resale	Advances (to) from Other Funds	Actual on Non-GAAP Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final						
<b>Revenues:</b>								
Property tax increment - 20% set-aside	\$ 9,764	\$ 15,007	\$ 7,581	\$ -	\$ -	\$ -	\$ 7,581	\$ (7,426)
License and permits	20	20	-	-	-	-	-	(20)
Rental income	-	-	107	-	-	-	107	107
Interest income	1,385	1,425	77	-	-	(49)	28	(1,397)
Loan repayments - principal	525	525	99	-	-	-	99	(426)
Gain on sale of land of land held for resale	-	-	25	-	190	-	215	215
Other	228	344	908	-	-	-	908	564
Total revenues	<u>11,922</u>	<u>17,321</u>	<u>8,797</u>	<u>-</u>	<u>190</u>	<u>(49)</u>	<u>8,938</u>	<u>(8,383)</u>
<b>Expenditures:</b>								
Administration costs	1,967	1,608	50	-	-	-	50	1,558
Acquisition costs	-	44	-	-	-	-	-	44
Disposition costs	-	-	4	-	-	-	4	(4)
Professional services	8,449	8,623	373	-	-	-	373	8,250
Operation of acquired property	(47)	143	411	1	-	-	412	(269)
Low- and moderate-income housing loans/grants	53,006	52,374	15,390	-	-	-	15,390	36,984
Project improvement/construction costs	1,550	775	284	-	-	-	284	491
Interdepartmental charges	38	38	105	-	-	-	105	(67)
Land purchases	51	7	-	-	-	-	-	7
Property and other taxes	-	87	19	-	-	-	19	68
Debt service payments:								
Principal	389	389	-	-	-	-	-	389
Interest	16	16	-	-	-	-	-	16
Total expenditures	<u>65,419</u>	<u>64,104</u>	<u>16,636</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>16,637</u>	<u>47,467</u>
Excess of expenditures over revenues	<u>(53,497)</u>	<u>(46,783)</u>	<u>(7,839)</u>	<u>(1)</u>	<u>190</u>	<u>(49)</u>	<u>(7,699)</u>	<u>39,084</u>
<b>Other financing sources (uses):</b>								
Proceeds from issuance of long-term debt	405	405	-	-	-	-	-	(405)
Land transfers, net	-	-	(903)	-	903	-	-	-
Transfers (to) from the Redevelopment Agency	(1,500)	(3,000)	(104)	-	-	-	(104)	2,896
Transfers (to) from the City	57,329	52,116	7,930	-	-	-	7,930	(44,186)
Total other financing sources (uses)	<u>56,234</u>	<u>49,521</u>	<u>6,923</u>	<u>-</u>	<u>903</u>	<u>-</u>	<u>7,826</u>	<u>(41,695)</u>
Net change in fund balance	2,737	2,738	(916)	(1)	1,093	(49)	127	(2,611)
Fund balance - October 1, budgetary basis	531	531	19,768	(85)	(17,567)	(1,585)	531	-
Encumbrances, beginning of year	85	85	-	85	-	-	85	-
Fund balance - September 30, budgetary basis	<u>\$ 3,353</u>	<u>\$ 3,354</u>	<u>18,852</u>	<u>\$ (1)</u>	<u>\$ (16,474)</u>	<u>\$ (1,634)</u>	<u>\$ 743</u>	<u>\$ (2,611)</u>

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

# **The Long Beach Housing Development Company**

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## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS

### Note 1 – Summary of Significant Accounting Policies

#### Organization

On July 25, 1989, the City of Long Beach, California (City) established The Long Beach Housing Development Company (the Company) 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 of Directors comprising up to eleven 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 blended component 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 Boulevard, 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.

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

# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current financial resources.

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, 2009.

### 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.

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 follow:

Land Improvements	15-35 years
Buildings	20-50 years

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

### 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 level. 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.

### Implementation of New Accounting Pronouncements

The following summarizes implemented Governmental Accounting Standards Board (GASB) pronouncements and their impact, if any, on the financial statements:

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The statement focuses on the current or potential detrimental effects of existing pollution through the participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. The requirements of this statement are effective for financial statements periods beginning after December 15, 2007 and include measurement of pollution remedial liabilities at the beginning of the fiscal period as to restate beginning net assets. Governments with sufficient objective verifiable information to apply expected cash flow techniques to determine prior period liabilities are required to do for all periods presented. The additional disclosure required by GASB Statement No. 49 is discussed in note 5.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The adoption did not have a material impact on the Company's financial statements.



# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The adoption did not have a material impact on the Company's financial statements.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. Implementation of this statement did not have a material impact on the Company's financial statements.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The Statement incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The adoption did not have a material impact on the Company's financial statements.

The Company is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the Company's fiscal year ending September 30, 2010.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement is intended to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Statement also provides guidance for classifying stabilization amounts on the face of

# **The Long Beach Housing Development Company**

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## **NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. Application of this statement is effective for the Company's fiscal year ending September 30, 2011.

### **Estimates**

The preparation of the Company'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 blended component unit of the City, the Company is authorized to invest 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, 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.

### **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.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

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
Bankers' 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

Provisions of the debt agreement govern investment of debt proceeds held by bond trustees.

### 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 short-term and long-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 adequate cash flow and liquidity for operations. The following schedule indicates the interest rate risk of the City's investments, which includes \$2,924,000 the Company has invested with the City as of September 30, 2009 (in thousands):

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Cash and Investments in City Pool:		
Inter-Department Loan (Health SAVRS)	\$ 2,654	9.604
U.S. Treasury Notes	930,125	0.505
Federal Agency Securities	592,312	0.500
Government Managed Rate Account	<u>104,667</u>	0.003
Subtotal City Pool	1,629,758	
Cash and Deposits	80,099	
Outstanding Checks	<u>(13,698)</u>	
Total City Pool	<u>\$1,696,159</u>	
Non-Performing Short-Term Investment	<u>\$ 3,962</u>	-

The Company's \$2,924,000 in cash and investments is approximately 0.17 percent of the City's \$1,696,159,000 cash and investment pool.

### **Investments with Fair Values Highly Sensitive to Interest Rate Risk**

Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by the use of one of the five methods for reporting interest rate risk. The City had no investments with values that were highly sensitive to interest rate risk as of September 30, 2009.

### **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 investment 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 statement of net assets.

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.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

### 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. The minimum rating requirements for commercial paper, asset-backed securities, and medium-term notes is an A rating. Mortgage-backed security issuers must have a minimum AAA rating. State warrants, state treasury notes, or bonds of the State are to be rated at a minimum of A1/Sp-1 for short-term investments and A1/AA for long-term investments. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of September 30, 2009 for each investment type (in thousands):

City's Pooled Investments Investment Type	Minimum legal rating		Not required to be rated	AAA	Unrated
Cash and Investments in City Pool:					
Inter-Department Loan (Health SAVRS)	N/A	\$ 2,654	\$ 2,654	\$ -	\$ -
U.S. Treasury Notes	N/A	930,125	930,125	-	-
Federal Agency Securities	N/A	592,312	-	592,312	-
Government Managed Rate Account	N/A	104,667	104,667	-	-
Subtotal City Pool		1,629,758	1,037,446	592,312	-
Cash and Deposits		80,099	-	-	80,099
Outstanding Checks		(13,698)	-	-	(13,698)
Total City Pool		<u>\$ 1,696,159</u>	<u>\$ 1,037,446</u>	<u>\$ 592,312</u>	<u>\$ 66,401</u>
Non-Performing Short-Term Investment	N/A	<u>\$ 3,962</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,962</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	Reported Amount
Federal Farm Credit Bank	Federal agency securities	\$ 20,823
Federal Home Loan Bank	Federal agency securities	102,848
Federal Home Loan Mortgage Association	Federal agency securities	91,865
Federal National Mortgage Association	Federal agency securities	376,776
U.S. Treasury	U.S. Treasury notes and bonds	930,125

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

### 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 percent of the total amount deposited by 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.

As of September 30, 2009, the City reports deposits of \$80,099,000 less \$13,698,000 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. At September 30, 2009, the City was not participating in LAIF.

### Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal year ended September 30, 2009.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

### Securities Lending

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2009. 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.

### Note 3 – Capital Assets

Capital asset activity for the year ended September 30, 2009 was as follow (in thousands):

Governmental Activities:	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,015	\$ -	\$ -	\$ 1,015
Total capital assets not being depreciated	1,015	-	-	1,015
Capital assets, being depreciated:				
Building	536	-	-	536
Land improvements	1,053	-	-	1,053
Total capital assets being depreciated	1,589	-	-	1,589
Less: Accumulated depreciation for:				
Building	(112)	(18)	-	(130)
Land improvements	(406)	(45)	-	(451)
Total accumulated depreciation	(518)	(63)	-	(581)
Total capital assets being depreciated, net	1,071	(63)	-	1,008
Governmental activities capital assets, net	\$ 2,086	\$ (63)	\$ -	\$ 2,023

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

Community and cultural/housing	\$ 63
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### Note 4 – Advances from the City of Long Beach

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 by 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 Company's outstanding loan balance with the City at September 30, 2009 is \$3,819,000.

Advances from the City for repayment of debt related to HELP loans outstanding with the California Housing Finance Agency at September 30, 2009 was \$1,440,000

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

### Note 5 – Long-Term Liabilities

Long-term liabilities in the amount of \$1,999,000 are reported as other long-term obligations in the Statement of Net Assets. Long-term liability activity for the year ended September 30, 2009 was as follows (in thousands):

	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Due within one year
Governmental Activities:					
Notes Payable	\$ 1,949	\$ -	\$ -	\$ 1,949	\$ 934
Environmental Remediation	-	50	-	50	12
Total Long-Term Liabilities	<u>\$ 1,949</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ 1,999</u>	<u>\$ 946</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, Lois Apartments, was completed in fiscal year 1993. Interest on the loan accrues from the date the funds were disbursed by the State at an annual simple interest rate of three percent. No interest payment is required, however the Company made an interest payment of \$14,108 in fiscal year 1997. When sufficient funds are available, interest payments are to be remitted within 60 days of fiscal year end. No interest payments were made during fiscal year 2009. The principal and any unpaid interest are due in January 2022.

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 funds were used for the Grisham Community Housing 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, 2009, the Company has repaid \$1,044,562 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 \$934,000 HELP loans plus accrued interest in fiscal year 2010.



# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 934	\$ 46	\$ 980
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015-2019	-	-	-
2020-2024	1,015	880	1,895
Total	<u>\$ 1,949</u>	<u>\$ 926</u>	<u>\$ 2,875</u>

### Environmental Remediation

In August of 2007 the Company acquired property located at 2085 Atlantic Boulevard, with the knowledge that remediation activities for soil and groundwater contamination would have to be undertaken. The remediation activities, as directed by the Los Angeles Regional Water Quality Control Board, have been completed, however continued monitoring of the site has been ordered. Based on a cost estimate from the monitoring service provider, the estimated remaining liability is \$50,000. There is a remote possibility that the cost of monitoring may increase if the mandated monitoring period is extended. There is no reasonable expectation of any recovery associated with these remediation efforts.

### Note 6 – Fund Balance

In the fund financial statements, a portion of the fund balance is reserved for specific uses and is not available for appropriation. The remaining balance is unreserved, but designated for future projects. The composition of the reserved and unreserved portions of fund balance at September 30, 2009 is as follows (in thousands):

Reserved for:	
Replacement and operations	\$ 61
Properties held for resale	16,474
Long-term advances	1,634
Encumbrances	1
Unreserved:	
Designated for future projects	-
Total fund balance	<u>\$ 18,170</u>

# **The Long Beach Housing Development Company**

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## **NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

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

The City's Housing Development Fund and Community Development Grants Fund are the Company's primary sources of funding. The Housing Development Fund's principal revenue source is the State mandated 20 percent property tax increment housing set-aside from the Redevelopment Agency of the City of Long Beach. The Housing Development Fund transferred \$7,581,000 of property tax increment housing set-aside funds to the Company during the fiscal year ended September 30, 2009. The Community Development Grants Fund transferred \$8,020,000 of Housing and Urban Development (HUD) grant funds to the Company in fiscal year 2009.

### **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 receivables (assets) and deferred revenue (liabilities) on 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 full accrual basis of accounting.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Long-term receivables consisted of the following at September 30, 2009 (in thousands):

Project/Program	Principal Outstanding	Interest Rate	Payment Terms
421 Broadway Lyon West Gateway New Construction	\$ 5,554	0%	The principal balance is due following the maturity date, or the event of default, an assignment not in accordance with the loan agreement, sale of the units, or assignment subsequent to the expiration of the affordability period.
Atlantic Avenue Apartments Mental Health Association New Construction	280	3%	Amortized payments from residual receipts, if any, are due and payable on the first calendar day of each month. Entire principal balance, accrued interest, and any other sums are due May 2023.
Atlantic Villas Second 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, 2009.
Casa Carino New Construction	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.
The Courtyards Apartments Clifford Beers Housing Rehabilitation	1,778	3%	Principal and interest payments are due annually on April 1 in an amount equal to 15.41 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 the date of recordation of construction covenants.
Downpayment Assistance Grant	171	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 49 loans outstanding at September 30, 2009.
Elm Avenue Apartments Clifford Beers Housing Rehabilitation	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.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Long-term receivables, continued (in thousands):

Project/Program	Principal Outstanding	Interest Rate	Payment Terms
Family Commons at Villages at Cabrillo Century Housing New Construction	\$ 11,775	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 the date of recordation of construction covenants.
Grisham Community Housing Rehabilitation	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.
Evergreen Apartments 1528 Freeman Avenue L.A. Community Design Center Rehabilitation	436	3%	Annual payments of principal and interest began in 2002 using 50 percent of residual receipts. Interest began accruing in 1999 and amounted to \$93,606 at September 30, 2009.
Interest Rate Reduction 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, 2009.
Habitat for Humanity New Construction/Rehabilitation	262	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, 2009.
Habitat for Humanity Second Mortgage Assistance 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, 2009.
Habitat for Humanity Rehabilitation	116	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.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Long-term receivables, continued (in thousands):

Project/Program	Principal Outstanding	Interest Rate	Payment Terms
Household Bank Second Mortgage Assistance	\$ 365	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, 2009.
Merit Hall Apartments, Inc. New Construction	400	8%	Principal and interest are due upon the maturity of the note, which is July 1, 2033.
Meta Housing Long Beach & Burnett, LLP New Construction	6,240	3%	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 the date of recordation of construction covenants.
Moderate Income Homeowner Rehabilitation	681	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 19 loans outstanding at September 30, 2009.
Multi-Family Rental Rehabilitation	268	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 four loans outstanding at September 30, 2009.
Northpointe Apartments Parwood Preservation Rehabilitation	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 not payable to the City).
Olive Court Second Mortgage Assistance 45 Year Loans	2,467	0%	Note amount is due after 45 years, or upon transfer of property or an event of acceleration. There are 16 loans outstanding at September 30, 2009.
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, 2009.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Long-term receivables, continued (in thousands):

Project/Program	Principal Outstanding	Interest Rate	Payment Terms
The Palace Hotel Linc Housing Rehabilitation	\$ 384	0%	Entire principal balance due and payable on June 15, 2010.
Renaissance Walk Second Mortgage Assistance	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, 2009.
Second Mortgage Assistance Program (SMAP)	7,591	0%	Repayment obligation is triggered when any of the following occur: property is sold or title transferred; property no longer occupied by Borrower; first mortgage loan is refinanced (except as approved by LBHDC); or 30 years from date of note. There are 100 loans outstanding at September 30, 2009.
West Gateway Jamboree Housing Corp. New Construction	11,818	0%	Annual payments equal to 50 percent of residual receipts for the prior calendar year are due April 1.
Total	62,253		
Allowance for loans not obligated to be repaid	(635)		
Long-term loan receivables, net	\$ 61,618		

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

Down Payment Assistance Program	\$ 171
Habitat for Humanity	443
Interest Rate Reduction Grant Program	21
Total	\$ 635

# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

In the accompanying fund financial statements, the components of deferred revenue as of September 30, 2009, are as follows (in thousands):

421 Broadway - Lyon West Gateway	\$ 5,554
Atlantic Avenue Apartments - Mental Health Association	280
Atlantic Villas Second Mortgage Assistance	30
Casa Carino	286
The Courtyards Apartments - Clifford Beers Housing	1,778
Elm Avenue Apartments - Clifford Beers Housing	1,868
Family Commons at Villages at Cabrillo - Century Housing	11,775
Grisham Community Housing	7,680
Grisham Community Housing - LA Community Design Center	436
Habitat for Humanity Second Mortgage Assistance	116
Household Bank Second Mortgage Assistance	365
Merit Hall Apartments, Inc.	400
Meta Housing - Long Beach & Burnett, LLP	6,240
Moderate Income Homeowner Rehabilitation	681
Multi-Family Rental Rehabilitation	268
Northpointe Apartments - Parwood Preservation	599
Olive Court Second Mortgage Assistance 45 year	2,467
Olive Court Second Mortgage Assistance 30 year	526
Palace Hotel - Linc Housing	384
Renaissance Walk Second Mortgage Assistance	476
Second Mortgage Assistance Program (SMAP)	7,591
West Gateway - Jamboree Housing Corp.	11,818
Total	<u>\$ 61,618</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 2009, the City transferred three parcels of land valued at \$215,000 to the Company. Property valued at \$190,000 was sold to a low-income homebuyer. Land valued at \$1,118,000 was transferred to the Redevelopment Agency of the City of Long Beach.

### Note 10 – Commitments and Contingencies

#### Commitments

Available fund balance as of September 30, 2009 is committed to fund development projects, first-time homebuyer programs, and moderate-income rehabilitation loan program.

# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS (continued)

### Litigation

The Company is subject to claims and lawsuits arising from the normal course of business. Representatives of the City Attorney's Office routinely evaluate 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 City Attorney's Office, 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 11 – 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 as of September 30, 2009 (in thousands):

Long Beach Housing Trust Fund Balance Sheet - Governmental Fund September 30, 2009	
Assets	
Pooled cash and investments	\$ 280
Short-term investments - non-performing	1
Total assets	\$ 281
Fund Balance	
Reserved:	\$ 281
Total fund balance	\$ 281

Statement of Revenues, Expenses, and Changes Fund Balance - Governmental Fund Year Ended September 30, 2009	
Revenues	
Interest income	\$ 5
Total revenues	5
Net change in fund balance	5
Fund balance, October 1	276
Fund balance, September 30	\$ 281



# **The Long Beach Housing Development Company**

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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 Long Beach Housing Development Company**

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KPMG LLP  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

**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 Honorable Members of the Long Beach Housing Development Company  
City of Long Beach, California:

We have audited the combined financial statements of the governmental activities and major fund of the Long Beach Housing Development Company (the Company) as of and for the year ended September 30, 2009, and have issued our report thereon dated June 22, 2010. 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.

A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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 board of directors, the Company's management, 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

June 22, 2010