KPMG

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Financial Statements

September 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Table of Contents

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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 years ended September 30, 2008 and 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 audits.

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 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 audits provide a reasonable basis for our opinion.

As discussed more fully in note 1, the accompanying financial statements of the Airport Enterprise Fund are intended to present the financial position and the changes in financial position and cash flows attributable to the Airport Enterprise 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 and its cash flows thereof for the years 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 City of Long Beach Airport Enterprise Fund as of September 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2009, 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 audits were 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 37 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

September 11, 2009

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, 2008 and 2007.

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 350,000 general aviation operations in 2008. The Airport's five airlines accommodated approximately 3 million annual passengers, the percentage of passenger activities by Airline includes 76% JetBlue Airways, 8% Alaska Airlines, 7% US Airways, 5% SkywestDelta Airlines, and 4% ExpressJet Airlines, and the cargo carriers delivered over 50,000 tons of air cargo. Aircraft manufacturing, including assembly of the Boeing C-17, and a completion center for Gulfstream Aerospace, account for over 6,000 of the jobs at the Airport.

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

Overview of the Financial Statements

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

Condensed Financial Position Information

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

The following condensed financial information provides an overview of the Airport's financial position as of September 30, 2008, 2007, and 2006.

Condensed Summary of Net Assets

		September 30	
	2008	**2007**	**2006**
Assets:			
Capital assets, net	$ 118,672,259	102,341,301	85,294,438
Other assets	26,270,304	26,585,825	23,701,989
Total assets	144,942,563	128,927,126	108,996,427
Liabilities:			
Noncurrent liabilities, net	21,748,486	15,937,319	15,327,909
Other liabilities	3,981,356	5,913,281	2,727,497
Total liabilities	25,729,842	21,850,600	18,055,406
Net assets:			
Invested in capital assets, net of related debt	103,157,292	93,160,877	75,481,426
Restricted	4,915,574	4,757,825	5,322,296
Unrestricted	11,139,855	9,157,824	10,137,299
Total net assets	$ 119,212,721	107,076,526	90,941,021

Analysis Fiscal Year 2008

The assets of the Airport exceeded its liabilities at the close of the 2008 fiscal year by $119,212,721 (net assets). Total net assets increased by 11% or $12,136,195 compared to fiscal year 2007. This change is a combination of $828,759 from operating loss, $5,437,469 from net nonoperating revenues of which $4,979,180 is from passenger facilities charges, $122,463 from interest income net of expenses related to financing activities and $287,875 from an operating security cooperative agreement, $47,951 from other income, $7,495,543 from Federal Aviation Administration capital grants, and $31,942 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 $103,157,292 or 87% of the aggregate net assets. Investment in capital assets increased by 11% or $9.9 million compared to fiscal year 2007. Of this, $4 million is primarily attributable to the rehabilitation of Taxiway K, Phases 1 and 2, and other airport terminal 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's total liabilities increased by 18% or $3,879,242 compared to fiscal year 2007. The Airport's long-term debt increased by $6,334,543 primarily due to the issuance of $7,012,000 of Commercial Paper Notes to finance improvements to Taxiway C and the islands at Taxiway C. This increase was offset by a decrease in accounts payable of $2,536,170 due to the timely submission and processing of invoices from vendors and contractors.

The Airport holds $4,915,574 of net assets subject to external restrictions, an increase of $157,749 when compared to last year. This increase consists of $275,750 increase in amounts restricted for repayment of long-term debt and a decrease of $118,001 in funds needed for construction of capital assets, fulfillment of contractual obligations, and matching requirements of federally funded projects. 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 $11,139,855, an increase of $1,982,031 from last year. This increase is a combination of $12,136,202 from the current year change in net assets, reduced by approximately $10,150,000 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 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 $16,135,505 compared to fiscal year 2006. This change is a combination of $584,309 from operating loss, $4,446,122 from net nonoperating revenues of which $3,968,261 is from passenger facilities charges, $450,236 from interest income net of expenses related to financing activities and $27,625 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 fiscal year 2006. This decrease consists of $485,971 in funds needed for construction of capital assets, fulfillment of contractual obligations, matching requirements of federally funded projects, and $78,500 restricted for repayment of long-term debt. Such net assets represent 4% of the Airport's total net assets. They are presented in the statement of net assets as restricted net assets.

At the end of fiscal year 2007, the Airport reported unrestricted net assets of $9,157,824, a decrease of $979,475 from the prior fiscal year. The reduction is a combination of $16,135,505 from the change in net assets, 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 wholly available to fund the Airport's continuing obligations.

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 during the current fiscal year. These changes are reported as soon as the underlying event giving rise to the

(Continued)

change occurs, regardless of the timing of related cash flows. The table below summarizes the operations for the fiscal years 2008, 2007, and 2006.

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

	September 30		
	2008	**2007**	**2006**
Operating revenues:			
Land and building rentals	$ 8,365,197	7,213,688	6,793,338
Parking fees	8,562,484	8,030,908	7,512,483
Airport concessions	5,173,047	5,372,472	4,938,651
Landing, gate, and ramp fees	5,712,496	4,384,046	3,762,531
Other fees and charges	2,239,324	1,835,766	1,789,130
Total operating revenues	30,052,548	26,836,880	24,796,133
Operating expenses:			
Personnel services	7,997,820	7,676,956	6,934,574
Operations and maintenance	9,834,959	8,187,006	7,911,967
City services	6,595,852	6,324,244	5,413,365
General and administrative	1,401,731	856,631	595,317
Amortization expense	122,348	126,276	131,096
Depreciation	4,928,597	4,250,076	3,737,111
Total operating expenses	30,881,307	27,421,189	24,723,430
Operating income (loss)	(828,759)	(584,309)	72,703
Nonoperating revenues (expenses):			
Interest income (expense), net	122,463	450,236	23,913
Passenger facility charges	4,979,180	3,968,261	3,851,952
Operating grant	—	—	57,629
Operating security agreement	287,875	—	—
Other income, net	47,951	27,625	559,531
Net nonoperating revenues	5,437,469	4,446,122	4,493,025
Income before capital grants	4,608,710	3,861,813	4,565,728
Federal Aviation Administration capital grants	7,495,543	12,013,424	4,015,038
Capital grants – other sources	31,942	260,268	—
Change in net assets	12,136,195	16,135,505	8,580,766
Total net assets – beginning	107,076,526	90,941,021	82,360,255
Total net assets – ending	$ 119,212,721	107,076,526	90,941,021

Analysis Fiscal Year 2008

Total operating revenues were $30,052,548 for fiscal year 2008, an increase of $3,215,668 over fiscal year 2007. Land and building rentals increased 16%; parking fees increased 7%; airport concessions decreased 4%; and landing, gate, and ramp fees increased 30%. The increase in revenue is primarily attributable to the increase in rates and fees.

Total operating expenses were $30,881,307 for fiscal year 2008, an increase of $3,460,118 over fiscal year 2007. Personnel services increased 4% due to additional personnel and salary increases of 1% effective October 1, 2007 and 2% effective April 1, 2008. Operations and maintenance expenses increased 20% primarily related to $1,102,926 increase in airport facility maintenance expenses and $107,543 increase in the cost of electricity. City services increased 4% due to the salary increases for fiscal year 2008, and three additional officers from the Police Department servicing the Airport. Depreciation expense increased 16% due to the increase in additional depreciable assets of about $32.6 million during the fiscal year.

Interest expense decreased due to reduction in principal balances as a result of payment. Interest income also decreased due to lower interest rates prevailing during the year.

The Federal Aviation Administration capital grants were $7,495,543 for fiscal year 2008, a reduction of $4,517,881 over fiscal year 2007. The reduction is due to the decrease in Federal Aviation Administration approved grant funds.

The airport received an additional $31,942 from South Coast Air Quality Management District (SCAQMD), which was the cost of the installation of the five electric ground service equipment (GSE) chargers.

Analysis Fiscal Year 2007

Total operating revenues were $26,836,880 for fiscal year 2007, an increase of $2,040,747 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 $27,421,189 for fiscal year 2007, an increase of $2,697,759 over fiscal year 2006. Personnel services increased 11% due to additional personnel and salary increases of 2% effective January 1, 2007 and 3% effective July 1, 2007. 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 Federal Aviation Administration 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 SCAQMD that was used to purchase five electric 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.

Notes to Financial Statements

The notes to the Airport's financial statements can be found on pages 14 – 33 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

Capital Assets and Debt Administration

Capital Assets

The Airport's investment in capital assets, net of accumulated depreciation as of September 30, 2008, 2007, and 2006 is as follows:

Summary of Capital Assets, Net

		September 30		
		2008	**2007**	**2006**
Land	$	6,363,728	6,419,114	6,345,772
Buildings and infrastructure		11,290,656	9,559,602	9,465,187
Runways and improvements		85,847,224	59,636,205	61,792,257
Machinery and equipment		2,734,215	3,004,011	2,560,142
Construction in progress		12,436,436	23,722,369	5,131,080
Total capital assets, net	$	118,672,259	102,341,301	85,294,438

Analysis Fiscal Year 2008

The Airport's investment in capital assets includes land, buildings and infrastructure, runways and improvements, machinery and equipment, and construction in progress. Capital assets increased 16% when compared to previous year. The biggest increase is in runways and improvements due to the completion of the rehabilitation of Taxiway D and partial capitalization of the rehabilitation of Taxiways L and C. Construction in progress includes ongoing projects for the rehabilitation of Taxiways L and C, and the rehabilitation of Taxiway K, Phase 1 and 2. Additional information regarding the Airport's capital assets can be found in note 3 to the financial statements.

Analysis Fiscal Year 2007

The Airport's investment in capital assets includes land, building and infrastructure, runways and improvements, 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 and C, the Islands between Taxiway C and the Ramp project, the Airport Terminal Development project, the Transportation Security Administration Baggage Handling Modifications project, and the Airport Layout Plan. These increases in depreciable assets can account also for the increment in depreciation expense.

Debt Administration

The following table summarizes the Airport's long-term debt (net of current portion) as of September 30, 2008, 2007, and 2006:

Long-Term Debt

		September 30		
		2008	**2007**	**2006**
1993 Refunding COP	$	8,350,000	9,175,000	9,960,000
Commercial paper		8,032,000	1,020,000	1,020,000
Unamortized discount – COP		(127,645)	(152,840)	(178,976)
Unamortized deferred loss – COP		(403,912)	(483,636)	(566,340)
Unamortized issuance costs – COP		(128,608)	(153,993)	(180,326)
Unamortized issuance costs – CP		(206,868)	(224,107)	(241,346)
Total long-term debt		15,514,967	9,180,424	9,813,012
Less current portion		(870,000)	(825,000)	(785,000)
Total long-term debt, net of current portion	$	14,644,967	8,355,424	9,028,012

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

Analysis Fiscal Year 2008

The Airport's total long-term debt increased $6,334,543 or approximately 69% compared to fiscal year 2007. The increase was primarily due to the issuance of commercial paper for the rehabilitation of Taxiway C and the islands between Taxiway C and the Ramp.

Additional information of the Airport's long-term debt can be found in note 4 on pages 26 – 29 of this report.

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.

Economic Factors/Outlook

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

Long Beach Airport is unique, in that its Noise Compatibility Ordinance does put a cap on airline activity, as determined by the airlines' generation of aircraft noise at various monitoring stations. Even with the limitations, however, it is expected that airline (including commuter) activity will grow from its current 3 million annual passengers to slightly over 4 million annual passengers, over the next several 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 4 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 over 500 based crewmembers. Airline load factors for fiscal year 2008 averaged 77%.

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. This stability is further indicated by the fact that Long Beach is one of the few commercial airline airports in the State with more airline seats offered than during the prior fiscal year period.

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, CA 90808.

FINANCIAL STATEMENTS

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Net Assets

September 30, 2008 and 2007

Assets		**2008**	**2007**
Current assets:			
Pooled cash and cash equivalents (note 2)	$	16,635,812	15,550,842
Investment – Nonperforming		50,701	—
Accounts receivable, net of allowance for doubtful accounts of $22,381 and $24,529 in 2008 and 2007, respectively		1,348,020	1,851,734
Note receivable		68,725	65,761
Due from other governments		1,737,470	2,444,085
Total current assets		19,840,728	19,912,422
Noncurrent assets:			
Restricted assets:			
Cash with fiscal agents – commercial paper (notes 2 and 4)		67,503	308,043
Pooled cash and cash equivalents (notes 2 and 4)		5,152,498	5,333,290
Passenger facility charges receivable		847,162	605,054
Note receivable		362,413	427,016
Capital assets, net (note 3)		118,672,259	102,341,301
Total noncurrent assets		125,101,835	109,014,704
Total assets	$	144,942,563	128,927,126
Liabilities and Net Assets			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	$	1,824,293	4,023,492
Accrued wages and compensated absences		234,315	191,263
Accrued interest payable		140,182	154,757
Current portion of long-term debt payable (note 4)		870,000	825,000
Due to City of Long Beach (note 5)		108,623	124,303
Deferred revenue – current portion		463,348	348,240
Vendor deposits held in trust		340,595	246,226
Total current liabilities		3,981,356	5,913,281
Noncurrent liabilities:			
Payable from restricted assets:			
Accounts payable – passenger facility and commercial paper		1,151,589	1,488,561
Long-term debt, net of current portion (note 4)		14,644,967	8,355,424
Deferred revenue long-term portion		5,951,930	6,093,334
Total noncurrent liabilities		21,748,486	15,937,319
Total liabilities		25,729,842	21,850,600
Net assets:			
Invested in capital assets, net of related debt		103,157,292	93,160,877
Restricted for debt service		1,295,250	1,019,500
Restricted for capital projects		3,620,324	3,738,325
Unrestricted		11,139,855	9,157,824
Total net assets		119,212,721	107,076,526
Total liabilities and net assets	$	144,942,563	128,927,126

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, 2008 and 2007

		2008	2007
Operating revenues (note 10):			
Land and building rentals	$	8,365,197	7,213,688
Parking fees		8,562,484	8,030,908
Airport concessions		5,173,047	5,372,472
Landing, gate, and ramp fees		5,712,496	4,384,046
Other fees and charges		2,239,324	1,835,766
Total operating revenues		30,052,548	26,836,880
Operating expenses (notes 7 and 11):			
Personnel services		7,997,820	7,676,956
Operations and maintenance		9,834,959	8,187,006
City services		6,595,852	6,324,244
General and administrative		1,401,731	856,631
Amortization expense		122,348	126,276
Total operating expenses before depreciation		25,952,710	23,171,113
Operating income before depreciation		4,099,838	3,665,767
Depreciation (note 3)		4,928,597	4,250,076
Operating loss		(828,759)	(584,309)
Nonoperating revenues (expenses):			
Interest income (note 6)		657,877	1,005,259
Passenger facility charges (note 6)		4,979,180	3,968,261
Interest expense		(535,414)	(555,023)
Operating security agreement		287,875	—
Other income, net		47,951	27,625
Total nonoperating revenues, net		5,437,469	4,446,122
Changes in net assets before capital contributions		4,608,710	3,861,813
Capital contributions – Federal Aviation Administration capital grants		7,495,543	12,013,424
Capital contributions – other sources		31,942	260,268
Changes in net assets		12,136,195	16,135,505
Net assets, beginning of year		107,076,526	90,941,021
Net assets, end of year	$	119,212,721	107,076,526

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash receipts from customers	$ 30,624,335	26,474,170
Payments for employee salaries and benefits	(7,954,768)	(7,669,747)
Payments for goods and services	(13,788,541)	(4,596,164)
Payments for City services	(6,595,852)	(6,324,244)
Net cash provided by operating activities	2,285,174	7,884,015
Cash flows from noncapital financing activities:		
Security agreement received from the Federal Aviation Administration	287,875	—
Receipts from other nonoperating activities	47,951	155,357
Net cash provided by noncapital financing activities	335,826	155,357
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(21,259,555)	(21,296,938)
Payments received from the note receivable	61,639	57,368
Receipts from passenger facility charges	4,737,072	3,654,540
Receipts from commercial paper	7,012,000	—
Capital grants received from the Federal Aviation Administration	8,202,158	12,209,527
Capital grants from other sources	31,942	260,268
Principal payment on debt due to Long Beach Capital Imp. Corp.	(825,000)	(785,000)
Interest paid	(549,989)	(568,761)
Net cash used in capital and related financing activities	(2,589,733)	(6,468,996)
Cash flows from investing activities – interest earned	632,371	1,031,395
Net increase in cash and cash equivalents	663,638	2,601,771
Cash and cash equivalents, beginning of year	21,192,175	18,718,136
Cash and cash equivalents, end of year	$ 21,855,813	21,319,907
Reconciliation of cash and cash equivalents to statement of financial position:		
Pooled cash and cash equivalents	$ 16,635,812	15,550,842
Restricted assets:		
Cash with fiscal agent	67,503	308,043
Pooled cash and cash equivalents	5,152,498	5,333,290
Total cash and cash equivalents	$ 21,855,813	21,192,175
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (828,759)	(584,309)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	4,928,597	4,250,076
Amortization expense	122,348	126,276
Changes in assets and liabilities:		
Increase (decrease) in assets:		
Accounts receivable	503,714	(349,545)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,536,171)	4,484,600
Accrued wages and compensated absences	43,052	7,209
Due to the City of Long Beach	(15,680)	(37,127)
Deferred revenues	(26,296)	(100,915)
Vendor deposits held in trust	94,369	87,750
Total adjustments	3,113,933	8,468,324
Net cash provided by operating activities	$ 2,285,174	7,884,015

See accompanying notes to financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Operations of the Reporting Entity

The City of Long Beach (the City) is a municipal corporation organized and existing under its Charter and the Constitution and the laws of the State of California. The Long Beach Airport Enterprise Fund (the Airport) 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 and Implementation of New Accounting Pronouncements

The Airport's financial statements are presented in conformance with the provisions of the Governmental Accounting Standards Board (GASB). The following summarizes implemented GASB pronouncements and their impact, if any, on the financial statements:

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement is effective for the fiscal year ended September 30, 2008 and the additional disclosure required by GASB 45 can be found in note 8.

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*. The 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. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the financial statements for periods beginning after December 15, 2006. Application of this statement is effective for the City's fiscal year ended September 30, 2008. For the fiscal year ended September 30, 2008, the provisions of GASB 48 have been determined to be nonapplicable to the Airport Enterprise Fund.

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 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 to 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 City's fiscal year ended September 30, 2008. No additional disclosure for GASB 50 was required for the Airport Enterprise Fund.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The statement focuses on the current or potential detrimental effects of existing pollution through participation in pollution remediation activities such as site assessments and clean-ups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The requirements of this statement are effective for financial statements periods beginning after December 15, 2007, and include measurement of pollution remedial liabilities at the beginning of the fiscal period as to restate beginning net assets. Governments with sufficient objective verifiable information to apply expected cash flow techniques to determine prior period liabilities are required to do for all periods presented. Application of this statement is effective for the City’s fiscal year ending September 30, 2009.

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 City’s fiscal year ending September 30, 2010.

In November of 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users’ ability to meaningfully evaluate an entity’s investment decisions and performance. Application of this statement is effective for the City’s fiscal year ending September 30, 2009.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government’s derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this statement is effective for the City's fiscal year ending September 30, 2010.

Under GASB, 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, 2008 and 2007 was based on fair value.

3. Accounts Receivable and Allowance for Uncollectible Accounts

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

4. Capital Assets

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

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

5. Net Assets

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

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

6. Budgetary Policies

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

(e) Reclassifications

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

(Continued)

(2) Pooled Cash, Cash Equivalents, and Investments

The Airport's cash and cash equivalents and investments as of September 30, 2008 and 2007 are classified in the accompanying statement of net assets as follows:

		2008	2007
Pooled cash and cash equivalents	$	16,635,812	15,550,842
Pooled cash and cash equivalents, restricted		5,152,498	5,333,290
Total pooled cash and cash equivalents		21,788,310	20,884,132
Restricted cash with fiscal agents – commercial paper		67,503	308,043
Total pooled cash and cash equivalents and cash with fiscal agents	$	21,855,813	21,192,175

The majority of the Airport's cash and cash equivalents, including restricted cash, 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, 2008 and 2007, the Airport's pooled cash and investments amounted to $21,788,310 or 1.28% and $20,884,132 or 1.24% of the City's pooled cash and investments, respectively. The City's pooled cash and investments as of September 30, 2008 and 2007 totaled $1,703,565,000 and $1,686,441,000, respectively.

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

The table below identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond 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.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
Bonds issued by the City	5 years*	30%	None
U.S. Treasury 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 (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 is the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2008 and 2007 (in thousands):

Investment type	Balance at September 30, 2008	Weighted average maturity in years	Balance at September 30, 2007	Weighted average maturity in years
Inter-Department Loan (Health SAVRS)	$ 2,892	10.6000	$ 3,098	11.6000
U.S. Treasury notes	55,816	0.4100	145,149	0.9000
Federal agency securities	1,289,369	1.9600	1,190,784	2.2800
Medium-term notes	84,148	0.9900	49,881	1.8300
Short-term commercial paper	—	—	135,874	0.0200
Local Agency Investment Fund (LAIF)	160,848	0.0900	139,156	0.0100
Government managed rate account	69,931		—	—
Subtotal city pool	1,663,004		1,663,942	
Cash and deposits	60,313		32,878	
Outstanding checks	(19,752)		(10,379)	
Total city pool	$ 1,703,565		$ 1,686,441	
Nonperforming short-term investment	$ 3,962		$ —	

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

The City invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to change in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

(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 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, 2008 and 2007 (in thousands):

Investment type	Balance at September 30, 2008	Minimum legal rating	Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Inter-Department Loan (Health SAVRS)	$ 2,892	N/A	$ 2,892	—	—	—	—	—
U.S. Treasury notes	55,816	N/A	55,816	—	—	—	—	—
Federal agency securities	1,289,369	N/A	—	—	—	1,289,369	—	—
Medium-term notes	84,148	A	—	—	—	84,148	—	—
Local Agency Investment Fund (LAIF)	160,848	N/A	160,848	—	—	—	—	—
Government-managed rate account	69,931	N/A	69,931	—	—	—	—	—
Subtotal city pool	1,663,004		289,487	—	—	1,373,517	—	—
Cash and deposits	60,313		—	—	—	—	—	60,313
Outstanding checks	(19,752)		—	—	—	—	—	(19,752)
Total city pool	$ 1,703,565		$ 289,487	—	—	1,373,517	—	40,561
Short-term investment	$ 3,962	N/A	$ —	—	—	—	—	3,962

Investment type	Balance at September 30, 2007	Minimum legal rating	Not required to be rated	A-1+	A-	AAA	AA-	Unrated
Inter-Department Loan (Health SAVRS)	$ 3,098	N/A	$ 3,098	—	—	—	—	—
U.S. Treasury notes	145,149	N/A	145,149	—	—	—	—	—
Federal agency securities	1,190,784	N/A	—	—	—	1,190,784	—	—
Medium-term notes	49,881	A	—	—	—	44,861	5,020	—
Short-term commercial paper	135,874	N/A	—	54,350	81,524	—	—	—
Local Agency Investment Fund (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 and deposits	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

(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 as of September 30, 2008 and 2007 are as follows (in thousands):

Issuer	Investment type	Reported amount September 30, 2008	Reported amount September 30, 2007
FFCB total	Federal agency securities	$ 93,000	89,334
FHLB total	Federal agency securities	477,695	354,763
FHLMC total	Federal agency securities	359,571	307,865
FNMA total	Federal agency securities	359,103	438,822
U.S. Treasuries	U.S. Treasury notes and bonds	55,817	145,149
Commercial paper	Unsecured corporate debt	—	135,874
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund	160,848	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 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 (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 reported deposits of $32,878,000 less $10,379,000 for checks outstanding.

(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 either the City's or the Airport'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. 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. This agreement limits the nature and amount of the transactions and provides for full collateralization of each transaction.

(3) Capital Assets

Changes in capital assets for fiscal 2008 were as follows:

	2008				
	Beginning balance, October 1	**Additions**	**Deletions/ retirements**	**Transfers**	**Ending balance, September 30**
Nondepreciable assets:					
Land	$ 6,419,114	—	(55,386)	—	6,363,728
Construction in progress	23,722,369	21,246,213	—	(32,532,146)	12,436,436
Total nondepreciable assets	30,141,483	21,246,213	(55,386)	(32,532,146)	18,800,164
Depreciable assets:					
Building	14,865,972	—	(14)	2,474,586	17,340,544
Runways and improvements	105,385,374	—	—	30,057,560	135,442,934
Automotive equipment	2,599,071	—	—	—	2,599,071
Infrastructure	128,149	—	—	—	128,149
Machinery and equipment	2,272,322	68,742	—	—	2,341,064
Furniture and fixtures	48,020	—	—	—	48,020
Total depreciable assets	125,298,908	68,742	(14)	32,532,146	157,899,782
Total capital assets	155,440,391	21,314,955	(55,400)	—	176,699,946
Less accumulated depreciation	(53,099,090)	(4,928,597)	—	—	(58,027,687)
Capital assets, net	$ 102,341,301	16,386,358	(55,400)	—	118,672,259

Changes in capital assets for fiscal 2007 were as follows:

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

(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 $965,000 to $1,230,000 beginning June 1, 2011. The amounts maturing on June 1, 2016 are also subject to optional prepayment in whole or in part, on any date on or after June 1, 2003, at a prepayment price equal to the principal and accrued interest to the date of prepayment.

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

The bond issuance costs are being amortized over the contractual maturity of the debt using the straight-line method of amortization. For the years ended September 30, 2008 and 2007, the Airport amortized $25,385 and $26,333, respectively, of the bond issuance costs. This expense is included in amortization 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 $79,725 and $82,704 for the years ended September 30, 2008 and 2007, respectively. This expense is included in amortization 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 $25,195 and $26,136 for the years ended September 30, 2008 and 2007, respectively. This expense is included in amortization 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, 2008 and 2007, the balance in the Reserve Fund for the 1993 Obligation was $1,295,250 and $1,019,500, respectively, and is included in restricted cash and cash equivalents in the statements of net assets. Such Reserve Funds represent the maximum annual debt service on the 1993 Obligation at September 30, 2008 and 10% of the outstanding principal of the 1993 Obligation at September 30, 2007.

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 Airport 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. On May 20, 2008, the City Council authorized for the program to be expanded to up to $25,000,000.

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.

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. On March 20, 2008 an additional $7,012,000 were issued. Interest rates have ranged from 1.35% to 3.8%. 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, 2008 and 2007, the Airport amortized $17,239 and $17,239, respectively. The Airport has the ability to and 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 2008 were as follows:

	Balance, 2007	Additions	Principal payments	Balance, 2008	Due within one year
Long-term debt:					
1993 Refunding COP	$ 9,175,000	—	(825,000)	8,350,000	870,000
Commercial paper (CP)	1,020,000	7,012,000	—	8,032,000	—
Unamortized discount – COP	(152,840)	—	25,195	(127,645)	24,124
Unamortized deferred loss – COP	(483,636)	—	79,724	(403,912)	76,336
Unamortized issuance costs – COP	(153,993)	—	25,385	(128,608)	24,306
Unamortized issuance costs – CP	(224,107)	—	17,239	(206,868)	17,239
Total long-term debt	9,180,424	$ 7,012,000	(677,457)	15,514,967	$ 1,012,005
Less current portion	(825,000)			(870,000)	
Total long-term debt, net of current portion	$ 8,355,424			14,644,967	

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

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

Debt service requirements to maturity for the 1993 Obligation at September 30, 2008 are summarized as follows:

	Principal	Interest	Total
Fiscal years:			
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	1,065,000	229,250	1,294,250
2014 – 2016	3,520,000	357,750	3,877,750
Total	$ 8,350,000	1,989,295	10,339,295

(5) Due to City of Long Beach

The City provides services to the Airport under a negotiated Memorandum of Understanding. At September 30, 2008 and 2007, the Airport's unpaid charges totaled $108,623 and $124,303 (for accrued wages and rent for parking lot D), respectively.

(6) Passenger Facility Charge (PFC)

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose PFCs on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security, or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers. In April 2003, the FAA approved the Airport's application to collect PFCs for specifically approved airport improvement projects. The collection authority was for $30,306,984 for six years ending October 1, 2009. On July 7, 2006, the Airport was given approval for an additional collection authority of $32,037,919, which amended the total PFC amount collected to $62,344,903 ending May 1, 2017. Effective August 1, 2003, the Airport began collecting PFCs in the amount of $3 per enplaning passenger.

On September 14, 2006, the Airport was given approval for a new application that granted collection authority of $7,148,186 with a charge effective date of May 1, 2017 and a charge expiration date of December 1, 2018. On March 21, 2008, the FAA approved the Airport's amendment request to increase the collection level from $3.00 to $4.50 to be effective May 1, 2008 for the two approved PFC applications. It was also approved to change the expiration date from May 1, 2017 to October 1, 2014 for the first approved application for $62,344,903. The second approved application's estimated charge expiration date was also changed from December 1, 2018 to November 1, 2015.

A third application for the design and construction of a new terminal building was approved on April 22, 2008. The FAA approval allowed the Airport to continue to collect the PFC charge at the $4.50 level with total net PFC revenue of $69,137,000. The earliest effective date for the third application PFC charge will be November 1, 2015 and is based on the estimated expiration date of the approved second application. According to the FAA, the Airport is required to submit an application to use the PFC revenue within three years of the approval date and begin implementation within five years of the approval date.

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 2008 and 2007 was $4,979,180 and $3,968,261, respectively. Interest earned on these funds for 2008 and 2007 amounted to $188,772 and $178,632, 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 2008 and 2007, the Airport's contribution of 100% of their share in pension cost is $799,951 and $721,952, respectively. CalPERS does not calculate a separate pension obligation at the airport level; accordingly, no separate airport obligation can be presented herein.

(Continued)

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) Postretirement Healthcare Benefits

(a) Plan Description

The Airport participates in the City's Retired Employees Health Insurance Program. This program is a single-employer defined benefit healthcare plan.

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental and long-term care insurance premiums. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested. The City has provided two one-time early retirement incentive programs. The first had a maximum value of $25,000 for employees, based on age, who retired during calendar year 1996 and the second incentive offered a 16 hour increase in sick leave per year of service to management employees who retired by June 30, 2004. In all cases, once the cash value of the retired employee's unused sick leave is exhausted, the retiree can terminate coverage or elect to continue paying the premiums at the retiree's expense.

At September 30, 2008, there were 635 participants in the City's Retired Employees Health Insurance Program, and the noninterest-bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled $16,369,000. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2008, were $6,868,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

(b) Termination Benefits

As of September, 30, 2008, the City has recorded a liability in the Employee Benefits Internal Service Fund of $72,751,000 based on an actuarial study of current and future retiree accumulated sick leave in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting of Compensated Absences*, (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.0

percent; wage increases of 3.5 percent per year for miscellaneous and 4.5 percent per year for safety employees, and insurance premium increases of 4.5 percent. The estimated current portion of such obligation of $5,850,000 has been fully funded and the long-term portion of the liability of $66,901,000 is being funded over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

(c) Other Postemployment Benefits

As of September 30, 2008, the City has also recorded a liability in the Employee Benefits Internal Service Fund of $5,249,000 based on an actuarial study of the "implicit subsidy" as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (GASB 45). While the City does not directly contribute any funding towards the cost of premiums for retirees, the ability to obtain coverage at any active employee's rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City's health care benefit plans increases the overall health plan rates. The economic benefit is defined as an "implicit subsidy" under GASB 45.

The ability to participate in the City's plan by self-paying the premiums extends for the lifetime of the retiree. However, upon attaining the age of Medicare eligibility, the retiree may enter a plan coordinated by Medicare. Standard actuarial practice assumes that Medicare supplemental plans do not generally give rise to implicit subsidy, and while we have included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both zero.

The plan does not issue a separate financial report.

(d) Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2008, the City has not contributed to the plan.

(e) Annual OPEB Cost and Net OPEB Obligation

The City's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that is actuarially determined in accordance with the requirements of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

Annual required contribution	$	8,102
Interest on net OPEB obligation		—
Adjustment to annual required contribution		—
Annual OPEB cost (expense)		8,102
Contribution made		(2,853)
Increase in net OPEB obligation		5,249
Net OPEB obligation – beginning of year		—
Net OPEB obligation – end of year	$	5,249

The ARC for the City was determined as part of the January 2006 actuarial valuation. For the year ended September 30, 2008, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal year ended		Annual OPEB cost contributed	Percentage of annual OPEB cost		Net OPEB obligation
September 30, 2008	$	8,102	35.2%	$	5,249

The OPEB liability is not recorded in the Department's financial statements.

(f) Funded Status and Funding Progress

The funded status of the plan as of September 30, 2008 was as follows (in thousands):

Actuarial accrued liability (AAL)	$	86,868
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	86,868
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll	$	284,484
UAAL as a percentage of covered payroll		30.5%
ARC as a percentage of covered payroll		2.8

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(g) Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2006 actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 12% for HMO plans and 9% for PPO plans that grades down to 4½% for all plans by September 30, 2017, and an inflation assumption of 3%. The EAN cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan’s normal cost is developed as a level amount over the participants’ working lifetime. The actuarial value of plan assets was $0. The plans unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

(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:

		Amount
Year(s):		
2009	$	6,977,016
2010		6,621,969
2011		6,270,379
2012		5,271,458
2013		4,385,898
2014 – 2018		19,517,347
2019 – 2023		17,106,033
2024 – 2028		16,614,378
2029 – 2033		14,286,489
2034 – 2038		13,370,041
2039 – 2043		10,463,702
2044 – 2048		10,142,659
2049 – 2053		7,465,005
2054 – 2058		3,780,244
2059 – 2063		3,780,244
2064 – 2068		3,780,244
2069 – 2073		3,780,244
2074 – 2078		3,780,244
2079 – 2083		3,780,244
2084 – 2088		598,539
	$	161,772,377

(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 $214,143 and $242,439 in insurance premiums to the City for fiscal years 2008 and 2007, 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 PFCs, FAA grants, Airport capital, and commercial paper. The Airport committed to approximately $5,268,590 and $11,923,000 in open construction contracts as of September 30, 2008 and 2007, respectively. At the end of fiscal year 2008, there are two major projects that are still being worked on. These projects include the end portion of the rehabilitation of Taxiways L & C and the Islands between Taxiway C and the Ramp, and the rehabilitation of Taxiway K, Phase 1 and 2.

(11) Subsequent Event

In December 2008, the Airport issued $8.3 million of authorized Airport Projects Commercial Paper Notes for finance costs related to the airfield pavement rehabilitation of Taxiway C and the islands between Taxiway C projects and for the design of a new parking structure.

SUPPLEMENTAL INFORMATION

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Supplementary Schedule – Rate Covenants

September 30, 2008 and 2007

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, 2008 and 2007, respectively, has been calculated as follows:

		2008	2007
Gross revenues, net of passenger facilities fees and capital contributions	$	31,046,251	27,869,764
Maintenance and operation costs, net of depreciation		(25,952,710)	(23,171,113)
Net revenues		5,093,541	4,698,651
Rate reserve amount at beginning of year		722,809	630,578
Amount available for debt service		5,816,350	5,329,229
Amount required to be available for debt service per rate covenant:			
Debt service for fiscal year		1,289,270	1,290,483
Rate covenant percentage		125%	125%
Amount required to be available for debt service per rate covenant		1,611,588	1,613,104
Amount available for debt service in excess of amount required to be available for debt service per rate covenant	$	4,204,762	3,716,125

See accompanying independent auditors' report.