

**PRELIMINARY DRAFT
SUBJECT TO CHANGE
FOR MANAGEMENT REVIEW ONLY**

DOWNTOWN LONG BEACH ASSOCIATES

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

**PRELIMINARY DRAFT
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FOR MANAGEMENT REVIEW ONLY**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Downtown Long Beach Associates

We have audited the accompanying statements of financial position of Downtown Long Beach Associates (the Association), a nonprofit corporation, as of September 30, 2009 and 2008, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Association'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Downtown Long Beach Associates as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Long Beach, California

FOR MANAGEMENT REVIEW ONLY

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STATEMENTS OF FINANCIAL POSITION

ASSETS	September 30,	
	2009	2008
CURRENT ASSETS		
Cash	\$ 287,398	\$ 488,601
Investments	500,616	894,450
Accounts receivable	447,259	102,042
Prepaid expenses	10,935	41,310
	1,246,208	1,526,403
 FURNITURE AND EQUIPMENT, net	 20,241	 48,997
 OTHER ASSETS		
Deposits	3,762	3,762
Intangible asset, net	3,199	5,598
	6,961	9,360
 TOTAL ASSETS	 \$ 1,273,410	 \$ 1,584,760
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 227,268	\$ 162,828
Deferred revenue (Note 5)	1,031,153	1,399,189
Capital lease obligation – current portion	10,006	7,754
	1,268,427	1,569,771
 LONG TERM LIABILITIES		
Capital lease obligation – net of current portion	4,983	14,989
 COMMITMENTS (Note 7)		
 UNRESTRICTED NET ASSETS	 None	 None
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,273,410	 \$ 1,584,760

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF ACTIVITIES

	For the Year Ended September 30,	
	2009	2008
SUPPORT AND REVENUES		
City of Long Beach:		
Downtown Parking and Business Improvement Area (DPBIA) funds	\$ 560,269	\$ 615,046
City funds	544,834	140,000
Property Based Improvement District (PBID) funds	<u>2,137,916</u>	<u>1,710,034</u>
	<u>3,243,019</u>	<u>2,465,080</u>
OTHER SUPPORT		
Sponsorship revenue	288,601	263,882
Interest income, net	<u>12,548</u>	<u>42,479</u>
	<u>301,149</u>	<u>306,361</u>
Total Support and Revenues	<u>3,544,168</u>	<u>2,771,441</u>
EXPENSES		
Marketing and promotions	1,433,247	997,371
Operating expense	1,125,140	1,061,310
General and administrative	<u>985,781</u>	<u>799,333</u>
	<u>3,544,168</u>	<u>2,858,014</u>
CHANGE IN UNRESTRICTED NET ASSETS	None	(86,573)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>None</u>	<u>86,573</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ None</u>	<u>\$ None</u>

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STATEMENTS OF CASH FLOWS

	For the Year Ended	
	September 30,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	None	(\$ 86,573)
Adjustments to reconcile change in unrestricted net assets to net cash from operating activities:		
Depreciation and amortization	\$ 31,155	33,160
Gain on disposal of equipment		(3,971)
(Increase) decrease in:		
Accounts receivable	(345,217)	(15,058)
Prepaid expenses	30,375	18,451
Increase (decrease) in:		
Accounts payable and accrued expenses	64,440	18,951
Deferred revenue	(368,036)	75,512
Net Cash Provided By (Used In) Operating Activities	(587,283)	40,472
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment		(1,495)
Proceeds from sale of equipment		5,000
Redemption of investments	893,834	305,950
Purchase of investments	(500,000)	(638,334)
Net Cash Provided by (Used In) Investing Activities	393,834	(328,879)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(7,754)	(4,257)
Net Cash Used In Investing Activities	(7,754)	(4,257)
NET CHANGE IN CASH	(201,203)	(292,664)
CASH AT BEGINNING OF YEAR	<u>488,601</u>	<u>781,265</u>
CASH AT END OF YEAR	<u>\$ 287,398</u>	<u>\$ 488,601</u>

The accompanying notes are an integral part of these financial statements.

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DOWNTOWN LONG BEACH ASSOCIATES

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies

Organization

Downtown Long Beach Associates (the Association) is a nonprofit corporation organized to attract, stimulate and enhance business activity in downtown Long Beach (the City). To meet these goals, the Association conducts marketing and public relations campaigns, holds special events, and provides a range of services, including maintenance functions and a guide program for downtown businesses. The Association also addresses specific merchant issues in order to improve the business atmosphere in the City.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support and revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Basis of Presentation of Financial Statements

In June 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (Codification or ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Existing GAAP was not intended to be changed as a result of the Codification and, accordingly, the change did not impact the Association's financial statements. The ASC does change the way the guidance is organized and presented.

Certificates of Deposit

Certificates of deposit consist of highly liquid instruments purchased with an initial maturity of thirty days or more. Such investments are stated at cost, which approximates market value.

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to expense and a credit to accounts receivable.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation expense has been computed using the straight-line method over the estimated useful lives of three to seven years. Expenditures for repairs are expensed as incurred and major additions, renewals, and betterments are capitalized.

Advertising Costs

The Association expenses its advertising and promotion costs as incurred. Total advertising costs for the years ended September 30, 2009 and 2008 were approximately \$29,800 and \$36,800, respectively.

Support and Revenue Recognition

The Economic Development contract with the Downtown Parking and Business Improvement Area (DPBIA) has a special assessment associated with business licenses in the area. This contract has the same fiscal year as the Association and was ratified by the Long Beach City Council for the current fiscal year. The Association is being provided these funds to promote business in downtown Long Beach.

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Support and Revenue Recognition (Continued)

The Economic Development contract with the Property Based Improvement District (PBID) has a special assessment associated with the real properties in the area. This contract is for the calendar year and must be ratified by the Long Beach City Council for each new calendar year. The Association is being provided these funds to promote business in downtown Long Beach.

The Association recognizes contract revenue from its City contracts when the revenues are fixed and determinable. The contract is adjusted monthly based on expenditures for the year. Any excess funds over expenditures are classified as deferred revenue and carried over into the next period. At September 30, 2009 and 2008, the Association also deferred \$8,401 and \$42,060 in funds unrelated to the DPBIA/PBID contract which are included in deferred revenue on the statement of financial position.

The above contracts are contingent upon changes in rates on a year-to-year basis, success in collection of the above funds from the residents and businesses, and continued support from the Long Beach City Council. Also, in the event that the Association does not contract with the City in any year, the Association will return any funds in excess of expenditures classified as deferred revenue.

Income Taxes

The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c)(6) and exempt from California franchise tax under Revenue and Taxation Code Section 23701(e).

NOTE 2 – Investments

Investments consist of the following at:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Certificates of deposit	<u>\$ 500,616</u>	<u>\$ 894,450</u>

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 2 – Investments (Continued)

The Association adopted FASB ASC 820 on October 1, 2008 for fair value measurements of financial assets and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FASB ASC 820 (previously SFAS No. 157) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following is a description of valuation methodologies used for assets recorded at fair value:

Certificates of Deposit: Fair values are generally estimated using pricing models or discounted cash flows. These instruments are generally classified within Level 2 of the fair value hierarchy.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 2 – Investments (Continued)

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2009:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Certificates of deposit	<u>\$ 500,616</u>	<u>—</u>	<u>\$ 500,616</u>	<u>—</u>

NOTE 3 – Furniture and Equipment

Furniture and equipment consists of the following:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Office equipment	\$ 107,836	\$ 107,836
Office furniture	<u>55,084</u>	<u>55,084</u>
	162,920	162,920
Less accumulated depreciation	<u>(142,679)</u>	<u>(113,923)</u>
	<u>\$ 20,241</u>	<u>\$ 48,997</u>

Depreciation expense for the years ended September 30, 2009 and 2008 was \$28,756 and \$30,761, respectively.

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 4 – Intangible Asset

Intangible asset at September 30, 2009 and 2008 consisted of a software license agreement purchased for \$11,995, with accumulated amortization of \$8,796 and \$6,397, respectively. Amortization expense for the years ended September 30, 2009 and 2008 was \$2,399 and \$2,399, respectively.

The following is a schedule of the future amortization:

Year Ending September 30,	
2010	\$ 2,399
2011	<u>800</u>
	<u>\$ 3,199</u>

NOTE 5 – DPBIA and PBID Revenue

As discussed in Note 1, deferred revenue is recognized on contract revenue in excess of expenditures and is recorded as an increase (or decrease) of current year contract revenue.

Revenue reported consists of the following:

	For the Year Ended September 30,	
	<u>2009</u>	<u>2008</u>
Downtown Parking and Business Improvement Area funds (DPBIA)	\$ 568,069	\$ 617,506
Deferral adjustment	<u>(7,800)</u>	<u>(2,460)</u>
	<u>\$ 560,269</u>	<u>\$ 615,046</u>
Property Based Improvement District funds (PBID)	\$ 1,748,170	\$ 1,783,086
Deferral adjustment	<u>389,746</u>	<u>(73,052)</u>
	<u>\$ 2,137,916</u>	<u>\$ 1,710,034</u>

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 5 – DPBIA and PBID Revenue (Continued)

As of September 30, 2009, deferred revenue represents funds designated by the Board of Directors for future projects or to cease activities should the contract with the City be discontinued (see Note 1) as follows:

Three-month reserve for PBID contract	\$ 365,000
Three-month reserve for DPBIA contract	150,000
Long Beach Transit Visitor Center	12,000
East Village Special Events	4,500
Capital Improvements	463,750
Marketing Events	<u>19,701</u>
Designated deferred revenue	1,014,951
Uncommitted deferred revenue	<u>16,202</u>
	<u><u>\$ 1,031,153</u></u>

NOTE 6 – Capital Lease Obligation

Capital Lease

The Association leases equipment under a capitalized lease. The lease agreement has no stated interest rate and, therefore, interest has been imputed at a rate of approximately 24%. The lease is secured by the related equipment.

The equipment classification presented in Note 3 includes the following amounts for the capitalized lease as of September 30, 2009:

Equipment	\$ 27,000
Less accumulated depreciation	<u>(13,935)</u>
	<u><u>\$ 13,065</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 6 – Capital Lease Obligation (Continued)

Minimum future capital lease payments as of September 30, 2009 are as follows:

<u>Year Ending September 30,</u>	
2010	\$ 10,006
2011	<u>4,983</u>
	<u>\$ 14,989</u>

NOTE 7 – Commitments

Operating and Capital Leases

The Association entered into an operating lease for the rental of an office facility through December 2013. The Association also leases office equipment under various month-to-month and non-cancelable operating leases through 2012. Future minimum lease commitments are as follows:

<u>For the Year Ending September 30,</u>	<u>Capital Lease</u>	<u>Operating Leases</u>	<u>Total</u>
2010	\$ 12,741	\$ 61,903	\$ 74,644
2011	5,309	68,545	73,854
2012		68,895	68,895
2013		64,436	64,436
2014		<u>16,433</u>	<u>16,433</u>
Future minimum lease payments	18,050	280,212	298,262
Less interest	<u>(3,061)</u>		<u>(3,061)</u>
	<u>\$ 14,989</u>	<u>\$ 280,212</u>	<u>\$ 295,201</u>

Office facility rental expense for the years ended September 30, 2009 and 2008 was \$58,706 and \$63,476, respectively. Equipment rental expense for the years ended September 30, 2009 and 2008 was \$20,816 and \$24,975, respectively.

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**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

NOTE 7 – Commitments (Continued)

Operating and Capital Leases (Continued)

The Association entered into an agreement for contracted maintenance services through September 2010. In the event the Association terminates the agreement prior to September 2010, the Association is required to buy back the equipment purchased by the contractor to perform the agreed-upon services, or assume the capital lease on the equipment. The Association may also elect to pay the monthly lease payments until the end of the agreement, with the consent of the lessor. The original cost of the equipment purchased is approximately \$63,300, and the current monthly capital lease and insurance payments are \$1,700.

NOTE 8 – Retirement Plans

The Association sponsors a discretionary salary savings plan, including a 401(k) provision, that allows employee contributions. The plan covers all salaried employees meeting certain eligibility requirements. Employer contributions for the years ended September 30, 2009 and 2008 was \$15,542 and \$12,290, respectively.

NOTE 9 – Supplemental Disclosures of Cash Flow Information

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash paid during the year for:		
Interest	<u>\$ 5,094</u>	<u>\$ 3,175</u>

NOTE 10 – Subsequent Events

In connection with the adoption of the FASB ASC 855, the Association has evaluated subsequent events through the date financial statements were issued for the year ended September 30, 2009.

**Recommendations to Improve Operating Procedures
And Strengthen Internal Accounting Controls**

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Open for Audit Report Date

To the Audit Committee
and Management of the Downtown Long Beach Associates

In planning and performing our audits of the financial statements of Downtown Long Beach Associates (Association) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control 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, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audits, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our reports dated **Open for Audit Report Date** on the financial statements of the Association.

This report is intended solely for the information and use of the Audit Committee, the Association's management and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

WINDES & McCLAUGHRY

**Recommendations to Improve Operating Procedures
And Strengthen Internal Accounting Controls**

ACCOUNTING SYSTEM

Observation

The Association uses Quickbooks as its accounting software.

Recommendation

Quickbooks allows users to delete and modify accounting transactions without an audit trail. The program also allows users to modify transactions in a closed accounting period. We recommend the Association evaluate the risks of using this software package.

EVIDENCE OF CONTROLS

Observation

Our procedures discovered that top level reviews of reconciliations and journal entries at Analytical Accounting Control Systems are not being documented. While our review of controls did indicate that reconciliations are reviewed, this review is not documented. A key component of a control system that can be relied upon to reduce substantive audit testing is evidence that a control is in place.

Recommendation

We suggest that all reviews are signed and dated by the reviewer. This will provide evidence of timely review of reconciliations and journal entries.

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DOWNTOWN LONG BEACH ASSOCIATES

**REPORT TO THE AUDIT COMMITTEE
RESULTS OF THE SEPTEMBER 30, 2009 AUDIT**

Presented by Windes & McClaughry



WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION
*Certified Public Accountants
& Consultants*

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Date open for Audit Report Date

To the Audit Committee of the
Downtown Long Beach Associates (the Association)

We are pleased to have the opportunity to discuss the results of our audit of the September 30, 2009 financial statements of the Downtown Long Beach Associates.

A direct line of communication between the Audit Committee and Windes & McClaughry is essential to the exercise of our respective responsibilities. Our appointment involves a responsibility on our part to call to your attention any significant matters we believe require your consideration, either at a regularly scheduled meeting or on a timelier basis, if warranted.

The accompanying report is intended solely for use by the Audit Committee and management and presents information regarding our audit and certain other information we believe will be of interest to you.

Sincerely,

Windes & McClaughry

DOWNTOWN LONG BEACH ASSOCIATES
RESULTS OF THE 2009 AUDIT

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Financial Statements

We have audited the financial statements of Downtown Long Beach Associates for the year ended September 30, 2009, and have issued our report thereon dated **Date open for Audit Report Date**.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated October 7, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Downtown Long Beach Associates are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

DOWNTOWN LONG BEACH ASSOCIATES
RESULTS OF THE 2009 AUDIT

PRELIMINARY DRAFT
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*Corrected and Uncorrected
Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The list below summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Proposed Journal Entry 1

Rent Expense	5,030
Deferred Rent	(5,030)

In addition, there were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **Date open for Audit Report Date**.

DOWNTOWN LONG BEACH ASSOCIATES
RESULTS OF THE 2009 AUDIT

PRELIMINARY DRAFT
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*Management Consultations with Other
Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.