



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

**C-8**

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August 16, 2016

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive and file the Separately Issued Financial Statements, the Federal Single Audit, and the Auditor's Communication with Those Charged with Governance for the Fiscal Year ending September 30, 2015. (Citywide)

## DISCUSSION

On May 17, 2016, the Financial Management Department submitted to the City Council the City's Comprehensive Annual Financial Report (CAFR) and other separately issued financial reports and statements for the fiscal year ended September 30, 2015 (FY 15), as required by the City Charter.

Additional reports that were not available on the above date, including the Aquarium of the Pacific Financial Statements and the Federal Single Audit report, are enclosed and issued annually to meet distinct legal and financial requirements.

### **Federal Single Audit**

The Federal Single Audit is required by the Federal Office of Management and Budget (OMB) for municipalities receiving over \$500,000 annually in federal funds. The Federal Single Audit, covering five major programs, resulted in no findings. This is an improvement over the audit of the previous fiscal year that resulted in one finding and zero dollars in questioned costs.

### **The Auditor's Communications with Those Charged with Governance**

The City's external auditor (KPMG) is required to prepare and submit the Auditor's Communication with Those Charged with Governance in accordance with the Statement of Auditing Standards 114 (SAS 114). "Those Charged with Governance" refers to the person or persons responsible for the strategic direction of the entity and the obligations relative to the accountability of such entity, including oversight of the financial reporting process. KPMG is required to communicate with those charged with governance those matters related to the financial statement audit that are, in KPMG's professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

**Management Letter**

KPMG has also provided a separately issued Management Letter that provides comments, findings and recommendations related to internal controls as well as other operational matters. No findings or material weaknesses were identified. City management has reviewed KPMG's recommendations and Management's response to each recommendation is included in the letter.

TIMING CONSIDERATIONS

Action on this item is not time critical.

FISCAL IMPACT

There is no fiscal or local job impact associated with this recommendation.

**SUGGESTED ACTION:**

Approve recommendation.

Respectfully Submitted,



STEPHEN W. HANNAH  
CITY CONTROLLER



JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

JG:SWH  
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ATTACHMENTS

APPROVED:

  
PATRICK H. WEST  
CITY MANAGER



**AQUARIUM OF THE PACIFIC**

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

## Independent Auditors' Report

The Board of Directors  
Aquarium of the Pacific:

We have audited the accompanying financial statements of the Aquarium of the Pacific, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium of the Pacific as of December 31, 2015 and 2014, and the changes in its net assets, its functional expenses and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Irvine, California  
June 1, 2016

# AQUARIUM OF THE PACIFIC

## Statements of Financial Position

December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Assets</b>								
Cash and cash equivalents	\$ 1,706,532	7,951,749	498,432	10,156,713	3,170,915	7,523,511	398,332	11,092,758
Accounts receivable, net of allowance for doubtful accounts of \$186,323 and \$207,203 in 2015 and 2014, respectively (note 3)	816,222	—	—	816,222	832,470	—	—	832,470
Contributions receivable, net (note 4)	39,257	2,359,240	—	2,398,497	58,656	2,880,830	—	2,939,486
Prepaid expenses and other	379,219	—	—	379,219	369,173	—	—	369,173
Gift store inventory	595,883	—	—	595,883	515,032	—	—	515,032
Property and equipment, net (note 5)	19,511,697	4,810,181	—	24,321,878	20,864,669	3,060,431	—	23,925,100
Total assets	\$ 23,048,810	15,121,170	498,432	38,668,412	25,810,915	13,464,772	398,332	39,674,019
<b>Liabilities and Net Assets</b>								
Accounts payable	\$ 1,695,518	—	—	1,695,518	2,908,059	—	—	2,908,059
Accrued liabilities	1,216,475	—	—	1,216,475	1,940,100	—	—	1,940,100
Deferred revenue	2,873,503	—	—	2,873,503	2,643,432	—	—	2,643,432
Total liabilities	5,785,496	—	—	5,785,496	7,491,591	—	—	7,491,591
Net assets:								
Unrestricted	17,263,314	—	—	17,263,314	18,319,324	—	—	18,319,324
Temporarily restricted (note 7)	—	15,121,170	—	15,121,170	—	13,464,772	—	13,464,772
Permanently restricted (notes 8 and 9)	—	—	498,432	498,432	—	—	398,332	398,332
Total net assets	17,263,314	15,121,170	498,432	32,882,916	18,319,324	13,464,772	398,332	32,182,428
Commitments and contingencies (note 6)								
Total liabilities and net assets	\$ 23,048,810	15,121,170	498,432	38,668,412	25,810,915	13,464,772	398,332	39,674,019

See accompanying notes to financial statements.

# AQUARIUM OF THE PACIFIC

## Statements of Activities

Years ended December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:								
Admissions	\$ 19,184,236	—	—	19,184,236	17,745,896	—	—	17,745,896
Memberships	4,288,090	—	—	4,288,090	4,041,662	—	—	4,041,662
Educational programs	895,632	—	—	895,632	1,050,831	—	—	1,050,831
Gift store	4,550,473	—	—	4,550,473	4,103,958	—	—	4,103,958
Contributions	1,581,026	3,034,748	100,100	4,715,874	1,665,619	5,660,784	1,700	7,328,103
Ancillary	783,031	—	—	783,031	763,240	—	—	763,240
Food service	746,139	—	—	746,139	632,630	—	—	632,630
Fund-raising events	522,939	—	—	522,939	478,238	—	—	478,238
Donated goods and services	522,478	—	—	522,478	639,304	—	—	639,304
Other	169,067	7,241	—	176,308	211,074	8,351	—	219,425
Net assets released from restriction for operations	1,385,591	(1,385,591)	—	—	2,416,948	(2,416,948)	—	—
Total operating revenues	34,628,702	1,656,398	100,100	36,385,200	33,749,400	3,252,187	1,700	37,003,287
Operating expenses:								
Husbandry and facilities	7,738,493	—	—	7,738,493	7,592,779	—	—	7,592,779
Education, interpretation, and outreach	3,061,512	—	—	3,061,512	3,112,307	—	—	3,112,307
Guest services	4,877,664	—	—	4,877,664	4,839,399	—	—	4,839,399
Gift store	3,260,845	—	—	3,260,845	3,084,359	—	—	3,084,359
Development and membership	2,482,790	—	—	2,482,790	2,489,202	—	—	2,489,202
Marketing	4,499,045	—	—	4,499,045	4,199,760	—	—	4,199,760
Human resources	927,049	—	—	927,049	931,530	—	—	931,530
Finance and administration	2,336,868	—	—	2,336,868	2,242,267	—	—	2,242,267
Total operating expenses before other changes	29,184,266	—	—	29,184,266	28,491,603	—	—	28,491,603
Earnings from operations before other changes	5,444,436	1,656,398	100,100	7,200,934	5,257,797	3,252,187	1,700	8,511,684
Other operating expenses – other changes:								
Net rent to the City of Long Beach (note 3)	(2,154,000)	—	—	(2,154,000)	(2,186,903)	—	—	(2,186,903)
Amounts transferred to reserves (note 3)	(992,324)	—	—	(992,324)	—	—	—	—
Depreciation and amortization	(3,354,122)	—	—	(3,354,122)	(2,941,377)	—	—	(2,941,377)
Change in net assets	(1,056,010)	1,656,398	100,100	700,488	129,517	3,252,187	1,700	3,383,404
Net assets at beginning of year	18,319,324	13,464,772	398,332	32,182,428	18,189,807	10,212,585	396,632	28,799,024
Net assets at end of year	\$ 17,263,314	15,121,170	498,432	32,882,916	18,319,324	13,464,772	398,332	32,182,428

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC**

Statement of Functional Expenses

Year ended December 31, 2015

	Program services				Support services				Total
	Husbandry and facilities	Education, interpretation, and outreach	Guest services	Gift store	Development and membership	Marketing	Human resources	Finance and administration	
Salaries, taxes, and benefits	\$ 3,900,081	2,151,217	3,542,916	1,016,697	1,192,854	1,148,050	610,396	1,316,188	14,878,399
Cost of goods sold	—	—	—	1,954,975	—	—	—	—	1,954,975
Insurance	71,890	84,794	86,183	28,901	1,083	1,312	684	75,477	350,324
Permits, maintenance, and construction	508,932	899	52,789	2,277	128	—	—	51,220	616,245
Occupancy	23,342	75,776	83,470	97,846	55,210	48,886	70,632	159,234	614,396
Utilities	1,566,737	—	—	3,695	—	—	—	—	1,570,432
Husbandry/animals and collecting	408,588	—	—	—	—	—	—	—	408,588
Services	300,491	529,876	304,920	11,764	504,968	337,244	175,892	183,374	2,348,529
Supplies and other expendables	850,573	128,995	431,100	64,325	109,532	89,776	32,218	131,014	1,837,533
Postage, shipping, and courier	28,918	6,658	17,355	10,038	160,653	69,039	2,552	5,898	301,111
Information technology and telecommunications	11,874	2,361	53,591	1,452	31,090	4,511	1,692	213,091	319,662
Printing and publishing	—	20,492	1,395	—	211,073	343,276	1,077	1,619	578,932
Advertising, promotions, and public relations	—	886	1,043	—	16,178	2,147,623	15	3,300	2,169,045
Travel, meals, and training	67,067	55,910	29,061	2,219	26,787	12,014	31,891	30,561	255,510
Other	—	3,648	273,841	66,656	173,234	297,314	—	165,892	980,585
Operating expenses before other changes	7,738,493	3,061,512	4,877,664	3,260,845	2,482,790	4,499,045	927,049	2,336,868	29,184,266
Net rent to the City of Long Beach (note 3)	784,908	629,032	667,541	42,227	—	5,129	11,967	13,196	2,154,000
Amounts transferred to operating reserves (note 3)	361,599	289,788	307,529	19,453	—	2,363	5,513	6,079	992,324
Depreciation and amortization	1,741,174	303,175	568,496	10,460	8,966	22,415	8,966	690,470	3,354,122
Total operating expenses	\$ 10,626,174	4,283,507	6,421,230	3,332,985	2,491,756	4,528,952	953,495	3,046,613	35,684,712

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC**

Statement of Functional Expenses

Year ended December 31, 2014

	<b>Program services</b>				<b>Support services</b>				
	<b>Husbandry and facilities</b>	<b>Education, interpretation, and outreach</b>	<b>Guest services</b>	<b>Gift store</b>	<b>Development and membership</b>	<b>Marketing</b>	<b>Human resources</b>	<b>Finance and administration</b>	<b>Total</b>
Salaries, taxes, and benefits	\$ 3,943,007	2,045,805	3,395,332	998,133	1,126,774	1,090,370	627,163	1,187,772	14,414,356
Cost of goods sold	—	—	—	1,809,206	—	—	—	—	1,809,206
Insurance	58,709	67,612	68,894	24,014	1,000	1,211	631	56,087	278,158
Permits, maintenance, and construction	447,765	—	51,186	8,489	44	—	408	8,145	516,037
Occupancy	22,421	67,584	81,547	95,712	53,996	46,328	67,014	156,675	591,277
Utilities	1,532,320	—	—	4,457	—	—	—	—	1,536,777
Husbandry/animals and collecting	382,867	—	—	—	—	—	—	—	382,867
Services	250,523	681,206	365,054	10,319	624,028	277,547	150,784	183,498	2,542,959
Supplies and other expendables	844,984	170,090	511,813	62,334	161,275	30,549	41,338	133,374	1,955,757
Postage, shipping, and courier	19,620	6,249	10,146	5,661	140,414	75,328	2,104	4,878	264,400
Information technology and telecommunications	13,958	1,816	81,808	5,078	32,975	5,007	6,197	229,518	376,357
Printing and publishing	255	17,738	365	—	173,205	354,107	1,182	3,323	550,175
Advertising, promotions, and public relations	—	6,067	291	—	7,761	1,976,905	509	5,190	1,996,723
Travel, meals, and training	76,350	48,140	23,925	2,380	15,756	9,000	34,200	27,191	236,942
Other	—	—	249,038	58,576	151,974	333,408	—	246,616	1,039,612
Operating expenses before other changes	7,592,779	3,112,307	4,839,399	3,084,359	2,489,202	4,199,760	931,530	2,242,267	28,491,603
Other operating expenses – other changes:									
Net rent to the City of Long Beach (note 3)	796,898	638,641	677,738	42,872	—	5,207	12,150	13,397	2,186,903
Depreciation and amortization	1,425,856	293,869	557,545	8,779	7,525	18,813	7,525	621,465	2,941,377
Total operating expenses	\$ 9,815,533	4,044,817	6,074,682	3,136,010	2,496,727	4,223,780	951,205	2,877,129	33,619,883
See accompanying notes to financial statements.									



# AQUARIUM OF THE PACIFIC

## Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 700,488	3,383,404
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,354,122	2,941,377
Contributions restricted for long-term purposes	(2,850,241)	(3,356,204)
Decrease (increase) in assets:		
Accounts receivable, net	16,248	(301,048)
Contributions receivable	540,989	(488,362)
Prepaid expenses and other	(10,046)	41,591
Gift store inventory	(80,851)	(97,812)
Increase (decrease) in liabilities:		
Accounts payable	(1,212,541)	534,589
Accrued liabilities	(723,625)	429,493
Deferred revenue	230,071	199,531
Net cash (used in) provided by operating activities	(35,386)	3,286,559
Net cash used in investing activity – purchases of property and equipment	(3,750,900)	(4,846,173)
Restricted for long-term purposes	2,850,241	3,356,204
Net increase (decrease) in cash and cash equivalents	(936,045)	1,796,590
Cash and cash equivalents, beginning of year	11,092,758	9,296,168
Cash and cash equivalents, end of year	\$ <u>10,156,713</u>	<u>11,092,758</u>

See accompanying notes to financial statements.

# AQUARIUM OF THE PACIFIC

## Notes to Financial Statements

December 31, 2015 and 2014

### (1) Description of Business

#### *Organization and Business Activity*

The Aquarium of the Pacific (the Corporation) is a California not-for-profit benefit corporation, originally formed in October 1992 as the Genesis Long Beach Aquarium Corporation. Under its articles of incorporation, the Corporation was organized for the benefit of the general public to promote educational, scientific, and charitable purposes relative to the design, construction, and subsequent operation of a public aquarium and educational sea life exhibit facility in the City of Long Beach (the City). The Corporation's sole objective is to manage the operations of the Aquarium of the Pacific (the Aquarium).

The Aquarium is located at the waterfront of downtown Long Beach, California. The mission of the Aquarium is to instill a sense of wonder, respect, and stewardship for the Pacific Ocean, its inhabitants, and ecosystems.

### (2) Summary of Significant Accounting Policies

#### *(a) Basis of Presentation*

The accompanying financial statements depict the financial condition, results of operations, and cash flows of the Corporation and do not include any accounts maintained by the City that may be related to the operations of the Corporation (note 3).

The Corporation follows the requirements of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. This standard requires the Corporation to report information regarding its financial position and change in net assets into the following classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that require the Corporation to use or expend the assets as specified. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted.
- Permanently restricted net assets include gifts subject to donor-imposed stipulations that the Corporation maintain them permanently. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on these assets.

#### *(b) Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2015 and 2014

(c) ***Cash Equivalents***

For purposes of the statements of cash flows, the Corporation considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(d) ***Gift Store Inventory***

Inventories are valued based on average costs and at the lower of cost or market value.

(e) ***Live Animal Inventory***

The costs of purchasing or collecting live animals are expensed as incurred.

(f) ***Contributions Receivable***

Contributions receivable, less an appropriate allowance for estimated uncollectible amounts, are recorded at their estimated net realizable value. Contributions that are expected to be collected in future years are recorded as contributions receivable at the present value of their estimated cash flows. The Corporation discounts contributions that are expected to be collected after one year using credit-adjusted rates in accordance with ASC Topic 820. Conditional promises to give are not included as support revenue until the conditions are substantially met.

(g) ***Property and Equipment***

Buildings and equipment are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives: buildings – 27.5 years, and equipment, furniture, and fixtures – 3 to 7 years. Leasehold improvements are amortized over the shorter of the period of the lease or the estimated useful life. Expenditures for repairs and maintenance are charged to expense as incurred.

(h) ***Revenue Recognition***

The Corporation records earned revenues on an accrual basis. In addition, the Corporation records as revenue the following types of contributions when they are received unconditionally at their estimated fair value: cash, promises to give (pledges), and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Corporation records the sale of its consignment tickets as deferred revenue. Revenue is recognized in the period in which the tickets are redeemed for admission.

The 2014 financial statements have been adjusted to correct an immaterial error in membership revenue recognition. Specifically, deferred revenue was increased \$2.0 million, beginning net assets was decreased by \$1.8 million, and membership revenue was decreased by \$170 thousand.

(i) ***Temporarily Restricted Contributions***

The Corporation records contributions as temporarily restricted if they are received with donor restrictions that limit their use either through purpose or time restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, rather than when the assets are received. The gifts are reported as temporarily or permanently restricted net assets

## **AQUARIUM OF THE PACIFIC**

### **Notes to Financial Statements**

December 31, 2015 and 2014

if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions restricted for the acquisition of long-lived assets are reported as temporarily restricted net assets until such time as the long-lived assets are placed in service by the Corporation.

**(j) *Donated Goods and Services***

The Corporation records various types of in-kind support, including donated professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills and are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation or receipt of operating goods or services that would otherwise require additional cash expenditures. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as donated goods and services are offset by like amounts included in expenses or property and equipment as appropriate. The Corporation recognized \$391,006 and \$474,393 of contributed services in the accompanying financial statements for the years ended December 31, 2015 and 2014, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time that does not meet the two recognition criteria described above. Accordingly, the value of this donated time is not reflected in the accompanying financial statements.

**(k) *Functional Allocation of Expenses***

The costs of providing the Aquarium's programs and the Corporation's administration have been summarized on a functional basis in the statements of functional expenses. Accordingly, costs have been allocated among the programs and supporting services benefited. Additionally, the development and membership expenses included as supporting services in the accompanying statements of functional expenses include the Corporation's fund-raising expenses that amount to \$329,513 and \$285,079 for the years ended December 31, 2015 and 2014, respectively.

**(l) *Income Taxes***

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business and, in the opinion of management, is not material to the financial statements taken as a whole.

The Corporation has adopted the provisions of ASC Topic 740, *Income Taxes*, related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2015 and 2014

in a tax return. The interpretation requires that the entity account for and disclose in the financial statements the impact of a tax position if that position will not more likely than not be substantiated upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Corporation has evaluated the financial statement impact of tax positions taken or expected to be taken and determined it has no uncertain income taxes that would require tax assets or liabilities to be recorded in accordance with accounting guidance.

The Corporation files income tax returns in the U.S. federal jurisdiction and State of California. With few exceptions, the Corporation is no longer subject to income tax examinations by U.S. federal income tax authorities for the years before 2012 and State of California tax authorities before 2011.

**(m) *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of***

The Corporation reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended December 31, 2015 and 2014, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

**(3) Business Activity**

In October 1995, the Corporation sold \$117,545,000 in tax-exempt long-term bonds to the general public, guaranteed by specific funds (Tidelands and Hotel tax) of the City, to finance the construction of a 156,000-square-foot world-class aquarium. In October 1995, the Corporation also entered into a ground lease with the City. In May 1997, the City and the Corporation terminated a portion of the October 1995 ground lease between the Corporation and the City described as the "Parking Parcel." The City agreed to construct, operate, and maintain a public parking facility. The Corporation transferred the sum of \$1,500,000 to be applied toward the construction of such public parking facility. The City further agreed during the term of the lease to pay to the Corporation an annual amount of any net revenues not to exceed \$1,500,000. The Aquarium opened to the general public in June 1998.

In April 2001, the parking agreement between the City and Corporation was included in a new lease between the City and the Corporation extending the term of the agreement to fiscal year 2031 (2001 Parking Agreement). In May 2001, the City finalized an agreement whereby the Corporation's outstanding tax-exempt debt would be defeased from funds generated by the sale of \$129,520,000 of Lease Revenue Refunding Bonds (Aquarium of the Pacific Project), Series 2001 (Series 2001 Refunding Bonds), issued by the Long Beach Bond Finance Authority (the Authority). In March 2012, the Long Beach Bond Finance Authority 2013 Refunding Revenue Bonds (Aquarium of the Pacific Project) (the Series 2012 Bonds) were issued by the Long Beach Bond Finance Authority (the Authority) to (a) refund all of the outstanding Long Beach Bond Finance Authority Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001, (b) fund a reserve fund for the Series 2012 Bonds and (c) pay for costs of issuance of the Series 2012 Bonds. The purchase price of the Bonds was \$113,730,033 (representing the principal amount of the Bonds of the \$102,580,000, plus an original issue premium of \$11,595,462 and less an underwriters' discount of \$445,429).

## **AQUARIUM OF THE PACIFIC**

### **Notes to Financial Statements**

**December 31, 2015 and 2014**

Pursuant to the May 2001 agreement, a public/private partnership between the City and the Corporation was formed under a formal operating arrangement approved by the City Council of the City and the Corporation's board of directors, whereby the Aquarium's operations are carried out by the Corporation. Under the terms of this agreement, the City assumed ownership of all physical plant assets at that time and also assumed responsibility for the Corporation's then-outstanding long-term indebtedness. Assets comprising investments held by trustee, capital assets, certain other assets, and net bonds payable were transferred to the City to be accounted for in the City's Tidelands Operating Fund, a nonexpendable trust fund of the City. The remaining net assets, including asset acquisitions subsequent to May 2001, remain with the Corporation. The Corporation operates as a separate 501(c)(3) not-for-profit organization with a separate independent board of directors.

On March 1, 2006, an "Implementation Agreement" was entered into between the Corporation and the Authority, which clarified costs of operations within the definitions, included in the 2001 Series Bond Indenture and certain operating policies and procedures between the entities and also incorporated the 2001 Parking Agreement. Included in the agreement is a stabilized rent payment to the City of \$3,528,000, net of revenue-sharing arrangements for operating funds available after operating expenses including operating capital, rent, and parking operations. Further, operating capital expenditure levels and parking garage revenue assumptions were predefined through 2031, and certain other review and control mechanisms were codified. Depending on the net revenues generated by the Corporation as defined in the 2001 Series Bond Indenture, amounts are due either to or from the City's bond-related reserves at the end of each year.

On January 24, 2014, an Amendment to Implementation Agreement was made and entered by and between the Corporation and the Authority. In the amendment, the City's obligation under the Implementation Agreement and any other document (including but not limited to, the Parking Agreement, the Indenture, and Lease Agreement) to pay to the Corporation any parking garage revenue was fully extinguished and canceled. The stabilized rent payment to the City in each fiscal year was reduced from \$3,528,000 to \$2,154,000. Further, operating capital expenditure levels, and certain other review and control mechanisms were restated.

Unrestricted funds relating to the Aquarium's operations are held by the City's designated trustee. Formal procedures are in place to deposit operating receipts and withdraw reimbursements for operating expenses, including operating capital, from these trustee-maintained accounts. Restricted funds generated by the Corporation's fund-raising activities, including grants and donations from private and public sources, remain the property of, and are held separately by, the Corporation.

# AQUARIUM OF THE PACIFIC

## Notes to Financial Statements

December 31, 2015 and 2014

### (4) Contributions Receivable

As of December 31, 2015 and 2014, contributions receivable are expected to be received as follows:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 1,587,283	1,003,902
Within two to five years	975,502	2,364,069
	<u>2,562,785</u>	<u>3,367,971</u>
Less discount at 7.25% to reflect contributions receivable at present value	<u>(164,288)</u>	<u>(428,485)</u>
Contributions receivable, net	<u>\$ 2,398,497</u>	<u>2,939,486</u>

### (5) Property and Equipment

A summary of the Corporation's property and equipment at December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Building	\$ 16,841,779	16,841,779
Leasehold improvements	24,712	24,712
Furniture and fixtures	5,515,675	4,927,888
Equipment	18,381,385	17,399,826
Construction in progress	<u>5,531,042</u>	<u>3,349,488</u>
Total	46,294,593	42,543,693
Less accumulated depreciation	<u>(21,972,715)</u>	<u>(18,618,593)</u>
Property and equipment, net	<u>\$ 24,321,878</u>	<u>23,925,100</u>

### (6) Commitments and Contingencies

#### (a) Operating Leases

The Corporation leases various office space and equipment under noncancelable operating leases.

# AQUARIUM OF THE PACIFIC

## Notes to Financial Statements

December 31, 2015 and 2014

Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year are as follows:

<b><u>Year ending December 31:</u></b>	
2016	\$ 479,716
2017	231,419
2018	168,522
2019	150,000
2020	150,000
Thereafter	300,000
	<u>\$ 1,479,657</u>

Office, warehouse, and equipment leases aggregating \$542,761 and \$540,246 were paid during the years ended December 31, 2015 and 2014, respectively.

**(b) Professional Liability Coverage**

The Corporation is insured for professional and general liability claims on a claims-made basis up to \$20,000,000, with certain sublimits, through the Special Liability Insurance Program, a California public entity sponsored insurance pool. The deductible amount is \$1,000 per claim, except \$5,000 for auto liability, and is expensed as incurred. Management believes the deductibles to be immaterial and insurance adequate to cover losses incurred.

**(c) Litigation**

The Corporation is involved in litigation arising in the normal course of business. Management believes they are adequately insured for potential losses that may arise related to such litigation.

**(7) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2015 and 2014 consist of the following:

	<b><u>2015</u></b>	<b><u>2014</u></b>
Marketing	\$ 242	242
Scholarships	236,114	301,519
Equipment and construction	13,962,200	12,628,630
Education and conservation projects	922,614	534,381
	<u>\$ 15,121,170</u>	<u>13,464,772</u>

**(8) Permanently Restricted Net Assets**

Permanently restricted net assets as of December 31, 2015 and 2014 consist of \$498,432 and \$398,332, respectively, related to endowment activities.



## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2015 and 2014

#### **(9) Endowment**

FASB ASC Subtopic 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and provides improved disclosures about an organization's endowment funds.

The Corporation's endowment consists of five donor-restricted funds primarily established to support scholarships. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

##### **(a) Interpretation of Relevant Law**

The board of directors of the Corporation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Corporation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Corporation
7. The investment policies of the Corporation.

##### **(b) Return Objectives and Risk Parameters**

The Corporation has adopted investment and prudent spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the corpus of the endowed assets. This policy shall provide for safety of principal when taking into consideration the current and expected market conditions. The overall rate-of-return objective for the endowment is a risk-free rate of return, or less than 1%. This objective was determined given the recent volatility in the equity and debt markets. Once the board of directors or its finance

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2015 and 2014

committee determines that a higher rate of return is worth the risk, the investments will be held in money market accounts.

**(c) Investment Strategy**

Consistent with the investment and prudent spending policies stated above, the investment strategy is as follows:

1. Preservation of capital: to seek to minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market
2. Long-term growth of capital: to seek long-term growth of principal
3. Preservation of purchasing power: to seek returns in excess of the rate of inflation over the long-term investment horizon of the portfolio relative to the market.

**(d) Spending Policy**

The Corporation has a policy of appropriating for distribution each year only 80% of the net returns generated over the previous 12 months from its investments and endowment. In establishing this policy, the board of directors considered the size of the investment and endowment balance so that it could grow through new gifts and investment return.

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowments	\$ —	25,571	498,432	524,003
Total	\$ —	25,571	498,432	524,003

Changes in endowment net assets for the fiscal year ended December 31, 2015 are as follows:

# AQUARIUM OF THE PACIFIC

## Notes to Financial Statements

December 31, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	25,158	398,332	423,490
Investment return:				
Investment income	—	484		484
Total investment return	—	484	—	484
Contributions	—	—	100,100	100,100
Appropriation for endowment spending	—	(71)	—	(71)
Net assets, end of year	\$ —	25,571	498,432	524,003

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	25,158	398,332	423,490
Total	\$ —	25,158	398,332	423,490

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2015 and 2014

Changes in endowment net assets for the fiscal year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	24,876	396,632	421,508
Investment return:				
Investment income	—	431	—	431
Total investment return	—	431	—	431
Contributions	—	—	1,700	1,700
Appropriation for endowment spending	—	(149)	—	(149)
Net assets, end of year	\$ —	25,158	398,332	423,490

#### (10) Retirement Plan

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2015 and 2014, participants in the plan could make contributions up to Internal Revenue Service maximums. The Corporation contributes an additional amount equal to 25% of the first 4% of each participant's plan contribution, once the participant has reached 500 hours of service. Total contributions to the plan, including employer match, may not exceed \$18,000 for the year ended December 31, 2015 and \$17,500 for the year ended December 31, 2014. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was \$67,908 and \$67,577 for the years ended December 31, 2015 and 2014, respectively.

#### (11) Subsequent Events

Subsequent events have been evaluated through June 1, 2016, which is the date the financial statements were issued.



**CITY OF LONG BEACH, CALIFORNIA**

Single Audit Report

Year ended September 30, 2015

(With Independent Auditors' Reports Thereon)

# CITY OF LONG BEACH, CALIFORNIA

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Irvine, CA 92618-3391

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 25, 2016. Our report includes an emphasis of matter paragraph regarding the City adopting provisions of Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors testing of internal controls over financial reporting or compliance with other matters that are reported on separately by that auditor.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitation, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The City's Response to Findings**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs as item 2015-001. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Irvine, California  
March 25, 2016





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20 Pacifica  
Irvine, CA 92618-3391

**Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations***

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Long Beach, California's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Long Beach Transportation Company, a discretely presented component unit, which received \$24,316,576 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2015. Our audit, described below, did not include the operations of the discretely presented component unit because Long Beach Transportation Company engaged other auditors to perform an audit in accordance with OMB Circular A-133.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.



### ***Opinion on Each of the Major Federal Programs***

In our opinion, the City of Long Beach, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 25, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly



to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California  
June 24, 2016

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance number</b>	<b>Federal grantor/pass-through entity identifying number</b>	<b>Federal disbursements/expenditures</b>
<b><u>Department of Agriculture Food and Nutrition Service:</u></b>			
<b>Passed through the State of California Department of Health Services:</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	14-10228	\$ 4,281,624
<b>Passed through the State of California Department of Education:</b>			
Summer Food Service Program for Children	10.559	19-81908V	351,421
<b>Passed through the State of California Department of Health Services:</b>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	13-20015	1,049,292
Total Department of Agriculture Food and Nutrition Service			<u>5,682,337</u>
<b><u>Department of Commerce Economic Development Administration:</u></b>			
<b>Direct:</b>			
Economic Adjustment Assistance	11.307	07-49-05046	<u>1,086,665</u>
Total Department of Commerce Economic Development Administration			<u>1,086,665</u>
<b><u>Department of Housing and Urban Development:</u></b>			
<b>Direct:</b>			
Community Development Block Grant/Entitlement Grants	14.218	B-13-MC-06-0522	4,762,186
Community Development Block Grant/Entitlement Grants	14.218	B-14-MC-06-0522	2,117,446
Community Development Block Grant/Entitlement Grants	14.218	B-15-MC-06-0522	<u>1,763</u>
			6,881,395
Community Development Block Grant/Entitlement Grants – NSP1	14.218	B-08-MN-06-0511	66,878
Community Development Block Grant/Entitlement Grants – NSP3	14.218	B-11-MN-06-0511	<u>7,170</u>
Total Community Development Block Grant/Entitlement Grants Cluster (14.218)			<u>6,955,443</u>
Emergency Solutions Grant Program	14.231	E-13-MC-06-0522	127,976
Emergency Solutions Grant Program	14.231	E-14-MC-06-0522	<u>416,626</u>
Total Emergency Solutions Grant Program (14.231)			<u>544,602</u>
Shelter Plus Care	14.238	CA1014C9D061000	61,429
Shelter Plus Care	14.238	CA1132C9D061100	<u>44,477</u>
Total Shelter Plus Care (14.238)			<u>105,906</u>
Home Investment Partnerships Program	14.239	M-11-MC-06-0518	234,056
Home Investment Partnerships Program	14.239	M-13-MC-06-0518	94,489
Home Investment Partnerships Program	14.239	M-14-MC-06-0518	4,618,119
Home Investment Partnerships Program	14.239	M-15-MC-06-0518	<u>128,550</u>
Total Home Investment Partnerships Program (14.239)			<u>5,075,214</u>
<b>Passed through the City of Los Angeles:</b>			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	98256	695,115
<b>Direct:</b>			
ARRA – Neighborhood Stabilization Program – NSP2	14.256	B-09-CN-CA-0045	546,965
Continuum of Care Program – CoC 2012	14.267	CA06B9D061205	66,089
<b>Direct:</b>			
Continuum of Care Program – CoC 2013	14.267	CA0000U9D061301	4,283,291

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b><u>Department of Housing and Urban Development (continued):</u></b>			
<b>Direct:</b>			
Continuum of Care Program – CoC 2014	14.267	CA0000U9D061402	\$ 1,375,281
Continuum of Care Program	14.267	CA0646U9D061306	303,830
Continuum of Care Program	14.267	CA0646U9D061407	92,204
Continuum of Care Program	14.267	CA0647U9D061306	171,289
Continuum of Care Program	14.267	CA0647U9D061407	46,251
Continuum of Care Program	14.267	CA0932L9D061203	5,889
Continuum of Care Program	14.267	CA0932U9D061304	54,337
Continuum of Care Program	14.267	CA0932U9D061405	14,976
Total Continuum of Care Program (14.267)			<u>6,413,437</u>
Section 8 Housing Choice Vouchers	14.871	CA068VO	61,912,439
Family Self-Sufficiency Program	14.896	CA068FSH057A014	184,585
Lead-based Paint Hazard Control in Privately Owned Housing	14.900	CALHB0514-12	819,134
Total Department of Housing and Urban Development			<u>83,252,840</u>
<b><u>Department of the Interior Bureau of Reclamation:</u></b>			
<b>Direct:</b>			
Water Reclaim and Reuse Program – Reclaimed Water Expansion	15.504	R15AC00085	573
<b><u>Research and Development Cluster:</u></b>			
<b><u>Department of the Interior Bureau of Reclamation:</u></b>			
<b>Direct:</b>			
Water Desalination Research and Development Program	15.506	R15AC00086	23,458
Total Department of the Interior Bureau of Reclamation			<u>24,031</u>
<b><u>Department of Justice :</u></b>			
<b>Direct:</b>			
Asset Forfeiture	16.000	N/A	437,132
Community-Based Violence Prevention Program	16.123	2014-NY-FX-K005	204
Youth Gang Prevention	16.544	2014-JV-FX-K004	74,905
Public Safety Partnership and Community Policing Grants – Child Sexual Predator Program	16.710	2011-CS-WX-0004	641
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0802	30,833
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0987	182,076
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0318	62,775
Total Edward Byrne Memorial Justice Assistance Grant Program (16.738)			<u>275,684</u>
<b><u>Passed through the State of California Office of Emergency Services:</u></b>			
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ13 09 7240	1,127
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ14 10 7240	7,509
Total Paul Coverdell Forensic Sciences Improvement Grant Program (16.742)			<u>8,636</u>
<b>Direct:</b>			
National Forum on Youth Violence Prevention	16.819	2014-NY-FX-K005	20,000
Total Department of Justice			<u>817,202</u>

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b><u>Department of Labor:</u></b>			
<b>Direct:</b>			
H-1B Job Training Grants	17.268	HG-22609-12-60-A-6	\$ 1,048,904
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through El Camino College:</b>			
H-1B Job Training Grants	17.268	33821	57,212
H-1B Job Training Grants	17.268	610823	30,980
			<u>88,192</u>
Total H-1B Job Training Grants (17.268)			<u>1,137,096</u>
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) National Emergency Grants	17.277	K491023	58,440
Workforce Investment Act (WIOA) National Dislocated Worker Grants/WIA National Emergency Grants	17.277	K698367	8,500
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the City of Los Angeles:</b>			
Workforce Investment Act (WIA) National Emergency Grants – Multi-Sector National Emergency Grant	17.277	C-122203	27,579
<b>Passed through the South Bay Workforce Investment Board, Inc.:</b>			
Workforce Investment Act (WIA) National Emergency Grants	17.277	EM-22035-11-60-A-6/11-W128	178,909
Total Workforce Investment Act (WIA) National Emergency Grants (17.277)			<u>273,428</u>
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) Title I Adult Program	17.258	K491023	11,990
Workforce Investment Act (WIA) Title I Adult Program	17.258	K594766	1,738,635
			<u>1,750,625</u>
Workforce Investment Act (WIA/WIOA) Adult Program	17.258	K698367	119,950
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the County of Orange:</b>			
Workforce Investment Act (WIA) Title I Adult Program – Vet Assistance Employment Program Adult	17.258	13-28-629342	11,255
Workforce Investment Act (WIA/WIOA) Adult Program	17.258	14-28-0010-OS	103,722
Workforce Investment Act (WIA/WIOA) Adult Program	17.258	15-28-0010-OS	1,892
Workforce Investment Act (WIA/WIOA) Adult Program	17.258	15-28-0005-VEAP	13,731
			<u>119,345</u>
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the City of Los Angeles:</b>			
Workforce Investment Act (WIA) Title I Adult Program – Harbor Worksource Ctr	17.258	C-122914	(304)
Workforce Investment Act (WIA) Title I Adult Program – Harbor Worksource Ctr	17.258	C-124397	496,835
			<u>496,531</u>
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the City of Los Angeles:</b>			
Workforce Investment Act (WIA) Title I Adult Formula – Sector Initiative Adult	17.258	C-121134	(888)
Workforce Investment Act (WIA/WIOA) Adult Program	17.258	C-126394	137,276
Total WIA Adult Program (17.258)			<u>2,634,094</u>

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b>Department of Labor (continued):</b>			
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) Title I Youth Program	17.259	K491023	\$ 540,649
Workforce Investment Act (WIA/WIOA) Youth Program Grants	17.259	K491023	73,000
Workforce Investment Act (WIA/WIOA) Youth Program Grants	17.259	K594766	882,011
Workforce Investment Act (WIA/WIOA) Youth Program Grants	17.259	K698367	314,186
			<hr/> 1,269,197
Total WIA Youth Activities (17.259)			<hr/> 1,809,846
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) Dislocated Worker Formula Grants – Layoff Aversion	17.278	K594766	71,324
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants	17.278	K491023	3,511
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants	17.278	K594766	1,380,555
			<hr/> 1,384,066
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Rapid Response	17.278	K594766	330,448
Workforce Investment Act (WIA/WIOA) Dislocated Worker Formula Grants	17.278	K698367	113,826
Workforce Investment Act (WIA/WIOA) Dislocated Worker Formula Grants	17.278	K698367	78,297
Workforce Investment Act (WIA/WIOA) Dislocated Worker Formula Grants	17.278	K698367	21,638
			<hr/> 213,761
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the City of Los Angeles:</b>			
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Harbor Worksource Ctr DW	17.278	C-122914	(205)
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Harbor Worksource Ctr DW	17.278	C-124397	380,791
			<hr/> 380,586
Workforce Investment Act (WIA/WIOA) Dislocated Worker Formula Grants	17.278	C-126164	9,777
Workforce Investment Act (WIA/WIOA) Dislocated Worker Formula Grants	17.278	C-126394	104,774
			<hr/> 114,551
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the County of Orange:</b>			
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Vet Assistance Employment Program DW-3	17.278	13-28-629342	4,423
Workforce Investment Act (WIA/WIOA) Adult Program	17.278	14-28-0020-OS	58,455
Workforce Investment Act (WIA/WIOA) Adult Program	17.278	15-28-0010-OS	1,999
Workforce Investment Act (WIA/WIOA) Adult Program	17.278	15-28-0005-VEAP	12,071
			<hr/> 72,525
Workforce Investment Act (WIA/WIOA) Dislocated Worker Formula Grants	17.278	14-28-0010-OS	90,508
Workforce Investment Act (WIA/WIOA) Dislocated Worker Formula Grants	17.278	15-28-0010-OS	100
			<hr/> 90,608
Total WIA Dislocated Worker Formula Grants (17.278)			<hr/> 2,662,292
Total WIA cluster (17.258, 17.259, and 17.278)			<hr/> 7,106,232

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b><u>Department of Labor (continued):</u></b>			
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA/WIOA) Pilots, Demonstrations, and Research Projects	17.280	K698367	\$ 10,000
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through Long Beach Community College District:</b>			
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Construction Grant	17.282	99721.2	79,625
Total Department of Labor			8,606,381
<b><u>Department of Transportation:</u></b>			
<b>Direct:</b>			
Airport Improvement Program	20.106	AIP 3-06-0127-032-2009	(3,249)
Airport Improvement Program	20.106	AIP 3-06-0127-036-2011	193,783
Airport Improvement Program	20.106	AIP 3-06-0127-037-2011	63,355
Airport Improvement Program	20.106	AIP 3-06-0127-038-2011	187,077
Airport Improvement Program	20.106	AIP 3-06-0127-039-2012	154,134
Airport Improvement Program	20.106	AIP 3-06-0127-040-2013	9,192,542
Airport Improvement Program	20.106	AIP 3-06-0127-041-2014	3,436,444
Total Airport Improvement Program (20.106)			13,224,086
<b>Passed through the State of California Department of Transportation:</b>			
Highway Planning and Construction	20.205	ACNH 7101 (807)	85,659,041
Highway Planning and Construction	20.205	BHLS-5108 (155)	10,000
Highway Planning and Construction	20.205	BRLS-5108 (137)	17,769,746
Highway Planning and Construction	20.205	CML-5108 (130)	19,772
Highway Planning and Construction	20.205	CML-5108 (159)	2,590
Highway Planning and Construction	20.205	HPLUL-5108 (126)	95,620
Highway Planning and Construction	20.205	HSIPL-5108 (151)	480,856
Highway Planning and Construction	20.205	PNRSLN-5108 (116)	905,833
Highway Planning and Construction	20.205	RPSTPLE-5108 (153)	980
<b>Passed through the State of California Department of Transportation:</b>			
Highway Planning and Construction	20.205	STPL-5108 (140)	101
Highway Planning and Construction	20.205	STPL-5108 (144)	318,128
Highway Planning and Construction	20.205	STPL-5108 (145)	11,277
Highway Planning and Construction	20.205	STPL-5108 (147)	51,564
Highway Planning and Construction	20.205	STPL-5108 (150)	12,072
Highway Planning and Construction	20.205	STPL-5108 (161)	1,469,097
Highway Planning and Construction	20.205	STPL-5108 (162)	545,631
Highway Planning and Construction	20.205	STPL-5108 (163)	724,458
Highway Planning and Construction – Safe Routes to School	20.205	SRTSNI-5108(149)	71,909
Total Highway Planning and Construction Programs (20.205)	20.205	88A0082	108,148,675
<b>Passed through the State of California Office of Traffic Safety:</b>			
State and Community Highway Safety	20.600	PT1540	209,456
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT14120	(296)
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1540	161,675
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated (20.608)			161,379
Total Highway Safety Cluster (20.600 and 20.608)			370,835



**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b><u>Department of Transportation (continued):</u></b>			
<b>Passed through the State of California Office of Emergency Services:</b>			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	CAL OES# 037-43000	\$ 5,374
<b>Direct:</b>			
ARRA – Surface Transportation-Discretionary Grants for Capital Investment	20.932	DTMA1G12001	5,206,239
Total Department of Transportation			<u>126,955,209</u>
<b><u>Department of Treasury:</u></b>			
<b>Direct:</b>			
Asset Forfeiture	21.000	N/A	16,292
Total Department of Treasury			<u>16,292</u>
<b><u>National Endowment for the Humanities:</u></b>			
<b>Passed through California Council for the Humanities:</b>			
Promotion of the Humanities Federal/State Partnership	45.129	CAR13-68	6,147
Total National Endowment for the Humanities			<u>6,147</u>
<b><u>Institute of Museum and Library Services:</u></b>			
<b>Passed through California State Library</b>			
Grants to States	45.310	40-8464	5,000
Total Institute of Museum and Library Services			<u>5,000</u>
<b><u>Environmental Protection Agency:</u></b>			
<b>Direct:</b>			
National Clean Diesel Emissions Reduction Program	66.039	00T66601	280,336
National Clean Diesel Emissions Reduction Program	66.039	00T95701	132,000
Total National Clean Diesel Emissions Reduction Program (66.039)			412,336
<b>Passed through the State of California Department of Health Services:</b>			
Beach Monitoring and Notification Program Implementation	66.472	12-040-250	24,999
<b>Direct:</b>			
ARRA – Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative			
Agreements	66.802	V-99T06101-0	4,743
Total Environmental Protection Agency			<u>442,078</u>
<b><u>Department of Health &amp; Human Services:</u></b>			
<b>Passed through the County of Los Angeles</b>			
Public Health Emergency Preparedness	93.069	PH-002224	831,963
<b>Passed through the State of California Department of Health Services:</b>			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	99,846
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	31,563
Total Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116)			<u>131,409</u>
Injury Prevention and Control Research and State and Community Based Programs	93.136	14-10809	34,909
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	11-10545	(1)

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures
<b>Department of Health &amp; Human Services (continued):</b>			
<b>Passed through the State of California Department of Health Services:</b>			
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	14-10023	\$ 297,551
Total Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children (93.197)			297,550
Immunization Cooperative Agreements	93.268	13-20297	170,531
Immunization Cooperative Agreements	93.268	15-10428	54,882
Total Immunization Cooperative Agreements (93.268)			225,413
<b>Passed through the State of California:</b>			
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	14-N-15	90,323
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	15-N-11	4,101
Total State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (93.525)			94,424
<b>Passed through the County of Los Angeles:</b>			
Promoting Safe and Stable Families	93.556	31035	7,422
Promoting Safe and Stable Families	93.556	04-025-14	105,079
Promoting Safe and Stable Families	93.556	05-027-10	46,702
Promoting Safe and Stable Families	93.556	05-028-5	81,728
Total Promoting Safe and Stable Families (93.556)			240,931
<b>Passed through the State of California Department of Health Services:</b>			
<b>Passed through the County of Los Angeles Department of Public Social Services:</b>			
<b>Passed through the City of Hawthorne/South Bay Workforce Investment Board:</b>			
Temporary Assistance for Needy Families – Calworks Transitional Subsidized Emp Pro	93.558	H1372	6
Temporary Assistance for Needy Families – Calworks Transitional Subsidized Emp Pro	93.558	13-W180	146,756
			146,762
<b>Passed through the State of California Department of Health Services:</b>			
<b>Passed through the County of Los Angeles Department of Public Social Services:</b>			
<b>Passed through the City of Inglewood/South Bay Workforce Investment Board:</b>			
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program II PY 14-15 CALWORKS	93.558	IA0314	69,426
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program PY 15-16 CALWORKS	93.558	IA0615	135,522
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program II PY 14-15 FOSTER	93.558	IA0314	18,091
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program PY 15-16 FOSTER	93.558	IA0615	9,140
Temporary Assistance for Needy Families	93.558	IA0615	171,273
Total TANF Cluster (93.558)			550,214
<b>Passed through the State of California Department of Health Services:</b>			
Medical Assistance Program – Childhood Health and Disability	93.778	V#002713-00	557,310
Medical Assistance Program – Medical Gateway	93.778	V#002713-00	17,432
Medical Assistance Program – MAA/ TCM Administration	93.778	09-86022-A01	(4,197)
Medical Assistance Program – MAA/ TCM Administration	93.778	14-90021	36,650
			32,453

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b>Department of Health &amp; Human Services (continued):</b>			
<b>Passed through the State of California Department of Health Services:</b>			
Medical Assistance Program – Nursing MAA Claiming	93.778	09-86022-A01	\$ (229,866)
Medical Assistance Program – Nursing MAA Claiming	93.778	14-90021	100,000
			<u>(129,866)</u>
Medical Assistance Program – Nursing TCM Claiming	93.778	61-1318	92,502
Total Medical Assistance Program (93.778)			<u>569,831</u>
HIV Emergency Relief Project Grants – AIDS/HIV Benefits Specialty	93.914	H-210813-14	60,414
HIV Emergency Relief Project Grants – AIDS/HIV Benefits Specialty	93.914	PH-002900	62,871
			<u>123,285</u>
<b>Passed through the County of Los Angeles:</b>			
HIV Emergency Relief Project Grants – AIDS EIP Outpatient Medical	93.914	PH002425	62,483
HIV Emergency Relief Project Grants – AIDS EIP Outpatient Medical	93.914	PH002425-2	71,213
			<u>133,696</u>
HIV Emergency Relief Project Grants – Medical Care Coordination	93.914	PH002431	177,362
HIV Emergency Relief Project Grants – Medical Care Coordination	93.914	PH002431-1	246,183
			<u>423,545</u>
Total HIV Emergency Relief Project Grants (93.914)			<u>680,526</u>
<b>Passed through the State of California Department of Health Services:</b>			
HIV Prevention Activities – Health Department Based – AIDS Surveillance	93.940	13-20134	238,175
HIV Prevention Activities – Health Department Based – Care Coordination	93.940	13-20055	788,196
HIV Prevention Activities – Health Department Based – Outreach/Prevention for HIV Positive (Bridge)	93.940	13-20055	125,323
HIV Prevention Activities – Health Department Based – Counseling and Testing	93.940	13-20259	112,757
HIV Prevention Activities – Health Department Based – Counseling and Testing	93.940	14-10964	313,474
			<u>426,231</u>
Total HIV Prevention Activities-Health Department Based (93.940)			<u>1,577,925</u>
Maternal and Child Health Services Block Grant to the States	93.994	201460-MCH	141,710
Maternal and Child Health Services Block Grant to the States	93.994	201560 MCH	87,217
			<u>228,927</u>
Maternal and Child Health Services Block Grant to the States – Black Infant Health	93.994	201460-BIH	292,807
Maternal and Child Health Services Block Grant to the States – Black Infant Health	93.994	201560-BIH	98,789
Total Maternal and Child Health Services Block Grant to the States (93.994)			<u>391,596</u>
			<u>620,523</u>
Total Department of Health & Human Services			<u>5,855,618</u>

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b>Department of Homeland Security:</b>			
<b>Direct:</b>			
Emergency Food and Shelter National Board Program	97.024	LRO ID 069500-379 (phase 31)	\$ 15,000
<b>Passed through the State of California – California Office of Emergency Services:</b>			
<b>Passed through the County of Los Angeles:</b>			
Emergency Management Performance Grant	97.042	2013-0047	1
Emergency Management Performance Grant	97.042	2014-0070	79,482
Total Emergency Management Performance Grant (97.042)			<u>79,483</u>
<b>Direct:</b>			
Port Security Grant Program	97.056	EMW-2012-PU-00131	890,650
Port Security Grant Program	97.056	EMW-2013-PU-00522	1,672,646
Port Security Grant Program	97.056	EMW-2014-PU-00210	534,617
Port Security Grant Program	97.056	EMW-2012-PU-00190	344,969
Port Security Grant Program	97.056	EMW-2013-PU-00250	119,615
Port Security Grant Program	97.056	EMW-2013-PU-0096	475,001
Port Security Grant Program	97.056	EMW-2014-PU-00375	13,348
<b>Passed through the Marine Exchange of Los Angeles – Long Beach Harbor:</b>			
Port Security Grant Program	97.056	EMW-2011-PU-K00001	2,119,871
<b>Passed through Marine Exchange of Southern California</b>			
Port Security Grant Program	97.056	EMW-2011-PU-00001	9,137
Total Port Security Grant Program (97.056)			<u>6,179,854</u>
<b>Passed through the State of California – California Office of Emergency Services:</b>			
<b>Passed through the County of Los Angeles:</b>			
Homeland Security Grant Program	97.067	2013-0110	546,488
Homeland Security Grant Program	97.067	2014-00093	80,013
			<u>626,501</u>
<b>Passed through the State of California – California Office of Emergency Services:</b>			
<b>Passed through the City of Los Angeles:</b>			
Homeland Security Grant Program – UASI	97.067	2013-00110	3,197,732
Homeland Security Grant Program – UASI	97.067	2014-00093	1,005,011
			<u>4,202,743</u>
Total Homeland Security Grant Program (97.067)			4,829,244
<b>Passed through the Marine Exchange of Southern California</b>			
Securing the Cities Program	97.106	C-124773	6,414
Total Department of Homeland Security			<u>11,109,995</u>
Total Federal Expenditures			\$ <u>243,859,795</u>

See accompanying notes to schedule of expenditures of federal awards and the Independent Auditors' Report on Federal Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

## **CITY OF LONG BEACH, CALIFORNIA**

### **Notes to Schedule of Expenditures of Federal Awards**

**Year ended September 30, 2015**

**(1) General**

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal financial assistance programs of the City of Long Beach, California (the City). All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through to the City by other government agencies, has been included in the accompanying Schedule. The Schedule does not include federal expenditures of \$24,316,576 for the year ended September 30, 2015 of the Long Beach Transportation Company (LBTC), a discretely presented component unit of the City, as LBTC engaged other auditors to perform audits in accordance with OMB Circular A-133. The City's reporting entity is defined in note 1 to the City's basic financial statements.

**(2) Basis of Accounting**

The accompanying Schedule is presented using the modified accrual basis of accounting. Such basis of accounting is described in note 2 to the City's basic financial statements.

**(3) Relationship to Federal Financial Reports**

Amounts reported in the accompanying Schedule agree in all material respects with the amounts reported in the related federal financial reports.

**(4) Community-Based Loan Programs**

Total loans outstanding under the Community Development Block Grants (CDBG) – Entitlement Grants Cluster, Home Investment Partnerships Program, and the Neighborhood Stabilization Program were \$4,002,137, \$67,274,448, and \$10,964,585 at September 30, 2015, respectively. The amounts included in the accompanying Schedule consist of loans advanced to eligible participants of the programs and other administrative costs for the year ended September 30, 2015. Program income of \$798,640 generated from the rental rehabilitation grants were used for eligible purposes under other affordable housing activities. There were no continuing compliance requirements noted for this income, and therefore, these loans have been excluded from the Schedule.

**(5) Food Instruments/Vouchers**

Food instruments/vouchers expenditures represent the estimated value of the Special Supplemental Nutrition Program for Women, Infants, and Children food instruments as communicated by the State Department of Health Services distributed during the year. The food instruments/vouchers totaled \$16,753,803 but do not represent cash expenditures in the City's basic financial statements for the year ended September 30, 2015.

**CITY OF LONG BEACH, CALIFORNIA**

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

**(6) Payments to Subrecipients**

Included in the Schedule are the following amounts passed through to subrecipients:

<b>Program title</b>	<b>CFDA numbers</b>	<b>Amount provided to subrecipients</b>
Continuum of Care Program	14.267	\$ 4,570,283
H-1B Job Training Grants	17.268	840,754
Workforce Investment Act (WIA) Youth	17.259	532,184
Workforce Investment Act National Emergency	17.277	25,588
National Clean Diesel Emissions Reduction Program	66.039	412,336

## **CITY OF LONG BEACH, CALIFORNIA**

### **Summary of Findings and Questioned Costs**

**Year ended September 30, 2015**

#### **(1) Summary of Auditors' Results**

##### ***Basic Financial Statements***

- (a) The type of report on the basic financial statements: **Unmodified**
- (b) Internal control over financial reporting:
  - Material weakness(es) identified: **No**
  - Significant deficiencies identified that are not considered to be material weaknesses: **Yes, see item 2015-001**
- (c) Noncompliance that is material to the basic financial statements: **No**

##### ***Federal Awards***

- (d) Internal control over major programs:
  - Material weaknesses identified: **No**
  - Significant deficiencies identified that are not considered to be material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unmodified**
- (f) Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **No**
- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (h) Major programs:
  - Section 8 Housing Choice Vouchers, CFDA number 14.871
  - ARRA – Surface Transportation – Discretionary Grants for Capital Investment, CFDA number 20.932
  - Community Development Block Grants/Entitlement Grants, CFDA number 14.218
  - Highway Planning and Construction, CFDA 20.205
  - Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA 10.557
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

## **CITY OF LONG BEACH, CALIFORNIA**

### **Schedule of Findings and Responses**

**Year Ended September 30, 2015**

#### **(2) Financial Statement Findings Section**

##### **Item 2015-001**

##### **Capital Grant Revenue**

###### ***Condition and Context***

During our audit procedures over capital grants, we noted that the Harbor Department of the City of Long Beach (the Department) recognized approximately \$15 million in Nonoperating capital grant revenue during the year ended September 30, 2015, related to capital asset expenditures that were made during the year ended September 30, 2014. Expenditures made by the Department for the related capital asset projects are being reimbursed through contracts held with state and federal agencies.

###### ***Criteria***

In accordance with Governmental Auditing Standards Board Statement No. 33 (GASB 33), recipients of grants should recognize revenues when all of the following applicable eligibility requirements are met:

- (a) The recipient has the characteristics specified by the provider;
- (b) The time period when use of the resources is required or first permitted has begun
- (c) The recipient has incurred allowable costs; and
- (d) The recipient has complied with any specific actions that the provider has stipulated are mandatory in order for the recipient to qualify for resources.

Based on our testwork, the \$15 million in allowable costs identified were incurred and eligible for reimbursement and revenue recognition during fiscal year 2014, as all of the above requirements were satisfied by the Department when the allowable costs were incurred for the reimbursable construction activities in 2014.

###### ***Cause and Effect***

The Department did not have a process in place to recognize nonoperating capital grant revenue in the proper financial reporting period for allowable costs eligible for grant reimbursements by the Department. As a result of this deficiency, nonoperating capital grant revenue earned in fiscal year 2014 was recognized in fiscal year 2015.

###### ***Recommendation***

We recommend that the Department perform a detailed cut-off analysis at year-end to identify all expenditures made during the year that were not yet reimbursed, but eligible to be reimbursed. A guide could be developed to assist in identifying the reimbursable amount at year-end for expenditures made during the year. These steps, and others, could provide for more consistency and accuracy in the reporting of grant revenue.



## **CITY OF LONG BEACH, CALIFORNIA**

### **Summary of Findings and Questioned Costs**

**Year ended September 30, 2015**

#### ***View of Responsible Officials***

We agree with the comment and recommendation. The Department made several improvements in grant accounting during fiscal year 2015. A revenue recognition policy was drafted and a monthly grant revenue recognition process has been put in place. Due to a modification of eligible expenditure categories in fiscal year 2013, the Department was required to amend the grant agreement with the grantor. As a result of this delay, \$15 million of Nonoperating capital grant earned in fiscal year 2014 was recognized in fiscal year 2015. All allowable expenditures incurred in fiscal year 2015 were both billed timely and recognized as revenue in the proper accounting period. A procedure manual for a detailed cut-off analysis for eligible grant expenditures at year-end will be developed in fiscal year 2016.

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Findings and Responses

Year Ended September 30, 2015

**(3) Federal Award Findings and Questioned Cost Section**

No matters are reportable.



**KPMG LLP**  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

The City Council  
City of Long Beach, California  
333 West Ocean Boulevard  
Long Beach, California 90802

Ladies and Gentlemen:

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City) as of September 30, 2015, and have issued our report thereon under date of March 25, 2016. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the discretely presented component unit, is based solely on the report of the other auditor. We have also audited the federal expenditures of each major federal program of the City for the year ended September 30, 2015 and issued our report thereon dated June 24, 2016. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

### **Our Responsibility under Professional Standards**

We are responsible for forming and expressing opinions about whether the financial statements, which have been prepared by management with the oversight of City Council, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or City Council of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of City Council in



overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the City's Comprehensive Annual Financial Report (CAFR), and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

### **Accounting Practices and Alternative Treatments**

#### *Significant Accounting Policies*

Significant accounting policies used by the City are described in note 2 to the City's financial statements. As described in note 2, in fiscal 2015 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

#### *Qualitative Aspects of Accounting Practices*

We have discussed with the City Auditor and management our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the City's accounting policies and their application, and the understandability and completeness of the City's financial statements, which include related disclosures.

### **Management Judgments and Accounting Estimates**

The preparation of the financial statements requires management of the City to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Management's estimate of the allowance for uncollectible accounts is based on relevant historical data and the City's policy in which all accounts aged greater than a specified period are reserved. Management's estimates for workers' compensation, pension liabilities, other postemployment benefits, and general liabilities are based on historical data and other relevant factors to arrive at the actuarial determined estimated liabilities. Environmental remediation liabilities recorded by the Harbor Department are based on various vendor bids on the cost to perform the necessary site



cleanup. Estimated oil field abandonment liabilities are based on the total number of wells mined by the City as well as the estimated cost per well based on historical estimates. Management's estimates of, derivative instrument values are based on various cash flow projections including the future value of natural gas and interest rates.

### **Uncorrected and Corrected Misstatements**

#### *Uncorrected Misstatements*

In connection with our audit of the City's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the City's books and records as of and for the year ended September 30, 2015. We have reported such misstatements to management on a Summary of Audit Misstatements by opinion unit and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' reports on the City's financial statements.

### **Management's Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2015.

### **Significant Issues Discussed, or Subject to Correspondence, with Management**

#### *Material Written Communications*

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letter;
2. Management representation letter; and
3. Internal control deficiencies letter.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.



The City Council  
City of Long Beach, California  
Page 4 of 4

### **Other Significant Findings or Issues**

We also performed single audit of the City for the year ended September 30, 2015 and issued i) our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* dated March 25, 2016 (GAS Report) and ii) our report on compliance for each major federal program, internal control over compliance and on the schedules of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* dated June 24, 2016 (A-133 Report) (collectively referred to as the Single Audit Reports). During the course of our audit, we identified a deficiency in internal control over the reporting of capital grant revenue asset expenditures at the Harbor Department that we considered to be a significant deficiency which was included in our GAS Report. This finding is described in the schedule of findings and questioned costs which accompanies the Single Audit Reports. The Single Audit Reports were provided to you under separate cover.

### **Other Reports Issued by KPMG**

We issued separate stand-alone audit reports as of and for the year ended September 30, 2015, for the Harbor Department (a major enterprise Fund of the City) and the Water Department (comprising the Water Utility and Sewer nonmajor enterprise funds of the City).

\* \* \* \* \*

This letter to the City Council is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

Los Angeles, California  
July 25, 2016



**KPMG LLP**  
Two Financial Center  
60 South Street  
Boston, MA 02111

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Internet [www.us.kpmg.com](http://www.us.kpmg.com)

July 1, 2015

City of Long Beach  
333 West Ocean Boulevard, 8<sup>th</sup> Floor  
Long Beach, California 90802

Attention: Laura Doud, *City Auditor*

Ladies and Gentlemen:

This letter (the Engagement Letter) is incorporated by reference in the Agreement between City of Long Beach (the City) and KPMG LLP dated July 16, 2013 (the Agreement) and confirms our understanding of our engagement to provide professional services to the City of Long Beach, California (the City).

#### **Objectives and Limitations of Services**

##### ***Financial Statement Audit Services***

You have requested that we audit the City's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud, to provide a reasonable basis for our opinion on the financial statements. We also will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements will be planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the





City of Long Beach  
July 1, 2015  
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United States of America and *Government Auditing Standards*. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to detect abuse.

We will also perform certain limited procedures to the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on the information. Our report relating to the financial statements will include our consideration of required supplementary information.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of the City's financial statements addressed to the City Council of the City. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add emphasis-of-matter or other-matter paragraphs or withdraw from the engagement. If, during the performance of our audit procedures such circumstances arise, we will communicate to the audit committee the City Council our reasons for modification or withdrawal.

#### ***Internal Control over Financial Reporting and Compliance and Other Matters***

In making our risk assessments as part of planning and performing our audit of the financial statements, we will consider the City's internal control relevant to the preparation and fair presentation of the financial statements in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include instances of:





- Fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance;
- Noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or
- Abuse that is material, either quantitatively or qualitatively.

The report will describe its purpose and will state that it is not suitable for any other purpose.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but warrant the attention of those charged with governance.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the auditee.

#### ***OMB Circular A-133 Audit Services***

We will also perform audit procedures with respect to the City's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grant agreements applicable to each of the City's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

In relation to compliance with the program requirements applicable to its federal programs, management acknowledges and understands its responsibility for:

- Identifying the City's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the City administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the City's compliance with the compliance requirements.



City of Long Beach  
July 1, 2015  
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- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the City's financial statements. In addition, we will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will describe its purpose and will state that it is not suitable for any other purpose.

The Federal Audit Clearinghouse requires the A-133 reporting package, which includes the audited financial statements, to be submitted in a PDF format which is text searchable, unencrypted, and unlocked. This letter serves as the City's authorization for the submission of the reporting package in this format.

#### ***Offering Documents***

Should the City wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the City wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report on such financial statements, and we are not otherwise associated with the offering document, then the City agrees to include the following language in the offering document:





City of Long Beach  
July 1, 2015  
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"KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."

#### **Our Responsibility to Communicate with the City Council**

We will report to the City Council or those charged with governance, in writing, the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditor's report, and the effect of uncorrected misstatements related to prior periods.
- Significant difficulties and disagreements with management, if any, encountered during our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of relevant committee meetings for consistency with our understanding of the communications made to the City Council and determine that the City Council has received copies of all material written communications between ourselves and management. We will also determine that the City Council has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the City Council illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

#### **Management Responsibilities**

The management of the City acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known



City of Long Beach  
July 1, 2015  
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material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the City also acknowledges and understands that it is their responsibility to provide us with: i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements and the compliance requirements applicable to its federal programs such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audits; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, OMB Circular A-133 also requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.





City of Long Beach  
July 1, 2015  
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To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2015.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, taken as a whole. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within 14 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report, the report will indicate the status of management's responses.

Management is responsible for the distribution of the reports issued by KPMG.

#### **Other Matters**

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.



City of Long Beach  
July 1, 2015  
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KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential Client Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of client confidential information without client consent, except in limited circumstances. KPMG represents to the City that KPMG will treat the City's confidential information in accordance with applicable professional standards.

KPMG may work with and use the services of other members of the international KPMG network of independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the "KPMG Firms") to provide services to the City. In connection with the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Firms and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from unauthorized disclosure or use.

You also understand and agree that the KPMG Firms, with the assistance of third parties as outlined above, may use your confidential information obtained to complete this engagement for other purposes, such as improving the delivery of audit and other services to you and to other clients and for use in presentations to you, other clients and non-clients. When your confidential information is used outside of the KPMG Firms or third parties discussed above for any purpose other than the provision of audit or other services to you, back-office administrative and clerical services to KPMG or service quality improvement, it will be de-identified so that the City cannot be attributed as the source of the information.

The audit documentation for this engagement is the property of KPMG. If KPMG receives a subpoena or other validly issued administrative, judicial, government or investigative regulatory demand/request ("Legal Demand") requiring it to disclose the City's confidential information, KPMG shall, unless prohibited by law or demand of a law enforcement agency, provide prompt written notice to the City of such demand. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is requested or authorized by the City or is required by law, rule or regulation, Legal Demand, or other legal process to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the service under the Engagement Letter available to a third party or the City or its agents, the City shall reimburse KPMG for its professional time at its standard hourly rates, and expenses, including reasonable attorney's fees and expenses, incurred in responding to such requests.





City of Long Beach  
July 1, 2015  
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Pursuant to *Government Auditing Standards*, we are required to make certain audit documentation available in a full and timely manner to Regulators upon request for their reviews of audit quality and for use by their auditors. In addition, we may also be requested to make certain audit documentation available to Regulators pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, Regulators may obtain copies of selected audit documentation. Such regulators may intend, or decide, to distribute the copies or information contained therein to others, including other government agencies.

***Other Government Auditing Standards Matters***

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

***Additional Reports and Fees for Services***

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed under this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

\* \* \* \* \*

Our engagement herein is for the provision of annual audit services for the financial statements and OMB Circular A-133 for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the City's subsequent fiscal years until either those charged with governance or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by those charged with governance.



City of Long Beach  
July 1, 2015  
Page 10 of 10

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

N. Brock Romano  
Partner

Enclosures

cc: Patrick West, City Manager, City of Long Beach  
Amy Webber, City Attorney, City of Long Beach  
John Gross, Director of Finance, City of Long Beach

ACCEPTED:

City of Long Beach, California

Authorized Signature  
[Those Charged with Governance]

*City Auditor*

Title

7-23-15

Date

Assistant City Manager

Authorized Signature  
[Management]

EXECUTED PURSUANT  
TO SECTION 301 OF  
THE CITY CHARTER.

*City Manager*

Title

8/3/15

Date





## System Review Report

To the Partners of KPMG LLP  
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

*PriceWaterhouseCoopers LLP*

December 5, 2014

## Appendix I

### Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

Audit of financial statements and related notes to the financial statements of the City of Long Beach as of and for the years ended September 30, 2015 (CAFR)\*

\$449,600

#### Other Reports:

The other reports that we will issue as part of and upon completion of this engagement are, as follows, which includes a breakdown of the fee to issue each report:

Report	Fee
• Report issued in connection with OMB Circular A-133 audit **	\$144,600
• Schedule of Passenger Facility Charges, Revenues and Expenses of the City of Long Beach Airport	\$ 19,875
• Aquarium of the Pacific Corporation financial statements	\$ 54,350
• Harbor Department financial statements	\$127,500
• Water Department financial statements	\$ 57,400

\* The estimated fees for the audit of the City's financial statements assumes the City Auditor or another firm will continue to perform the cash and investment testwork they performed in fiscal 2014.

\*\* The fee estimate for the single audit is based on the assumption that 6 major programs will be required to be audited for fiscal 2015. An additional fee of \$26,025 will be billed for each additional program required to be audited.

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Expenses for items such as travel, telephone, postage, and typing, printing, and reproduction of financial statements are included in the above estimate. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6<sup>th</sup> Floor • Long Beach, CA 90802 • (562) 570-6465 • Fax (562) 570-5836

March 25, 2016

KPMG, LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the related notes to the financial statements, of the City of Long Beach, California (the City), as of and for the year ended September 30, 2015, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in accordance with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of March 25, 2016, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 1, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of City Council, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no:
  - a. Circumstances that have resulted in communications from the City's legal counsel to the City reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the City or any agent thereof.
  - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
  - c. False statements affecting the City's financial statements made to the City's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.
4. There are no:
  - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
  - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
  - e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
6. The effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the City's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, Communicating Internal Control Related Matters Identified in an Audit.
9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the City's financial statements involving:
  - a. Management;
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, analysts, regulators, or others.
12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or City Council member, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties. Any specific related party transactions do not involve undisclosed side agreements;
  - b. Guarantees, whether written or oral, under which the City is contingently liable;
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements;
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency;
  - f. The existence of and transactions with joint ventures and other related organizations.
15. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

16. The City has complied with all aspects of laws, regulations, contractual agreements, donor restrictions, and grants that may affect the financial statements, including noncompliance.
17. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the City. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
18. The City's reporting entity includes all entities that are component units of the City. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the City holds an equity interest have been properly recorded on the statement of net position. The financial statements disclose all other joint ventures and other related organizations.
19. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
20. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
21. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
22. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
23. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
24. Deposits and investment securities are properly classified and reported.
25. The City is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. The amounts reported represent the City's best estimate of fair value of investments required to be reported under the Statement. The City also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.
26. The City has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The City complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the City has



disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.

27. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the City has disclosed the methods and significant assumptions used to estimate those fair values.
28. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
  - a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;
  - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
  - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
29. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
30. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
31. The City has properly applied the requirements of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, including those related to the recognition of outlays associated with the development of internally generated computer software.
32. The City has no:
  - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss;
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values; or
  - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
33. For variable-rate demand bond obligations that are reported as general long-term debt or excluded from current liabilities of proprietary funds, we believe all of the conditions described in GASB Interpretation No. 1, Demand Bonds Issued by State and Local Government Entities, have been met.
34. The City has complied with all tax and debt limits and with all debt related covenants.
35. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
36. We believe the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with other post-employment benefits and to determine

information related to the City's funding progress related to such benefits for financial reporting purposes are appropriate in the City's circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

37. For each defined benefit pension plan in which the City is a participating employer:
- a. The net pension liability, related deferred outflows of resources, deferred inflows of resources, and pension expense has been properly measured and recorded as of the measurement date in accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.
  - b. All relevant plan provisions in force as of the measurement date have been properly reflected in the measurement of the net pension liability and pension expense.
  - c. We believe the actuarial assumptions and methods used to measure the net pension liability and pension expense are appropriate in the circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
  - d. The participants' data provided to the actuary for purpose of determining the net pension liability and pension expense is accurate and complete.
  - e. The basis for our proportion of the collective pension amounts is appropriate and consistent with the manner in which contributions to the pension plan are determined.
  - f. The net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense have been properly allocated to proprietary and fiduciary funds based on each fund's direct and indirect payment of employer contributions relative to total employer contributions of the City as a whole.
38. Provision has been made in the financial statements for the City's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.
39. The City has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
40. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (non-spendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
41. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
42. The City has identified and properly accounted for all non-exchange transactions.
43. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
44. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the



application of each such policy and practice, both individually and in the aggregate, on the City's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

45. We agree with the findings of specialists in evaluating the describe assertion and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
46. We acknowledge our responsibility for the presentation of the supplementary information, which includes the additional financial section and other supplementary information, in accordance with the applicable criteria and:
  - a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria.
  - b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period; and
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
47. We acknowledge our responsibility for the presentation of the required supplementary information which includes, management's discussion and analysis, budgetary comparison information, and the schedules listed under Required Supplementary Information in the table of contents, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
  - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines;
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period;
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
48. The City has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
49. In accordance with Government Auditing Standards, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.

Further, we confirm that we are responsible for the fair presentation in the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, and the related notes to the financial statements, in accordance with U.S. generally accepted accounting principles.

Very truly yours,



PATRICK H. WEST  
CITY MANAGER



JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

City of Long Beach  
Government Activities  
Summary of Uncorrected Audit Misstatements  
9/30/2015  
Amounts in dollars  
Method Used to Quantify Audit Misstatements Rollover  
Final Materiality 34,000,000  
Final AMPT 1,700,000

Detailed instructions on automatically populating the audit misstatements from the Tracker are provided in the "Instructions" tab.

Correcting Entry Required at Current Period End						Income Statement Effect - Debit (Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows
	None			A		B	C-A (Only Income Statement accounts)	C-B							
							-	-	-						

City of Long Beach  
Business-Type Activities  
Summary of Uncorrected Audit Misstatements  
9/30/2015

Amounts in dollars  
Method Used to Quantify Audit Misstatements Rollover  
Final Materiality 51,000,000  
Final AMPT 2,550,000

Default instructions on automatically populating the audit misstatements from the Tracker are provided in the "Instructions" tab.

Correcting Entry Required at Current Period End						Income Statement Effect - Debit (Credit)			Balance Sheet Effect - Debit (Credit)							Cash Flow Effect - Increase (Decrease)		
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows	Operating Activities	Investing Activities	Financing Activities
				A		B	C-A (Only Income Statement accounts)	C-B										
Harbor Fund																		
H1	Management recorded \$15,356,466 of Grant Revenue in the current year that should have been recorded in the previous year.	Factual	Opening Net Assets Capital grants	0 15,356,466	(15,356,466) 0	0 0	0 15,356,466	0 15,356,466	(15,356,466) 0	0 0	0 0	0 0	0 0	0 0	0 0	15,356,466 (15,356,466)	0 0	0 0
H2	Management accrued a liability for the full balance of the Ship to Shore Grant Revenues, although only 20% should have been applied to the balance as of 9/30/2015. The liability was recorded in the previous year and as such we propose to increase net assets rather than capital revenue in the current year. The current year addition to the liability was run through revenue rather than expenses, and the total liability was classified as unearned revenue rather than A/P. As such, our adjustment will reclassify these to the appropriate FS captions.	Factual	Capital Grant Revenue Deferred Revenue Opening Net Assets Accounts Payable	0 28,707,536 0	(6,875,000) 0 (21,832,536) (6,875,000)	0 0 0	(6,875,000) 0 (21,832,536)	(6,875,000) 0 (21,832,536)	0 0 (21,832,536)	0 0 0	0 0 0	0 0 0	0 0 (6,875,000)	0 28,707,536 0	0 0 0	0 0 0	0 0 0	0 0 0
			Infrastructure maintenance expense	6,875,000	0	0	(6,875,000)	6,875,000	0	0	0	0	0	0	0	0	0	0
H3	Management reviewed CIP during FY2015 and noted that there were several project costs remaining in CIP that should have been expensed in previous periods. These were booked to current year expense even though they are out of period expenses.	Factual	Unrestricted net assets Fire and safety Infrastructure maintenance	15,171,957 0 0	0 (7,728,934) (7,443,023)	0 0 0	0 (7,728,934) (7,443,023)	0 (7,728,934) (7,443,023)	15,171,957 0 0	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	0 0 0	(15,171,957) 7,728,934 7,443,023	0 0 0	0 0 0
H4	Management recorded the pension liability using the proportionate share as of the previous year instead of the current year. The net difference is recorded as a liability with the related deferred outflows amortized over the average remaining service life as noted in the CalPERS actuarial valuation report	Factual	Deferred Outflows - Pensions Pension Liability Pension Expense Deferred Outflows - Pensions	6,125,456 2,187,663 2,187,663	(6,125,456) (6,125,456) 2,187,663 (2,187,663)	0 0 2,187,663 0	0 0 2,187,663 2,372,172	2,372,172 2,372,172	(22,017,045) (22,017,045)	0 0	0 0	6,125,456 (2,187,663)	0 0	(6,125,456) (6,125,456)	0 0	0 2,187,663	0 0	0 0
Aggregate effect of uncorrected audit misstatements (before tax):						0	(11,377,828)	2,372,172	(22,017,045)	0	0	6,125,456	(2,187,663)	(6,875,000)	22,582,080	0	2,187,663	0
Aggregate effect of uncorrected audit misstatements (after tax):						0	(11,377,828)	2,372,172	(22,017,045)	0	0	3,937,793	(6,875,000)	(6,875,000)	22,582,080	0	2,187,663	0
Financial statement amounts (per final financial statements) (after tax):						0	0	0	4,562,113,000	749,924,000	7,014,366,000	74,203,000	289,161,000	2,464,465,000	522,754,000	0	0	0
Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):						#DIV/0!	(0.48%)	0.00%	0.00%	0.00%	5.31%	(2.38%)	0.92%	0.00%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

See attached memo for discussion of impact

City of Long Beach

General Fund

Summary of Uncorrected Audit Misstatements

9/30/2015

Amounts in	dollars
Method Used to Quantify Audit Misstatements	Rollover
Final Materiality	11,000,000
Final AMPT	550,000

Detailed instructions on automatically populating the audit misstatements from the Tracker are provided in the "Instructions" tab.

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)				
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Assets	Deferred Outflows	Liabilities	Deferred Inflows
				A		B	C=A (Only Income Statement accounts)	C-B					
	None						-	-	-				

City of Long Beach  
Gas Utility Fund  
Summary of Uncorrected Audit Misstatements  
9/30/2015

Amounts in dollars  
Method Used to Quantify Audit Misstatement Rollover  
Final Materiality 4,000,000  
Final AMPT 200,000

Detailed instructions on automatically populating the audit misstatements from the Tracker are provided in the "instructions" tab.

Correcting Entry Required at Current Period End						Income Statement Effect - Debit (Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows
				A		B	C=A (Only Income Statement accounts)	C-B							
GU <1>	Effective Interest Method- Non-GAAP	Factual	Unamortized Discount/Premium	424,437										424,437	
			Interest expense		(424,437)		(424,437)	(424,437)	(424,437)						
GU <2>	SURL Isolated Incident	Factual	Maintenance and Operations	773,752			773,752	773,752	773,752						
			Accounts Payable		(773,752)					(773,752)					
Various	Pension Allocation %	Factual	Pension Liability	1,089,698										1,089,698	
			Deferred Outflow		(1,089,698)							(1,089,698)			
			Deferred Outflow	389,178								389,178			
			Pension Expense		(389,178)		(389,178)	(389,178)	(389,178)						
Aggregate of uncorrected audit differences (before tax)						-	(39,863)	(39,863)	(39,863)	(773,752)	-	(700,520)	-	1,514,135	-
Tax effect of uncorrected audit differences								-	-	-	-	-	-	-	-
Aggregate of uncorrected audit differences (after tax)								(39,863)	(39,863)	(773,752)	-	(700,520)	-	1,514,135	-
Financial statement amounts (per final financial statements)									(13,520,000)	61,232,000	1,099,637,000	19,710,000	27,938,000	672,759,000	493,402,000
Uncorrected audit differences after tax effect as a percentage of financial statement amounts						Note 1			0.3%	-1.3%	0.0%	0.0%	0.0%	0.2%	0.0%
Aggregate of uncorrected audit differences - total impact on revenues									-						
Financial statement amounts (as per final financial statements) - revenue									78,183,000						
Uncorrected audit differences as a percentage of financial statement amounts									0.00%						
Aggregate of uncorrected audit differences - total impact on expenditures									(424,437)						
Financial statement amounts (as per final financial statements) - expenses									80,699,000						
Uncorrected audit differences as a percentage of financial statement amounts									(0.53%)						

Note 1 - As the City of Long Beach is a governmental agency, the comparison of the passed audit adjustments as a percentage of the change in net assets or fund balances is not a reasonable basis for materiality. As such, the schedule above was revised to measure the audit adjustments to total revenues and expenses/expenditures (see HPSPPL 03-15)

Company Harbor Department of Long Beach

Summary of Uncorrected Audit Misstatements

For Year Ends 9/30/2015

Method Used to Quantify Audit Misstatements Income Statement Method (Roll Over)  
 Final Materiality 20,000,000  
 Final AMPT 1,000,000

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)							Cash Flow Effect - Increase (Decrease)		
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows	Operating Activities	Investing Activities	Financing Activities
				A		B	C=A (Only Income	C=B										
H1	Management recorded \$15,356,466 of Grant Revenue in the current year that should have been recorded in the previous year.	Factual	Opening Net Assets	0	(15,356,466)	0	0	0	(15,356,466)	0	0	0	0	0		15,356,466	0	0
			Capital grants	15,356,466	0	0	15,356,466	15,356,466	0	0	0	0	0	0		(15,356,466)	0	0
H2	Management accrued a liability for the full balance of the Ship to Shore Grant Revenues, although only 20% should have been applied to the balance as of 9/30/2015. The liability was recorded in the previous year and as such we propose to increase net assets rather than capital revenue in the current year. The current year addition to the liability was run through revenue rather than expenses, and the total liability was classified as unearned revenue rather than A/P. As such, our adjustment will reclassify these to the appropriate FS captions.	Factual	Capital Grant Revenue	0	(6,875,000)	0	(6,875,000)	(6,875,000)	0	0	0	0	0	0		0	0	0
			Deferred Revenue	28,707,536	0									28,707,536				
			Opening Net Assets	0	(21,832,536)				(21,832,536)									
			Accounts Payable		(6,875,000)								(6,875,000)					
			Infrastructure maintenance expense	6,875,000		0	(6,875,000)	6,875,000	0	0	0	0	0	0		0	0	0
H3	Management reviewed CIP during FY2015 and noted that there were several project costs remaining in CIP that should have been expensed in previous periods. These were booked to current year expense even though they are out of period expenses.	Factual	Unrestricted net assets	15,171,957	0	0	0	0	15,171,957	0	0	0	0	0		(15,171,957)	0	0
			Fire and safety	0	(7,728,934)	0	(7,728,934)	(7,728,934)	0	0	0	0	0	0		7,728,934	0	0
			Infrastructure maintenance	0	(7,443,023)	0	(7,443,023)	(7,443,023)	0	0	0	0	0	0		7,443,023	0	0
H4	Management recorded the pension liability using the proportionate share as of the previous year instead of the current year. The net difference is recorded as a liability with the related deferred outflows amortized over the average remaining service life as noted in the CalPERS actuarial valuation report	Factual	Deferred Outflows - Pensions	6,125,456								6,125,456						
			Pension Liability		(6,125,456)									(6,125,456)				
			Pension Expense	2,187,663			2,187,663	2,187,663								2,187,663		
			Deferred Outflows - Pensions		(2,187,663)							(2,187,663)						
			Aggregate effect of uncorrected audit misstatements (before tax):			0	(11,377,828)	2,372,172	(22,017,045)	0	0	3,937,793	(6,875,000)	22,582,080	0	2,187,663	0	0
			Aggregate effect of uncorrected audit misstatements (after tax):			0	(11,377,828)	2,372,172	(22,017,045)	0	0	3,937,793	(6,875,000)	22,582,080	0	2,187,663	0	0
Financial statement amounts (per final financial statements) (after tax):									3,609,818,000	604,037,000	4,370,792,000	22,268,000	198,451,000	1,174,012,000	14,816,000	233,179,000	21,889,000	(149,058,000)
Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):									#DIV/0!	(0.61%)	0.00%	0.00%	17.68%	(3.46%)	1.92%	0.00%	0.94%	0.00%

See attached Memo for discussion of adjustment

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)								Cash Flow Effect - Increase (Decrease)			Statement of Comprehensive Income - Debit (Credit)								
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows	Operating Activities	Investing Activities	Financing Activities	Comprehensive Income									
Various	Pension Allocation %	Factual	Pension Liability	906,042		B	C-A (Only Income Statement accounts)	C-B						906,042														
			Deferred Outflow		(906,042)																							
			Deferred Outflow	316,449																								
			Pension Expense		(316,449)															(316,449)	(316,449)							
Aggregate of uncorrected audit differences (before tax)						-	(316,449)	(316,449)	(316,449)	-	-	(589,593)	-	906,042	-													
Tax effect of uncorrected audit differences										-	-	-	-	-														
Aggregate of uncorrected audit differences (after tax)								(316,449)	(316,449)	-	-	(589,593)	-	906,042	-													
Financial statement amounts (per final financial statements)									336,414,000	256,637,000	379,221,000	15,268,000	22,734,000	286,891,000	5,087,000													
Uncorrected audit differences after tax effect as a percentage of financial statement amounts							Note 1		-0.1%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%													
Aggregate of uncorrected audit differences - total impact on revenues								-																				
Financial statement amounts (as per final financial statements) - revenues								105,500,000																				
Uncorrected audit differences as a percentage of financial statement amounts								0.00%																				
Aggregate of uncorrected audit differences - total impact on expenditures								(316,449)																				
Financial statement amounts (as per final financial statements) - expenses								124,953,000																				
Uncorrected audit differences as a percentage of financial statement amounts								(0.25%)																				



City of Long Beach  
Tideland Oil  
Summary of Uncorrected Audit Misstatements  
9/30/2015

Amounts in dollars  
Method Used to Quantify Audit Misstatements Rollover  
Final Materiality 2,000,000  
Final AMPT 100,000

Detailed instructions on automatically populating the audit misstatements from the Tracker are provided in the "Instructions" tab.

Correcting Entry Required at Current Period End						Income Statement Effect - Debit (Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows
				A		B	C=A (Only Income Statement accounts)	C-B							
Various	Pension % Allocation	Factual	Deferred Outflow	147,564								147,564			
			Pension Liability		(147,564)										(147,564)
			Pension Expense	52,702	(52,702)		52,702	52,702	52,702						
			Deferred Outflow									(52,702)			
<TO 1>	Missing Support Documentation/Evidence	Projected	Accounts Payable	1,264,621			(1,264,621)	(1,264,621)	(1,264,621)	1,264,621					
			Maintenance and Other Operations		(1,264,621)										
Aggregate of uncorrected audit differences (before tax)						-	(1,211,919)	(1,211,919)	(1,211,919)	1,264,621	-	94,862	-	(147,564)	-
Tax effect of uncorrected audit differences															
Aggregate of uncorrected audit differences (after tax)								(1,211,919)	(1,211,919)	1,264,621	-	94,862	-	(147,564)	-
Financial statement amounts (per final financial statements)									(30,296,000)	32,122,000	12,532,000	1,078,000	15,418,000	59,939,000	671,000
Uncorrected audit differences after tax effect as a percentage of financial statement amounts						Note 1			4.0%	3.9%	0.0%	0.0%	0.0%	-0.2%	0.0%
	Aggregate of uncorrected audit differences - total impact on revenues							-							
	Financial statement amounts (as per final financial statements) - revenue							99,401,000							
	Uncorrected audit differences as a percentage of financial statement amounts							0.00%							
	Aggregate of uncorrected audit differences - total impact on expenditures							(1,264,621)							
	Financial statement amounts (as per final financial statements) - expenses							99,625,000							
	Uncorrected audit differences as a percentage of financial statement amounts							(1.27%)							

Note 1 - As the City of Long Beach is a governmental agency, the comparison of the passed audit adjustments as a percentage of the change in net assets or fund balances is not a reasonable basis for materiality. As such, the schedule above was revised to measure the audit adjustments to total revenues and expenses/expenditures (see HPSPP 03-15)

City of Long Beach  
Aggregate Remaining  
Summary of Uncorrected Audit Misstatements  
9/30/2015

Amounts in dollars  
Method Used to Quantify Audit Misstatement Rollover  
Final Materiality 37,000,000  
Final AMPT 1,850,000

t misstatements from the Tracker are provided in the "Instructions" tab.

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement)	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	
				A		B	C=A (Only Income Statement accounts)	C-B							
Non-Major Gov't															
	None Noted														
Internal Service Funds															
	None Noted														
Non-Major Enterprise															
SW 1	SERRF Distribution	Factual	Accounts Receivable	2,587,310						2,587,310					
			Net Assets	3,079,446						3,079,446					
			Charges for Services		(5,666,756)		(5,666,756)	(5,666,756)	(5,666,756)						
SF1	Timely CIP Transfer	Projected	Depreciation and Amortization Expense	45,386			45,386	45,386	45,386						
			Net Assets	30,017					30,017						
			Property, plant and equipment, net		(75,403)						(75,403)				
SF2	KPMG notes the overstatement of revenue is driven by fixed asset additions between 2006 and 2009 wherein additions were depreciated over the remaining useful life of the depreciated	Projected	Property, plant and equipment, net	150,837	0	0	0	0	0	0	150,837		0	0	
			Depreciation and Amortization Expense	0	(20,136)	0	(20,136)	(20,136)	(20,136)	0	0		0	0	
			Net Assets	0	(130,701)	0	0	0	(130,701)	0	0		0	0	
WF1	KPMG notes the overstatement of revenue is driven by fixed asset additions between 2006 and 2009 wherein additions were depreciated over the remaining useful life of the depreciated	Projected	Property, plant and equipment, net	2,144,648	0	0	0	0	0	0	2,144,648		0	0	
			Depreciation and Amortization Expense	0	(246,217)	0	246,217	246,217	(246,217)	0	0		0	0	
			Unrestricted Net Assets	0	(1,898,431)	0	0	0	(1,898,431)	0	0		0	0	
SF3	Pension Allocation %	Factual	Pension Liability	128,729										128,729	
			Deferred Outflow		(128,729)							(128,729)			
			Deferred Outflow	45,975								45,975			
			Pension Expense		(45,975)		(45,975)	45,975	45,975						
		Aggregate effect of uncorrected audit misstatements (before tax):				0	(5,441,264)	(5,349,314)	(4,761,417)	2,587,310	2,220,082	(82,754)	0	128,729	
		Aggregate effect of uncorrected audit misstatements (after tax):				0	(5,441,264)	(5,349,314)	(4,761,417)	2,587,310	2,220,082	(82,754)	0	128,729	
Financial statement amounts (per final financial statements) (after tax):									Note <1> *						
Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):									#VALUE!						
									-0.92% 0.40% 0.31% -0.30% 0.00% 0.02%						

Note <1> - Based on the governmental nature, net income isn't a good measure of the organization as the Department is designed to operate at a break-even level. Therefore, we have evaluated the adjustments based on gross revenues and expenses.

Gross Revenues	948,359,000
Adjustments	(5,666,756)
%	-0.60%
Gross expenses	1,016,538,000
Adjustments	271,467
%	0.03%

\*Note : As Non-major is not broken out by current vs. non-current, we did not include these amounts in the calculation. KPMG determined that this does not impact our review as it would only decrease the "uncorrected audit misstatement as a percentage of financial statements amounts." P/F/C



**CITY OF LONG BEACH**

Management Letter

September 30, 2015



**KPMG LLP**  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

March 25, 2016

City Council  
City of Long Beach  
333 West Ocean Blvd.  
Long Beach, California 90802

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), for the year ended September 30, 2015, and have issued our report thereon dated March 25, 2016. In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the attached schedule of observations.

The City's written responses to our comments and recommendations have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we express no opinion on them.

In addition, we identified certain deficiencies in internal control that we consider to be a significant deficiency, and in accordance with *Government Auditing Standards* communicated them in writing to the City in a separate report dated March 25, 2016.



City Council  
City of Long Beach  
March 25, 2016

Our audit procedures are designed primarily to enable us to form opinions on the basic financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Commonwealth's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, City Council and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

# City of Long Beach

## Schedule of Observations

9/30/15

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### MLC 2015-01

#### Non-GAAP Policies

##### *Observation*

During our audit, we reviewed the City's internal control process related to non-GAAP policies and noted that the City does not perform an analysis during the year to quantify the impact of the new and existing non-GAAP policies to the year-end financial statements. As of the end of fiscal 2015, the City identified the following non-GAAP policies:

- The City records revenue sharing agreements for its *Southeast Resource Recovery Facility Authority* on a cash basis.
- Transfers of completed construction projects are not made timely to the appropriate depreciable asset category when the asset is substantially completed and in use.
- The City does not record receivables for unbilled utilities.

##### *Recommendation*

We recommend that the City enhance its internal controls related to the documentation and quantification of its non-GAAP policies to ensure that they do not result in a material misstatement of the financial statements.

##### *Managements Response*

The City accepts KPMG's recommendation. The City continues to work on correcting its non-GAAP policies. As revenue sharing agreements go into effect or are identified, the City, in conformance with the recommendations of KPMG, will adopt policies and procedures needed to ensure the recognition of revenue for revenue sharing agreements in the year when the exchange transaction has taken place. We believe that this issue has been addressed and the City will continue its efforts to ensure that depreciable assets are recorded when they are placed into service. Finally, the City is working with affected departments to establish appropriate procedures to accrue unbilled utility receivables.

# City of Long Beach

## Schedule of Observations

9/30/15

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### **MLC 2015-02**

#### **IT General Controls – Payroll (Tesseract) Database Privileged Access**

##### *Observation*

KPMG identified a former employee with unnecessary administrative access to the database (DB2). This former employee did not have remote access and therefore could not access the account externally. The City's Technology and Innovation department (TI) elected to keep the user ID active, as it is unknown what processes are tied to the account and deleting the account could cause system issues.

##### *Effect (or Potential Effect)*

KPMG performed additional procedures to assess the audit risk and determined there was no impact to the audit. While there was no impact to the audit, the level of access assigned to this ID allows the ability to make changes to the data and database objects underlying the Payroll application, which could result in transaction processing and reporting errors. Additionally, this ID has the ability to download the sensitive HR data stored in the Tesseract DB2 databases.

##### *Recommendation*

KPMG recommends that direct write access to the database be restricted to those users who require the access to fulfill their job responsibilities. However, we understand that removal of this ID may cause inadvertent system issues, therefore, we recommend additional monitoring controls be implemented to log and review those users performing sensitive functions, such as extracting sensitive payroll data or executing "INSERT" or "ALTER" commands directly into the database.

##### *Management's Response*

TI was able to remove this user ID from administrative access to DB2 after we migrated to a newer release of the product. TI was then able to remove the RACF user ID of this person. This is an issue that occurred because of the constraints of working with a Mainframe application. Over the next eighteen to twenty-four months the City of Long Beach will be moving HR/Payroll and Finance to a Windows based application on MS SQL server, which will eliminate this issue from occurring.

# City of Long Beach

## Schedule of Observations

9/30/15

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### **MLC 2015-03**

#### **IT General Controls – Customer Care & Billing (CC&B) User De-Provisioning**

##### *Observation*

KPMG identified fourteen (14) separated employees with active CC&B user IDs.

##### *Effect (or Potential Effect)*

KPMG performed additional test procedures to assess the audit risk and determined that the network IDs needed to access the CC&B application were appropriately removed for these 14 employees, therefore they could not have been used. However, the City has a control that requires the removal of access within each application, which was not operating effectively. The untimely removal of access could potentially result in a lack of segregation of duties as a result of a separated employee sharing his or her password with an active employee. In turn, the lack of segregation of duties could allow a user to complete a transaction without the appropriate review or authorization. As such, an erroneous transaction could be processed and then go undetected.

##### *Recommendation*

KPMG recommends that a review of CC&B active users against the list of separated employees be performed by the business quarterly. Currently, the periodic access review is only performed annually, and does not appear to be sufficient to provide reasonable assurance that access for separated employees is revoked in a timely manner. Application and system administrators should be held accountable for failing to revoke the access to City applications particularly if they have received notification from Human Resources (HR).

##### *Management's Response*

In November of 2015 CC&B and Mobile Workforce Management (MWM), a utility tool integrated with CC&B and used by crew out in the field, were synchronized with Active Directory (AD). When a staff member or consultant loses access to the City Network, access to CC&B and MWM will also be disabled. In addition, TI disables CC&B access for employees that separate from the City when triggered by the HR notifications.

In addition, the City increased the number of reviews of all CC&B users by the business to four per year. The business reviews and validates all users and instructs TI to disable users they feel should not have access to the applications.

Please note that TI will begin implementing an Identity Access Management (IAM) solution in 2016 that will manage access into the applications via AD.



# City of Long Beach

## Schedule of Observations

9/30/15

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### **MLC 2015-04**

#### **IT General Controls – CC&B Database Passwords**

##### *Observation*

KPMG identified that the passwords settings were not configured. There was no limit on the number of invalid logon attempts, there was no requirement for password complexity, passwords did not expire, and the same passwords could be re-used.

##### *Effect (or Potential Effect)*

KPMG was not able to perform additional procedures to mitigate the risk, however in our overall assessment of the CC&B IT control environment and the effectiveness of complementary access controls, we deemed minimal impact to the audit.

While there was minimal impact to the audit, direct database level access allows the ability to make changes to the data and database objects underlying the CC&B application, which could result in transaction processing and reporting errors.

##### *Recommendation*

The password parameters to systems should be configured to protect against password based security threats. The following should be considered:

- Failed Logon attempts – 3 invalid attempts
- Password Lifetime – maximum 90 days
- Password Reuse Max – 10 maximum
- Password Verify Function – Enabled
- Minimum length – 6 characters minimum
- Complexity - Required

Additionally, we recommend that management grant the fewest (least) privileges possible to everyone—from DBAs down to the application schemas [i.e., generic/ service accounts. Generic/service accounts should be owned and their ownership and usage should be reviewed by management on a regular basis.

##### *Management's Response*

TI has discussed the recommended changes with Ernst and Young (EY), who supports the CC&B application. After assessing the risk to the CC&B application in making the suggested changes, the decision was made to make the following changes to the CC&B database during the upgrade of the CC&B application to version 2.5 that is planned for 2016.

- Failed Logon attempts – 3 invalid attempts
- Password Reuse Max – 10 maximum
- Password Verify Function – Enabled
- Minimum length – 6 characters' minimum
- Complexity – Required

# City of Long Beach

## Schedule of Observations

9/30/15

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It was decided that there is less risk in making the changes to the database during the upgrade of the applications. Please note that TI did not include the change to expire the password after 90 days. The 90-day expiration rule may impact the program as the logon I.D. and password can be used in the application.

In addition, all DBAs will be required to use their individual logon I.D.'s and passwords when accessing the database.

# City of Long Beach

## Schedule of Observations

9/30/15

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### **MLC 2015-05**

#### **IT General Controls – CC&B Periodic Access Review**

##### *Observation*

KPMG identified 25 users who were marked for access removal/access modification as part of the CC&B periodic access review; however these users access rights were not updated as requested.

##### *Effect (or Potential Effect)*

KPMG was not able to perform additional procedures to mitigate the risk, however in our overall assessment of the CC&B IT control environment, our planned reliance approach on CC&B configuration controls, and the effectiveness of complementary access controls (i.e. Active Directory de-provisioning), we deemed minimal impact to the audit.

##### *Recommendation*

KPMG recommends that management establish ongoing monitoring of the re-certification process. This can be partly automated through scheduled email reminders and escalations. Management may also consider using the help desk ticketing system to help facilitate the review process and provide alerts if the process to remove/update access exceeds an amount of time defined within the policy.

##### *Management's Response*

The City business staff reviews all CC&B user rights four times per year to certify user access. IT schedules and tracks this work using the CIS Service Request system in SharePoint and discusses the work and results during weekly CIS Core Team Meetings. The business completes reviews to validate active users have CC&B access appropriate to perform their job. The business pays close attention to recently transferred employees during these reviews.



**CITY OF LONG BEACH**

Management Letter

September 30, 2015



**KPMG LLP**  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

March 25, 2016

City Council  
City of Long Beach  
333 West Ocean Blvd.  
Long Beach, California 90802

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), for the year ended September 30, 2015, and have issued our report thereon dated March 25, 2016. In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the attached schedule of observations.

The City's written responses to our comments and recommendations have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we express no opinion on them.

In addition, we identified certain deficiencies in internal control that we consider to be a significant deficiency, and in accordance with *Government Auditing Standards* communicated them in writing to the City in a separate report dated March 25, 2016.



City Council  
City of Long Beach  
March 25, 2016

Our audit procedures are designed primarily to enable us to form opinions on the basic financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Commonwealth's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, City Council and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

# City of Long Beach

## Schedule of Observations

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### MLC 2015-01

#### Non-GAAP Policies

##### *Observation*

During our audit, we reviewed the City's internal control process related to non-GAAP policies and noted that the City does not perform an analysis during the year to quantify the impact of the new and existing non-GAAP policies to the year-end financial statements. As of the end of fiscal 2015, the City identified the following non-GAAP policies:

- The City records revenue sharing agreements for its *Southeast Resource Recovery Facility Authority* on a cash basis.
- Transfers of completed construction projects are not made timely to the appropriate depreciable asset category when the asset is substantially completed and in use.
- The City does not record receivables for unbilled utilities.

##### *Recommendation*

We recommend that the City enhance its internal controls related to the documentation and quantification of its non-GAAP policies to ensure that they do not result in a material misstatement of the financial statements.

##### *Managements Response*

The City accepts KPMG's recommendation. The City continues to work on correcting its non-GAAP policies. As revenue sharing agreements go into effect or are identified, the City, in conformance with the recommendations of KPMG, will adopt policies and procedures needed to ensure the recognition of revenue for revenue sharing agreements in the year when the exchange transaction has taken place. We believe that this issue has been addressed and the City will continue its efforts to ensure that depreciable assets are recorded when they are placed into service. Finally, the City is working with affected departments to establish appropriate procedures to accrue unbilled utility receivables.

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### **MLC 2015-02**

#### **IT General Controls – Payroll (Tesseract) Database Privileged Access**

##### *Observation*

KPMG identified a former employee with unnecessary administrative access to the database (DB2). This former employee did not have remote access and therefore could not access the account externally. The City's Technology and Innovation department (TI) elected to keep the user ID active, as it is unknown what processes are tied to the account and deleting the account could cause system issues.

##### *Effect (or Potential Effect)*

KPMG performed additional procedures to assess the audit risk and determined there was no impact to the audit. While there was no impact to the audit, the level of access assigned to this ID allows the ability to make changes to the data and database objects underlying the Payroll application, which could result in transaction processing and reporting errors. Additionally, this ID has the ability to download the sensitive HR data stored in the Tesseract DB2 databases.

##### *Recommendation*

KPMG recommends that direct write access to the database be restricted to those users who require the access to fulfill their job responsibilities. However, we understand that removal of this ID may cause inadvertent system issues, therefore, we recommend additional monitoring controls be implemented to log and review those users performing sensitive functions, such as extracting sensitive payroll data or executing "INSERT" or "ALTER" commands directly into the database.

##### *Management's Response*

TI was able to remove this user ID from administrative access to DB2 after we migrated to a newer release of the product. TI was then able to remove the RACF user ID of this person. This is an issue that occurred because of the constraints of working with a Mainframe application. Over the next eighteen to twenty-four months the City of Long Beach will be moving HR/Payroll and Finance to a Windows based application on MS SQL server, which will eliminate this issue from occurring.



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### **MLC 2015-03**

#### **IT General Controls – Customer Care & Billing (CC&B) User De-Provisioning**

##### *Observation*

KPMG identified fourteen (14) separated employees with active CC&B user IDs.

##### *Effect (or Potential Effect)*

KPMG performed additional test procedures to assess the audit risk and determined that the network IDs needed to access the CC&B application were appropriately removed for these 14 employees, therefore they could not have been used. However, the City has a control that requires the removal of access within each application, which was not operating effectively. The untimely removal of access could potentially result in a lack of segregation of duties as a result of a separated employee sharing his or her password with an active employee. In turn, the lack of segregation of duties could allow a user to complete a transaction without the appropriate review or authorization. As such, an erroneous transaction could be processed and then go undetected.

##### *Recommendation*

KPMG recommends that a review of CC&B active users against the list of separated employees be performed by the business quarterly. Currently, the periodic access review is only performed annually, and does not appear to be sufficient to provide reasonable assurance that access for separated employees is revoked in a timely manner. Application and system administrators should be held accountable for failing to revoke the access to City applications particularly if they have received notification from Human Resources (HR).

##### *Management's Response*

In November of 2015 CC&B and Mobile Workforce Management (MWM), a utility tool integrated with CC&B and used by crew out in the field, were synchronized with Active Directory (AD). When a staff member or consultant loses access to the City Network, access to CC&B and MWM will also be disabled. In addition, TI disables CC&B access for employees that separate from the City when triggered by the HR notifications.

In addition, the City increased the number of reviews of all CC&B users by the business to four per year. The business reviews and validates all users and instructs TI to disable users they feel should not have access to the applications.

Please note that TI will begin implementing an Identity Access Management (IAM) solution in 2016 that will manage access into the applications via AD.

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### **MLC 2015-04**

#### **IT General Controls – CC&B Database Passwords**

##### *Observation*

KPMG identified that the passwords settings were not configured. There was no limit on the number of invalid logon attempts, there was no requirement for password complexity, passwords did not expire, and the same passwords could be re-used.

##### *Effect (or Potential Effect)*

KPMG was not able to perform additional procedures to mitigate the risk, however in our overall assessment of the CC&B IT control environment and the effectiveness of complementary access controls, we deemed minimal impact to the audit.

While there was minimal impact to the audit, direct database level access allows the ability to make changes to the data and database objects underlying the CC&B application, which could result in transaction processing and reporting errors.

##### *Recommendation*

The password parameters to systems should be configured to protect against password based security threats. The following should be considered:

- Failed Logon attempts – 3 invalid attempts
- Password Lifetime – maximum 90 days
- Password Reuse Max – 10 maximum
- Password Verify Function – Enabled
- Minimum length – 6 characters minimum
- Complexity - Required

Additionally, we recommend that management grant the fewest (least) privileges possible to everyone—from DBAs down to the application schemas [i.e., generic/ service accounts. Generic/service accounts should be owned and their ownership and usage should be reviewed by management on a regular basis.

##### *Management's Response*

TI has discussed the recommended changes with Ernst and Young (EY), who supports the CC&B application. After assessing the risk to the CC&B application in making the suggested changes, the decision was made to make the following changes to the CC&B database during the upgrade of the CC&B application to version 2.5 that is planned for 2016.

- Failed Logon attempts – 3 invalid attempts
- Password Reuse Max – 10 maximum
- Password Verify Function – Enabled
- Minimum length – 6 characters' minimum
- Complexity – Required

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It was decided that there is less risk in making the changes to the database during the upgrade of the applications. Please note that TI did not include the change to expire the password after 90 days. The 90-day expiration rule may impact the program as the logon I.D. and password can be used in the application.

In addition, all DBAs will be required to use their individual logon I.D.'s and passwords when accessing the database.

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### **MLC 2015-05**

#### **IT General Controls – CC&B Periodic Access Review**

##### *Observation*

KPMG identified 25 users who were marked for access removal/access modification as part of the CC&B periodic access review; however these users access rights were not updated as requested.

##### *Effect (or Potential Effect)*

KPMG was not able to perform additional procedures to mitigate the risk, however in our overall assessment of the CC&B IT control environment, our planned reliance approach on CC&B configuration controls, and the effectiveness of complementary access controls (i.e. Active Directory de-provisioning), we deemed minimal impact to the audit.

##### *Recommendation*

KPMG recommends that management establish ongoing monitoring of the re-certification process. This can be partly automated through scheduled email reminders and escalations. Management may also consider using the help desk ticketing system to help facilitate the review process and provide alerts if the process to remove/update access exceeds an amount of time defined within the policy.

##### *Management's Response*

The City business staff reviews all CC&B user rights four times per year to certify user access. IT schedules and tracks this work using the CIS Service Request system in SharePoint and discusses the work and results during weekly CIS Core Team Meetings. The business completes reviews to validate active users have CC&B access appropriate to perform their job. The business pays close attention to recently transferred employees during these reviews.