

**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, 2010**

# 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, 2010

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**Board of Directors**

Patrick Brown, Chair

Kevin Cwayna, M.D., Director

Jonathan Gotz, Director

Michael McCarthy, Director

Stacy McDaniel, Vice Chair

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 governmental activities and major fund of the Long Beach Housing Development Company (the Company), a component unit of the City of Long Beach, California, as of and for the year ended September 30, 2010, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Long Beach Housing Development Company as of September 30, 2010, and the respective changes in financial position and the budgetary comparison for the Company's governmental 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 March 18, 2011 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal



control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

KPMG LLP

March 18, 2011

# 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, 2010. 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, 2010 by \$79.4 million (net assets). Of this amount, \$78.1 million was recorded as unrestricted for financial reporting purposes. However, the funds are committed for the ongoing operations of the Company in fiscal year 2011.
- Total net assets increased by \$4.7 million. The change is primarily attributable to a corresponding increase in low- and moderate-income housing development loans receivable.
- As of the close of the current fiscal year, the Company's governmental fund reported an ending fund balance of \$14.4 million, a decrease of \$4.4 million in comparison with the prior year. The decrease is attributable to properties held for resale that were conveyed to developer Brookfield Homes for the Coronado project on Atlantic Avenue.

### OVERVIEW OF 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 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 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

# The Long Beach Housing Development Company

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

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 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 basic financial statements can be found on pages 20 through 37 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.

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, 2010 by \$79.4 million (net assets). Of this amount, \$70.6 million arises from other non-current loan receivables, as described in note 8 of the accompanying notes to basic financial statements. The \$5.6 million increase (6.6 percent) in assets is primarily due to the increase in non-current loan receivables (14.5 percent). The Company issued \$9.7 million in second mortgage assistance, developer, and rehabilitation loans during fiscal year 2010. Capital assets increased by 8.9 percent as a result of property held for resale, specifically the Palace Hotel, being capitalized when the Company entered into a ground lease agreement with the developer. Current assets decreased by 19.1 percent. This is mainly attributable to the conveyance of contiguous parcels located on Atlantic Avenue to developer Brookfield Homes for the Coronado Project. The Company received \$980 thousand in advances from the City of Long Beach (the City) to satisfy State of California (State) loan



# The Long Beach Housing Development Company

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

repayments, increasing liabilities by 8.7 percent. For information on the Company's long-term liabilities, see note 5 of the accompanying notes to basic financial statements.

The following table summarizes the Company's net assets:

	Net Assets		Change	
	2010	2009	Amount	Percentage
September 30, 2010 (In thousands)				
<u>Assets</u>				
Current assets	\$ 15,954	\$ 19,728	\$ (3,774)	(19.1) %
Non-current assets				
Other non-current assets	72,441	63,252	9,189	14.5
Capital assets	2,204	2,023	181	8.9
Total assets	<u>90,599</u>	<u>85,003</u>	<u>5,596</u>	<u>6.6</u>
<u>Liabilities</u>				
Current liabilities	3,421	3,502	(81)	(2.3)
Non-current liabilities	7,792	6,809	983	14.4
Total liabilities	<u>11,213</u>	<u>10,311</u>	<u>902</u>	<u>8.7</u>
Net assets:				
Invested in capital assets, net of related debt	1,189	1,008	181	18.0
Restricted	73	61	12	19.7
Unrestricted	78,124	73,623	4,501	6.1
Total net assets	<u>\$ 79,386</u>	<u>\$ 74,692</u>	<u>\$ 4,694</u>	<u>6.3 %</u>

## GOVERNMENTAL ACTIVITIES

Governmental activities increased net assets by \$4.7 million (6.3 percent) during fiscal year 2010. Key elements of this increase are as follows:

- Program revenues decreased by 58.5 percent over the prior fiscal year. The Company did not sell any property to individuals, as was the case during the prior fiscal year, thereby decreasing charges for services by \$200 thousand, or 51.4 percent. The Company filed fewer CalHOME grant fund reimbursement claims during the fiscal year, resulting in a 62.2 percent decrease in operating grants and contributions.
- Program expenses increased by 466.6 percent over the prior fiscal year. This is primarily due to the conveyance of properties held for resale to developer Brookfield Homes. For more information on properties held for resale, see note 9 of the accompanying notes to basic financial statements.

# The Long Beach Housing Development Company

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

- As mentioned earlier, the Company conveyed several contiguous parcels of land located on Atlantic Avenue to developer Brookfield Homes for the Coronado project. The conveyance to Brookfield Homes is the primary cause of the 466.6 percent increase in program expenses. The Company utilized funding sources other than Housing and Urban Development grant funds during the current fiscal period, reducing transfers from the City by \$6.7 million (85.0 percent) over the prior fiscal year. The Redevelopment Agency of the City of Long Beach (Agency) transferred \$1.6 million of Housing Revenue Bond funds to the Company. The funds were used to finance the Brookfield Homes Coronado project. The bond funds transfer is responsible for the 1,667.3 percent increase in transfers from the Agency.

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

Changes in Net Assets  
September 30, 2010  
(In Thousands)

	Governmental Activities		Change	
	2010	2009	Amount	Percentage
<u>Revenues</u>				
Program Revenues				
Charges for services	\$ 189	\$ 389	\$ (200)	-51.4%
Operating grants and contributions	280	740	(460)	-62.2%
General Revenues				
Property tax increment - 20% set-aside	7,193	7,581	(388)	-5.1%
Total Revenues	<u>7,662</u>	<u>8,710</u>	<u>(1,048)</u>	<u>-12.0%</u>
<u>Expenses</u>				
Program Expenses				
Community and cultural housing	8,346	1,473	6,873	466.6%
Interest on long-term debt	41	58	(17)	-29.3%
Total Expenses	<u>8,387</u>	<u>1,531</u>	<u>6,856</u>	<u>447.8%</u>
Increase in Net Assets before Transfers	(725)	7,179	(7,904)	-110.1%
Land transfers, net	2,599	(903)	3,502	-387.8%
Transfers (to) from the City	1,190	7,930	(6,740)	-85.0%
Transfers (to) from Redevelopment Agency	<u>1,630</u>	<u>(104)</u>	<u>1,734</u>	<u>-1667.3%</u>
Change in net assets	4,694	14,102	(9,408)	-66.7%
Net assets, October 1	74,692	60,590	14,102	23.3%
Net assets, September 30	<u>\$ 79,386</u>	<u>\$ 74,692</u>	<u>\$ 4,694</u>	<u>6.3%</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, 2010, the Company's governmental fund reported an ending fund balance of \$14.4 million, a 23.5 percent decrease in the prior year's ending balance. This is primarily attributable to the \$4.7 million decrease in properties held for resale. As discussed earlier, the Company conveyed parcels of land to low- and moderate-income housing developers during the fiscal year. The unreserved fund balance at fiscal year-end is \$754 thousand, and has been appropriated for the fiscal year 2011 budget.

### GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures for the Company using the budgetary basis of accounting were \$11.6 million, representing 19.1 percent of the \$60.7 million final budgeted appropriations. Unspent budget amounts of \$4.1 million were primarily related to administration costs, relocations 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

The Company's governmental activity investment in capital assets, net of accumulated depreciation, totaled \$2.2 million at the close of the fiscal year. Capital assets are summarized in the following table (in thousands):

Capital Assets, Net of Depreciation	
September 30, 2010	
<hr/>	
Non-depreciated capital assets	
Land	<u>\$ 1,101</u>
Capital assets subject to depreciation, net	
Building	546
Improvements other than buildings	<u>557</u>
Total capital assets subject to depreciation	<u>1,103</u>
Total capital assets, net	<u><u>\$ 2,204</u></u>

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

# The Long Beach Housing Development Company

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

### LONG-TERM LIABILITIES

The Company's long-term liabilities totaled \$7.3 million at September 30, 2010 and are summarized in the following table (in thousands):

<u>Long-Term Liabilities</u>	
Advances from the City of Long Beach	\$ 6,230
Notes payable	1,015
Environmental remediation	24
Total long-term liabilities	<u>\$ 7,269</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). Environmental remediation is the estimated cost associated with the continued monitoring of the acquired property located at 2085 Atlantic Avenue. Additional information on the Company's long-term liabilities can be found in notes 4 and 5 of the accompanying notes to basic financial statements (pages 29 and 30).

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Assessed property valuations for the Agency continue to decline, and with them, the amount of tax increment set-aside funds available to the Company. Despite these declines, the Company has access to sufficient prior year set-aside funds to finance projects that are underway. Additionally, the Company will receive the first of five annual installments from the Agency for the repayment of tax increment set-aside funds that were borrowed for the state-mandated Supplemental Educational Reimbursement Assistance Fund payment.

### 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

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## Statement of Net Assets September 30, 2010 (in thousands)

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 4,188
Non-performing investments	3
Accounts receivable	11
Other assets	50
Properties held for resale	11,702
Total current assets	15,954
Non-current Assets:	
Advances to the Redevelopment Agency	1,873
Other non-current receivables, net	70,568
Capital assets:	
Land and other assets not being depreciated	1,101
Building and improvements, net of accumulated depreciation	1,103
Total non-current assets	74,645
Total assets	90,599
<b>LIABILITIES</b>	
Current liabilities:	
Vouchers/accounts payable	3,019
Deposits/collections held in trust	14
Deferred revenue	375
Other long-term obligations - current portion	13
Total current liabilities	3,421
Non-current liabilities:	
Accrued interest payable	536
Advances from the City of Long Beach	6,230
Other long-term obligations	1,026
Total non-current liabilities	7,792
Total liabilities	11,213
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,189
Restricted	73
Unrestricted	78,124
Total net assets	\$ 79,386

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

# The Long Beach Housing Development Company

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**Statement of Activities**  
**For the Year Ended September 30, 2010**  
**(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	\$ 8,346	\$ 189	\$ 280	\$ (7,877)
Interest on long-term debt	41	-	-	(41)
Total governmental activities	\$ 8,387	\$ 189	\$ 280	(7,918)
General Revenues:				
Property tax increment - 20% set-aside				7,193
Land transfers, net				2,599
Transfers from the City, net				1,190
Transfers from the Redevelopment Agency, net				1,630
Total general revenues and transfers				12,612
Change in net assets				4,694
Net assets - October 1, 2009				74,692
Net assets - September 30, 2010				\$ 79,386

The notes to 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, 2010 (in thousands)

### Assets

Cash and investments	\$	4,188
Short-term investments non-performing		3
Accounts receivable		11
Receivables - loan, long-term, net		70,568
Advances to the Redevelopment Agency		1,873
Properties held for resale		11,702
Other assets		50
Total assets	\$	<u>88,395</u>

### Liabilities and Fund Balance

#### Liabilities

Vouchers/accounts payable	\$	3,019
Deferred revenues		70,943
Deposits/collections held in trust		14
Total liabilities		<u>73,976</u>

#### Fund balance

##### Reserved:

Replacement and operations		73
Properties held for resale		11,702
Long-term advances		1,873
Encumbrances		17

##### Unreserved:

Designated for future projects		754
Total fund balance		<u>14,419</u>

Total liabilities and fund balance	\$	<u>88,395</u>
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The notes to 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  
For the Year Ended September 30, 2010  
(in thousands)**

Total governmental fund balance	\$ 14,419
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).	2,204
Advances due to the primary government is considered to be external activity that is reported only in the government-wide financial statements (note 4).	(6,230)
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).	70,568
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements (note 5).	<u>(1,575)</u>
Net assets of governmental activities	<u><u>\$ 79,386</u></u>

The notes to 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, 2010**  
**(in thousands)**

<b>Revenues</b>	
Property tax increment - 20% set-aside	\$ 7,193
Rental income	118
Interest income	45
Loan repayments	498
Other	295
Total revenues	<u>8,149</u>
<b>Expenditures</b>	
Administrative costs	46
Professional services	308
Operation of acquired property	290
Low- and moderate-income housing loans/grants	9,706
Project improvement/construction costs	187
Interdepartmental charges	69
Capital outlay	
Loss on sale of land	7,126
Property and other taxes	14
Debt service payments:	
Principal	934
Interest	47
Total expenditures	<u>18,727</u>
Excess of expenditures over revenues	<u>(10,578)</u>
<b>Other financing sources (uses)</b>	
Proceeds from advance	971
Land transfers, net	2,354
Transfers from the Redevelopment Agency, net	1,630
Transfers from the City, net	1,190
Total other financing sources (uses), net	<u>6,145</u>
Net change in fund balance	(4,433)
Fund balance, October 1	18,852
Fund balance, September 30	<u>\$ 14,419</u>

The notes to 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, 2010  
(in thousands)**

Excess expenditures and other uses over revenues and other sources -  
governmental fund \$ (4,433)

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. 181

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. 8,950

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. (4)

Change in net assets of governmental activities \$ 4,694

The notes to 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, 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						
<b>Revenues:</b>								
Property tax increment - 20% set-aside	\$ 33,287	\$ 24,643	\$ 7,193	\$ -	\$ -	\$ -	\$ 7,193	\$ (17,450)
Rental income	25	25	118	-	-	-	118	93
Interest income	136	137	45	-	-	-	45	(92)
Loan repayments - principal	335	731	498	-	-	-	498	(233)
Other	1,105	2,259	295	-	-	(239)	56	(2,203)
Total revenues	34,888	27,795	8,149	-	-	(239)	7,910	(19,885)
<b>Expenditures:</b>								
Administration costs	5,686	5,689	46	17	-	-	63	5,626
Acquisition costs	375	375	-	-	-	-	-	375
Relocation costs	2,250	3,052	-	-	-	-	-	3,052
Disposition costs	125	125	-	-	-	-	-	125
Professional services	4,616	3,770	308	-	-	-	308	3,462
Planning, survey and design	317	177	-	-	-	-	-	177
Operation of acquired property	506	424	290	-	-	-	290	134
Low- and moderate-income housing loans/grants	32,950	42,520	9,706	-	-	-	9,706	32,814
Project improvement/construction costs	1,330	418	187	-	-	-	187	231
Interdepartmental charges	38	38	69	-	-	-	69	(31)
Capital outlay	-	-	-	-	-	-	-	-
Loss on disposition of land	-	-	7,126	-	(7,126)	-	-	-
Land purchases	2,636	2,636	-	-	-	-	-	2,636
Property and other taxes	85	92	14	-	-	-	14	78
Debt service payments:								
Principal	1,343	1,343	934	-	-	-	934	409
Interest	32	43	47	-	-	-	47	(4)
Total expenditures	52,289	60,702	18,727	17	(7,126)	-	11,618	49,084
Excess of expenditures over revenues	(17,401)	(32,907)	(10,578)	(17)	7,126	(239)	(3,708)	29,199
<b>Other financing sources (uses):</b>								
Proceeds from issuance of long-term debt	969	981	971	-	-	-	971	(10)
Land transfers, net	-	-	2,354	-	(2,354)	-	-	-
Transfers from the Redevelopment Agency	6,885	14,703	1,630	-	-	-	1,630	(13,073)
Transfers from the City	10,549	18,315	1,190	-	-	-	1,190	(17,125)
Total other financing sources (uses)	18,403	33,999	6,145	-	(2,354)	-	3,791	(30,208)
Net change in fund balance	1,002	1,092	(4,433)	(17)	4,772	(239)	83	(1,009)
Fund balance - October 1, budgetary basis	743	743	18,852	(1)	(16,474)	(1,634)	743	-
Encumbrances, beginning of year	1	1	-	1	-	-	1	-
Fund balance - September 30, budgetary basis	\$ 1,746	\$ 1,836	\$ 14,419	\$ (17)	\$ (11,702)	\$ (1,873)	\$ 827	\$ (1,009)

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

# The Long Beach Housing Development Company

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## 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 City's 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 (GASB) for inclusion as a blended component unit of the City, 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 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 generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current financial resources.

# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

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, 2010.

### **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

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## 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 GASB pronouncements and their impact, if any, on the financial 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 was effective for the Company's fiscal year ended September 30, 2010 and did not have a material impact on the Company's financial statements.

GASB Statement No. 57, *OPEB Measurement by Agent Employers*. The statement amends GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The Company has chosen to implement the statement early making it effective for the Company's fiscal year ended September 30, 2010. The application of this statement 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. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The statement is intended to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. Governments that have filed for bankruptcy are required to disclose information regarding the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services. For governments that are not expected to emerge from bankruptcy as going concerns, this statement requires remeasurement of assets to a value that represents the amount expected to be received. Finally, this statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item. Application of this statement was effective for the Company's fiscal year ended September 30, 2010 and did not have a material impact 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. 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 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.

GASB Statement No. 59, *Financial Instruments Omnibus*. The statement is intended to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. 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.

# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

### **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 on the following page 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 *	None	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.

Investment policies for nonpooled cash and cash equivalents are guided by bond indenture.

### **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

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

City's investments, which includes \$4,188,000 the Company has invested with the City as of September 30, 2010 (in thousands):

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Cash and Investments in City Pool:		
Inter-Department Loan (Health SAVRS)	\$ 2,383	8.604
U.S. Treasury Notes	333,400	0.514
Federal Agency Securities	1,136,278	1.036
Money Market Account	137	0.003
Local Agency Investment Fund (LAIF)	50,116	0.003
Government Managed Rate Account	<u>219</u>	0.003
Subtotal City Pool	1,522,533	
Cash and Deposits	113,126	
Outstanding Checks	<u>(12,168)</u>	
Total City Pool	<u>\$ 1,623,491</u>	
Non-Performing Short-Term Investment	<u>\$ 3,962</u>	-
Cash and Investments Held by Bond Trustee:		
Guaranteed Investment Contracts	\$ 48,263	21.295
Money Market Funds	120,383	-
U.S. Treasury Notes	79,995	1.239
Federal Agency Securities	49,758	2.620
Time Certificates of Deposit	10,000	1.000
City Bonds	<u>1,726</u>	8.675
Total Held by Bond Trustees	<u>\$ 310,125</u>	

The Company's \$4,188,000 in cash and investments is approximately 0.26 percent of the City's \$1,623,491,000 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, 2010.

# 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 Aa/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, 2010 for each investment type (in thousands):

City's Pooled Investments Investment Type	Minimum legal rating	Total	Not required to be rated	AAA	Unrated
Cash and Investments in City Pool:					
Inter-Department Loan (Health SAVRS)	N/A	\$ 2,383	\$ 2,383	\$ -	\$ -
U.S. Treasury Notes	N/A	333,400	333,400	-	-
Federal Agency Securities	N/A	1,136,278	-	1,136,278	-
Money Market Account	N/A	137	-	137	-
Local Agency Investment Fund (LAIF)	N/A	50,116	50,116	-	-
Government Managed Rate Account	N/A	219	219	-	-
Subtotal City Pool		1,522,533	386,118	1,136,415	-
Cash and Deposits		113,126	-	-	113,126
Outstanding Checks		(12,168)	-	-	(12,168)
Total City Pool		\$ 1,623,491	\$ 386,118	\$ 1,136,415	\$ 100,958
Non-Performing Short-Term Investment	N/A	\$ 3,962	\$ -	\$ -	\$ 3,962
Cash and Investments Held by Bond Trustee					
Guaranteed Investment Contracts	N/A	\$ 48,263	\$ 48,263	\$ -	-
Money Market Funds	N/A	120,383	120,383	-	-
U.S. Treasury Notes	N/A	79,995	-	79,995	-
Federal Agency Securities	N/A	49,758	-	49,758	-
Time Certificates of Deposit	N/A	10,000	-	-	10,000
City Bonds	N/A	1,726	-	-	1,726
Total Held by Bond Trustees		\$ 310,125	\$ 168,646	\$ 129,753	\$ 11,726

### 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):

# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	Federal agency securities	\$ 195,234
Federal Home Loan Bank	Federal agency securities	329,561
Federal Home Loan Mortgage Association	Federal agency securities	318,718
Federal National Mortgage Association	Federal agency securities	292,765
U.S. Treasury	U.S. Treasury notes and bonds	333,400

### **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 held by a third-party custodial agent/bank except for one City-issued bond and an investment in the State's LAIF. As of September 30, 2010, the City reports deposits of \$113,126,000 less \$12,168,000 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.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

### Note 3 – Capital Assets

Capital asset activity for the year ended September 30, 2010 was as follow (in thousands):

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,015	\$ 86	\$ -	\$ 1,101
Total capital assets not being depreciated	1,015	86	-	1,101
Capital assets, being depreciated:				
Building	536	159	-	695
Land improvements	1,053	-	-	1,053
Total capital assets being depreciated	1,589	159	-	1,748
Less: Accumulated depreciation for:				
Building	(130)	(19)	-	(149)
Land improvements	(451)	(45)	-	(496)
Total accumulated depreciation	(581)	(64)	-	(645)
Total capital assets being depreciated, net	1,008	95	-	1,103
Governmental activities capital assets, net	\$ 2,023	\$ 181	\$ -	\$ 2,204

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

Community and cultural/housing	\$ 64
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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 Housing and Urban Development 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, 2010 is \$3,809,000.

Advances from the City for repayment of debt related to loans outstanding with the California Housing Finance Agency at September 30, 2010 was \$2,421,000.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

### Note 5 – Long-Term Liabilities

Long-term liabilities in the amount of \$1,039,000 are reported as other long-term obligations (current and non-current portions) in the Statement of Net Assets.

Long-term liability activity for the year ended September 30, 2010 is summarized as follows (in thousands):

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due within one year
Governmental Activities:					
Notes Payable	\$ 1,949	\$ -	\$ (934)	\$ 1,015	\$ -
Environmental Remediation	50	-	(26)	24	13
Total Long-Term Liabilities	<u>\$ 1,999</u>	<u>\$ -</u>	<u>\$ (960)</u>	<u>\$ 1,039</u>	<u>\$ 13</u>

### State Loan

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 2010. The principal and any unpaid interest are due in January 2022.

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

Fiscal Year	Principal	Interest	Total
2011	\$ -	\$ -	\$ -
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016 - 2020	-	-	-
2021 - 2025	1,015	880	1,895
Total	<u>\$ 1,015</u>	<u>\$ 880</u>	<u>\$ 1,895</u>



# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

### 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. The original estimated liability for the monitoring was \$50,000. The remaining liability for the monitoring at September 30, 2010 was \$24,000. 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, 2010 is as follows (in thousands):

Reserved for:		
Replacement and operations	\$	73
Properties held for resale		11,702
Long-term advances		1,873
Encumbrances		17
Unreserved:		
Designated for future projects		754
Total fund balance	\$	<u>14,419</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 Agency. During the fiscal year ended September 30, 2010, the Housing Development Fund transferred to the Company \$7,193,000 of property tax increment housing set-aside funds. During the same period, the Community Development Grants Fund transferred \$942,000 of Housing and Urban Development (HUD) grant funds to the Company, and the Agency transferred \$1,630,000 to the Company.

### **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, 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. Loans are presented 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.

Long-term receivables consisted of the following at September 30, 2010 (in thousands):

<u>Project/Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
421 W. Broadway Lyon West Gateway New Construction	\$ 5,554	0%	The principal balance is due the earlier of February 2023, 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. Loan matures 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, 2010. Maturity dates are in 2026 and 2027.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

Long-term receivables (in thousands), continued:

Project/Program	Principal Outstanding	Interest Rate	Payment Terms
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.
Coronado Townhomes Brookfield Atlantic LLC New Construction	3,695	0%	Principal payments are due upon the sale of each affordable unit to a qualified buyer. Maturity date for the outstanding principal balance is the close of escrow for the sale of the last affordable unit.
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. Loan matures February 2065.
Downpayment Assistance Grant	129	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 34 loans outstanding at September 30, 2010.
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. Loan matures in 2063.
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. Loan matures December 2063.
Grisham Community Housing Abode Communites 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. Loan matures April 2034.
Evergreen Apartments Abode Communites (Formerly L.A. Community Design Center) Rehabilitation	446	3%	Annual payments of principal and interest began in 2002 using 50 percent of residual receipts. Interest amounted to \$134,000 at September 30, 2010. Loan matures November 2029.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

Long-term receivables (in thousands), continued:

Project/Program	Principal Outstanding	Interest Rate	Payment Terms
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, 2010.
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, 2010.
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, 2010.
Habitat for Humanity Rehabilitation	115	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.
Habitat for Humanity Washington School HAP Focus Area New Construction/Rehabilitation	28	0%	Principal balance is due November 2, 2012.
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, 2010.
Merit Hall Apartments, Inc. New Construction	400	8%	Principal and interest are due July 2033.
Meta Housing Long Beach & Burnett, LLP New Construction	9,540	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. Loan matures January 2099.

# The Long Beach Housing Development Company

## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

Long-term receivables (in thousands), continued:

Project/Program	Principal Outstanding	Interest Rate	Payment Terms
Moderate Income Homeowner Rehabilitation	\$ 765	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 21 loans outstanding at September 30, 2010.
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. Loan matures January 2042.
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, 2010.
Olive Court Second Mortgage Assistance 30-Year Loans	977	0%	Note amount is due after 30 years upon sale or transfer of property or an event of acceleration. There are 15 loans outstanding at September 30, 2010.
The Palace Hotel Linc Housing Rehabilitation	183	0%	Annual payments equal to 50 percent of residual receipts for the prior calendar year are due April 1. Loan matures on the 74th anniversary of recordation of release of construction covenants.
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. There are seven loans outstanding at September 30, 2010.
Second Mortgage Assistance Program (SMAP)	9,443	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, 2010.
Puerto Del Sol Apartments 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. Loan matures December 2063.
Total	\$ 71,161		
Allowance for loans not obligated to be repaid	(593)		Downpayment Assistance Grants (\$171), Habitat for Humanity (\$443), and Interest Rate Reduction Grants (\$21).
Long-term loan receivables, net	\$ 70,568		

# 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, 2010 are as follows (in thousands):

421 W. Broadway - Lyon West Gateway	\$ 5,554
Atlantic Avenue Apartments - Mental Health Association	280
Atlantic Villas Second Mortgage Assistance	30
Casa Carino	286
Coronado Townhomes - Brookfield Atlantic LLC	3,695
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	446
Habitat for Humanity Second Mortgage Assistance	115
Habitat for Humanity Washington School HAP Focus Area	28
Household Bank Second Mortgage Assistance	365
Merit Hall Apartments, Inc.	400
Meta Housing - Long Beach & Burnett, LLP	9,540
Moderate Income Homeowner Rehabilitation	765
Northpointe Apartments - Parwood Preservation	599
Olive Court Second Mortgage Assistance 45 year	2,467
Olive Court Second Mortgage Assistance 30 year	977
Palace Hotel - Linc Housing	183
Renaissance Walk Second Mortgage Assistance	476
Second Mortgage Assistance Program (SMAP)	9,443
Puerto Del Sol Apartments - Jamboree Housing Corp.	11,818
Total	<u><u>\$ 70,568</u></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.

During fiscal year 2010, the Company conveyed land held for resale valued at \$6,577,000 to developer Brookfield Homes for the Coronado Town Homes project, and a parcel valued at \$550,000 to Habitat for Humanity. The Company entered into a development agreement whereby a parcel of land held for resale (formerly the Palace Hotel) was leased, rather than sold, to the developer. The parcel, valued at \$244,600, was capitalized as a fixed asset. The City transferred land and parcels valued at \$2,111,450 to the Company, and the Agency transferred a parcel valued at \$487,500 to the Company.

# The Long Beach Housing Development Company

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## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

### Note 10 – Commitments and Contingencies

#### Commitments

Available fund balance as of September 30, 2010 is committed to fund development projects, first-time homebuyer programs, and moderate-income rehabilitation loan program.

#### Litigation

The Company is subject to claims and lawsuits arising from the normal course of business. 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 (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, 2010 (in thousands):

Balance Sheet - Governmental Fund September 30, 2010		Statement of Revenues, Expenses, and Changes in Fund Balance - Governmental Fund Year Ended September 30, 2010	
Assets		Revenues	
Pooled cash and investments	\$ 281	Interest income	\$ 1
Short-term investments -		Total revenues	1
non-performing	1	Net change in fund balance	1
Total assets	<u>\$ 282</u>	Fund balance, October 1	281
Fund Balance		Fund balance, September 30	<u>\$ 282</u>
Reserved:	\$ 282		
Total fund balance	<u>\$ 282</u>		

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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*

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# The Long Beach Housing Development Company

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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, 2010, and have issued our report thereon dated March 18, 2011. 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.

# The Long Beach Housing Development Company

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## 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

March 18, 2011