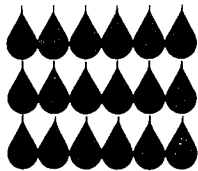


City of Long Beach
Air Quality Improvement Fund
Annual Financial Report
September 30, 2006 and 2005



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Air Quality Improvement Fund of the City of Long Beach, California (Air Quality Improvement Fund), a component financial reporting unit of the City of Long Beach, California (City), as of and for the year ended September 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The comparative financial information as of September 30, 2005, was audited by other auditors whose report dated March 31, 2006, expressed an unqualified opinion on those basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 of the notes to the financial statements, the financial statements of the Air Quality Improvement Fund are intended to present the financial position and the changes in fund balance of only that portion of activities of the City that is attributable to the transactions of the Air Quality Improvement Fund. They do not purport to, and do not, present fairly the financial position of the City as of September 30, 2006 and 2005, and changes in the City's financial position and where applicable for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Improvement Fund of the City of Long Beach, California, as of September 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2007, on our consideration of the Air Quality Improvement Fund of the City of Long Beach, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. This report can be found on page 10.

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

April 2, 2007
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation

City of Long Beach Air Quality Improvement Fund
Balance Sheets
September 30, 2006 and 2005

<i>Assets</i>	<u>2006</u>	<u>2005</u>
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 784,527	864,127
Due from other governments - motor vehicle fees	<u>149,928</u>	<u>308,676</u>
Total assets	<u><u>934,455</u></u>	<u><u>1,172,803</u></u>
 <i>Liabilities and Fund Balance</i>		
Liabilities:		
Accounts payable	16,000	30,998
Accrued wages and compensated absences	<u>-</u>	<u>1,094</u>
Total liabilities	<u>16,000</u>	<u>32,092</u>
Fund balance:		
Reserved for future capital projects/transportation	<u>918,455</u>	<u>1,140,711</u>
Total liabilities and fund balance	<u><u>\$ 934,455</u></u>	<u><u>1,172,803</u></u>

See the accompanying notes to the basic financial statements.

City of Long Beach Air Quality Improvement Fund
Notes to the Basic Financial Statements
September 30, 2006 and 2005

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Air Quality Improvement Fund

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

B. Financial Statements

The accompanying financial statements present only the financial position and the changes in financial position of the Air Quality Improvement Fund, and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

C. Basis of Accounting

The accompanying financial statements for the Air Quality Improvement Fund have been prepared on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities in the current period. For this purpose, and except for reimbursement basis government revenues, which are recognized when earned, the Air Quality Improvement Fund considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. The Air Quality Improvement Fund is also included as a component of the City's Comprehensive Annual Financial Report (CAFR). 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.

City of Long Beach Air Quality Improvement Fund
Notes to the Basic Financial Statements
September 30, 2006 and 2005

(2) Pooled Cash and Investments

As of September 30, 2006 and 2005, the Air Quality Improvement Fund's pooled cash and investments amounted to \$784,527 or 0.05% and \$864,127 or 0.06% of the City's pooled cash and investments, respectively. The City's pooled cash and investments as of September 30, 2006 and 2005 totaled \$1,438,524,000 and \$1,330,217,000, 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 trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's Investment policy.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
Bonds issued by the City	5 years*	30%	None
U.S. Treasury note, bonds or bills	5 years*	None	None
Registered state warrants or treasury notes or bonds of the state of California	5 years*	30%	None
Local Agency Bonds	5 years*	30%	None
Federal agency securities	5 years*	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years*	30%	10%
Time Certificates of Deposit	5 years*	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-term notes	5 years*	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

*Maximum maturity of five years unless a longer maturity is approved by the City Council, either specifically or as a part of an investment program, at least three 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.

City of Long Beach Air Quality Improvement Fund
Notes to the Basic Financial Statements
September 30, 2006 and 2005

(2) Pooled Cash and Investments, continued

e) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year end for each investment type as of September 30, 2006 and 2005 (in thousands):

Investment type	Balance at September 30, 2006	Minimum Legal Rating	Not required to be rated	AAA	A-1+ A-1 AA-	Unrated
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	-	-	-
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-
Federal agency securities	1,042,876	N/A	-	1,042,876	-	-
Medium-term notes	33,464	A	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	-	132,731	-
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	-	-	-
Subtotal City pool	1,429,756		220,685	1,071,321	137,750	-
Cash on hand	26,811		-	-	-	26,811
Outstanding checks	(18,043)		-	-	-	(18,043)
Total City pool	\$ 1,438,524		\$ 220,685	1,071,321	137,750	8,768

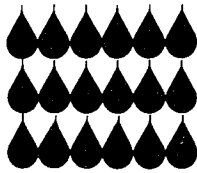
Investment type	Balance at September 30, 2005	Minimum Legal Rating	Not required to be rated	AAA	Aa A	Unrated
Bonds issued by the City	\$ 3,502	N/A	\$ 3,502	-	-	-
U.S. Treasury Notes	275,731	N/A	275,731	-	-	-
U.S. Treasury Bonds	10,513	N/A	10,513	-	-	-
Federal agency securities	858,461	N/A	-	858,461	-	-
Medium-term notes	95,404	A	-	71,783	23,621	-
Money market funds	34	N/A	34	-	-	-
Local Agency Investment Fund (LAIF)	94,981	N/A	-	-	-	94,981
Subtotal City pool	1,338,626		289,780	930,244	23,621	94,981
Cash on hand	11,499		-	-	-	11,499
Outstanding checks	(19,908)		-	-	-	(19,908)
Total City pool	\$ 1,330,217		\$ 289,780	930,244	23,621	86,572

f) Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represents 5% or more of the City's total pooled investments as of September 30, 2006 and 2005 are as follows (in thousands):

Issuer	Investment type	Reported amount	Reported amount
		September 30, 2006	September 30, 2005
FFCB Total	Federal agency securities	\$ 181,052	194,999
FHLB Total	Federal agency securities	241,246	204,151
FHLMC Total	Federal agency securities	266,937	216,462
FNMA Total	Federal agency securities	353,641	237,814
U.S. Treasuries	U.S. Treasury notes & bonds	2,144,567	-
Commercial Paper	Unsecured corporate debt	132,731	-
Local Agency Investment Fund	Local Agency Investment Fund	-	94,914

Report on Compliance and Internal Controls



Charles Z. Fedak, CPA, MBA
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6081 Orange Avenue
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(714) 527-1818
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EMAIL czfco@czfcpa.com

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Air Quality Improvement Fund 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 Air Quality Improvement Fund (Air Quality Improvement Fund) as of and for the year ended September 30, 2006, and have issued our report thereon dated April 2, 2007. 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 City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Air Quality Improvement Fund's financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Air Quality Improvement Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of Assembly Bill 2766 (AB2766), codified as Chapter 1705 (Health and Safety Code Sections 44220 through 45246), 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*.

This report is intended solely for the information and use of the Mayor, City Council and management of the City of Long Beach, California, as well as agencies granting funds to the Air Quality Improvement Fund, and is not intended to be and should not be used by anyone other than these specified parties.

April 2, 2007
Cypress, California

Charles Z. Fedak, CPA, MBA
An Accountancy Corporation