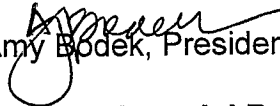


M E M O R A N D U M

Date: November 7, 2012
To: Board of Directors
The Long Beach Housing Development Company
From: 
Amy Bodek, President
Subject: Annual Financial Report for the Fiscal Year Ended
September 30, 2011

RECOMMENDATION

Receive and file.

BACKGROUND

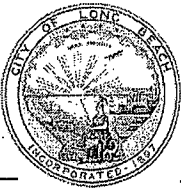
Attached is the Annual Financial Report of The Long Beach Housing Development Company for the Fiscal Year Ended September 30, 2011.

This report was prepared by the City's Department of Financial Management. It contains information on the LBHDC's assets, liabilities, revenues and expenditures for the fiscal year ended September 30, 2011.

AJB:RMZ:PU:DLH

Attachment: Annual Financial Report

R:\LBHDC\Staff Reports\2012\November\FY11 Annual Report Letter v4.doc



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 W OCEAN BLVD, 6TH FLOOR ! LONG BEACH, CA 90802 ! 562-570-6360 FAX 562-570-8760

FINANCIAL STATEMENT CERTIFICATION

June 25, 2012

Board of Directors
The Long Beach Housing Development Company

Ladies and Gentlemen:


We have reviewed the unaudited financial statements of the Long Beach Housing Development Company (Company) and confirm, to the best of our knowledge and belief, the representations made therein present fairly, in all material respects, the financial position and results of operations of the Company at September 30, 2011.

Respectfully,



John Gross, Director of Finance

6/15/12
Date



Stephen Hannah, City Controller

6-15-12
Date

The Long Beach Housing Development Company
Annual Financial Report
For the Fiscal Year Ended September 30, 2011
Unaudited

The Long Beach Housing Development Company

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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The Long Beach Housing Development Company

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, 2011. We encourage readers to consider this information in conjunction with the accompanying basic financial statements.

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 two components: entity-wide financial statements and fund 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 governmental activities. 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 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

The Long Beach Housing Development Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

balances provide reconciliations to facilitate comparisons between governmental funds and governmental activities. These reconciliations can be found on pages 12 and 14, respectively, of this annual report.

The Company's governmental fund financial statements can be found on pages 11 and 13 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 15 of this report to demonstrate the Company's compliance with its budget policy.

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.

	Summary of Net Assets September 30, 2011 (In thousands)		Change	
	2011	2010	Amount	Percentage
Assets				
Current assets	\$ 19,747	\$ 15,954	\$ 3,793	23.8 %
Non-current assets				
Other non-current assets	80,621	72,441	8,180	11.3
Capital assets	2,138	2,204	(66)	(3.0)
Total assets	102,506	90,599	11,907	13.1
Liabilities				
Current liabilities	3,788	3,421	367	10.7
Non-current liabilities	7,811	7,792	19	0.2
Total liabilities	11,599	11,213	386	3.4
Net assets:				
Invested in capital assets, net of related debt	1,123	1,189	(66)	(5.6)
Restricted	89,240	73	89,167	122,146.6
Unrestricted	544	78,124	(77,580)	(99.3)
Total net assets	\$ 90,907	\$ 79,386	\$ 11,521	14.5 %

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Company, assets exceeded liabilities by \$91.0 million at September 30, 2011.

Of the total net assets, \$1.1 million represents the Company's investment in capital assets, less any outstanding debt used to acquire these assets. The Company uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Company's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are generally not used to liquidate these liabilities. Charges to depreciation expense decreased capital assets by \$66,000, or 3.0 percent from the prior year.

The Long Beach Housing Development Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

Restricted net assets represent \$89.2 million of the Company's total net assets. This component of net assets represents external restrictions imposed by creditors and grantors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

The remaining \$544,000 balance of net assets is unrestricted.

The significant changes in restricted net assets and unrestricted net assets from the prior year are a result of classifying fund balance in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 is discussed more fully elsewhere in this report.

Changes in Net Assets
September 30, 2011
(In Thousands)

	Governmental Activities		Change	
	2011	2010	Amount	Percentage
<u>Revenues</u>				
Program Revenues				
Charges for services	\$ 308	\$ 189	\$ 119	63.0 %
Operating grants and contributions	721	280	441	157.5
General Revenues				
Property tax increment - 20% set-aside	9,984	7,193	2,791	38.8
Total Revenues	11,013	7,662	3,351	43.7
<u>Expenses</u>				
Program Expenses				
Community and cultural housing	1,236	8,346	(7,110)	(85.2)
Interest on long-term debt	30	41	(11)	(26.8)
Total Expenses	1,266	8,387	(7,121)	(84.9)
Increase in Net Assets before Transfers	9,747	(725)	10,472	(1,444.4)
Land transfers, net	741	2,599	(1,858)	(71.5)
Transfers (to) from the City	(148)	1,190	(1,338)	(112.4)
Transfers (to) from Redevelopment Agency	1,181	1,630	(449)	(27.5)
Change in net assets	11,521	4,694	6,827	145.4
Net assets, October 1	79,386	74,692	4,694	6.3
Net assets, September 30	\$ 90,907	\$ 79,386	\$ 11,521	14.5 %

Governmental activities increased net assets by \$12.0 million, or 14.5 percent, during fiscal year 2011. Key elements of the change in net assets are as follows:

- Reimbursement from the State of California for CalHOME grant expenditures increased operating grants and contributions revenues by \$441,000 or 157.5 percent.

The Long Beach Housing Development Company

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- The Company's share of property tax increment revenue increased \$2.8 million, or 38.8 percent, over the prior fiscal year. The Company receives its share of property tax increment revenue from the City's Low- and Moderate-Income Housing Fund as needed to finance projects.
- The Company conveyed fewer parcels of land held for resale to developers during the current fiscal year, decreasing community and cultural housing expenditures by \$7.1 million or 85.2 percent.
- Fewer parcels of land held for resale were received from the City during the current fiscal year, decreasing land transfers by \$1.8 million or 71.50 percent.
- The \$1.3 million or 112.4 percent decrease in transfers from the City is attributable to fewer HOME grant funds being used in the current fiscal year to finance second mortgage assistance loans.
- Transfers from the Redevelopment Agency decreased \$449,000 or 27.5 percent over the prior fiscal year. This is attributable to the write off of a \$1.7 million loan to the Agency. This matter is discussed more fully later in this report.

FINANCIAL ANALYSIS OF THE COMPANY'S ACTIVITIES

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

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 fund balance serves as a useful measure of the Company's net resource available for spending at the end of the fiscal year.

As of September 30, 2011, the Company's governmental fund reported an ending fund balance of \$16 million, a \$1.6 million or 11.0 percent increase from the prior fiscal year. In accordance with GASB Statement No. 54, the governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- Restricted fund balance represents \$15.4 million of total fund balance. This category of fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers, such as grantors and creditors, or by laws and regulations of other governments and constitutional provisions and enabling legislation.
- Committed fund balance represents \$161,000 of total fund balance. This category of fund balance includes amounts that can only be used for the specific purposes determined by a formal action of the government's highest level of decision-making authority. For the Company, that authority is City Council.
- Assigned fund balance is \$382,000 of total fund balance, and represents the remaining amount that is not restricted or committed. Company intends to use amounts in the classification for specific low- and moderate-income housing related purposes.

The Long Beach Housing Development Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

OTHER SIGNIFICANT MATTERS

California Supreme Court Decision on Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bill 1X 26 (AB 26) as part of the State's budget package. AB 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn AB 26 on the grounds the bill violated the California Constitution. On August 11, 2011, the California Supreme Court (Court) issued a stay of most of AB 26. On December 29, 2011, the Court upheld AB 26 resulting in the Agency ceasing to exist as of February 1, 2012. Consistent with the legislation, the City has elected to become the successor agency for discharging redevelopment obligations and to assure the housing obligations of the Redevelopment Agency of the City of Long Beach.

AB 26 also defines what obligations will be considered "enforceable obligations" and funded through future property tax increment revenues. Unless a loan agreement was entered into between the City and the Agency within two years of the date of creation of the Agency, it is not considered an enforceable obligation. As of September 30, 2011, \$1.7 million advances provided by the Company to the Agency are considered uncollectible and have been written off in the accompanying financial statements based on the existing legislation.

Due to the perceived ambiguities within AB 26, certain "clean-up" legislation is currently being considered which could, among other things, reinstate the aforementioned receivable written off by the Company. While the legislation has passed State assembly, it has not been acted on by the State Senate or signed by the Governor. In addition, other aspects of the law will likely require judicial adjudication to resolve.

The passage of AB 26 in June 2011 and the dissolution of the Redevelopment Agency as of February 1, 2012 have clearly affected the ability of the Company to make new financial commitments on affordable housing projects. The loss of future tax increment revenues, and therefore future housing set-aside, decimates the Company's ability to fund new development projects or support first-time homebuyer assistance and homeowner rehabilitation loan programs.

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, 6th Floor
Long Beach, CA 90802

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BASIC FINANCIAL STATEMENTS

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The Long Beach Housing Development Company

Statement of Net Assets
September 30, 2011
Unaudited
(in thousands)

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 7,648
Non-performing investments	3
Accounts receivable	3
Other assets	
Advances to the Redevelopment Agency	220
Due from other governments	346
Properties held for resale	11,527
Total current assets	19,747
Non-current Assets:	
Advances to the Redevelopment Agency	-
Other non-current receivables, net	80,621
Capital assets:	
Land and other assets not being depreciated	1,101
Building and improvements, net of accumulated depreciation	1,037
Total non-current assets	82,759
Total assets	102,506
LIABILITIES	
Current liabilities:	
Vouchers/accounts payable	3,763
Deposits/collections held in trust	13
Other long-term obligations - current portion	12
Total current liabilities	3,788
Non-current liabilities:	
Accrued interest payable	565
Advances from the City of Long Beach	6,231
Other long-term obligations	1,015
Total non-current liabilities	7,811
Total liabilities	11,599
NET ASSETS	
Invested in capital assets, net of related debt	1,123
Restricted	
Housing loans and grants	78,049
Loans receivable	-
Land held for resale	11,191
Unrestricted	
Total net assets	\$ 90,907

The Long Beach Housing Development Company

Statement of Activities
For the Year Ended September 30, 2011
Unaudited
(in thousands)

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenues and Change in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions		
Primary Government:				
Governmental Activities				
Community and cultural/housing	\$ 1,236	\$ 308	\$ 721	\$ (207)
Interest on long-term debt	30	-	-	(30)
Total governmental activities	\$ 1,266	\$ 308	\$ 721	(237)
General Revenues:				
Property tax increment - 20% set-aside				9,984
Land transfers, net				741
Transfers from the City, net				(148)
Transfers from the Redevelopment Agency, net				1,181
Total general revenues and transfers				11,758
Change in net assets				11,521
Net assets - October 1, 2010				79,386
Net assets - September 30, 2011				\$ 90,907

The Long Beach Housing Development Company

Balance Sheet – Governmental Fund
September 30, 2011
Unaudited
(in thousands)

Assets	
Cash and investments	\$ 7,648
Short-term investments non-performing	3
Accounts receivable	3
Due from other governments	346
Receivables - loan, long-term, net	80,621
Advances to the Redevelopment Agency	220
Properties held for resale	11,527
Total assets	\$ 100,368
 Liabilities and Fund Balance	
Liabilities	
Vouchers/accounts payable	\$ 3,763
Deferred revenues	80,621
Deposits/collections held in trust	13
Total liabilities	84,397
 Fund Balance	
Restricted	
Housing Loans & Grants	4,236
Loans Receivable	-
Land Held for Resale	11,191
Committed	
Low- and Moderate-Income Housing	161
Assigned	
Housing Development	47
Land Held for Resale	336
Total fund balance	15,971
Total liabilities and fund balance	\$ 100,368

The Long Beach Housing Development Company

**Reconciliation of the Balance Sheet of Governmental Fund
To the Statement of Net Assets
For the Year Ended September 30, 2011
Unaudited
(in thousands)**

Total governmental fund balance	\$ 15,971
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	2,138
Advances due to the primary government is considered to be external activity that is reported only in the government-wide financial statements.	(6,231)
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.	80,621
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	<u>(1,592)</u>
Net assets of governmental activities	<u>\$ 90,907</u>

The Long Beach Housing Development Company

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended September 30, 2011
Unaudited
(in thousands)

Revenues	
Property tax increment - 20% set-aside	\$ 9,984
Rental income	107
Interest income	83
Loan repayments	14,547
Other	827
Total revenues	<u>25,548</u>
Expenditures	
Administrative costs	9
Acquisition and relocation costs	13
Professional services	231
Operation of acquired property	154
Low- and moderate-income housing loans/grants	24,046
Project improvement/construction costs	238
Interdepartmental charges	69
Land Held for Resale	232
Loss on sale of land	760
Property and other taxes	18
Total expenditures	<u>25,770</u>
Excess of expenditures over revenues	<u>(222)</u>
Other financing sources (uses)	
Land transfers, net	741
Transfers from the Redevelopment Agency, net	1,181
Transfers from the City, net	(148)
Total other financing sources (uses), net	<u>1,774</u>
Net change in fund balance	1,552
Fund balance, October 1	14,419
Fund balance, September 30	<u>\$ 15,971</u>

The Long Beach Housing Development Company

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of the Governmental Fund to the Statement of Activities
September 30, 2011
Unaudited
(in thousands)**

Excess expenditures and other uses over revenues and other sources -
governmental fund \$ 1,552

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. (66)

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, therefore the corresponding net expense is not reported on
the statement of activities. 10,053

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. (18)

Change in net assets of governmental activities \$ 11,521

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, 2010 (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						
Revenues:								
Property tax increment - 20% set-aside	\$ 278	\$ 3,406	\$ 9,984	\$ -	\$ -	\$ -	\$ 9,984	\$ 6,578
Rental income	-	-	107	-	-	-	107	107
Interest income	126	126	83	-	-	-	83	(43)
Loan repayments - principal	1	15,473	14,547	-	-	-	14,547	(926)
Gain on sale of land of land held for resale	-	-	-	-	-	-	-	-
Other	1	2,069	827	-	-	-	827	(1,242)
Total revenues	406	21,074	25,548	-	-	-	25,548	4,474
Expenditures:								
Administration costs	16	16	9	-	-	-	9	7
Acquisition and reloaction costs	25	25	13	-	-	-	13	12
Disposition costs	25	25	-	-	-	-	-	25
Professional services	807	807	231	-	-	-	231	576
Planning, survey and design	12	13	-	-	-	-	-	13
Operation of acquired property	320	320	154	-	-	-	154	166
Low- and moderate-income housing loans/grants	55,990	61,675	24,046	-	-	-	24,046	37,629
Project improvement/construction costs	6,500	6,500	238	-	-	-	238	6,262
Interdepartmental charges	100	100	69	-	-	-	69	31
Capital outlay	-	-	232	-	-	-	232	(232)
Loss on disposition of land	-	-	760	-	-	-	760	(760)
Land purchases	650	650	-	-	-	-	-	650
Property and other taxes	151	151	18	-	-	-	18	133
Total expenditures	64,596	70,282	25,770	-	-	-	25,770	44,512
Excess of expenditures over revenues	(64,190)	(49,208)	(222)	-	-	-	(222)	48,986
Other financing sources (uses):								
Land transfers, net	-	-	741	-	(741)	-	-	-
Transfers from the Redevelopment Agency	-	-	1,181	-	-	-	1,181	1,181
Transfers from the City	23,484	19,374	(148)	-	-	-	(148)	(19,522)
Total other financing sources (uses)	23,484	19,374	1,774	-	(741)	-	1,033	(18,341)
Net change in fund balance	(40,706)	(29,834)	1,552	-	(741)	-	811	30,645
Fund balance - October 1, budgetary basis	14,419	14,419	14,419	-	-	-	14,419	-
Encumbrances, beginning of year	16	16	-	16	-	-	16	-
Fund balance - September 30, budgetary basis	\$ (26,271)	\$ (15,399)	\$ 15,971	\$ 16	\$ (741)	\$ -	\$ 15,246	\$ 30,645

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The Long Beach Housing Development Company

SEGMENT INFORMATION FOR LONG BEACH HOUSING TRUST FUND

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The Long Beach Housing Development Company

Segment Information for Long Beach Housing Trust Fund

The Long Beach Housing Trust Fund (Trust) 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. The Company is responsible for administering the Trust. Section 1. Chapter 3.92.100 of the Long Beach Municipal Code requires that financial information for the Trust be reported separately within the Company's annual financial report.

Summary financial information for the Trust is presented below as of September 30, 2011 (in thousands):

Balance Sheet - Governmental Fund	
September 30, 2011	
Assets	
Pooled cash and investments	\$ 160
Short-term investments - non-performing	1
Loans receivable	122
Total assets	<u>\$ 283</u>
Liabilities	
Deferred revenues	<u>122</u>
Total liabilities	<u>122</u>
Fund balance	
Committed	161
Total fund balance	<u>\$ 161</u>

Statement of Revenues, Expenses, and Changes in	
Fund Balance - Governmental Fund	
Year Ended September 30, 2011	
Revenues	
Interest income	<u>\$ 1</u>
Total revenues	<u>1</u>
Expenditures	
Low and moderate income housing loans/ grants	<u>122</u>
Total expenditures	<u>122</u>
Excess of revenues over expenditures	<u>(121)</u>
Net change in fund balance	(121)
Fund balance, October 1	<u>282</u>
Fund balance, September 30	<u>\$ 161</u>

