

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

Annual Financial Report

Fiscal Year Ended September 30, 2006

CITY OF LONG BEACH, CALIFORNIA

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

For the Fiscal Year Ended September 30, 2006

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THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
September 30, 2006

Board of Directors

Patrick Brown, Vice Chair

Kevin Cwayna, M.D.

Ivy Goolsby

Jonathan D. Gotz

Richard Green, Chair

Randal Hernandez

Michael W. McCarthy

Kristie Kinney Pabst

Patrice Wong

Management

Patrick H. West, President

Ellie Tolentino, Acting Vice President

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

Independent Auditors' Report

The Board of Directors of the Housing Development Company
of the City of Long Beach, California
The Honorable Mayor and City Council
of the City of Long Beach, California
The Citizens of the City of Long Beach, California:

We have audited the accompanying financial statements of the governmental activities and major fund of the Long Beach Housing Development Company (Company), a component financial reporting unit of the City of Long Beach, California, as of and for the year ended September 30, 2006, 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. The prior year's partial comparative information included has been derived from the Company's 2005 financial statements and, in our report dated February 3, 2006, we expressed unqualified opinions on the respective financial statements of the governmental activities and major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed more fully in note 1, the accompanying financial statements of the Company are intended to present the financial position and the changes in the financial position attributable to the Company. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Long Beach Housing Development Company as of September 30, 2006, and the respective changes in financial position and the respective 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 June 8, 2007 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Los Angeles, California
June 8, 2007

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
Management's Discussion and Analysis
September 30, 2006

The information presented in the "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of The Long Beach Housing Development Company's (Company) financial activities for the fiscal year ended September 30, 2006. We encourage readers to consider this information in conjunction with the basic financial statements, which can be found, on pages 12 through 38 of this report.

Financial Highlights

- The Company's assets exceeded its liabilities at September 30, 2006 by \$28,300,000. Of this amount, \$27,577,000 was recorded as unrestricted for financial reporting purposes, however, is committed for the ongoing operations of the Company in fiscal year 2007.
- The net assets of the Company increased by \$1,982,000 in fiscal year 2006. This is the result of total revenues and transfers from the City of \$4,610,000 exceeding program expenses, transfers to the Redevelopment Agency, and interest expense of \$2,628,000. Overall, the equity in pooled cash decreased with an offsetting increase to long-term receivables. The \$2,378,000 portion received from the City of Long Beach's Housing Development Fund, which accounts for the State mandated 20% tax increment housing set aside from the Redevelopment Agency of the City of Long Beach for the development of low- and moderate-income housing, is utilized for housing redevelopment projects.
- As of the close of fiscal year 2006, the Company reported a fund balance of \$9,103,000, a decrease of \$4,824,000 from the prior year. The Company's unreserved fund balance of \$8,077,000 has been appropriated for the 2007 fiscal year budget.

Overview of the Basic Financial Statements

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

Entity-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

The Company maintains a special revenue fund as a governmental fund. The Company's governmental fund financial statements can be found on pages 14 through 17 of this report.

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

Notes to the Basic Financial Statements

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

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Entity-Wide Financial Analysis

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

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, 2006 by \$28,300,000. Of this amount, \$23,563,000 arises from other non-current loan receivables, as described in Note 8 of the notes to the basic financial statements. The increase in current and other assets of \$2,727,000 is due mainly to an increase in loans receivable.

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

Net Assets September 30, 2006 (In thousands)				
	2006	2005	Change	
			Amount	Percent
<u>Assets</u>				
Current and other assets	\$ 34,821	\$ 32,094	\$ 2,727	8.50 %
Capital assets	1,708	1,764	(56)	(3.17)
Total assets	<u>36,529</u>	<u>33,858</u>	<u>2,671</u>	7.89
<u>Liabilities</u>				
Current liabilities	1,125	727	398	54.75
Noncurrent liabilities	7,104	6,813	291	4.27
Total liabilities	<u>8,229</u>	<u>7,540</u>	<u>689</u>	9.14
Net assets:				
Invested in capital assets, net of related debt	692	748	(56)	(7.49)
Restricted	31	43	(12)	(27.91)
Unrestricted	27,577	25,527	2,050	8.03
Total net assets	<u>\$ 28,300</u>	<u>\$ 26,318</u>	<u>\$ 1,982</u>	7.53 %

Governmental Activities

During the 2006 fiscal year, governmental activities increased the net assets by \$1,982,000 or 7.53% of the prior year's net assets. The key elements of the governmental activities contributing to the increase in net assets were an increase of \$6,897,000 in long-term receivables on loans, an increase in advances from the City, and a decrease in pooled cash. Pooled cash decreased by \$4,202,000 due to fewer tax increment housing set-aside revenues and fewer set-aside funded development projects.

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September 30, 2006

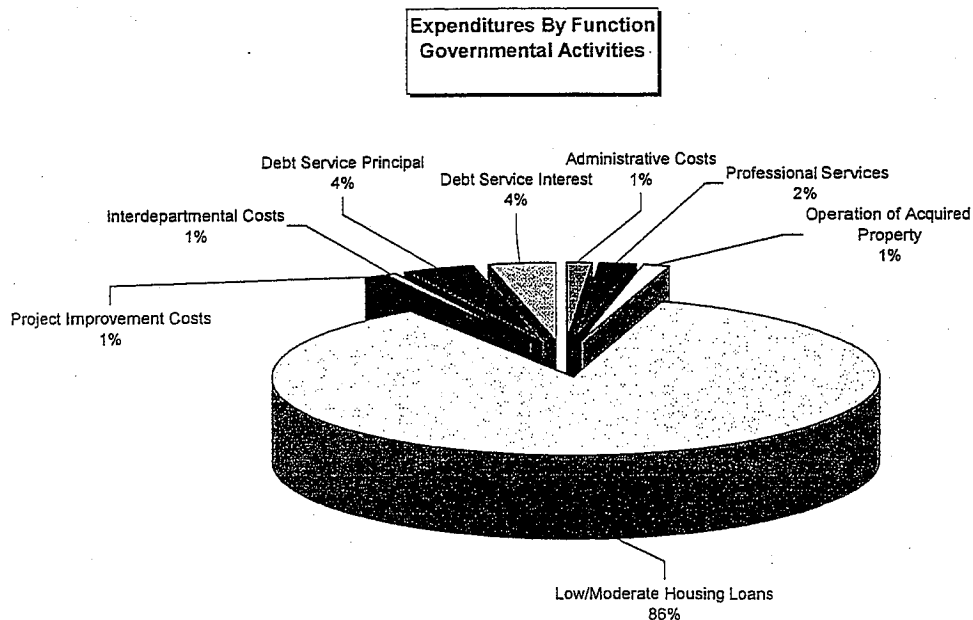
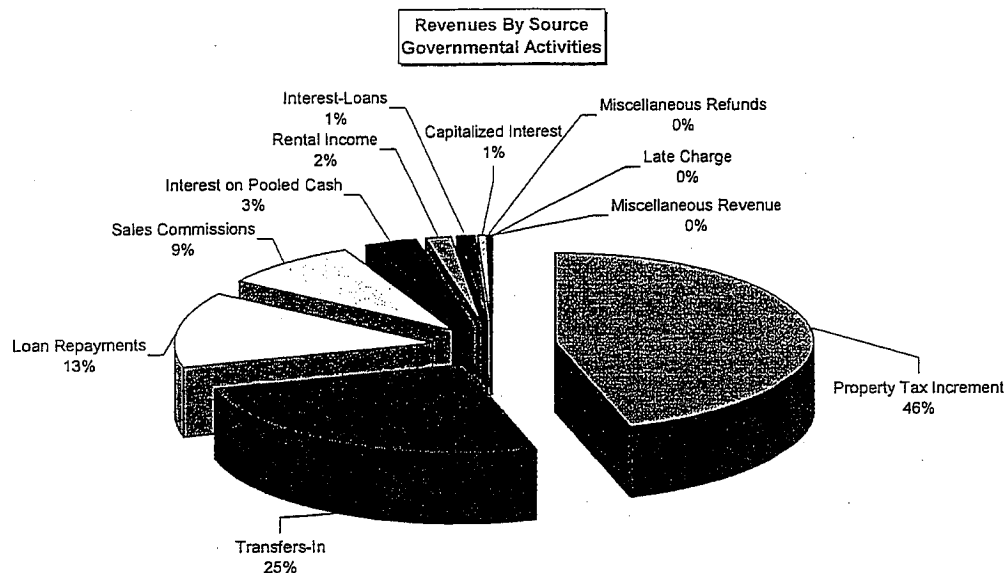
The transfers to the Redevelopment Agency showed an increase of \$906,000 compared to the prior year. In 2006, the Company financed multiple rehabilitation and acquisition projects within West Gateway and Atlantic Avenue Phase III & IV with housing set-aside allocations from the Redevelopment Agency.

Financial Analysis of the Company's Activities

Changes in Net Assets September 30, 2006 (In Thousands)				
	Governmental Activities		Change	
	2006	2005	Amount	Percent
<u>Revenues</u>				
Program Revenues				
Charges for services	\$ 687	\$ 1,396	\$ (709)	(50.79) %
General Revenues				
Property tax increment - 20% set-aside	2,378	9,403	(7,025)	(74.71)
Unrestricted investment earnings	222	151	71	47.02
Land reconveyance	-	3,419	(3,419)	(100.00)
Total Revenues	<u>3,287</u>	<u>14,369</u>	<u>(11,082)</u>	<u>(77.12)</u>
<u>Expenses</u>				
Program Expenses				
Community and cultural/housing	232	1,491	(1,259)	(84.44)
Interest on long-term debt	66	90	(24)	(26.67)
Total Expenses	<u>298</u>	<u>1,581</u>	<u>(1,283)</u>	<u>(81.15)</u>
Increase in Net Assets before Transfers	2,989	12,788	(9,799)	(76.63)
Transfers from the City	1,323	-	1,323	(100.00)
Transfers to Redevelopment Agency	<u>(2,330)</u>	<u>(1,424)</u>	<u>(906)</u>	63.62
Change in net assets	1,982	11,364	(9,382)	(82.56)
Net assets, October 1	26,318	14,954	11,364	75.99
Net assets, September 30	<u>\$ 28,300</u>	<u>\$ 26,318</u>	<u>\$ 1,982</u>	7.53 %

Property tax increment revenues decrease of \$7,025,000 is a result of fewer housing development start-up projects. There were also no land or property reconveyances in 2006, which resulted in a \$3,419,000 decrease in land reconveyance revenues.

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September 30, 2006



As noted earlier, the Company uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds - the focus of the Company's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Company's financing requirements. In particular, the unreserved/designated fund balance serves as a useful measure of the Company's net resources available for spending at the end of the fiscal year.

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Management's Discussion and Analysis
September 30, 2006

As of September 30, 2006, the Company's governmental funds reported an ending fund balance of \$9,103,000, a decrease of \$4,824,000 compared to the prior year. The ending fund balance includes \$1,026,000 reserved for replacement and operations and properties held for resale. The remaining fund balance of \$8,077,000 is designated for housing development projects. Transfers from the City of \$1,323,000 is the result of the Company receiving Housing and Urban Development grant funds for the predevelopment, acquisition, and rehabilitation of seventeen (17) efficiency style single living units.

Governmental Fund Budgetary Highlights

A comparison between the initial budget and the final amended budget for the Company's governmental fund expenditures shows net appropriations decrease of \$940,000 or 3.30% in appropriations. The decrease in appropriations is attributable to a reduced number of rehabilitation housing loans, project improvements and related construction costs. Fewer land purchases for major housing projects were made in fiscal year 2006.

Actual expenditures in the Company's budgetary basis of accounting were \$8,318,000, representing 30.15% of the \$27,589,000 final budget. Unspent budget amounts of \$19,271,000 related primarily to housing loans, caused by changes in the timing of expenditures and the development of a strategy to implement the City's Housing Action Plan (HAP) by the Company. Prior to the actual implementation of the HAP, additional studies had to be undertaken, contributing to the delay in incurring the expenditures.

Capital Assets

The Company's investments in capital assets, net of accumulated depreciation for its governmental activities as of September 30, 2006 total \$1,708,000. The Company's capital assets are as follows (in thousands):

Capital Assets, Net of Depreciation September 30, 2006	
Non depreciated capital assets	
Land	\$ 815
Capital assets subject to depreciation, net	
Building	155
Improvements other than buildings	738
Total capital assets subject to depreciation	893
Total capital assets, net	\$ 1,708

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September 30, 2006

Additional information on the Company's capital assets can be found in Note 3 of the notes to the basic financial statements (page 27 of this report).

Debt Administration

At September 30, 2006, the Company's long-term liabilities totaled \$7,104,000 as follows (in thousands):

Long-Term Debt	
Advances from the City of Long Beach	\$ 4,449
Notes payable	2,655
Total long-term debt	<u>\$ 7,104</u>

The notes payable include State loans of \$1,016,000 for the construction and rehabilitation of Company property and \$1,639,000 for a housing development project. The advance from the City for the acquisition of parcels of land was subsequently conveyed to a developer for rehabilitation of the property, a childcare and community center, and open space.

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

Economic Factors and Next Year's Budget

The receipt of tax increment housing set-aside revenues has been increasing over the previous years due to the Redevelopment Agency's increased property tax increment revenues which were generated by rising home values, new residential and retail developments and substantial increases in possessory interest from Port area leases within the Redevelopment Agency project areas. This trend is expected to continue and will provide additional resources for the Company's fiscal year 2007 budget.

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

Requests for Information

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

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

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

Statement of Net Assets
September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Pooled cash and cash equivalents	\$ 8,776	\$ 12,978
Interest receivable	1	-
Properties held for resale	995	995
Total current assets	<u>9,772</u>	<u>13,973</u>
Noncurrent Assets:		
Advances to the Redevelopment Agency	1,486	1,455
Other noncurrent receivables, net	23,563	16,666
Capital assets:		
Land and other assets not being depreciated	815	815
Building and improvements, net of accumulated depreciation	<u>893</u>	<u>949</u>
Total noncurrent assets	<u>26,757</u>	<u>19,885</u>
Total assets	<u>36,529</u>	<u>33,858</u>
LIABILITIES		
Current liabilities:		
Vouchers/accounts payable	650	29
Accrued wages payable	3	3
Collections held in trust	15	13
Due to the City of Long Beach	1	1
Accrued interest payable	<u>456</u>	<u>681</u>
Total current liabilities	<u>1,125</u>	<u>727</u>
Noncurrent liabilities:		
Advances from the City of Long Beach	4,449	3,819
Other long-term obligations - notes payable	<u>2,655</u>	<u>2,994</u>
Total noncurrent liabilities	<u>7,104</u>	<u>6,813</u>
Total liabilities	<u>8,229</u>	<u>7,540</u>
NET ASSETS		
Invested in capital assets		
Net of related debt	692	748
Restricted	31	43
Unrestricted	<u>27,577</u>	<u>25,527</u>
Total Net Assets	<u>\$ 28,300</u>	<u>\$ 26,318</u>

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

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

Statement of Activities
Year Ended September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenues and Change in Net Assets Special Revenue Fund- Governmental Activities	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2006	2005
Primary Government:						
Community and cultural/housing	\$ 232	\$ 687	\$ -	\$ -	\$ 455	\$ (95)
Interest on long-term debt	66	-	-	-	(66)	(90)
Total government activities	<u>\$ 298</u>	<u>\$ 687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>389</u>	<u>(185)</u>
General Revenues:						
Property tax increment - 20% set-aside					2,378	9,403
Unrestricted investment earnings					222	151
Land reconveyance					-	3,419
Transfers from the City, net					1,323	-
Transfers to the Redevelopment Agency					(2,330)	(1,424)
Total general revenues and transfers					<u>1,593</u>	<u>11,549</u>
Change in net assets					<u>1,982</u>	<u>11,364</u>
Net assets - October 1					<u>26,318</u>	<u>14,954</u>
Net assets - September 30					<u>\$ 28,300</u>	<u>\$ 26,318</u>

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

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

Balance Sheet - Governmental Fund
September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

	<u>2006</u>	<u>2005</u>
Assets		
Pooled cash and investments	\$ 8,776	\$ 12,978
Notes/ interest receivable	1	-
Receivables-loan, long-term, net	23,563	16,666
Properties held for resale	995	995
Total assets	<u>\$ 33,335</u>	<u>\$ 30,639</u>
Liabilities and Fund Balance		
Liabilities		
Accrued wages payable	\$ 3	3
Vouchers/ accounts payable	650	29
Deferred revenues	23,563	16,666
Collections held in trust	15	13
Due to other funds	1	1
Total liabilities	<u>24,232</u>	<u>16,712</u>
Fund balance		
Reserved:		
Replacement and operations	31	43
Properties held for resale	995	995
Unreserved/designated - future projects	8,077	12,889
Total fund balance	<u>9,103</u>	<u>13,927</u>
Total liabilities and fund balance	<u>\$ 33,335</u>	<u>\$ 30,639</u>

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

THE LONG BEACH HOUSING DEVELOPMENT COMPANY
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Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Assets
September 30, 2006
(In Thousands)

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

Total governmental fund balance	\$ 9,103
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Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	1,708
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Advances due from/to the primary government is considered to be external activity that is reported only in the government-wide financial statements.	(2,963)
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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.	23,563
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Governmental long-term liabilities are not due and payable in the current period and therefore, are not reported in the fund financial statements.	<u>(3,111)</u>
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Net assets of governmental activities	<u><u>\$ 28,300</u></u>
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The notes to the basic financial statements are an integral part of this statement.

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

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year Ended September 30, 2006
(With Partial Financial Information for 2005)
(In Thousands)

	2006	2005
Revenues		
Property tax increment - 20% set-aside	\$ 2,378	\$ 9,403
Rental income	80	108
Interest income	234	201
Loan repayments	704	767
Gain on sale of land	-	492
Other	475	622
Total revenues	<u>3,871</u>	<u>11,593</u>
Expenditures		
Administrative costs	119	109
Acquisition costs	7	-
Disposition costs	-	49
Professional services	155	103
Operation of acquired property	109	73
Low and moderate income housing loans/ grants	7,163	2,220
Project improvement/construction costs	77	97
Interdepartmental charges	49	55
Loss on sale of land	-	3,419
Property and other taxes	9	19
Debt service payments:		
Principal	339	970
Interest	291	-
Total expenditures	<u>8,318</u>	<u>7,114</u>
Excess of revenues over (under) expenditures	<u>(4,447)</u>	<u>4,479</u>
Other financing sources (uses)		
Proceeds from Advance	630	-
Transfers to the Redevelopment Agency	(2,330)	(1,424)
Transfers from the City	1,335	-
Transfers to the City	(12)	-
Reconveyance of land	-	3,419
Total other financing sources (uses), net	<u>(377)</u>	<u>1,995</u>
Excess of revenues and other sources over (under) expenditures and other (uses)	(4,824)	6,474
Fund balance, October 1	13,927	7,453
FUND BALANCE, SEPTEMBER 30	<u>\$ 9,103</u>	<u>\$ 13,927</u>

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

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

Reconciliation of the Statement of Revenues,
Expenditures and Changes in the Fund Balance of Governmental Fund
to the Statement of Activities
Year Ended September 30, 2006
(In Thousands)

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

Excess of revenue and other sources over (under) expenditures and other uses - governmental fund.	\$ (4,824)
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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.	(56)
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Effective October 1, 2004, the Company changed its method of accounting for advances from/to the primary government based on additional guidance issued by the Governmental Accounting Standards Board. The governmental fund now records these advances only in its government-wide financial statements.	32
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Governmental funds report expenditures pertaining to the establishment of certain long-term loans made. Payments on these long-term receivables are recorded as revenue in the governmental funds. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding net expense is not reported on the statement of activities.	6,896
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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.	<u>(66)</u>
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Change in net assets of governmental activities	<u><u>\$ 1,982</u></u>
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The notes to the basic financial statements are an integral part of this statement.

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

Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended September 30, 2006
(In Thousands)

	Budgeted Amounts		Actual On	Variance
	Original	Final	Budgetary	with Final
			Basis	Budget- Positive (Negative)
Revenues:				
Property tax increment - 20% set-aside	\$ 27,181	\$ 19,946	\$ 2,378	\$ (17,568)
Rental income	449	354	80	(274)
Interest income	(77)	(77)	234	311
Loan repayments-principal	(972)	(972)	704	1,676
Proceeds from the sale of land	321	321	-	(321)
Other	54	54	475	421
Total revenues	26,956	19,626	3,871	(15,755)
Expenditures:				
Administration costs	(42)	6	119	(113)
Professional services	(487)	-	155	(155)
Planning, survey & design	(43)	-	-	-
Acquisition costs	7	17	7	10
Relocation costs	(65)	-	-	-
Disposition costs	(79)	-	-	-
Operation of acquired property	(84)	-	109	(109)
Low and moderate income housing loans/grants	27,541	26,415	7,163	19,252
Project improvement/construction costs	1,817	932	77	855
Interdepartmental charges	49	49	49	0
Capital outlay	(34)	-	-	-
Debt service payments:				
Principal	(36)	-	339	(339)
Interest	-	-	291	(291)
Property and other taxes	181	170	9	161
Land purchases	(196)	-	-	-
Total expenditures	28,529	27,589	8,318	19,271
Excess of expenditures over revenues	(1,573)	(7,963)	(4,447)	3,516
Other financing sources and (uses):				
Proceeds from issuance of long-term debt	(3,856)	-	-	-
Transfers to the Redevelopment Agency	(3,385)	(3,385)	(2,330)	1,055
Transfer out to other funds	(1,422)	(1,404)	(12)	1,392
Transfers in from other funds	4,000	6,710	1,335	(5,375)
Transfers from the Redevelopment Agency	(8)	(8)	-	8
Total other financing sources (uses)	(4,671)	1,913	(1,007)	(2,920)
Excess of revenues and other sources over (under) expenditures and other uses	(6,244)	(6,050)	(5,454)	596
Fund balance- October 1, budgetary basis	12,933	12,933	12,933	-
Encumbrances, beginning of year	-	-	-	-
FUND BALANCE- SEPTEMBER 30, BUDGETARY BASIS	\$ 6,689	\$ 6,883	\$ 7,479	\$ 596

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

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THE LONG BEACH HOUSING DEVELOPMENT COMPANY
(A Component Financial Reporting Unit of the City of Long Beach, California)
Notes to Basic Financial Statements
September 30, 2006

Note 1 - Summary of Significant Accounting Policies

Organization

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

Reporting Entity

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

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

Basis of Accounting and Measurement Focus and Financial Statement Presentation

Entity-wide basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Company's activities have been determined to best operate as a special revenue fund type. Consistent with U.S. generally accepted accounting principles for governmental fund types, the fund financial statements are reported using the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they become measurable and available. The Company considers revenues to be available if they are collected within one year at the end of the current fiscal period, with the exception of property taxes which are considered available if collected within 60 days of the end of the current fiscal period. Expenditures are recorded at the time liabilities are incurred, if measurable, except for unmatured principal and interest on long-term debt, which is recognized when due.

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

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

Pooled Cash and Investments

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

Interest income and realized gains and losses arising from pooled cash and investments are apportioned to each participating unit of the pool based on the relationship of its respective daily cash balance to aggregate pooled cash and investments. The Company's share of pooled cash and investments is stated at fair value at September 30, 2006.

Long-Term Obligations

In the entity-wide financial statements, long-term debt and other liabilities are reported as liabilities in the Statement of Net Assets. Initial-issue bond premium and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of the unamortized portion of applicable premium, discount or deferred amount on refunding. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense. As of September 30, 2006 there are no bonds outstanding.

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

Properties Held for Resale

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

The purchased land is recorded at the lower of cost or market value (when a definite market value can be determined) excluding demolition and relocation costs, which are considered by the Company to be expenditures in the year incurred.

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Capital Assets

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

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

Land Improvements	15-35 years
Buildings	20-50 years

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 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 Standards

For the fiscal year ended September 30, 2006, the Agency adopted new accounting standards in order to conform to the following Government Accounting Standards Board (GASB) Statements:

GASB Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

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GASB Statement No. 46 Net Assets Restricted by Enabling Legislation addresses selected issues and amends GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Statement enhances the usefulness and comparability of new asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.

GASB Statement No. 47 Accounting for Termination Benefits provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

Estimates

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

Note 2 - Pooled Cash and Investments

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

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

Cash and Investments

The Company's cash and investments are maintained by the City Treasurer and are pooled with other City funds and investments to enhance the investment returns for these funds. Interest income earned on pooled cash and investments is allocated monthly to the various participating entities based on their average daily cash balances. The City's bank

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deposits are either covered by appropriate Federal Deposit Insurance Corporation, or are collateralized in accordance with the California Government Code. Pooled cash and investment for each fund type is included in the City's Comprehensive Annual Financial Report Statement of Net Assets under the caption entitled "Pooled Cash and Cash Equivalents."

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury Notes, Bonds, or Bills	5 years *	None	None
Registered State Warrants or Treasury Notes or Bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal Agency Securities	5 years *	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

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

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Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2006 (in thousands):

Investment Type	Fair Value	Weighted Average Maturity (in years)
Inter-Department Loan (Health Savrs)	\$ 3,297	12.600
U.S. Treasury Notes	214,467	1.542
Federal Agency Securities	1,042,876	1.572
Medium-Term Notes	33,464	1.609
Short-term Commerical Paper	132,731	0.013
Local Agency Investment Fund (LAIF)	2,921	0.003
Subtotal City Pool	1,429,756	
Cash on Hand	26,811	
Outstanding Checks	(18,043)	
Total City Pool	<u>\$ 1,438,524</u>	

The Housing Development Company's pooled cash and cash equivalents amount of \$8,776,000 is approximately 1% of the City's pooled cash and cash equivalents of \$1,438,524,000.

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2006.

Disclosures Relating to Credit Risk

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

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Investment Type		Rating as of Year End						Unrated
		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-	-
Federal Agency Securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	-	-	-	-	-
Subtotal City Pool	1,429,756		220,685	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811		-	-	-	-	-	26,811
Outstanding Checks	(18,043)		-	-	-	-	-	(18,043)
Total City Pool	<u>\$ 1,438,524</u>		<u>\$ 220,685</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>	<u>\$ 8,768</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more on the City's total pooled investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount
FFCB Total	Federal Agency Securities	\$ 181,052
FHLB Total	Federal Agency Securities	241,246
FHLMC Total	Federal Agency Securities	266,937
FNMA Total	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & Bonds	214,467
Commercial Paper	Unsecured Corporate Debt	132,731

Custodial Credit Risk

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

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

As of September 30, 2006, the City reports deposits of \$26,811,000 less \$18,043,000 for checks outstanding.

Investment in State Investment Pool

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

GASB 31

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2006 and 2005, the effect of recording investments at fair value did not have a material impact on its financial position.

Securities Lending

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2006. However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreements with the City's contract bank. These agreements limit the nature and amount of the transactions, and provide for full collateralization of each transaction.

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Note 3 - Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows (in thousands):

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 815	\$ -	\$ -	\$ 815
Total capital assets not being depreciated:	815	-	-	815
Capital assets, being depreciated:				
Building	236	-	-	236
Improvements other than buildings	1,053	-	-	1,053
Total capital assets being depreciated:	1,289	-	-	1,289
Less: Accumulated depreciation for:				
Building	(70)	(11)	-	(81)
Improvements other than buildings	(270)	(45)	-	(315)
Total accumulated depreciation	(340)	(56)	-	(396)
Total capital assets being depreciated, net	949	(56)	-	893
Governmental Activities Capital Assets, Net	<u>\$ 1,764</u>	<u>\$ (56)</u>	<u>\$ -</u>	<u>\$ 1,708</u>

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

Community & cultural/ housing	<u>\$ 56</u>
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Note 4 - Long-Term Obligations

In the accompanying entity-wide financial statements, long-term debt of \$7,104,000 is reported as a liability in the Statement of Net Assets. Long-term debt activity for the year ended September 30, 2006 was as follows (in thousands):

<u>Governmental Activities:</u>	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30 2006</u>	<u>Due within one year</u>
Advances from the City of Long Beach (Note 5)	\$ 3,819	\$ 630	\$ -	\$ 4,449	\$ -
Notes payable	2,994	-	(339)	2,655	356
Long-Term Liabilities	<u>\$ 6,813</u>	<u>\$ 630</u>	<u>\$ (339)</u>	<u>\$ 7,104</u>	<u>\$ 356</u>

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State Loans

In fiscal year 1992, the Company entered into a loan agreement totaling \$1,016,000 with the State of California Department of Housing and Community Development (State) for construction and rehabilitation of Company property. The project was completed in fiscal year 1993. Interest on the loan accrues from the date the funds were disbursed by the State at a simple interest rate of three percent (3%) per year, with the interest payment due within sixty days of fiscal year end if sufficient funds are available. The Company made an interest payment of \$14,108 in fiscal year 1997. The principal and any unpaid interest are due in January 2022. As of September 30, 2006, the entire amount remains payable to the State.

In fiscal year 1999 and fiscal year 2000, the Company received \$1,978,000 from the City, generated from a State HELP loan of \$2,000,000. The HELP loans have an interest rate of 3% and payments could be deferred for a period of ten years. The outstanding HELP loans (proceeds of \$1,639,000 used for a housing development project) will be repaid by the Company. As of September 30, 2006, the Company repaid \$339,000 in principal and \$291,000 in interest. The remaining available loan commitment of \$22,000 will not be utilized by the Company.

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

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 80	\$ 80
2008	-	80	80
2009	969	80	1,049
2010	670	41	711
2011	-	30	30
2012 - 2016	-	152	152
2017 - 2021	-	152	152
2022	1,016	486	1,503
Total	<u>\$ 2,655</u>	<u>\$ 1,102</u>	<u>\$ 3,757</u>

Note 5 - Advances from the City of Long Beach

City loans of \$4,449,000 have been recorded in the accompanying Statement of Net Assets.

In fiscal year 2001, the Company entered into a zero interest loan agreement with the City for \$4,000,000 of HOME grant funds, to be used as gap financing for the acquisition of 26 parcels of land, each containing a four-unit apartment building, in addition to State loans. 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

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remaining balance fully payable on April 1, 2034. In turn, the Company is required to make principal payments to the City using 25% of the payments received from the developer. The outstanding loan balance at September 30, 2006 is \$3,819,000.

In 2006, the City advanced \$630,000 to the Company for the repayment of debt related to HELP loans outstanding with the California Housing Finance Agency. The advance consisted of \$339,000 in principal and \$291,000 in interest.

Note 6 – Fund Balance

In the fund financial statements, a portion of the fund balance is reserved for specific use that is not available for appropriation and the remaining balance is designated for future projects. The composition of the reserved and unreserved portion of fund balance at September 30, 2006 is as follows (in thousands):

Reserved for:	
Replacement and operations	\$ 31
Properties held for resale	995
Unreserved/designated for future projects	<u>8,077</u>
Total fund balance	<u>\$ 9,103</u>

Note 7 – Revenues and Other Financing Sources

The Company is funded by the City of Long Beach's Housing Development Fund (Fund). The Fund's principal revenue sources include the State mandated 20% property tax increment housing set aside from the Redevelopment Agency of the City of Long Beach. An amount of \$2,378,000 was transferred to the Company in the fiscal year ended September 30, 2006, which represents a \$7,025,000 decrease from prior fiscal year. The decrease was attributed to fewer housing projects and development activity that required funding during the current year.

Note 8 – Long-Term Loans Receivable

In the fund financial statements, Company monies loaned out are treated as expenditures when disbursed, as most of the proceeds from these loans will not be available to finance the Company's operations for a minimum of two years, if at all. For financial reporting purposes, those loans for which repayment is reasonably expected have been recorded as a receivable and deferred revenue in the liabilities portion of the balance sheet. Some or all of the Company's remaining loans receivable may be forgiven upon attainment of future conditions. These loans are shown net of an allowance for loans not obligated to be repaid.

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In the entity-wide financial statements, no deferred revenue is recorded as the financial statements are on the accrual basis of accounting.

Long-term receivables consisted of the following at September 30, 2006 (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Habitat for Humanity	\$ 298	0%	These loans do not accrue interest, and are not obligated to repay funds if provisions of the contract are fulfilled. There are three agreements with Habitat for Humanity at September 30, 2006.
HDC-Various	145		These loans, formerly Habitat for Humanity, have been reassigned and transferred to borrowers. Current loan agreements are between the LBHDC and borrowers.
Habitat for Humanity 437 E. 7th Street	1	0%	This loan does not accrue interest. Monthly principal payments started in March 1999.
Second Mortgage Assistance Program	633	0%	Repayment obligation is triggered when the property is sold or transferred, or 30 years from the date of the promissory note. If repayment is triggered during the first 10 years, the Company is also entitled to a proportionate share in any profit realized. After 10 years, only the principal amount is due. There are twenty-six loans outstanding at September 30, 2006.
Various			
Mental Health Association 814 Atlantic Avenue	280	3%	Monthly principal payments of \$2,000 will begin on May 8, 2008. Interest begins accruing on May 8, 2008 and is due and payable in full on May 8, 2023.

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Merit Hall Apartments, Inc. 1035 Lewis Avenue	\$ 400	8%	The loan principal and interest shall be due and payable upon the maturity date of note on July 1, 2033, unless Merit Hall does not fulfill HUDs restrictions, at which the entire principal is due immediately at 8.375%.
Los Angeles Community Design Center 1528-32 Freeman Avenue	405	3%	Annual payments of principal and interest began in November 2002 using 50% of residual receipts. Interest began accruing in November 1999 and amounted to \$62,826 at September 30, 2006.
Down Payment Assistance Program Various	344	0%	Funding assistance is in the form of a conditional grant. No repayment is required unless the borrower violates the terms of the agreement. Repayment is triggered if the property is sold to a non-qualified buyer within the first 10 years, along with 5% of the profit. There are 116 loans outstanding at September 30, 2006.
Atlantic Villas Second Mortgage Assistance Program Various	44	0%	No payment until property defined in the note is sold or transferred, or 30 years from the date of the promissory note. If repayment is triggered during the first 10 years, the Company is also entitled to a proportionate share in any profit realized. After 10 years, only the principal amount is due. There are four loans outstanding at September 30, 2006.
Casa Carino 408 Elm Avenue	286	6.625%	Principal amount accrues simple interest. Principal and interest will be due and payable on the maturity date of the HUD note which is October 1, 2035, or upon satisfaction of the HUD loan, whichever is earlier.

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Long-term receivables, continued (in thousands):

Borrower / Program	Principal Outstanding	Interest Rate	Payment Terms
Multi-Family Rehabilitation Program	\$ 39	4%	Monthly principal and interest payments for 15 years from the date of each individual loan are to be made by the mortgagees to the Company. There are three loans outstanding at September 30, 2006.
Various			
Interest Rate Reduction Grant Programs	21	0% - 10%	Funding assistance is in the form of a conditional grant to permanently buy down the interest rate of an approved real estate loan. No repayment is required unless the property is sold or transferred during the first 10 years. Repayment equals the sum of the principal, less 10% reduction per year, plus 5% profit participation and accrued interest. There are six loans outstanding at September 30, 2006.
Various			
Renaissance Walk -Second Mortgage Assistance Program	561	0% - 5%	Repayment obligation is triggered when the property defined in the note is sold or transferred, or 30 years from the date of the promissory note if the property is the primary residence. If the maturity date is before 30 years, repayment equals the sum of the principal and profit participation and interest. There are nine loans outstanding at September 30, 2006.
Various			
Grisham Community Housing Limited Partnership	7,680	3%	The original principal amount of \$6.5 million was amended to \$7.9 million upon conveyance of the remaining 3 parcels. An amendment to the Disposition and Development Agreement on December 1, 2002 restated the promissory note to \$7,680,000 with 3% annual simple interest. Repayment of loan with interest in arrears from residual receipts commencing on April 1, 2004 to maturity April 1, 2034.
Various			

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Long-term receivables, continued (in thousands):

<u>Borrower / Program</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Payment Terms</u>
Moderate Income Homeowner Rehabilitation Loan Program	\$ 705	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 nineteen loans outstanding as of September 30, 2006.
Various			
Jamboree Housing Corporation 715 - 745 W. 3rd Street	9,636	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due under the terms of the Promissory Note. Payments of principal and interest (if any) are due annually on April 1, 2006 and each year thereafter, under the residual receipts provision.
Livable Places, Inc. 1856 Long Beach Blvd.-Olive Court	1,169	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due. Under the current terms of the Promissory Note, the outstanding balance is due on January 5, 2007.
Livable Places, Inc. 1908 Long Beach Blvd.-Barcelona	311	0%	This loan does not accrue interest unless the borrower defaults in paying any amount due. Under the current terms of the Promissory Note, the outstanding balance is due on May 31, 2007.
Clifford Beers Housing, Inc. 530 Elm Avenue	89	3%	The \$350,000 loan is 3% on unpaid principal balance. Principal and interest payments are due annually on April 30 of each year from residual receipts commencing in the year in which the release of construction covenants is recorded. Note is due 55 years from the date of recordation of the release of construction covenants or December 31, 2059, whichever comes first.

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Long-term receivables, continued (in thousands):

Borrower / Program	Principal Outstanding	Interest Rate	Payment Terms
Clifford Beers Housing 530 Elm Avenue	\$ 1,324	3%	The \$1,335,000 loan is 3% on unpaid principal balance. Principal and interest payments are due annually on April 30 of each year from residual receipts commencing in the year in which the outstanding loan is disbursed in full. Note is due 55 years from the date of recordation of the release of construction covenants or December 31, 2059, whichever comes first.
Total:	<u>24,371</u>		
Allowance for loans not obligated to be repaid:	<u>(808)</u>		
Long-term loan receivables, net:	<u><u>\$ 23,563</u></u>		

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

Habitat for Humanity	\$ 443
Down Payment Assistance Program	344
Interest Rate Reduction Grant Program	<u>21</u>
Total	<u><u>\$ 808</u></u>

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In the accompanying fund financial statements, the components of deferred revenue as of September 30, 2006, are as follows (in thousands):

Long-term loan receivables:

Moderate Income Homeowner Rehabilitation Loan Program	\$ 705
Jamboree Housing Corp./West Gateway	9,636
Clifford Beers Housing	89
Clifford Beers Housing	1,324
Livable Places, Inc.	1,480
Habitat for Humanity	1
Mental Health Association	280
Merit Hall	400
Los Angeles Community Design Center	405
Atlantic Villas Second Mortgage Assistance Program	44
Casa Carino	286
Renaissance Walk Second Mortgage Assistance Program	561
Multi Family Rehabilitation Program	39
Second Mortgage Assistance Program	633
Grisham Community Housing Limited Partnership	7,680
Total	<u>\$ 23,563</u>

Note 9 - Properties Held for Resale

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

In 2000, the Company purchased a vacant parcel of land for \$750,000 for the development of market rate or affordable housing. In 2005, the Company purchased City-owned land and improvements for \$245,000 for the development of a special needs housing project targeting emancipated youth.

Note 10 - Budgetary Accounting

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

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

The Budgetary Comparison Statement on page 18 reflects a positive variance of \$596,000, mainly due to the decrease in anticipated expenditures caused by changes in the timing of project expenditures. The unspent appropriation for the projects may be carried-over to the new fiscal year and allocated to various projects.

The following reconciles actual revenues and expenditures for Company funds to the non-GAAP budgetary basis for the fiscal year ended September 30, 2006 (in thousands):

Beginning fund balance at October 1, 2005, on an actual GAAP basis	\$ 13,927
Encumbrance outstanding at October 1, 2005	1
Cumulative effect of capitalization of land held for resale at October 1, 2005	(995)
Beginning fund balance at October 1, 2005, on a budgetary basis	<u>12,933</u>
Actual GAAP basis revenue	3,871
Adjustment to GAAP basis revenues:	
Proceeds from the sale of land for resale	
Revenues on a budgetary basis	<u>3,871</u>
Actual GAAP basis expenditures	8,318
Adjustments to GAAP basis expenditures:	
Current effect of capitalization of land held for resale	-
Loss on sale of land held for resale	-
Expenditures on a budgetary basis	<u>8,318</u>
Excess of revenues under expenditures on a budgetary basis	<u>(4,447)</u>
Other financing uses, on a GAAP basis	(377)
Adjustment to GAAP basis other financing source:	
Advances from Other Funds	(630)
Other financing uses on a budgetary basis	<u>(1,007)</u>
Excess of revenues and other sources under expenditures and other uses, on a budgetary basis	<u>(5,454)</u>
Ending fund balance at September 30, 2006, on a budgetary basis	<u>\$ 7,479</u>

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Note 11 - Commitments and Contingencies

Commitments

Available fund balance as of September 30, 2006 is committed to fund development projects, first-time homebuyer programs and moderate-income rehabilitation loan program.

Litigation

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

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