



**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

Financial Statements

September 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

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## Independent Auditors' Report

The Honorable Mayor and City Council  
The Citizens of the City of Long Beach, California:

We have audited the accompanying financial statements of the Southeast Resource Recovery Facility Joint Powers Authority (the Authority), a component financial reporting unit of the City of Long Beach, California (the City), as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority. 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 and the standards applicable to the financial statement audit 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 Authority'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.

As discussed more fully in note 1, the accompanying financial statements of the Authority are intended to present the financial position and the changes in financial position and cash flows attributable to the Authority. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2007 and 2006, and the changes in its financial position and its cash flows, where applicable, for the years 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 financial position of the Southeast Resource Recovery Facility Joint Powers Authority as of September 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2008 on our consideration of the Authority'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.

The Authority's management has not presented management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of physical condition of the plant on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statement of physical condition of the plant has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

May 8, 2008

**SOUTHEAST RESOURCE RECOVERY FACILITY  
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Statements of Net Assets  
September 30, 2007 and 2006  
(In thousands)

<b>Assets</b>	<u><b>2007</b></u>	<u><b>2006</b></u>
Current assets:		
Restricted assets:		
Capital lease receivable – current (note 4)	\$ 6,690	6,540
Accounts receivable	<u>1,522</u>	<u>1,567</u>
Total restricted assets – current	8,212	8,107
Noncurrent assets:		
Restricted asset (note 3):		
Cash and investments (note 3)	12,433	12,369
Capital lease receivable – long term (note 4)	94,465	101,155
Deferred charges	<u>893</u>	<u>973</u>
Total assets	<u>116,003</u>	<u>122,604</u>
<b>Liabilities</b>		
Current liabilities payable from restricted assets:		
Interest payable	1,522	1,567
Bonds payable – current (note 5)	<u>6,690</u>	<u>6,540</u>
Total current liabilities payable from restricted assets	8,212	8,107
Long-term obligations:		
Bonds payable – long term (note 5)	94,465	101,155
Plus unamortized bond premium less deferred costs (notes 2 and 5)	2,059	1,866
Deferred credits (note 4)	<u>1,567</u>	<u>2,462</u>
Total long-term obligations	98,091	105,483
Total liabilities	<u>106,303</u>	<u>113,590</u>
<b>Net assets (deficit)</b>		
Restricted for debt service (note 3):		
Bond reserve	11,974	11,706
Bond interest and principal	44	12
Bond project	406	651
Unrestricted	<u>(2,724)</u>	<u>(3,355)</u>
Total net assets	<u>\$ 9,700</u>	<u>9,014</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended September 30, 2007 and 2006

(In thousands)

	2007	2006
Operating revenues:		
Income from capital lease – net of excess lease payments of \$286 (note 3) in 2007 and 2006 and amortization of deferred credits of \$895 (note 4) in 2007 and 2006	\$ 5,199	5,353
Operating expenses:		
Amortization of bond discount/deferred costs (note 5)	193	194
Amortization of deferred charges	80	80
Other expenses	262	540
Total operating expenses	535	814
Operating income	4,664	4,539
Nonoperating income (expense):		
Interest from investments	612	589
Interest expense	(4,590)	(4,739)
Total nonoperating expense	(3,978)	(4,150)
Change in fund net assets	686	389
Net assets – October 1	9,014	8,625
Net assets – September 30	\$ 9,700	9,014

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended September 30, 2007 and 2006

(In thousands)

	2007	2006
Cash flows from operating activities:		
Revenues received from capital lease	\$ 4,635	4,817
Refund of excess lease payments (note 3)	(286)	(285)
Other expenses paid	(262)	(540)
Net cash provided by operating activities	4,087	3,992
Cash flows from capital and related financing activities:		
Payments of principal on bonds payable	(6,540)	(6,355)
Payments of interest	(4,635)	(4,813)
Net cash used in capital and related financing activities	(11,175)	(11,168)
Cash flows from investing activities:		
Principal received on capital lease	6,540	6,355
Interest received on investments	612	589
Net cash provided by investing activities	7,152	6,944
Net increase (decrease) in cash and cash equivalents	64	(232)
Cash and cash equivalents – October 1	12,369	12,601
Cash and cash equivalents – September 30	\$ 12,433	12,369
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,664	4,539
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of deferred credits	(895)	(895)
Amortization of bond discount/deferred costs	193	194
Amortization of deferred charges	80	80
Decrease in accounts receivable	45	74
Total adjustments	(577)	(547)
Net cash provided by operating activities	\$ 4,087	3,992

See accompanying notes to financial statements.

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Notes to Financial Statements

September 30, 2007 and 2006

**(1) Organization, Purpose, and Activities**

The Southeast Resource Recovery Facility (SERRF) Authority (the Authority) was created pursuant to the provisions of the SERRF Joint Powers Agreement dated December 19, 1984, between the City of Long Beach (the City) and the County Sanitation District No. 2 of Los Angeles County (the District) for the purpose of constructing a facility to dispose of nonhazardous solid waste and to recover energy therefrom.

The City leases SERRF from the Authority for purposes of operating the facility. The City's lease payments to the Authority are paid in amounts sufficient to meet the Authority's debt service obligations on the bonds during the year, as well as pay the Authority's administrative and other costs. The lease was first amended in October 1995. Under this revised lease, the City agreed to pay to the Authority a maximum annual rent calculated according to a prescribed formula, not to exceed \$25,361,831. Such annual rental was variable and equaled the sum of scheduled principal, calculated interest, and administrative fees.

The lease was last amended in October 2003. Under the revised lease, the City agrees to annually pay to the Authority amounts sufficient to meet the Authority's debt service obligations on the bonds during the year, and pay the Authority's administrative and other costs. Revenues available in the Authority funds will be credited against the amount to be transferred by the City to the Authority for lease payments. The revised lease is to end at the later of December 1, 2018 or when all bonds of the Authority have been retired or when the energy contract is terminated.

The Authority is a component financial reporting unit of the City of Long Beach, California. In accordance with U.S. generally accepted accounting principles, the Authority's financial operations 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, California 90802.

**(2) Summary of Significant Accounting Policies**

**(a) *Measurement Focus and Basis of Accounting***

The accompanying 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.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, are followed by the Authority to the extent that such standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City of Long Beach and, by consequence, the Authority also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City and the Authority have elected not to follow subsequent private-sector guidance.

**(b) *Investments***

Investments are stated at fair value. The value of each investment is based on independent third party pricing provided to the City of Long Beach.



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**(c) Capital Lease Receivable**

Current and long-term portions of the capital lease receivable are equal to the bonds payable for the 2003 Lease Revenue Refunding Bond Issue.

**(d) Operating Revenue and Expenses**

Operating revenue is lease payments from the City of Long Beach to meet the Authority's operating expenses to cover debt obligations and other administrative costs.

**(e) Deferred Charges and Deferred Costs**

Deferred charges represent the accounting loss on the lease associated with the 2003 SERRF Lease Revenue Refunding Bonds (Bonds). Such charges are being amortized over the life of the Bonds.

At September 30, 2007 and 2006, the balance of the account entitled "Unamortized Bond Premium Less Deferred Costs" aggregated \$2,059,000 and \$1,866,000, respectively. As of September 30, 2007 and 2006, the unamortized bond premium relating to the 2003 Bonds aggregated \$4,617,000 and \$5,030,000, respectively. The accounting loss and bond issuance costs amounted to \$2,558,000 and \$3,164,000 at September 30, 2007 and 2006, respectively. Such amounts are being amortized over the life of the refunded debt issues (see note 5).

**(f) Cash and Cash Equivalents with Fiscal Agent**

Monies are held by an independent fiscal agent (Trustee) and are regarded as demand deposits and include investment securities that can readily be converted into cash. These funds consist primarily of U.S. government obligations and securities.

In accordance with U.S. generally accepted accounting principles (GAAP), the Authority has defined such investments as cash equivalents for purposes of preparing the statements of cash flows.

**(g) Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

**(h) Net Assets**

SERRF has adopted a policy of generally utilizing restricted funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

SERRF's net assets are classified into the following net asset categories:

*Restricted – Expendable* – Net assets subject to externally imposed conditions or constraints that can be fulfilled by the actions of SERRF or by the passage of time. The restrictions are either externally imposed by creditors, grantors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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*Unrestricted* – All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of SERRF or have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures of net assets may be made and require that unrestricted net assets be designated to support future operations in these areas.

**(3) Restricted Cash and Investments**

The Authority's bond indenture requires the Trustee to set aside bond and operating proceeds in specified restricted-use accounts. A description of these accounts follows:

*Revenue Account* – is used to account for and hold in trust all revenues. Moneys in the revenue account are used for the payment of principal and interest. At September 30, 2007 and 2006, the balance of the Revenue Account was zero.

*Interest and Principal Accounts* – are used to pay interest and principal on the bonds when due. At September 30, 2007 and 2006, the balance in these accounts was \$44,000 and \$12,000, respectively.

*Project Account* – is used to account for and hold in trust all revenues deposited to the project account used to reimburse City projects per the amended lease agreement for the 2003 bonds. At September 30, 2007 and 2006, the balance in the Project Account was \$415,000 and \$651,000, respectively.

*Reserve Account* – is used to provide for timely payment of bond principal and interest if no other moneys are available. Under the terms of the bond indenture, the balance in this account must be maintained at an amount at least equal to the maximum annual debt service or \$11,175,000. At September 30, 2007 and 2006, the balances of the Bond Reserve Account aggregated \$11,974,000 and \$11,706,000, respectively, which is \$800,000 and \$531,000 in excess of the required reserve for the 2003 Bonds at September 30, 2007 and 2006, respectively. In accordance with provisions of the lease agreement, capital lease payments required from the City aggregating \$286,000 and \$285,000 were in excess of the reserve requirements which reduced lease payments made by the City in fiscal years 2007 and 2006 and was refunded to the City for fiscal years 2007 and 2006, respectively.

Restricted cash and investments in the Project, Principal and Bond Reserve Accounts are stated at fair value at September 30, 2007 and 2006.

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Currently, funds maintained by the Trustee are invested in an Guaranteed Investment Contract and other investments as permitted by the Authority's bond indenture. Investments are held in safekeeping by the Trustee in the Authority's name. Restricted cash and investments stated at fair value, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Certain Investments and External Investment Pools*, including accrued interest thereon, and net of premiums and discounts, consisted of the following at September 30 (in thousands):

	2007	2006
Cash in bank	\$ 843	543
City of Long Beach Treasurer's investment pool	415	651
Guaranteed investment contract	11,175	11,175
Total restricted cash and investments	\$ 12,433	12,369

At September 30, 2007 and 2006, the bank balance was equal to \$843,000 and \$543,000, respectively.

The SERRF pooled cash and cash equivalents amount as of September 30, 2007 and 2006 was \$415,000 or 0.0246% of the City of Long Beach (City) pooled cash and investments of \$1,686,441,000 and \$651,000 or 0.0453% of the City pooled cash and investments of \$1,438,524,000, respectively. Cash and Investments are classified in the Authority's financial statements as follows as of September 30 (in thousands):

	2007	2006
Statements of net assets:		
Cash and investments in City pool	\$ 415	651
Cash and investments held by bond trustee	12,018	11,718
Total cash and investments	\$ 12,433	12,369

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September 30, 2007 and 2006

**(a) 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.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
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.

**(b) Investments Authorized by Debt Agreements**

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

**(c) Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates that 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

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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, which includes the amounts the Authority invests with the City as of September 30 (in thousands):

<u>Investment type</u>	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Weighted average maturity (in years)</u>	<u>Amount</u>	<u>Weighted average maturity (in years)</u>
Inter-Department Loan (Health Savrs)	\$ 3,098	11.60	\$ 3,297	12.60
U.S. Treasury notes				
Federal agency securities	145,149	0.90	214,467	1.54
Medium-term notes	1,190,784	2.28	1,042,876	1.57
Short-term commercial paper	49,881	1.83	33,464	1.61
Local Agency Investment Fund (LAIF)	135,874	0.02	132,731	0.01
	<u>139,156</u>	<u>0.01</u>	<u>2,921</u>	<u>0.01</u>
Subtotal City pool	1,663,942		1,429,756	
Cash on hand	32,878		26,811	
Outstanding checks	<u>(10,379)</u>		<u>(18,043)</u>	
Total City pool	<u>\$ 1,686,441</u>		<u>\$ 1,438,524</u>	

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

	<u>2007</u>	<u>2006</u>
Guaranteed investment contract	\$ 11,175	11,175
Money market funds	843	543
	<u>\$ 12,018</u>	<u>11,718</u>

**(d) 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, 2007 and 2006. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

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**(e) 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):

		Rating as of year-end September 30, 2007						
City's pooled investments investment type	Amount	Minimum legal rating	Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Inter-Department Loan (Health Savrs)	\$ 3,098	N/A	\$ 3,098	—	—	—	—	—
U.S. Treasury notes	145,149	N/A	145,149	—	—	—	—	—
Federal agency securities	1,190,784	N/A	—	—	—	1,190,784	—	—
Medium-term notes	49,881	A	—	—	—	44,861	5,020	—
Short-term commercial paper	135,874	N/A	—	54,350	81,524	—	—	—
Local Agency Investment Fund (LALF)	139,156	N/A	139,156	—	—	—	—	—
Subtotal								
City pool	1,663,942		287,403	54,350	81,524	1,235,645	5,020	—
Cash on hand	32,878		—	—	—	—	—	32,878
Outstanding checks	(10,379)		—	—	—	—	—	(10,379)
Total								
City pool	<u>\$ 1,686,441</u>		<u>\$ 287,403</u>	<u>54,350</u>	<u>81,524</u>	<u>1,235,645</u>	<u>5,020</u>	<u>22,499</u>

		Rating as of year-end September 30, 2007						
SERRF's nonpooled investments investment type	Amount	Minimum legal rating	Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Guaranteed investment contract	\$ 11,175	N/A	\$ 11,175	—	—	—	—	—
Money market funds	843	N/A	843	—	—	—	—	—
Total held by bond trustees	<u>\$ 12,018</u>		<u>\$ 12,018</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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Rating as of year-end September 30, 2006								
City's pooled investments investment type	Amount	Minimum legal rating	Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
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>

Rating as of year-end September 30, 2006								
SERRF's nonpooled investments investment type	Amount	Minimum legal rating	Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Guaranteed investment contract	\$ 11,175	N/A	\$ 11,175	—	—	—	—	—
Money market funds	543	N/A	543	—	—	—	—	—
Total held by bond trustees	<u>\$ 11,718</u>		<u>\$ 11,718</u>	—	—	—	—	—

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**(f) 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 total City's pooled investments are as follows (in thousands):

Issuer	Investment type	Reported amount	
		2007	2006
FFCB total	Federal agency securities	\$ 89,334	181,052
FHLB total	Federal agency securities	354,763	241,246
FHLMC total	Federal agency securities	307,865	266,937
FNMA total	Federal agency securities	438,822	353,641
U.S. Treasuries	U.S. Treasury notes and bonds	145,149	214,467
Commercial paper	Unsecured corporate debt	135,874	132,731
Local Agency Investment Fund (LAIF)	LAIF	139,156	—

**(g) 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.

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 Area Investment Fund.

As of September 30, 2007, the City reported deposits of \$32,878,000 less \$10,379,000 for checks outstanding. As of September 30, 2006, City's deposits were \$26,811,000 less \$18,043,000 for checks outstanding.



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**(h) *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.

**(i) *Governmental Accounting Standards Board (GASB) 31***

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2007 and 2006, the effect of valuating the City's investments at fair value did not have a material impact on its financial position.

**(j) *Securities Lending***

The City did not engage in any securities lending programs for the fiscal year ended September 30, 2007. 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.

**(4) *Capital Lease Receivable and Deferred Credits***

The City leases SERRF from the Authority and the lease terminates at the later of December 1, 2018 when all bonds of the Authority have been retired or when the energy contract is terminated. Upon termination of the lease between the Authority and the City, the ownership of SERRF will revert to the City. Accordingly, the lease has been accounted for as a capital lease. The capital lease receivable in the accompanying financial statements totaled \$101,155,000 and \$107,695,000 as of September 2007 and 2006, respectively and represents the present value of the future lease payments and approximates the principal amount of the bonds payable; therefore, the terms of the capital lease receivable mirror the terms of the bonds payable (see note 5).

**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

Notes to Financial Statements

September 30, 2007 and 2006

The excess of the lease receivable over the recorded value of the facility and land as of July 1, 1989 has been deferred in the accompanying financial statements creating a deferred credit. This deferred credit is being amortized on the straight-line basis over the life of the original bonds (see note 5); the balance is scheduled to be fully amortized by September 30, 2009. A summary of amortization of deferred credits is as follows (in thousands):

	2007	2006
Balance, October 1	\$ 2,462	3,357
Amortized to rental income	(895)	(895)
Balance, September 30	\$ 1,567	2,462

**(5) Bonds Payable**

In December 1995, the Authority advance refunded the 1985, 1986 and 1986-2 SERRF Revenue Bonds (original bonds). Proceeds from the issuance of the 1995 SERRF Lease Revenue Refunding Bonds (1995 Bonds), as well as bond reserve and remaining funds from the previous 1985 and 1986 issues, were used to refund, in full, the outstanding principal, interest and premium of all original bonds and to pay costs of issuance incurred in connection with the new issuance. The 1995 advance refunding extended the lease from December 1, 2008 to December 1, 2018. Consequently, the annual rental payment, based on the effective fixed interest rate of 6.715%, decreased from \$18,500,000 to approximately \$12,800,000 for the highest annual debt service amount. The effective interest rate of 6.715% for the rental payment received from the City was the "Swap Interest Rate" as determined by the City's agreement with its investment broker. This effective interest rate also considered letter of credit fees and remarketing fees. As of May 31, 2002, the swap agreement terminated.

In October 2003, the Authority issued \$120,235,000 in lease revenue bonds Series A and Series B (2003 Bonds) to current refund the Authority's Lease Revenue Refunding Bonds, Series 1995A and Series 1995B, finance certain public improvement projects in the City, fund a reserve fund for the Series 2003 Bonds and pay certain costs of issuance. As a result of the refunding, there are no amounts outstanding for the 1995 Bonds in the accompanying financial statements. The 2003 Bonds are payable through December 1, 2018 with interest rates ranging from 2.00% through 5.38%. The refunding issue resulted in an accounting loss of approximately \$2,109,000, which will be recognized over the life of the bonds. Aggregate debt service increased by approximately \$4.9 million over the next fifteen years to level overall debt service requirements thereby resulting in an economic loss of approximately \$6.4 million.

Current and long-term portions of bonded indebtedness at September 30, 2007 and 2006 aggregated \$101,155,000 and \$107,695,000, respectively. Amortization of bond discounts and deferred costs at September 30, 2007 and 2006 aggregated to \$193,000 and \$194,000, respectively.

**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

Notes to Financial Statements

September 30, 2007 and 2006

Long-term liability activity for the years ended September 30, 2007 and 2006 was as follows:

	<b>Balance at October 1, 2006</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at September 30, 2007</b>	<b>Due within one year</b>
Bonds payable:					
Revenue bonds	\$ 107,695	—	(6,540)	101,155	6,690
Plus (less) deferred amount:					
Premium	5,030	—	(413)	4,617	—
Refunding	(914)	—	421	(493)	—
Issuance cost	(2,250)	—	185	(2,065)	—
<b>Total bonds payable</b>	<b>\$ 109,561</b>	<b>—</b>	<b>(6,347)</b>	<b>103,214</b>	<b>6,690</b>
	<b>Balance at October 1, 2005</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at September 30, 2006</b>	<b>Due within one year</b>
Bonds payable:					
Revenue bonds	\$ 114,050	—	(6,355)	107,695	6,540
Plus (less) deferred amount:					
Premium	5,442	—	(412)	5,030	—
Refunding	(1,335)	—	421	(914)	—
Issuance cost	(2,435)	—	185	(2,250)	—
<b>Total bonds payable</b>	<b>\$ 115,722</b>	<b>—</b>	<b>(6,161)</b>	<b>109,561</b>	<b>6,540</b>

At September 30, 2007, annual debt service requirements to maturity are as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending September 30:			
2008	\$ 6,690	4,478	11,168
2009	6,860	4,312	11,172
2010	7,050	4,121	11,171
2011	7,305	3,860	11,165
2012	7,635	3,535	11,170
2013 – 2017	44,400	11,451	55,851
2018 – 2019	21,215	1,127	22,342
<b>Totals</b>	<b>\$ 101,155</b>	<b>32,884</b>	<b>134,039</b>

**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

Notes to Financial Statements

September 30, 2007 and 2006

**(a) Redemption**

*Extraordinary Redemption.* The Series 2003 Bonds are subject to redemption by the Authority on any date prior to their respective stated maturities, upon notice as hereinafter provided, as a whole, or in part by lot within each stated maturity in integral multiples of \$5,000, from prepayments made by the City pursuant to the lease agreement and deposited by the Trustee in the Principal Account, at a prepayment price equal to the sum of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date. Whenever less than all of the outstanding Series 2003 Bonds of a series are to be redeemed on any one date, the Trustee shall select the Series 2003 Bonds of such series to be redeemed in part from the outstanding Series 2003 Bonds of such series on a pro rata basis so that the aggregate annual debt service on Series 2003 Bonds that shall be payable after such redemption date shall be as nearly proportional as practicable to the aggregate annual Debt Service on Series 2003 Bonds outstanding prior to such redemption date.

*Mandatory Sinking Account Redemption.* The Series 2003A Bonds (Non-AMT) maturing on December 1, 2016, upon notice as provided in the indenture, shall also be subject to mandatory sinking account redemption prior to maturity, in part on December 1, 2015, by lot, from and in the amount of the mandatory sinking account payments set forth below at a redemption price equal to the sum of the principal amount thereof plus accrued interest thereon to the redemption date, without premium:

<u>Redemption date (December 1)</u>	<u>Mandatory sinking account payment</u>
2015	\$ 6,425,000
2016*	5,290,000

\* Final maturity of Series 2003A Term Bond (Non-AMT).

*Optional Redemption.* The Series 2003 Bonds maturing on and after December 1, 2014 are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from money deposited by the Authority or the City in the principal account, as a whole or in part (in such order of maturity as designated in writing by the City to the Trustee) on any date on or after December 1, 2013, at a redemption price equal to the sum of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

**STATEMENT OF PHYSICAL CONDITION OF THE PLANT  
(NOT COVERED BY INDEPENDENT AUDITORS' REPORT)**

# PHYSICAL CONDITION OF THE SOUTHEAST RESOURCE RECOVERY FACILITY

FOR THE PERIOD  
OCTOBER 1, 2006 THROUGH SEPTEMBER 30, 2007

The Southeast Resource Recovery Facility (SERRF) is a 1380 TPD waste-to-energy facility that generates 29.6 MW of electricity for sale to Southern California Edison (SCE). The City of Long Beach is obligated to operate and maintain SERRF and to perform all other obligations under the lease. From October 1, 2006 through September 30, 2007, the City of Long Beach performed these activities through a contract to operate with Montenay Pacific Power Corporation.

Significant events that took place during this period were:

- SERRF completed all the scheduled major maintenance and capital replacement work for the period. The cumulative cost for this work performed during FY 2006-2007 exceeded \$6.75 million.
- SERRF sold 241,839,288 kWh of electricity to Southern California Edison.
- SERRF accepted 502,558 tons of refuse.
- The combined electrical and tip fee revenues for FY 2006-2007 was \$46,508,000.

To the best of my knowledge, the SERRF Authority is not in default under Resolution 1-03 of the Board of Directors of the Southeast Resource Recovery Facility adopted October 14, 2003, and its indenture dated as of October 1, 2003.

Southeast Resource Recovery Authority

Date: February 27, 2008

By: 

\_\_\_\_\_  
Christopher J. Garner  
General Manager

AWF:CRT  
5002.600