CITY OF LONG BEACH
DEPARTMENT OF FINANCIAL MANAGEMENT

C-8

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October 7, 2008

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Refer the Los Cerritos Wetlands Authority, the City of Long Beach Airport Enterprise Fund and the City of Long Beach Airport Schedules for Passenger Facility Charges (Separately Issued Financial Statements) for the Fiscal Year Ended September 30, 2007 to the Budget Oversight Committee. (Citywide)

DISCUSSION

Separately Issued Financial Reports and Statements

The Los Cerritos Wetlands and City of Long Beach Airport Enterprise Annual Reports were respectively prepared by the Financial Management Department and Airport staff, and contain audited financial information on those funds for the fiscal year ended September 30, 2007 (FY 07) in accordance with generally accepted accounting principles. In accordance with Section 302(e) of the City Charter, these reports are submitted annually to the City Council, and reflect the Governmental Accounting Standards Board Statement No. 34 (GASB 34), the reporting model for all state and local governments. It is important to note that audited financial reports are designed to report historical financial information only, and are not designed to report financial projections or budgetary priorities.

The Los Cerritos Wetlands Authority, the City of Long Beach Airport Enterprise Fund and the City of Long Beach Airport Schedules of Passenger Facility Charges reports are enclosed and are issued annually to meet distinct legal and financial requirements.

TIMING CONSIDERATIONS

Action on this item is not time critical.

FISCAL IMPACT

There is no fiscal impact associated with this action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully Submitted,

DAVID NAKAMOTO
ACTING CITY CONTROLLER

LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:

PATRICK H. WEST
CITY MANAGER

ATTACHMENTS:

Los Cerritos Wetlands Authority Annual Financial Report
The City of Long Beach Airport Enterprise Fund Financial Statements
The City of Long Beach Airport Schedules of Passenger Facility Charges

Los Cerritos Wetlands Authority

Annual Financial Report

For the Year Ended September 30, 2007

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

Los Cerritos Wetlands Authority
Annual Financial Report
For the Year Ended September 30, 2007

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Financial Section

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

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Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Independent Auditor's Report

Governing Board
Los Cerritos Wetlands Authority
Long Beach, California

We have audited the accompanying financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Los Cerritos Wetlands Authority as of September 30, 2007, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the budgetary comparison information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied 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 or express an opinion on it.

Charles Z. Fedak & Company, CPA
An Accountancy Corporation

February 6, 2008
Cypress, California

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As management of the Los Cerritos Wetlands Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities and performance of the Authority for the fiscal year ended September 30, 2007. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

Financial Highlights

- The Authority's net assets increased 0.1% or $11,482 as a result of this year's operations.
- The Authority received $25,000 in rental income this year.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the Authority's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net assets* and changes in them. Think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's organizational agreements to assess the *overall health* of the Authority in future periods.

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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 government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's budgetary information and compliance.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets of the Authority exceeded liabilities by $11,031,342 as of September 30, 2007.

Condensed Statement of Net Assets

		2007	2006	Change
Assets:				
Current assets	$	34,342	19,860	14,482
Capital assets, net		11,000,000	11,000,000	-
Total assets		11,034,342	11,019,860	14,482
Liabilities:				
Current liabilities		3,000	-	3,000
Total liabilities		3,000	-	3,000
Net assets:				
Net investment in capital assets		11,000,000	11,000,000	-
Unrestricted		31,342	19,860	11,482
Total net assets	$	11,031,342	11,019,860	11,482

At the end of fiscal year 2007, the Authority shows a positive balance in its unrestricted net assets of $31,342 that may be utilized in future years.

Condensed Statement of Activities

	2007	2006	Change
Expenses:			
Authority operations	$ 13,518	5,140	8,378
Total expenses	13,518	5,140	8,378
Property contributions	-	11,000,000	(11,000,000)
General revenues	25,000	25,000	-
Total general revenues and property contributions	25,000	11,025,000	(11,000,000)
Change in net assets	11,482	11,019,860	(11,008,378)
Net assets – beginning of year	11,019,860	-	11,019,860
Net assets – end of year	$ 11,031,342	11,019,860	11,482

The statement of activities shows how the government's net assets changes during the fiscal year. In the case of the Authority, net assets increased by $11,482 during the fiscal year ended September 30, 2007.

Governmental Funds Financial Analysis

The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of September 30, 2007, the Authority's General Fund reported a fund balance of $31,342. An amount of $31,342 constitutes the Authority's *unreserved undesignated fund balance*, which is available for future Authority expenditures.

General Fund Budgetary Highlights

The final budgeted expenditures for the General Fund at year-end were $17,655 more than actual. The variance is principally due to actual expenditures being less than budgeted. Actual revenues were $6,173 less than anticipated budget of $31,173. (See Page 16)

Capital Asset Administration

At the end of fiscal year 2007, the Authority's investment in capital assets amounted to $11,000,000. This investment in capital assets includes land that is managed by the Authority.

Changes in capital assets for the year were as follows:

	Balance 2006	Additions	Deletions	Balance 2007
Land	$ 11,000,000	-	-	11,000,000
Total capital assets, net	$ 11,000,000	-	-	11,000,000

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Authority's current financial position, net assets or operating results in terms of past, present and future.

Requests for Information

The Authority's basic financial statements are designed to present users with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have any questions about the report or need additional information, please contact the Authority at Los Cerritos Wetlands Authority, C/O the City of Long Beach Financial Management Department, 333 West Ocean Blvd., Long Beach, CA 90802.

Basic Financial Statements

Los Cerritos Wetlands Authority
Statement of Net Assets
September 30, 2007
(with comparative amounts for September 30, 2006)

Assets		2007		2006
Current assets:				
Cash and cash equivalents (note 2)	$	34,342	$	19,860
Total current assets		34,342		19,860
Non-current assets:				
Capital assets, net (note 3)		11,000,000		11,000,000
Total assets		11,034,342		11,019,860
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses		3,000		-
Total liabilities		3,000		-
Net assets:				
Net investment in capital assets		11,000,000		11,000,000
Unrestricted		31,342		19,860
Total net assets	$	11,031,342	$	11,019,860

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Statement of Activities
For the Year Ended September 30, 2007
(with comparative amounts for the year ended September 30, 2006)

Governmental Activities:	**2007**	**2006**
Expenses:		
Authority operations	$ 13,518	$ 5,140
Total expenses	13,518	5,140
Program revenues:		
Property contributions	-	11,000,000
Total program revenues	-	11,000,000
Net program (expenses) revenues	(13,518)	10,994,860
General revenues:		
Rental income	25,000	25,000
Total general revenues	25,000	25,000
Change in net assets	11,482	11,019,860
Net assets – beginning of year	11,019,860	-
Net assets – end of year	$ 11,031,342	$ 11,019,860

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Reconciliation of the Balance Sheet of Governmental Type Funds to the Statement of Net Assets
September 30, 2007

	General Fund	Reclassifications & Eliminations	Statement of Net Assets
Current assets:			
Cash and cash equivalents	$ 34,342	-	34,342
Total current assets	34,342	-	34,342
Non-current assets:			
Capital assets, net	-	11,000,000	11,000,000
Total assets	34,342	11,000,000	11,034,342
Current liabilities:			
Accounts payable and accrued expenses	3,000	-	3,000
Total liabilities	3,000	-	3,000
Fund balance:			
Unreserved:			
Undesignated	31,342	(31,342)	-
Total fund balance	31,342	(31,342)	-
Total liabilities and fund balance	$ 34,342		
Net assets:			
Net investment in capital assets		11,000,000	11,000,000
Unrestricted		31,342	31,342
Total net assets		$ 11,031,342	11,031,342

Reconciliation:

Fund balance of governmental funds	$ 31,342
Amounts reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	11,000,000
Net assets of governmental activities	$ 11,031,342

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Type Funds to the Statement of Activities
For the Year Ended September 30, 2007

	General Fund	Reclassifications & Eliminations	Statement of Activities
Expenditures/Expenses:			
Authority operations	$ 13,518	-	13,518
Total expenditures/expenses	13,518	-	13,518
General revenues:			
Rental income	25,000	-	25,000
Total general revenues	25,000	-	25,000
Excess of revenues over expenditures	11,482	-	-
Change in net assets	-	-	11,482
Fund balance/Net assets – beginning of year	19,860	-	11,019,860
Fund balance/Net assets – end of year	$ 31,342	-	11,031,342

Reconciliation:

Net changes in fund balance of governmental fund	$ 11,482
Change in net assets of governmental activities	$ 11,482

See the accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

In February 2006, a joint powers agreement was adopted among the Rivers and Mountains Conservancy, State Coastal Conservancy, City of Long Beach, and City of Seal Beach. The agreement established the Los Cerritos Wetlands Authority (the Authority). Each party shall, subject to the availability of funds, make equal annual contributions (minimum $5,000 and maximum $25,000) to or on behalf of the Authority. The purpose of the Authority is to provide for a comprehensive program of acquisition, protection, conservation, restoration, maintenance and operation and environmental enhancement of the Los Cerritos Wetlands area consistent with the goals of flood protection, habitat protection and restoration and improved water supply, water quality, groundwater recharge and water conservation. The Authority has the ability to acquire and own real property, although it does not have the power of eminent domain. A second major purpose of the Authority is to conduct restoration planning and implement that restoration.

The Authority entered into an agreement of land transfer with the Trust for Public Land for approximately 68 acres of property and surface rights, commonly know as the Bryant property in Long Beach, California. The Bryant property has been an active oil field for several decades and currently contains twelve active oil wells and associated pipelines, roads and buildings.

The acquisition of the Bryant property involved several legal agreements as follows:

- Land Transfer Agreement - Under this agreement the Trust for Public Lands will cause the conveyance of surface fee interest in the 68 acres to the Authority. The Authority will not acquire the mineral rights or the lessor's interest in the oil and gas lease. The Authority will accept title to the surface fee interest property as-is, subject to the Land Use Agreement and the Indemnification Agreement as discussed below.

- Land Use Agreement - This agreement is between Trust for Public Lands, Signal Hill Petroleum, and the Authority, acknowledging the intended use of the conveyed property and the retained property by Signal Hill Petroleum and the Authority. The purpose of the agreement is to ensure the intended use and access of the property for both the Authority and Signal Hill Petroleum.

- Termination of Oil and Gas Lease and Grant of Easement Agreement – This agreement is to define the specific access over and use of the surface property that the Authority grants Signal Hill Petroleum to allow for the existing and future oil operations. The agreement also defines conditions for the oil operations to ensure that they are consistent with the Authority's intended use for habitat restoration and public access. The Authority grants specific easements to Signal Hill Petroleum for oil operations. The easement shall expire when all oil operations are abandoned, and Signal Hill Petroleum shall pay rent of $25,000 per year to the Authority for the use of these easements.

- Environmental Indemnity Agreement- Under the terms of this agreement, Signal Hill Petroleum indemnifies parties from liabilities associated with any release of materials generated from the oil or gas operations beyond the levels accepted for industrial use. This indemnification only includes liabilities associated with past and future environmental releases associated with oil and gas operations but not for liability for contamination that is unrelated to those activities.

(1) Reporting Entity and Summary of Significant Accounting Policies

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principals Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Authority are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-wide Financial Statements. The Authority has presented its General Fund, as its major fund, in this statement to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Authority are interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

The Authority reports the following major governmental fund:

General Fund – is a government's only operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund when necessary.

C. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in Authority net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

In order to maximize investment return, the Authority has contracted with the City of Long Beach Treasurer's Office to act as its fiscal agent. The Authority's cash is held in financial institution bank accounts.

3. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets is land of the Authority. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Authority's capitalization threshold is met.

4. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2007, consisted of the following:

Deposits held with the City of Long Beach Pooled Investment Fund	$	34,342
Total cash and cash equivalents	$	34,342

Authorized Deposits and Investments

The Authority is authorized to deposit its cash funds with the City of Long Beach Treasurer's Office Pooled Investment Fund.

Cash with City of Long Beach Pooled Investment Fund

The City of Long Beach's Pooled Investment Fund (Pool) is a pooled investment fund program administered by the City of Long Beach Treasurer's Office, while final investment approval is made by a general investment committee. Investments in the Pool are highly liquid as deposits and withdrawals can be made at anytime without penalty.

The City of Long Beach's bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the City of Long Beach's Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the City of Long Beach's Financial Management Department, 333 West Ocean Blvd., Long Beach, CA 90802.

(3) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2006	Additions	Deletions	Balance 2007
Land	$ 11,000,000	-	-	11,000,000
Total capital assets, net	$ 11,000,000			11,000,000

In 2006, an $11,000,000 parcel of land was contributed to the Authority to manage as part of its operations.

(4) Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased various commercial insurance policies to manage the potential liabilities that may occur from the previously named sources.

(5) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2007, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 45

In September 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this Authority until the fiscal year ended September 30, 2010. This statement is not expected to have a significant impact on the presentation of the Authority's financial statements in future years.

Governmental Accounting Standards Board Statement No. 48

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings. This statement also includes disclosure requirements for future revenues that are pledged or sold. This statement is not effective for this Authority until the fiscal year ended September 30, 2008. This statement is not expected to have a significant impact on the presentation of the Authority's financial statements.

Governmental Accounting Standards Board Statement No. 49

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. This statement is not effective for this Authority until the fiscal year ended September 30, 2009. This statement is not expected to have a significant impact on the presentation of the Authority's financial statements.

(5) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 50

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27.* This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25 and 27, to conform with requirements of GASB Statements No. 43 and 45. This statement is not effective for this Authority until the fiscal year ended September 30, 2010. This statement is not expected to have a significant impact on the presentation of the Authority's financial statements.

Governmental Accounting Standards Board Statement No. 51

In September 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this Authority until the fiscal year ended September 30, 2010. This statement is not expected to have a significant impact on the presentation of the Authority's financial statements.

(6) Contingencies

Litigation

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties. After consultation with legal counsel, the Authority believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(7) Governance

Governing Board

Gary DeLong, City of Long Beach, Chair

Larry McKenney, Rivers and Mountains Conservancy, Vice Chair

Sam Schuchat, State Coastal Conservancy

John Larsen, City of Seal Beach

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Required Supplementary Information

Los Cerritos Wetlands Authority
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2007

		Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Expenditures/Expenses:						
Authority operations:						
Services and supplies	$	31,173	-	31,173	13,518	17,655
Total expenditures/expenses		31,173	-	31,173	13,518	17,655
Program revenues:						
Contributions		5,000	-	5,000	-	(5,000)
Operating grants		6,229	-	6,229	-	(6,229)
Total program revenues		11,229	-	11,229	-	(11,229)
General revenues:						
Rental income		19,944	-	19,944	25,000	5,056
Interest earnings		-	-	-	-	-
Other		-	-	-	-	-
Total general revenues		19,944	-	19,944	25,000	5,056
Total revenues		31,173	-	31,173	25,000	(6,173)
Excess(Deficiency) of revenues over(under) expenditures		-	-	-	11,482	11,482
Fund balance – beginning of year		19,860		19,860	19,860	
Fund balance – end of year	$	19,860		19,860	31,342	

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The Authority presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget. No Board-approved supplemental appropriations were made. The budgeted revenue amounts represent the adopted budget as originally provided.

Report on Internal Controls and Compliance

Charles Z. Fedak & Company
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An Accountancy Corporation

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Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Los Cerritos Wetlands Authority
Long Beach, California

We have audited the basic financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

February 6, 2008
Cypress, California

Charles Z. Fedak & Company, CPA's
An Accountancy Corporation

KPMG

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Financial Statements

September 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Table of Contents

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of Long Beach Airport Enterprise Fund (the Airport) as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Airport as of September 30, 2006 were audited by other auditors whose report, dated April 2, 2007, expressed an unqualified opinion on those statements.

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 Airport'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 opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the City of Long Beach Airport Enterprise Fund as of September 30, 2007, and the changes in its financial position and its cash flows 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 May 30, 2008, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 management's discussion and analysis on pages 3 through 10 are not a required part of the financial statements but are 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information on page 31 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

May 30, 2008

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Management's Discussion and Analysis

September 30, 2007 and 2006

As management of the City of Long Beach Airport Enterprise Fund (the Airport), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2007 and 2006.

Background

The 1,175 acre Long Beach Airport is operated by the City of Long Beach as an enterprise fund of the City of Long Beach, California (the City), responsible for self-sufficiency through user fees, lease property-related income, and grants. As such, the Airport Enterprise Fund pays the City for all general purpose fund services it receives, such as police, fire, and other general services.

The Airport has a very broad base of users, including general aviation (private/corporate/business), scheduled airline and commuter service, air cargo, charter, and manufacturing-related operations. The Airport, in operation since 1923, is among the busiest general aviation airports in the world, with over 370,000 general aviation operations in 2007. The Airport's four airlines accommodated just fewer than 3 million annual passengers, the percentage of passenger activities by Airline includes 79% JetBlue Airways, 10% Alaska Airlines, 7% US Airways, and 4% SkywestDelta Airlines, and the cargo carriers delivered over 51,000 tons of air cargo. Aircraft manufacturing, including assembly of the Boeing C-17, and a completion center for Gulfstream Aerospace, account for over 6,000 of the jobs at the Airport.

In addition to the air transportation and economic output facets of the Airport, one of its primary guiding principles is neighborhood compatibility. Along with other "Green Airport" initiatives, Long Beach Airport has a Noise Compatibility Ordinance that is recognized as one of the most comprehensive and protective of the environment of any commercial service airport in the United States. As such, noise impact areas within the community, as defined by State and Federal guidelines/regulations, are among the smallest in the region, and will be brought into conformance within the next several years by the Airport's Land Use Compatibility Program, currently under development.

Overview of the Financial Statements

The Airport's financial statements include the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. These statements are supported by the notes to the financial statements. This overview and analysis are intended to serve as an introduction to the Airport's financial statements.

Condensed Financial Position Information

The statements of net assets present information concerning the Airport's assets, liabilities, and net assets. The difference between assets and liabilities is net assets. Increases or decreases in net assets may indicate improvement or deterioration of the Airport's financial condition.

The following condensed financial information provides an overview of the Airport's financial position as of September 30 of 2007, 2006, and 2005.

Condensed Summary of Net Assets

		September 30	
	2007	2006	2005
Assets:			
Capital assets, net	$ 102,341,301	85,294,438	79,844,947
Other assets	26,585,825	23,701,989	17,639,475
Total assets	128,927,126	108,996,427	97,484,422
Liabilities:			
Noncurrent liabilities, net	14,448,758	15,262,750	12,176,488
Other liabilities	7,401,842	2,792,656	2,947,679
Total liabilities	21,850,600	18,055,406	15,124,167
Net assets:			
Invested in capital assets, net of related debt	93,160,877	75,481,426	70,445,632
Restricted	4,757,825	5,322,296	2,366,281
Unrestricted	9,157,824	10,137,299	9,548,342
Total net assets	$ 107,076,526	90,941,021	82,360,255

Analysis Fiscal Year 2007

The assets of the Airport exceeded its liabilities at the close of the 2007 fiscal year by $107,076,526 (net assets). Total net assets increased by 18% or $16,135,505 compared to fiscal year 2006. This change is a combination of $609,645 from operating loss, $4,471,458 from net nonoperating revenues of which $3,968,261 is from passenger facilities charges, $323,959 from interest income net of expenses related to financing activities and $179,238 from other income, $12,013,424 from Federal Aviation Administration capital grants, and $260,268 capital grants from other sources.

The Airport's investment in capital assets (land, buildings and infrastructures, furniture and fixtures, machinery and equipment, and construction in progress) less any related debt is $93,160,877 or 87% of the aggregate net assets. Investment in capital assets increased by 23% or $17.7 million compared to fiscal year 2006. Of this, $17 million is primarily attributable to the increase in capital assets resulting from the ongoing rehabilitation projects, on taxiways L and C, the islands between taxiway C and the ramp, and other airport terminal development and modification projects. Debt related to these construction projects has also increased in the same proportion because of the increase in the volume and dollar value of construction contracts. Capital assets facilitate tenant and airline operations and the Airport does not intend to liquidate such capital assets to fund ongoing operations.

The Airport holds $4,757,825 of net assets subject to external restrictions, a decrease of $564,471 when compared to last year. This decrease consists of $485,971 in funds needed for construction of capital assets, fulfillment of contractual obligations, matching requirements of federally funded projects, and $78,500 restricted for repayment of long-term debt. Such net assets represent 4% of the Airport's total net assets. They are presented in the statement of net assets as restricted net assets.

At the end of the current fiscal year, the Airport reported unrestricted net assets of $9,157,824, a decrease of $979,475 from last year. This reduction is a combination of $16,135,505 from current year net income, less approximately $17,100,000 to fund various capital improvement projects and regular operations. Unrestricted net assets represent 9% of the Airport's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Airport's continuing obligations.

Analysis Fiscal Year 2006

The assets of the Airport exceeded its liabilities at the close of the 2006 fiscal year by $90,941,021 (net assets). Total net assets increased by $8,580,766 compared to fiscal year 2005. This change consists of $325,853 from operating income, $4,239,875 from net nonoperating revenues of which $3,851,952 is from passenger facility charges, $330,294 from other nonoperating income net of expenses related to financing activities and $57,629 from operating grants, and $4,015,038 from Federal Aviation Administration capital grants.

The Airport's investment in capital assets (land, buildings and infrastructures, furniture and fixtures, machinery and equipment, and construction in progress) less any related debt is $75,481,426 or 83% of the aggregate net assets. Investment in capital assets increased by 7% or $5M compared to fiscal year 2005. The increment is due to the $5.4 million increase in capital assets from various rehabilitation, development, and modification projects. Capital assets facilitate tenant and airline operations and the Airport does not intend to liquidate such capital assets to fund ongoing operations.

The Airport holds $5,322,296 of net assets subject to external restrictions such as the construction of capital assets, fulfillment of contractual obligations, matching requirements of federally funded projects, and for repayment of long-term debt. In fiscal year 2006, the Airport implemented Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34* (GASB No. 46). Due to this implementation, it was determined that the Passenger Facility Charges is more appropriately classified as restricted net assets. Such net assets represent 6% of the Airport's net assets. They are presented in the statement of net assets as restricted net assets.

At the end of fiscal year 2006, the Airport reported unrestricted net assets of $10,137,299, an increase of $588,957 from the prior fiscal year. The increase is a combination of $8,580,766 from net income reduced by approximately $8,000,000 to fund various capital improvement projects and regular operations. Unrestricted net assets represent 11% of the Airport's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are wholly available to fund the Airport's continuing obligations.

(Continued)

Summary of Operations and Changes in Net Assets

The statements of revenues, expenses, and changes in net assets show how the Airport's net assets changed from prior to current fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The table below summarizes the operations for the fiscal years 2007, 2006, and 2005.

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

	September 30		
	2007	**2006**	**2005**
Operating revenues:			
Land and building rentals	$ 7,213,688	6,793,338	6,393,811
Parking fees	8,030,908	7,512,483	8,193,835
Airport concessions	5,372,472	4,938,651	4,695,477
Landing, gate, and ramp fees	4,384,046	3,762,531	3,741,376
Other fees and charges	1,836,565	1,789,130	1,785,176
Total operating revenues	26,837,679	24,796,133	24,809,675
Operating expenses:			
Personnel services	7,654,126	6,915,332	5,863,713
Operations and maintenance	8,362,247	7,809,155	7,319,655
City services	6,324,244	5,413,365	4,380,406
General and administrative	856,631	595,317	1,640,274
Depreciation	4,250,076	3,737,111	2,046,350
Total operating expenses	27,447,324	24,470,280	21,250,398
Operating income (loss)	(609,645)	325,853	3,559,277
Nonoperating revenues (expenses):			
Interest income (expense), net	323,959	(107,183)	(380,411)
Passenger facility charges	3,968,261	3,851,952	4,249,785
Operating grants	—	57,629	1,282,778
Other income, net	179,238	437,477	61,770
Net nonoperating revenues	4,471,458	4,239,875	5,213,922
Income before capital grants	3,861,813	4,565,728	8,773,199
Federal Aviation Administration capital grants	12,013,424	4,015,038	16,704,974
Capital grants – other sources	260,268	—	—
Change in net assets	16,135,505	8,580,766	25,478,173
Total net assets – beginning	90,941,021	82,360,255	56,882,082
Total net assets – ending	$ 107,076,526	90,941,021	82,360,255

Analysis Fiscal Year 2007

Total operating revenues were $26,837,679 for fiscal year 2007, an increase of $2,041,546 over fiscal year 2006. Land and building rentals increased 6%, parking fees increased 7%, airport concessions increased 9%, and landing, gate, and ramp fees increased 17%. The increase in revenue is primarily attributable to the increase in the number of commercial and commuter flights.

Total operating expenses were $27,447,324 for fiscal year 2007, an increase of $2,977,044 over fiscal year 2006. Personnel services increased 11% due to additional personnel and salary increases of 2% effective 01/01/07 and 3% effective 07/01/07. City services increased 17% due to the salary increases for fiscal year 2007, an additional Sergeant from the Police Department servicing the Airport, and the transfer of the training costs for Fire personnel to comply with the FAA requirement Part 139. Depreciation expense increased 14% due to the increase in additional depreciable assets of about $2.6 million during the fiscal year.

Interest expense decreased due to reduction in principal balances as a result of payment. Interest income, on the other hand, increased due to higher interest rates prevailing during the year.

The Federal Aviation Administration capital grants were $12,013,424 for fiscal year 2007, an increase of $7,998,386 over fiscal year 2006. The increase is due to the completion of more Capital Improvement Program projects, which allowed for more reimbursements.

The airport received $260,268 from South Coast Air Quality Management District (SCAQMD) that was used to purchase five electric ground service equipment (GSE) chargers. Converting diesel and gasoline powered GSE currently used by airlines to electric power would significantly reduce ramp emissions, proactively addressing both current and forthcoming SCAQMD emissions regulations.

Analysis for Fiscal Year 2006

Total operating revenues were $24,796,133 for fiscal year 2006, a decrease of $13,542 over fiscal year 2005. Land and building rentals increased 6%, parking fees decreased 8%, airport concessions increased 5%, and landing, gate, and ramp fees increased 1%. Parking fees decreased due to the reduction of commercial flights when American Airlines pulled out of the Airport early April 2006 resulting in a 7% decrease in total enplanements and deplanements.

Total operating expenses were $24,470,280 for fiscal year 2006, an increase of $3,219,882 over fiscal year 2005. Personnel services increased 18% due to hiring to fill several vacant positions, upgrades in salary ranges and a salary increase of 3% effective 03/04/06. City services increased 24% due to the increase in Fire Department and Police Department charges. Depreciation expense increased 83% due to the increase in additional depreciable assets of about $12.4 million during the fiscal year. Interest income increased due to the build up of cash earmarked for capital projects in view of the delay in the runway and taxiway rehabilitation projects.

Notes to Financial Statements

The notes to the Airport's financial statements can be found on pages 14 – 30 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

(Continued)

Capital Assets and Debt Administration

Capital Assets

The Airport's investment in capital assets, net of accumulated depreciation as of September 30, 2007, 2006, and 2005 is as follows:

Summary of Capital Assets, Net

	September 30		
	2007	2006	2005
Land	$ 6,419,114	6,345,772	4,497,641
Building and Infrastructure	9,559,602	9,465,187	7,026,172
Runways and improvements	59,636,205	61,792,257	56,779,572
Machinery and equipment	3,004,011	2,560,142	1,058,450
Construction in progress	23,722,369	5,131,080	10,483,112
Total capital assets, net	$ 102,341,301	85,294,438	79,844,947

Analysis Fiscal Year 2007

The Airport's investment in capital assets includes land, building and infrastructures, furniture and fixtures, machinery and equipment, and construction in progress. Capital assets increased 20% when compared to previous year. The increase is due to major construction projects that are still going on. These projects include the rehabilitation of Taxiways L & C, the Islands between Taxiway C and the Ramp project, the Airport Terminal Development project, the TSA Baggage Handling Modifications project, and the Airport Layout Plan. Additional information regarding the Airport's capital assets can be found in note 3 to the financial statements.

Analysis Fiscal Year 2006

The Airport's investment in capital assets includes land, building and infrastructures, furniture and fixtures, machinery and equipment, and construction in progress. The total increase in the Airport's investment in capital assets for fiscal year 2006 was 7%. The increase in land is the result of the purchased right of way. The increment in building and infrastructure and runways and improvements was from construction projects started in prior years but completed and capitalized in fiscal year 2006. These increases in depreciable assets can account also for the increment in depreciation expense.

Debt Administration

The following table summarizes the Airport's long-term debt (net of current portion) as of September 30, 2007, 2006, and 2005:

Long-Term Debt

	September 30		
	2007	**2006**	**2005**
1993 Refunding COP	$ 9,175,000	9,960,000	10,710,000
Commercial paper	1,020,000	1,020,000	1,020,000
Unamortized discount – COP	(152,840)	(178,976)	(206,044)
Unamortized deferred loss – COP	(483,636)	(566,340)	(651,993)
Unamortized issuance costs – COP	(153,993)	(180,326)	(207,598)
Unamortized issuance costs – CP	(224,107)	(241,346)	(258,585)
Total long-term debt	9,180,424	9,813,012	10,405,780
Less current portion	(825,000)	(785,000)	(750,000)
Total long-term debt, net of current portion	$ 8,355,424	9,028,012	9,655,780

The City of Long Beach bonds have a Moody's, S&P, and Fitch Aaa-AAA, prime, maximum Safety rating.

Analysis Fiscal Year 2007

The Airport's total long-term debt decreased $632,588 or approximately 6% compared to fiscal year 2006. The decrease was primarily the result of the regular debt service payments offset by annual adjustments to the unamortized discount, deferred loss, and issuance costs.

Additional information of the Airport's long-term debt can be found in note 4 on pages 24 – 27 of this report.

Analysis Fiscal Year 2006

The long-term debt of the Airport decreased $592,768 or approximately 6% compared to fiscal year 2005. The net decrease was primarily attributable to the regular debt service payments offset by annual adjustments to the unamortized discount, deferred loss, and issuance costs.

Economic Factors/Outlook

The Airport has seen both reasonable stability and growth over the past several years. General aviation has continued to grow on a year-over-year basis, which contributes to the value of leasehold properties of the Airport. The large amount of leasehold property, which generates Enterprise Fund rental income, provides a diversified revenue portfolio, so that user fees represent a smaller proportion of total income than is the case for many commercial service airports. This diversity of income has allowed management to maintain user fees – including airline fees – to a level at or below the average for similar category airports even with the 25% increase in airline fees effective fiscal year 2008.

Long Beach Airport is unique, in that its Noise Compatibility Ordinance does put a cap on airline activity, as determined by the airlines' generation of aircraft noise at various monitoring stations. Even with the limitations, however, it is expected that airline (including commuter) activity will grow from its current 3 million annual passengers to slightly over 4 million annual passengers, over the next few years.

Long Beach Airport's airline customer base/traffic is all origin/destination, thereby not being exposed to the dynamics of hub/spoke operations. In addition, the Airport currently has 14 destinations provided by its 6 airlines, which show strong diversity for a small hub category airport. JetBlue Airways, which operates 28 of the Airport's 41 commercial flight slots, maintains its west coast base in Long Beach, along with approximately 500 crewmembers. Airline load factors for fiscal year 2007 averaged 77%, and the average flight stage length averaged over 1,000 miles.

Long Beach Airport's primary market service area contains over 6 million people, and is in the center of the largest Los Angeles region air travel demand area. Additionally, freeway/ground access makes Long Beach very convenient for its marketplace. The other two primary airports within Long Beach Airport's demand-generation area are LAX and John Wayne Airport. Historically, Long Beach Airport has attracted slightly over a 20% market share when a reasonable frequency of airline service is offered to a specific destination.

Because Long Beach Airport's airlines in general, and JetBlue specifically, have proven the market over the past several years, and because the regional forecasts show that the demand to fly into and out of the region will exceed existing airport capacity in the future, airline operations and related passenger demand should remain stable and strong at Long Beach Airport.

In this regard, the Airport Advisory Commission is working closely with the community, aviation groups, businesses, pilot groups, and airport staff in order that they may effectively advise the Mayor and City Council on policy matters regarding the Long Beach Airport development.

Requests for Information

This financial report is designed to provide a general overview of the Airport's finances for people or entities interested in this area. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Administrative Officer, Long Beach Airport, 4100 Donald Douglas Drive, Long Beach, California 90808.

FINANCIAL STATEMENTS

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Net Assets

September 30, 2007 and 2006

Assets		**2007**	**2006**
Current assets:			
Pooled cash and cash equivalents (note 2)	$	15,550,842	13,622,013
Accounts receivable, net of allowance for doubtful accounts of $24,529 and $33,480 in 2007 and 2006, respectively		1,851,734	1,502,189
Note receivable		65,761	63,608
Due from other governments		2,444,085	2,640,187
Restricted current assets:			
Cash with fiscal agents – commercial paper (notes 2 and 4)		308,043	1,042,835
Pooled cash and cash equivalents (notes 2 and 4)		5,333,290	4,053,287
Passenger facility charges receivable		605,054	291,332
Total current assets		26,158,809	23,215,451
Noncurrent assets:			
Note receivable		427,016	486,538
Capital assets, net (note 3)		102,341,301	85,294,438
Total noncurrent assets		102,768,317	85,780,976
Total assets	$	128,927,126	108,996,427
Liabilities and Net Assets			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	$	4,023,492	962,292
Accrued wages and compensated absences		191,263	184,054
Accrued interest payable		154,757	168,494
Current portion of long-term debt payable (note 4)		825,000	785,000
Due to City of Long Beach (note 5)		124,303	161,430
Deferred revenue – current portion		348,240	307,751
Vendor deposits held in trust		246,226	158,476
Current liabilities – payable from restricted assets:			
Accounts payable – passenger facility and commercial paper		1,488,561	65,159
Total current liabilities		7,401,842	2,792,656
Noncurrent liabilities:			
Long-term debt, net of current portion (note 4)		8,355,424	9,028,012
Deferred revenue long-term portion		6,093,334	6,234,738
Total noncurrent liabilities		14,448,758	15,262,750
Total liabilities		21,850,600	18,055,406
Net assets:			
Invested in capital assets, net of related debt		93,160,877	75,481,426
Restricted for debt service		1,019,500	1,098,000
Restricted for capital projects		3,738,325	4,224,296
Unrestricted		9,157,824	10,137,299
Total liabilities and net assets	$	128,927,126	108,996,427

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2007 and 2006

		2007	2006
Operating revenues (note 9):			
Land and building rentals	$	7,213,688	6,793,338
Parking fees		8,030,908	7,512,483
Airport concessions		5,372,472	4,938,651
Landing, gate, and ramp fees		4,384,046	3,762,531
Other fees and charges		1,836,565	1,789,130
Total operating revenues		26,837,679	24,796,133
Operating expenses (notes 7 and 10):			
Personnel services		7,654,126	6,915,332
Operations and maintenance		8,362,247	7,809,155
City services		6,324,244	5,413,365
General and administrative		856,631	595,317
Total operating expenses before depreciation		23,197,248	20,733,169
Operating income before depreciation		3,640,431	4,062,964
Depreciation (note 3)		4,250,076	3,737,111
Operating income (loss)		(609,645)	325,853
Nonoperating revenues (expenses):			
Interest income (note 6)		1,005,259	616,877
Passenger facility charges (note 6)		3,968,261	3,851,952
Interest expense		(681,300)	(724,060)
Operating grants		—	57,629
Other income, net		179,238	437,477
Total nonoperating revenues, net		4,471,458	4,239,875
Changes in net assets before capital contributions		3,861,813	4,565,728
Capital contributions – Federal Aviation Administration capital grants		12,013,424	4,015,038
Capital contributions – other sources		260,268	—
Changes in net assets		16,135,505	8,580,766
Net assets, beginning of year		90,941,021	82,360,255
Net assets, end of year	$	107,076,526	90,941,021

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash receipts from customers	$ 26,474,969	28,451,424
Payments for employee salaries and benefits	(7,646,917)	(6,882,575)
Payments for goods and services	(4,771,405)	(8,769,442)
Payments for City services	(6,324,244)	(5,413,365)
Net cash provided by operating activities	7,732,403	7,386,042
Cash flows from noncapital financing activities:		
Security grants received from the Federal Aviation Administration	—	57,629
Receipts from other nonoperating activities	179,238	437,477
Net cash provided by noncapital financing activities	179,238	495,106
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(21,296,938)	(9,186,602)
Payments received from the note receivable	57,368	54,770
Receipts from passenger facility charges	3,654,540	3,901,472
Capital grants received from the Federal Aviation Administration	12,209,527	2,739,249
Capital grants from other sources	260,268	—
Principal payment on debt due to Long Beach Capital Imp. Corp.	(785,000)	(750,000)
Interest paid	(542,626)	(579,641)
Net cash used in capital and related financing activities	(6,442,861)	(3,820,752)
Cash flows from investing activities – interest earned	1,005,259	616,877
Net increase in cash and cash equivalents	2,474,039	4,677,273
Cash and cash equivalents, beginning of year	18,718,136	14,040,862
Cash and cash equivalents, end of year	$ 21,192,175	18,718,135
Reconciliation of cash and cash equivalents to statement of financial position:		
Pooled cash and cash equivalents	$ 15,550,842	13,622,013
Restricted assets:		
Cash with fiscal agent	308,043	1,042,835
Pooled cash and cash equivalents	5,333,290	4,053,287
Total cash and cash equivalents	$ 21,192,175	18,718,135
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (609,645)	325,853
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	4,250,076	3,737,111
Changes in assets and liabilities:		
Increase in assets:		
Accounts receivable	(349,545)	(213,742)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	4,484,600	(442,595)
Accrued wages and compensated absences	7,209	32,757
Due to the City of Long Beach	(37,127)	77,625
Deferred revenues	(100,915)	3,829,083
Vendor deposits held in trust	87,750	39,950
Total adjustments	8,342,048	7,060,189
Net cash provided by operating activities	$ 7,732,403	7,386,042

See accompanying notes to financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) *Organization and Operations of the Reporting Entity*

The City of Long Beach (the City) is a municipal corporation organized and existing under its Charter and the Constitution and the laws of the State of California. The Long Beach Airport Enterprise Fund (the Airport), a bureau within the Public Works Department, is operated by the City and is under the direction of the City Manager.

The Airport originated in 1923 when the City Council set aside 150 acres of property to provide for the general and commercial aviation needs of the City. During the late 1940s and 1950s, major land acquisitions enabled the Airport to grow to its present 1,175 acres.

The Airport is strategically located between the major business and tourism areas of both Orange and Los Angeles Counties. There are currently approximately 200 businesses located on Airport property.

The Airport constitutes part of the overall financial reporting entity of the City; accordingly, the Airport's financial statements are included as an enterprise fund in the City's Comprehensive Annual Financial Report (CAFR). The control and management of the Airport is vested in the City Council who is advised by a Council–approved nine-member Airport Advisory Commission. 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.

(b) *Basis of Accounting and Measurement Focus*

The Airport reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Airport is that the costs of providing services to its citizens on a continuing basis be financed or recovered primarily through fees charged in providing Airport services, capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues result from exchange transactions associated with the principal activity of the Airport. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grant funding and investment income, result from nonexchange transactions, in which the Airport gives (receives) value without directly receiving (giving) value in exchange.

(c) *Financial Reporting*

The Airport's financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – for State and Local Governments* (GASB No. 34).

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure of the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses, and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the Airport, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Airport has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

(d) *Assets, Liabilities, and Net Assets*

1. **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the Airport's net assets during the reporting period. Actual results could differ from those estimates.

2. **Pooled Cash and Cash Equivalents**

In order to maximize investment return, the Airport pools its available general cash with that of the City. The cash management pool is used essentially as a demand deposit account by the participating units; therefore, the Airport has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments. Investment decisions are made by the City Treasurer and approved by a general investment committee.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of an individual unit's respective daily cash balances to aggregate pooled cash and investments. The Airport's share of pooled cash and investments at September 30, 2007 and 2006 was based on quoted market prices.

3. **Accounts Receivable and Allowance for Uncollectible Accounts**

The Airport extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Airport uses the allowance method for the reservation and write-off of those accounts.

4. **Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. The Airport's policy has set the capitalization threshold for reporting capital assets at $5,000. Amortization/depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	50 years
Structures and facilities	10 to 35 years
Runways and improvements	20 years
Automobiles	2 to 6 years
Automotive equipments	10 to 20 years
Machinery and equipment	5 to 20 years
Office, furniture, and fixtures	3 to 20 years

5. **Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Investment in Capital Assets, Net of Related Debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** – This component of net assets consist of a reserve fund, equal to the lesser of 10% of the outstanding principal of the 1993 obligation, the maximum annual debt service on the 1993 Obligation, or 125% of the average outstanding debt service on the 1993 Obligation.
- **Restricted for Capital Projects** – This component of net assets consists of restrictions placed on cash and cash equivalents for use of future Airport related capital projects.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of restricted assets listed above.

6. **Budgetary Policies**

The Airport adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is used to account for commitments related to unperformed contracts for construction projects and purchases of goods and services.

(e) ***Reclassifications***

Certain amounts reported in the prior year's financial statements have been reclassified in order to be consistent with the current year's presentation. Such reclassifications had no effect on previously reported changes in net assets.

(2) Pooled Cash, Cash Equivalents, and Investments

The Airport's cash and cash equivalents and investments as of September 30, 2007 and 2006 are classified in the accompanying statement of net assets as follows:

		2007	2006
Pooled cash and cash equivalents	$	15,550,842	13,622,013
Pooled cash and cash equivalents, restricted		5,333,290	4,053,287
Total pooled cash and cash equivalents		20,884,132	17,675,300
Restricted cash with fiscal agents – commercial paper		308,043	1,042,835
Total pooled cash and cash equivalents and cash with fiscal agents	$	21,192,175	18,718,135

The majority of the Airport's cash and cash equivalents, including restricted cash and investments, are pooled with the other City's funds and maintained by the City Treasurer. The City requires the Airport to participate in the City Treasurer's pool. As of September 30, 2007 and 2006, the Airports's pooled cash and investments amounted to $20,884,132 or 1.24% and $17,675,300 or 1.23% of the City's pooled cash and investments, respectively. The City's pooled cash and investments as of September 30, 2007 and 2006 totaled $1,686,441,000 and $1,438,524,000, respectively.

(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.

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 note, 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 Agreement***

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 investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing 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 investment as of September 30, 2007 and 2006 (in thousands):

Investment type	Balance at September 30, 2007	Weighted average maturity in years	Balance at September 30, 2006	Weighted average maturity in years
Inter-Department Loan (Health Savrs)	$ 3,098	11.6000	$ 3,297	12.6000
U.S. Treasury notes	145,149	0.9000	214,467	1.5420
Federal agency securities	1,190,784	2.2800	1,042,876	1.5720
Medium-term notes	49,881	1.8300	33,464	1.6090
Short-term commercial paper	135,874	0.0200	132,731	0.0130
Local Agency Investment Fund (LAIF)	139,156	0.0100	2,921	0.0030
Subtotal City pool	1,663,942		1,429,756	
Cash on hand	32,878		26,811	
Outstanding checks	(10,379)		(18,043)	
Total City pool	$ 1,686,441		$ 1,438,524	

(d) ***Investments with Fair Values Highly Sensitive to Interest Rate Risk***

The City had no investments with values that were highly sensitive to market interest rate changes 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.

(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 as of September 30, 2007 and 2006 (in thousands):

Investment type	Balance at September 30, 2007	Minimum legal rating	Not required to be rated	AAA	A-1+ A-1 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	—	—	135,874	—
Local Agency Investment Fund (LAIF)	139,156	N/A	139,156	—	—	—
Subtotal City pool	1,663,942		287,403	1,235,645	140,894	—
Cash on hand	32,878		—	—	—	32,878
Outstanding checks	(10,379)		—	—	—	(10,379)
Total City pool	$ 1,686,441		$ 287,403	1,235,645	140,894	22,499

Investment type	Balance at September 30, 2006	Minimum legal rating	Not required to be rated	AAA	A-1+ A-1 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	—	—	132,731	—
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	—	—	—
Subtotal City pool	1,429,756		220,685	1,071,321	137,750	—
Cash on hand	26,811		—	—	—	26,811
Outstanding checks	(18,043)		—	—	—	(18,043)
Total City pool	$ 1,438,524		$ 220,685	1,071,321	137,750	8,768

(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 of the City's total pooled investments as of September 30, 2007 and 2006 are as follows (in thousands):

Issuer	Investment type		Reported amount September 30, 2007	Reported amount September 30, 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	2,144,567
Commercial paper	Unsecured corporate debt		135,874	132,731
Local Agency Investment Fund	Local Agency Investment Fund		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's 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 Agency 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, the City reported deposits of $26,811,000 less $18,043,000 for checks outstanding.

(h) ***Investment in State Investment Pool***

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by 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 City's 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) ***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) ***Reverse Repurchase Agreements***

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2007 and 2006.

(k) ***Securities Lending***

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2007 and 2006. Thus, in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, no assets or liabilities have been recorded in the accompanying financial statements. 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.

(3) Capital Assets

Changes in capital assets for 2007 were as follows:

	2007				
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	Ending balance, September 30
Nondepreciable assets:					
Land	$ 6,345,772	73,342	—	—	6,419,114
Construction in progress	5,131,080	20,888,362	(309,340)	(1,987,733)	23,722,369
Total nondepreciable assets	11,476,852	20,961,704	(309,340)	(1,987,733)	30,141,483
Depreciable assets:					
Building	14,332,929	16,238	—	516,805	14,865,972
Runways and improvements	104,153,841	—	(73,843)	1,305,376	105,385,374
Automotive equipment	2,272,100	326,971	—	—	2,599,071
Infrastructure	6,462	22,407	—	99,280	128,149
Machinery and equipment	1,853,248	352,802	—	66,272	2,272,322
Furniture and fixtures	48,020	—	—	—	48,020
Total depreciable assets	122,666,600	718,418	(73,843)	1,987,733	125,298,908
Total capital assets	134,143,452	21,680,122	(383,183)	—	155,440,391
Less accumulated depreciation	(48,849,014)	(4,250,076)	—	—	(53,099,090)
Capital assets, net	$ 85,294,438	17,430,046	(383,183)	—	102,341,301

Changes in capital assets for 2006 were as follows:

	2006				
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	Ending balance, September 30
Nondepreciable assets:					
Land	$ 4,497,641	—	—	1,848,131	6,345,772
Construction in progress	10,483,112	9,869,329	(10,363,617)	(4,857,744)	5,131,080
Total nondepreciable assets	14,980,753	9,869,329	(10,363,617)	(3,009,613)	11,476,852
Depreciable assets:					
Building	11,502,099	2,406,612	—	424,218	14,332,929
Runways and improvements	96,056,930	7,344,789	—	752,122	104,153,841
Automotive equipment	797,990	—	(359,163)	1,833,273	2,272,100
Infrastructure	6,462	—	—	—	6,462
Machinery and equipment	1,853,248	—	—	—	1,853,248
Furniture and fixtures	48,020	—	—	—	48,020
Total depreciable assets	110,264,749	9,751,401	(359,163)	3,009,613	122,666,600
Total capital assets	125,245,502	19,620,730	(10,722,780)	—	134,143,452
Less accumulated depreciation	(45,400,555)	(3,737,111)	288,652	—	(48,849,014)
Capital assets, net	$ 79,844,947	15,883,619	(10,434,128)	—	85,294,438

(4) Long-Term Debt

(a) 1993 Refunding Certificate of Participation

The City entered into an installment purchase obligation (1993 Obligation) with the Long Beach Capital Improvement Corporation (LBCIC), a specialized financing authority of the City, in the amount of $16,815,000 effective June 1, 1993, for the purpose of refinancing the acquisition, construction, and installation of various improvements to certain facilities of the Airport.

In July 1993, the proceeds of the 1993 Obligation were used to advance refund a prior obligation with the LBCIC dated June 1, 1991 (1991 Obligation). As a result of the advance refunding, the 1991 Bonds were subsequently called in June 1999, and the liability for this obligation was removed from the Airport's books and records.

The 1993 Obligation matures in installments ranging from $170,000 to $1,230,000 from June 1, 1994 through June 1, 2016 and bears interest at rates from 2.70% to 5.35%, payable semiannually on June 1 and December 1 of each year. The principal maturing on June 1, 2016 is subject to mandatory annual prepayments ranging from $920,000 to $1,230,000 beginning June 1, 2010. The amounts maturing on June 1, 2016 are also subject to optional prepayment in whole or in part, on any date on or after June 1, 2003, at a prepayment price equal to the principal and accrued interest to the date of prepayment.

Amounts maturing June 1, 2004 through June 1, 2009 are subject to optional prepayment prior to their respective maturities in whole or in part, in inverse order of maturity, on any date on or after June 1, 2003. The amount of such optional prepayments is equal to the principal, accrued interest to the date of prepayment plus a prepayment premium, if applicable. The premium is computed on the principal prepaid at a rate of 2% during the year beginning June 1, 2003, and 1% for the year beginning June 1, 2004. There is no premium applicable to prepayments made on or after June 1, 2005.

The bond issuance costs are being amortized over the contractual maturity of the debt using a method approximating the straight-line method of amortization. For the years ended September 30, 2007 and 2006, the Airport amortized $26,333 and $27,272, respectively, of the bond issuance costs. This expense is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets. The Airport is also amortizing a loss on the 1993 Obligation refunding using a method approximating the straight-line method of amortization. Amortization of this loss amounted to $82,704 and $85,653 for the years ended September 30, 2007 and 2006, respectively. This expense is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets. Finally, the Airport is amortizing the original issue discount of the Obligation using a method approximating the straight-line method of amortization. Amortization of this discount amounted to $26,136 and $27,068 for the years ended September 30, 2007 and 2006, respectively. This expense is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets. The use of the straight-line method of amortization for the above issuance cost, discount, and loss on refunding does not result in a material difference compared to the weighted average method indicated in GAAP.

A Reserve Fund, equal to the lesser of (i) 10% of the outstanding principal of the 1993 Obligation, (ii) the maximum annual debt service on the 1993 Obligation, or (iii) 125% of the average outstanding debt service on the 1993 Obligation, is required. At September 30, 2007 and 2006, the balance in the Reserve Fund for the 1993 Obligation was $1,019,500 and $1,098,000, respectively, and is included in restricted cash and cash equivalents in the statements of net assets. Such Reserve Funds represent 10% of the outstanding principal of the 1993 Obligation at September 30, 2007 and 2006.

The 1993 Obligation is secured by the Airport's "Net Revenues," defined as the gross revenues during each fiscal year, net of certain capital contributions and grants, less the maintenance and operation costs during each fiscal year, net of depreciation and amortization. Additionally, the obligation of the Airport to pay the principal component of the 1993 Obligation and certain accrued interest is supported by a municipal bond guaranty insurance policy.

(b) *Airport Projects Commercial Paper Notes*

On October 19, 2004, the City Council authorized the City's Public Works Department, Airport Bureau, to issue, on an as-needed basis, up to $15,000,000 of variable-rate, Airport Projects Commercial Paper Notes for short-term financing of qualified Airport capital projects under a commercial paper program expiring on November 1, 2020. When issued, the net proceeds from the sale of the notes will be used to pay for projects that will be funded by Passenger Facility Charges (PFC) or Federal Aviation Administration (FAA) entitlement grants.

(Continued)

On May 26, 2005, notes in the amount of $1,020,000 were issued. The notes were issued in denominations of $100,000 and integral multiples of $1,000 in excess of $100,000 and mature not more than 270 days after date of issuance. Interest rates have ranged from 3.55% to 3.92%. Issuance costs related to the program were $275,824 and are being amortized over the life of the program. For the years ended September 30, 2007 and 2006, the Airport amortized $17,239 and $17,239, respectively. The Airport continues to extend the notes to periods greater than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

Changes in long-term debt amounts for 2007 were as follows:

	Balance 2006	Additions	Principal payments	Balance 2007	Due within one year
Long-term debt:					
1993 Refunding COP	$ 9,960,000	—	(785,000)	9,175,000	825,000
Commercial paper (CP)	1,020,000	—	—	1,020,000	—
Unamortized discount – COP	(178,976)	—	26,136	(152,840)	25,195
Unamortized deferred loss – COP	(566,340)	—	82,704	(483,636)	79,725
Unamortized issuance costs – COP	(180,326)	—	26,333	(153,993)	25,385
Unamortized issuance costs – CP	(241,346)	—	17,239	(224,107)	17,239
Total long-term debt	9,813,012	—	(632,588)	9,180,424	972,544
Less current portion	(785,000)			(825,000)	
Total long-term debt, net of current portion	$ 9,028,012			$ 8,355,424	

(Continued)

Changes in long-term debt amounts for 2006 were as follows:

	Balance 2005	Additions	Principal payments	Balance 2006	Due within one year
Long-term debt:					
1993 Refunding COP	$ 10,710,000	—	(750,000)	9,960,000	785,000
Commercial paper (CP)	1,020,000	—	—	1,020,000	—
Unamortized discount – COP	(206,044)	—	27,068	(178,976)	26,136
Unamortized deferred loss – COP	(651,993)	—	85,653	(566,340)	82,704
Unamortized issuance costs – COP	(207,598)	—	27,272	(180,326)	26,333
Unamortized issuance costs – CP	(258,585)	—	17,239	(241,346)	17,239
Total long-term debt	10,405,780	—	(592,768)	9,813,012	937,412
Less current portion	(750,000)			(785,000)	
Total long-term debt, net of current portion	$ 9,655,780			$ 9,028,012	

Debt service requirements to maturity for the 1993 Obligation at September 30, 2007 are summarized as follows:

	Principal	Interest	Total
Fiscal year:			
2008	$ 825,000	464,270	1,289,270
2009	870,000	420,545	1,290,545
2010	920,000	374,000	1,294,000
2011	965,000	328,000	1,293,000
2012	1,010,000	279,750	1,289,750
2013 – 2016	4,585,000	587,000	5,172,000
Total	$ 9,175,000	2,453,565	11,628,565

(5) Due to City of Long Beach

The City provides services to the Airport under a negotiated Memorandum of Understanding. At September 30, 2007 and 2006, the Airport's unpaid charges totaled $124,303 and $161,430 (for accrued wages and rent for parking lot "D"), respectively.

(6) Passenger Facility Charge (PFC)

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose PFCs on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security, or capacity of the national air transportation system;

(2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers. In April 2003, the FAA approved the Airport's application to collect PFCs for specifically approved airport improvement projects. The collection authority was for $30,306,984 for six years ending October 1, 2009. On July 7, 2006, the Airport was given approval for an additional collection authority of $32,037,919, which amended the total PFC amount collected to $62,344,903 ending May 1, 2017. Effective August 1, 2003, the Airport began collecting PFCs in the amount of $3 per enplaning passenger. On September 14, 2006, the Airport was given approval for a new application that granted collection authority of $7,148,186 with a charge effective date of May 1, 2017 and a charge expiration date of December 1, 2018.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used only on specifically approved projects. Due to their restricted use, PFCs are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to reimbursement. PFC revenue for 2007 and 2006 was $3,968,261 and $3,851,952, respectively. Interest earned on these funds for 2007 and 2006 amounted to $178,631 and $57,498, respectively.

(7) Defined Benefit Pension Plan

The Airport participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, multi-employer pension system that acts as a common investment and administrative agent for entities in California. The Airport is billed by the City for its share of pension costs at the rate established by CalPERS for the City's miscellaneous employees. For fiscal years 2007 and 2006, the Airport's contribution of 100% of their share in pension cost is $721,952 and $677,179, respectively. CalPERS does not calculate a separate pension obligation at the airport level; accordingly, no separate airport obligation can be presented herein.

As employees of the City, the Airport's full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple tier retirement plan with benefits varying by plan. Upon vesting, Airport's employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service for the first tier, and for the second tier effective in fiscal year 2004. The City created a third tier for nonsafety employees hired after October 1, 2006. Vested third tier nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service.

Further information regarding the City's participation in CalPERS may be found in the City's CAFR.

(8) Deferred Compensation Savings Plan

The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code, Section 457. The Plan permits employees to defer a portion of their salary until future years. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such trust accounts for the exclusive benefit of the City employee participants and their beneficiaries.

While the City has full power and authority to administer and to adopt rules and regulations for the Plan, all investment decisions under the Plan are the responsibility of the plan participants. The City has no liability for losses under the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. The accumulated assets of the Plan are not required to be reported in the accompanying financial statements.

If the Plan's participants retire or terminate service with the City, they may be eligible to receive payments under the Plan in accordance with provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the Plan by the participants, along with their allocated contributions.

(9) Leases, Rentals, and Revenue-Sharing Agreements

The Airport has entered into numerous operating leases as lessor for land and buildings, concessions, including restaurants and food counter, car rental counters and offices and other concession areas, airline counters, offices and other spaces, and other airport facilities. Terms of these leases vary according to the facility leased or services performed, and include fixed minimum payments, a combination of fixed minimum payments and percentages of gross revenues over a base, or percentage of gross revenues.

The minimum fixed portion of future rental income under noncancelable operating leases having an initial term in excess of one year is a follows:

	Amount
Year(s):	
2008	$ 6,488,749
2009	6,127,109
2010	5,914,810
2011	5,577,049
2012	4,936,087
2013 – 2017	19,545,220
2018 – 2022	17,150,099
2023 – 2027	16,446,053
2028 – 2032	14,457,856
2033 – 2037	13,274,201
2038 – 2042	10,722,699
2043 – 2047	9,925,963
2048 – 2052	8,694,149
2053 – 2057	3,780,244
2058 – 2062	3,780,244
2063 – 2067	3,780,244
2068 – 2072	3,780,244
2073 – 2077	3,780,244
2078 – 2082	3,780,244
2083 – 2086	1,354,587
	$ 163,296,095

(10) Commitments and Contingencies

(a) *Litigation*

The Airport is subject to claims and lawsuits arising from the normal course of business. Such claims are routinely evaluated by representatives of the City Attorney's office. The Airport's management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements. Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Airport.

(b) *Insurance*

The Airport carries liability insurance separate from the City in the amount of $100 million per occurrence covering general products, aircraft liability, and passengers. The policy also includes $50 million limit per occurrence for the perils of war, hijackings, sabotage, and terrorism. The Airport is included in the City's self-insurance program for workers' compensation claims. Workers' compensation insurance is discussed in detail in the City's CAFR. The Airport paid $242,439 and $269,203 in insurance premiums for fiscal years 2007 and 2006, respectively.

(c) *Construction Contracts*

The Airport has a variety of agreements with private parties relating to the construction, improvement, or modification of its airport facilities. The financing of such construction contracts is being provided from the Airport's passenger facility charges, FAA grants, Airport capital, and commercial paper. The Airport committed to approximately $11,923,000 and $3,538,000 in open construction contracts as of September 30, 2007 and 2006, respectively. At the end of fiscal year 2007, there are four major projects that are still being worked on. These projects include the rehabilitation of Taxiways L & C and the Islands between Taxiway C and the Ramp, the Airport Terminal Development project, the TSA Baggage Handling Modifications project, and the Airport Layout Plan.

SUPPLEMENTAL INFORMATION

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Supplementary Schedule – Rate Covenants

September 30, 2007 and 2006

Rate Covenant

The 1993 Obligation contains a covenant that requires the City to fix and collect rates and charges at the Airport that are reasonably anticipated to be at least sufficient to yield, during each fiscal year, net revenues equal to 125% of the debt service requirement for such fiscal year. The required coverage may be reduced to 100% by taking into account a rate reserve amount on deposit the first day of the fiscal year, so long as the aggregate of coverage provided by the net revenues and the rate reserve amount are at least equal to 125% of the debt service requirement for the fiscal year.

Rate covenant compliance at September 30, 2007 and 2006, respectively, has been calculated as follows:

	2007	2006
Gross revenues, net of passenger facilities fees and capital contributions	$ 28,022,176	25,908,116
Maintenance and operation costs, net of depreciation	(23,197,248)	(20,733,169)
Net revenues	4,824,928	5,174,947
Rate reserve amount at beginning of year	630,578	562,480
Amount available for debt service	5,455,506	5,737,427
Amount required to be available for debt service per rate covenant:		
Debt service for fiscal year	1,290,483	1,293,920
Rate covenant percentage	125%	125%
Amount required to be available for debt service per rate covenant	1,613,104	1,617,400
Amount available for debt service in excess of amount required to be available for debt service per rate covenant	$ 3,842,402	4,120,027

See accompanying independent auditors' report.

KPMG

CITY OF LONG BEACH AIRPORT

Schedules of Passenger Facility Charges

September 30, 2007

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH AIRPORT

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KPMG

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

Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance and Schedules of Passenger Facility Charges Collected and Expended and Interest Credited

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

Compliance

We have audited the compliance of the City of Long Beach Airport Enterprise Fund (the Airport) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide), for its passenger facility charge program for the year ended September 30, 2007. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport's compliance with those requirements.

In our opinion, the City of Long Beach Airport Enterprise Fund complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended September 30, 2007.

Internal Control over Compliance

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with compliance requirements of a passenger facility charge program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a passenger facility charge program such that there is more than a remote likelihood that noncompliance with compliance requirements of a passenger facility charge program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with compliance requirements of a passenger facility charge program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedules of Expenditures of Passenger Facility Charges Collected and Expended and Interest Credited

We have audited the financial statements of the Airport as of and for the year ended September 30, 2007 and have issued our report thereon dated May 30, 2008. Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Airport taken as a whole. The accompanying schedules of passenger facility charges collected and expended and interest credited are presented for purposes of additional analysis as specified in the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As described in note 1 to the schedules of passenger facility changes collected and expanded and interest credited, the schedules were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

This report is intended solely for the information and use of the City Council, management, and officials of the City of Long Beach, the U.S. Department of Transportation, the Federal Aviation Administration, and other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 11, 2008, except as to the Schedules
of Passenger Facility Charges Collected
and Expended and Interest Credited
which are as of May 30, 2008.

KPMG

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355 South Grand Avenue
Los Angeles, CA 90071-1568

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the City of Long Beach Airport Enterprise Fund (the Airport) as of and for the year ended September 30, 2007, and have issued our report thereon dated May 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as findings FS-07-01 through FS-07-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Airport's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Airport's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, and officials of the City of Long Beach, the U.S. Department of Transportation, the Federal Aviation Administration, and other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 30, 2008

CITY OF LONG BEACH AIRPORT

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Amended Application 03-02-C-02-LGB

Year ended September 30, 2007

Passenger facility charges collected	$	3,654,541
Interest credited (note 2)		178,632
		3,833,173
Expenditures for passenger facility charge approved projects		1,570,127
Change in unexpended passenger facility charges		2,263,046
Unexpended passenger facility charges as of September 30, 2006		2,955,284
Unexpended passenger facility charges as of September 30, 2007	$	5,218,330

CITY OF LONG BEACH AIRPORT

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Application 06-03-C-00-LGB

Year ended September 30, 2007

Passenger facility charges collected	$	—
Interest credited (note 2)		—
Expenditures for passenger facility charge approved projects		1,661,911
Change in passenger facility charges		(1,661,911)
Unexpended passenger facility charges as of September 30, 2006		—
Excess of passenger facility charges expended over charges collected as of September 30, 2007 (note 3)	$	(1,661,911)

See accompanying notes to schedules of passenger facility charges collected and expended and interest credited and report on compliance with requirements applicable to the passenger facility charge program and on internal control over compliance and schedules of passenger facility charges collected and expended and interest credited.

CITY OF LONG BEACH AIRPORT

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Amended Application 03-02-C-02-LGB

Quarters ended December 31, 2006, March 31, 2007, June 30, 2007, and September 30, 2007

	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	Total
Passenger facility charges collected	$ 840,061	958,508	1,079,749	776,223	3,654,541
Interest credited	33,692	39,588	51,017	54,335	178,632
	873,753	998,096	1,130,766	830,558	3,833,173
Expenditures for passenger facility charge approved projects	332,575	500,593	389,868	347,091	1,570,127
Change in unexpended passenger facility charges	541,178	497,503	740,898	483,467	$ 2,263,046
Unexpended passenger facility charges at beginning of quarter	2,955,284	3,496,462	3,993,965	4,734,863	
Unexpended passenger facility charges at end of quarter	$ 3,496,462	3,993,965	4,734,863	5,218,330	

CITY OF LONG BEACH AIRPORT

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Application 06-03-C-00-LGB

Quarters ended December 31, 2006, March 31, 2007, June 30, 2007, and September 30, 2007

	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	Total
Passenger facility charges collected	$ —	—	—	—	—
Interest credited	—	—	—	—	—
Expenditures for passenger facility charge approved projects	143,722	456,287	204,865	857,037	1,661,911
Change in passenger facility charges	(143,722)	(456,287)	(204,865)	(857,037)	$ (1,661,911)
Excess of passenger facility charges expended over charges collected at beginning of quarter (note 3)	—	(143,722)	(600,009)	(804,874)	
Excess of passenger facility charges expended over charges collected at end of quarter (note 3)	$ (143,722)	(600,009)	(804,874)	(1,661,911)	

See accompanying notes to schedules of passenger facility charges collected and expended and interest credited and report on compliance with requirements applicable to the passenger facility charge program and on internal control over compliance and schedules of passenger facility charges collected and expended and interest credited.

CITY OF LONG BEACH AIRPORT

Notes to Schedules of Passenger Facility Charges
Collected and Expended and Interest Credited

September 30, 2007

(1) Basis of Accounting

The schedules of passenger facility charges (PFC) collected and expended and interest credited are prepared on the basis of cash receipts and disbursements, as prescribed by Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990, issued by the Federal Aviation Administration of the United States Department of Transportation, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Passenger facility charges collected include amounts collected by the airlines and transferred to the City of Long Beach Airport. Expenditures for passenger facility charge approved projects are presented on a cash basis and include only the expenditures for approved PFC projects.

(2) Interest Credited

Interest credited represents interest income allocated to the PFC Program (Program) based on the ratio of the Program's unexpended passenger facility charges cash balance to the Airport's total cash and investments balance included in the pooled cash funds of the City of Long Beach.

(3) Amendment and New Application

On July 7, 2006, the Airport was given approval for additional collection authority, which amended the total PFC amount collected ending May 2017.

On September 14, 2006, the Airport was given approval for a new application with a charge-effective date of May 1, 2017 and a charge expiration date of December 1, 2018. The collection of passenger facility charges under Application 06-03-C-00-LGB will begin once amended Application 03-02-C-02-LGB expires.

CITY OF LONG BEACH AIRPORT

Schedule of Findings and Responses

September 30, 2007

I. Summary of Auditors' Results

a. The type of report issued on the financial statements: **Unqualified opinion**

b. Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes**

c. Material weakness: **None**

d. Noncompliance which is material to the financial statements: **None**

e. Significant deficiencies in internal control over the passenger facility charge program: **None Reported**

f. Material weaknesses: **None**

g. The type of report issued on compliance for the passenger facility charge program: **Unqualified opinion**

h. Any audit findings: **None**

II. Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

FS 07-01: Financial Reporting

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described below represent significant deficiencies in internal controls.

Condition and Context

The City of Long Beach (City) Airport does not have an effective process or controls in place to compile their financial statements and related disclosures in accordance with U.S. generally accepted accounting principle (GAAP). During our audit and review of the financial statements of the Airport, we noted errors in the presentation and disclosure of the financial statements. These include improper initial reporting and/or disclosure of the following:

- The Airport does not perform a formal evaluation to ensure that all non-GAAP polices are identified and quantified to ensure any related adjustments do not materially misstate the financial statements. During our audit we identified certain non-GAAP policies resulting in $60,000 in adjustments.
- The Airport recorded capital assets acquired in the prior year during the current period. This resulted in an understated in depreciation expense in the prior year in the amount of $47,000.

(Continued)

- Omission of criteria according to GAAP in the capital assets rollforward for FY 2006 and FY 2007.
- Lack of disclosure related to the fair market value requirements of Government Accounting Standards Board No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Tools*, related to the Airport's cash and cash equivalents balances.

Cause

The Airport financial statements were not prepared by the Airport in previous years; however beginning fiscal year 2007, the responsibility for the compilation of these statements was transferred to the Airport.

Effect or Potential Effect

The current design of controls related to the recording of financial transactions may lead to certain instances of financial information that do not conform to GAAP.

Recommendation

We recommend that management refines its internal controls to ensure the preparation of financial statements in accordance with GAAP.

Views of Responsible Officials

The Airport has controls in place over the accounting and reporting process to ensure that the financial statements are presented in accordance with GAAP. With the Airport's review paralleling the external auditor's review, not all corrections are reconciled prior to the audit review due strictly to time constraints. The Airport is continually working to improving their accounting procedures.

For Fiscal year 2008, the Airport's accounting team will seek additional GASB and FASB training to ensure the integrity of the financial statements.

Findings FS-07-02 – Lack of Information Technology Policies and Procedures

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represents a significant deficiency in internal controls.

Condition and Context

The Airport does not have formal Information Technology (IT) security and safeguarding policies and procedures. During our audit, we noted that the Airport has implemented procedures to address the issues surrounding information security, such as signing a confidentiality agreement upon commencing of employment. However, policies and procedures, while in existence and in practice for many years, are not formally documented.

Additionally, the Airport does not have formally documented policies and procedures related to systems and application change control. Based on our audit of the Human Resources System (Tesseract), we note that the system changes do follow an informal process and programming changes are documented into the program itself; however, formal documentation of appropriate approval, testing, and user acceptance is not always obtained. Based on our audit of FAMIS, the Fixed Asset Accounting System (FAACS), and the Advanced Purchasing and Inventory Control System (ADPICS), we note that system patches and bug fixes performed by the Financial Systems Officer in the Department of Financial Management do follow a formal process and programming changes are documented. However, changes made by the technology services programmers for other changes, such as modifying custom reports, follow an informal documentation process and appropriate approval, testing, and user acceptance are not always obtained.

Cause

The City centrally has policies and procedures over its information technology security, systems, and application change management. These policies and procedures were in full practice, however, were not consolidated into formal written manual until fiscal year 2008.

Effect or Potential Effect

Lack of documented information security policies and procedures weaken the IT general control environment. With regards to change management, once a system is operational, further changes to the system are usually required to meet the business developing needs. Such changes should be subjected to controls as stringent as those used in the development or implementation of a new system. If there is little or no control over system changes, the benefits originally gained by controlling the system's implementation may be lost as subsequent changes are made.

(Continued)

Recommendation

We recommend that management formalize the current procedures into policies and develop standard IT security and safeguarding policies, such as:

- Information security infrastructure requirements
- Password-based access control
- Password protection
- Virus protection
- Internet website controls
- Standard network system configuration
- Network system administration
- Application security administration
- Firewall and router security
- Transmission of data/encryption
- Physical/perimeter security and data center protection

Additionally, we recommend that management develop and implement formal IT change management policies, standards, and related procedures associated with system (e.g., infrastructure and configuration change) and application change control. Management should ensure that the new developments are understood and communicated to all IT and supporting Airport personnel. Adequate formal change management procedures should be designed and implemented to ensure that changes to the key financial systems are made in a controlled manner. Specifically, we recommend that the following controls be implemented and enforced:

- All change requests should be formally authorized and documented by appropriate management and business owner;
- Appropriate change management software should be utilized for the Tesseract application to support the migration of programming changes to the live environment;
- Changes that are made to the IT systems are tested, validated, and approved prior to implementation into the production environment. Test criteria should be documented and applied for all testing. This is to ensure that the changes will meet the user requirements and that the changes will not have a negative impact on any of the existing;
- User acceptance sign-off should be obtained and maintained before changes are migrated to the production environment;
- Changes made to IT systems should be validated after promotion to production to confirm that the change did not impact the system functionality or data integrity and that unauthorized changes were not inadvertently or intentionally promoted;

(Continued)

- Access to migrate changes into production should be segregated from the responsibilities of program development. Only a limited number of personnel should have access to migrate changes to the production environment to ensure that this process is well controlled and only tested, authorized, and properly approved changes are migrated into production;
- Change procedures also be applied to both system and application configuration settings (e.g., tolerance setting such as check authorization limits; three-way match; work flow flags to escalate for approval; and system configuration on hardware). Configuration settings are a key component of many information systems. Configuration settings frequently can impact the design and/or operating effectiveness of internal control over financial reporting;
- Emergency change provisions and controls are outlined to ensure that changes requiring immediate implementation are properly handled, allowing for timely change and no impact to systems and applications related to the financial reporting process; and
- Finally, we recommend that documentation of the activities above be maintained to strengthen the overall IT general control environment.

We recommend that these policies be formally communicated throughout the organization to users supporting and maintaining information systems and technology and are accessible and understandable to all persons. This ensures that management sets a clear direction and demonstrates support and commitment to information security through the issuance and maintenance of an information security policy. We recommend an annual review and update of the IT policies and procedures occur to integrate any new system, technology, and process improvements.

Views of Responsible Officials

In fiscal year 2008, the City's Technology Services Department formalized its various security procedures in a comprehensive information technology security policy to guide those supporting and maintaining information systems, as well as those using the systems. This security policy was approved by the City Manager on April 22, 2008. Also, in fiscal year 2008, the City's Technology Services Department formalized its various change management policies in a comprehensive information technology change management policy to guide those supporting and maintaining the City's software applications.

The City's formal policies and procedures ensure the proper safeguarding of:

- Information security infrastructure requirements
- Password-based access control
- Password protection
- Virus protection
- Internet website controls
- Standard network system configuration
- Network system administration
- Application security administration

(Continued)

- Firewall and router security
- Transmission of data/encryption
- Physical/perimeter security and data center protection

Findings FS-07-03 – Administrative Access – Inappropriate Administrative Access and Lack of Review over Appropriateness of User Access and Segregation of Duties within Certain Applications

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represents a significant deficiency in internal controls.

Condition and Context

We noted two users with excessive administration access: a technical support officer and a system support specialist. In addition, management does not have a control in place to ensure proper segregation of duties within Software Configuration and Library Manager (SCLM). We noted several programmers have SCLM access to promote changes to production causing a segregation of duties conflict. Access to SCLM should be limited to two – three individuals independent of any programming responsibilities. Furthermore, management does not currently have controls in place to periodically review and document the appropriateness of user access to the related applications, administrative access to Active Directory, Resource Access Control Facility (RACF), and SCLM.

Cause

Technology Services' current level of application support staff has precluded segregation of duties between the test and production environments within the SCLM application. Since SCLM is a tool that is not utilized for the Airport's primary financial systems (FAMIS, ADPICS, BPREP, and FAACS), the lack of segregation of duties within the SCLM does not pose a significant internal control risk.

Effect or Potential Effect

Weaknesses in user access control may lead to situations where an employee has the ability to perpetrate an error or irregularity and to conceal the error or irregularity. Additionally, a lack of adequate security over user access in the business systems and improper segregation of duties can potentially expose the City to a variety of risks resulting from unauthorized manipulation of data as well as an unauthorized exercise of system functions.

Recommendation

We recommend that administrative access be restricted to users within the IT Department with a specific job need. Users with administrative access, making programming changes, and promoting those changes into production should be segregated. Periodic review of users with access to certain applications helps prevent unauthorized access. We recommend that the City implement a formal review, similar to the established procedures performed on the FAMIS system of administrative access to supporting applications, including Active Directory, SCLM, and RACF. Additionally, management should include the data center as part of the annual review or review data center access more frequently based on the rate of turnover. This review should be performed at least annually to ensure that inappropriate system access is detected and remediated. Similar to the FAMIS procedures, this review should be performed in

(Continued)

conjunction with the IT Department and business owners. Evidence of review by business owners and the IT department should be documented, signed and dated, and maintained for audit purposes.

Views of Responsible Officials

The Technology Services Department applications support programming staff that have administrative access to systems use the access so they can move programming changes into the production environment. A policy change has been made to this process to require the technology services operation's staff to make all moves into production. New procedures for the operations organization have been developed. This is part of a larger change management control process that is being developed that at a high level, will include the following:

- Procedures that define the type of documentation needed for system changes;
- Approval required to process system changes;
- Appropriate testing (QA and user), and proof of testing;
- Appropriate signoff for each change prior to putting into production;
- Requirements for an internal TSD system that will track all change requests;
- Communication plan to business partners within the City notifying them of the internal change management system; and
- Deployment of the process to all systems maintained by TSD.

In addition, access to Active Directory, SCLM, and RACF will be reviewed, verified and documented annually.

III. Findings and Questioned Costs Related to the Passenger Facility Charge Program

a. None