



CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedules of Passenger Facility Charges
Collected and Expended and Interest Credited

September 30, 2010

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Table of Contents

	Page(s)
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Passenger Facility Charge Program and on Internal Control over Compliance and Schedules of Passenger Facility Charges Collected and Expended and Interest Credited in Accordance with The Passenger Facility Charge Audit Guide for Public Agencies	1 – 2
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3 – 4
Schedule of Passenger Facility Charges Collected and Expended and Interest Credited – Year ended September 30, 2010	5
Schedule of Passenger Facility Charges Collected and Expended and Interest Credited – Quarters ended December 31, 2009, March 31, 2010, June 30, 2010, and September 30, 2010	6
Notes to Schedules of Passenger Facility Charges Collected and Expended and Interest Credited	7
Schedule of Findings and Responses	8 – 9



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**Independent Auditors' Report on Compliance with Requirements That Could Have
a Direct and Material Effect on the Passenger Facility Charge Program
and on Internal Control over Compliance and Schedules of Passenger Facility
Charges Collected and Expended and Interest Credited in Accordance with
The Passenger Facility Charge Audit Guide for Public Agencies**

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

Compliance

We have audited the City of Long Beach Airport Enterprise Fund's (the Airport) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, that could have a direct and material effect on the passenger facility charge program for the year ended September 30, 2010. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the 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 considered 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 compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended September 30, 2010.

Internal Control over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants 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 the 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, 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, 2010 and have issued our report thereon dated August 29, 2011. 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 29, 2011

**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 Airport Enterprise Fund, 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, 2010, and have issued our report thereon dated August 29, 2011. 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-10-01. 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 Airport Enterprise Fund, 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 29, 2011

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Amended Application 03-02-C-03-LGB

Year ended September 30, 2010

Passenger facility charges collected	\$ 5,963,200
Interest credited (note 2)	<u>70,254</u>
	6,033,454
Expenditures for passenger facility charge approved projects	<u>540,366</u>
Change in unexpended passenger facility charges	5,493,088
Unexpended passenger facility charges as of September 30, 2009	<u>1,183,338</u>
Excess of passenger facility charges collected over charges expended as of September 30, 2010 (note 3)	\$ <u><u>6,676,426</u></u>

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Application 06-03-C-01-LGB

Year ended September 30, 2010

Passenger facility charges collected	\$ —
Interest credited (note 2)	<u>—</u>
Expenditures for passenger facility charge approved projects	<u>30,378</u>
Change in passenger facility charges	(30,378)
Unexpended passenger facility charges as of September 30, 2009	<u>(2,745,479)</u>
Excess of passenger facility charges expended over charges collected as of September 30, 2010 (note 3)	\$ <u><u>(2,775,857)</u></u>

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Application 10-05-C-00-LGB

Year ended September 30, 2010

Passenger facility charges collected	\$ 152,795
Interest credited (note 2)	<u>7,447</u>
	160,242
Expenditures for passenger facility charge approved projects	<u>160,242</u>
Change in passenger facility charges	—
Unexpended passenger facility charges as of September 30, 2009	<u>—</u>
Excess of passenger facility charges expended over charges collected as of September 30, 2010 (note 3)	\$ <u><u>—</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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Amended Application 03-02-C-03-LGB

Quarters ended December 31, 2009, March 31, 2010, June 30, 2010, and September 30, 2010

	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	Total
Passenger facility charges collected	\$ 1,821,971	972,906	1,639,126	1,529,197	5,963,200
Interest credited (note 2)	18,221	18,991	19,569	13,473	70,254
	<u>1,840,192</u>	<u>991,897</u>	<u>1,658,695</u>	<u>1,542,670</u>	<u>6,033,454</u>
Expenditures for passenger facility charge approved projects	114,279	42,573	93,087	290,427	540,366
Change in unexpended passenger facility charges	1,725,913	949,324	1,565,608	1,252,243	\$ 5,493,088
Unexpended passenger facility charges at beginning of quarter	<u>1,183,338</u>	<u>2,909,251</u>	<u>3,858,575</u>	<u>5,424,183</u>	
Excess of passenger facility charges collected over charges expended at end of quarter (note 3)	\$ <u>2,909,251</u>	<u>3,858,575</u>	<u>5,424,183</u>	<u>6,676,426</u>	

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Application 06-03-C-01-LGB

Quarters ended December 31, 2009, March 31, 2010, June 30, 2010, and September 30, 2010

	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	Total
Passenger facility charges collected	\$ —	—	—	—	—
Interest credited (note 2)	—	—	—	—	—
Expenditures for passenger facility charge approved projects	4,870	10,351	2,848	12,309	30,378
Change in passenger facility charges	(4,870)	(10,351)	(2,848)	(12,309)	\$ (30,378)
Unexpended passenger facility charges at beginning of quarter	<u>(2,745,479)</u>	<u>(2,750,349)</u>	<u>(2,760,700)</u>	<u>(2,763,548)</u>	
Excess of passenger facility charges expended over charges collected at end of quarter (note 3)	\$ <u>(2,750,349)</u>	<u>(2,760,700)</u>	<u>(2,763,548)</u>	<u>(2,775,857)</u>	

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Application 10-05-C-00-LGB

Quarters ended December 31, 2009, March 31, 2010, June 30, 2010, and September 30, 2010

	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	Total
Passenger facility charges collected	\$ —	—	—	152,795	152,795
Interest credited (note 2)	—	—	—	7,447	7,447
	<u>—</u>	<u>—</u>	<u>—</u>	<u>160,242</u>	<u>160,242</u>
Expenditures for passenger facility charge approved projects	—	—	—	160,242	160,242
Change in passenger facility charges	—	—	—	—	\$ —
Unexpended passenger facility charges at beginning of quarter	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	
Excess of passenger facility charges expended over charges collected at end of quarter (note 3)	\$ <u>—</u>	<u>—</u>	<u>—</u>	<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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

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

September 30, 2010

(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 Enterprise Fund (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.

A fourth application for five projects was approved on September 2, 2010. Application 10-05-C-00-LGB covers the following projects: airfield pavement and infrastructure, airport aircraft rescue and firefighting station modifications, terminal areas access road, residential sound attenuation program, and airfield signage replacement. Collection of PFC under this application follows previously approved Application 08-04-I-00-LGB.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Findings and Responses

September 30, 2010

(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-10-01.**
- (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-10-01: Financial Reporting

Condition and Context

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

- The Airport does not perform a formal evaluation to ensure that all non-GAAP policies are identified and quantified to ensure any related adjustments do not materially misstate the financial statements. During our audit, we identified certain non-GAAP policies resulting in \$2.5 million in adjustments.
- The Airport does not have sufficient controls to ensure that net assets are calculated correctly on the statement of net assets in accordance with GAAP.
- Omission and/or incorrect calculation and disclosure of information according to GAAP in the long-term debt rollforward for FY 2010.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Findings and Responses

September 30, 2010

Criteria

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Cause

The Airport does not have an effective process or controls in place to compile their financial statements and related disclosures in accordance with GAAP. Financial statements are not reviewed sufficiently by someone with the appropriate technical expertise to identify errors in compilation.

Effect or Potential Effect

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

Recommendation

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

Views of Responsible Officials

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

For fiscal year 2011, the Airport's accounting team will seek additional GASB and FASB training to ensure the integrity of the financial statements.

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

None noted.