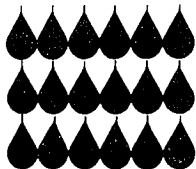


**City of Long Beach**  
**Airport Enterprise Fund**  
**Annual Financial Report**  
**September 30, 2006 and 2005**

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Charles Z. Fedak, CPA, MBA  
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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 (Airport) as of and for the year ended September 30, 2006, which collectively comprise the basic financial statements of the Airport as listed in the table of contents. These basic financial statements are the responsibility of the Airport'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 10, 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 basic 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 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Long Beach Airport Enterprise Fund as of September 30, 2006, and the respective changes in net assets and cash flows 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 a report dated April 2, 2007, on our consideration of the Airport's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit. This report can be found on page 20.

The Airport's management has not presented a management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements. The accompanying supplemental section on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule on the rate covenant has been subjected to the audit 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.

April 2, 2007  
Cypress, California

Charles Z. Fedak, CPA  
An Accountancy Corporation

# Basic Financial Statements

**City of Long Beach Airport Enterprise Fund**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Land and building rentals	\$ 6,793,338	6,393,811
Parking fees	7,512,483	8,193,835
Airport concessions	4,938,651	4,695,477
Landing, gate, and ramp fees	3,762,531	3,741,376
Other fees and charges	1,789,130	1,785,176
Total operating revenues	<u>24,796,133</u>	<u>24,809,675</u>
Operating expenses:		
Personnel services	6,915,332	5,863,713
Operations and maintenance	6,538,547	7,319,655
City services	5,413,365	4,380,406
General and administrative	1,865,925	1,640,274
Total operating expenses before depreciation	<u>20,733,169</u>	<u>19,204,048</u>
Operating income before depreciation	4,062,964	5,605,627
Depreciation	3,737,111	2,046,350
<b>Operating income</b>	<u>325,853</u>	<u>3,559,277</u>
Non-operating revenue (expense)		
Interest income	616,877	338,762
Passenger facility charges (note 7)	3,851,952	4,249,785
Interest expense	(724,060)	(719,173)
Operating grants	57,629	1,282,778
Other income, net	437,477	61,770
Total non-operating revenues, net	<u>4,239,875</u>	<u>5,213,922</u>
<b>Changes in net assets before capital contributions</b>	4,565,728	8,773,199
Capital Contributions – Federal Aviation Administration capital grants	4,015,038	16,704,974
<b>Changes in net assets</b>	8,580,766	25,478,173
Net assets, beginning of year	82,360,255	56,882,082
Net assets, end of year	<u>\$ 90,941,021</u>	<u>82,360,255</u>

See accompanying notes to the basic financial statements.

**City of Long Beach Airport Enterprise Fund**  
**Notes to the Basic Financial Statements**  
**September 30, 2006 and 2005**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The City of Long Beach (City) is a municipal corporation organized and existing under its Charter and the Constitution and the laws of the State of California. The Long Beach Airport Enterprise Fund (the Airport), a bureau within the Public Works Department, is operated by the City and is under the direction of the City Manager.

The Airport originated in 1923 when the City Council set aside 150 acres of property to provide for the general and commercial aviation needs of the City. During the late 1940's and 1950's, 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. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which the Airport gives (receives) value without directly receiving (giving) value in exchange.

**C. Financial Reporting**

The Airport's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – for State and Local Governments* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

**City of Long Beach Airport Enterprise Fund**  
**Notes to the Basic Financial Statements, continued**  
**September 30, 2006 and 2005**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**E. Assets, Liabilities and Net Assets, continued**

**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 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.

**F. 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 results of operations.

**City of Long Beach Airport Enterprise Fund**  
**Notes to the Basic Financial Statements, continued**  
**September 30, 2006 and 2005**

**(2) Pooled Cash and Investments, continued**

*c) Interest rate risk*

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing evenly over time as necessary to provide cash flow and liquidity need for operations.

The following schedule indicates the interest rate risk of the City's investment as of September 30, 2006 and 2005 (in thousands):

<b>Investment type</b>	<b>Balance at September 30, 2006</b>	<b>Weighted average maturity in years</b>	<b>Balance at September 30, 2005</b>	<b>Weighted average maturity in years</b>
Inter-Department Loan (Health Savrs)	\$ 3,297	12.6000	\$ 3,502	13.5700
U.S. Treasury Notes	214,467	1.5420	275,731	1.9900
U.S. Treasury Bonds	-	-	10,513	0.0300
Federal agency securities	1,042,876	1.5720	858,461	1.3100
Medium-term notes	33,464	1.6090	95,404	0.8400
Short-term Commercial Paper	132,731	0.0130	-	-
Money Market Funds	-	-	34	-
Local Agency Investment Fund (LAIF)	2,921	0.0030	94,981	0.4900
Subtotal City pool	1,429,756		1,338,626	
Cash on hand	26,811		11,499	
Outstanding checks	(18,043)		(19,908)	
Total City pool	\$ 1,438,524		\$ 1,330,217	

*d) Investments with Fair Values Highly Sensitive to Investment Risk*

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2006 and 2005.

**City of Long Beach Airport Enterprise Fund**  
**Notes to the Basic Financial Statements, continued**  
**September 30, 2006 and 2005**

**(2) Pooled Cash and Investments, continued**

**g) Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under the 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City issued bond and investment in the State's Local Agency Investment Fund.

As of September 30, 2006, the City reported deposits of \$26,811,000 less \$18,043,000 for checks outstanding. As of September 30, 2005, the City reported deposits of \$11,499,000 less \$19,908,000 for checks outstanding.

**h) Investment in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the City's financial statements at amounts based upon the City's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

**i) Reverse Repurchase Agreements**

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2006 and 2005.

**j) Securities Lending**

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2006 and 2005. Thus, in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, no assets or liabilities have been recorded in the accompanying financial statements. However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreement with the City's contract bank. This agreement limits the nature and amount of the transactions and provides for full collateralization of each transaction.



**City of Long Beach Airport Enterprise Fund**  
**Notes to the Basic Financial Statements, continued**  
**September 30, 2006 and 2005**

**(4) Assessment Payable**

In March 1990, the Long Beach City Council adopted a resolution authorizing the establishment of an assessment district for the purpose of making certain improvements to traffic infrastructure surrounding the Airport. The Airport leases certain parcels to private interests subject to, generally, long-term leases. For parcels without long-term leases subject to assessment, the Airport is obligated to make a cash contribution. In addition, the Airport is required to make a cash contribution for improvements attributable to the Airport itself. As of September 30, 2006, the assessment liability was deemed expired and credited back to the Airport as non-operating other income in the Statement of Revenues, Expenses and Changes in Net Assets. As of September 30, 2005, the obligation remained outstanding with a balance of \$486,250.

**(5) Long-term Debt**

***1993 Refunding Certificate of Participation***

The City entered into an installment purchase obligation (the 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 re-financing the acquisition, construction and installation of various improvements to certain facilities of the Airport.

In July 1993, the proceeds of the 1993 Obligation were used to advance refund a prior obligation with the LBCIC dated June 1, 1991 (1991 Obligation). As a result of the advance refunding, the 1991 Bonds were subsequently called in June 1999, and the liability for this obligation was removed from the Airport's books and records.

The 1993 Obligation matures in installments ranging from \$170,000 to \$1,230,000 from June 1, 1994 through June 1, 2016 and bears interest at rates from 2.70% to 5.35%, payable semiannually on June 1 and December 1 of each year. The principal maturing on June 1, 2016 is subject to mandatory annual prepayments ranging from \$920,000 to \$1,230,000 beginning June 1, 2010. The amounts maturing on June 1, 2016 are also subject to optional prepayment in whole or in part, on any date on or after June 1, 2003, at a prepayment price equal to the principal and accrued interest to the date of prepayment.

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

The bond issuance costs are being amortized over the contractual maturity of the debt using a method approximating the straight-line method of amortization. For the years ended September 30, 2006 and 2005, the Airport amortized \$27,272 and \$28,006, respectively, of the bond issuance costs. This expense is included in interest expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. The Airport is also amortizing a loss on the 1993 Obligation refunding using a method approximating the straight-line method of amortization. Amortization of this loss amounted to \$85,653 and \$87,957 for the years ended September 30, 2006 and 2005, respectively. This expense is included in interest expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. Finally, the Airport is amortizing the original issue discount of the Obligation using a method approximating the straight-line method of amortization. Amortization of this discount amounted to \$27,068 and \$27,796 for the years ended September 30, 2006 and 2005, respectively. This expense is included in interest expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

**City of Long Beach Airport Enterprise Fund**  
**Notes to the Basic Financial Statements, continued**  
**September 30, 2006 and 2005**

**(5) Long-term Debt, continued**

	<u>Balance</u> <u>2004</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2005</u>
Long-term debt:				
1993 Refunding COP	\$ 11,420,000	-	(710,000)	10,710,000
Commercial Paper - (CP)	-	1,020,000	-	1,020,000
Unamortized discount - COP	(233,840)	-	27,796	(206,044)
Unamortized deferred loss - COP	(739,950)	-	87,957	(651,993)
Unamortized issuance costs - COP	(235,604)	-	28,006	(207,598)
Unamortized issuance costs - CP	-	(275,824)	17,239	(258,585)
Total long-term debt	<u>\$ 10,210,606</u>	<u>744,176</u>	<u>(549,002)</u>	<u>10,405,780</u>
Less: current portion	<u>(710,000)</u>			<u>(750,000)</u>
Total long-term debt, net	<u>\$ 9,500,606</u>			<u>9,655,780</u>

Debt service requirements to maturity for the 1993 Obligation at September 30, 2006 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 785,000	505,483	1,290,483
2008	825,000	464,270	1,289,270
2009	870,000	420,545	1,290,545
2010	920,000	374,000	1,294,000
2011	965,000	328,000	1,293,000
2012-2016	<u>5,595,000</u>	<u>866,750</u>	<u>6,461,750</u>
Total	<u>\$ 9,960,000</u>	<u>2,959,048</u>	<u>12,919,048</u>

**(6) Due to City of Long Beach**

The City provides services to the Airport under a negotiated Memorandum of Understanding. At September 30, 2006 and 2005, the Airport's unpaid charges totaled \$161,430 and \$83,805 (for accrued wages and rent for parking lot "D"), respectively.

**(7) Passenger Facility Charge**

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose PFC's on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFC's. PFC's 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 PFC's 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 PFC's in the amount of \$3 per enplaning passenger.

**City of Long Beach Airport Enterprise Fund**  
**Notes to the Basic Financial Statements, continued**  
**September 30, 2006 and 2005**

**(9) Deferred Compensation Savings Plan, continued**

If Plan participants retire or terminate service with the City, they may be eligible to receive payments under the Plan in accordance with provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the Plan by the participants, along with their allocated contributions.

**(10) 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 service 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 non-cancelable operating leases having an initial term in excess of one year is as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 5,671,565
2008	5,617,167
2009	5,264,278
2010	5,059,158
2011	4,730,503
2012-2016	19,167,694
2017-2021	16,433,600
2022-2026	15,223,319
2027-2031	13,766,296
2032-2036	12,282,640
2037-2041	10,222,976
2042-2046	8,818,743
2047-2051	8,398,886
2052-2056	3,846,590
2057-2061	3,362,494
2062-2066	3,362,494
2067-2071	3,362,494
2072-2076	3,362,494
2077-2081	3,362,494
2082-2086	1,878,513
	<u>\$ 153,194,398</u>

**(11) Commitments and Contingencies**

***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. Airport 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.

## Supplemental Information

**City of Long Beach Airport Enterprise Fund**  
**Supplemental Schedule – Rate Covenants**  
**September 30, 2006 and 2005**

**Rate Covenant**

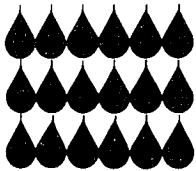
The 1993 Obligation contains a covenant that requires the City to fix and collect rates and charges at the Airport that are reasonably anticipated to be at least sufficient to yield, during each fiscal year, net revenues equal to 125% of the debt service requirement for such fiscal year. The required 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, 2006 and 2005, respectively, has been calculated as follows:

	<u>2006</u>	<u>2005</u>
Gross revenues, net of passenger facilities fees and capital grants	\$ 25,908,116	26,492,985
Maintenance and operation costs, net of depreciation	<u>(20,733,169)</u>	<u>(19,204,048)</u>
Net revenues	5,174,947	7,288,937
Rate reserve amount at beginning of year	<u>562,480</u>	<u>511,982</u>
Amount available for debt service	<u>5,737,427</u>	<u>7,800,919</u>
Amount required to be available for debt service per rate covenant:		
Debt service for fiscal year	1,293,920	1,290,308
Rate covenant percentage	<u>125%</u>	<u>125%</u>
Amount required to be available for debt service per rate covenant	<u>1,617,400</u>	<u>1,612,885</u>
Amount available for debt service in excess of amount required to be available for debt service per rate covenant	\$ <u><u>4,120,027</u></u>	<u><u>6,188,034</u></u>



# Report on Compliance and Internal Controls



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

# Charles Z. Fedak & Company

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## **Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting 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 (Airport) 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.

### ***Compliance***

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Council and management 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*  
*An Accountancy Corporation*