



**Comprehensive Annual Financial Report  
of the Long Beach Water Department**

*A Department of the City of Long Beach, California*

**For the Fiscal Year Ended September 30, 2007**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE  
LONG BEACH WATER DEPARTMENT  
(A Department of the City of Long Beach, California)**

**For the Fiscal Years Ended  
SEPTEMBER 30, 2007 and 2006**

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Accountant III**

**Prepared by the Finance Division  
of the  
Business Bureau**

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# INTRODUCTORY SECTION

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# Comprehensive Annual Financial Report

of the

## Long Beach Water Department (A Department of the City of Long Beach, California)

For the Fiscal Years Ended September 30, 2007 and 2006

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**Long Beach Water Department**  
The Standard in Water Conservation &  
Environmental Stewardship

DATE June 27, 2008  
TO Board of Water Commissioners  
FROM B. Anatole Falagan, Deputy General Manager - Business  
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal years ended  
September 30, 2007 and 2006

Management is pleased to present the Comprehensive Annual Financial Report (CAFR) of the Long Beach Water Department (Department), for the fiscal years ended September 30, 2007 and 2006. The Department's financial statements are also included in the City's Financial Statements as enterprise funds (Water Fund and Sewer Fund).

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The accompanying financial statements have been audited by of KPMG LLP, an independent certified public accounting firm. KPMG LLP has issued an unqualified ("clean") opinion on the Department's financial statements for the fiscal years ended September 30, 2007 and 2006. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report, and provides a narrative introduction, overview, and analysis of the financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

## **THE REPORTING ENTITY**

The Department was established July 1, 1911, by the City Charter to regulate and control the use, sale and distribution of water owned or controlled by the City. In February 1988, the Department assumed the responsibility of the various functions of the City's sanitary sewer system, including operations and maintenance. In April, 1990, the citizens of Long Beach passed a City Charter amendment that allowed greater autonomy for the Department in administering the City's sanitary sewer operations.

The Board, established in 1931, governs the Department and is comprised of five members appointed by the Mayor, subject to confirmation by the City Council. Members of the Board serve overlapping five-year terms to provide continuity of operations. Also in 1931, the City became a member of the Metropolitan Water District of Southern California (MWD).

The Department's service area encompasses the boundaries of the City, an area of approximately 50 square miles, with a population of 492,912 and some customers outside the City limits. The Department is not subject to regulation by the California Public Utilities Commission.

## **WATER SUPPLY**

The Department meets the needs of its customers through an increasingly diverse portfolio of water resources. Local groundwater, combined with imported supplies, water recycling and water conservation are used in combination to meet the water demands within the service area.

### ***Groundwater***

Ownership of water rights allows approximately half of Long Beach's water supply needs to be produced from groundwater wells located within the City. Before it reaches our customers' taps, local groundwater must journey many miles from its source high up in the mountains. Rain and snow-melt from the San Gabriel Mountains watershed travel through washes and creeks into the San Gabriel River and the Whittier Narrows Basin. From there it percolates underground through sand and water beds where it begins a lengthy subsurface journey to Long Beach. High-powered pumps then extract it from 31 active groundwater wells and pump it to our groundwater treatment plant.

During the 1940's and 1950's the population grew and the increased water demand in the San Gabriel Valley significantly reduced the flows southerly to the Central Basin, contributing to falling water tables. In 1959, to protect this vital source of local water supply, the Board initiated a lawsuit against major water producers in the San Gabriel Valley to guarantee water supplies to Central Basin producers.

Parties to the lawsuit negotiated a settlement which provided the basis of a stipulated judgment (the "Long Beach Judgment") rendered by the Superior Court on October 8, 1965. By separate action, a committee of Central Basin producers reached an agreement for voluntary reduction of pumpage within the basin to restore and protect the water table and to

expedite the above judgment to permanently prevent excessive pumping. The reduction in pumping began October 1, 1962. The two events were of major importance in securing local water supplies for the City. The Department is the largest producer of water in the Central Basin.

### ***Imported Supplies***

Another portion of the City's potable (drinking) water supply is treated water purchased from MWD. This water originates from two sources: the Colorado River Aqueduct and the State Water Project (SWP).

Through its 242-mile long system, the Colorado River Aqueduct provides up to a billion gallons of water a day to residents and businesses in Southern California's coastal plain. Water is taken in at Lake Havasu and carried to the reservoir facilities at Lake Mathews. The State Water Project delivers water originating from the Oroville Dam and Reservoir and the Sacramento River Delta. The SWP is an intricate network of dams, pumping plants, reservoirs, hydroelectric plants, the Sacramento and San Joaquin rivers and 440 miles of aqueducts that carry water to several Southern California reservoirs.

### ***Water Recycling***

During periods of inadequate water supply, effective water recycling will help stretch the potable water that is used in Long Beach every day; that is the primary reason the Department launched a reclaimed water system in 1978. Water that would otherwise flow to the ocean and be wasted is reclaimed and used to irrigate park land, golf courses, freeway landscaping and school grounds, as well as reduce our dependence on imported water.

The Department has a very successful reclaimed water program, utilizing the water for irrigation and for two very innovative programs: the use of reclaimed water for subsidence mitigation and for seawater barrier injection. We expect to continue to expand our reclaimed water system in order to make reclaimed water available to additional customers.

An important feature of the Department's reclaimed water program is that it is unaffected by single or multi-year droughts. The production of the reclaimed water plant exceeds the current and projected use of reclaimed water; so even drought conditions should not impact the ability of the Department to meet reclaimed water demands.

### ***Conservation***

The Department has an aggressive water conservation program that offers a variety of opportunities to conserve water across different sectors of the community and for both indoor and outdoor water uses.

Single-family and multi-family customers together are responsible for approximately two-thirds of the City's demand for water. Several of the Department's programs provide rebates to residential customers towards the purchase of water-efficient toilets and washing machines. Additionally, the Department has started identifying its highest-use residential water customers and offering them free water use inspections to identify opportunities to conserve water.

Most single-family residential water use appears to be for landscape irrigation. For these customers, the Department provides, at no cost to the customer, very well attended and received classroom instruction on the design, installation, and maintenance of California-friendly landscapes. Another innovative program is the Department's direct installation of weather-based irrigation controllers, a program under which we identify landscape accounts, offer free water-use studies and free installation of weather-based irrigation controllers.

In addition to spreading conservation to residential and landscape accounts, we work closely with commercial, industrial and institutional (CII) customers to help them conserve water. The Department has encouraged conservation through targeted direct marketing, through rebates for water conserving devices, and has consistently promoted conservation in the business community through advertisements and other promotional means.

The Department also actively promotes conservation through its work in the classrooms of the Long Beach Unified School District, the Miller Children's Hospital, and the Long Beach Aquarium of the Pacific. Long Beach Water Department promotes conservation by supporting community functions and making presentations at local and regional events, including advertising inserts in utility bills, and purchasing advertising space in environmental publications and local newspapers.

## **WATER QUALITY**

A primary objective of the Department is to deliver to our customers water that meets or exceeds all Federal and State standards. The Department continues to be recognized as a leader in the area of water quality. Our extensive testing and Quality Assurance/Quality Control program ensures that water delivered to our customers is of the highest possible quality.

The Department conducts extensive sampling and testing of groundwater wells, water storage reservoirs, the water distribution system and, when appropriate, selected homes, businesses, schools and public facilities. This year, our Water Quality laboratories collected 16,761 samples and performed 60,235 tests for more than 140 drinking water contaminants while maintaining certification with the California Department of Health Services and Environmental Protection Agency (EPA).

### ***Groundwater Treatment Plant and Water Quality Laboratory***

On April 14, 1997, a 62.5 million-gallon per day Groundwater Treatment Plant and Water Quality Laboratory completed operational testing and was put into full operation on May 1, 1997. Long Beach has one of the most modern water treatment facilities in the world, coupled with four of the most advanced water quality laboratories. This combination helps explain why the City's high quality drinking water consistently meets or exceeds all Federal and state drinking water regulations.

During fiscal year 2007, the Groundwater Treatment Plant processed approximately 8.4 billion gallons of drinking water. Overall, 22.2 billion gallons of high-quality water were delivered to the Long Beach community.

The Department also operates the nation's first municipal state-of-the-art water bottling plant which eliminates the need for the City to continue to purchase bottled water for emergencies and emergency response.

The bottling equipment consists of a bottle riser, filler, capper, sealer and labeler. The equipment is able to process one-half liter, one-liter and one and a half liter bottles. The clean room has a sophisticated air-cleaning system consisting of HEPA filters, capable of removing most of the particulates in the air. The California Department of Health Services completed an extensive audit of the plant and certified the facility for operation on March 8, 2007.

## **MAJOR INITIATIVES**

### ***Reclaimed Water System Expansion***

The Department remains committed to developing alternatives to imported potable (drinking) water supplies to meet the water needs of the City. In efforts to reduce our need to purchase imported water and to develop new sources of water, the Department has been working on several major projects. First, is the expansion of the City's reclaimed water system. The expansion was redesigned and rephased into five stages and the project includes the construction of 84,000 feet of pipelines in existing City streets, new pump stations and converting three (3) existing domestic water reservoirs to reclaimed water storage. When complete, the expansion program will more than double reclaimed water use in Long Beach from approximately 4,000 acre-feet to 9,000 acre-feet, annually. This project was the recipient of the 1997 California Water Awareness Program. Since 2000, the Department, in conjunction with the Water Replenishment District (WRD), has received a 25% matching grant from the U.S. Bureau of Reclamation. These grant funds are used for expansion of Long Beach's reclaimed water system and for the Alamitos Seawater Barrier Reclaimed Water Project; the latter includes the construction and operation of a 3.0 million gallons per day reverse osmosis water treatment plant, enabling WRD to use recycled water from the Long Beach Water Reclamation Plant to replace 3,000 acre-feet per year of imported water now being supplied to the Barrier.

In Long Beach, reclaimed water is wastewater that has been fully treated by a three stage (tertiary) process for industrial and irrigation uses. The Long Beach Water Reclamation Plant, operated by the Sanitation Districts of Los Angeles County, treats up to 25 million gallons of wastewater every day into clear, quality water that meets State standards for such reuse and is environmentally safe. Reclaimed water is used for irrigation purposes at the City's parks, golf courses, cemeteries and numerous garden nurseries. Other users include California State University Long Beach, Long Beach City College, the Long Beach Unified School District and Caltrans sites on the 405 and 605 Freeways and THUMS (a collaboration of oil producers operating four (4) off-shore oil islands).

### ***Seawater Desalination Research***

Since 1994, the Department has continued to pursue seawater desalination as a potential source of drinking water. In 1996, the Department received authorization for Federal cost-sharing of a seawater desalination demonstration project; and in fiscal year 2001, the Department received an earmark in the Federal fiscal year 2002 budget, making it the only newly funded water project by the Federal government in that budget. Federal funding continued in fiscal years 2003 through 2007. Through an innovative public sector partnership, the Long Beach Water Department along with the Los Angeles Department of Water & Power and the United States Bureau of Reclamation, constructed and is operating a 300,000 gallon-per-day prototype desalination facility, one of the largest seawater desalination research and development facilities in the United States.

### ***Conjunctive Use***

The Department has also partnered with the Metropolitan Water District of Southern California, and the California Department of Water Resources on an innovative groundwater storage program. The \$4.5 million project, which is 100% funded by State of California Proposition 13, has stored 4.2 billion gallons of surplus water in the Central Groundwater Basin for later use during dry or drought conditions. A second, \$3.1 million joint conjunctive use project with the City of Lakewood is nearing completion. As of this report, an additional 586.5 million gallons have been stored as part of this project.

### ***Water Distribution System***

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2007, the water distribution system totaled 905 miles of water mains with 89,535 active service connections.

During fiscal year 2007, the Department and contractors replaced 54,423 feet of deteriorated cast iron water mains with new ductile iron pipe. This critical replacement program addresses upgrading old pipelines, many of which were installed more than 50 years ago.

The City has approximately 662 old control valves 20 inches or more in diameter and 22,809 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. During the year, the Department performed maintenance on 5,474 valves, repaired 43 and replaced 249.

The Department also renewed 1,141 water services utilizing copper pipe, replaced or repaired 407 fire hydrants, responded to 12,887 customer service requests and reviewed 88 high bill reports. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. During the year, the Department repaired 92 water main pipeline breaks citywide and tested, installed, repaired or exchanged 3,610 water meters.

With 31 active water wells across Long Beach supplying nearly half of the City's water, well maintenance is another ongoing project for the Department. Rehabilitation of water wells and storage tanks at Alamitos and J. Will Johnson Reservoirs continues to ensure a reliable supply of water in the future.

### ***Sanitary Sewer Collection System***

The Department has made considerable progress since 1988 in addressing the substantial challenges posed by an aging sanitary sewer infrastructure, much of which is between 60 and 80 years old. The first City-wide Sewer Master Plan, developed by the Department in 1991, provides a prioritization of the sewer deficiencies that must be addressed.

This year the Department completed 231 sewer lateral and sewer main pipeline repair jobs, repaired 193 private sewer lines damaged by the roots from City trees (including sidewalk replacement), chemically treated 3,000 of the 16,055 sewer manholes to control vectors (roaches, other insects and rodents), and cleaned 364 of the 711 miles of sewer pipelines throughout the City.

### ***Storm Drain System***

Since 1999, the Department has been responsible for the operation and maintenance of the City's storm drain system, consisting of 3,200 catch basins, 185.5 miles of storm drain pipelines, numerous cross drains, 2,040 storm drain manholes and 23 pump stations. Effective October 1, 2003, the Department transferred ownership of and responsibility for City storm drain system assets back to the City's Department of Public Works. Under agreement with the City, the Water Department continues to operate and maintain the storm drain system for the City on a cost reimbursement basis. Effective June 1, 2004, the City's Department of Public Works took over responsibility for maintenance and operation of the City's 13 open channels (totaling 3.2 miles). Effective January 23, 2007, the City's Department of Public Works took over the cleaning of the catch basins, cross drains, and grates. Thus, during the FY 2007, the Water Department cleaned 525 catch basins, 112 cross drains and 293 grates.

## **RELEVANT FINANCIAL POLICIES**

The Department's financial statements are presented on the accrual basis of accounting. As an enterprise fund, the cost of providing water is recovered through user charges assessed by meter size, volumetric charges and other miscellaneous charges. The cost of providing sewer service is also recovered through user and volumetric charges for all water customers who are connected to the City's sewers. Certain services, such as payroll, civil service, public service, general service, customer billing, data processing, legal, etc., are provided to the Department by other City departments; these costs are reimbursed to the City by journal voucher transfer of funds from the Water Fund or the Sewer Fund.

### ***Internal Control Structure***

In the development and enhancement of the Department's accounting system, careful consideration is given to the adequacy of the internal controls designed to provide reasonable assurance regarding the safeguarding of assets against possible loss, unauthorized use or disposition; to ensure the reliability of financial records for preparing financial statements

and maintaining accountability for assets, and to promote operational efficiency and compliance with managerial policies. The concept of reasonable assurance recognizes that: (1) the cost of a specific control feature should not exceed the benefits likely to be derived, and; (2) the evaluation of costs and benefits requires continued estimates and judgment by management.

### ***Budgetary Control***

The budget is a management control device for the forthcoming fiscal year. Prior to August 1 each year, the Board adopts an operating budget, which covers anticipated revenues and expenditures of the Department. The Department's budget is also subject to the approval of the City Council. By September 30 each year, the City Council shall approve the budget as adopted by the Board of Water Commissioners, or shall amend the budget and approve it as amended.

Budgets are prepared on a cash basis for revenues and for several categories of expenses. These budgets are not designed to be pro-forma statements of income and expense in the same format as the Water Department's financial statements. Instead, they are utilized primarily for controlling costs along organizational and programmatic lines. Each Bureau within the Department is responsible for outlays initiated by Divisions. Revenues are monitored only at the departmental level, except in certain areas where they are controlled by individual projects.

### ***Risk Management***

The Department participates in the City's self-insured program for workers' compensation, property and tort liability. The City and the Department's management believe that sufficient funds are being accumulated in the City's Insurance Internal Service Fund to meet losses as they arise. The Department contributes to the Insurance Internal Service Fund based on future projections and past loss experience. In addition, various risk control techniques, including safety training for all employees, regular property appraisals, and the inclusion of appropriate legal provisions in third party contracts, have been implemented to minimize risk losses.

### ***Cash Management***

To obtain flexibility in cash management, the City employs a pooled cash system. Under the City's pooling concept, all cash received or collected by the Department is required by City Charter to be deposited with the City Treasurer who administers the cash investment program. This includes cash from operations as well as funds restricted for Bond Service and Reserve accounts. Earnings are allocated monthly to all participating City agencies based on the average daily balance of pooled funds on deposit.

The City maintains a reasonable and safe return on its investments, and at the same time employs prudent investment policies to safeguard the City's cash assets and maintain adequate levels of liquidity. Quarterly reports are presented by the Department of Financial Management to the City Manager and City Council. The City's general investment strategies are stated in a formal Statement of Investment Policy, which is reviewed and approved by the City Council on an annual basis.



## AWARDS AND ACKNOWLEDGEMENTS

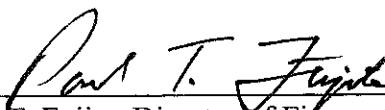
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2006. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting and its attainment represents a significant accomplishment by a government agency and its management. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR whose contents not only conform to the high program standards of the GFOA, but also satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

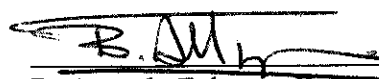
We would like to acknowledge the assistance of Sokhalay Hong, Senior Accountant, and Yumina Cangco, Accountant III, of the Business Bureau Finance Division in the preparation of this report.

It is recommended that the Board of Water Commissioners receive and file the Comprehensive Annual Financial Report for the fiscal years ended September 30, 2007 and 2006.

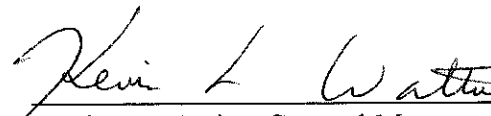
Prepared by:

  
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Paul T. Fujita, Director of Finance

Submitted and  
Recommended by:

  
\_\_\_\_\_  
B. Anatole Falagan, Deputy General Manager - Business

Approved by:

  
\_\_\_\_\_  
Kevin L. Wattier, General Manager

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Long Beach Water  
Department, California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



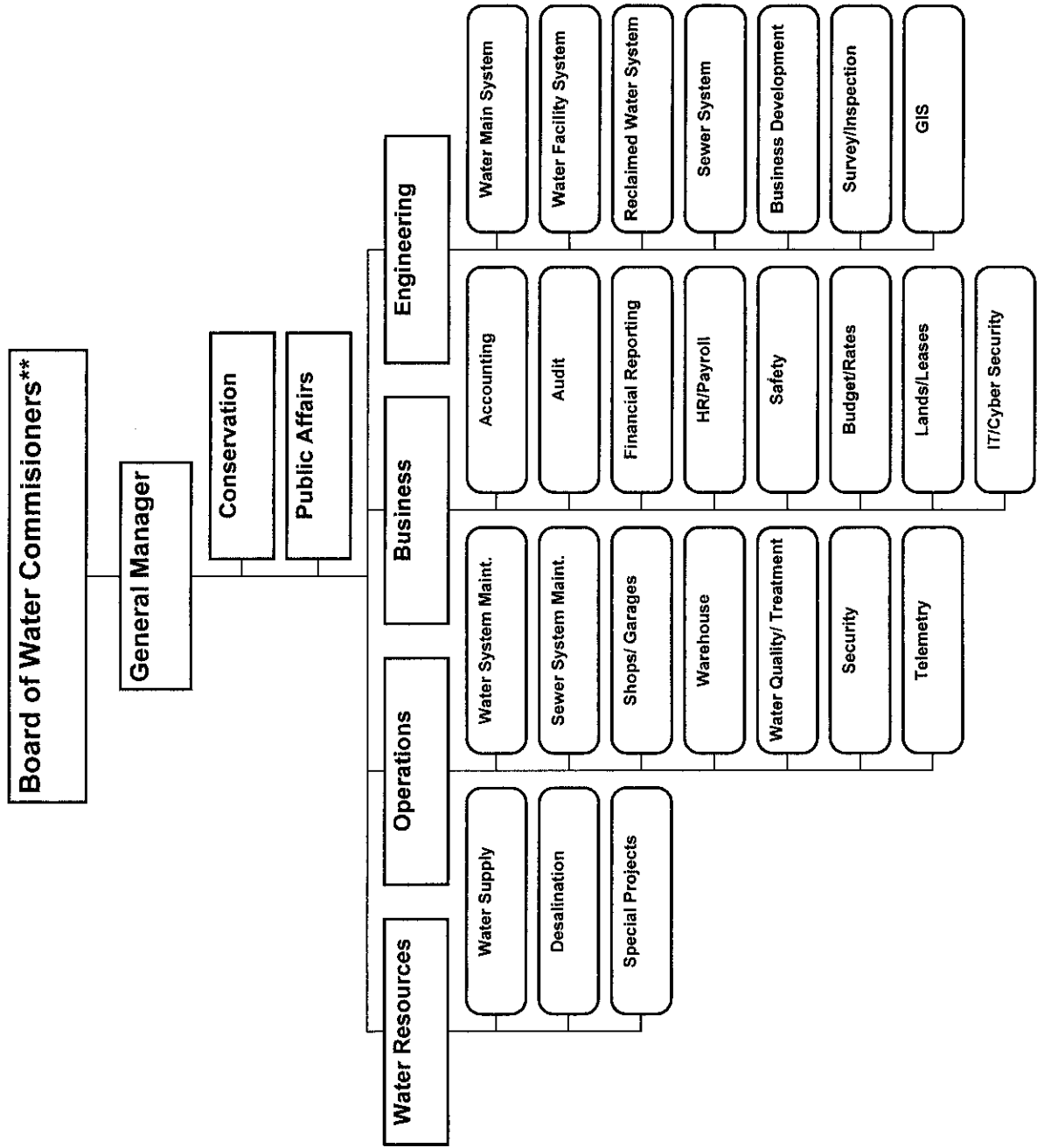
*Oliver S. Cox*

President

*Jeffrey R. Emer*

Executive Director

# Long Beach Water Department Organizational Functions



\*\*Members of the Board of Water Commissioners are appointed by the Mayor, confirmed by the City Council, and serve a maximum two five-year terms.

# **LONG BEACH WATER DEPARTMENT**

## **BOARD OF WATER COMMISSIONERS**

WILLIAM B. TOWNSEND	PRESIDENT
JOHN D. ALLEN	VICE PRESIDENT
PAUL BLANCO	SECRETARY
FRANK CLARKE	MEMBER
STEPHEN T. CONLEY	MEMBER

## **STAFF**

KEVIN L. WATTIER  
General Manager

B. ANATOLE FALAGAN  
Deputy General Manager - Business

ROBERT C. CHENG  
Deputy General Manager - Operations

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# FINANCIAL SECTION

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**KPMG LLP**  
Suite 2000  
355 South Grand Avenue  
Los Angeles, CA 90071-1568

## **Independent Auditors' Report**

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Long Beach Water Department (the Department) of the City of Long Beach, California (the City), as of and for the years ended September 30, 2007 and 2006, which collectively comprise the Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed more fully in note 1 to the basic financial statements, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City, as of September 30, 2007 and 2006, and the changes in its financial position, and its cash flows, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2008 on our consideration of the Department'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.

Management's discussion and analysis on pages 3 through 21 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

June 27, 2008

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2007 and 2006

As the management of the Long Beach Water Department (a department of the City of Long Beach), we offer readers of the Long Beach Water Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal years ended September 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. The Long Beach Water Department (the Department) is comprised of the City's Water Enterprise Fund (Water Fund) and Sewer Enterprise Fund (Sewer Fund) operations. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

The Department's assets exceeded its liabilities at the close of fiscal year 2007 by \$281,894 (*net assets*). The Department's net assets are further broken down between the Water Enterprise Fund and Sewer Enterprise Fund below.

**Water Enterprise Fund.** Assets exceeded its liabilities at the close of fiscal year 2007 by \$230,022. Of this amount, \$8,366 (*unrestricted net assets*) is available to meet the Water Fund's ongoing obligations to creditors and customers. Unrestricted net assets represented 12.5% of the Water Fund's annual operating expenses for 2007 as compared with 17.9% for 2006. Total Water Fund net assets increased by \$4,471 (+2.0%) from the prior fiscal year. This increase is attributable to income of \$1,927 and capital contributions of \$2,544.

**Sewer Enterprise Fund.** Net assets totaled \$51,872 as of September 30, 2007, a decrease of \$376 (-0.7%) from the prior fiscal year. The decrease is the result of a loss from Sewer Fund operations and is primarily due to the City of Long Beach imposing an annual pipeline permit fee, effective October 1, 2006, that is assessed on sewer main lines throughout the City. At the end of the current fiscal year, Sewer Fund's unrestricted net assets represented 45.4% of annual operating expenses for 2007 as compared with 124.4% for 2006.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. Because the Department is a business-type activity of the City of Long Beach, enterprise funds are used to account for its water and sewer operations. These financial statements include only the activities of the Department and provide comparative information for the last two fiscal years. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2007.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2007 and 2006

The Department's financial statements are comprised of two components: 1) financial statements and 2) notes to financial statements. Included as part of the financial statements are the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows.

The *Statements of Net Assets* present the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Fund Net Assets* present information showing how the Department's net assets have changed during the most recent two fiscal years. Results of operations are recorded under the accrual basis of accounting, whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (i.e., accounts payable and accounts receivable). The Department's use of the accrual basis of accounting is more fully described in the accompanying *Notes to Financial Statements*.

The *Statements of Cash Flows* present flows of cash and cash equivalents during the last two fiscal years, including certain restricted amounts.

The *Notes to Financial Statements* provide additional information that is essential to the full understanding of the data provided in the financial statements and can be found on pages 25-44 of this report.

### FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. A summary of the Department's Statements of Net Assets for the past three years is presented on page 5. As of September 30, 2007, Water Fund assets exceeded liabilities by \$230,022, and Sewer Fund assets exceeded liabilities by \$51,872, representing a 2.0% increase in net assets over the prior fiscal year for the Water Fund and a -0.7% decrease in Sewer Fund net assets. Net assets are further categorized by investments in capital assets, and restricted and unrestricted net assets.

As of September 30, 2007, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represented 94.4% and 89.9% of Water Fund and Sewer Fund net assets, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2007 and 2006

repay the outstanding debt on the Statements of Net Assets must come from other sources such as operations.

The restricted portion of the Water Fund's net assets (1.9% of total net assets as of September 30, 2007 and 2006) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Department's net assets (4.8% and 7.4% of total net assets as of September 30, 2007 and 2006, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed Schedule of Net Assets as of September 30, 2007, 2006 and 2005 is as follows (in thousands):

<b>Long Beach Water Department Condensed Schedules of Net Assets September 30, 2007, 2006 and 2005 (in thousands)</b>							
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>Variance</b>			
				<b>2007/2006</b>		<b>2006/2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>			
<b>Assets:</b>							
Current and other assets	\$ 28,034	\$ 34,282	\$ 33,441	\$ (6,248)	-18.2%	\$ 841	2.5%
Capital assets	300,934	291,093	283,421	9,841	3.4%	7,672	2.7%
Total assets	<u>328,968</u>	<u>325,375</u>	<u>316,862</u>	<u>3,593</u>	<u>1.1%</u>	<u>8,513</u>	<u>2.7%</u>
<b>Liabilities:</b>							
Current liabilities	11,427	11,151	10,356	276	2.5%	795	7.7%
Noncurrent liabilities	35,647	36,426	37,606	(779)	-2.1%	(1,180)	-3.1%
Total liabilities	<u>47,074</u>	<u>47,577</u>	<u>47,962</u>	<u>(503)</u>	<u>-1.1%</u>	<u>(385)</u>	<u>-0.8%</u>
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	263,884	252,901	244,165	10,983	4.3%	8,737	3.6%
Restricted	4,409	4,355	4,316	54	1.2%	39	0.9%
Unrestricted	13,601	20,542	20,419	(6,941)	-33.8%	122	0.6%
Total net assets	<u>\$ 281,894</u>	<u>\$ 277,798</u>	<u>\$ 268,900</u>	<u>\$ 4,096</u>	<u>1.5%</u>	<u>\$ 8,898</u>	<u>3.3%</u>

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2007 and 2006

The Department's financial position is further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund as of September 30, 2007, 2006 and 2005:

#### Long Beach Water Department Condensed Schedules of Net Assets September 30, 2007, 2006 and 2005 (in thousands)

<b>Water Enterprise Fund</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>Variance</b>			
				<b>2007/2006</b>		<b>2006/2005</b>	
				<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Assets:</b>							
Current and other assets	\$ 22,257	\$ 23,684	\$ 23,705	\$ (1,427)	-6.0%	\$ (21)	-0.1%
Capital assets	254,297	248,474	242,215	5,823	2.3%	6,259	2.6%
Total assets	276,554	272,158	265,920	4,396	1.6%	6,238	2.3%
<b>Liabilities:</b>							
Current liabilities	10,885	10,181	9,799	704	6.9%	382	3.9%
Noncurrent liabilities	35,647	36,426	37,606	(779)	-2.1%	(1,180)	-3.1%
Total liabilities	46,532	46,607	47,405	(75)	-0.2%	(798)	-1.7%
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	217,247	210,282	202,959	6,965	3.3%	7,323	3.6%
Restricted	4,409	4,355	4,316	54	1.2%	39	0.9%
Unrestricted	8,366	10,914	11,240	(2,548)	-23.3%	(326)	-2.9%
Total net assets	\$ 230,022	\$ 225,551	\$ 218,515	\$ 4,471	2.0%	\$ 7,036	3.2%
<b>Sewer Enterprise Fund</b>							
<b>Assets:</b>							
Current assets	\$ 5,777	\$ 10,598	\$ 9,736	\$ (4,821)	-45.5%	862	8.9%
Capital assets	46,637	42,619	41,206	4,018	9.4%	1,413	3.4%
Total assets	52,414	53,217	50,942	(803)	-1.5%	2,275	4.5%
<b>Liabilities:</b>							
Current liabilities	542	970	557	(428)	-44.1%	413	74.1%
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	46,637	42,619	41,206	4,018	9.4%	1,413	3.4%
Unrestricted	5,235	9,628	9,179	(4,393)	-45.6%	449	4.9%
Total net assets	\$ 51,872	\$ 52,247	\$ 50,385	\$ (376)	-0.7%	\$ 1,862	3.7%

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2007 and 2006

### Fiscal Year Ended September 30, 2007 compared to 2006

**Water Enterprise Fund.** Net assets increased by \$4,471 (+2.0%) over FY 2006. Approximately 43% of this increase was attributable to revenues in excess of expenses of \$1,927. The remaining 57% (\$2,544) is due to contributed capital from State and Federal grants for reclaimed water, conjunctive use well and seawater desalination capital projects totaling \$2,098, and contributed capital from developer project water infrastructure improvements totaling \$446.

Current and other assets decreased by \$1,427 (-6.0%) from FY 2006, reflecting decreases in cash reserves due primarily to increased expenditures on capital assets. Capital assets increased by \$5,823 (+2.3%) over the prior year due to continued expenditures on the capital improvement program. The increase in capital assets was partially offset by an increase in depreciation and amortization, primarily due to recognition of depreciation of the capitalized seawater desalination prototype facility, which was completed during the year.

Current liabilities increased by \$704 (+6.9%) over FY 2006, primarily due to an increase in accounts payable on the accrual of 1997 Bond arbitrage for \$265. Noncurrent liabilities decreased by \$779 (-2.1%) from the prior year. The decrease reflects maturities of debt of \$1,179 offset by an increase in other noncurrent liabilities of \$400 for accrued desalination prototype facility site restoration costs. The terms of the land lease agreement for the site where the facility is located require the site to be restored to its original condition at the commencement of the lease agreement.

**Sewer Enterprise Fund.** Net assets decreased \$376 (-0.7%) from FY 2006 due to expenses exceeding revenues for the year. Current assets decreased by \$4,821 (-45.5%), reflecting a decrease in cash reserves due primarily to the funding of a major sewer capital improvement project. Additionally, the City of Long Beach imposed an annual pipeline permit fee, effective October 1, 2006, that is assessed on sewer main lines throughout the City. Capital assets increased \$4,018 (+9.4%) over FY 2006, primarily due to continued expenditures on the capital improvement program, partially offset by an increase in depreciation. Current liabilities decreased by \$428 (-44.1%) compared to FY 2006 mainly due to decreases in accounts payable associated with construction contracts.

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2007 and 2006

### Fiscal Year Ended September 30, 2006 compared to 2005

**Water Enterprise Fund.** Net assets increased by \$7,036 (+3.2%) compared to FY 2005, with 63% of the increase attributable to on-going revenues in excess of on-going expenses of \$4,402. The remainder (37% of total increase) is due to contributed capital totaling \$2,634 from the receipt of State and Federal grants for reclaimed water, conjunctive use well and seawater desalination capital projects totaling \$1,922, and contributed capital from developer project water infrastructure improvements totaling \$712. Current and other assets decreased by \$21 (-0.1%) from FY 2005. The decrease is primarily from the net effect of amortization of deferred charges and a decrease in accounts receivable from the prior year, offset by increases in unrestricted cash and amounts due from other funds. The change in accounts receivable is primarily attributable to prior fiscal year end large receivables for potable water sales to Water Replenishment District of Southern California (WRD) for groundwater banking, WRD in-lieu replenishment incentive programs, and grants receivable. Increases in current liabilities of \$382 (+3.9%) over the prior year are primarily attributable to increases in accounts payable, including purchased water accruals at year end.

**Sewer Enterprise Fund.** Net assets increased by \$1,862 (+3.7%) compared to FY 2005. The increase was attributable to revenues in excess of expenses of \$1,862. For FY 2006, there were no capital contributions related to sewer infrastructure improvements, compared to FY 2005 capital contributions totaling \$585 received from developer sewer infrastructure improvements. Current assets increased by \$862 (+8.9%) compared to the prior year, primarily attributable to increases in unrestricted cash from operations. Current liabilities increased by \$413 (+74.1%) compared to FY 2005 mainly due to increases in accounts payable associated with construction contracts.

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2007 and 2006

The Water Department's Condensed Schedule of Revenues, Expenses and Changes in Fund Net Assets provides further insight as to the nature and source of changes in net assets and are summarized as follows for the years ended September 30, 2007, 2006, and 2005 (in thousands):

**Long Beach Water Department**  
**Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets**  
**Fiscal Years Ended September 30, 2007, 2006 and 2005**  
**(in thousands)**

	2007	2006	2005	Variance			
				2007/2006		2006/2005	
				Amount	%	Amount	%
<b>Operating Revenues:</b>							
Metered water sales	\$ 53,540	\$ 49,931	\$ 49,090	\$ 3,609	7.2%	\$ 841	1.7%
Reclaimed water sales	2,574	1,600	1,388	974	60.9%	212	15.3%
Service charges	19,188	17,317	16,930	1,871	10.8%	387	2.3%
Maintenance services	296	780	732	(484)	-62.1%	48	6.6%
Other services	5,472	5,690	6,100	(218)	-3.8%	(410)	-6.7%
Total operating revenues	<u>81,070</u>	<u>75,318</u>	<u>74,240</u>	<u>5,752</u>	<u>7.6%</u>	<u>1,078</u>	<u>1.5%</u>
<b>Operating Expenses:</b>							
Cost of water	20,605	19,179	20,936	1,426	7.4%	(1,757)	-8.4%
Personal services	16,969	15,663	15,379	1,306	8.3%	284	1.8%
Maintenance and other	16,921	17,044	12,395	(123)	-0.7%	4,649	37.5%
Depreciation and amortization	12,218	9,118	9,335	3,100	34.0%	(217)	-2.3%
Franchise and permit fees	8,599	4,570	4,047	4,029	88.2%	523	12.9%
Other	3,164	3,144	3,296	20	0.6%	(152)	-4.6%
Total operating expenses	<u>78,476</u>	<u>68,718</u>	<u>65,388</u>	<u>9,758</u>	<u>14.2%</u>	<u>3,330</u>	<u>5.1%</u>
Operating income	2,594	6,600	8,852	(4,006)	-60.7%	(2,252)	-25.4%
<b>Non-Operating Income (Expenses):</b>							
Interest income	1,117	1,019	769	98	9.6%	250	32.5%
Interest expense	(2,218)	(2,255)	(2,253)	37	-1.6%	(2)	0.1%
Gain(Loss) on disposition of property	66	(225)	(137)	291	-129.4%	(88)	64.2%
Rents	682	733	804	(51)	-6.9%	(71)	-8.8%
Other income (expenses), net	(690)	392	499	(1,082)	-276.0%	(107)	-21.4%
Income before contributed capital	<u>1,551</u>	<u>6,264</u>	<u>8,534</u>	<u>(4,713)</u>	<u>-75.2%</u>	<u>(2,270)</u>	<u>-26.6%</u>
Capital contributions	2,544	2,634	6,874	(90)	-3.4%	(4,240)	-61.7%
Change in net assets	<u>4,095</u>	<u>8,898</u>	<u>15,408</u>	<u>(4,803)</u>	<u>-54.0%</u>	<u>(6,510)</u>	<u>-42.2%</u>
Beginning net assets	<u>277,798</u>	<u>268,900</u>	<u>253,492</u>	<u>8,898</u>	<u>3.3%</u>	<u>15,408</u>	<u>6.1%</u>
Ending net assets	<u>\$ 281,894</u>	<u>\$ 277,798</u>	<u>\$ 268,900</u>	<u>\$ 4,096</u>	<u>1.5%</u>	<u>\$ 8,898</u>	<u>3.3%</u>



# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2007 and 2006

The Department's operations are further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund for the years ended September 30, 2007, 2006 and 2005:

**Water Enterprise Fund**  
**Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets**  
**Fiscal Years Ended September 30, 2007, 2006 and 2005**  
**(in thousands)**

	2007	2006	2005	Variance			
				2007/2006		2006/2005	
				Amount	%	Amount	%
<b>Operating Revenues:</b>							
Metered water sales	\$ 50,001	\$ 46,877	\$ 45,966	\$ 3,124	6.7%	\$ 911	2.0%
Reclaimed water sales	2,574	1,600	1,388	974	60.9%	212	15.3%
Service charges	13,959	12,727	12,302	1,232	9.7%	425	3.5%
Other services	3,725	4,870	4,866	(1,145)	-23.5%	4	0.1%
Total operating revenues	<u>70,259</u>	<u>66,074</u>	<u>64,522</u>	<u>4,185</u>	<u>6.3%</u>	<u>1,552</u>	<u>2.4%</u>
<b>Operating Expenses:</b>							
Cost of water	20,605	19,179	20,936	1,426	7.4%	(1,757)	-8.4%
Personal services	14,069	12,974	12,731	1,095	8.4%	243	1.9%
Maintenance and other	14,621	14,576	10,159	45	0.3%	4,417	43.5%
Depreciation and amortization	10,972	7,885	8,174	3,087	39.2%	(289)	-3.5%
Franchise and permit fees	4,846	4,570	4,047	276	6.0%	523	12.9%
Other	1,824	1,797	2,273	27	1.5%	(476)	-20.9%
Total operating expenses	<u>66,937</u>	<u>60,981</u>	<u>58,320</u>	<u>5,956</u>	<u>9.8%</u>	<u>2,661</u>	<u>4.6%</u>
Operating income	3,322	5,093	6,202	(1,771)	-34.8%	(1,109)	-17.9%
<b>Non-Operating Income (Expenses):</b>							
Interest income	758	653	556	105	16.1%	97	17.4%
Interest expense	(2,218)	(2,255)	(2,253)	37	-1.6%	(2)	0.1%
Gain(Loss) on disposition of property	66	(213)	(137)	279	-131.0%	(76)	55.5%
Rents	682	733	804	(51)	-7.0%	(71)	-8.8%
Other income (expenses), net	(683)	391	487	(1,074)	-274.6%	(96)	-19.7%
Income before contributed capital	<u>1,927</u>	<u>4,402</u>	<u>5,659</u>	<u>(2,475)</u>	<u>-56.2%</u>	<u>(1,257)</u>	<u>-22.2%</u>
Capital contributions	2,544	2,634	6,289	(90)	-3.4%	(3,655)	-58.1%
Change in net assets	<u>4,471</u>	<u>7,036</u>	<u>11,948</u>	<u>(2,565)</u>	<u>-36.5%</u>	<u>(4,912)</u>	<u>-41.1%</u>
Beginning net assets	225,551	218,515	206,567	7,036	3.2%	11,948	5.8%
Ending net assets	<u>\$ 230,022</u>	<u>\$ 225,551</u>	<u>\$ 218,515</u>	<u>\$ 4,471</u>	<u>2.0%</u>	<u>\$ 7,036</u>	<u>3.2%</u>

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2007 and 2006

### Sewer Enterprise Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets Fiscal Years Ended September 30, 2007, 2006 and 2005 (in thousands)

	2007	2006	2005	Variance			
				2007/2006		2006/2005	
				Amount	%	Amount	%
<b>Operating Revenues:</b>							
Metered water sales	\$ 3,539	\$ 3,054	\$ 3,124	485	15.9%	\$ (70)	-2.2%
Service charges	5,229	4,590	4,628	639	13.9%	(38)	-0.8%
Maintenance services	296	780	732	(484)	-62.1%	48	6.6%
Other services	1,747	820	1,234	927	113.0%	(414)	-33.5%
Total operating revenues	10,811	9,244	9,718	1,567	17.0%	(474)	-4.9%
<b>Operating Expenses:</b>							
Personal services	2,900	2,689	2,648	211	7.8%	41	1.5%
Maintenance and other	2,300	2,468	2,236	(168)	-6.8%	232	10.4%
Franchise and permit fees	3,753	-	-	3,753	100.0%	-	-
Depreciation	1,246	1,233	1,161	13	1.0%	72	6.2%
Other	1,340	1,347	1,023	(7)	-0.5%	324	31.7%
Total operating expenses	11,539	7,737	7,068	3,802	49.1%	669	9.5%
Operating income (expenses)	(728)	1,507	2,650	(2,235)	-148.3%	(1,143)	-43.1%
<b>Non-Operating Income (Expenses):</b>							
Interest income	359	366	213	(7)	-1.9%	153	71.8%
Loss on disposition of property	-	(12)	-	12	100.0%	(12)	100.0%
Other income (expenses), net	(7)	1	12	(8)	-800.6%	(11)	-91.6%
Income (loss) before contributed capital	(376)	1,862	2,875	(2,238)	-120.2%	(1,013)	-35.2%
Capital contributions	-	-	585	-	-	(585)	-100.0%
Change in net assets	(376)	1,862	3,460	(2,238)	-120.2%	(1,598)	-46.2%
Beginning net assets	52,247	50,385	46,925	1,862	3.7%	3,460	7.4%
Ending net assets	\$ 51,872	\$ 52,247	\$ 50,385	\$ (376)	-0.7%	\$ 1,862	3.6%

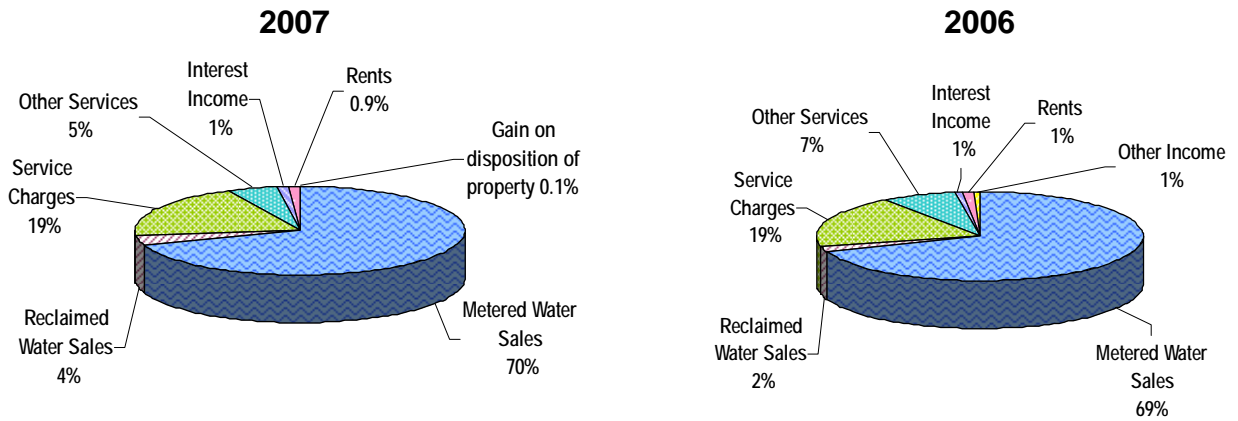
# LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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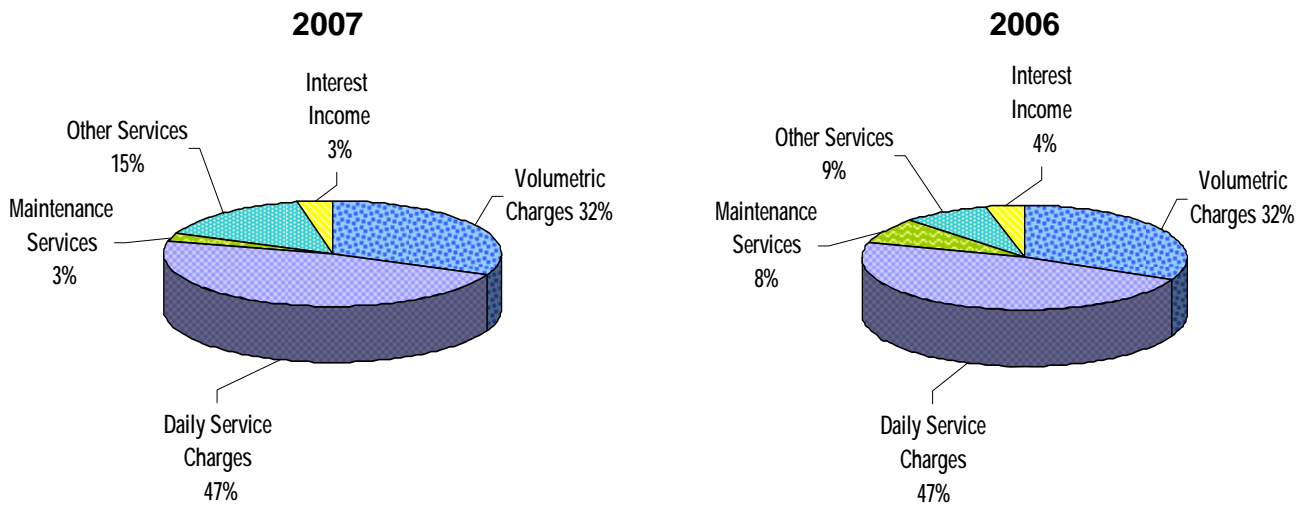
## Sources of Revenues

Sources of revenue for fiscal years 2007 and 2006 are shown on the following charts.

### Water Enterprise Fund



### Sewer Enterprise Fund



## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2007 and 2006

### *Management Review of the Department's Revenues*

#### Water Enterprise Fund

##### **Fiscal Year Ended September 30, 2007 compared to 2006**

Total operating revenues were \$70,259, an increase of \$4,185 (+6.3%) over FY 2006. Metered potable water sales increased \$3,124 (+6.7%), reclaimed water sales increased \$974 (+60.9%) and daily service charges increased \$1,232 (+9.7%) over FY 2006. The increases reflect both a 3% general rate increase effective November 1, 2006, and the termination, effective October 1, 2006, of a long standing Memorandum of Understanding (MOU) between the Department and the City of Long Beach in which the City was not charged for municipal use of potable and reclaimed water. Potable water demand also increased over the previous year by 2.8% while reclaimed water demand was relatively flat compared to last year. The large increase in reclaimed water sales revenue was due to the substantial number of municipal metered accounts that had previously used reclaimed water at no charge.

Revenue from other services totaled \$3,725, a net decrease of \$1,145 (-23.5%) from the prior year. The majority of other services revenue is attributable to revenue from a contractual agreement with Water Replenishment District of Southern California (WRD) for the operation and maintenance of WRD's Leo J. Vander Lans Water Treatment facility (LJVL facility); sales of potable water to WRD for the Alamitos Seawater Intrusion Barrier; and WRD incentive payments for in-lieu groundwater basin replenishment. In-lieu replenishment of the groundwater basin is achieved by shifting the supply of potable water for domestic demand from groundwater pumping to purchased treated potable from the Metropolitan Water District of Southern California (MWD). The net decrease in revenue from other services is mostly attributable to decreased potable water sales for the Alamitos Barrier due to WRD's drawdown of potable water previously banked under an in-lieu groundwater storage agreement between the Department and WRD.

##### **Fiscal Year Ended September 30, 2006 compared to 2005**

Total operating revenues were \$66,074, an increase of \$1,552 (+2.4%) over FY 2005. Metered potable water sales increased \$911 (+2.0%) reflecting a 4% general rate increase effective October 1, 2005, which was offset by a minor decrease in demand compared to the previous year and an adjustment to Harbor Department accounts for a metered billing correction. Reclaimed water sales were up \$212 (+15.3%) over the prior year reflecting both the 4% rate increase and a return to normal irrigation usage patterns compared to the prior year's low demand due to record winter rains. Daily service charges increased \$425 (+3.5%) over FY 2005 as a result of the 4% general rate increase.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2007 and 2006

Revenue from other services totaled \$4,870, which represents a net +0.1% increase over the prior year. The underlying major sources of revenue changed substantially from the prior year. On October 1, 2005, the Department, under contractual agreement with WRD, took over operating and maintenance responsibilities of WRD's LJVL facility. Located in east Long Beach next to the Los Angeles County Sanitation District's Long Beach Water Reclamation Plant, the LJVL facility treats recycled water for use in the Alamitos Seawater Intrusion Barrier. At full capacity, the LJVL facility is expected to supplant up to half of the potable water used for the barrier annually. Revenue from the LJVL facility operating contract totaled \$1,928. Sales of potable water to WRD for the Alamitos Seawater Intrusion Barrier totaled \$622, a decrease of \$1,382 (-222%) from the prior year. The decrease is a result of both LJVL facility reclaimed water production and the shut down of barrier operations for repairs and maintenance for several months during FY 2006.

#### **Sewer Enterprise Fund**

##### **Fiscal Year Ended September 30, 2007 compared to 2006**

Total operating revenues increased \$1,567 (+17.0%) over FY 2006. The increase is primarily attributable to a 16% rate increase on sewer metered sales and daily service charges effective November 1, 2006. In addition, other services revenue increased by \$927 (+113.0%) over FY 2006. The increase is primarily due to a new MOU between the City and the Department effective October 1, 2006, in which the City is to reimburse the Department for costs incurred to repair sewer pipe damage caused by tree root intrusion from City owned trees. City reimbursements paid to the Department for such sewer repair costs totaled \$828. Maintenance services decreased by \$484 (-62.1%) due to a reduction in City storm drain maintenance service charges when the City took over maintenance and cleaning of the open storm channels and catch basins.

##### **Fiscal Year Ended September 30, 2006 compared to 2005**

Total operating revenues were down \$474 (-4.9%) from FY 2005. Revenue from other services was down \$414 (-33.5%) which is primarily attributable to decreased receipts of sewer capacity charges, which are charges assessed on new building construction in the City. Metered sales and daily service charges were down by \$70 (-2.2%) and \$38 (-0.8%), respectively. The decrease in metered sales is attributable to lower residential usage. Residential customer metered sales volume is based on average potable water usage during the winter months from the previous year, which experienced record levels of rain. Maintenance services increased by \$48 (+6.6%) due to increased reimbursements from the City for operation and maintenance of the City's storm drain system. In FY 2004, ownership of and responsibility for City storm drain system assets totaling \$1,849 (net of accumulated depreciation) was transferred to the City's Public Works Department effective October 1, 2003. Under agreement with the City, the Water

# LONG BEACH WATER DEPARTMENT

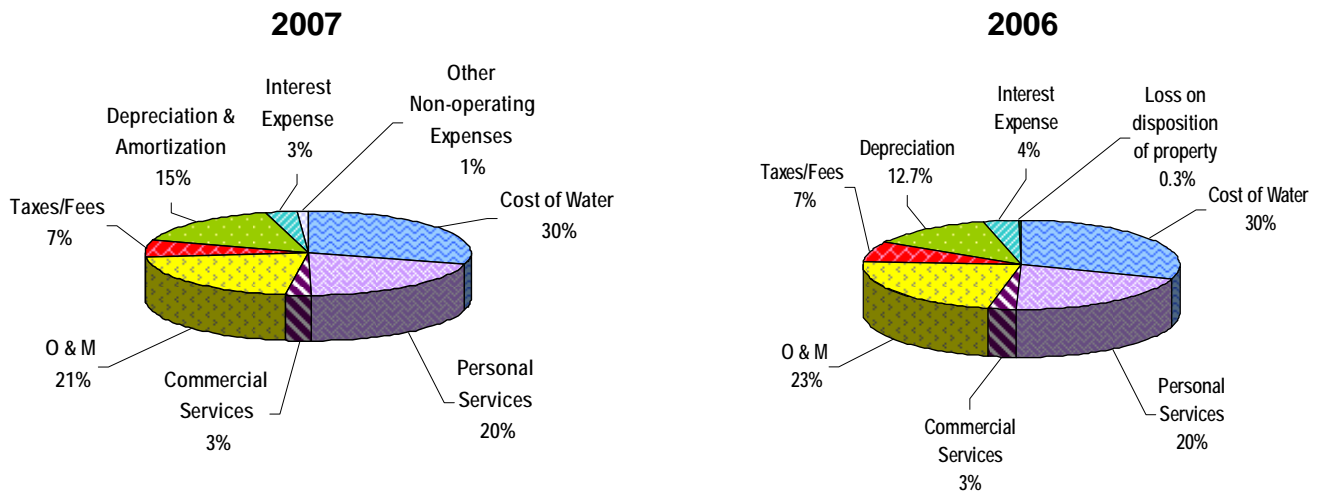
Management's Discussion and Analysis  
September 30, 2007 and 2006

Department continues to operate and maintain the storm drain system on a cost reimbursement basis.

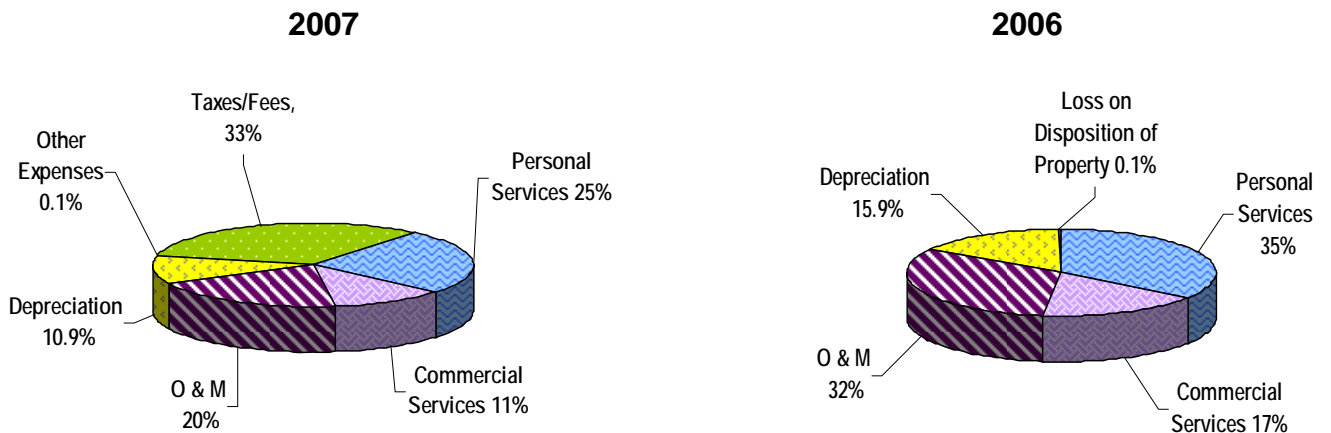
## Functional Expenses

Functional expenses for the 2007 and 2006 fiscal years are shown on the following charts.

### Water Enterprise Fund



### Sewer Enterprise Fund



## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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### ***Management Review of the Department's Expenses.***

#### **Water Enterprise Fund**

##### **Fiscal Year Ended September 30, 2007 compared to 2006**

FY 2007 operating expenses totaled \$66,937, an increase of \$5,956 (+9.8%) over FY 2006. Key elements of this increase are as follows:

- Purchased water costs increased \$1,426 (+7.4%) due to increased demand and a 5.5% increase in MWD's rate for treated potable water effective January 1, 2007.
- Labor costs increased by \$1,095 (+8.4%) over FY 2006, as a result of an increase in personnel filling budgeted but previously vacant positions, negotiated COLA increases, and increased overtime pay.
- Franchise and permit fees increased \$276 (+6.0%) reflecting an increase in the pipeline permit fee assessed by the City. The fee is subject to adjustment annually by a Consumer Price Index inflation factor.
- Depreciation and amortization expense increased \$3,087 (+39.2 %) primarily due to recognition of \$2,326 in depreciation of the capitalized seawater desalination prototype facility.

FY 2007 other net non-operating expense totaled \$683, an increase of \$1,074 (+274.6%) over FY 2006 as a result of expenses incurred on the seawater desalination research and development project.

##### **Fiscal Year Ended September 30, 2006 compared to 2005**

FY 2006 operating expenses totaled \$60,981, an increase of \$2,661 (+4.6%) over FY 2005. Key elements of this increase are as follows:

- Maintenance and other cost increased \$4,417 (+43.5%), which includes operating and maintenance costs totaling \$1,937 associated with the Department taking over operation of WRD's LJV water treatment facility. The LJV facility operating costs are offset by revenue from WRD under the operating agreement. Costs associated with pumping and treatment of groundwater also increased due to increased groundwater pumping compared to the prior year, and increases in electricity rates, chemical costs and WRD's replenishment assessment rate.
- Franchise and permit fees increased \$523 (+12.9%) due to completion of a three year phase-in of a City imposed pipeline permit fee assessed on potable water main lines throughout the City. The permit fee is based on pipe diameter and lineal footage, and became effective October 1, 2003, in conjunction with the elimination of City franchise fees imposed on the Department. The FY 2006 increase was partially offset by elimination of a City assessed in-lieu property tax.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2007 and 2006

- Purchased water costs decreased \$1,757 (-8.4%) from the previous year, reflecting the shifting of potable water supply resources from purchased MWD treated potable water to groundwater pumping.
- Other operating expenses, which decreased \$476 (-20.9%), are primarily for utility commercial services. The City provides billing and collection of water and sewer service and utility customer support. The decrease reflects both cost reductions and a more equitable allocation of costs between the water and sewer funds.

#### **Sewer Enterprise Fund**

##### **Fiscal Year Ended September 30, 2007 compared to 2006**

FY 2007 operating expenses totaled \$11,539, an increase of \$3,802 (+49.1%) over FY 2006. This increase is due primarily to the City imposing an annual pipeline permit fee, effective October 1, 2006, that is assessed on sewer main lines throughout the City. The FY 2007 pipeline permit fee totaled \$3,753 and is calculated based on pipe diameter and lineal footage. The fee per lineal foot is subject to adjustment annually by a Consumer Price Index inflation factor. Imposition of the permit fee was partially offset by the elimination of Department support of City programs for vector control and storm water management totaling \$338, and City reimbursements totaling \$828 paid to the Department for costs incurred to repair sewer pipe damage caused by tree root intrusion from City owned trees. In addition, labor costs increased by \$211 (+7.8%) over FY 2006, primarily as a result of negotiated COLA increases and increased overtime pay.

##### **Fiscal Year Ended September 30, 2006 compared to 2005**

FY 2006 operating expenses totaled \$7,737, an increase of \$669 (+9.5%) over FY 2005. Maintenance and other costs increased \$232 (+10.4%) including increases in contractual services, machinery and equipment repair for storm drain maintenance, departmental overhead, and interdepartment charges for services. Commercial services increased \$324 (+31.7%). The City provides billing and collection of water and sewer service and utility customer support. The increase reflects a more equitable allocation of costs between the water and sewer funds.



## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2007 and 2006

### Capital Assets and Debt Administration

**Capital assets.** The Department's capital assets (net of accumulated depreciation and amortization) as of September 30, 2007 amounted to \$254,297 for the Water Fund and \$46,637 for the Sewer Fund. Capital assets include investments in production, transmission, patent, seawater desalination projects and distribution related facilities, as well as general items such as office equipment and furniture. For the 2007 fiscal year, Water Fund net capital assets increased 2% due to ongoing improvements in the Department's transmission, distribution and storage capabilities, including projects for reclaimed water system expansion, conjunctive use wells, and seawater desalination. Sewer Fund net capital assets increased 9% over FY 2006 due primarily to ongoing sewer main replacement and improvement programs.

The Department's capital assets are summarized as follows for the years ended September 30, 2007, 2006, and 2005 (in thousands):

Long Beach Water Department Capital Assets September 30, 2007, 2006, and 2005 (in thousands)							
	2007	2006	2005	Variance			
				2007/2006		2006/2005	
				Amount	%	Amount	%
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Patent - Desalination	815	-	-	815	100%	-	0%
Seawater Desalination Project	7,871	-	-	7,871	100%	-	0%
Buildings, structures, and facilities	107,775	107,876	99,551	(101)	0%	8,325	8%
Distribution, collection systems	397,500	390,907	385,581	6,593	2%	5,326	1%
Machinery and equipment	15,743	15,296	14,947	447	3%	349	2%
Construction in progress	31,002	25,175	23,308	5,827	23%	1,867	8%
Total capital assets	571,986	550,533	534,667	21,453	4%	15,866	3%
Less: accumulated depreciation & amortization	(271,052)	(259,440)	(251,246)	(11,612)	4%	(8,194)	3%
Net capital assets	<u>\$ 300,934</u>	<u>\$ 291,093</u>	<u>\$ 283,421</u>	<u>\$ 9,841</u>	<u>3%</u>	<u>\$ 7,672</u>	<u>3%</u>

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2007 and 2006

The Department's capital assets are further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund for the years ended September 30, 2007, 2006, and 2005:

<b>Long Beach Water Department Capital Assets September 30, 2007, 2006, and 2005 (in thousands)</b>							
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>Variance</b>			
				<b>2007/2006</b>		<b>2006/2005</b>	
<b>Water Enterprise Fund</b>				<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Patent - Desalination	815	-	-	815	100%	-	0%
Seawater Desalination Project	7,871	-	-	7,871	100%	-	0%
Buildings, structures, and facilities	102,094	102,195	93,870	(101)	0%	8,325	9%
Distribution, collection systems	228,802	222,209	217,758	6,593	3%	4,451	2%
Machinery and equipment	12,047	11,724	11,397	323	3%	327	3%
Construction in progress	22,283	21,550	21,339	733	3%	211	1%
Total capital assets	<u>385,192</u>	<u>368,958</u>	<u>355,644</u>	<u>16,234</u>	<u>4%</u>	<u>13,314</u>	<u>4%</u>
Less: accumulated depreciation & amortization	<u>(130,895)</u>	<u>(120,484)</u>	<u>(113,429)</u>	<u>(10,410)</u>	<u>9%</u>	<u>(7,055)</u>	<u>6%</u>
Net capital assets	<u>\$ 254,297</u>	<u>\$ 248,474</u>	<u>\$ 242,215</u>	<u>\$ 5,824</u>	<u>2%</u>	<u>\$ 6,259</u>	<u>3%</u>
<b>Sewer Enterprise Fund</b>				<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Buildings, structures, and facilities	\$ 5,681	\$ 5,681	\$ 5,681	\$ -	0%	\$ -	0%
Distribution, collection systems	168,698	168,698	167,823	-	0%	875	1%
Machinery and equipment	3,696	3,572	3,550	124	3%	22	1%
Construction in progress	8,719	3,624	1,969	5,095	141%	1,655	84%
Total capital assets	<u>186,794</u>	<u>181,575</u>	<u>179,023</u>	<u>5,219</u>	<u>3%</u>	<u>2,552</u>	<u>1%</u>
Less: accumulated depreciation	<u>(140,157)</u>	<u>(138,956)</u>	<u>(137,817)</u>	<u>(1,201)</u>	<u>1%</u>	<u>(1,139)</u>	<u>1%</u>
Net capital assets	<u>\$ 46,637</u>	<u>\$ 42,619</u>	<u>\$ 41,206</u>	<u>\$ 4,018</u>	<u>9%</u>	<u>\$ 1,413</u>	<u>3%</u>

Additional information regarding capital assets can be found in notes 1 and 3 to the Department's financial statements.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2007 and 2006

**Long-term debt.** The Water Enterprise Fund had total long-term debt outstanding of \$36,599 as of September 30, 2007 and \$37,779 outstanding as of September 30, 2006. The debt is backed by Water Enterprise Fund revenues. The Water Department's outstanding debt as of September 30, 2007, 2006 and 2005 is summarized as follows:

**Long Beach Water Department  
Summary of Long-Term Debt  
September 30, 2007, 2006 and 2005  
(in thousands)**

	2007	2006	2005	Variance			
				2007/2006		2006/2005	
				Amount	%	Amount	%
Revenue refunding bonds	\$ 33,465	\$ 34,675	\$ 35,830	(1,210)	-3.5%	(1,155)	-3.2%
State loan	87	230	368	(143)	-62.1%	(138)	-37.4%
Commercial paper notes	6,000	6,000	6,000	-	0.0%	-	0.0%
Long term debt outstanding	39,552	40,905	42,198	(1,353)	-3.3%	(1,293)	-3.1%
Less:							
Unamortized bond discount	(226)	(239)	(253)	13	-5.5%	14	-5.4%
Unamortized loss on refunding	(2,727)	(2,887)	(3,047)	160	-5.5%	160	-5.3%
Total long term debt	\$ 36,599	\$ 37,779	\$ 38,898	(1,180)	-3.1%	(1,119)	-2.9%

The Water Department maintains an AA credit rating from Standard & Poors. Additional information on the Department's long-term debt can be found in note 4 of this report.

### **Economic Factors and Next Year's Budget and Rates**

The Board of Water Commissioners approved the budget for the fiscal year end September 30, 2008, with budgeted expenditures totaling approximately \$83.6 million and \$13.7 million for the Water fund and Sewer fund, respectively. Budgeted expenditures include capital improvement program expenditures and Water fund debt service. The Board also approved water and sewer rate increases effective October 1, 2007, which combined equate to a 7.0% increase in the average household monthly bill. The increases were necessary to cover escalating core costs of providing service, including imported water, groundwater water treatment chemicals, electrical power, replenishment assessments (pump tax), construction costs, and the imposition of the City pipeline permit fee on the sewer system.

## **LONG BEACH WATER DEPARTMENT**

Management's Discussion and Analysis  
September 30, 2007 and 2006

### **Requests for Information**

This financial report is designed to provide a general overview of the Water Department's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Long Beach Water Department, 1800 E. Wardlow Road, Long Beach, California 90807.

**LONG BEACH WATER DEPARTMENT**

**Statements of Net Assets  
September 30, 2007 and 2006**

ASSETS	2007			2006		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
<b>Current Assets:</b>						
Pooled cash and cash equivalents	\$ 6,486,590	5,287,401	11,773,991	\$ 8,519,087	10,124,858	18,643,945
Non-pooled investments	603,467	-	603,467	603,467	-	603,467
Customer accounts receivable	5,771,944	459,601	6,231,545	5,319,306	433,561	5,752,867
Allowance for doubtful accounts	(229,879)	(30,727)	(260,606)	(214,172)	(27,079)	(241,251)
Due from other funds	-	-	-	70,277	-	70,277
Material and supplies inventory	2,255,877	60,602	2,316,479	1,973,757	66,587	2,040,344
<b>Restricted Assets:</b>						
Pooled cash and cash equivalents:						
Funds held in trust	706,004	-	706,004	707,710	-	707,710
1997 bond service fund	1,413,156	-	1,413,156	1,359,085	-	1,359,085
Sub-total pooled cash and cash equivalents	2,119,160	-	2,119,160	2,066,795	-	2,066,795
Non-pooled investments	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Total restricted assets	5,114,743	-	5,114,743	5,062,378	-	5,062,378
<b>Total current assets</b>	<b>20,002,742</b>	<b>5,776,877</b>	<b>25,779,619</b>	<b>21,334,100</b>	<b>10,597,927</b>	<b>31,932,027</b>
<b>Capital assets:</b>						
Land	11,279,519	-	11,279,519	11,279,519	-	11,279,519
Patent desalination	815,058	-	815,058	-	-	-
Seawater desalination project	7,871,476	-	7,871,476	-	-	-
Buildings, structures and facilities	102,093,776	5,681,145	107,774,921	102,195,452	5,681,145	107,876,597
Distribution/collection systems	228,801,560	168,697,727	397,499,287	222,208,902	168,697,727	390,906,629
Machinery and equipment	12,047,156	3,696,478	15,743,634	11,723,926	3,571,952	15,295,878
Construction in progress	22,283,470	8,718,595	31,002,065	21,550,312	3,624,896	25,175,208
Total capital assets	385,192,015	186,793,945	571,985,960	368,958,111	181,575,720	550,533,831
Less: Accumulated depreciation and amortization	(130,894,571)	(140,156,833)	(271,051,404)	(120,484,088)	(138,956,305)	(259,440,393)
Net capital assets	254,297,444	46,637,112	300,934,556	248,474,023	42,619,415	291,093,438
<b>Deferred Charges, Net of Amortization</b>	756,870	-	756,870	853,241	-	853,241
<b>Prepaid Expense</b>	1,497,054	-	1,497,054	1,497,054	-	1,497,054
<b>Total noncurrent assets</b>	<b>256,551,368</b>	<b>46,637,112</b>	<b>303,188,480</b>	<b>250,824,318</b>	<b>42,619,415</b>	<b>293,443,733</b>
<b>Total assets</b>	<b>\$ 276,554,110</b>	<b>52,413,989</b>	<b>328,968,099</b>	<b>\$ 272,158,418</b>	<b>53,217,342</b>	<b>325,375,760</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts payable	\$ 7,194,885	335,558	7,530,443	\$ 6,535,236	790,365	7,325,601
Accrued wages payable	647,379	168,782	816,161	567,058	147,346	714,404
Advances from developers	220,166	37,958	258,124	234,330	32,257	266,587
<b>Amounts Payable from Restricted Assets:</b>						
Accrued interest payable	764,408	-	764,408	784,599	-	784,599
Long-term debt due within one year	1,352,302	-	1,352,302	1,353,038	-	1,353,038
Customer deposits	706,016	-	706,016	707,196	-	707,196
Total amounts payable from restricted assets	2,822,726	-	2,822,726	2,844,833	-	2,844,833
<b>Total current liabilities</b>	<b>10,885,156</b>	<b>542,298</b>	<b>11,427,454</b>	<b>10,181,457</b>	<b>969,968</b>	<b>11,151,425</b>
<b>Noncurrent Liabilities:</b>						
Long-term debt, net of current portion	35,247,033	-	35,247,033	36,426,088	-	36,426,088
Accrued site restoration cost	400,000	-	400,000	-	-	-
Total noncurrent liabilities	35,647,033	-	35,647,033	36,426,088	-	36,426,088
<b>Total Liabilities</b>	<b>46,532,189</b>	<b>542,298</b>	<b>47,074,487</b>	<b>46,607,545</b>	<b>969,968</b>	<b>47,577,513</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	217,246,821	46,637,112	263,883,933	210,282,289	42,619,415	252,901,704
Restricted net assets for:						
Bond Service	1,413,156	-	1,413,156	1,359,085	-	1,359,085
Bond Reserve	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Unrestricted net assets	8,366,361	5,234,579	13,600,940	10,913,916	9,627,959	20,541,875
<b>Total Net Assets</b>	<b>\$ 230,021,921</b>	<b>51,871,691</b>	<b>281,893,612</b>	<b>\$ 225,550,873</b>	<b>52,247,374</b>	<b>277,798,247</b>

See accompanying notes to financial statements

**LONG BEACH WATER DEPARTMENT**

**Statements of Revenues, Expenses,  
and Changes in Fund Net Assets  
Years Ended September 30, 2007 and 2006**

	<b>2007</b>			<b>2006</b>		
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
<b>Operating Revenues:</b>						
Metered water sales	\$ 50,000,683	3,539,555	53,540,238	\$ 46,876,962	3,053,781	49,930,743
Reclaimed water sales	2,573,527	-	2,573,527	1,600,092	-	1,600,092
Service charges	13,958,901	5,229,338	19,188,239	12,727,030	4,589,962	17,316,992
Maintenance services	-	295,939	295,939	-	780,192	780,192
Other services	3,725,517	1,746,743	5,472,260	4,869,663	820,543	5,690,206
Total operating revenues	<u>70,258,628</u>	<u>10,811,575</u>	<u>81,070,203</u>	<u>66,073,747</u>	<u>9,244,478</u>	<u>75,318,225</u>
<b>Operating Expenses:</b>						
Cost of water	20,605,592	-	20,605,592	19,179,233	-	19,179,233
Personal services	14,069,396	2,899,640	16,969,036	12,973,923	2,688,832	15,662,755
Commercial services	1,757,394	1,325,265	3,082,659	1,748,996	1,339,481	3,088,477
Maintenance and other	14,620,723	2,299,809	16,920,532	14,576,183	2,467,783	17,043,966
Franchise and permit fees	4,845,778	3,753,595	8,599,373	4,570,053	-	4,570,053
Provision for doubtful accounts	66,188	14,987	81,175	47,919	7,715	55,634
Depreciation and amortization	10,972,001	1,245,848	12,217,849	7,884,939	1,232,958	9,117,897
Total operating expenses	<u>66,937,072</u>	<u>11,539,144</u>	<u>78,476,216</u>	<u>60,981,246</u>	<u>7,736,769</u>	<u>68,718,015</u>
Operating income (loss)	<u>3,321,556</u>	<u>(727,569)</u>	<u>2,593,987</u>	<u>5,092,501</u>	<u>1,507,709</u>	<u>6,600,210</u>
<b>Non-operating Income (Expense):</b>						
Interest income	758,031	359,312	1,117,343	653,275	365,915	1,019,190
Interest expense	(2,217,879)	-	(2,217,879)	(2,255,178)	-	(2,255,178)
Gain (Loss) on disposition of property	66,008	-	66,008	(212,905)	(11,506)	(224,411)
Rental income	682,421	-	682,421	733,117	-	733,117
Other	(683,060)	(7,426)	(690,486)	391,123	580	391,703
Total non-operating income (expense)	<u>(1,394,479)</u>	<u>351,886</u>	<u>(1,042,593)</u>	<u>(690,568)</u>	<u>354,989</u>	<u>(335,579)</u>
Income (loss) before contributed capital	1,927,077	(375,683)	1,551,394	4,401,933	1,862,698	6,264,631
Contributed capital	<u>2,543,971</u>	<u>-</u>	<u>2,543,971</u>	<u>2,633,896</u>	<u>-</u>	<u>2,633,896</u>
Changes in net assets	4,471,048	(375,683)	4,095,365	7,035,829	1,862,698	8,898,527
Net assets at beginning of year	<u>225,550,873</u>	<u>52,247,374</u>	<u>277,798,247</u>	<u>218,515,044</u>	<u>50,384,676</u>	<u>268,899,720</u>
Net assets at end of year	<u>\$ 230,021,921</u>	<u>51,871,691</u>	<u>281,893,612</u>	<u>\$ 225,550,873</u>	<u>52,247,374</u>	<u>277,798,247</u>

*See accompanying notes to financial statements*

**LONG BEACH WATER DEPARTMENT**

**Statements of Cash Flows  
Years Ended September 30, 2007 and 2006**

	2007			2006		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 70,529,347	10,789,183	81,318,530	\$ 67,382,340	9,227,853	76,610,193
Cash paid to employees	(13,989,075)	(2,878,204)	(16,867,279)	(12,946,496)	(2,660,629)	(15,607,125)
Cash paid for water	(20,463,361)	-	(20,463,361)	(19,491,945)	-	(19,491,945)
Cash paid for goods and services	(15,179,757)	(3,907,312)	(19,087,069)	(14,798,997)	(3,276,136)	(18,075,133)
Cash paid for franchise and permit fees	(4,845,778)	(3,753,595)	(8,599,373)	(4,570,053)	-	(4,570,053)
Other operating cash received	20,158	-	20,158	1,141,081	-	1,141,081
Net cash provided by operating activities	<u>16,071,535</u>	<u>250,072</u>	<u>16,321,607</u>	<u>16,715,930</u>	<u>3,291,088</u>	<u>20,007,018</u>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from sale of capital assets	119,960	-	119,960	64,275	-	64,275
Contributions in aid of construction	1,768,151	-	1,768,151	2,670,977	-	2,670,977
Payments for capital acquisitions	(17,338,817)	(5,446,841)	(22,785,658)	(15,178,088)	(2,806,522)	(17,984,610)
Principal repayments-bonds	(1,210,000)	-	(1,210,000)	(1,155,000)	-	(1,155,000)
Principal repayments-loans/notes	(143,038)	-	(143,038)	(137,519)	-	(137,519)
Interest payments	(2,005,952)	-	(2,005,952)	(2,027,083)	-	(2,027,083)
Net cash used for capital and related financing activities	<u>(18,809,696)</u>	<u>(5,446,841)</u>	<u>(24,256,537)</u>	<u>(15,762,438)</u>	<u>(2,806,522)</u>	<u>(18,568,960)</u>
<b>Cash flows from investing activities:</b>						
Interest income received	758,031	359,312	1,117,343	653,275	365,915	1,019,190
Net cash provided by investing activities	<u>758,031</u>	<u>359,312</u>	<u>1,117,343</u>	<u>653,275</u>	<u>365,915</u>	<u>1,019,190</u>
Net increase (decrease) in cash and cash equivalents	(1,980,131)	(4,837,457)	(6,817,588)	1,606,767	850,481	2,457,248
<b>Cash and cash equivalents, October 1</b>	<u>10,585,882</u>	<u>10,124,858</u>	<u>20,710,740</u>	<u>8,979,115</u>	<u>9,274,377</u>	<u>18,253,492</u>
<b>Cash and cash equivalents, September 30</b>	<u>\$ 8,605,751</u>	<u>5,287,401</u>	<u>13,893,152</u>	<u>\$ 10,585,882</u>	<u>10,124,858</u>	<u>20,710,740</u>
<b>Reconciliation of operating income (expense) to net cash provided by operating activities:</b>						
Operating income (expense)	\$ 3,321,556	(727,569)	2,593,987	\$ 5,092,501	1,507,709	6,600,210
Adjustments to reconcile operating income (expense) to net cash provided by operating activities:						
Depreciation expense and amortization	10,972,001	1,245,848	12,217,849	7,884,939	1,232,958	9,117,897
Provision for doubtful accounts	66,188	14,987	81,175	47,919	7,715	55,634
Amortized expense	37,500	-	37,500	37,500	-	37,500
Interdepartmental transfers	925,562	166,584	1,092,146	849,826	142,671	992,497
Property rental and other income	20,158	-	20,158	1,141,081	-	1,141,081
Decrease (increase) in customer accounts receivable	271,899	(22,392)	249,507	1,365,570	(16,625)	1,348,945
Decrease (increase) in material and supplies inventory	(282,120)	5,985	(276,135)	(64,626)	4,893	(59,733)
Increase (decrease) in accounts and retainage payable	659,649	(454,807)	204,842	390,770	383,564	774,334
Increase in accrued wages payable	80,321	21,436	101,757	27,427	28,203	55,630
Increase in customer deposits	(1,180)	-	(1,180)	(56,977)	-	(56,977)
Total adjustments	<u>12,749,978</u>	<u>977,641</u>	<u>13,727,619</u>	<u>11,623,429</u>	<u>1,783,379</u>	<u>13,406,808</u>
Net cash provided by operating activities	<u>\$ 16,071,534</u>	<u>250,072</u>	<u>16,321,606</u>	<u>\$ 16,715,930</u>	<u>3,291,088</u>	<u>20,007,018</u>

See accompanying notes to financial statements

## **LONG BEACH WATER DEPARTMENT**

Notes to Financial Statements  
September 30, 2007 and 2006

### **Note 1 - Description of the Department and Summary of Significant Accounting Policies**

#### **Description of the Department**

The Long Beach Water Department (the Department) was established in 1911 through adoption of the City Charter of the City of Long Beach, California (the City) to regulate and control the use, sale and distribution of water owned or controlled by the City. In February 1988, the City Council of the City of Long Beach voted to transfer administrative, operational and maintenance responsibility of the City's sewer system to the Department. In addition, in April 1990, the citizens of Long Beach passed a City Charter amendment that allowed greater autonomy of the Department in administering sewer operations. For accounting purposes, the transfer was effective July 1, 1988. Recorded physical plant infrastructure assets with a book value of \$32,838,624, net of accumulated depreciation of \$96,231,701, were transferred from the City to the Sewer Enterprise Fund with a corresponding addition to contributed capital. The Department utilizes water and sewer accounts to track and record its operations.

The Department services the City's sewer system which consists of 711 miles of sewer mains, 16,055 manholes and 28 sewage pumping stations. This system is capable of transporting for treatment approximately 40 million gallons of raw sewage daily.

The Department obtains potable water for distribution from two sources. Historically, approximately half of the City's water is purchased from the Metropolitan Water District of Southern California; the other half is pumped from the Department's own groundwater wells. Potable water is stored in two reservoirs with a combined capacity of 108.9 million gallons. The Department also delivered over 1,930 million gallons of reclaimed water to various users in the City.

#### **Reporting Entity**

The Department's financial activities are considered to be enterprise operations of the City of Long Beach; accordingly, such activities are included in the City's Comprehensive Annual Financial Report. Control and management of the Department is vested in the five member Board of Water Commissioners. Each Commissioner is appointed by the Mayor, confirmed by the City Council, and may serve two five-year terms.

The accompanying Water Department financial statements include the Water and Sewer Fund operations of the City of Long Beach. The statements of the Long Beach Water Department of the City of Long Beach, California, are intended to present the financial position, and changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2007 and 2006, and the changes in its financial position and, where applicable, its cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.



## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
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The City's Comprehensive Annual Financial Report may be obtained by contacting:

City of Long Beach, California – Department of Financial Management  
333 W. Ocean Blvd.  
Long Beach, CA 90802

### Basis of Accounting

The Department's accounts are maintained on a flow of economic resources measurement focus utilizing the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, regardless of when they are received, and expenses are recognized in the period incurred. The Department's operations are not subject to regulation by the Public Utilities Commission.

The Department applies all Government Accounting Standard Board (GASB) Statements and Interpretations. Additionally, as permitted by U.S. generally accepted accounting principles, the City has elected to apply those Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989 that may apply to the City's unique accounting and reporting practices for its proprietary and nonexpendable operations, except those that conflict with a GASB pronouncement.

### Implementation of New Accounting Pronouncements

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The Department will implement GASB Statement No. 45 in fiscal year ended September 30, 2009.

In September 2007, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments will use to determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
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as a liability. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the financial statements for periods beginning after December 15, 2007. The Department plans on implementing GASB Statement No. 48 for the fiscal year ending September 30, 2008.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and reporting standards for pollution remediation obligation, including contamination. The statement focuses on current and potential detrimental effects of existing pollution through participation in pollution remediation activities, such as site assessment and clean-up, but excludes pollution prevention and control obligation with respect to current operation and future remediation activities that may be required with asset retirements such as landfill closures or “nuclear power plant” decommissioning. The requirements of this statement are effective for financial statements periods beginning after December 15, 2007 and include measurement of pollution remediation liabilities at the beginning of the fiscal period as to restate beginning net asset. Governments with sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all periods presented. The Department plans on implementing GASB No. 49 for the fiscal year ended September 30, 2009.

### Pooled Cash, Cash Equivalents and Other Investments

In order to maximize investment return and in accordance with City Charter requirements, the Department pools its available cash with other City funds. The City's cash management pool is used as a demand deposit account by participating units. Investment decisions are made by the City Treasurer and approved by a general investment committee whose membership includes a member of the Department's management.

The Department has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and cash equivalents.

Interest income and realized and unrealized gains and losses arising from such pooled cash and investments are apportioned to each participating unit based on their average daily cash balances compared to aggregate pooled cash and investments. The Department's share of pooled cash and investments is stated at fair value (see note 2).

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### Material and Supplies Inventory

Material and supplies inventory is stated at the lower of average cost or market, determined on a first-in, first-out basis.

### Capital Assets

Capital assets, which include property, plant, equipment, and transmission and distribution infrastructure, are composed of assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The cost of additions to capital assets and replacement of retired property is capitalized. Significant interest costs incurred during construction of assets are also capitalized. The costs of minor replacement expenditures are expensed as incurred. Upon retirement or sale of capital assets, the cost and related accumulated depreciation are removed from the accounts, with any resulting gain or loss recorded in the Department's operations (see note 3).

The Department was successful in obtaining a patent on an internally developed dual-stage nano-filtration desalination process the plant utilizes. Costs totaling \$815,058 associated with obtaining the patent for the dual-stage nano-filtration desalination process were capitalized and amortized beginning in FY 2007 over a life of twenty years.

Depreciation of capital assets is provided by the straight-line method based on the estimated service lives of the properties, as follows:

Buildings, structures and improvements	10 to 50 years
Transmission and distribution infrastructure	20 to 75 years
Patents	20 years
Other machinery and equipment	5 to 10 years

### Capital Contributions

Advances received for construction of plant assets are recorded as deferred revenue when received. As construction progresses, advanced amounts equivalent to capitalized expenditures are recorded as capital contributions and included as other non-operating revenue. Assets constructed by developers and contributed to the Department are capitalized at fair market value.

In accordance with GASB Statement 33, "Accounting and Financial Reporting for Non-Exchange Transactions", the Department includes capital contributions for construction of plant assets as a non-operating revenue in the accompanying statements of revenues, expenses and changes in fund net assets.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### Revenue Recognition

Operating revenues include revenues derived from the sale of water, from providing sewer service, and from other activities closely related to providing water and sewer service. Principal revenues are derived from volumetric usage and service charges for water and sewer services. Nonoperating revenues and expenses are those not directly associated with the Department's normal business operations of supplying water and sewer service and include interest income and expense, rents received for Department property, and gains and losses on disposition of property. Revenues for water and sewer charges are recorded when billed to customers; billings are based on monthly meter readings. The Department does not accrue revenue for water sold but not billed at the end of the fiscal year as any fluctuations from year to year of unbilled service receivables have been determined to be insignificant.

### Operating Expenses

The cost of water includes all purchases of water from the Metropolitan Water District of Southern California. Personal services include labor costs for operations, maintenance, and general and administrative functions. Commercial services cost is the Department's share of the City's utility billing system. Maintenance and other costs include the operating costs of the Department and include costs of pumping and treating groundwater as well as general and administrative costs. In-lieu taxes and permit fees are transfers made to the City.

### Employee Benefits

Full-time Department employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave benefits are vested; however, under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value of the retiring employee's accumulated sick leave to pay for health and dental insurance premiums under the City's Retired Employees Health Insurance Program. Once the cash value of the retired employee's unused sick leave is exhausted, the retiree is required to pay all health and dental premiums. Expenses are recognized by the Department through regular payroll burden charges from the City's Employee Benefits Fund (an internal services fund type) based on estimates of benefits earned for vacation pay and sick leave.

### Pension Plan

All full-time Department employees are members of the State of California Public Employees' Retirement System (CalPERS). The Department's policy is to fund all CalPERS pension costs accrued. The costs to be funded are determined annually as of October 1 by CalPERS, and are incorporated into the payroll burden rate to reimburse the Employee Benefits Internal Service Fund for CalPERS contributions made on behalf of Department employees (see note 5).

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### Restricted Assets

Amounts restricted for bond indenture requirements and funds held in trust are recorded as restricted assets. Related liabilities of these funds are identified as amounts payable from restricted assets when such obligations are incurred.

### Risk Management

The Department, as an entity of the City, participates in the City's self-insured program for workers' compensation, property and tort liability. The City and the Department's management believe that sufficient funds are being accumulated in the City's Insurance Internal Service Fund (Insurance Fund) to meet losses as they arise. The Department contributes to the Insurance Fund through payroll burden charges applied as a percent of current productive salaries. In addition, various risk control techniques, including safety training for all employees, regular property appraisals, and the inclusion of appropriate legal provisions in third party contracts, have been implemented to minimize risk losses.

### Estimates

The preparation of the Department's financial statements in conformity with the U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Reclassifications

Certain reclassifications have been made to the amounts reported in the fiscal year 2005/2006 in order to conform to fiscal year 2006-2007 CAFR presentation. Such reclassifications had no effect on previously reported changes in net assets.

### **Note 2 - Pooled Cash, Cash Equivalents and Other Investments**

The City, and by consequence, the Department, has adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires that certain investments and external investment pools be reported at fair value.

Substantially all of the Department's cash, including restricted cash, is deposited with the City Treasurer under the City Treasurer's pooled cash and investment program. Individual pool participants' cash and investments are not specifically identifiable. Interest income earned on pooled cash and investments is allocated monthly to pool participants based on their average daily cash balances. The Department is required by the City Charter to participate in the City Treasurer's cash and investment pool. The City's investment policy, in compliance with the California Government Code, authorizes the City Treasurer to invest pooled cash in obligations

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
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issued or guaranteed by the Federal Government and its agencies and instrumentalities, high quality commercial paper and medium term corporate notes rated by Standard and Poor's Corporation or Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund and shares of beneficial interest (mutual funds) issued by diversified investment management companies.

The Department's cash and investments consist of the following:

<b>Water Fund</b>	2007	2006
Equity in the City of Long Beach's investment pool	\$ 8,605,750	\$ 10,585,882
Guaranteed investment contract	3,599,050	3,599,050
Total cash and investments	\$ 12,204,800	\$ 14,184,932
<b>Sewer Fund</b>		
Equity in the City of Long Beach's investment pool	\$ 5,287,401	\$ 10,124,858

A portion of the Department's cash and investments are restricted to use either by bond indenture requirements or actions of the Board. The Department's unrestricted and restricted cash and investments are as follows:

<b>Water Fund</b>	2007	2006
Unrestricted cash and investments	\$ 7,090,057	\$ 9,122,554
Restricted cash and investments		
Water Trust Fund	706,004	707,710
Bond Service Fund	1,413,156	1,359,085
Bond Reserve	2,995,583	2,995,583
Total restricted cash and investments	5,114,743	5,062,378
Total cash and investments	\$ 12,204,800	\$ 14,184,932
<b>Sewer Fund</b>		
Unrestricted cash and investments	\$ 5,287,401	\$ 10,124,858

### Investments Authorized by the California Government Code and the City's Investment Policy

The following table 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.

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2007 and 2006

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

\* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

#### Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements.

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater 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 maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2007 and 2006

The City had no investments with values that were highly sensitive to market interest rate changes as of September 30, 2007 and 2006.

The following schedules indicate the interest rate risk of the City's investments as of September 30, 2007 and 2006 (in thousands):

#### Interest rate risk as of September 30, 2007

Investment Type		Weighted Average Maturity (in years)
Inter-department loan (Health Savrs)	\$ 3,098	11.60
U.S. treasury notes	145,149	0.90
Federal agency securities	1,190,784	2.28
Medium-term notes	49,881	1.83
Short-term commercial paper	135,874	0.02
Local Agency Investment Fund (LAIF)	139,156	0.01
Subtotal City pool	1,663,942	
Cash on hand	32,878	
Outstanding checks	(10,379)	
Total City pool	\$ 1,686,441	

#### Interest rate risk as of September 30, 2006

Investment Type		Weighted Average Maturity (in years)
Inter-department loan (Health Savrs)	\$ 3,297	12.600
U.S. treasury notes	214,467	1.542
Federal agency securities	1,042,876	1.572
Medium-term notes	33,464	1.609
Short-term commercial paper	132,731	0.013
Local Agency Investment Fund (LAIF)	2,920	0.003
Subtotal City pool	1,429,755	
Cash on hand	26,811	
Outstanding checks	(18,044)	
Total City pool	\$ 1,438,522	

At September 30, 2007, the Water Fund and Sewer Fund have equity in the City's pool of \$8,605,750 and \$5,287,401, respectively, which represents approximately 0.51% and 0.31%, respectively, for a total departmental equity of \$13,893,151 or 0.82%.

At September 30, 2006, the Water Fund and Sewer Fund have equity in the City's pool of \$10,585,882 and \$10,124,858, respectively, which represents approximately 0.74% and 0.70%, respectively, for a total departmental equity of \$20,710,740 or 1.44%.



## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2007 and 2006

At September 30, 2007 and 2006, the Department's only non-pooled investment is a guaranteed investment contract (GIC) of \$3,599,050 in the Water Fund, established pursuant to the 1997 bond reserve requirements, with a maturity date of May 1, 2024.

#### 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 years ended September 30, 2007 and 2006 for each investment type (in thousands):

Rating as of Year End September 30, 2007								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Inter-department loan (Health Savrs)	\$ 3,098	N/A	\$ 3,098	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. treasury notes	145,149	N/A	145,149	-	-	-	-	-
Federal agency securities	1,190,784	N/A	-	-	-	1,190,784	-	-
Medium-term notes	49,881	A	-	-	-	44,861	5,020	-
Short-term commercial paper	135,874	N/A	-	54,350	81,524	-	-	-
Local Agency Investment Fund (LAIF)	139,156	N/A	139,156	-	-	-	-	-
Subtotal City pool	1,663,942		287,403	54,350	81,524	1,235,645	5,020	-
Cash on hand	32,878		-	-	-	-	-	32,878
Outstanding checks	(10,379)		-	-	-	-	-	(10,379)
Total City pool	<u>\$ 1,686,441</u>		<u>\$ 287,403</u>	<u>\$ 54,350</u>	<u>\$ 81,524</u>	<u>\$ 1,235,645</u>	<u>\$ 5,020</u>	<u>22,499</u>

Rating as of Year End September 30, 2006								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	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	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,920	N/A	2,920	-	-	-	-	-
Subtotal City pool	1,429,755		220,684	75,773	56,958	1,071,321	5,019	-
Cash on hand	26,811		-	-	-	-	-	26,811
Outstanding checks	(18,044)		-	-	-	-	-	(18,044)
Total City pool	<u>\$ 1,438,522</u>		<u>\$ 220,684</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>	<u>8,767</u>

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2007 and 2006

The following schedules indicate the credit risk of the Water Department's non-pooled investments as of September 30, 2007 and 2006 (in thousands):

Rating as of Year End September 30, 2007								
Investment Type	Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated	
Guaranteed Investment Contracts	\$ 3,599	N/A	\$ 3,599	\$ -	\$ -	\$ -	\$ -	\$ -

Rating as of Year End September 30, 2006								
Investment Type	Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated	
Guaranteed Investment Contracts	\$ 3,599	N/A	\$ 3,599	\$ -	\$ -	\$ -	\$ -	\$ -

### Concentration of Credit Risk

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

#### Concentration of Credit Risk as of September 30, 2007

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	\$ 89,334
Federal Home Loan Bank	Federal Agency Securities	354,763
Federal Home Loan Mortgage Association	Federal Agency Securities	307,865
Federal National Mortgage Association	Federal Agency Securities	438,822
U.S. Treasuries	U.S. Treasury Notes & Bonds	145,149
Commercial Paper	Unsecured Corporate debt	135,874
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	139,156

#### Concentration of Credit Risk as of September 30, 2006

Issuer	Investment Type	Reported Amount
FFCB	Federal Agency Securities	\$ 181,052
FHLB	Federal Agency Securities	241,246
FHLMC	Federal Agency Securities	266,937
FNMA	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & Bonds	214,467
Commercial Paper	Unsecured Corporate debt	132,731

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City 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 Area Investment Fund.

### Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the 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 accompanying 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.

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2007 and 2006

#### Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2007 and 2006.

#### Securities Lending

The City did not engage in securities-lending activities. These activities are governed by formal agreement with the City's contract bank, limiting the nature and amount of transactions that are subject to full collateralization.

#### Note 3 – Capital Assets

Capital assets at September 30, 2007 and 2006 were as follows:

<b>Water Fund</b>	Balance October 1, 2005	Additions	Deletions And Retirements	Balance September 30, 2006	Additions	Deletions And Retirements	Balance September 30, 2007
Capital assets, not being depreciated:							
Land	\$ 11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	21,339,569	15,057,214	(14,846,471)	21,550,312	18,312,349	(17,579,191)	22,283,470
Total capital assets, not being depreciated	<u>32,619,088</u>	<u>15,057,214</u>	<u>(14,846,471)</u>	<u>32,829,831</u>	<u>18,312,349</u>	<u>(17,579,191)</u>	<u>33,562,989</u>
Capital assets, being depreciated:							
Buildings, structures and facilities	93,869,863	8,494,382	(168,793)	102,195,452	7,871,476	(101,676)	109,965,252
Patent	-	-	-	-	815,058	-	815,058
Distribution/collection systems	217,758,536	5,138,588	(688,222)	222,208,902	6,794,021	(201,363)	228,801,560
Machinery and equipment	11,396,571	577,723	(250,368)	11,723,926	635,660	(312,430)	12,047,156
Total capital assets, being depreciated	<u>323,024,970</u>	<u>14,210,693</u>	<u>(1,107,383)</u>	<u>336,128,280</u>	<u>16,116,215</u>	<u>(615,470)</u>	<u>351,629,026</u>
Less accumulated depreciation for:							
Buildings, structures and facilities	(22,875,576)	(2,638,776)	168,793	(25,345,559)	(5,530,822)	99,726	(30,776,656)
Patent	-	-	-	-	(44,149)	-	(44,149)
Distribution/collection systems	(79,949,124)	(4,388,515)	411,418	(83,926,221)	(4,527,261)	149,362	(88,304,120)
Machinery and equipment	(10,604,651)	(857,648)	249,991	(11,212,308)	(869,769)	312,430	(11,769,647)
Total accumulated depreciation	<u>(113,429,351)</u>	<u>(7,884,939)</u>	<u>830,202</u>	<u>(120,484,088)</u>	<u>(10,972,001)</u>	<u>561,518</u>	<u>(130,894,571)</u>
Total capital assets, being depreciated, net	<u>209,595,619</u>	<u>6,325,754</u>	<u>(277,181)</u>	<u>215,644,192</u>	<u>5,144,214</u>	<u>(53,952)</u>	<u>220,734,455</u>
Total Water Fund capital assets, net	<u>\$ 242,214,707</u>	<u>21,382,968</u>	<u>(15,123,652)</u>	<u>248,474,023</u>	<u>23,456,563</u>	<u>(17,633,142)</u>	<u>254,297,444</u>

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2007 and 2006

<b>Sewer Fund</b>	Balance October 1, 2005	Additions	Deletions And Retirements	Balance September 30, 2006	Additions	Deletions And Retirements	Balance September 30, 2007
Capital assets, not being depreciated:							
Construction in progress	\$ 1,968,665	2,762,810	(1,106,579)	3,624,896	5,225,826	(132,127)	8,718,595
Total capital assets, not being depreciated	<u>1,968,665</u>	<u>2,762,810</u>	<u>(1,106,579)</u>	<u>3,624,896</u>	<u>5,225,826</u>	<u>(132,127)</u>	<u>8,718,595</u>
Capital assets, being depreciated:							
Buildings, structures and facilities	5,681,145	-	-	5,681,145	-	-	5,681,145
Distribution/collection systems	167,823,534	905,667	(31,474)	168,697,727	-	-	168,697,727
Machinery and equipment	3,549,593	107,059	(84,700)	3,571,952	169,845	(45,320)	3,696,478
Total capital assets, being depreciated	<u>177,054,272</u>	<u>1,012,726</u>	<u>(116,174)</u>	<u>177,950,824</u>	<u>169,845</u>	<u>(45,320)</u>	<u>178,075,350</u>
Less accumulated depreciation for:							
Buildings, structures and facilities	(562,788)	(116,256)	-	(679,044)	(116,256)	-	(795,300)
Distribution/collection systems	(134,357,935)	(909,783)	8,655	(135,259,063)	(934,403)	-	(136,193,466)
Machinery and equipment	(2,895,979)	(206,919)	84,700	(3,018,198)	(195,189)	45,320	(3,168,067)
Total accumulated depreciation	<u>(137,816,702)</u>	<u>(1,232,958)</u>	<u>93,355</u>	<u>(138,956,305)</u>	<u>(1,245,848)</u>	<u>45,320</u>	<u>(140,156,833)</u>
Total capital assets, being depreciated, net	<u>39,237,570</u>	<u>(220,232)</u>	<u>(22,819)</u>	<u>38,994,519</u>	<u>(1,076,003)</u>	<u>-</u>	<u>37,918,517</u>
Total Sewer Fund capital assets, net	<u>\$ 41,206,235</u>	<u>2,542,578</u>	<u>(1,129,398)</u>	<u>42,619,415</u>	<u>4,149,823</u>	<u>(132,127)</u>	<u>46,637,112</u>
<b>Combined Total</b>	Balance October 1, 2005	Additions	Deletions And Retirements	Balance September 30, 2006	Additions	Deletions And Retirements	Balance September 30, 2007
Capital assets, not being depreciated:							
Land	\$ 11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	23,308,234	17,820,024	(15,953,051)	25,175,208	23,538,174	(17,711,318)	31,002,065
Total capital assets, not being depreciated	<u>34,587,753</u>	<u>17,820,024</u>	<u>(15,953,051)</u>	<u>36,454,727</u>	<u>23,538,174</u>	<u>(17,711,318)</u>	<u>42,281,584</u>
Capital assets, being depreciated:							
Buildings, structures and facilities	99,551,008	8,494,382	(168,793)	107,876,597	7,871,476	(101,676)	115,646,397
Patent	-	-	-	-	815,058	-	815,058
Distribution/collection systems	385,582,070	6,044,255	(719,696)	390,906,629	6,794,021	(201,363)	397,499,287
Machinery and equipment	14,946,164	684,782	(335,068)	15,295,878	805,505	(357,750)	15,743,634
Total capital assets, being depreciated	<u>500,079,242</u>	<u>15,223,419</u>	<u>(1,223,557)</u>	<u>514,079,104</u>	<u>16,286,060</u>	<u>(660,789)</u>	<u>529,704,376</u>
Less accumulated depreciation for:							
Buildings, structures and facilities	(23,438,364)	(2,755,032)	168,793	(26,024,603)	(5,647,079)	99,726	(31,571,956)
Patent	-	-	-	-	(44,149)	-	(44,149)
Distribution/collection systems	(214,307,059)	(5,298,298)	420,073	(219,185,284)	(5,461,663)	149,362	(224,497,586)
Machinery and equipment	(13,500,630)	(1,064,567)	334,691	(14,230,506)	(1,064,958)	357,750	(14,937,714)
Total accumulated depreciation	<u>(251,246,053)</u>	<u>(9,117,897)</u>	<u>923,557</u>	<u>(259,440,393)</u>	<u>(12,217,849)</u>	<u>606,838</u>	<u>(271,051,404)</u>
Total capital assets, being depreciated, net	<u>248,833,189</u>	<u>6,105,522</u>	<u>(300,000)</u>	<u>254,638,711</u>	<u>4,068,211</u>	<u>(53,952)</u>	<u>258,652,972</u>
Total Department capital assets, net	<u>\$ 283,420,942</u>	<u>23,925,546</u>	<u>(16,253,050)</u>	<u>291,093,438</u>	<u>27,606,386</u>	<u>(17,765,270)</u>	<u>300,934,556</u>

In FY2007, the Department completed construction and began fully operating a 300,000 gallon-per-day prototype desalination research and development facility. The facility is located on land leased from the Los Angeles Department of Water and Power. Facility construction costs totaling \$7,871,476 have been capitalized and will be depreciated over the remaining term of the land lease, which terminates in the year 2010. The terms of the lease require the facility site to be restored to its original condition at the commencement of the lease agreement. Consequently in FY 2007 estimated site restoration costs of \$400,000 have been accrued as a long-term liability and recorded to non-operating expense. The operating and other associated costs of the facility will be expensed as incurred.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### Construction in Progress

Construction in Progress at September 30, 2007 and 2006, includes the following projects:

Project	2007	2006
Water Main Replacement Program	\$ 11,869,540	\$ 6,885,068
Groundwater Storage Program	300,537	232,941
Seawater Desalination Project	1,606,814	9,280,471
Reclaimed Water System	1,697,998	687,694
Sewer main Replacement Program	8,598,395	3,504,697
Other Projects	6,928,781	4,584,336
Total Combined Construction in Progress	\$ 31,002,065	25,175,208
Such costs are allocated as follows:		
Water Enterprise Fund	22,283,470	21,550,312
Sewer Enterprise Fund	8,718,595	3,624,896
Total Water Department	\$ 31,002,065	25,175,208

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal years ended September 30, 2007 and 2006, completed projects were transferred from Construction in Progress as follows:

	2007		2006	
	Water Fund	Sewer Fund	Water Fund	Sewer Fund
Transfers to Capital Assets	\$ 16,274,143	132,127	14,776,618	1,106,579
Transfers to Expense	1,305,048	-	69,853	-
Total	\$ 17,579,191	132,127	14,846,471	1,106,579

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### Note 4 – Noncurrent Liabilities

September 30, 2007	Water Fund			End of year	Due within one year
	Beginning of year	Additions	Reductions		
Water Revenue Refunding Bonds	\$ 34,675,000	-	(1,210,000)	33,465,000	1,265,000
Commercial Paper	6,000,000	-	-	6,000,000	-
State Loan	230,340	-	(143,038)	87,302	87,302
	<u>40,905,340</u>	<u>-</u>	<u>(1,353,038)</u>	<u>39,552,302</u>	<u>1,352,302</u>
Less current portion	(1,353,038)	(1,352,302)	1,353,038	(1,352,302)	-
Less unamortized bond discounts	(239,423)	-	13,240	(226,183)	-
Less unamortized loss on refunding	(2,886,791)	-	160,007	(2,726,784)	-
Total long-term debt	<u>\$ 36,426,088</u>	<u>(1,352,302)</u>	<u>173,247</u>	<u>35,247,033</u>	<u>1,352,302</u>
Accrued site restoration cost	-	400,000	-	400,000	-
Total noncurrent liabilities	<u>\$ 36,426,088</u>	<u>(952,302)</u>	<u>173,247</u>	<u>35,647,033</u>	<u>1,352,302</u>

September 30, 2006	Water Fund			End of year	Due within one year
	Beginning of year	Additions	Reductions		
Water Revenue Refunding Bonds	\$ 35,830,000	-	(1,155,000)	34,675,000	1,210,000
Commercial Paper	6,000,000	-	-	6,000,000	-
State Loan	367,859	-	(137,519)	230,340	143,038
	<u>\$ 42,197,859</u>	<u>-</u>	<u>(1,292,519)</u>	<u>40,905,340</u>	<u>1,353,038</u>
Less current portion	(1,292,519)	(1,353,038)	1,292,519	(1,353,038)	-
Less unamortized bond discounts	(252,663)	-	13,240	(239,423)	-
Less unamortized loss on refunding	(3,046,798)	-	160,007	(2,886,791)	-
Total noncurrent liabilities	<u>\$ 37,605,879</u>	<u>(1,353,038)</u>	<u>173,247</u>	<u>36,426,088</u>	<u>1,353,038</u>

The bonds are payable from and secured by net revenues of the Department.

### Water Revenue Refunding Bonds - Series 1997

On October 15, 1997, the Water Fund issued \$46,945,000 in Water Revenue Refunding Bonds (Bonds) with an average interest rate of 5.195%. The Bonds were issued (i) to refund \$43,980,000 of outstanding 1994 Water Revenue Refunding Bonds, Series A; (ii) to establish a debt service reserve fund for the 1997 Bonds; and (iii) to pay the costs of issuance associated with the delivery and sale of the 1997 Bonds.

The refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$4,320,185. This difference, reported in the accompanying basic financial statements as a deduction from bonds payable, is being amortized using the straight line method over the life of the bonds. The Department in effect reduced its aggregate debt service payments by \$2,493,439 over the remaining 27 years thereby resulting in an economic gain of \$1,303,450.

## **LONG BEACH WATER DEPARTMENT**

Notes to Financial Statements  
September 30, 2007 and 2006

The \$36,535,000 amount of defeased debt outstanding was removed from the Department's financial statements as the advanced refunding was redeemed on May 1, 2004.

The Bonds are secured by a first lien upon and pledge of all of the net revenues of the entire water system (the Water Enterprise Fund) of the City of Long Beach. Net revenues are defined as all gross revenues derived by the ownership and operation of the Water Enterprise Fund less operation and maintenance costs. The Board of Water Commissioners has covenanted, on behalf of the City, to set rates and charges for the supply of water to its customers sufficient to provide net revenues each year equal to at least 1.10 times the aggregate annual amount of principal and interest due on the Bonds and any parity obligations.

### **State Loan**

In January 1987, the Department entered into a low-interest loan contract for \$2,000,000 with the State Water Resources Control Board for the purpose of funding the Reclaimed Water System Extension Project. The loan was funded in fiscal year 1988 and is payable in annual installments ranging from \$70,450 to \$143,040, at an interest rate of 4.0128% per year through June 2008.

### **Subordinate Water Revenue Commercial Paper Notes**

On October 17, 2002 the Board of Water Commissioners approved Resolution WD-1170 which authorized the issuance and sale of up to \$15,000,000 of City of Long Beach, California Subordinate Water Revenue Commercial Paper Notes Series A (notes). The City's Water Enterprise subordinate net revenues (gross revenues less operation and maintenance costs) secure the notes. The City of Long Beach City Council approved the issuance and sale on October 29, 2002. Proceeds from the variable debt will be used for interim financing needs to assist with completing reclaimed system expansion projects that are partially funded by Federal and State Grants and for seawater desalination research and development, which is partially funded by a Federal grant.

On January 8, 2003, notes in the amount of \$6,000,000 were issued. The notes are issued in denominations of \$100,000 and integral multiples of \$1,000 in excess of \$100,000 and will mature not more than 270 days after date of issuance. Interest rates have ranged from 0.95% to 3.40%. The Department intends to continue to extend the notes to periods greater than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

### **Accrued Site Restoration Cost**

In FY2007, the Department completed construction of the prototype desalination facility. The facility is located on land leased from the Los Angeles Department Water and Power which terminates in 2010. The terms of the lease require the facility site to be restored to its original condition at the commencement of the lease agreement. Estimated site restoration costs of \$400,000 have been accrued as a long-term liability in FY2007.



## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### **Total Annual Debt Service Requirements to Maturity**

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended Sept 30	Series 1997 Bonds		State Loan		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2008	\$ 1,265,000	1,730,583	87,302	412	1,352,302	1,730,995	3,083,297
2009	1,330,000	1,661,008	-	-	1,330,000	1,661,008	2,991,008
2010	1,405,000	1,587,858	-	-	1,405,000	1,587,858	2,992,858
2011	1,480,000	1,510,583	-	-	1,480,000	1,510,583	2,990,583
2012	1,550,000	1,438,063	-	-	1,550,000	1,438,063	2,988,063
2013-2017	9,130,000	5,824,837	-	-	9,130,000	5,824,837	14,954,837
2018-2022	11,740,000	3,209,250	-	-	11,740,000	3,209,250	14,949,250
2023-2024	5,565,000	420,750	-	-	5,565,000	420,750	5,985,750
Total	<u>\$ 33,465,000</u>	<u>17,382,932</u>	<u>87,302</u>	<u>412</u>	<u>33,552,302</u>	<u>17,383,344</u>	<u>50,935,646</u>

### **Note 5 - Retirement Programs**

The Department participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California. The Department is billed by the City for its share of pension costs at the rates established by CalPERS for the City's general employees. A separate pension obligation is not calculated by CalPERS at the Departmental level; accordingly, no separate Department obligation can be presented herein.

As employees of the City, the Department's full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. Upon vesting, employees on tier 1 (those hired on or before October 20, 1989) who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% (with a 5% annual COLA increase) of the employee's average salary during the highest paid year of employment for each year of credited service. Employees under tier 2 (those hired after October 20, 1989) who retire at age 55 are entitled to receive 2.7% (with a 2% annual COLA increase) of the employee's average salary during the highest paid year of employment for each year of credited service. A third tier was set up effective October 1, 2006. New employees hired on or after October 1, 2006 will be under a new tier benefit of 2.5% at 55. The system also provides death and disability benefits.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

In November 1998, CalPERS informed the City that all of its retirement plans were overfunded based on the actuarial valuation completed as of June 30, 1997 and the City would not be required to contribute to the CalPERS retirement plan until the existing surplus is exhausted. Accordingly, CalPERS reduced the City's employer contribution rates to zero for all plans effective November 13, 1998. CalPERS notified the City in July 1999 that employee contributions also paid for by the City would no longer be required. The City was overfunded through September 30, 2004 and was not required to pay CalPERS any employee or employer contributions for any of its plans through fiscal year 2004.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. The City contribution payments to CalPERS for fiscal year 2007 for both Safety and Miscellaneous Plans were at 16.563% and 12.012% respectively. The employee rate for Safety is 9% and miscellaneous is 8%. Safety employees paid CalPERS 1% of the 9% employee rate and the City paid 8% through March 31, 2007. Beginning April 2007 Safety employees contribute 2% towards the 9% employee rate. Miscellaneous employees paid 2% of the 8% to CalPERS and the City pays 6%. Management employees and certain employee groups who serve in sensitive, confidential capacities went from 1% to 2% contribution of the 8% to CalPERS in fiscal year 2007. In fiscal years 2007, 2006 and 2005, the Department's contributions to CalPERS were \$1,940,549, \$1,791,010, and \$1,461,238 for Water Fund and \$339,981, \$311,832 and \$243,166 for Sewer Fund, respectively, which represented 100% of the Department's required contributions.

Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2007.

### **Deferred Compensation Plan**

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which the Department and its employees participate, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue financial hardship for the employee.

Further information regarding the City's participation in the deferred compensation plan may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2007.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2007 and 2006

### **Note 6 - Operating Leases**

The Department owns approximately 820 acres of land, approximately 80 acres of which is leased for commercial purposes. Minimum future rental income due to the Water Fund under noncancelable operating leases which have an initial term in excess of one year is as follows:

Year ended, September 30:	
2008	\$ 806,382
2009	833,410
2010	861,774
2011	891,554
2012	922,831
2013-2017	5,142,188
2018-2022	6,206,546
2023-2027	7,590,388
	<hr/>
Total minimum future rentals	<u><u>\$23,255,073</u></u>

### **Note 7 - Commitments and Contingencies**

#### Litigation

The Department 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. Department 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 basic financial statements. Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that any liability for unreserved claims and lawsuits will not have a material impact on the basic financial statements of the Department.

#### Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2007 amount to \$2,699,787 and \$2,227,523 for the Water Fund and Sewer Fund respectively.

**STATISTICAL SECTION**  
(Not Covered by Independent Auditors' Report)

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# **Financial Trends**

These schedules contain trend information to help the reader understand how the Department's financial performance and well-being have changed over time.

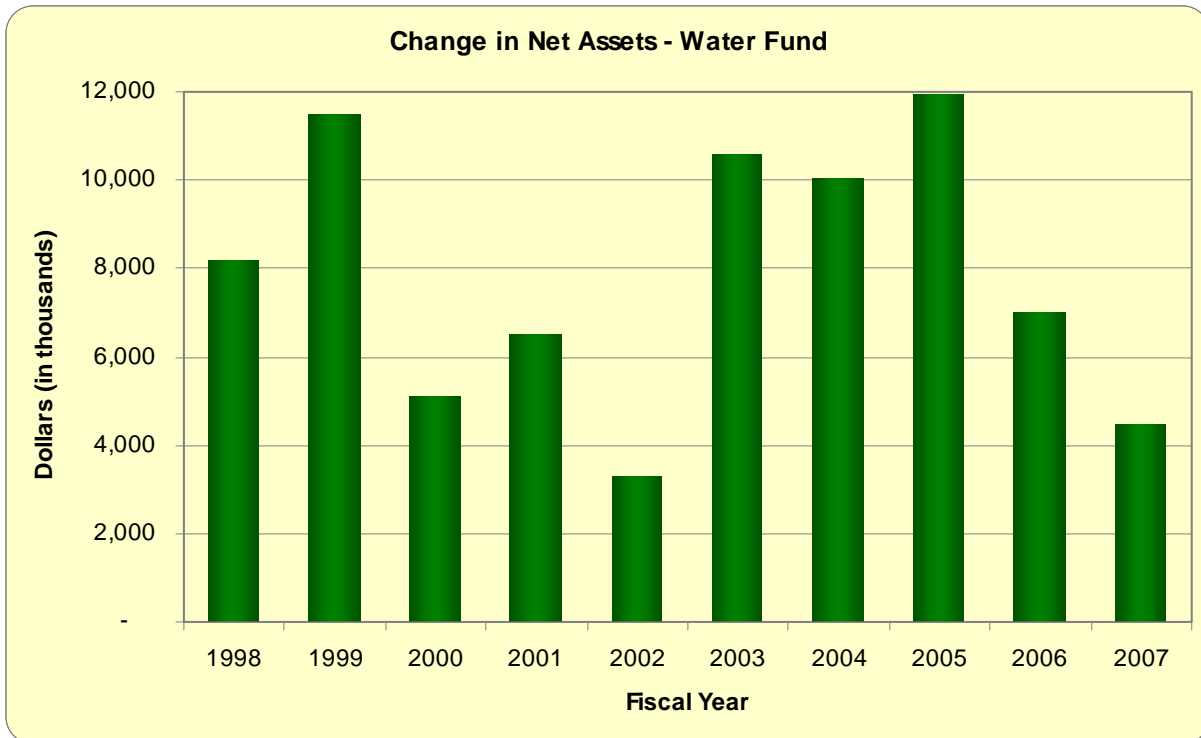
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**LONG BEACH WATER DEPARTMENT**  
**CHANGES IN NET ASSETS - WATER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Change in Net Assets</u>
9/30/1998	56,395	48,554	7,841	344	8,186
9/30/1999	57,619	49,644	7,974	3,510	11,484
9/30/2000	60,252	53,836	6,416	(1,291)	5,125
9/30/2001	57,773	53,482	4,291	2,211	6,502
9/30/2002	58,970	56,071	2,899	421	3,320
9/30/2003	58,945	52,295	6,650	3,936	10,586
9/30/2004	63,185	55,604	7,581	2,461	10,042
9/30/2005	64,522	58,320	6,202	5,747	11,949
9/30/2006	66,074	60,981	5,093	1,943	7,036
9/30/2007	70,259	66,937	3,322	1,149	4,471

Source: Department's annual reports

See accompanying independent auditors' report



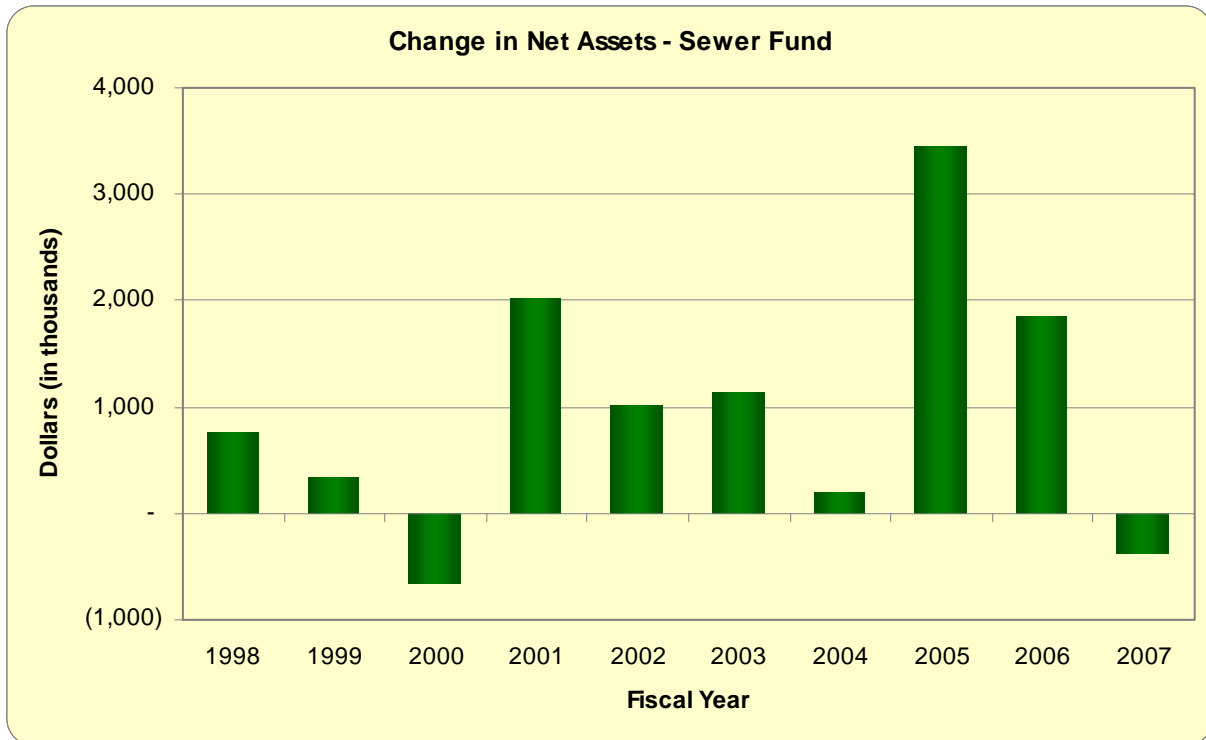


**LONG BEACH WATER DEPARTMENT**  
**CHANGES IN NET ASSETS - SEWER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Total Operating Expense</u>	<u>Operating Income (Expenses)</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Change in Net Assets</u>
9/30/1998	7,847	8,039	(192)	965	774
9/30/1999	7,809	8,574	(765)	1,106	341
9/30/2000	7,922	9,705	(1,782)	1,119	(664)
9/30/2001	8,699	8,869	(170)	2,200	2,030
9/30/2002	8,050	7,538	512	495	1,007
9/30/2003	9,015	8,420	595	541	1,136
9/30/2004	9,280	7,766	1,514	(1,315)	199
9/30/2005	9,718	7,068	2,650	810	3,460
9/30/2006	9,244	7,737	1,507	355	1,862
9/30/2007	10,811	11,539	(728)	352	(376)

Source: Department's annual reports

See accompanying independent auditors' report

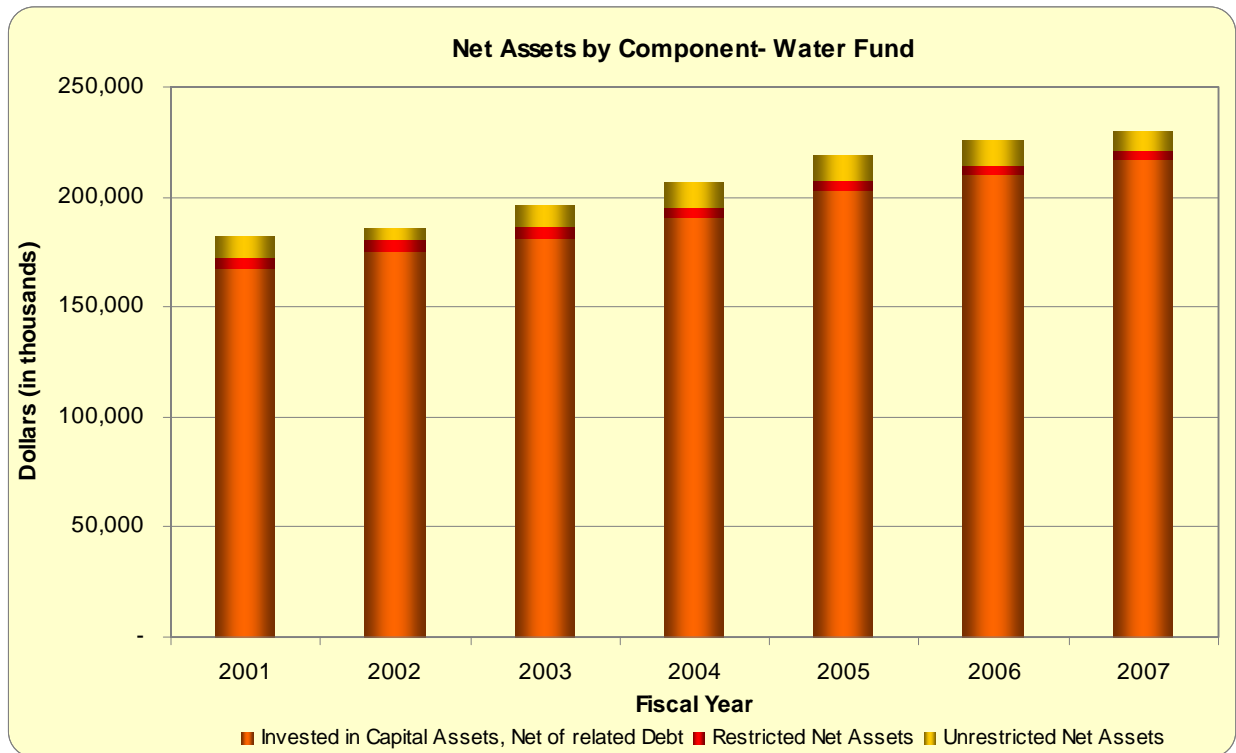


**LONG BEACH WATER DEPARTMENT**  
**NET ASSETS BY COMPONENT - WATER FUND**  
**LAST SEVEN FISCAL YEARS**  
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Invested in Capital Assets (net of related debt)</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
9/30/2001	167,394	5,095	10,131	182,620
9/30/2002	175,501	5,098	5,341	185,939
9/30/2003	181,535	5,116	9,874	196,525
9/30/2004	191,067	4,298	11,202	206,567
9/30/2005	202,959	4,316	11,240	218,515
9/30/2006	210,282	4,355	10,914	225,551
9/30/2007	217,247	4,409	8,366	230,022

Source: Department's annual reports

See accompanying independent auditors' report

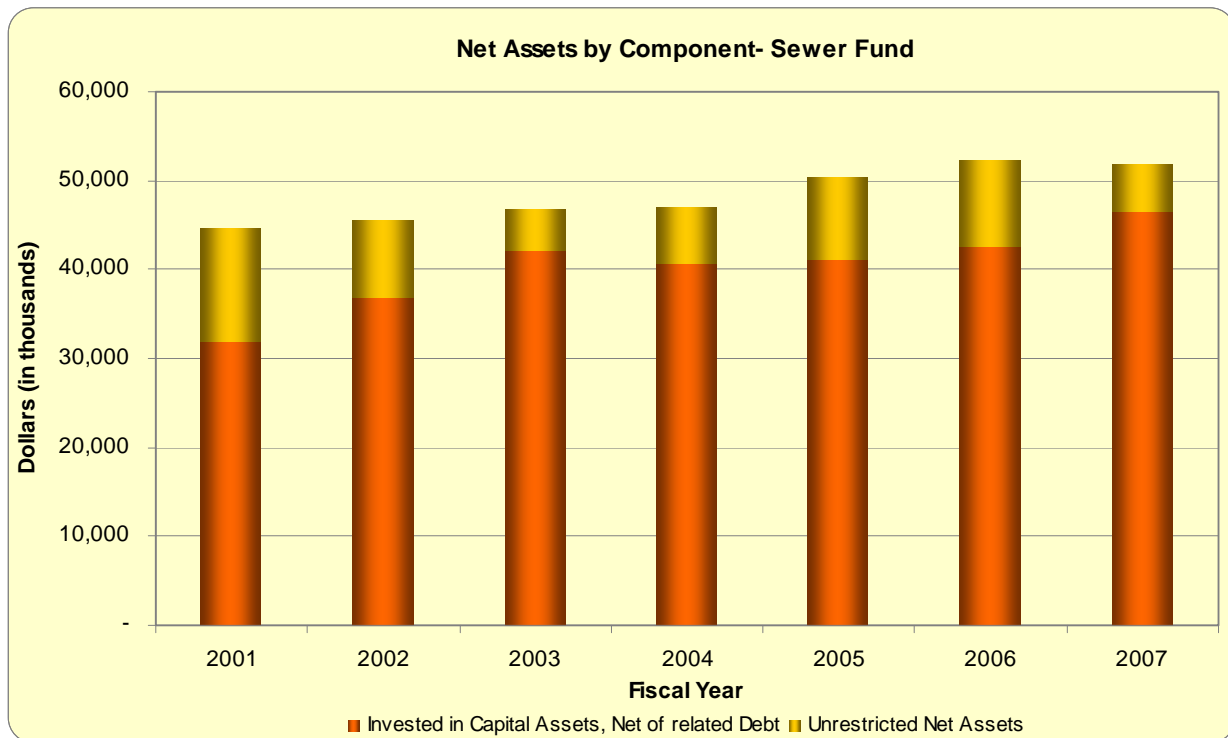


**LONG BEACH WATER DEPARTMENT  
NET ASSETS BY COMPONENT - SEWER FUND  
LAST SEVEN FISCAL YEARS  
(in thousands of dollars)**

<b>Fiscal Year Ended</b>	<b>Invested in Capital Assets (net of related debt)</b>	<b>Restricted Net Assets</b>	<b>Unrestricted Net Assets</b>	<b>Total Net Assets</b>
9/30/2001	31,922	-	12,660	44,582
9/30/2002	36,848	-	8,742	45,590
9/30/2003	42,095	-	4,631	46,725
9/30/2004	40,600	-	6,325	46,925
9/30/2005	41,206	-	9,179	50,385
9/30/2006	42,619	-	9,628	52,247
9/30/2007	46,637	-	5,235	51,872

Source: Department's annual reports

See accompanying independent auditors' report

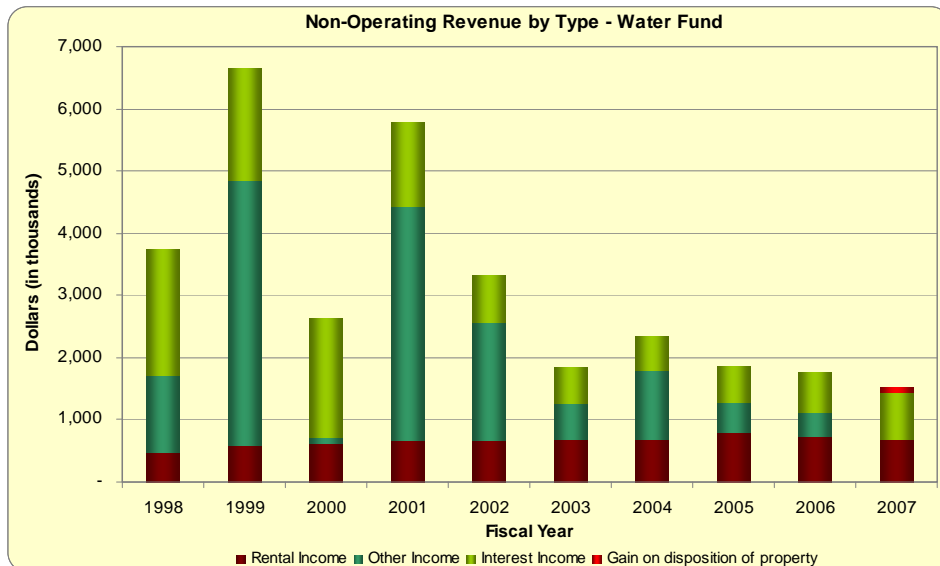
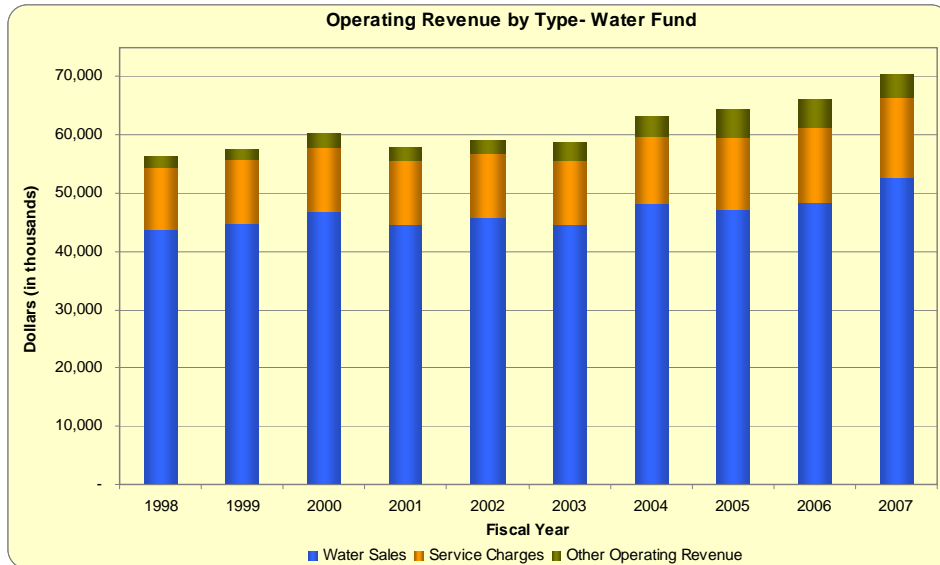


**LONG BEACH WATER DEPARTMENT**  
**WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING				
	Water Sales	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Rental Income	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/1998	43,776	10,754	1,866	56,396	2,021	487	1,228	-	3,736
9/30/1999	44,967	10,880	1,772	57,619	1,803	608	4,244	-	6,655
9/30/2000	46,790	10,986	2,476	60,252	1,921	627	87	-	2,635
9/30/2001	44,663	11,003	2,107	57,773	1,351	657	3,768	-	5,776
9/30/2002	45,917	10,987	2,066	58,970	751	660	1,910	-	3,321
9/30/2003	44,547	11,175	3,223	58,945	576	699	554	-	1,829
9/30/2004	48,219	11,648	3,317	63,185	541	700	1,099	-	2,340
9/30/2005	47,354	12,302	4,866	64,522	556	804	488	-	1,848
9/30/2006	48,477	12,727	4,870	66,074	653	733	391	-	1,777
9/30/2007	52,574	13,959	3,726	70,259	758	682	-	66	1,506

Source: Department's annual reports

See accompanying independent auditors' report



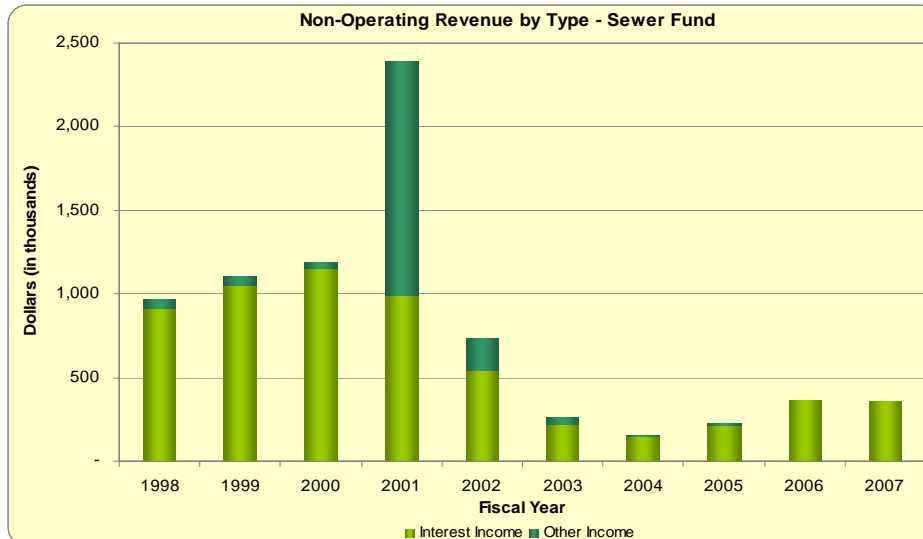
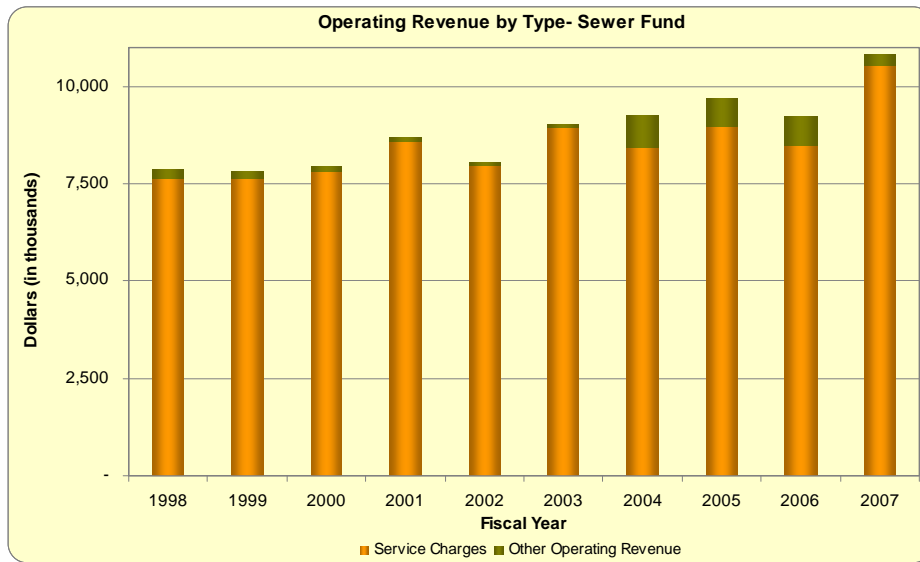
**LONG BEACH WATER DEPARTMENT  
SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**

(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING		
	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Other Income	Total Non-Operating Income
9/30/1998	7,646	201	7,847	915	50	965
9/30/1999	7,644	165	7,809	1,053	53	1,106
9/30/2000	7,816	106	7,922	1,154	31	1,185
9/30/2001	8,592	106	8,698	997	1,395	2,392
9/30/2002	7,964	86	8,050	547	184	731
9/30/2003	8,929	86	9,015	223	41	264
9/30/2004	8,447	832	9,280	149	5	154
9/30/2005	8,986	732	9,718	213	12	225
9/30/2006	8,464	780	9,244	366	1	367
9/30/2007	10,516	296	10,812	359	-	359

Source: Department's annual reports

See accompanying independent auditors' report

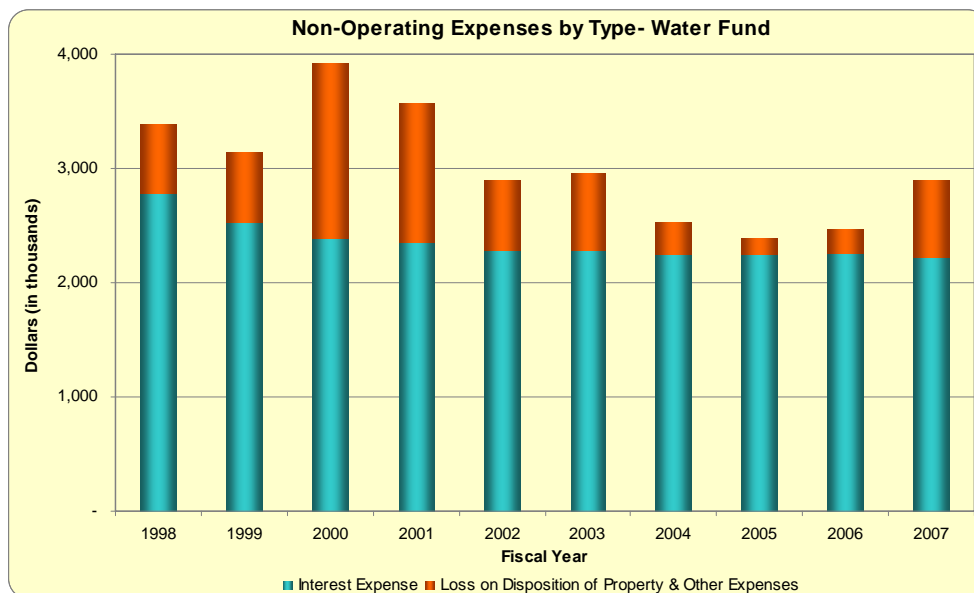
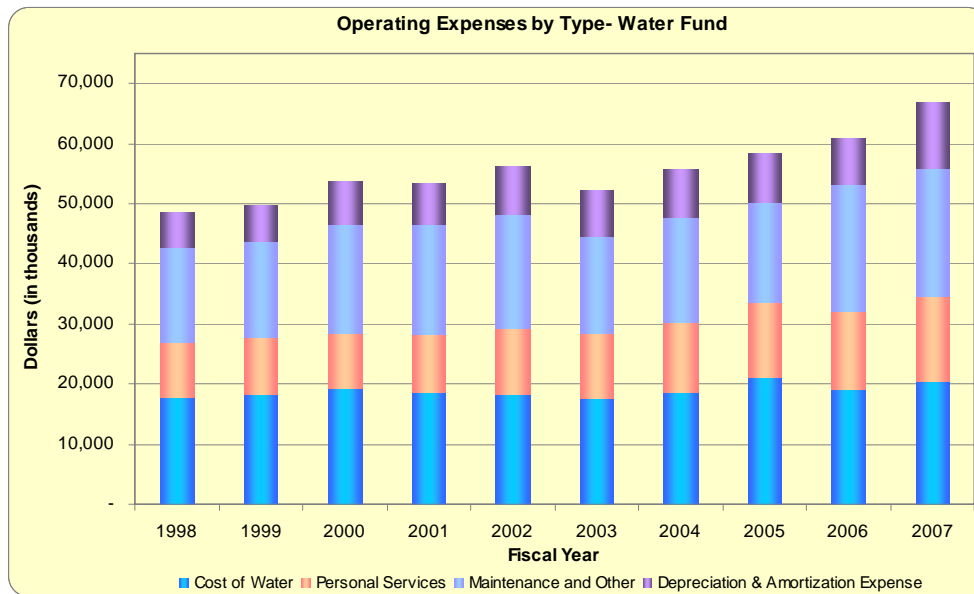


**LONG BEACH WATER DEPARTMENT**  
**WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING			
	Cost of Water	Personal Services	Maintenance and Other	Depreciation & Amortization Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/1998	17,856	9,094	15,982	5,622	48,554	2,785	607	3,392
9/30/1999	18,299	9,407	16,148	5,790	49,644	2,534	612	3,146
9/30/2000	19,343	9,058	18,108	7,327	53,836	2,389	1,537	3,926
9/30/2001	18,508	9,821	18,197	6,956	53,482	2,344	1,222	3,566
9/30/2002	18,384	10,781	19,158	7,748	56,071	2,280	619	2,899
9/30/2003	17,490	10,978	16,186	7,641	52,295	2,289	667	2,956
9/30/2004	18,581	11,572	17,598	7,852	55,604	2,243	285	2,528
9/30/2005	20,936	12,731	16,479	8,174	58,320	2,253	137	2,390
9/30/2006	19,179	12,974	20,943	7,885	60,981	2,255	213	2,468
9/30/2007	20,606	14,069	21,290	10,972	66,937	2,218	683	2,901

Source: Department's annual reports

See accompanying independent auditors' report

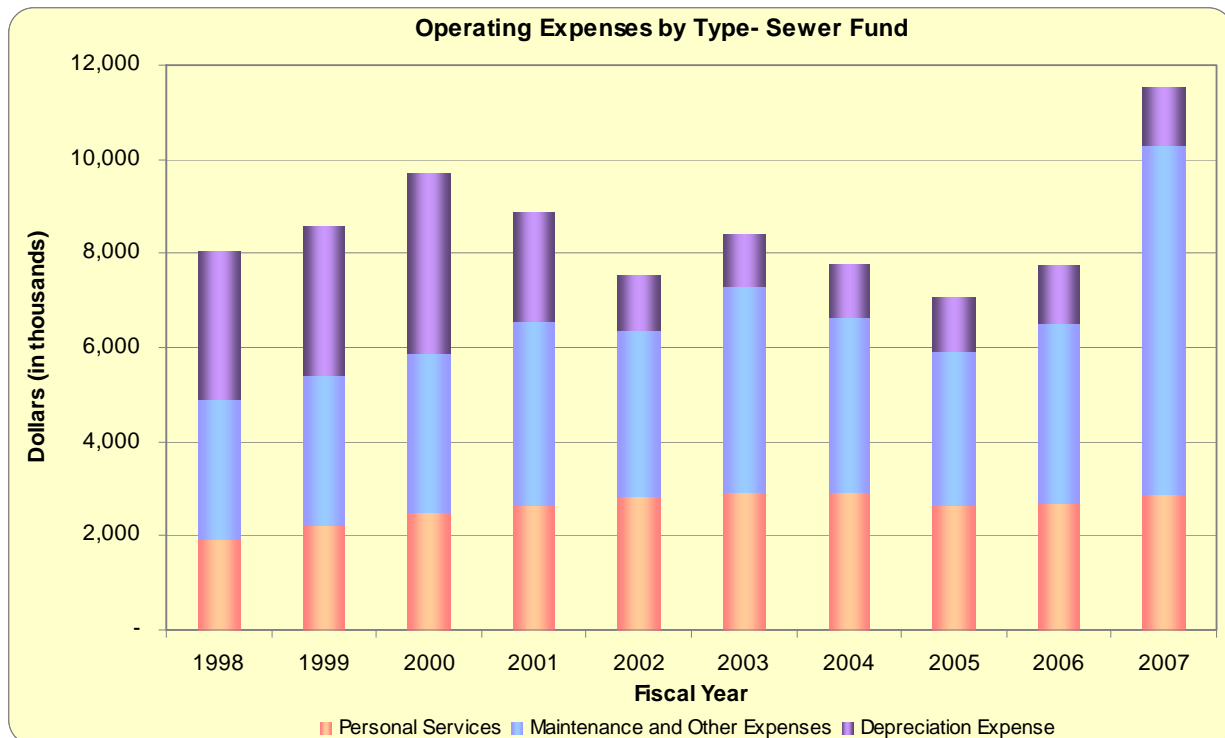


**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	OPERATING			Total Operating Expenses	NON-OPERATING
	Personal Services	Maintenance and Other Expenses	Depreciation Expense		Total Non-Operating Expenses
9/30/1998	1,935	2,961	3,142	8,038	-
9/30/1999	2,213	3,193	3,168	8,574	-
9/30/2000	2,483	3,417	3,805	9,705	66
9/30/2001	2,627	3,908	2,333	8,868	191
9/30/2002	2,829	3,538	1,171	7,538	234
9/30/2003	2,938	4,379	1,103	8,420	-
9/30/2004	2,912	3,706	1,148	7,766	-
9/30/2005	2,648	3,258	1,161	7,067	-
9/30/2006	2,689	3,815	1,233	7,737	12
9/30/2007	2,900	7,394	1,246	11,539	7

Source: Department's annual reports

See accompanying independent auditors' report



# **Revenue Capacity**

These schedules contain information to help the reader assess the Department's significant revenue sources.



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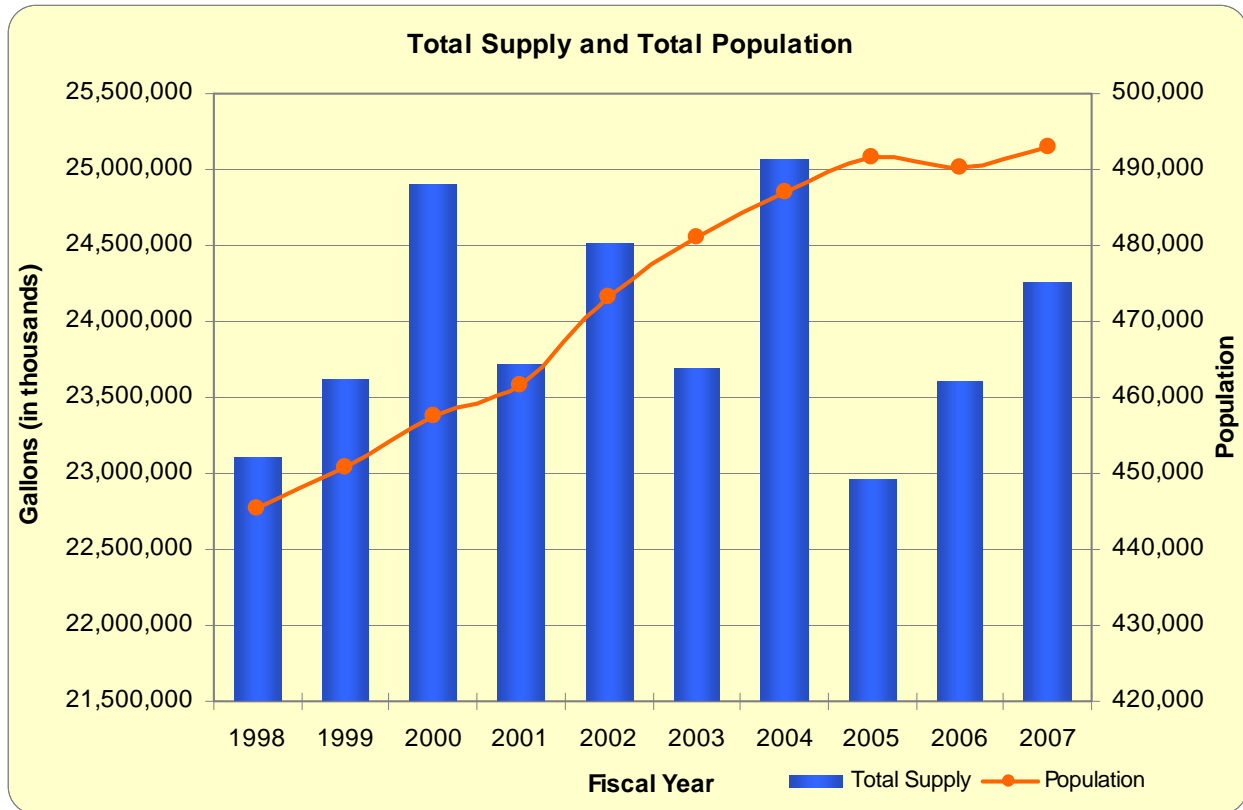
**LONG BEACH WATER DEPARTMENT**  
**SOURCE OF WATER (PUMPED, PURCHASED AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS**  
(in thousands of gallons, except population)

Fiscal Year Ended	SOURCE OF SUPPLY				CONSUMPTION			
	Potable Water		Reclaimed Water	Total Supply	Average Daily Demand Potable Water (1)	Peak Day Distribution	Average Daily Sales Per Capita	Population (2)
	Pumped	Purchased						
9/30/1998	7,700,837	14,038,964	1,370,203	23,110,004	59,561	85,630	142	445,448
9/30/1999	7,703,443	14,421,188	1,494,353	23,618,984	60,615	80,700	144	450,822
9/30/2000	8,076,869	15,143,925	1,691,167	24,911,961	63,551	87,210	149	457,608
9/30/2001	7,973,795	14,377,730	1,363,566	23,715,091	61,237	86,120	141	461,522
9/30/2002	8,479,000	14,246,000	1,790,000	24,515,000	62,260	87,000	142	473,131
9/30/2003	7,445,000	14,567,000	1,671,000	23,683,000	60,307	89,000	135	480,973
9/30/2004	8,354,494	14,761,376	1,956,084	25,071,953	63,331	84,310	141	487,112
9/30/2005	7,041,640	14,536,539	1,382,586	22,960,765	59,118	86,570	128	491,564
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	132	490,166
9/30/2007	8,416,014	13,837,621	1,999,911	24,253,546	60,969	80,180	135	492,912

Note: (1) Does not include reclaimed water which is used for irrigation only.  
(2) City's Planning & Building Department

Source: Department's annual reports

See accompanying independent auditors' report



**LONG BEACH WATER DEPARTMENT  
WATER RATES: VOLUMETRIC RATE CHARGES  
LAST TEN FISCAL YEARS**

<u>Effective Date</u>	<u>Potable Water - Monthly Amount per Billing Unit (1)</u>			<u>Reclaimed Water</u>
	<u>TIER I First Five Billing Units</u>	<u>TIER II (2) Next Ten Billing Units</u>	<u>TIER III Over Fifteen Billing Units</u>	<u>Monthly Amount Per Cubic Foot</u>
10/1/1996	1.002	1.603	1.647	0.882
10/31/1996	1.079	1.727	1.813	0.950
1/1/1997	1.088	1.740	1.827	0.957
10/1/1997	1.097	1.687	1.814	1.012
10/1/1998	1.129	1.672	1.840	1.087
10/1/1999	1.188	1.639	1.885	1.147
10/1/2000	1.256	1.570	1.962	1.099
10/1/2001	1.305	1.535	2.072	1.075
10/1/2002	1.356	1.507	2.109	1.055
10/1/2003	1.394	1.549	2.323	1.084
10/1/2004	1.457	1.619	2.428	1.133
10/1/2005	1.515	1.683	2.525	1.178
11/1/2006	1.561	1.734	2.601	1.214

Note: (1) Volumetric rate charges for Single family residence, not granted an exemption (one billing unit equals 100 cubic feet).

(2) All non-residential customers are charged at the Tier II rate.

Source: Department's records

*See accompanying independent auditors' report*

**LONG BEACH WATER DEPARTMENT  
WATER RATES: DAILY SERVICE CHARGE BY SIZE  
LAST TEN FISCAL YEARS**

<u>Effective Date</u>	<u>3/4" (1)</u>	<u>1"</u>	<u>1-1/2"</u>	<u>2"</u>	<u>3"</u>	<u>4"</u>	<u>6"</u>	<u>8"</u>	<u>10"</u>	<u>12"</u>	<u>16"</u>
10/1/1996	0.25	0.38	0.70	1.04	2.15	3.41	6.28	9.87	16.14	19.73	32.65
1/1/1997	0.25	0.38	0.71	1.05	2.17	3.43	6.32	9.94	16.26	19.87	32.89
10/1/1997	0.25	0.38	0.71	1.05	2.18	3.45	6.36	9.98	16.34	19.97	33.05
10/1/1998	0.25	0.38	0.71	1.06	2.19	3.47	6.39	10.03	16.42	20.07	33.22
10/1/1999	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2000	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2001	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2002	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2003	0.27	0.40	0.75	1.11	2.29	3.62	6.68	10.48	17.16	20.98	34.72
10/1/2004	0.28	0.42	0.78	1.16	2.39	3.79	6.98	10.95	17.94	21.92	36.28
10/1/2005	0.29	0.44	0.81	1.20	2.49	3.94	7.26	11.39	18.65	22.80	37.73
11/1/2006	0.30	0.45	0.84	1.24	2.56	4.06	7.47	11.73	19.21	23.48	38.87

Note: (1) Normal residential size (69,477 of the 89,535 total services).

Source: Department's records

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 12

**LONG BEACH WATER DEPARTMENT**  
**WATER RATES: DAILY FIRELINE SERVICE CHARGE BY SIZE**  
**LAST TEN FISCAL YEARS**

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
10/1/1996	0.48	0.83	1.22	2.08	3.05	4.13	5.20	7.62
10/31/1996	0.52	0.89	1.31	2.24	3.28	4.44	5.60	8.21
1/1/1997	0.52	0.90	1.32	2.26	3.31	4.48	5.64	8.27
10/1/1997	0.52	0.90	1.33	2.26	3.32	4.49	5.67	8.31
10/1/1998	0.53	0.91	1.34	2.28	3.34	4.52	5.70	8.36
10/1/1999	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2000	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2001	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2002	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2003	0.55	0.95	1.40	2.38	3.49	4.73	5.96	8.73
10/1/2004	0.58	0.99	1.46	2.49	3.65	4.94	6.22	9.13
10/1/2005	0.60	1.03	1.52	2.59	3.80	5.14	6.47	9.49
11/1/2006	0.62	1.06	1.57	2.67	3.91	5.29	6.67	9.78

Source: Department's records

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 13

**LONG BEACH WATER DEPARTMENT**  
**NUMBER OF WATER SERVICES, AVERAGE MONTHLY WATER CONSUMPTION &**  
**AVERAGE MONTHLY WATER BILL BY SERVICE SIZE**  
**Fiscal Year Ended September 30, 2007**

Water Service Size	Number of Services at September 30, 2007	Average Consumption per Month (in hundred cubic feet)	Average Monthly Bill
3/4"	69,477	15	\$ 35.75
1"	11,132	24	57.48
1-1/2"	4,262	60	133.26
2"	2,693	100	209.41
3"	598	238	480.97
4"	474	148	318.81
6"	494	188	433.82
8"	332	337	756.13
10"	62	1,299	2,124.62
12"	9	2,389	4,688.47
16"	2	2	223.85
Total	<u>89,535</u>		

Source: Department's utility billing records

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 14

**LONG BEACH WATER DEPARTMENT**  
**TEN LARGEST WATER USERS IN CITY OF LONG BEACH**  
**Fiscal Year Ended September 30, 2007**

<u>Ranking</u>	<u>Customer</u>	<u>Sales</u>	<u>Gallons (000's)</u>	<u>Cubic Feet (000's)</u>	<u>Acre Feet</u>	<u>Percent of Total</u>
1	City of Long Beach	\$ 3,030,204	1,251,319	167,277	3,838	5.97 %
2	Long Beach Unified School District	798,852	273,035	36,500	838	1.30
3	Montenay Pacific Power Corporation	411,059	175,207	23,422	538	0.84
4	California State University Long Beach	385,507	155,672	20,810	478	0.74
5	L.A. County Community Development	289,284	91,441	12,224	281	0.44
6	L.A.D.W.P.	271,492	111,044	14,845	341	0.53
7	Veterans Affairs Medical Hospital	255,991	107,385	14,355	330	0.51
8	Memorial Medical Center	243,875	99,377	13,285	305	0.47
9	AES Southland LLC	189,522	80,317	10,737	246	0.38
10	CALTRANS - D07	183,732	66,901	8,943	205	0.32
	Total Ten Largest Users	6,059,518	2,411,697	322,398	7,399	11.51
	Total All Other Users	57,900,066	18,526,213	2,476,598	56,857	88.49
	Total City	\$ 63,959,584	20,937,910	2,798,995	64,256	100.00

Note: 1 acre foot = 325,851 gallons = 43,560 cubic feet

Source: City's Commercial Services Bureau - "Top 100 Water Customers Report" (UBWLGXR2)

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

**LONG BEACH WATER DEPARTMENT**  
**SEWER RATES: DAILY SERVICE CHARGES BY SIZE,**  
**VOLUMETRIC RATE AND CAPACITY CHARGES(1)**  
**Fiscal Year Ended September 30, 2007**

<u>Water Service Size</u>	<u>Daily Charge</u>	<u>Volumetric Rate per 100 cubic feet</u>
5/8 or 3/4"	\$ 0.129	\$ 0.179
1"	0.204	0.179
1-1/2"	0.371	0.179
2"	0.538	0.179
3"	1.114	0.179
4"	1.764	0.179
6"	3.248	0.179
8"	5.104	0.179
10"	8.350	0.179
12"	10.206	0.179
16"	16.701	0.179

Note: (1) A one-time capacity charge of \$77.65 per equivalent fixture unit is applied to all new developments in the City.

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 16

**LONG BEACH WATER DEPARTMENT**  
**NUMBER OF SEWER SERVICES AND**  
**AVERAGE MONTHLY SEWER BILL BY SERVICE SIZE**  
**Fiscal Year Ended September 30, 2007**

<u>Water Service Size</u>	<u>Number of Services</u>	<u>Average Monthly Bill</u>
3/4"	69,843	\$ 5.54
1"	11,016	9.06
1-1/2"	4,091	19.61
2"	2,243	31.52
3"	435	68.83
4"	138	111.54
6"	84	235.54
8"	51	303.65
10"	11	843.12
12"	<u>5</u>	621.47
Total	<u><u>87,917</u></u>	

Source: Department's records

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 17

**LONG BEACH WATER DEPARTMENT**  
**TEN LARGEST SEWER USERS IN CITY OF LONG BEACH**  
**Fiscal Year Ended September 30, 2007**

<u>Ranking</u>	<u>Customer</u>	<u>Sales</u>	<u>Gallons (000's)</u>	<u>Cubic Feet (000's)</u>	<u>Acre Feet</u>	<u>Percent of Total</u>
1	City of Long Beach	\$ 181,050	494,216	66,067	1,518	3.27 %
2	Long Beach Unified School District	87,571	146,706	19,612	450	0.97
3	California State University Long Beach	46,381	150,565	20,128	462	1.00
4	L A County Housing Authority	25,453	63,797	8,528	196	0.42
5	Boeing Company	14,436	52,108	6,966	160	0.34
6	Hyatt Regency Hotel	13,264	25,711	3,437	79	0.17
7	American Textile Maint. Company	12,940	50,408	6,739	155	0.33
8	California Department of Transportation	12,600	34,961	4,674	107	0.23
9	Marina Pacifica Association	11,060	31,663	4,233	97	0.21
10	International Garment Finish	<u>8,206</u>	<u>32,269</u>	<u>4,314</u>	<u>99</u>	<u>0.21</u>
	Total Ten Largest Users	412,961	1,082,404	144,698	3,323	7.16
	Total All Other Users	<u>8,355,932</u>	<u>14,032,245</u>	<u>1,875,840</u>	<u>43,063</u>	<u>92.84</u>
	Total City	<u>\$ 8,768,893</u>	<u>15,114,649</u>	<u>2,020,538</u>	<u>46,386</u>	<u>100.00</u>

Note: 1 acre foot = 325,851 gallons = 43,560 cubic feet

Source: City's Commercial Services Bureau - "Top 100 Sewer Customers Report" (UBSLGXR2)

*See accompanying independent auditors' report*

**LONG BEACH WATER DEPARTMENT**  
**WATER REUSE SITES (RECLAIMED WATER USERS)**  
**Fiscal Year Ended September 30, 2007**

		<u>Reuse (in acre feet)</u>
1	Thums	1,253
2	El Dorado Park & Golf course	1,163
3	Recreation Park South, Golf Course, Bowling Green, & Joe Rogers Field	533
4	Lakewood County Golf Course	452
5	Virginia Country Club Golf Course	403
6	Alamitos Barrier	382
7	Skylinks Golf course	375
8	Heartwell Park and Golf Course	374
9	California State University, Long Beach	151
10	All Souls Cemetery	140
11	Long Beach Unified School District	109
12	Forest Lawn-Sunnyside Memorial Gardens Cemetery	103
13	Jauregui Nursery	94
14	Cal-Trans Freeway Landscaping	58
15	Long Beach City College and Veterans Stadium	49
16	Scherer Park	45
17	El Dorado Lakes Condominiums	33
18	Vestar Development	30
19	City of Long Beach Public Works/Public Service	29
20	Whaley Park	28
21	Marina Vista Park, Colorado Lagoon, & Woodlands	28
22	Wal-Mart Corporation	23
23	Cherry Avenue Park	18
24	Water Department Irrigation	12
25	Alamitos Reservoir-Irrigation	10
26	Signal Hill-Reservoir Park	10
27	Douglas Park	9
28	Lakewood First Presbyterian Church	3
29	Stearns Park	2
30	Somerset Park	2
31	Bluff Park	1
32	Bixby Park	1
	Totals	<u><u>5,923</u></u>

Notes: 1 acre foot = 325,851 gallons = 43,560 cubic feet

Source: Department's records

See accompanying independent auditors' report

# **Debt Capacity Information**

These schedules contain information to help the reader assess the affordability of the Department's current levels of outstanding debt and ability to issue additional debt in the future.



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**LONG BEACH WATER DEPARTMENT**  
**WATER FUND DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Operating Expenses (1)</u>	<u>Net Operating Income</u>	<u>Net Non-Operating Income/Expense (2)</u>	<u>Amount Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Times Coverage</u>
9/30/1998	56,395	42,932	13,463	3,736	17,199	2,709	1,478	4,187	4.11
9/30/1999	57,619	43,854	13,765	6,655	20,420	2,989	2,396	5,385	3.79
9/30/2000	60,252	46,509	13,743	2,659	16,402	1,979	2,197	4,176	3.93
9/30/2001	57,773	46,526	11,247	1,476	12,723	1,587	2,152	3,739	3.40
9/30/2002	58,970	48,323	10,647	1,615	12,262	1,692	2,049	3,741	3.28
9/30/2003	58,945	44,654	14,291	1,829	16,120	1,772	1,979	3,751	4.30
9/30/2004	63,185	47,752	15,433	2,340	17,773	1,242	1,904	3,146	5.65
9/30/2005	64,522	50,146	14,376	1,848	16,224	1,292	1,851	3,143	5.16
9/30/2006	66,074	53,096	12,978	1,777	14,755	1,353	1,794	3,147	4.69
9/30/2007	70,259	55,965	14,294	757	15,051	1,352	1,947	3,299	4.56

Bond Issues: Water Revenue Refunding Bonds - 1997 Series A

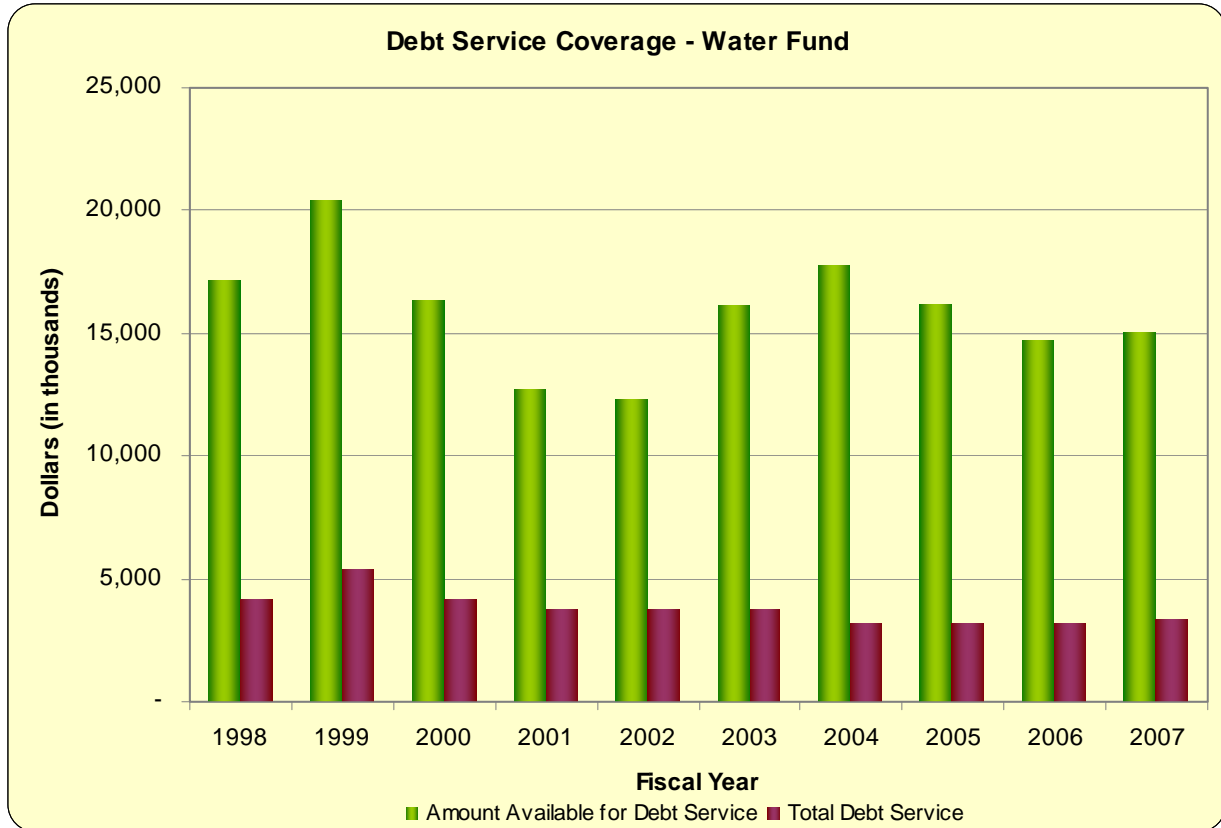
Average Coverage, ten years	4.29
Rate Covenant (1997 Issue)	1.10

Notes: (1) Operating Expenses are exclusive of depreciation expense.

(2) Net Non-Operating Income is exclusive of bond interest, amortization of bond issue costs, contributed capital and loss on disposition of property.

Source: Department's annual reports

See accompanying independent auditors' report



**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Operating Expenses (1)</u>	<u>Net Operating Income</u>	<u>Net Non-Operating Income (2)</u>	<u>Amount Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Times Coverage</u>
9/30/1998	7,847	4,897	2,950	965	3,915	-	-	-	n/a
9/30/1999	7,809	5,406	2,403	1,106	3,509	-	-	-	n/a
9/30/2000	7,922	5,900	2,022	1,212	3,234	-	-	-	n/a
9/30/2001	8,698	6,535	2,163	858	3,021	-	-	-	n/a
9/30/2002	8,050	6,367	1,683	312	1,995	-	-	-	n/a
9/30/2003	9,015	7,317	1,698	264	1,962	-	-	-	n/a
9/30/2004	9,280	6,618	2,662	154	2,816	-	-	-	n/a
9/30/2005	9,718	5,906	3,812	225	4,037	-	-	-	n/a
9/30/2006	9,244	6,504	2,740	366	3,106	-	-	-	n/a
9/30/2007	10,811	10,293	518	352	870	-	-	-	n/a

Bond Issues: None

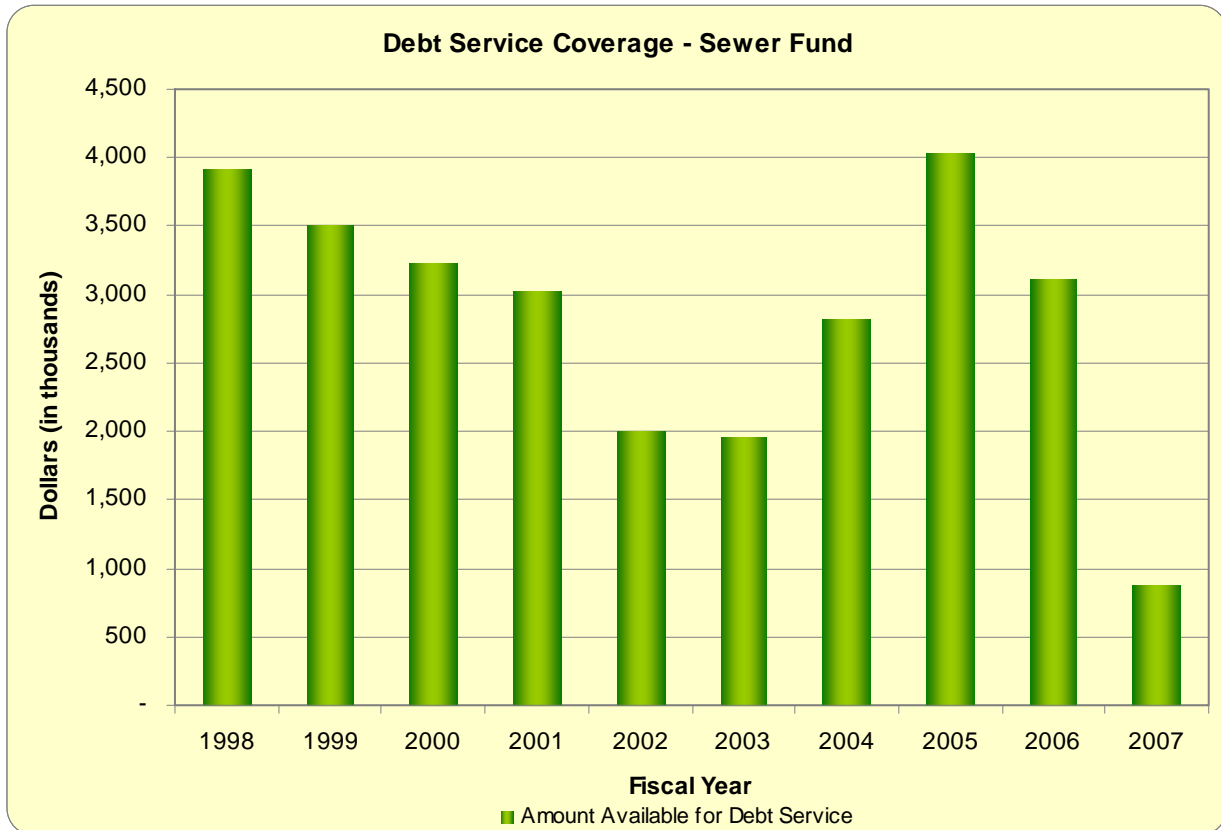
Average Coverage, ten years	n/a
Rate Covenant	n/a

Notes: (1) Operating Expenses are exclusive of depreciation expense.

(2) Net Non-Operating Income is exclusive of contributed capital and loss on disposition of property.

Source: Department's annual reports

See accompanying independent auditors' report



# **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Department's financial activities take place.

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**LONG BEACH WATER DEPARTMENT  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

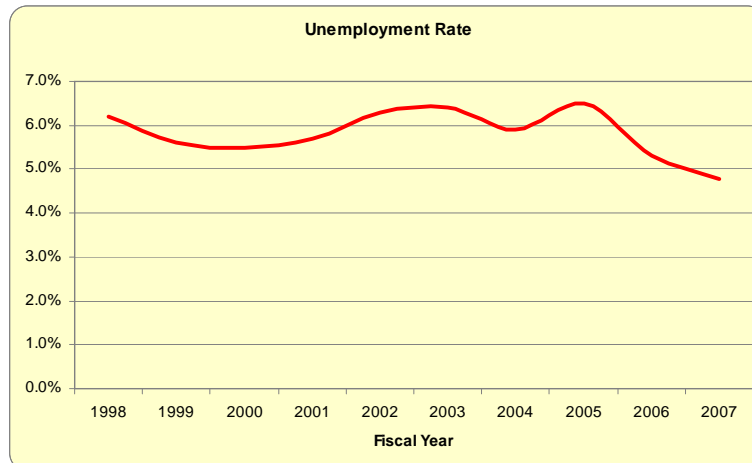
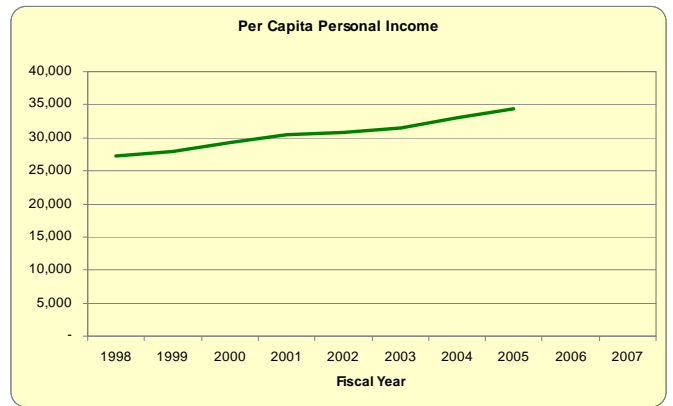
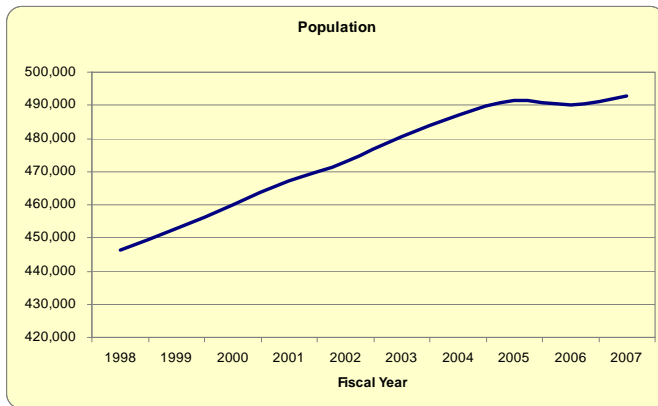
<b>Fiscal Year Ended</b>	<b>Estimated Population (1)</b>	<b>Per Capita Personal Income (2)</b>	<b>Unemployment Rate (3)</b>
9/30/1998	446,227	27,220	6.2%
9/30/1999	452,905	27,973	5.6%
9/30/2000	459,900	29,226	5.5%
9/30/2001	467,300	30,478	5.7%
9/30/2002	473,100	30,789	6.3%
9/30/2003	480,400	31,416	6.4%
9/30/2004	487,100	33,008	5.9%
9/30/2005	491,564	34,426	6.5%
9/30/2006	490,166	n/a	5.3%
9/30/2007	492,912	n/a	4.8%

Source: (1) City's Planning & Building Department

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Los Angeles-Long Beach-Glendale Metro Division. The Bureau reports information for the previous year after 16 months of the calendar year end.

(3) Average annual rate reported by California Employment Development Department (EDD) for Los Angeles-Long Beach-Glendale Metro Division.

*See accompanying independent auditors' report*



**LONG BEACH WATER DEPARTMENT  
MAJOR EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO**

<u>Employer</u>	<u>Fiscal Year 2007</u>		<u>Fiscal Year 1998</u>	
	<u>Number of Employees (1)</u>	<u>Percentage of Total City Employment (2)</u>	<u>Number of Employees (1)</u>	<u>Percentage of Total City Employment (2)</u>
Long Beach Unified School District (3)	13,044	5.61%	11,887	5.67%
The Boeing Company	6,455	2.78%	17,850	8.52%
California State University Long Beach(4)	5,605	2.41%	2,755	1.32%
City of Long Beach	5,763	2.48%	5,814	2.78%
Long Beach Memorial Medical Center	5,000	2.15%	3,928	1.88%
Verizon	1,500	0.65%	n/a	n/a
Long Beach City College (5)	1,636	0.70%	1,518	0.72%
U.S. Postal Service	1,800	0.77%	910	0.43%
Veterans Affairs Medical Center	2,000	0.86%	2,278	1.09%
St. Mary Medical Center	1,480	0.64%	1,779	0.85%

Sources: (1) City of Long Beach Community Development Long Beach Major Employer Directory-current listing  
(2) U.S. Census Bureau Labor Force as of 2005  
(3) Includes 4,418 part-time employees  
(4) Includes 3,327 part-time employees  
(5) All full-time employees

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 23

**LONG BEACH WATER DEPARTMENT  
NUMBER OF EMPLOYEES BY FUND**

<u>Fiscal Year Ended</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
9/30/1999	181	27	208
9/30/2000	185	29	214
9/30/2001	195	28	223
9/30/2002	199	36	235
9/30/2003	196	41	237
9/30/2004	198	33	231
9/30/2005	192	27	219
9/30/2006	184	30	214
9/30/2007	185	43	228

Sources: Department's Personnel records

*See accompanying independent auditors' report*

# **Operating Information**

These schedules contain information about operations and resources to help the reader understand how the Department's financial information relates to the services the Department provides and the activities it performs.



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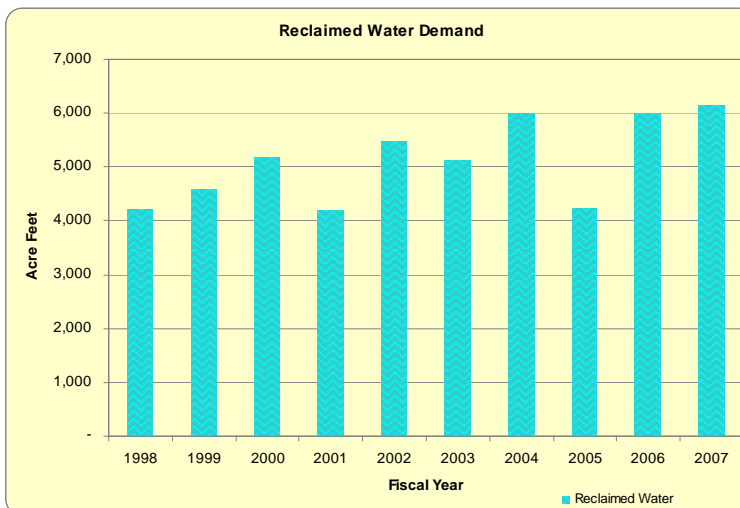
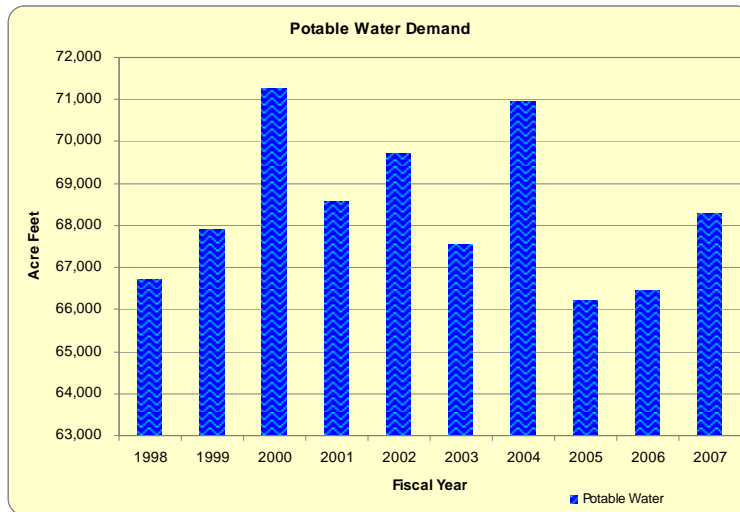
**LONG BEACH WATER DEPARTMENT**  
**WATER DEMAND - LAST TEN FISCAL YEARS**  
(in acre feet)

Fiscal Year Ended	Potable Water			Reclaimed Water	Total Demand
	Pumped	Purchased	Total Potable Demand		
9/30/1998	23,633	43,084	66,717	4,205	70,922
9/30/1999	23,641	44,257	67,898	4,586	72,484
9/30/2000	24,787	46,475	71,262	5,190	76,452
9/30/2001	24,465	44,117	68,582	4,184	72,766
9/30/2002	25,993	43,718	69,711	5,493	75,204
9/30/2003	22,849	44,705	67,554	5,127	72,681
9/30/2004	25,639	45,301	70,940	6,003	76,943
9/30/2005	21,610	44,611	66,221	4,243	70,464
9/30/2006	25,160	41,284	66,444	6,005	72,449
9/30/2007	25,828	42,466	68,294	6,138	74,432

Note: One acre foot equals 43,560 cubic feet or 325,851 gallons.

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 25

**LONG BEACH WATER DEPARTMENT**  
**METROPOLITAN WATER DISTRICT'S RATE CHANGES - LAST TEN FISCAL YEARS**  
(in dollars per acre foot)

<u>Effective Date</u>	<u>Non-Interruptible Treated Water</u>	<u>Percent Change Non-Interruptible Treated Water</u>	<u>Seasonal Treated Water (1)</u>
7/1/1998	431	0	290
7/1/1999	431	0	290
7/1/2000	431	0	290
7/1/2001	431	0	290
7/1/2002	431	0	290
1/1/2003	408	-5	267
1/1/2004	418	2	277
1/1/2005	443	6	302
1/1/2006	453	2	312
1/1/2007	478	6	337

Note: (1) Seasonal Water Treated Rate in accordance to Metropolitan Water District and Long Beach Water Department Agreement No. A04959 started on October 1, 1997 up to May 1, 2008.

Source: Metropolitan Water District of Southern California

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 26

**LONG BEACH WATER DEPARTMENT**  
**WATER REPLENISHMENT DISTRICT ASSESSMENT (PUMP TAX)**  
**LAST TEN FISCAL YEARS**

<u>Effective Date</u>	<u>Rate per Acre-Foot</u>	<u>Percent Change</u>
7/1/1998	151.00	0
7/1/1999	139.00	(8)
7/1/2000	112.00	(19)
7/1/2001	112.00	0
7/1/2002	117.60	5
7/1/2003	115.00	(2)
7/1/2004	128.25	12
7/1/2005	134.66	5
7/1/2006	138.00	2
7/1/2007	149.00	8

Source: Water Replenishment District of Southern California (WRD)

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 27

**LONG BEACH WATER DEPARTMENT  
OPERATING AND CAPITAL ASSETS STATISTICS - WATER FUND  
LAST TEN FISCAL YEARS**

Fiscal Year Ended	Water System			Water Quality		Reclaimed System	
	Number of Groundwater wells	Miles of water mains	Number of active water service connections	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline
9/30/1998	29	909	88,187	6,613	20,200	77,370	25
9/30/1999	29	910	88,395	6,717	12,560	41,370	30
9/30/2000	29	913	88,636	6,767	13,429	47,558	30
9/30/2001	29	911	88,754	6,600	13,797	45,609	30
9/30/2002	29	911	88,912	6,500	14,083	49,306	30
9/30/2003	29	911	89,139	6,442	14,000	54,000	33
9/30/2004	29	907	89,273	6,640	16,400	55,000	33
9/30/2005	29	907	89,365	6,501	16,030	48,910	33
9/30/2006	29	907	89,471	6,505	15,676	57,581	33
9/30/2007	31	905	89,535	6,489	16,761	60,235	33

Source: Department's records

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 28

**LONG BEACH WATER DEPARTMENT  
OPERATING AND CAPITAL ASSETS STATISTICS - SEWER FUND  
LAST TEN FISCAL YEARS**

Fiscal Year Ended	Number of sewer pump stations	Miles of sewer pipelines	Number of sewer manholes
9/30/1998	28	763	15,000
9/30/1999	28	704	15,000
9/30/2000	28	704	15,593
9/30/2001	28	712	15,595
9/30/2002	28	712	15,595
9/30/2003	28	712	15,924
9/30/2004	28	712	16,031
9/30/2005	28	712	16,041
9/30/2006	28	712	16,044
9/30/2007	28	711	16,055

Source: Department's records

*See accompanying independent auditors' report*

**LONG BEACH WATER DEPARTMENT  
INFRASTRUCTURE MAINTENANCE AND IMPROVEMENTS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended</b>	<b>Cast Iron Water Mains Replaced (in feet)</b>	<b>Fire Hydrants Repaired</b>	<b>Water Meters Repaired</b>	<b>Sewer Mains &amp; Laterals Repaired (1)</b>	<b>Sewer Mains Cleaned (in miles)</b>	<b>Sewer Manholes Chemically Treated</b>	<b>Number of times Storm Drain Catch Basins Cleaned (2)</b>
9/30/1998	70,583	185	12,200	1,600	405	7,959	4,990
9/30/1999	75,244	475	18,674	2,232	318	7,184	6,436
9/30/2000	75,005	183	17,561	4,524	257	4,843	5,070
9/30/2001	61,765	358	10,713	384	291	3,501	6,865
9/30/2002	85,297	732	2,960	147	396	5,000	6,269
9/30/2003	71,000	395	2,900	97	341	3,000	8,614
9/30/2004	63,960	376	7,076	316	437	3,000	10,202
9/30/2005	50,601	342	6,889	246	338	3,000	3,911
9/30/2006	55,404	259	5,370	296	474	3,000	5,110
9/30/2007	54,423	407	7,050	270	364	3,000	848

Note: (1) For fiscal years 1996 through 2000, the Water Department tracked repairs by number of feet. Beginning in fiscal year 2001, repairs are tracked according to the number of jobs.

(2) Effective October 1, 2003, the Water Department transferred ownership and responsibility for City Storm drain system assets back to the City's Department of Public Works. However, the Water Department continues to operate and maintain the part of the storm drain system on a cost reimbursement basis. Cleaning of storm drain catch basins was taken over by City's Department of Public Works as of January 23, 2007.

Source: Department's records

See accompanying independent auditors' report