



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

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KPMG LLP
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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.

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Management's Discussion and Analysis

September 30, 2007 and 2006

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

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Management's Discussion and Analysis

September 30, 2007 and 2006

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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Management's Discussion and Analysis

September 30, 2007 and 2006

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	<u>26,837,679</u>	<u>24,796,133</u>	<u>24,809,675</u>
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	<u>27,447,324</u>	<u>24,470,280</u>	<u>21,250,398</u>
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	<u>4,471,458</u>	<u>4,239,875</u>	<u>5,213,922</u>
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	<u>16,135,505</u>	<u>8,580,766</u>	<u>25,478,173</u>
Total net assets – beginning	<u>90,941,021</u>	<u>82,360,255</u>	<u>56,882,082</u>
Total net assets – ending	<u>\$ 107,076,526</u>	<u>90,941,021</u>	<u>82,360,255</u>

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Management's Discussion and Analysis

September 30, 2007 and 2006

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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Management's Discussion and Analysis

September 30, 2007 and 2006

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	\$ <u>102,341,301</u>	<u>85,294,438</u>	<u>79,844,947</u>

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.

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Management's Discussion and Analysis

September 30, 2007 and 2006

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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Management's Discussion and Analysis

September 30, 2007 and 2006

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	<u>26,158,809</u>	<u>23,215,451</u>
Noncurrent assets:		
Note receivable	427,016	486,538
Capital assets, net (note 3)	102,341,301	85,294,438
Total noncurrent assets	<u>102,768,317</u>	<u>85,780,976</u>
Total assets	<u>\$ 128,927,126</u>	<u>108,996,427</u>
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	<u>7,401,842</u>	<u>2,792,656</u>
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	<u>14,448,758</u>	<u>15,262,750</u>
Total liabilities	<u>21,850,600</u>	<u>18,055,406</u>
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	<u>\$ 128,927,126</u>	<u>108,996,427</u>

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

	<u>2007</u>	<u>2006</u>
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	<u>26,837,679</u>	<u>24,796,133</u>
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	<u>23,197,248</u>	<u>20,733,169</u>
Operating income before depreciation	3,640,431	4,062,964
Depreciation (note 3)	<u>4,250,076</u>	<u>3,737,111</u>
Operating income (loss)	<u>(609,645)</u>	<u>325,853</u>
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	<u>4,471,458</u>	<u>4,239,875</u>
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	<u>16,135,505</u>	<u>8,580,766</u>
Net assets, beginning of year	<u>90,941,021</u>	<u>82,360,255</u>
Net assets, end of year	<u>\$ 107,076,526</u>	<u>90,941,021</u>

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
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	<u>7,732,403</u>	<u>7,386,042</u>
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	<u>179,238</u>	<u>495,106</u>
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	<u>(6,442,861)</u>	<u>(3,820,752)</u>
Cash flows from investing activities – interest earned	<u>1,005,259</u>	<u>616,877</u>
Net increase in cash and cash equivalents	2,474,039	4,677,273
Cash and cash equivalents, beginning of year	<u>18,718,136</u>	<u>14,040,862</u>
Cash and cash equivalents, end of year	<u>\$ 21,192,175</u>	<u>18,718,135</u>
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	<u>\$ 21,192,175</u>	<u>18,718,135</u>
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	<u>8,342,048</u>	<u>7,060,189</u>
Net cash provided by operating activities	<u>\$ 7,732,403</u>	<u>7,386,042</u>

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

(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).

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

(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:

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

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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

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

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

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
Bonds issued by the City	5 years*	30%	None
U.S. Treasury 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

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

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):

<u>Investment type</u>	<u>Balance at September 30, 2007</u>	<u>Weighted average maturity in years</u>	<u>Balance at September 30, 2006</u>	<u>Weighted average maturity in years</u>
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)	<u>139,156</u>	0.0100	<u>2,921</u>	0.0030
Subtotal City pool	1,663,942		1,429,756	
Cash on hand	32,878		26,811	
Outstanding checks	<u>(10,379)</u>		<u>(18,043)</u>	
Total City pool	\$ <u><u>1,686,441</u></u>		\$ <u><u>1,438,524</u></u>	

(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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

(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):

<u>Investment type</u>	<u>Balance at September 30, 2007</u>	<u>Minimum legal rating</u>	<u>Not required to be rated</u>	<u>AAA</u>	<u>A-1+ A-1 AA-</u>	<u>Unrated</u>
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)	<u>139,156</u>	N/A	<u>139,156</u>	<u>—</u>	<u>—</u>	<u>—</u>
Subtotal City pool	1,663,942		287,403	1,235,645	140,894	—
Cash on hand	32,878		—	—	—	32,878
Outstanding checks	<u>(10,379)</u>		<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,379)</u>
Total City pool	<u>\$ 1,686,441</u>		<u>\$ 287,403</u>	<u>1,235,645</u>	<u>140,894</u>	<u>22,499</u>
<u>Investment type</u>	<u>Balance at September 30, 2006</u>	<u>Minimum legal rating</u>	<u>Not required to be rated</u>	<u>AAA</u>	<u>A-1+ A-1 AA-</u>	<u>Unrated</u>
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)	<u>2,921</u>	N/A	<u>2,921</u>	<u>—</u>	<u>—</u>	<u>—</u>
Subtotal City pool	1,429,756		220,685	1,071,321	137,750	—
Cash on hand	26,811		—	—	—	26,811
Outstanding checks	<u>(18,043)</u>		<u>—</u>	<u>—</u>	<u>—</u>	<u>(18,043)</u>
Total City pool	<u>\$ 1,438,524</u>		<u>\$ 220,685</u>	<u>1,071,321</u>	<u>137,750</u>	<u>8,768</u>

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

(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):

<u>Issuer</u>	<u>Investment type</u>	<u>Reported amount September 30, 2007</u>	<u>Reported amount September 30, 2006</u>
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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

(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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

(3) Capital Assets

Changes in capital assets for 2007 were as follows:

	2007				Ending balance, September 30
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	
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	<u>11,476,852</u>	<u>20,961,704</u>	<u>(309,340)</u>	<u>(1,987,733)</u>	<u>30,141,483</u>
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	<u>122,666,600</u>	<u>718,418</u>	<u>(73,843)</u>	<u>1,987,733</u>	<u>125,298,908</u>
Total capital assets	134,143,452	21,680,122	(383,183)	—	155,440,391
Less accumulated depreciation	<u>(48,849,014)</u>	<u>(4,250,076)</u>	<u>—</u>	<u>—</u>	<u>(53,099,090)</u>
Capital assets, net	<u>\$ 85,294,438</u>	<u>17,430,046</u>	<u>(383,183)</u>	<u>—</u>	<u>102,341,301</u>

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

Changes in capital assets for 2006 were as follows:

	2006				Ending balance, September 30
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	
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	<u>14,980,753</u>	<u>9,869,329</u>	<u>(10,363,617)</u>	<u>(3,009,613)</u>	<u>11,476,852</u>
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	<u>110,264,749</u>	<u>9,751,401</u>	<u>(359,163)</u>	<u>3,009,613</u>	<u>122,666,600</u>
Total capital assets	125,245,502	19,620,730	(10,722,780)	—	134,143,452
Less accumulated depreciation	<u>(45,400,555)</u>	<u>(3,737,111)</u>	<u>288,652</u>	<u>—</u>	<u>(48,849,014)</u>
Capital assets, net	\$ <u>79,844,947</u>	<u>15,883,619</u>	<u>(10,434,128)</u>	<u>—</u>	<u>85,294,438</u>

(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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2007 and 2006

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.

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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:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Balance 2007</u>	<u>Due within one year</u>
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	<u>(241,346)</u>	<u>—</u>	<u>17,239</u>	<u>(224,107)</u>	<u>17,239</u>
Total long-term debt	9,813,012	<u>—</u>	<u>(632,588)</u>	9,180,424	<u>972,544</u>
Less current portion	<u>(785,000)</u>			<u>(825,000)</u>	
Total long-term debt, net of current portion	\$ <u>9,028,012</u>			\$ <u>8,355,424</u>	

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

	<u>Balance 2005</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Balance 2006</u>	<u>Due within one year</u>
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	<u>10,405,780</u>	<u>—</u>	<u>(592,768)</u>	9,813,012	<u>937,412</u>
Less current portion	<u>(750,000)</u>			<u>(785,000)</u>	
Total long-term debt, net of current portion	\$ <u>9,655,780</u>			\$ <u>9,028,012</u>	

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>4,585,000</u>	<u>587,000</u>	<u>5,172,000</u>
Total	\$ <u>9,175,000</u>	<u>2,453,565</u>	<u>11,628,565</u>

(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;

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(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.

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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 as follows:

	<u>Amount</u>
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
	<u>\$ 163,296,095</u>

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(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:

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

See accompanying independent auditors' report.