



AIR QUALITY IMPROVEMENT FUND
City of Long Beach, California
Financial Statements
September 30, 2008 and 2007
(With Independent Auditors' Report Thereon)

AIR QUALITY IMPROVEMENT FUND
City of Long Beach, California

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Air Quality Improvement Fund (the Fund), a fund of the City of Long Beach, California (City) as of and for the years ended September 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide reasonable basis for our opinion.

As discussed more fully in note 1 to the financial statements, the accompanying financial statements of the Fund are intended to present the financial position and the changes in the financial position attributable to the Fund. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2008 and 2007, and the changes in its financial position for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Improvement Fund as of September 30, 2008 and 2007, and the changes in its financial position thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2009, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



The management of the Air Quality Improvement Fund of the City of Long Beach has not presented management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements.

KPMG LLP

September 3, 2009

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Balance Sheets

September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Pooled cash and cash equivalents (note 2)	\$ 1,033,573	936,179
Pooled investments	2,404	—
Due from other governments – motor vehicle fees	<u>150,100</u>	<u>150,000</u>
Total assets	<u>\$ 1,186,077</u>	<u>1,086,179</u>
Liabilities		
Accounts payable and accrued expenses	<u>\$ 20,186</u>	<u>406,484</u>
Fund Balance		
Reserved for:		
Encumbrances	747	32,339
Future capital projects - transportation	<u>1,165,144</u>	<u>647,356</u>
Total fund balance	<u>1,165,891</u>	<u>679,695</u>
Total liabilities and fund balance	<u>\$ 1,186,077</u>	<u>1,086,179</u>

AIR QUALITY IMPROVEMENT FUND
City of Long Beach, California

Statements of Revenues, Expenditures, and Changes in Fund Balance

Fiscal years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
From other agencies	\$ 588,816	590,848
Interest earnings	21,387	37,820
Total revenues	<u>610,203</u>	<u>628,668</u>
Expenditures:		
Air quality mitigation measures	111,207	749,626
Liquefied natural gas fueling stations	—	116,302
Administration	12,800	1,500
Total expenditures	<u>124,007</u>	<u>867,428</u>
Change in fund net assets	486,196	(238,760)
Fund balance – October 1	<u>679,695</u>	<u>918,455</u>
Fund balance – September 30	<u>\$ 1,165,891</u>	<u>679,695</u>

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Notes to Financial Statements

September 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) *Air Quality Improvement Fund*

California Assembly Bill 2766 authorizes the State of California's (the State's) various regional air pollution control districts to levy fees on motor vehicles. These fees are to be used to reduce air pollution. Under this program, the State Department of Motor Vehicles collects the fees and allocates amounts collected among the local regional air quality pollution control districts for vehicles registered with the respective district's jurisdiction. Locally, the South Coast Air Quality Management District (SCAQMD) is responsible for administering funds allocated by the State. Forty cents of every dollar is proportionately allocated among the cities and counties within the SCAQMD's jurisdiction based upon population. Amounts attributable to the City of Long Beach, California (the City) are maintained in the Air Quality Improvement Fund (the Fund) of the City of Long Beach, California (the City) as a separate fund administered by the City.

(b) *Reporting Entity*

As noted above, the Fund is included as a fund of the City's Comprehensive Annual Financial Report (CAFR). It is combined with other funds restricted for transportation projects and reported as the Transportation Fund. 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.

(c) *Basis of Accounting and Measurement Focus and Financial Statement Presentation*

The Fund's financial statements are accounted for as a special revenue fund and reported on a current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included in the balance sheets. Revenues are recorded in the period in which they become measurable and available. Revenues are considered available if collectible within 60 days of the end of the fiscal period. Expenditures are recorded at the time liabilities are incurred, if measurable.

Taxpayer-assessed tax revenues (e.g., motor vehicle fees), net of estimated refunds and uncollectible amounts, and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received.

The Fund generally follows private sector standards of accounting and financial reporting issued on or before November 30, 1989 to the extent that such standards do not conflict with or contradict guidance of the GASB. The City, and by consequence, the Fund also have the option of following subsequent private sector guidance for their governmental activities and governmental funds, subject to the same limitation. The City and the Fund have elected not to follow subsequent private sector guidance.

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Notes to Financial Statements

September 30, 2008 and 2007

(d) *Implementation of New Accounting Pronouncements*

In June 2004, Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. This statement is effective for the fiscal year ended September 30, 2008. Implementation did not have a significant impact on the presentation of the Fund's financial statements.

In September 2007, 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 determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded as a liability. This statement is effective for the fiscal year ended September 30, 2008. Implementation did not have a significant impact on the presentation of the Fund's financial statements.

In November 2006, 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 effective for the fiscal year ended September 30, 2009. This statement is not expected to have a significant impact on the presentation of the Fund's financial statements.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. The statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in 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 Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Application of this statement is effective for the fiscal year ended September 30, 2008. Implementation did not have a significant impact on the presentation of the Fund's financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the fiscal year ending September 30, 2010. This statement is not expected to have a significant impact on the presentation of the Fund's financial statements.

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Notes to Financial Statements

September 30, 2008 and 2007

(e) *Budgetary Principles*

The Fund is required to adopt an annual budget on or before September 30 for the ensuing fiscal year. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the Fund. All appropriations lapse at the end of the fiscal year to the extent that they have not been expended or encumbered.

(f) *Encumbrances*

Encumbrances outstanding at year-end are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year.

(g) *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 Fund's financial position during the reporting period. Actual results could differ from those estimates.

(h) *Pooled Cash and Investments*

In order to maximize investment return, the Fund 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 Fund has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments. Investment decisions are made by the Treasurer of the City of Long Beach (City Treasurer).

Interest income and realized gains and losses arising from pooled cash and investments are apportioned to each participation unit based on the relationship of an individual unit's respective daily cash balances to aggregate pooled cash and investments. The Fund's share of pooled cash and investments as of September 30, 2008 and 2007 is stated at fair value (note 2).

(i) *Fund Balance*

The Fund has adopted a policy of generally utilizing restricted funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available. The Fund's reserved fund balance is classified into the following categories: Encumbrances and Future capital projects – transportation.

(2) *Pooled Cash and Investments*

As of September 30, 2008 and 2007, the Fund's pooled cash and investments amounted to \$1,033,573 or 0.06% and \$936,179 or 0.06% of the City's pooled cash and investments, respectively. The City's pooled cash and investments as of September 30, 2008 and 2007 totaled \$1,703,568,000 and \$1,686,441,000, respectively.

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City of Long Beach, California

Notes to Financial Statements

September 30, 2008 and 2007

(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 trustee, which are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30	None
Local agency bonds	5 years *	30	None
Federal agency securities	5 years *	40	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 years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three months prior to purchase.

(b) Investments Authorized by Debt Agreement

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

(c) Interest Rate Risk

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

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Notes to Financial Statements

September 30, 2008 and 2007

maturing evenly over time as necessary to provide cash flow and liquidity need for operations. The following schedule indicates the interest rate risk of the City's investments, which include the amount the Fund has invested with the City as of September 30 (in thousands):

Investment type	2008		2007	
		Weighted average maturity (in years)		Weighted average maturity (in years)
Interdepartment loan				
(Health Savrs)	\$ 2,892	10.60	\$ 3,098	11.60
U.S. Treasury notes	55,817	0.41	145,149	0.90
Federal agency securities	1,289,370	1.96	1,190,784	2.28
Medium-term notes	84,148	0.99	49,881	1.83
Short-term commercial paper	—	—	135,874	0.02
LAIF	160,849	0.09	139,156	0.01
Government managed rate account	69,931	—	—	—
Subtotal City pool	1,663,007		1,663,942	
Cash and deposits	60,313		32,878	
Outstanding checks	(19,752)		(10,379)	
Total City pool	\$ 1,703,568		\$ 1,686,441	
Nonperforming short-term investment	\$ 3,963		\$ —	

(d) Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2008 and 2007. 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) Risks and Uncertainties

The City may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

(f) 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 on the following page is the minimum rating required by the

AIR QUALITY IMPROVEMENT FUND

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Notes to Financial Statements

September 30, 2008 and 2007

California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

City's pooled investments investment type	Rating as of year-end 2008							
	Minimum legal rating	Not required to be rated	A-1+	A-1	AAA	AA-	Unrated	
Interdepartment loan (Health Savrs)	\$ 2,892	N/A	\$ 2,892	—	—	—	—	—
U.S. Treasury notes	55,817	N/A	55,817	—	—	—	—	—
Federal agency securities	1,289,370	N/A	—	—	—	1,289,370	—	—
Medium-term notes	84,148	A	—	—	—	84,148	—	—
Short-term commercial paper	—	N/A	—	—	—	—	—	—
LAIF	160,849	N/A	160,849	—	—	—	—	—
Government managed rate account	69,931	N/A	69,931	—	—	—	—	—
Subtotal City pool	1,663,007		289,489	—	—	1,373,518	—	—
Cash and deposits	60,313		—	—	—	—	—	60,313
Outstanding checks	(19,752)		—	—	—	—	—	(19,752)
Total City pool	\$ 1,703,568		\$ 289,489	—	—	1,373,518	—	40,561
Nonperforming short-term investment	\$ 3,963		\$ —	—	—	—	—	3,963

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

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Notes to Financial Statements

September 30, 2008 and 2007

(g) 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 are as follows (in thousands):

Issuer	Investment type	Reported amount	
		2008	2007
Federal Farm Credit Bank	Federal agency securities	\$ 93,000	89,334
Federal Home Loan Bank Federal Home Loan Mortgage Association	Federal agency securities	477,696	354,763
Federal National Mortgage Association	Federal agency securities	359,571	307,865
U.S. Treasury	Federal agency securities	359,103	438,822
Commercial paper	U.S. Treasury notes and bonds	55,817	145,149
Corporate Debt Securities	Unsecured corporate debt	—	135,874
LAIF	Unsecured corporate debt	84,148	—
	State pool investment	160,849	139,156

(h) 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 government units by pledging securities in an undivided collateral pool held by a depository regulated under the 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 the 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 LAIF.

As of September 30, 2008, the City reported deposits of \$60,313,000 less \$19,752,000 for checks outstanding. As of September 30, 2007, the City's deposits were \$32,878,000 less \$10,379,000 for checks outstanding.

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Notes to Financial Statements

September 30, 2008 and 2007

(i) Investment in State Investment Pool

The City is a voluntary participant in the 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.

(j) Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2008 and 2007.

(k) GASB Statement No. 31

GASB Statement No. 31, *Certain Investments and External Investment – Pools*, requires that certain investments and external investment pools be reported at fair value. At September 30, 2008 and 2007, the effect of valuating the City's investments at fair value did not have a material impact on the City's and agency's financial position.

(l) Securities Lending

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2008 and 2007.

(3) Due from Other Governments

The Fund receives quarterly payments from the State Department of Motor Vehicles, which represent the majority of the fund's revenue. They fluctuate depending on the amounts collected by the State Department of Motor Vehicles and the City's population. In fiscal years 2008 and 2007, the fund received \$588,716 and \$590,776, respectively.

(4) Commitments and Contingencies

At September 30, 2008 and 2007, commitments for the purchase of goods and services totaled \$747 and \$32,000, respectively.



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**Report on Internal Control over Financial Reporting and on
Compliance With Assembly Bill 2766 (AB2766) Chapter 1705 (Health and Safety Code
Sections 44220 Through 44247) and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the Air Quality Improvement Fund (Fund), a fund of the City of Long Beach, California, as of and for the year ended September 30, 2008, and have issued our report thereon dated September 3, 2009. 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 Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 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 deficiency described in the accompanying schedule of findings and responses as finding FS-08-01, to be a significant deficiency 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 the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of Assembly Bill 2766 (AB2766) Chapter 1705 (Health and Safety Code Sections 44220 through 44247), 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as finding S-08-01.

The Fund's responses to the findings identified in our audit are described above. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and others within the entity, and the South Coast Air Quality Management District and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 3, 2009

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Schedule of Findings and Responses

Year ended September 30, 2008

(1) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

Finding FS 08-01: 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 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 deficiency described below represents a significant deficiency in internal controls.

Condition and Context

The controls in place at the Air Quality Improvement Fund (Fund) to determine whether transactions are recorded and disclosed in accordance with U.S. generally accepted accounting principals (GAAP) are not operating effectively. During our audit and review of the financial statements of the Fund, we noted a \$12 thousand entry to properly accrue unrecorded liabilities at September 30, 2008 which management subsequently corrected.

Cause

Related invoices were not submitted in a timely manner. Additionally, adequate staff time was not available to perform the needed review of all small transactions so as to be sure that transactions that are material to the AQMD fund would be identified and accrued in the proper period.

Effect or Potential Effect

The lack of effective controls in place over the accurate reporting of transactions may lead to management producing financial information that does not adhere to U.S. GAAP.

Recommendation

We recommend that management evaluate the current process in place over the preparation of the year-end financial statements, as well as recommend that management consider the skill set, training, and time availability of the individuals performing this function. We also recommend that management consider additional levels of accountability and reviews for the timely and accurate preparation of the year-end financial statements.

Views of Responsible Officials

Management will review the existing process as well as seek to ensure that additional resources are allocated, to include those needed to add new levels of accountability and review, to help ensure the timely and accurate completion of the annual financial statements.

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Schedule of Findings and Responses

Year ended September 30, 2008

(2) Summary of Current Year Findings and Responses Relating to AB2766 Subvention Fund

Finding S 08-01: Reporting Requirements

Criteria

California Assembly Bill No. 2766, SECTION 1. Chapter 7 District Fees To Implement The California Clean Air Act, § 44244.1. (a) Any agency which receives fee revenues pursuant to Section 44243 or 44244 shall, at least once every two years, be subject to an audit of each program or project funded. The audit shall be conducted by an independent auditor selected by the south coast district in accordance with Division 2 (commencing with Section 1100) of the Public Contract Code. The district shall deduct any audit costs which will be incurred pursuant to this section prior to distributing fee revenues to cities, counties, or other agencies pursuant to Sections 44243 and 44244.

Implementation of AB2766 Subvention Fund Projects: A Resource Guide for Local Government Recipients of Motor Vehicle Registration Fee Revenues Fiscal Year 2007/2008. Financial Administration. 12. Audit of AB2766 Fee Revenues. The Audit Guidelines describe the financial and program reporting requirements for local governments. The AB2766 program legislation requires that each agency receiving motor vehicle registration fee revenues must submit:

- an annual program progress report
- an annual audited financial statement of AB2766 funds

These reports were to have been received by the AQMD no later than March 6, 2009.

Condition and Context

During our procedures performed over the reporting requirement, the annual program progress report and audited financial statement of AB2766 funds were not filed with South Coast Air Quality Management District (SCAQMD) by March 6, 2009. An extension was filed and obtained through April 1, 2009, however the audited financial statements were not submitted by this deadline.

Questioned Costs

None

Cause

There was insufficient staffing resources to complete the financial statements by the stated deadline as well as confusion over which department had oversight responsibility over the annual audit and financial statement compilation.

Effect or Potential Effect

There does not appear to be adequate monitoring controls in place to ensure that the required reports are submitted within the specified deadline to SCAQMD.

AIR QUALITY IMPROVEMENT FUND

City of Long Beach, California

Schedule of Findings and Responses

Year ended September 30, 2008

Recommendation

We recommend the City strengthen controls to ensure that the annual program progress report and annual audited financial statement of AB2766 funds are submitted by the required deadline.

Views of Responsible Officials

City departments will clarify responsibility for oversight of the programs annual audit and financial statement compilation. In addition, appropriate efforts will be made to meet the established deadline for the annual financial report. If necessary, needed extensions will be requested so that the City can submit the annual financial statements in compliance with the stated legal requirements.