



CITY OF LONG BEACH AIRPORT

Schedules of Passenger Facility Charges

September 30, 2009

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH AIRPORT

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

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

Compliance

We have audited the compliance of the City of Long Beach Airport Enterprise Fund (the Airport) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended September 30, 2009. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

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

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended September 30, 2009.

Internal Control over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with compliance requirements of a passenger facility charge

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

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

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

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

We have audited the financial statements of the Airport as of and for the year ended September 30, 2009 and have issued our report thereon dated August 10, 2010. Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Airport taken as a whole. The accompanying schedules of passenger facility charges collected and expended and interest credited are presented for purposes of additional analysis as specified in the Guide, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

KPMG LLP

August 10, 2010



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

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

We have audited the financial statements of the City of Long Beach Airport Enterprise Fund (the Airport) as of and for the year ended September 30, 2009, and have issued our report thereon dated August 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Airport's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and is described in the accompanying schedule of findings and responses as item FS-09-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

KPMG LLP

August 10, 2010

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Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Amended Application 03-02-C-03-LGB

Year ended September 30, 2009

Passenger facility charges collected	\$ 5,929,480
Interest credited (note 2)	<u>93,875</u>
	6,023,355
Expenditures for passenger facility charge approved projects	<u>2,674,228</u>
Change in unexpended passenger facility charges	3,349,127
Unexpended passenger facility charges as of September 30, 2008	<u>(2,165,789)</u>
Excess of passenger facility charges collected over charges expended as of September 30, 2009 (note 3)	\$ <u><u>1,183,338</u></u>

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Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Application 06-03-C-01-LGB

Year ended September 30, 2009

Passenger facility charges collected	\$ —
Interest credited (note 2)	<u>—</u>
Expenditures for passenger facility charge approved projects	<u>828,038</u>
Change in passenger facility charges	(828,038)
Unexpended passenger facility charges as of September 30, 2008	<u>(1,917,441)</u>
Excess of passenger facility charges expended over charges collected as of September 30, 2009 (note 3)	\$ <u><u>(2,745,479)</u></u>

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

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Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Amended Application 03-02-C-03-LGB

Quarters ended December 31, 2008, March 31, 2009, June 30, 2009, and September 30, 2009

	<u>December 31, 2008</u>	<u>March 31, 2009</u>	<u>June 30, 2009</u>	<u>September 30, 2009</u>	<u>Total</u>
Passenger facility charges collected	\$ 1,398,008	1,753,734	1,623,424	1,154,314	5,929,480
Interest credited (note 2)	<u>51,778</u>	<u>36,738</u>	<u>22,541</u>	<u>(17,182)</u>	<u>93,875</u>
	1,449,786	1,790,472	1,645,965	1,137,132	6,023,355
Expenditures for passenger facility charge approved projects	<u>1,033,176</u>	<u>568,796</u>	<u>659,511</u>	<u>412,745</u>	<u>2,674,228</u>
Change in unexpended passenger facility charges	416,610	1,221,676	986,454	724,387	\$ <u>3,349,127</u>
Unexpended passenger facility charges at beginning of quarter	<u>(2,165,789)</u>	<u>(1,749,179)</u>	<u>(527,503)</u>	<u>458,951</u>	
Excess of passenger facility charges collected over charges expended at end of quarter (note 3)	\$ <u>(1,749,179)</u>	<u>(527,503)</u>			
Excess of passenger fees collected over charges expended at end of quarter (note 3)			<u>458,951</u>	<u>1,183,338</u>	

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Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Application 06-03-C-01-LGB

Quarters ended December 31, 2008, March 31, 2009, June 30, 2009, and September 30, 2009

	<u>December 31, 2008</u>	<u>March 31, 2009</u>	<u>June 30, 2009</u>	<u>September 30, 2009</u>	<u>Total</u>
Passenger facility charges collected	\$				—
Interest credited (note 2)					—
Expenditures for passenger facility charge approved projects	<u>143,281</u>	<u>418,834</u>	<u>206,118</u>	<u>59,805</u>	<u>828,038</u>
Change in passenger facility charges	(143,281)	(418,834)	(206,118)	(59,805)	\$ <u>(828,038)</u>
Unexpended passenger facility charges at beginning of quarter	<u>(1,917,441)</u>	<u>(2,060,722)</u>	<u>(2,479,556)</u>	<u>(2,685,674)</u>	
Excess of passenger facility charges expended over charges collected at end of quarter (note 3)	\$ <u>(2,060,722)</u>	<u>(2,479,556)</u>	<u>(2,685,674)</u>	<u>(2,745,479)</u>	

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

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

September 30, 2009

(1) Basis of Accounting

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

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

(2) Interest Credited

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

(3) Amendments and New Application

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 on March 21, 2008. The charge expiration date was also changed from May 1, 2017 to October 14, 2014 for amended Application 03-02-C-03-LGB. The estimated charge expiration date for Application 06-03-C-01-LGB was also changed from December 1, 2018 to November 1, 2015.

On April 22, 2008, the Airport was given approval for a third application for the design and construction of a new terminal building. The collection of PFC under Application 08-04-I-00-LGB will begin once Application 06-03-C-01-LGB expires.

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Schedule of Findings and Responses

September 30, 2009

(1) Summary of Auditors' Results

Financial Statements

- (a) The type of report issued on the financial statements: **Unqualified.**
- (b) Internal control over financial reporting:
- Material weakness(es): **No.**
 - Significant deficiencies identified that are not considered to be material weaknesses: **Yes, see item FS 09-01.**
- (c) Noncompliance which is material to the financial statements: **No.**

Passenger Facility Charges Program

- (d) Internal control over the passenger facility charge program:
- Material weakness(es) identified: **No.**
 - Significant deficiencies identified that are not considered to be material weaknesses: **None Reported.**
- (e) The type of report issued on compliance for the passenger facility charge program: **Unqualified.**
- (f) Any audit findings required to be reported for the Passenger Facility Charges program: **No.**

(2) Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*

FS 09-01: Construction in Process

Condition and Context

We reviewed the Airport's internal control process in place to ensure that expenditures recorded to construction in progress are properly reclassified from construction in process to an appropriate depreciable asset category at the time the asset is placed into service or expensed when appropriate. We noted that during the fiscal year, the Airport accounting department performed a review of expenditures recorded to construction in process. As part of their review, the Airport incorrectly expensed approximately \$8.6 million in expenditures related to construction in process projects to operations and maintenance. We obtained the detail of the \$8.6 million in expenditures, noting approximately \$6.2 million related to prior years. The Airport chose to record these expenditures to operations and maintenance in the current year. We noted the decision to record these expenditures to operations and maintenance in the current year was inappropriate.

As a result, the Department of Financial Management of the City of Long Beach (Financial Management) performed a review of the expenditures recorded to operations and maintenance in the current year. Financial Management discovered that of the \$8.6 million identified, approximately \$5.2 million should not have been expensed to operations and maintenance and should have remained in construction in

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Schedule of Findings and Responses

September 30, 2009

process. Financial Management also identified approximately \$2.1 million in expenses that were recorded to operations and maintenance in the current year that should have been recorded as depreciable capital assets. We have reviewed Financial Management's analysis and are in agreement with its findings.

Criteria

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Cause

The Airport's internal controls in place to monitor and properly classify expenditures that are recorded as construction in process are not operating effectively. Information regarding the nature and status of expenditures that are recorded as construction in process is not communicated to the accounting department by the various departments in a timely manner, resulting in inaccurate financial reporting of capital assets, related depreciation expense, and operations and maintenance expense.

Effect or Potential Effect

Failure to monitor and properly classify expenditures that are recorded as construction in process may result in the misstatement of capital assets, net of accumulated depreciation, related depreciation expense, and operations and maintenance expense.

Recommendation

We recommend that the Airport enhance its internal controls related to tracking expenditures that are recorded as construction in process to ensure those expenditures are appropriately recorded as construction in process, depreciable capital assets, or operations and maintenance.

Views of Responsible Officials

To ensure compliance with the above recommendation, Financial Management will implement the following procedures to ensure consistent capitalization or expensing of expenditures recorded to construction in process:

- Within the Airport's financial system, there is an underutilized field in the project table called "project type." Currently this field for all projects defaults to C for "Capital Projects," regardless of whether the project is a large repair and maintenance project or project that qualifies for capitalization. To help properly categorize projects, additional project types for Recurring Repair and Maintenance, Nonrecurring Repair and Maintenance, and Preliminary Design will be added to the project table. Airport Accounting will work with Airport departments to review all active projects so that the appropriate project type can be assigned to each project. This will allow departments as well as Airport Accounting to better focus their attention on projects that should be capitalized.

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Schedule of Findings and Responses

September 30, 2009

- Airport Accounting will train project managers in the use of the project type field and will review all new projects to ensure accurate identification.
- In July or August, Airport Accounting will review capitalizable projects with the responsible project managers and note stage of completion and tentative date the asset will be placed into service. Airport Accounting will capitalize completed projects using the date the assets are placed into service as the acquisition date. As long as the assets are entered into the system prior to the last fiscal year posting of depreciation expense, the system will correctly calculate depreciation back to the asset's acquisition date. This will ensure that the amount of depreciation expense is accurate.

Prior to the posting of September's depreciation expense, Airport Accounting will review the data for completeness and accuracy. In fiscal year 2010, Airport Accounting hopes to do this review quarterly.

(3) Findings and Questioned Costs Related to the Passenger Facility Charge Program

None noted.