

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6845 • Fax (562) 570-5836

September 17, 2013

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file Separately Issued Financial Statements, the Federal Single Audit, and the Auditor's Communication with Those Charged with Governance for the Fiscal Year Ended September 30, 2012. (Citywide)

DISCUSSION

Separately Issued Financial Reports and Statements

Certain City funds, joint powers authorities, and other subsidiary entities are also required to submit audited annual financial statements under separate cover, including the Water Department and Aquarium of the Pacific Financial Statements. These separate reports are enclosed and are issued annually to meet distinct legal and financial requirements.

Federal Single Audit

Also attached is the Federal Single Audit 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 12 major programs, resulted in seven findings and \$31,814 in questioned costs. No material weaknesses were identified. A finding represents any lack of compliance with OMB grant operating and/or reporting requirements. The findings are reported whether they are significant or not. A finding may also identify an amount of questioned costs that could, but are not likely to, result in the repayment of amounts to the granting agencies. In general, this is an improvement over the audit of the previous fiscal year that resulted in two significant deficiencies, five findings, and \$173,190 in questioned costs.

Findings and questioned costs were identified in the following areas:

Area	Questioned Costs
1. Blood tests not completed within 90 days of enrollment	\$ 156
2. Did not obtain appraisal within required time limitation	0
3. Did not abate HAP within require time limitations	1,893
4. Did not submit monthly reimbursement requests	0
5. Did not provide Construction Management Program to Grantor	0
6. Final project reports were not submitted within specified limitations	0
7. Did not obtain required performance bonds	29,765

The City has taken steps to address these findings. However, because of the timing of when an audit is received, the issue causing the finding may not be resolved in time to prevent it from occurring in a subsequent year.

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 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.

HONORABLE MAYOR AND CITY COUNCIL
September 17, 2013
Page 3

FISCAL IMPACT

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

SUGGESTED ACTION:

Approve recommendation.

Respectfully Submitted,



STEPHEN W. HANNAH
CITY CONTROLLER



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:




PATRICK H. WEST
CITY MANAGER

JG:SWH
K:\EXEC\COUNCIL LETTERS\ACCOUNTING\09-17-13 ccl - FY 12 CAFR - SUPPLEMENTAL.DOC

ATTACHMENTS:

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF LONG BEACH WATER DEPARTMENT
AQUARIUM OF THE PACIFIC FINANCIAL STATEMENTS
THE FEDERAL SINGLE AUDIT
THE AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) MANAGEMENT LETTER



Comprehensive Annual Financial Report
of the
Long Beach Water Department
(A Department of the City of Long Beach, California)
For the Fiscal Year Ended
September 30, 2012



Long Beach Water Deptment
1800 E Wardlow Road
<http://www.lbwater.org>
Long Beach, CA 90807

Front cover design created by: **Melissa Keyes**
Administrative Analyst III

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

**For the Fiscal Years Ended
SEPTEMBER 30, 2012 and 2011**

**KEVIN L. WATTIER
General Manager**

**B. ANATOLE FALAGAN
Assistant General Manager**

**PAUL T. FUJITA
Director of Finance**

**SOKHALAY HONG
Senior Accountant**

**YUMINA C. EGGLESTON
Senior Accountant**

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

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INTRODUCTORY SECTION

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Comprehensive Annual Financial Report

of the

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

For the Fiscal Years Ended September 30, 2012 and 2011

Table of Contents

Introductory Section	<u>Page</u>
Table of Contents	i
Letter of Transmittal	iv
GFOA Certificate of Achievement for Excellence in Financial Reporting	xiv
Organization Chart	xv
Board of Water Commissioners and Staff	xvi
Financial Section	
Independent Auditors' Report.....	1
Management Discussion and Analysis.....	3
Financial Statements:	
Statements of Net Position	24
Statements of Revenues, Expenses, and Changes in Fund Net Position	25
Statements of Cash Flows.....	26
Notes to Financial Statements.....	27

Table of Contents

(continued)

Statistical Section (Unaudited)

	<u>Page</u>
<u>Financial Trends</u>	57-66
<u>Exhibit</u>	
1	Changes in Net Position – Water Fund - Last Ten Fiscal Years 59
2	Changes in Net Position – Sewer Fund - Last Ten Fiscal Years..... 60
3	Net Position by Component – Water Fund - Last Ten Fiscal Years 61
4	Net Position by Component - Sewer Fund - Last Ten Fiscal Years 62
5	Water Fund Revenue by Type - Last Ten Fiscal Years..... 63
6	Sewer Fund Revenue by Type - Last Ten Fiscal Years 64
7	Water Fund Expenses by Type - Last Ten Fiscal Years 65
8	Sewer Fund Expenses by Type - Last Ten Fiscal Years..... 66
<u>Revenue Capacity</u>	67-74
<u>Exhibit</u>	
9	Source of Water (Pumped, Purchased, and Reclaimed) and Consumption - Last Ten Fiscal Years 69
10	Water Rates: Volumetric Rate Charges - Last Ten Fiscal Years..... 70
11	Water Rates: Daily Service Charges by Size - Last Ten Fiscal Years 70
12	Water Rates: Daily Fireline Service Charge by Size 71
13	Number of Water Services, Average Monthly Water Consumption, and Average Monthly Water Bill by Service Size – Year Ended September 30, 2012..... 71
14	Ten Largest Water Users in the City of Long Beach Current Year and Nine Years Ago..... 72
15	Sewer rates: Daily Service Charges by Size, Volumetric Rate, and Capacity Charges Year Ended September 30, 2012 72
16	Number of Sewer Services and Average Monthly Sewer Bill by Service Size Year Ended September 30, 2012..... 73
17	Ten Largest Sewer Users in the City of Long Beach Current Year and Nine Years Ago..... 73
18	Water Reuse Sites (Reclaimed Water Users) – Year Ended September 30, 2012..... 74

Table of Contents

(continued)

Debt Capacity Information **75-80**

Exhibit

19	Water Fund Debt Service Coverage - Last Ten Fiscal Years.....	77
20	Sewer Fund Debt Service Coverage - Last Ten Fiscal Years	78
21	Water Fund Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	79
22	Sewer Fund Ratios of Outstanding Debt by Type - Last Ten Fiscal Years ...	79

Demographic and Economic Information **81-84**

Exhibit

23	Demographic Statistics - Last Ten Fiscal Years.....	83
24	Major Employers - Current Year and Nine Years Ago.....	84
25	Number of Employees by Fund.....	84

Operating Information **85-90**

Exhibit

26	Water Demand - Last Ten Fiscal Years	87
27	Metropolitan Water District's Rate Changes - Last Ten Fiscal Years.....	88
28	Water Replenishment District Assessment (Pump Tax) – Last Ten Fiscal Years.....	88
29	Operating and Capital Assets Statistics - Water Fund – Last Ten Fiscal Years.....	89
30	Operating and Capital Assets Statistics - Sewer Fund – Last Ten Fiscal Years.....	89
31	Infrastructure Maintenance and Improvements - Last Ten Fiscal Years	90



Long Beach Water Department

**The Standard in Water Conservation &
Environmental Stewardship**

DATE April 22, 2013
TO Board of Water Commissioners
FROM B. Anatole Falagan, Assistant General Manager
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal years ended
September 30, 2012 and 2011

Management is pleased to present the Comprehensive Annual Financial Report (CAFR) of the Long Beach Water Department (Department), for the fiscal years ended September 30, 2012 and 2011. The Department's financial statements are also included in the City of Long Beach (the City) Financial Statements as enterprise funds (Water Fund and Sewer Fund).

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

The accompanying financial statements have been audited by KPMG LLP, an independent certified public accounting firm. KPMG LLP has issued an unqualified ("clean") opinion on the Department's financial statements for the fiscal years ended September 30, 2012 and 2011. The independent auditor's report is located at the front of the financial section of this report.

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

THE REPORTING ENTITY

During the early years of the 20th Century, Long Beach began establishing itself as an up-and-coming area that seemed destined to someday become a large city. In order to sustain the expected growth that would occur in future years, it was critical that the City identify and secure a reliable source of water. In recognizing the importance of this, on June 27, 1911, Long Beach voters approved an \$850,000 bond issuance to purchase two private water companies that had been providing water supplies to the Long Beach population. Three days later, on June 30, 1911, the Long Beach city council approved an emergency ordinance creating the Long Beach Water Department, thereby giving the City its own municipal water agency that would regulate and control the use, sale and distribution of water owned or controlled by the City.

Twenty years later, in 1931, two additional significant milestones came to pass for the Department. The first was the creation of the Long Beach Board of Water Commissioners (Board), which governs the Department and is comprised of five members appointed by the Mayor, subject to confirmation by the City Council. Members of the Board serve overlapping five-year terms to provide continuity of operations. That same year, the City also became one of the original 13 founding members of the Metropolitan Water District of Southern California (MWD). Joining MWD would allow the Department to eventually acquire imported water as a supplement to the City's groundwater supplies.

In February 1988, the Department assumed the responsibility of the various functions of the City's sanitary sewer system, including operations and maintenance. In April 1990, the citizens of Long Beach passed a City Charter amendment that allowed greater autonomy for the Department in administering the City's sanitary sewer operations.

In 2011, the Department celebrated its Centennial anniversary. For over 100 years, the Department has provided Long Beach residents and businesses with a reliable, cost-effective and high-quality drinking water supply. In addition, the Department has established itself as one of California's leaders in the areas of water conservation and environmental stewardship. As imported water supplies continue to become more expensive, yet less reliable, the Department will seek out cost-effective methods for expanding its utilization of alternative water supply sources and water conservation programs.

The Department's service area encompasses the boundaries of the City of Long Beach, the sixth largest city in State, with an area of approximately 50 square miles and a population of 465,576 with some customers outside the City limits. The Department is not subject to regulation by the California Public Utilities Commission.

LOCAL ECONOMY

The City has a diverse economic base as both a major industrial center and popular beach resort area. In addition, the Port of Long Beach, along with its related commercial and international trade activities, strengthens the local economy. Further, the City has been successful in building and maintaining a substantial tourist and convention business. Despite this diversification, the effects of the national recession continue to impact the region. However, positive trends in both the State and local economies indicate continued slow and steady economic growth for the near future. As an older, established and geographically built-out City, the Department's customer base is relatively stable and is comprised of ninety percent (90%) residential accounts, with the remaining ten percent (10%) comprised of commercial, industrial, irrigation and other accounts. The residential accounts comprise approximately seventy percent (70%) of the Department's total potable water sales. Further information on the local economy is provided in the City of Long Beach CAFR, of which the Department is a component unit.

WATER SUPPLY

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

Drought Related Developments

Since 2007, the Water Department has undertaken a comprehensive public communications strategy to emphasize the need for a comprehensive reduction in water consumption. The Water Department began communicating a regular update on the overall demand in its service area, compared to a historical ten (10) year average period immediately predating the call for conservation. Since 2007, the Water Department's customers have achieved a sustained conservation response leading to annual demands at about 15% below the historical ten (10) year average. Currently, overall consumption by Water Department customers is approximately equivalent to the consumption levels in 1966. The Water Department continues to provide additional communications and programs such as landscape retrofits to its customers, and believes the conservation response is a sustained change in consumption behavior.

Reduced water usage due to the conservation response by the customers of the City initially resulted in reduced Department revenues. However, such reductions in revenue was also offset by a reduction in operating expenses as a result of less water having to be purchased from Metropolitan Water District (MWD). Additionally, the Department managed discretionary budget expenses to minimize initial budget and rate impacts from reduced consumption. After an initial reduction in revenues due to demand reductions from conservation, the Water Department's budget and rate structure had been annually based on cost recovery, based on State law

governing water utility rate setting (Proposition 218).

The following subsections provide an overview of the Department's water resources.

Groundwater

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

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

Parties to the lawsuit negotiated a settlement which provided the basis of a stipulated judgment (the "Long Beach Judgment") rendered by the Superior Court on October 8, 1965. By separate action, a committee of Central Basin producers reached an agreement for voluntary reduction of pumpage within the basin to restore and protect the water table and to expedite the above judgment to permanently prevent excessive pumping. The reduction in pumping began October 1, 1962. The two events were of major importance in securing local water supplies for the City. The Department is the largest producer of water in the Central Basin.

Imported Supplies

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

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

Water Recycling

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

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

The Department remains committed to developing alternatives to imported potable (drinking) water supplies to meet the water needs of the City. Reclaimed water will continue to be an integral part in efforts to reduce our need to purchase imported water and to develop new sources of water. In FY 2012, the Department served approximately 2,256 million gallons of reclaimed water to a variety of users throughout the City. Since October 1, 2005, the Department, on contract with the Water Replenishment District (WRD), has operated a 3.0 million gallon per day reverse osmosis water treatment plant, enabling WRD to use recycled water from the Long Beach Water Reclamation Plant to replace up to 3,000 acre-feet per year of imported water previously supplied to the Alamitos Barrier. The Alamitos Barrier is an engineered freshwater pressure ridge and seawater trough constructed to prevent seawater intrusion into the Central Groundwater Basin of Los Angeles County and neighboring Orange County Groundwater Basin.

Conservation

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

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

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

installation of weather-based irrigation controllers. The Department has also developed and implemented a landscape retrofit program whereby customers, on a first-come-first-serve basis, can apply for incentives to relandscape turf surfaces. Up to 1,000 square feet of landscape per customer can qualify, until annual program funds are exhausted. Information and results from the program are used to reinforce the need for landscape water conservation throughout the City.

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

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

WATER QUALITY

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

The Long Beach Groundwater Treatment Plant is a state of the art water treatment facility, including four advanced water quality laboratories. This combination helps explain why the City's high quality drinking water consistently meets or exceeds all Federal and state drinking water regulations.

The Department conducts extensive sampling and testing of groundwater wells, water storage reservoirs, the water distribution system and, when appropriate, selected homes, businesses, schools and public facilities. This year, our Water Quality laboratories collected 12,292 samples and performed 57,310 tests while maintaining certification with the California Department of Health Services and Environmental Protection Agency (EPA).

During fiscal year 2012, the Groundwater Treatment Plant processed approximately 10.8-billion gallons of drinking water. Overall, 19.07 billion gallons of high-quality water were delivered to the Long Beach community.

MAJOR INITIATIVES

Seawater Desalination Research

Since 1994, the Department has continued to pursue seawater desalination as a potential source of drinking water. In 1996, the Department received authorization for Federal cost-sharing of a seawater desalination demonstration project; and in fiscal year 2001, the Department received an earmark in the Federal fiscal year 2002 budget, making it the only newly funded water project by the Federal government in that budget. Federal funding continued in fiscal years 2003 through 2011. Through an innovative public sector partnership, the Long Beach Water Department along with the Los Angeles Department of Water & Power and the United States Bureau of Reclamation, operated a 300,000 gallon-per-day prototype desalination facility, one of the largest seawater desalination research and development facilities in the United States. The Seawater Desalination study was completed in March 2010 and research gathered from the operation of the prototype plant was published as a report to the U.S. Bureau of Reclamation. Additionally, the Department operates an ongoing research project for an under-ocean intake and discharge system.

Conjunctive Use

The Department has also partnered with the Metropolitan Water District of Southern California, and the California Department of Water Resources on an innovative groundwater storage program. The \$4.5 million project, which was funded by State of California Proposition 13, has stored 4.2 billion gallons of surplus water in the Central Groundwater Basin, and was called upon during the fiscal year to deliver 1,362.8 million gallons due to drought conditions in southern California. A second, \$2.7 million joint conjunctive use project with the City of Lakewood was completed in 2009 with an additional 586.5 million gallons stored as part of this project. The amounts stored in the Lakewood project may also be called upon during the current drought conditions.

Water Distribution System

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2012, the water distribution system totaled 911 miles of water mains with 89,957 active service connections.

During fiscal year 2012, the Department and contractors replaced 25,733 feet of deteriorated cast iron water mains with new ductile iron pipe. This critical replacement program addresses upgrading old pipelines, many of which were installed more than 50 years ago.

The Department maintains approximately 591 large control valves 20 inches or more in diameter and 19,321 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. During the year, the Department performed maintenance on 2,875 valves, repaired 2 and replaced 159. The Department also replaced 629 water services utilizing copper pipe, replaced or

repaired 269 fire hydrants, responded to 11,174 customer service requests and reviewed 43 high bill reports. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. During the year, the Department repaired 22 water main pipeline breaks citywide and tested, installed, repaired or exchanged 1,100 water meters.

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

Sanitary Sewer Collection System

The Department has made considerable progress since 1988 in addressing the substantial challenges posed by an aging sanitary sewer infrastructure, much of which is between 60 and 80 years old. The Department developed the first City-wide Sewer Master Plan in 1991, which provided an initial prioritization of sewer deficiencies to be addressed. The Department has since developed a comprehensive program of maintenance, monitoring and repair of sewer lines including:

- an aggressive annual pipeline cleaning program and Fats, Oil and Grease (FOG) program to address impacts to lines;
- a video monitoring program to assess conditions of pipelines;
- a comprehensive annual sewer infrastructure repair program.

In fiscal year 2009, the Department completed a comprehensive Sewer Master Plan Update, providing the Department with an updated evaluation and prioritization of current deficiencies. The plan included the use of dynamic hydraulic modeling software to assess existing collection system performance, as well as to evaluate the system for future conditions. Based on the plan, the Department developed and began implementation of a strategic five-year Capital Improvement Program to address aging infrastructure.

This year the Department completed 261 sewer lateral and sewer main pipeline repair jobs, repaired private sewer lines damaged by the roots from City trees (including sidewalk replacement), chemically treated 5,000 of the 16,148 sewer manholes to control vectors (roaches, other insects and rodents), and cleaned 414 of the 712 miles of sewer pipelines throughout the City.

RELEVANT FINANCIAL POLICIES

The Department's financial statements are presented on the accrual basis of accounting. As an enterprise fund, the cost of providing water is recovered through user charges assessed by meter size, volumetric charges and other miscellaneous charges. The cost of providing sewer service is also recovered through user and volumetric charges for all water customers who are connected to the City's sewers. Certain services, such as payroll, civil service, public service, general service,

customer billing, data processing, legal, etc., are provided to the Department by other City departments; these costs are reimbursed to the City by transfer of funds from the Water Fund or the Sewer Fund.

Internal Control Structure

In the development and enhancement of the Department's accounting system, careful consideration is given to the adequacy of the internal controls designed to provide reasonable assurance regarding the safeguarding of assets against possible loss, unauthorized use or disposition; to ensure the reliability of financial records for preparing financial statements and maintaining accountability for assets, and to promote operational efficiency and compliance with managerial policies. The concept of reasonable assurance recognizes that: (1) the cost of a specific control feature should not exceed the benefits likely to be derived, and; (2) the evaluation of costs and benefits requires continued estimates and judgment by management.

Budgetary Control

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

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

AWARDS AND ACKNOWLEDGEMENTS


The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2011. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting and its attainment represents a significant accomplishment by a government agency and its management. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR whose contents not only conform to the high program standards of the GFOA, but also satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

It is recommended that the Board of Water Commissioners receive and file the Comprehensive Annual Financial Report for the fiscal years ended September 30, 2012 and 2011.

Prepared by:




Paul T. Fujita, Director of Finance

Submitted and
Recommended by:



B. Anatole Falagan, Assistant General Manager

Approved by:



Kevin L. Wattier, General Manager

Att.
PTF:ptf
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Certificate of Achievement for Excellence in Financial Reporting

Presented to
Long Beach Water Department
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

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



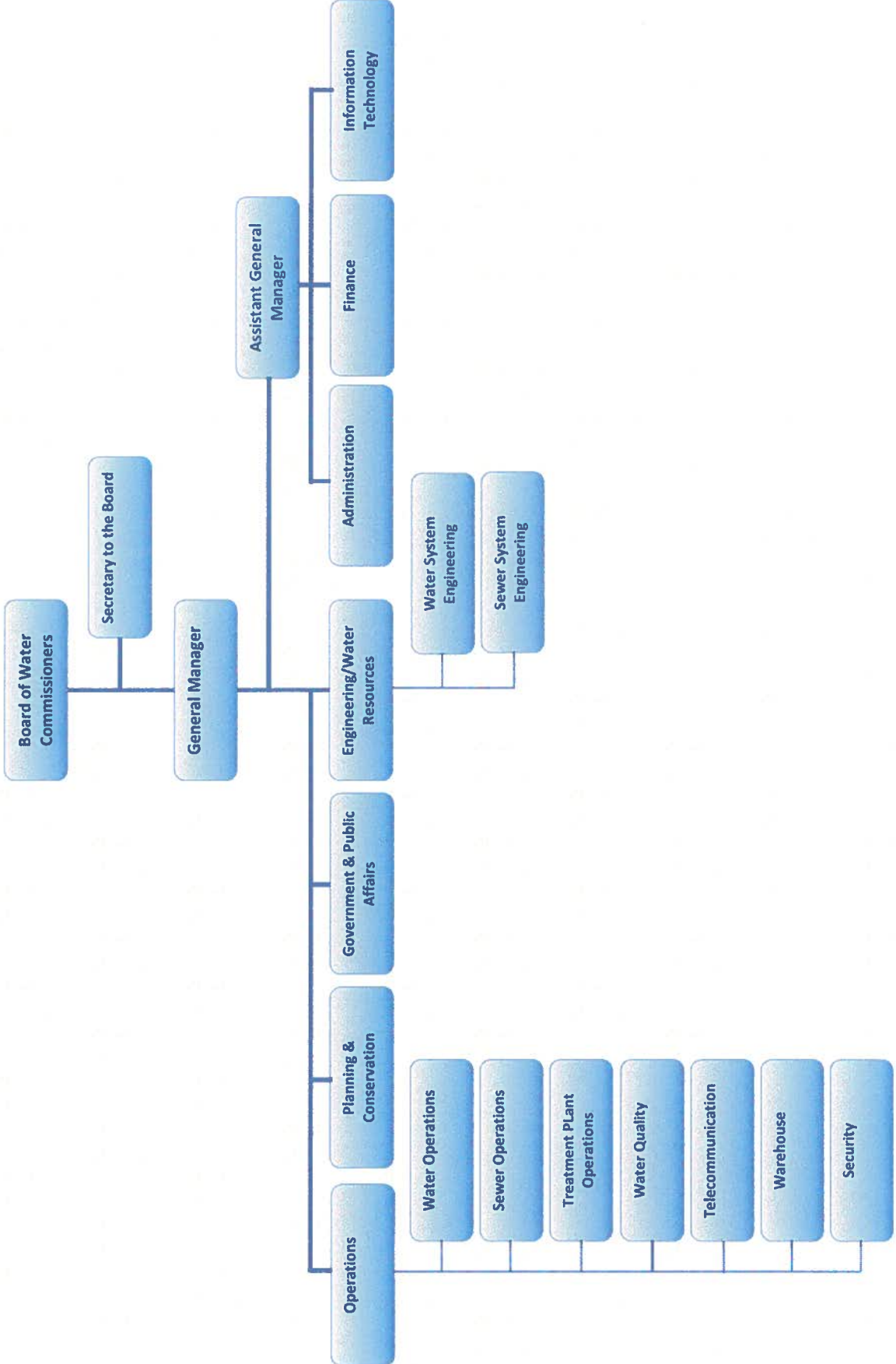
Christopher P. Morrill

President

Jeffrey R. Egan

Executive Director

Long Beach Water Department Organizational Chart



LONG BEACH WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

JOHN D. S. ALLEN	PRESIDENT
PAUL BLANCO	VICE PRESIDENT
SUZANNE DALLMAN	SECRETARY
HARRY SALTZGAVER	MEMBER
<i>Position to be filled</i>	MEMBER

STAFF

KEVIN L.WATTIER
General Manager

B. ANATOLE FALAGAN
Assistant General Manager

FINANCIAL SECTION

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

Independent Auditors' Report

The Honorable Mayor and City Council
The Honorable Members of the Board of Water Commissioners:

We have audited the accompanying financial statements of the business-type activities of the Long Beach Water Department (the Department) of the City of Long Beach, California (the City), as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Department's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed more fully in note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City as of September 30, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2012 and 2011, and the respective changes in its financial position, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2013 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the Department's basic financial statements. The accompanying information identified in the table of contents as the introductory section and the statistical section are presented for purposes of additional analysis and are 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. Such information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

April 22, 2013

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

As the management of the Long Beach Water Department, a department of the City of Long Beach (the City), we offer readers of the Long Beach Water Department's financial statements this narrative overview and analysis of the financial activities of the Long Beach Water Department (the Department) for the fiscal years ended September 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. The Department comprises the City's Water Enterprise Fund (Water Fund) and Sewer Enterprise Fund (Sewer Fund) operations. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The Department's assets exceeded its liabilities at the close of fiscal year 2012 (FY2012) by \$342,435 (*net position*). The Department's net position is further broken down between the Water Fund and Sewer Fund below.

Water Fund. Assets exceeded liabilities at the close of FY2012 by \$284,121. Of this amount, \$44,978 (*unrestricted net position*) is available to meet the Water Fund's ongoing obligations to creditors and customers. Unrestricted net position represented 56.7% of the Water Fund's annual operating expenses for FY2012 as compared with 61.4% for fiscal year 2011 (FY2011). Total Water Fund net position was increased by \$5,847 (+2.1%) from the prior fiscal year. The increase reflects income in excess of expenses and contributed capital received during the year.

Sewer Fund. Net position totaled \$58,314 as of September 30, 2012, an increase of \$1,839 (+3.3%) from the prior fiscal year. The increase reflects income in excess of expenses and contributed capital received during the year. At the end of the current fiscal year, the Sewer Fund's unrestricted net position represented 40.6% of annual operating expenses for FY2012 as compared with 61.5% for FY2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. Because the Department is a business-type activity of the City, enterprise funds are used to account for its water and sewer operations. These financial statements include only the activities of the Department and provide comparative information for the last two fiscal years. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2012.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

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

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

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

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

The *Notes to Financial Statements* provide additional information that is essential to the full understanding of the data provided in the financial statements and can be found on pages 27-55 of this report.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the Department's financial position. A summary of the Department's Statements of Net Position for the past three years is presented on page 5. As of September 30, 2012, Water Fund assets exceeded liabilities by \$284,121, and Sewer Fund assets exceeded liabilities by \$58,314, representing a 2.1% increase in net position over the prior fiscal year for the Water Fund and a 3.3% increase in Sewer Fund nets position. Net position are further categorized by net investment in capital assets, and restricted and unrestricted net assets.

As of September 30, 2012, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represented 83.7% and 90.0% of Water Fund and Sewer Fund net assets, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

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

The restricted portion of the Department's net position (0.4% and 0.2% of total net position as of September 30, 2012 and 2011, respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Department's net position (14.8% and 17.5% of total net position as of September 30, 2012 and 2011, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed Schedules of Net Position as of September 30, 2012, 2011, and 2010 are as follows (in thousands):

Long Beach Water Department Condensed Schedules of Net Position September 30, 2012, 2011, and 2010 (in thousands)							
	2012	2011	2010	Variance			
				2012/2011		2011/2010	
	2012	2011	2010	Amount	%	Amount	%
Assets:							
Current and other assets	\$ 69,760	\$ 74,088	\$ 62,473	\$ (4,328)	-5.8%	\$ 11,615	18.6%
Capital assets	331,782	320,224	307,507	11,558	3.6%	12,717	4.14%
Total assets	<u>401,542</u>	<u>394,312</u>	<u>369,980</u>	<u>7,230</u>	<u>1.8%</u>	<u>24,332</u>	<u>6.6%</u>
Liabilities:							
Current liabilities	15,600	14,164	10,363	1,436	10.1%	3,801	36.7%
Noncurrent liabilities	43,507	45,399	43,821	(1,892)	-4.2%	1,578	3.6%
Total liabilities	<u>59,107</u>	<u>59,563</u>	<u>54,184</u>	<u>(456)</u>	<u>-0.8%</u>	<u>5,379</u>	<u>9.9%</u>
Net Position:							
Net investment in capital assets	290,258	275,574	269,943	14,684	5.3%	5,631	2.1%
Restricted	1,350	736	153	614	83.4%	583	381.0%
Unrestricted	50,827	58,439	45,700	(7,612)	-13.0%	12,739	27.9%
Total net position	<u>\$ 342,435</u>	<u>\$ 334,749</u>	<u>\$ 315,796</u>	<u>\$ 7,686</u>	<u>2.3%</u>	<u>\$ 18,953</u>	<u>6.0%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

The Department's financial position is further broken down as follows between the Department's Water Fund and the Sewer Fund as of September 30, 2012, 2011, and 2010:

Long Beach Water Department Condensed Schedules of Net Position September 30, 2012, 2011, and 2010 (in thousands)

Water Fund	2012	2011	2010	Variance			
				2012/2011		2011/2010	
				Amount	%	Amount	%
Assets:							
Current and other assets	\$ 61,912	\$ 62,966	\$ 53,227	\$ (1,054)	-1.7%	\$ 9,739	18.3%
Capital assets	273,317	267,063	259,288	6,254	2.3%	7,775	3.0%
Total assets	335,229	330,029	312,515	5,200	1.6%	17,514	5.6%
Liabilities:							
Current liabilities	13,601	12,356	9,502	1,245	10.1%	2,854	30.0%
Noncurrent liabilities	37,507	39,399	39,821	(1,892)	-4.8%	(422)	-1.1%
Total liabilities	51,108	51,755	49,323	(647)	-1.3%	2,432	4.9%
Net Position:							
Net Investment in capital assets	237,793	228,196	223,560	9,597	4.2%	4,636	2.1%
Restricted	1,350	736	153	614	83.4%	583	381.0%
Unrestricted	44,978	49,342	39,479	(4,364)	-8.8%	9,863	25.0%
Total net position	\$ 284,121	\$ 278,274	\$ 263,192	\$ 5,847	2.1%	\$ 15,082	5.7%
Sewer Fund							
Assets:							
Current and other assets	\$ 7,848	\$ 11,122	\$ 9,246	\$ (3,274)	-29.4%	1,876	20.3%
Capital assets	58,465	53,161	48,219	5,304	10.0%	4,942	10.2%
Total assets	66,313	64,283	57,465	2,030	3.2%	6,818	11.9%
Liabilities:							
Current liabilities	1,999	1,808	861	191	10.6%	947	110.0%
Noncurrent liabilities	6,000	6,000	4,000	-	-	2,000	50.0%
Total liabilities	7,999	7,808	4,861	191	2.4%	2,947	60.6%
Net Position:							
Net Investment in capital assets	52,465	47,378	46,383	5,087	10.7%	995	2.1%
Unrestricted	5,849	9,097	6,221	(3,248)	-35.7%	2,876	46.2%
Total net position	\$ 58,314	\$ 56,475	\$ 52,604	\$ 1,839	3.3%	\$ 3,871	7.4%

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2012 and 2011

Fiscal Year Ended September 30, 2012 Compared to 2011

Water Fund. Net position increased by \$5,847 (+2.1%) over FY2011. Approximately 95.8% (\$5,600) of this increase was attributable to revenues in excess of expenses. The remaining 4.2% (\$247) is primarily due to contributed capital from various Developers for potable water and reclaimed water distribution services.

Current and other assets decreased by \$1,054 (-1.7%) from FY2011, reflecting decreases in cash reserves due primarily to increased operating expenditures on Maintenance and Other which are further discussed in Management Review of the Department's Expenses on page 17.

Capital assets increased by \$6,254 (+2.3%) over the prior year mainly due to continued expenditures on capital improvement program for water cast iron main replacement, water meter replacement, water services installations, and recycled water services installations. In addition, the Department purchased machinery and equipment to support Water operations.

Current liabilities increased by \$1,245 (+10.1%) from FY2011, primarily due to 1997 Water Revenue Refunding Bonds scheduled interest and principal payments in fiscal year 2013 (FY2013) totaling to \$1,630. No principal payments were required in FY2012 for the 1997 Water Revenue Refunding Bonds as a result of issuance of Water Revenue Refunding Bonds-Series 2010A. Additional information regarding these bonds is provided on Note 4- Noncurrent Liabilities of the Notes to Financial Statements in page 44.

Noncurrent liabilities decreased by \$ 1,892 (-4.8%) from FY2011. The Department issued \$9,850 Water Revenue Bonds, Series 2012A, at a premium to retire \$11,000 outstanding Subordinate Water Revenue Commercial Paper notes scheduled to expire on October 1, 2012.

Sewer Fund. Net position increased \$1,839 (+3.3%) over FY2011. Approximately 89.9% (\$1,654) of this increase was attributable to revenues in excess of expenses. The remaining 10.1% (\$185) is due to contributed capital from Developers on sewer collection system.

Current assets and other assets decreased by \$3,274 (-29.4%), reflecting a decrease in cash reserves due primarily to \$2,000 in debt proceeds in FY2011 from the Subordinate Sewer Revolving Line of Credit to fund major capital improvement projects.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

Capital assets increased by \$5,304 (+10.0%) over FY2011 due to the completion of several sewer main pipe relining and replacement projects and purchases of machinery and equipment to support Sewer operations.

Current liabilities increased by \$191 (+10.6%) compared to FY2011 mainly due to accounts payable for professional services such as engineering design, construction and other technical services for sewer system infrastructure improvements.

Fiscal Year Ended September 30, 2011 Compared to 2010

Water Fund. Net position increased by \$15,082 (+5.7%) over FY2010. Approximately 45.1% (\$6,799) of this increase was attributable to revenues in excess of expenses. The remaining 54.9% (\$8,283) is due to contributed capital from state and federal grants for seawater desalination capital projects totaling \$201, and a total of \$8,082 from various Developers for potable water and reclaimed water distribution system facilities such as the Long Beach City College South Quad Complex and parking structure, Long Beach Memorial Miller Children's Hospital, Lyons West Gateway apartments, and Douglas Business Park development.

Current and other assets increased by \$9,739 (+18.3%) from FY2010. The net increase is primarily due to an increase in cash reserves for major capital improvement projects in the planning stage in FY2011. These projects include the construction of a water well and collection main and the rehabilitation of the Alamitos Reservoir Tanks.

Capital assets increased by \$7,775 (+3.0%) over the prior year mainly due to the ongoing water main replacement program and the completion of major developer projects for potable water and reclaimed water distribution systems.

Current liabilities increased by \$2,854 (+30.0%) from FY2010, primarily due to an increase in potable water purchases from Metropolitan Water District (MWD) and increased expenditures relating to ongoing improvements in potable water and reclaimed water distribution systems. In addition, accrued interest payable increased by \$369 (+241.2%) and long-term debt due within one year increased by \$490 (+100%) as a result of interest and principal payments scheduled in fiscal year 2012 (FY2012) relating to the Water Revenue Refunding Bonds Series 1997A and Series 2010A.

Sewer Fund. Net position increased \$3,871 (+7.4%) over FY2010. Approximately 25.9% (\$1,003) of this increase was attributable to revenues in excess of expenses. The remaining 74.1% (\$2,868) is due to contributed capital from Developers on sewer collection system.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2012 and 2011

Current assets and other assets increased by \$1,876 (+20.3%), reflecting an increase in pooled cash and cash equivalents due to sewer rates, capacity charge revenue, and a \$2,000 draw on a Subordinate Sewer Revolving Line of Credit to fund sewer capital projects in FY2011.

Capital assets increased by \$4,942 (+10.2%) over FY2010 due to the completion of major sewer main developer projects for the Long Beach Family Apartments and Douglas Business Park development. Also, several sewer main pipe relining and rehabilitation projects were completed in FY2011.

Current liabilities increased by \$947 (+110.0%) compared to FY2010 mainly due to expenditures relating to sewer capital improvement projects and Closed-circuit Television specialty services (CCTV) costs for sewer pipe collection system.

Noncurrent liabilities increased by \$2,000 (+50%) over FY2010. The Department drew \$6,000 on a Subordinate Sewer Revolving Line of Credit to retire \$4,000 of outstanding Sewer Revenue Commercial Paper notes and allotted the remaining \$2,000 for sewer collection system improvements.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

The Water Department's Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position provide further insight as to the nature and source of changes in net position and are summarized as follows for the years ended September 30, 2012, 2011, and 2010 (in thousands):

Long Beach Water Department
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position
Fiscal Years Ended September 30, 2012, 2011, and 2010
(in thousands)

	2012	2011	2010	Variance			
				2012/2011		2011/2010	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 65,280	\$ 63,702	\$ 63,459	\$ 1,578	2.5%	\$ 243	0.4%
Reclaimed water sales	2,766	2,470	2,806	296	12.0%	(336)	-12.0%
Service charges	30,603	30,131	28,927	472	1.6%	1,204	4.2%
Maintenance services	86	86	173	-	-	(87)	-50.3%
Other services	5,105	8,635	6,972	(3,530)	-40.9%	1,663	23.9%
Total operating revenues	103,840	105,024	102,337	(1,184)	-1.1%	2,687	2.6%
Operating Expenses:							
Cost of water	23,887	30,825	21,588	(6,938)	-22.5%	9,237	42.8%
Personal services	21,342	20,702	20,590	640	3.1%	112	0.5%
Maintenance and other	24,273	18,744	23,767	5,529	29.5%	(5,023)	-21.1%
Depreciation and amortization	11,034	11,499	14,498	(465)	-4.0%	(2,999)	-20.7%
Permit fees	9,822	9,827	9,861	(5)	-0.1%	(34)	-0.3%
Commercial Services	3,395	3,601	3,133	(206)	-5.7%	468	14.9%
Total operating expenses	93,753	95,198	93,437	(1,445)	-1.5%	1,761	1.9%
Operating income	10,087	9,826	8,900	260	2.7%	926	10.4%
Nonoperating Income (Expenses):							
Interest income	218	357	352	(139)	-39.0%	5	1.4%
Interest expense	(973)	(1,269)	(1,864)	296	-23.3%	595	-31.9%
Loss on disposition of property	(368)	(65)	(170)	(303)	466.2%	105	-61.8%
Rents	885	1,221	1,345	(336)	-27.5%	(124)	-9.2%
Land sales	-	-	10,000	-	-	(10,000)	-100.0%
Other	(2,595)	(2,268)	(1,878)	(327)	14.4%	(390)	20.8%
Income before contributed capital	7,254	7,802	16,685	(549)	-7.0%	(8,883)	-53.2%
Capital contributions	432	11,151	2,573	(10,719)	-96.1%	8,578	333.4%
Change in net position	7,686	18,953	19,258	(11,267)	-59.4%	(305)	-1.6%
Beginning net position	334,749	315,796	296,538	18,953	6.0%	19,258	6.5%
Ending net position	\$342,435	\$334,749	\$315,796	\$ 7,686	2.3%	\$18,953	6.0%

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

The Department's operations are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2012, 2011, and 2010:

Water Fund
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position
Fiscal Years Ended September 30, 2012, 2011, and 2010
(in thousands)

	2012	2011	2010	Variance			
				2012/2011		2011/2010	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 59,118	\$ 57,928	\$ 58,169	\$ 1,190	2.1%	\$ (241)	-0.4%
Reclaimed water sales	2,766	2,470	2,806	296	12.0%	(336)	-12.0%
Service charges	20,223	20,251	19,983	(28)	-0.1%	268	1.3%
Other services	4,408	7,927	6,193	(3,519)	-44.4%	1,734	28.0%
Total operating revenues	<u>86,515</u>	<u>88,576</u>	<u>87,151</u>	<u>(2,061)</u>	<u>-2.3%</u>	<u>1,425</u>	<u>1.6%</u>
Operating Expenses:							
Cost of water	23,887	30,825	21,588	(6,938)	-22.5%	9,237	42.8%
Personal services	17,594	17,095	16,855	499	2.9%	240	1.4%
Maintenance and other	21,269	15,102	21,371	6,167	40.8%	(6,269)	-29.3%
Depreciation and amortization	9,359	9,839	12,331	(480)	-4.9%	(2,492)	-20.2%
Permit fees	5,549	5,551	5,568	(2)	-0.04%	(17)	-0.3%
Commercial Services	1,684	1,991	1,709	(307)	-15.4%	282	16.5%
Total operating expenses	<u>79,342</u>	<u>80,403</u>	<u>79,422</u>	<u>(1,061)</u>	<u>-1.3%</u>	<u>981</u>	<u>1.2%</u>
Operating income	7,173	8,173	7,729	(1,000)	-12.2%	444	5.7%
Nonoperating Income (Expenses):							
Interest income	193	294	302	(101)	-34.4%	(8)	-2.6%
Interest expense	(872)	(1,167)	(1,773)	295	-25.3%	606	-34.2%
Loss on disposition of property	(370)	(55)	(170)	(315)	572.7%	115	-67.6%
Rents	885	1,221	1,345	(336)	-27.5%	(124)	-9.2%
Land sales	-	-	10,000	-	-	(10,000)	-100.0%
Other	(1,409)	(1,667)	(1,402)	258	-15.5%	(265)	18.9%
Income before contributed capital	5,600	6,799	16,031	(1,199)	-17.6%	(9,232)	-57.6%
Capital contributions	247	8,283	2,263	(8,036)	-97.0%	6,020	266.0%
Change in net position	5,847	15,082	18,294	(9,235)	-61.2%	(3,212)	-17.6%
Beginning net position	278,274	263,192	244,898	15,082	5.7%	18,294	7.5%
Ending net position	<u>\$284,121</u>	<u>\$278,274</u>	<u>\$263,192</u>	<u>\$ 5,847</u>	<u>2.1%</u>	<u>\$15,082</u>	<u>5.7%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

Sewer Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position Fiscal Years Ended September 30, 2012, 2011, and 2010 (in thousands)

	2012	2011	2010	Variance			
				2012/2011		2011/2010	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 6,162	\$ 5,774	\$ 5,290	388	6.7%	\$ 484	9.1%
Service charges	10,380	9,880	8,944	500	5.1%	936	10.5%
Maintenance services	86	86	173	-	-	(87)	-50.3%
Other services	697	708	779	(11)	-1.6%	(71)	-9.1%
Total operating revenues	<u>17,325</u>	<u>16,448</u>	<u>15,186</u>	<u>877</u>	<u>5.3%</u>	<u>1,262</u>	<u>8.3%</u>
Operating Expenses:							
Personal services	3,748	3,607	3,735	141	3.9%	(128)	-3.4%
Maintenance and other	3,004	3,642	2,396	(638)	-17.5%	1,246	52.0%
Permit fees	4,273	4,276	4,293	(3)	-0.1%	(17)	-0.4%
Depreciation	1,675	1,660	2,167	15	0.9%	(507)	-23.4%
Commercial Services	1,711	1,610	1,424	101	6.3%	186	13.1%
Total operating expenses	<u>14,411</u>	<u>14,795</u>	<u>14,015</u>	<u>(384)</u>	<u>-2.6%</u>	<u>780</u>	<u>5.6%</u>
Operating income (expenses)	2,914	1,653	1,171	1,261	76.3%	482	41.2%
Nonoperating Income (Expenses):							
Interest income	25	63	50	(38)	-60.3%	13	26.0%
Interest expense	(101)	(102)	(91)	1	-0.1%	(11)	12.1%
Loss on disposition of property	2	(10)	-	12	-120.0%	(10)	100.0%
Other	(1,186)	(601)	(476)	(585)	97.3%	(125)	26.3%
Income (loss) before contributed capital	1,654	1,003	654	651	64.9%	349	53.4%
Capital contributions	185	2,868	310	(2,683)	-93.5%	2,558	825.2%
Change in net position	<u>1,839</u>	<u>3,871</u>	<u>964</u>	<u>(2,032)</u>	<u>-52.5%</u>	<u>2,907</u>	<u>301.6%</u>
Beginning net position	56,475	52,604	51,640	3,871	7.4%	964	1.9%
Ending net position	<u>\$ 58,314</u>	<u>\$ 56,475</u>	<u>\$ 52,604</u>	<u>\$ 1,839</u>	<u>3.3%</u>	<u>\$ 3,871</u>	<u>7.4%</u>

LONG BEACH WATER DEPARTMENT

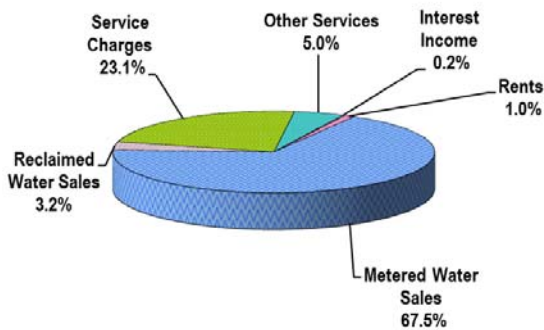
Management's Discussion and Analysis
September 30, 2012 and 2011

Sources of Revenues

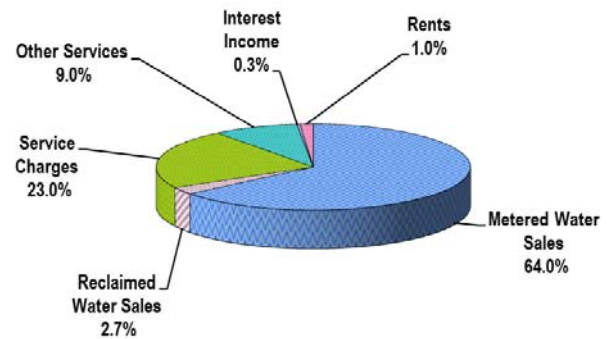
Sources of revenue for fiscal years 2012 and 2011 are shown on the following charts.

Water Fund

2012

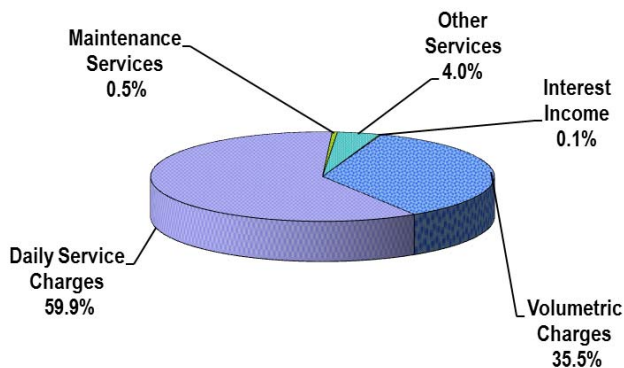


2011

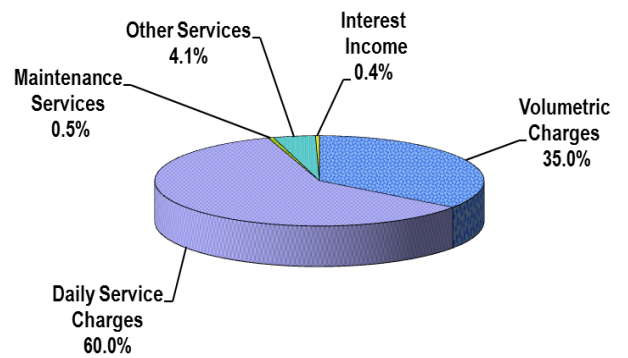


Sewer Fund

2012



2011



LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2012 and 2011

Management Review of the Department's Revenues

Water Fund

Fiscal Year Ended September 30, 2012 Compared to 2011

Total operating revenues were \$86,515 a net decrease of \$2,061 (-2.3 %) over FY2011. The major elements of this net decrease are as follows:

- Metered potable water sales increased by \$1,190 (+2.1%) primarily due to an increase in consumption by 1,547 AF (+2.7%) compared to FY2011. There was no potable water rate increase in FY2012.
- Reclaimed water sales increased by \$296 (+12.0%) compared to FY2011, primarily due to an increase in consumption by 686 AF (+17.3%) in FY2012. There was no reclaimed water rate increase in FY2012.
- Revenue from other services totaled \$4,408, a decrease of \$3,519 (-44.4%) from the prior year. The major factors to this net decrease are as follows:
 - Revenue from unmetered water sales decreased by \$3,199 (-98.4%) due to the conclusion of In-Lieu Groundwater Replenishment Agreements with the Water Replenishment District of Southern California (WRD), whereas the Department agreed to increase purchases of imported water in-lieu of the groundwater pumping in FY2011.
 - Reimbursements from operating the WRD Leo Vander Lans Reclaimed Water Treatment facility decreased by \$193 (-13.6%) compared to FY2011 primarily due to no major equipment purchases and less repair services required in FY2012.

Capital contributions decreased by \$8,036 (-97.0%) compared to FY2011 due primarily to major potable and reclaimed water distribution system facilities completed in FY2011 such as the Long Beach City College South Quad Complex and parking structure, Long Beach Memorial Miller Children's Hospital, Lyons West Gateway apartments, and Douglas Business Park development.

Fiscal Year Ended September 30, 2011 Compared to 2010

Total operating revenues were \$88,576 a net increase of \$1,425 (+1.6 %) over FY2010. The major elements of this net increase are as follows:

- Metered potable water sales decreased by \$241 (-0.4%) primarily due to no increase in water rates in FY2011. Potable water consumption in FY2011 is relatively the same as FY2010.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

- Reclaimed water sales decreased by \$336 (-12.0%) compared to FY2010, primarily due to no increase on reclaimed water rates. In addition, the Department implemented the Interruptible Reclaimed Water Service program, which gave qualifying customers reduced reclaimed water rates in FY2011.
- Daily service charges increased by \$268 (+1.3%) over FY2010 due to the increase of number of customers in FY2011.
- Revenue from other services totaled \$7,927, an increase of \$1,734 (+28.0%) from the prior year. The major factors to this net increase are as follows:
 - Revenue from water sales in connection with an In-Lieu Groundwater Replenishment Agreement with the Water Replenishment District of Southern California (WRD) amounted to \$3,252 in FY2011. No revenue from the same agreement was received in FY2010.
 - Revenue from unmetered water sales decreased by \$2,041 (-46.5%) in FY2011. The net decrease is primarily due to; (1) a prior year WRD reimbursement received for untreated replenishment water purchased from MWD on behalf of WRD pursuant to a Water Purchase Agreement between the Department, Central Basin Municipal Water District (CBMWD), and WRD to replenish the Central Basin aquifer and (2) an increase in sales of potable water to WRD and Orange County Water District (OCWD) for the Alamitos Seawater Intrusion Barrier by \$1,240 (+139.5%).

Sewer Fund

Fiscal Year Ended September 30, 2012 Compared to 2011

Total operating revenues increased \$877 (+5.3%) over FY2011. The key elements of this net increase are as follows:

- Metered water sales revenue increased by \$388 (+6.7%) over FY2011, as a result of a 5% rate increase effective October 1, 2011 and an increase in volumetric sales in AF totaling 489 AF (+1.2%) compared to FY2011
- Service charges revenue increased by \$500 (+5.1%) over FY2011, due to the 5% rate increase effective October 1, 2011.

Capital contributions decreased by \$2,683 (-93.5%) compared to FY2011 due primarily to major sewer collection system facilities completed in FY2011 such as the Long Beach Family Apartments development, Lyons West Gateway apartments, and Douglas Business Park development.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2012 and 2011

Fiscal Year Ended September 30, 2011 Compared to 2010

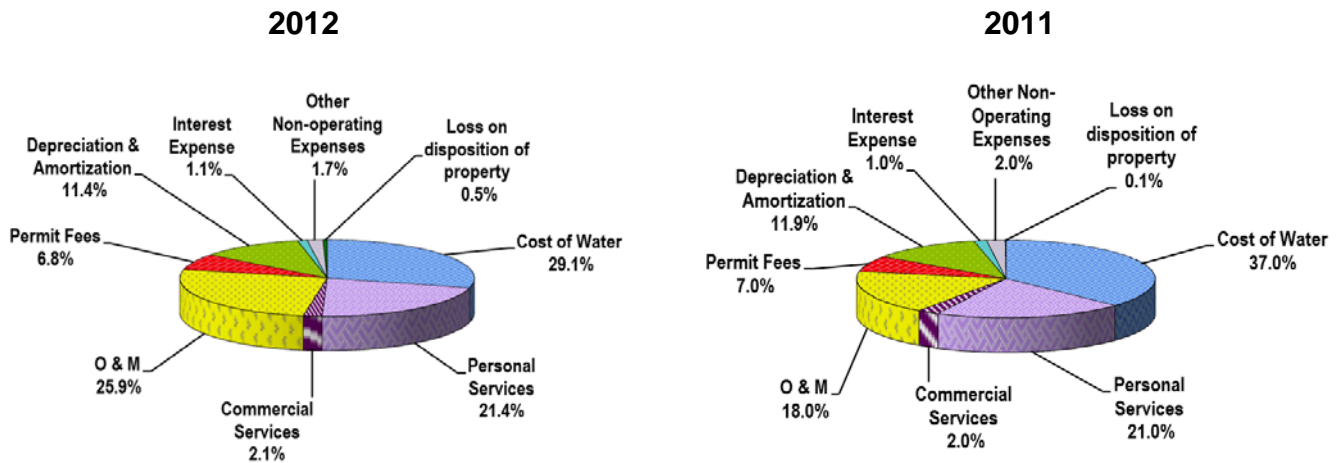
Total operating revenues increased \$1,262 (+8.3%) over FY2010. The key elements of this net increase are as follows:

- Metered water sales and service charges revenue increased by \$484 (+9.1%) and \$936 (+10.5%) over FY2010, respectively, as a result of a 9% rate increase effective October 1, 2010. The increase in volumetric sales was partially offset by the Department's effective water conservation campaigns and programs.
- Maintenance services revenue decreased by \$87 (-50.3%) compared to FY2010. The Department no longer provides maintenance services for the City's storm drain channel pump stations, which accounts for the decrease in revenue.

Functional Expenses

Functional expenses for the 2012 and 2011 fiscal years are shown on the following charts.

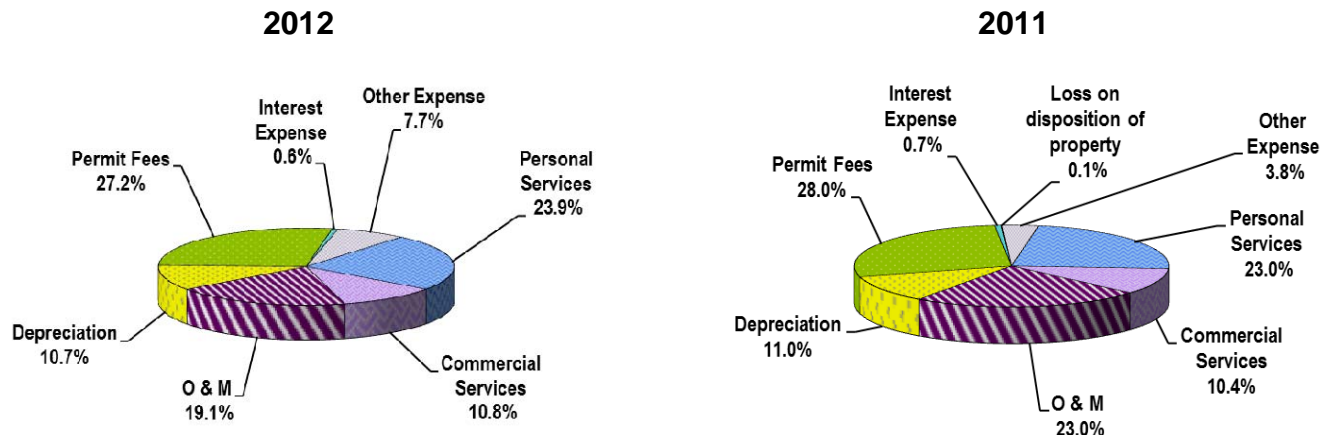
Water Fund



LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2012 and 2011

Sewer Fund



Management Review of the Department's Expenses.

Water Fund

Fiscal Year Ended September 30, 2012 Compared to 2011

FY2012 operating expenses totaled \$79,342, a decrease of \$1,061 (-1.3%) over FY2011. Key elements of this net decrease are as follows:

- Purchased water costs decreased by \$6,938 (-22.5%) due to a decrease in volume of potable water purchased from MWD in connection with the conclusion of the In-Lieu Groundwater Replenishment agreements with WRD in FY2011.
- Labor costs increased by \$499 (+2.9%) over FY2011, as a result of increases in negotiated Cost of Living Allowance (COLA) and increased pension costs.
- Maintenance and other expenses had a net increase of \$6,167 (+40.8%) from FY2011. The net increase is primarily attributable to the following factors:
 - Replenishment assessment (pump tax) costs increased by \$4,317 (+115.1%) due to increased groundwater pumping as a result of the conclusion of In-Lieu Groundwater Replenishment agreements with WRD in FY2011.
 - Laboratory and chemical supplies increased by \$787 (+83.2%) due to an increase in purchases of chemicals used for treating groundwater.
 - Utility services, mainly electricity costs, increased by \$612 (+21.0%) due to an increase in groundwater pumping in FY2012.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

- Materials and supplies costs increased by \$360 (+29.6%) due to an increase in materials used for repair and maintenance of backflow devices, water meters, and chemical equipment.

FY2012 net nonoperating expense totaled \$1,573, a net increase of \$199 (+14.5%) over FY2011. The net increase is primarily due to the following factors:

- Other expenses decreased by \$1,066 (-71%) over FY2011 primarily due to fewer capital improvement projects closed to expense in FY2012.
- Development costs of a new customer information system increased by \$874 (+419%) over FY2011 primarily due to the purchase of software licenses and increase in consultant's costs.
- Loss on disposition of property had a net increase of \$315 (+572.7%) over FY2011 primarily due to a \$342 decrease in proceeds from sale of retired equipment and scrap metals, adjustments reducing inventory by \$338, and a \$415 decrease in losses on retirement of distribution system assets in FY2012.

Fiscal Year Ended September 30, 2011 Compared to 2010

FY2011 operating expenses totaled \$80,403, an increase of \$981 (+1.2%) over FY2010. Key elements of this net increase are as follows:

- Purchased water costs increased by \$9,237 (+42.8%) due to an increase in volume of potable water purchases from MWD for the purpose of in-lieu replenishment through an agreement with WRD. In addition, MWD imposed a 6% rate increase during FY2011.
- Maintenance and other expenses had a net decrease of \$6,269 (-29.3%) from FY2010. The net decrease is primarily attributable to the following major factors:
 - Replenishment assessment (pump tax) costs decreased by \$2,768 (-78.9%) primarily due to a 50.3% decrease in groundwater pumping, reflecting implementation of an In-lieu Groundwater Replenishment Agreement with WRD. The net decrease is partially offset by increases in the replenishment assessment rate of 12.7% for the first three quarters and 19% for the last quarter of FY2011.
 - Utility services, mainly electricity costs, decreased by \$1,107 (-29.1%) due to the decrease in groundwater pumping in FY2011.
 - Laboratory and chemical supplies decreased by \$780 (-45.2%) due to less purchases of chemicals used for treating groundwater.
 - Other taxes and assessments decreased by \$1,290 (-78.9%), reflecting a payment made in FY2010 to County Sanitation District of Los Angeles for an additional wastewater connection fee surcharge.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

- Depreciation and amortization expenses decreased by \$2,492 (-20.2%) over FY2010. This net decrease is primarily due to the increase of fully depreciated assets, particularly the seawater desalination facilities.

FY2011 net nonoperating expense totaled \$1,374, a net decrease of \$9,676 (-116.6%) over FY2010. The net decrease reflects the one-time sale of surplus land adjacent to the Department's J. Will Johnson Water Tank Reservoir in Rancho Dominguez in FY2010.

Sewer Fund

Fiscal Year Ended September 30, 2012 Compared to 2011

FY2012 operating expenses totaled \$14,411, a decrease of \$384 (-2.6%) over FY2011. Key elements of this net decrease are as follows:

- Maintenance and other expenses decreased by \$638 (-17.5%) over FY2011. The decrease is mostly attributable to the following major factors:
 - Professional services decreased by \$93 (-100.0%) which is primarily due to legal services in FY2011 in connection with the issuance of the Subordinate Sewer Revolving Line of Credit.
 - Technical services and inspection services expenses decreased by \$254 (87.0%) and \$366 (-100%), respectively, in FY2012. These decreases are due to contracted CCTV services conducted on the sewer pipe system in FY2011. Similar services were not conducted in FY2012.
- Personal services expenses increased by \$141 (+3.9%) over FY2011 due to increases in negotiated Cost of Living Allowance (COLA) and increased pension costs.

FY2012 net nonoperating expense totaled \$1,260, a net increase of \$610 (+93.8%) over FY2011, which was primarily due to an increase in development costs for a new customer information system totaling to \$642 (+419.3%).

Fiscal Year Ended September 30, 2011 Compared to 2010

FY2011 operating expenses totaled \$14,795, an increase of \$780 (+5.6%) over FY2010. Key elements of this net increase are as follows:

- Maintenance and other expenses increased by \$1,246 (+52.0%) over FY2010. The increase is mostly attributable to the following major factors:
 - Technical services and inspection services expenses increased by \$267 (+1,079.8%) and \$366 (+100%), respectively, in FY2011. These increases are due to contracted CCTV on the sewer pipe system.
 - Materials and supplies, paving services, refuse services, and other contractual services increased by \$369 (+77.7%) due primarily to an increase in sewer line repairs in FY2011.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

- Depreciation expense decreased by \$507 (-23.4%) compared to FY2010.

FY2011 net nonoperating expense totaled \$650, a net increase of \$133 (+25.7%) over FY2010, which was primarily due to development costs for a new utility billing system.

Capital Assets and Debt Administration

Capital assets. The Department's capital assets (net of accumulated depreciation and amortization) as of September 30, 2012 amounted to \$273,317 for the Water Fund and \$58,465 for the Sewer Fund. Capital assets include investments in production, transmission, patent, seawater desalination projects, and distribution related facilities, as well as general items such as office equipment and furniture. For FY2012, net capital assets increased \$6,254 (+2.3%) and \$5,304 (+10.0%) for Water Fund and Sewer Fund, respectively. The net increase is due primarily to machinery and equipment purchases and capitalization of major potable water and reclaimed water distribution systems, and sewer collection systems.

The Department's capital assets are summarized as follows for the years ended September 30, 2012, 2011, and 2010 (in thousands):

Long Beach Water Department Capital Assets September 30, 2012, 2011, and 2010 (in thousands)							
	2012	2011	2010	Variance			
				2012/2011		2011/2010	
				Amount	%	Amount	%
Land	\$ 11,248	\$ 11,248	\$ 11,248	\$ -	-	\$ -	-
Water Rights	40	40	40	-	-	-	-
Patent - Desalination	815	815	815	-	-	-	-
Seawater Desalination Project	4,614	4,614	4,614	-	-	-	-
Buildings, structures, and facilities	113,830	113,080	111,749	750	0.7%	1,331	1.2%
Distribution/collection systems	477,959	468,243	436,825	9,716	2.1%	31,418	7.2%
Machinery and equipment	18,556	18,333	18,028	223	1.2%	305	1.7%
Construction in progress	23,556	14,706	25,362	8,850	60.2%	(10,656)	-42.0%
Total capital assets	650,618	631,079	608,681	19,539	3.1%	22,398	3.7%
Less: accumulated depreciation and amortization	(318,836)	(310,855)	(301,174)	(7,981)	2.6%	(9,681)	3.2%
Net capital assets	<u>\$ 331,782</u>	<u>\$ 320,224</u>	<u>\$ 307,507</u>	<u>\$ 11,558</u>	<u>3.61%</u>	<u>\$ 12,717</u>	<u>4.14%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

The Department's capital assets are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2012, 2011, and 2010:

Long Beach Water Department Capital Assets September 30, 2012, 2011, and 2010 (in thousands)							
Water Fund	2012	2011	2010	Variance			
				2012/2011		2011/2010	
				Amount	%	Amount	%
Land	\$ 11,248	\$ 11,248	\$ 11,248	\$ -	-	\$ -	-
Water Rights	40	40	40	-	-	-	-
Patent - Desalination	815	815	815	-	-	-	-
Seawater Desalination Project	4,614	4,614	4,614	-	-	-	-
Buildings, structures, and facilities	108,149	107,399	106,068	750	0.7%	1,331	1.3%
Distribution/collection systems	286,747	282,159	255,488	4,588	1.6%	26,671	10.4%
Machinery and equipment	14,275	14,012	13,860	263	1.9%	152	1.1%
Construction in progress	20,186	11,891	23,942	8,295	69.8%	(12,051)	-50.3%
Total capital assets	446,074	432,178	416,075	13,896	3.2%	16,103	3.9%
Less: accumulated depreciation and amortization	(172,757)	(165,115)	(156,787)	(7,642)	4.6%	(8,328)	5.3%
Net capital assets	\$ 273,317	\$ 267,063	\$ 259,288	\$ 6,254	2.3%	\$ 7,775	3.0%
Sewer Fund							
Buildings, structures, and facilities	\$ 5,681	\$ 5,681	\$ 5,681	\$ -	-	\$ -	-
Distribution/collection systems	191,212	186,084	181,337	5,128	2.8%	4,747	2.6%
Machinery and equipment	4,281	4,321	4,168	(40)	-0.9%	153	3.7%
Construction in progress	3,370	2,815	1,420	555	19.7%	1,395	98.2%
Total capital assets	204,544	198,901	192,606	5,643	2.8%	6,295	3.3%
Less: accumulated depreciation	(146,079)	(145,740)	(144,387)	(339)	0.2%	(1,353)	0.9%
Net capital assets	\$ 58,465	\$ 53,161	\$ 48,219	\$ 5,304	10.0%	\$ 4,942	10.2%

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2012 and 2011

Long-term debt. As of September 30, 2012, the Department had total long-term debt outstanding of \$36,507 for the Water Fund and \$6,000 for the Sewer Fund. All debt is supported by Water Fund revenues and Sewer Fund revenues. Total Department outstanding debt as of September 30, 2012, 2011, and 2010 is summarized as follows:

Long Beach Water Department Summary of Long-Term Debt September 30, 2012, 2011, and 2010 (in thousands)							
Water Fund	2012	2011	2010	Variance			
				2012/2011		2011/2010	
				Amount	%	Amount	%
Revenue refunding bonds	\$ 35,165	\$ 27,425	\$ 27,915	7,740	28.2%	(490)	-1.8%
Commercial paper notes	-	11,000	11,000	(11,000)	-100.0%	-	-
Long-term debt outstanding	35,165	38,425	38,915	(3,260)	-8.5%	(490)	-1.3%
Less:							
Unamortized bond discount	(19)	(26)	(33)	7	-26.9%	7	-21.2%
Unamortized bond premium	3,877	2,800	3,023	1,077	38.5%	(223)	-7.4%
Unamortized loss on refunding	(2,516)	(2,800)	(3,084)	284	-10.1%	284	-9.2%
Total long-term debt	\$ 36,507	\$ 38,399	\$ 38,821	(1,892)	-4.9%	(422)	-1.1%
Sewer Fund							
Commercial paper notes	\$ -	\$ -	\$ 4,000	-	-	(4,000)	-100%
Revolving line of credit	6,000	6,000	-	-	-	6,000	100%
Total long-term debt	\$ 6,000	\$ 6,000	\$ 4,000	-	-	2,000	50%

The Department maintains AA+ credit ratings from Standard & Poor's for the Water and Sewer Funds. In FY2012 the Department issued \$9,850 Water Revenue Bonds, Series 2012A, at a premium to retire \$11,000 outstanding Subordinate Water Revenue Commercial Paper notes scheduled to expire on October 1, 2012. Additional information on the Department's long-term debt can be found in note 4 of this report.

Economic Factors and Next Year's Budget and Rates

The Board of Water Commissioners (Board) approved the budget for the fiscal year-end September 30, 2013, with budgeted expenditures totaling approximately \$100.2 million and \$21.6 million for the Water Fund and Sewer Fund, respectively. Budgeted expenditures include capital improvement program expenditures and Water Fund debt service. There were no water and sewer rate increases for fiscal year 2013 (FY2013).

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2012 and 2011

Requests for Information

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

LONG BEACH WATER DEPARTMENT

**Statements of Net Position
September 30, 2012 and 2011**

	2012			2011		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
ASSETS						
Current Assets:						
Pooled cash and cash equivalents	\$ 46,834	6,625	53,459	\$ 48,770	10,018	58,788
Non performing investments	14	4	18	25	8	33
Interest receivable	15	-	15	14	-	14
Customer accounts receivable	6,254	1,021	7,275	6,060	826	6,886
Allowance for doubtful accounts	(365)	(60)	(425)	(417)	(58)	(475)
Due from other funds	226	14	240	-	-	-
Material and supplies inventory	2,414	108	2,522	2,752	110	2,862
Prepaid expense	566	-	566	566	-	566
Restricted assets						
Pooled cash and cash equivalents:						
Funds held in trust	715	-	715	680	-	680
1997 bond service fund	805	-	805	123	-	123
2010 bond service fund	442	-	442	601	-	601
2012 bond service fund	77	-	77	-	-	-
Sub-total pooled cash and cash equivalents	2,039	-	2,039	1,404	-	1,404
Non-pooled cash equivalents	3,119	-	3,119	3,106	-	3,106
Total restricted assets	5,158	-	5,158	4,510	-	4,510
Total current assets	61,116	7,712	68,828	62,280	10,904	73,184
Noncurrent Assets:						
Capital assets:						
Land	11,248	-	11,248	11,248	-	11,248
Water rights	40	-	40	40	-	40
Patent desalination	815	-	815	815	-	815
Buildings, structures and facilities	112,763	5,681	118,444	112,014	5,681	117,695
Distribution/collection systems	286,747	191,212	477,959	282,159	186,084	468,243
Machinery and equipment	14,275	4,281	18,556	14,012	4,321	18,333
Construction in progress	20,186	3,370	23,556	11,891	2,815	14,706
Total capital assets	446,074	204,544	650,618	432,178	198,901	631,079
Less: Accumulated depreciation and amortization	(172,757)	(146,079)	(318,836)	(165,115)	(145,740)	(310,855)
Total capital assets, net	273,317	58,465	331,782	267,063	53,161	320,224
Other assets, net of amortization						
Deferred charges	796	136	932	686	218	904
Total noncurrent assets	274,113	58,601	332,714	267,749	53,379	321,128
Total assets	335,229	66,313	401,542	330,029	64,283	394,312
LIABILITIES						
Current Liabilities:						
Accounts payable	\$ 9,674	1,806	11,480	\$ 9,876	1,611	11,487
Accrued wages payable	376	107	483	528	93	621
Deferred revenue	-	-	-	69	-	69
Advances from developers	185	86	271	199	104	303
Accrued interest payable	546	-	546	522	-	522
Long-term debt due within one year	2,110	-	2,110	490	-	490
Customer deposits	710	-	710	672	-	672
Noncurrent Liabilities:						
Long-term debt, net of current portion	36,507	6,000	42,507	38,399	6,000	44,399
Accrued site restoration cost	1,000	-	1,000	1,000	-	1,000
Total Liabilities	51,108	7,999	59,107	51,755	7,808	59,563
NET POSITION						
Net investment in capital assets	237,793	52,465	290,258	228,196	47,378	275,574
Restricted for:						
Bond Service	1,324	-	1,324	724	-	724
Bond Reserve	26	-	26	12	-	12
Unrestricted	44,978	5,849	50,827	49,342	9,097	58,439
Total Net Position	\$ 284,121	58,314	342,435	\$ 278,274	56,475	334,749

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

**Statements of Revenues, Expenses,
and Changes in Fund Net Position
Years Ended September 30, 2012 and 2011**

	2012			2011		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues:						
Metered water sales	\$ 59,118	6,162	65,280	\$ 57,928	5,774	63,702
Reclaimed water sales	2,766	-	2,766	2,470	-	2,470
Service charges	20,223	10,380	30,603	20,251	9,880	30,131
Maintenance services	-	86	86	-	86	86
Other services	4,408	697	5,105	7,927	708	8,635
Total operating revenues	<u>86,515</u>	<u>17,325</u>	<u>103,840</u>	<u>88,576</u>	<u>16,448</u>	<u>105,024</u>
Operating Expenses:						
Cost of water	23,887	-	23,887	30,825	-	30,825
Personal services	17,594	3,748	21,342	17,095	3,607	20,702
Commercial services	1,684	1,711	3,395	1,991	1,610	3,601
Maintenance and other	21,269	3,004	24,273	15,102	3,642	18,744
Permit fees	5,549	4,273	9,822	5,551	4,276	9,827
Depreciation and amortization	9,359	1,675	11,034	9,839	1,660	11,499
Total operating expenses	<u>79,342</u>	<u>14,411</u>	<u>93,753</u>	<u>80,403</u>	<u>14,795</u>	<u>95,198</u>
Operating income (loss)	<u>7,173</u>	<u>2,914</u>	<u>10,087</u>	<u>8,173</u>	<u>1,653</u>	<u>9,826</u>
Non-operating Income (Expense):						
Interest income	193	25	218	294	63	357
Interest expense	(872)	(101)	(973)	(1,167)	(102)	(1,269)
Gain (Loss) on disposition of property	(370)	2	(368)	(55)	(10)	(65)
Rental income	885	-	885	1,221	-	1,221
Other	(1,409)	(1,186)	(2,595)	(1,667)	(601)	(2,268)
Total non-operating income (expense)	<u>(1,573)</u>	<u>(1,260)</u>	<u>(2,833)</u>	<u>(1,374)</u>	<u>(650)</u>	<u>(2,024)</u>
Income (loss) before contributed capital	5,600	1,654	7,254	6,799	1,003	7,802
Contributed capital	<u>247</u>	<u>185</u>	<u>432</u>	<u>8,283</u>	<u>2,868</u>	<u>11,151</u>
Changes in net position	5,847	1,839	7,686	15,082	3,871	18,952
Net position at beginning of year	<u>278,274</u>	<u>56,475</u>	<u>334,749</u>	<u>263,192</u>	<u>52,604</u>	<u>315,796</u>
Net position at end of year	<u>\$ 284,121</u>	<u>58,314</u>	<u>342,435</u>	<u>\$ 278,274</u>	<u>56,475</u>	<u>334,749</u>

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

Statements of Cash Flows Years Ended September 30, 2012 and 2011

	2012			2011		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Cash flows from operating activities:						
Cash received from customers	\$ 85,931	17,123	103,054	\$ 88,216	16,398	104,614
Cash paid to employees	(17,746)	(3,735)	(21,481)	(17,554)	(3,775)	(21,329)
Cash paid for water	(25,826)	-	(25,826)	(27,521)	-	(27,521)
Cash paid for goods and services	(20,840)	(4,518)	(25,358)	(18,202)	(4,139)	(22,341)
Cash paid for permit fees	(5,549)	(4,273)	(9,822)	(5,551)	(4,276)	(9,827)
Other operating cash received	(988)	(1,207)	(2,195)	(937)	(611)	(1,548)
Net cash provided by operating activities	<u>14,982</u>	<u>3,390</u>	<u>18,372</u>	<u>18,452</u>	<u>3,597</u>	<u>22,049</u>
Cash flows from capital and related financing activities:						
Proceeds from refunding issue	9,850	-	9,850	-	6,000	6,000
Payment for commercial paper	(11,000)	-	(11,000)	-	(4,000)	(4,000)
Original issuance premium	1,342	-	1,342	-	-	-
Payments for issuance costs	(191)	-	(191)	-	-	-
Proceeds from sale of capital assets	93	23	116	435	-	435
Contributions in aid of construction	339	185	524	8,469	2,868	11,337
Payments for capital acquisitions	(15,138)	(6,959)	(22,097)	(17,550)	(6,628)	(24,178)
Principal repayments-bonds	(490)	-	(490)	-	-	-
Interest payments	(1,267)	(57)	(1,324)	(692)	(21)	(713)
Net cash used for capital and related financing activities	<u>(16,462)</u>	<u>(6,808)</u>	<u>(23,270)</u>	<u>(9,338)</u>	<u>(1,781)</u>	<u>(11,119)</u>
Cash flows from investing activities:						
Purchase of investments	-	-	-	-	1,864	1,864
Interest income received	192	25	217	280	63	343
Net cash provided by investing activities	<u>192</u>	<u>25</u>	<u>217</u>	<u>280</u>	<u>1,927</u>	<u>2,207</u>
Net increase (decrease) in cash and cash equivalents	(1,288)	(3,393)	(4,681)	9,394	3,743	13,137
Cash and cash equivalents, October 1	<u>53,280</u>	<u>10,018</u>	<u>63,298</u>	<u>43,886</u>	<u>6,275</u>	<u>50,161</u>
Cash and cash equivalents, September 30	<u>\$ 51,992</u>	<u>6,625</u>	<u>58,617</u>	<u>\$ 53,280</u>	<u>10,018</u>	<u>63,298</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 7,173	2,914	10,087	\$ 8,173	1,653	9,826
Adjustments to reconcile operating income (expense) to net cash provided by operating activities:						
Depreciation expense and amortization	9,359	1,675	11,034	9,839	1,660	11,499
Amortization of deferred charges	38	-	38	38	-	38
(Increase) property rental and other income	(988)	(1,207)	(2,195)	(935)	(611)	(1,546)
(Increase) decrease in customer accounts receivable	(327)	(189)	(516)	(364)	(50)	(414)
Increase in due from City of Long Beach	(226)	(14)	(240)	-	-	-
Increase in material and supplies inventory	338	2	340	(230)	(28)	(258)
Increase (decrease) in accounts and retainage payable	(202)	195	(7)	2,472	1,142	3,614
Increase (decrease) in accrued wages payable	(152)	14	(138)	(460)	(169)	(629)
Increase (decrease) in deferred revenue	(69)	-	(69)	2	-	2
Increase in due to City of Long Beach	-	-	-	(85)	-	(85)
Increase (decrease) in customer deposits	38	-	38	2	-	2
Total adjustments	<u>7,809</u>	<u>476</u>	<u>8,285</u>	<u>10,279</u>	<u>1,944</u>	<u>12,223</u>
Net cash provided by operating activities	<u>\$ 14,982</u>	<u>3,390</u>	<u>18,372</u>	<u>\$ 18,452</u>	<u>3,597</u>	<u>22,049</u>
Supplemental schedule of noncash transactions:						
Contributed capital assets	-	-	-	7,392	2,742	10,134
Capitalized interest	490	38	528	200	6	206
Accrued capital asset costs	1,803	42	1,845	2,090	451	2,541
Amortization of bond premium, net	70	82	152	106	82	188
Accrued cost of water purchases	3,044	-	3,044	3,390	-	3,390

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

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

Description of the Department

The Long Beach Water Department (the Department) was established in 1911 through adoption of the City Charter of the City of Long Beach, California (the City) to regulate and control the use, sale, and distribution of water owned or controlled by the City. In February 1988, the City Council of the City of Long Beach voted to transfer administrative, operational, and maintenance responsibility of the City's sewer system to the Department. In addition, in April 1990, the citizens of Long Beach passed a City Charter amendment that allowed greater autonomy of the Department in administering sewer operations. For accounting purposes, the transfer was effective July 1, 1988.

The Department services the City's sewer system that consists of 712 miles of sewer mains, 16,148 manholes, and 28 sewage pumping stations. This system is capable of transporting for treatment approximately 40 million gallons of raw sewage daily.

The Department obtains potable water for distribution from two sources. Historically, approximately half of the City's water is purchased from the Metropolitan Water District of Southern California; the other half is pumped from the Department's own groundwater wells. Potable water is stored in two reservoirs with a combined capacity of 105.6 million gallons. The Department also delivered over 2.2 billion gallons of reclaimed water to various users in the City.

Reporting Entity

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

The accompanying Department financial statements include the Water and Sewer Fund operations of the City of Long Beach. The statements of the Department are intended to present the financial position, and changes in financial position, and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City, as of September 30, 2012 and 2011, and the changes in its financial position, and, where applicable, its cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

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

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

Basis of Accounting

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

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

Implementation of New Accounting Pronouncements

The following summarizes implemented GASB pronouncements and their impact, if any, on the financial statements:

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The requirements of this Statement should improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government net position. Application of this Statement is effective for the City's fiscal year ending September 30, 2013. The Department has chosen to early implement this statement.

In June 2011, GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and when hedge accounting should continue to be applied. Application of this Statement was effective for the City's fiscal year ended September 30, 2012, and the provisions of GASB 64 did not have a material impact to the Department's financial statements.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

The City is currently analyzing its accounting practices to determine the potential impact on the Department's financial statements for the following GASB Statements:

In November 2010, GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The requirement of this Statement improves financial reporting by establishing consistent recognition, measurement, and disclosure requirements for Service Concession Arrangements. The application of this Statement should improve the comparability of financial statements between governments. Application of this Statement is effective for the City's fiscal year ending September 30, 2013.

In November 2010, GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus. The requirements of this Statement should result in financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and any equity interest transactions of the City. The requirements of this Statement will improve financial reporting by ensuring that the City's financial statements do not understate the City's financial position and provide for a more consistent and understandable display of any equity interests that the City has in a component unit. Application of this Statement is effective for the City's fiscal year ending September 30, 2013.

In November 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants (AICPA) Pronouncements. The requirements of this Statement should improve financial reporting by contributing to GASB's efforts to codify all sources of Generally Accepted Accounting Principles for state and local governments so that they derive from a single source. The Statement should result in a more consistent application of applicable guidance in the financial statements of state and local governments. Application of this Statement is effective for the City's fiscal year ending September 30, 2013.

In March of 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

In March of 2012, GASB issued Statement No. 66, Technical Corrections 2012 - an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

In June of 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. As such, the statement applies to CalPERS and not the City. The Statement is effective for financial statements for fiscal years beginning after June 15, 2013.

In June of 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The requirements of this Statement will improve the decision-usefulness of information in employer financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Pooled Cash, Cash Equivalents, and Other Investments

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

The Department has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and cash equivalents, regardless of their maturity.

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Material and Supplies Inventory

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

Capital Assets

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

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

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

Capitalized Interest

In fiscal year 2012, the Department incurred interest expense on Revenue Refunding Bonds and Revenue Commercial Paper notes in the amount of \$1,292 and \$57 for the Water and Sewer Funds, respectively, of which \$490 was capitalized for Water Fund and \$38 for Sewer Fund.

In fiscal year 2011, the Department incurred interest expense on Revenue Refunding Bonds and Revenue Commercial Paper notes in the amount of \$1,260 and \$27 for the Water and Sewer Funds, respectively, of which \$199 was capitalized for Water Fund and \$6 for Sewer Fund.

Capital Contributions

Advances received for construction of plant assets are recorded as deferred revenue when received. As construction progresses, advanced amounts equivalent to capitalized expenditures are recorded as capital contributions and included as other nonoperating revenue. Assets constructed by developers and contributed to the Department are capitalized at fair market value. The Department includes capital contributions for construction of plant assets as a nonoperating revenue in the accompanying statements of revenues, expenses, and changes in fund net position.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Revenue Recognition

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

Operating Expenses

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

Employee Benefits

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

Pension Plan and Postretirement Benefits

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Retired Employee Health Insurance Program. This program is a single-employer defined benefit healthcare plan (see note 6).

Restricted Assets

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

Risk Management

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

Estimates

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

Net Position

The Department has adopted a policy of generally utilizing restricted funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

The Department's net position are classified into the following net position categories:

Net Investment in Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted - Amounts restricted for bond indenture requirements.

Unrestricted - All other categories of net position

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

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

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

Substantially all of the Department's cash, including restricted cash, is deposited with the City Treasurer under the City Treasurer's pooled cash and investment program. Individual pool participants' cash and investments are not specifically identifiable. Interest income earned on pooled cash and investments is allocated monthly to pool participants based on their average daily cash balances. The Department is required by the City Charter to participate in the City Treasurer's cash and investment pool. The City's investment policy, in compliance with the California Government Code, authorizes the City Treasurer to invest pooled cash in obligations issued or guaranteed by the federal government and its agencies and instrumentalities, high-quality commercial paper and medium-term corporate notes rated by Standard and Poor's Corporation or Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified investment management companies.

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

<u>Water Fund</u>	2012	2011
Equity in the City of Long Beach's investment pool	\$ 48,873	\$ 50,174
Non performing investments	14	25
Non-pooled cash equivalents	3,119	3,106
Total cash and investments	<u>\$ 52,006</u>	<u>\$ 53,304</u>
<u>Sewer Fund</u>	2012	2011
Equity in the City of Long Beach's investment pool	\$ 6,625	\$ 10,018
Non performing investments	4	8
Total cash and investments	<u>\$ 6,629</u>	<u>\$ 10,026</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

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

Water Fund	2012	2011
Unrestricted cash and investments	\$ 46,848	\$ 48,794
Restricted cash and investments		
Water Trust Fund	715	680
Bond Service Fund	1,324	724
Bond Reserve Fund	3,119	3,106
Total restricted cash and investments	5,158	4,510
Total cash and investments	\$ 52,006	\$ 53,304
Sewer Fund	2012	2011
Unrestricted cash and investments	\$ 6,629	\$ 10,026
Total cash and investments	\$ 6,629	\$ 10,026

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

The following table identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local agency bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years *	30%	10%
Time certificates of deposit	5 years *	100%	10%
Repurchase agreements	90 days	100%	None
Reverse repurchase agreements	92 days	20%	None
Securities lending program	92 days	20%	None
Medium-term notes	5 years *	30%	10%
Money market funds	N/A	20%	10%
Local agency investment fund (LAIF)	N/A	None	\$40 million per account
Asset-backed securities	5 years	20%	None
Mortgage-backed securities	5 years	20%	None

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

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

The City had no investments with values that were highly sensitive to interest rate risk changes as of September 30, 2012 and 2011. Highly sensitive investments are investments whose

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2012 and 2011:

Investment Type	2012		2011	
		Weighted Average Maturity (in years)		Weighted Average Maturity (in years)
Cash and Investments in City Pool				
Interdepartment Loan				
(Health SAVRS)	\$ 1,833	6.564	\$ 2,111	7.564
U.S. Treasury Bills	111,962	0.247	—	0.000
U.S. Treasury Notes	405,979	0.917	224,058	1.020
Federal Agency Securities	902,311	1.183	1,199,477	1.090
Money Market Account	536	0.003	704	0.003
Local Agency Investment Fund (LAIF)	70,163	0.003	150,096	0.003
Subtotal City Pool	1,492,784		1,576,446	
Cash and Deposits	210,021		192,012	
Outstanding Checks	(15,527)		(14,303)	
Deposit in Transit	20,315		—	
Total City Pool	\$ 1,707,593		\$ 1,754,155	
Nonperforming Short Term Investment	\$ 2,185		\$ 3,962	

At September 30, 2012, the Water Fund and Sewer Fund had equity in the City's pool of \$48,873 and \$6,625, respectively, which represents approximately 2.86% and 0.39%, respectively, for a total departmental equity of \$55,498 or 3.25%.

At September 30, 2011, the Water Fund and Sewer Fund had equity in the City's pool of \$50,174 and \$10,018, respectively, which represents approximately 2.86% and 0.57%, respectively, for a total departmental equity of \$60,192 or 3.43%.

The City's investment pool held Lehman Commercial Paper with a par value of \$20 million, which was not paid when it matured on September 30, 2008. The loss on this nonperforming investment was distributed to all funds in proportion to their equity in the pool. The Water Fund's and Sewer Fund's share of this loss was \$99 and \$30, respectively. The fair market value of this non-performing investment as of September 30, 2012, was \$14 and \$4 for Water and Sewer fund, respectively.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Risks and Uncertainties

The City may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

The City invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to change in economic conditions, including real estate value, delinquencies, or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum rating requirements for commercial paper, asset-backed securities, and medium-term notes is an A rating. Mortgage-backed security issuers must have a minimum AAA rating. State warrants, state treasury notes, or bonds of the State are to be rated at a minimum of A1/Sp-1 for short-term investments and Aa/AA for long-term investments.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Presented on following table are the minimum ratings required by the California Government Code, the City's investment policy, and the actual rating as September 30, 2012 and 2011 for each investment type:

Rating as of year-end 2012					
Investment Type	Minimum legal rating	Total	Not required to be rated	AA+	Unrated
Cash and Investments in City Pool					
Interdepartment Loan					
(Health SAVRS)	N/A	\$ 1,833	1,833	-	-
U.S. Treasury Bills	N/A	111,962	111,962	-	-
U.S. Treasury Notes	N/A	405,979	405,979	-	-
Federal Agency Securities	N/A	902,311	-	902,311	-
Money Market Account	N/A	536	-	536	-
Local Agency Investment Fund (LAIF)	N/A	70,163	-	-	70,163
Subtotal City Pool		<u>1,492,784</u>	<u>519,774</u>	<u>902,847</u>	<u>70,163</u>
Cash and Deposits		210,021	-	-	210,021
Outstanding Checks		(15,527)	-	-	(15,527)
Deposit in Transit		20,315	-	-	20,315
Total City Pool		<u>\$ 1,707,593</u>	<u>519,774</u>	<u>902,847</u>	<u>284,972</u>
Nonperforming Short-Term Investment	N/A	<u>\$ 2,185</u>	<u>-</u>	<u>-</u>	<u>2,185</u>

Rating as of year-end 2011					
Investment Type	Minimum legal rating	Total	Not required to be rated	AAA	Unrated
Cash and Investments in City Pool					
Interdepartment Loan					
(Health SAVRS)	N/A	\$ 2,111	2,111	-	-
U.S. Treasury Notes	N/A	224,058	224,058	-	-
Federal Agency Securities	N/A	1,199,477	-	1,199,477	-
Money Market Account	N/A	704	-	704	-
Local Agency Investment Fund (LAIF)	N/A	150,096	-	-	150,096
Subtotal City Pool		<u>1,576,446</u>	<u>226,169</u>	<u>1,200,181</u>	<u>150,096</u>
Cash and Deposits		192,012	-	-	192,012
Outstanding Checks		(14,303)	-	-	(14,303)
Total City Pool		<u>\$ 1,754,155</u>	<u>226,169</u>	<u>1,200,181</u>	<u>327,805</u>
Nonperforming Short Term Investment	N/A	<u>\$ 3,962</u>	<u>-</u>	<u>-</u>	<u>3,962</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

The Department's non-pooled cash and cash equivalents are \$2,595 and \$2,567 for September 30, 2012 and 2011, respectively, which are not required to be rated.

Concentration of Credit Risk

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

Issuer	Investment type	Reported amount	
		2012	2011
Federal Farm Credit Bank	Federal agency securities	\$ 161,175	241,381
Federal Home Loan Bank	Federal agency securities	245,103	365,101
Federal Home Loan Mortgage Corporation	Federal agency securities	181,000	292,853
Federal National Mortgage Association	Federal agency securities	315,033	300,142
U.S. Treasury	U.S. Treasury notes & bills	517,941	224,058
Local Agency Investment Fund	State pool investment	70,163	150,096

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank.

As of September 30, 2012, the City reported deposits of \$210 million less \$15.5 million for checks outstanding. As of September 30, 2011, the City's deposits were \$192.0 million less \$14.3 for checks outstanding.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Investment in State Investment Pool

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

Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2012 and 2011.

Note 3 – Capital Assets

Capital assets at September 30, 2012 and 2011 were as follows:

Water Fund	Balance September 30, 2010	Additions	Deletions And Retirements	Balance September 30, 2011	Additions	Deletions And Retirements	Balance September 30, 2012
Capital assets, not being depreciated:							
Land	11,248	-	-	11,248	-	-	11,248
Construction in progress	23,942	18,942	(30,993)	11,891	15,878	(7,583)	20,186
Water Rights	40	-	-	40	-	-	40
Total capital assets, not being depreciated	35,230	18,942	(30,993)	23,179	15,878	(7,583)	31,474
Capital assets, being depreciated:							
Buildings, structures and facilities	110,682	1,331	-	112,013	1,278	(528)	112,763
Patent	815	-	-	815	-	-	815
Distribution/collection systems	255,488	28,078	(1,407)	282,159	5,098	(510)	286,747
Machinery and equipment	13,860	732	(580)	14,012	1,055	(792)	14,275
Total capital assets, being depreciated	380,845	30,141	(1,987)	408,999	7,431	(1,830)	414,600
Less accumulated depreciation for:							
Buildings, structures and facilities	(41,311)	(2,789)	-	(44,100)	(2,805)	525	(46,380)
Patent	(163)	(41)	-	(204)	(41)	-	(245)
Distribution/collection systems	(102,032)	(6,179)	965	(107,246)	(5,712)	447	(112,511)
Machinery and equipment	(13,281)	(830)	546	(13,565)	(801)	745	(13,621)
Total accumulated depreciation	(156,787)	(9,839)	1,511	(165,115)	(9,359)	1,717	(172,757)
Total capital assets, being depreciated, net	224,058	20,302	(477)	243,884	(1,928)	(113)	241,843
Total Water Fund capital assets, net	259,288	39,244	(31,469)	267,063	13,950	(7,696)	273,317

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2012 and 2011 (in thousands of dollars)

Sewer Fund	Balance September 30, 2010	Additions	Deletions And Retirements	Balance September 30, 2011	Additions	Deletions And Retirements	Balance September 30, 2012
Capital assets, not being depreciated:							
Construction in progress	1,420	6,585	(5,190)	2,815	6,729	(6,174)	3,370
Total capital assets, not being depreciated	1,420	6,585	(5,190)	2,815	6,729	(6,174)	3,370
Capital assets, being depreciated:							
Buildings, structures and facilities	5,681	-	-	5,681	-	-	5,681
Distribution/collection systems	181,337	4,928	(181)	186,084	6,326	(1,198)	191,212
Machinery and equipment	4,168	290	(137)	4,321	98	(138)	4,281
Total capital assets, being depreciated	191,186	5,218	(318)	196,086	6,424	(1,336)	201,174
Less accumulated depreciation for:							
Buildings, structures and facilities	(1,135)	(111)	-	(1,246)	(111)	-	(1,357)
Distribution/collection systems	(139,973)	(1,379)	170	(141,182)	(1,383)	1,198	(141,367)
Machinery and equipment	(3,279)	(170)	137	(3,312)	(181)	138	(3,355)
Total accumulated depreciation	(144,387)	(1,660)	307	(145,740)	(1,675)	1,336	(146,079)
Total capital assets, being depreciated, net	46,799	3,558	(11)	50,346	4,749	-	55,095
Total Sewer Fund capital assets, net	48,219	10,143	(5,201)	53,161	11,478	(6,174)	58,465
Combined Total	Balance September 30, 2010	Additions	Deletions And Retirements	Balance September 30, 2011	Additions	Deletions And Retirements	Balance September 30, 2012
Capital assets, not being depreciated:							
Land	11,248	-	-	11,248	-	-	11,248
Construction in progress	25,362	25,527	(36,183)	14,706	23,585	(14,735)	23,556
Water Rights	40	-	-	40	-	-	40
Total capital assets, not being depreciated	36,650	25,527	(36,183)	25,994	23,585	(14,735)	34,844
Capital assets, being depreciated:							
Buildings, structures and facilities	116,363	1,331	-	117,694	1,278	(528)	118,444
Patent	815	-	-	815	-	-	815
Distribution/collection systems	436,825	33,006	(1,588)	468,243	11,424	(1,708)	477,959
Machinery and equipment	18,028	1,022	(717)	18,333	1,153	(930)	18,556
Total capital assets, being depreciated	572,031	35,359	(2,305)	605,085	13,855	(3,166)	615,774
Less accumulated depreciation for:							
Buildings, structures and facilities	(42,446)	(2,900)	-	(45,346)	(2,916)	525	(47,737)
Patent	(163)	(41)	-	(204)	(41)	-	(245)
Distribution/collection systems	(242,005)	(7,558)	1,135	(248,428)	(7,095)	1,645	(253,878)
Machinery and equipment	(16,560)	(1,000)	683	(16,877)	(982)	883	(16,976)
Total accumulated depreciation	(301,174)	(11,499)	1,818	(310,855)	(11,034)	3,053	(318,836)
Total capital assets, being depreciated, net	270,856	23,860	(488)	294,230	2,821	(113)	296,938
Total Department capital assets, net	307,507	49,387	(36,670)	320,224	26,406	(14,848)	331,782

In FY2012, the Department completed several projects as part of ongoing improvements to its water distribution system and sewer collection system, totaling \$5,098 for the Water Fund and \$6,326 for the Sewer Fund. These improvements included water cast iron main replacements, water services and meter installations, recycled water service installations and sewer main pipe relining and replacement. In addition, the Department completed several facility improvements totaling \$1,278. These improvements included treatment plant cistern vault rehabilitation, building reroofing and elevator system upgrades. The Department also purchased machinery and

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

equipment which totaled \$1,055 for the Water Fund and \$98 for the Sewer Fund. These machinery and equipment purchases included backhoe and wheel loaders, trucks, a boom lift, and a mobile emergency response trailer.

In FY2011, several major Developer projects totaling \$10,107 were completed and capitalized as additions to the Department's distribution and collection system. These projects includes construction of potable water and reclaimed water distribution systems, and sewer collection systems for the Long Beach City College South Quad Complex and parking structure, Long Beach Memorial Miller Children's Hospital, Lyons West Gateway apartments, and Douglas Business Park. Furthermore, the Department completed major projects as part of ongoing improvements to its current distribution system facilities, which totaled \$14,788 for the Water Fund and \$1,446 for the Sewer Fund. These improvements include ongoing programs for Water Meter replacement, Water Cast Iron Main replacement, Water Services installations, and Sewer Pipe Relining and Replacement. The Department also capitalized enhancements to the Department's building structures and facilities, which amounted to \$1,331. These include rehabilitation of the Cistern 3 East Vault located in the Department's Treatment Plant and improvements on fences surrounding several water wells. In addition, the Department purchased machinery and equipment totaling \$732 for the Water Fund and \$290 for the Sewer Fund. These machinery and equipment purchases included heavy construction equipment such as backhoe loaders, pick-up trucks, and a portable laboratory trailer, which support Water and Sewer operations.

Construction in Progress

Construction in Progress at September 30, 2012 and 2011 includes the following projects:

Project	2012	2011
Water Main Replacement Program	\$ 8,661	\$ 3,200
Seawater Desalination Project	2,295	2,234
Reclaimed Water System	1,152	2,135
Sewer main Replacement Program	3,370	2,815
Other Projects	8,078	4,322
Total Combined Construction in Progress	\$ 23,556	\$ 14,706
Such costs are allocated as follows:		
Water Enterprise Fund	20,186	11,891
Sewer Enterprise Fund	3,370	2,815
Total Water Department	\$ 23,556	\$ 14,706

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal years ended September 30, 2012 and 2011, completed projects were transferred from Construction in Progress as follows:

	2012		2011	
	Water Fund	Sewer Fund	Water Fund	Sewer Fund
Transfers to Capital Assets	\$ 7,153	5,837	\$ 29,497	4,996
Transfers to Expense	430	337	1,496	194
Total	\$ 7,583	6,174	\$ 30,993	5,190

Note 4 – Noncurrent Liabilities:

September 30, 2012	Water Fund			End of year	Due within one year
	Beginning of year	Additions	Reductions		
1997 Water Revenue Refunding Bonds	\$ 5,175	-	-	5,175	1,630
2010 Water Revenue Refunding Bonds	22,740	-	(490)	22,250	125
2012 Water Revenue Refunding Bonds	-	9,850	-	9,850	355
Subordinate Water Revenue Commercial Paper Notes	11,000	-	(11,000)	-	-
	38,915	9,850	(11,490)	37,275	2,110
Less current portion	(490)	(2,110)	490	(2,110)	-
Less 1997 unamortized bond discounts	(26)	-	7	(19)	-
Less 1997 unamortized loss on refunding	(309)	-	86	(223)	-
Add 2010 unamortized bond premium	2,800	-	(255)	2,545	-
Less 2010 unamortized loss on refunding	(2,491)	-	198	(2,293)	-
Add 2012 unamortized bond premium	-	1,342	(10)	1,332	-
Total long-term debt	38,399	9,082	(10,974)	36,507	2,110
Accrued site restoration cost	1,000	-	-	1,000	-
Total noncurrent liabilities	\$ 39,399	9,082	(10,974)	37,507	2,110

September 30, 2012	Sewer Fund			End of year	Due within one year
	Beginning of year	Additions	Reductions		
Sewer Revolving Line of Credit	6,000	-	-	6,000	-
Total noncurrent liabilities	\$ 6,000	-	-	6,000	-

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2012 and 2011 (in thousands of dollars)

September 30, 2011	Water Fund			End of	Due within
Beginning of	Additions	Reductions	year	one year	
1997 Water Revenue Refunding Bonds	\$ 5,175	-	-	5,175	-
2010 Water Revenue Refunding Bonds	22,740	-	-	22,740	490
Subordinate Water Revenue Commercial Paper Notes	11,000	-	-	11,000	-
	38,915	-	-	38,915	490
Less current portion	-	(490)	-	(490)	-
Less 1997 unamortized bond discounts	(33)	-	7	(26)	-
Less 1997 unamortized loss on refunding	(395)	-	86	(309)	-
Add 2010 unamortized bond premium	3,023	-	(223)	2,800	-
Less 2010 unamortized loss on refunding	(2,689)	-	198	(2,491)	-
Total long-term debt	38,821	(490)	68	38,399	490
Accrued site restoration cost	1,000	-	-	1,000	-
Total noncurrent liabilities	\$ 39,821	(490)	68	39,399	490

September 30, 2011	Sewer Fund			End of	Due within
Beginning of	Additions	Reductions	year	one year	
Subordinate Sewer Revenue Commercial Paper Notes	\$ 4,000	-	(4,000)	-	-
Sewer Revolving Line of Credit	-	6,000	-	6,000	-
Total noncurrent liabilities	\$ 4,000	6,000	(4,000)	6,000	-

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

Second Lien Water Revenue Bonds - Series 2012A

On August 30, 2012, the Water Fund issued \$9,850 in Second Lien Water Revenue Bonds, Series 2012A (the Series 2012A Bonds) at a premium of \$1,342 to provide funds to (a) refund, on a current basis, \$11,000 aggregate principal outstanding in Subordinate Water Revenue Commercial Paper Notes, and (b) pay the cost of issuing the Series 2012A Bonds. There is no bond reserve requirement. The objective of this debt refinancing was to take advantage of historically low fixed bond rates, and provide the Department with certainty in its future debt service payment requirements. The Commercial Paper program, as authorized by the Board under Resolution WD-1170, expired on October 1, 2012.

The Bonds bear interest ranging from 2.0% to 5.0% per annum payable on May 1 and November 1 of each year, commencing on November 1, 2012. Principal payments are due every May 1, commencing on May 1, 2013, with bond terms maturing through the year 2027. The initial issuance premium of \$1,342 on the Series 2012 Bonds is reported as an addition to long-term debt and is amortized using the effective-interest-rate method over the life of the Bonds.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Under Board Resolution WD-1300 adopted July 24, 2012 authorizing the issuance and sale of the Series 2012A Bonds, the Board also approved closure of the Senior Lien trust indentures pursuant to which the Department previously issued the Series 1997A City of Long Beach Water Revenue Refunding Bonds and Series 2010A City of Long Beach Water Revenue Refunding Bonds. The Board also irrevocably covenanted that the Department would not issue any additional Parity Obligations in the future that would have a lien on Net Revenues senior to its Subordinate Obligations, including the 2012A Bonds.

The Board, on behalf of the City, has covenanted under the Master Subordinate Indenture, to set rates and charges for the supply of water to its customers sufficient to yield net revenues each year equal to at least equal to 1.10 times the aggregate annual amount of principal and interest due on the Senior Lien Bonds and any Subordinate Obligations, including the Series 2012A Bonds.

Water Revenue Refunding Bonds - Series 2010A

On September 29, 2010, the Water Fund issued \$22,740 in Water Revenue Refunding Bonds, Series 2010A (the Series 2010A Bonds) at a premium of \$3,021 to (a) advance refund 82.4% or \$24,290 of the outstanding Series 1997A Water Revenue Refunding Bonds at a redemption premium of 2% over par value, (b) fund a reserve fund for the Series 2010A Bonds, and (c) pay the cost of issuing the 2010 Bonds. The Series 2010A Bonds bear interest ranging from 3.0% to 5.0% per annum payable on May 1 and November 1 of each year, commencing on November 1, 2010. Principal payments are due May 1, commencing on May 1, 2012.

The remaining Series 1997A Bonds maturing on May 1, 2015 are not subject to redemption prior to maturity, and remain outstanding in the amount of \$5,175 at September 30, 2010.

The initial issuance premium of \$3,021 on the Series 2010A Bonds is reported as an addition to long-term debt and is amortized using the effective-interest-rate method over the life of the Bonds.

In addition, the refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 1997A Bonds of \$2,697. This difference is considered to be a deferred loss on the refunding and is reported in the basic financial statements as a deduction from bonds payable. The deferred loss on refunding is being amortized using the straight-line method over the life of the Series 2010A bonds, which have the same maturity as the old debt. The Refunded Series 1997A Bonds were refunded in order to take advantage of lower interest rates to achieve debt service savings. The Department reduced its aggregate debt service payments by \$3,286, with the refunding structured to achieve such savings upfront over fiscal years 2011 and 2012. The economic gain from the refunding (difference between the present value of the old and new debt service payments) was \$3,349.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

The Series 2010A Bonds and any Parity Obligations (including the Series 1997A Bonds) are secured by a first lien upon and pledge of all of the net revenues of the entire water system (the Water Enterprise Fund) of the City of Long Beach. Net revenues are defined as all gross revenues derived by the ownership and operation of the Water Enterprise Fund less operation and maintenance costs. The Board has covenanted, on behalf of the City, to set rates and charges for the supply of water to its customers sufficient to provide net revenues each year equal to at least 1.10 times the aggregate annual amount of principal and interest due on the Bonds and any parity obligations (including the Series 1997A Bonds).

Water Revenue Refunding Bonds - Series 1997A

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

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

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

Subordinate Water Revenue Commercial Paper Notes

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

On January 8, 2003, Series A notes in the amount of \$6,000 were issued. The notes are issued in denominations of \$100,000 and integral multiples of \$1,000 in excess of \$100,000 and will mature not more than 270 days after date of issuance. On March 19, 2008, Series A notes in the amount of \$2,000 were issued. On April 6, 2009, additional Series A notes in amount of \$3,000 were issued. Interest rates have ranged from 0.28% to 3.72%. The Department, as authorized by the Board under Resolution WD-1170, retired these notes on October 1, 2012.

Subordinate Sewer Revolving Line of Credit

On May 5, 2011, the Board approved Resolution WD-1282 authorizing the issuance from time to time of Subordinate Sewer Revenue Obligations pursuant to the terms of a credit agreement with Wells Fargo Bank, National Association, which provides for a Revolving Line of Credit in an amount not to exceed \$20,000 at any time. Obligations under the Revolving Line of Credit are secured by and payable from a subordinate lien upon the City's Sewer Enterprise net revenues (gross revenues less operation and maintenance costs). The Line of Credit is for a term of three years with a commitment expiration date of May 26, 2014 and was secured to pay off the outstanding principal on Senior Sewer Revenue Commercial Paper Notes and to continue to provide interim financing of sewer system improvements and sewer pipe rehabilitation and replacement programs. The Department will suspend the issuance of sewer commercial paper notes under the existing commercial paper program, but reserves the right issue obligations in the future senior to its obligations created under the Line of Credit.

On May 26, 2011, the Department drew \$6,000 on the Revolving Line of Credit to retire \$4,000 of outstanding Sewer Revenue Commercial Paper notes and fund \$2,000 in sewer system improvements. Interest rates are based on 70% of the London Interbank Offered Rate (LIBOR) plus an applicable margin, and can be designated as fixed or variable for one-month, three-month, or six-month interest periods. Interest rates have ranged from 0.88% to 1.06%.

Senior Sewer Revenue Commercial Paper Notes

On May 7, 2009, the Board approved Resolution WD-1255, which authorized the issuance and sale of up to \$20,000 of City of Long Beach, California Senior Sewer Revenue Commercial Paper Notes (notes), Series A (tax exempt), and Series B (taxable). The City's Sewer Enterprise net revenues (gross revenues less operation and maintenance costs) secure the notes. The notes are further supported by credit enhancement in the form of an Irrevocable Letter of Credit, issued initially by Union Bank, N.A. pursuant to a reimbursement agreement. The City of Long Beach City Council approved the issuance and sale on June 2, 2009. Proceeds from the variable debt will be used for interim financing of sewer system improvements and sewer pipe rehabilitation and replacement programs.

On June 11, 2009, Series A notes in the amount of \$4,000 were issued. The notes are issued in denominations of \$100,000 and integral multiples of \$1,000 in excess of \$100,000 and will mature not more than 270 days after date of issuance. Interest rates have ranged from 0.20% to 0.30%. The Department retired these notes on May 26, 2011.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Accrued Site Restoration Cost

In FY2010, the Department completed its study on Seawater Nanofiltration Desalination Processes. The Department's prototype 300,000 gallons per day desalination research and development facility was located on land leased from Los Angeles Department of Water and Power. Under the terms of the lease, the Department was required to dismantle the facility and restore the site to its original condition. Estimated site restoration costs of \$400 had been accrued as a long-term liability in FY2007. During FY2010, the estimated accrued site restoration costs were reduced and actual restoration costs relating to the dismantling of the prototype desalination research and development facility were recorded as expense.

In FY2008, the Department completed construction of a subsurface seawater intake and discharge facility. Facility construction costs totaling \$4,614 have been capitalized and will be depreciated over a period of two years. A Coastal Development Permit granted by the California Coastal Commission in September 2007, required the Department to restore the project site to its preexisting condition no later than May 21, 2012. Estimated site restoration costs of \$1,000 have been accrued as a long-term liability and recorded as nonoperating expenses. Operating costs of the facility are expensed as incurred.

Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended Sept 30	Series 1997 Bonds		Series 2010 Bonds		Series 2012 Bonds		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 1,630	298	125	937	355	250	2,110	1,485	3,595
2014	1,720	204	130	932	535	366	2,385	1,502	3,887
2015	1,825	105	135	929	550	356	2,510	1,390	3,900
2016	-	-	2,065	925	565	339	2,630	1,264	3,894
2017	-	-	2,150	843	580	322	2,730	1,165	3,895
2018-2022	-	-	11,985	2,963	3,280	1,243	15,265	4,206	19,471
2023-2027	-	-	5,660	423	3,985	534	9,645	957	10,602
Total	\$ 5,175	607	22,250	7,952	9,850	3,410	37,275	11,969	49,244

Note 5 - Retirement Programs

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

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

Contribution requirements of plan members and the City are established and may be amended by CalPERS. For the fiscal year ended September 30, 2012, Miscellaneous plan participants were required to contribute 8.0% of their annual covered salary of which the City pays 6% of the participant contributions and the employee pays 2%. In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rate is 16.072%. For fiscal year 2013, the contribution rate was 15.159%. In fiscal years 2012, 2011, and 2010, the Department's contributions to CalPERS were \$2,824, \$2,371, and \$2,160 for Water Fund and \$566, \$439, and \$423 for Sewer Fund, respectively, which represented 100% of the Department's required contributions.

Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2012.

Note 6 – City Post Retirement Health Care Benefits

Plan Description

The City's Retired Employees Health Insurance Program is a single-employer defined benefit healthcare plan. The Department participates in this program and shares in the cost.

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses, and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental, and long-term care insurance premiums. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested. The City has provided two one-time early retirement incentive programs. The first had a maximum value of \$25,000 for employees, based on age, who retired during calendar year 1996, and the second incentive offered a 16-hour increase in sick leave per year of service to management employees who retired by June 30, 2004. In all cases, once the cash value of the retired employee's unused sick leave is exhausted, the retiree can terminate coverage or elect to continue paying the premiums at the retiree's expense.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

At September 30, 2012, there were 580 participants in the City's Retired Employees Health Insurance Program, and the noninterest-bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled \$20.8 million. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2012 were \$9.0 million, and are included in the expenses of the City's Employee Benefits Internal Service Fund.

Termination Benefits

As of September 30, 2012, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$119.0 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, Accounting for Compensated Absences (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996 and 2009 negotiated public safety health benefit supplements as described below.

Fire Retirement Supplement Benefit

- The Long Beach Fire Fighter Association agreed to defer an October 1, 2009 general salary adjustment to October 1, 2010 and to extend all other adjustments by one year.
- Supplement eligibility is limited to employees retiring on or before December 31, 2009.
- Benefit formula is equal to the difference between CalPERS retirement had the October 1, 2009 general salary adjustment been made for a full year and actual retirement benefits received by CalPERS.
- Supplement is credited annually to retirees Health account and is adjusted by CalPERS cost of living adjustment (COLA).
- Account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

Police Retirement Supplement Benefit

- The Long Beach Police Officers Association agreed to extend a September 30, 2009 midpoint adjustment of 3.20% for sergeants, 14.80% for lieutenants and 9.3% for corporals and officers, to a 2% minimum increase per year. The midpoint adjustment is based on the Strategic Plan Cities Survey of salaries in similar cities.
- Supplement eligibility is limited to employees retiring on or after September 30, 2009 and before benefits level reaches what it would have been had the September 30, 2009 adjustment been made.
- Benefit formula is equal to the difference between CalPERS retirement had the September 30, 2009 midpoint adjustment been made and actual retirement benefits received by CalPERS.
- Supplement is credited annually to retirees Health account and is adjusted by CalPERS cost of living adjustment (COLA).

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

- Account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

The actuarial study assumes an investment return of 4.3%; wage increases of 3.3% per year for both miscellaneous and safety employees; and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$8.6 million has been fully funded and the long – term portion of the liability of \$110.4 million is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

Other Postemployment Benefits

As of September, 30, 2012, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$35.5 million based on an actuarial study of the “implicit subsidy” as defined by GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, (GASB 45). While the City does not directly contribute any funding towards the cost of premiums for retirees, the ability to obtain coverage at an active employee’s rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City’s healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an “implicit subsidy” under GASB 45.

The ability to participate in the City’s plan by self-paying the premiums extends for the lifetime of the retiree. However, upon attaining the age of Medicare eligibility, the retiree may enter a plan coordinated by Medicare. Standard actuarial practice assumes that Medicare supplemental plans do not generally give rise to an implicit subsidy, and while the City has included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both zero.

This plan does not issue a separate financial report.

Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2012, the City has not prefunded the plan.

Annual OPEB Cost and Net OPEB Obligation

The City’s annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount that is actuarially determined in accordance with the requirements of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Annual required contribution	\$ 14,135
Interest on net OPEB obligation	1,307
Adjustment to annual required contribution	<u>(1,956)</u>
Annual OPEB cost	13,486
Contribution made	<u>(4,111)</u>
Increase in net OPEB obligation	9,375
Net OPEB obligation – beginning of year	<u>26,139</u>
 Net OPEB obligation – end of year	 <u><u>\$ 35,514</u></u>

The ARC was determined as part of the September 2010 actuarial valuation. For the year ended September 30, 2012, the City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2010	\$ 11,472	33.6%	\$ 18,022
9/30/2011	12,289	34.0%	26,139
9/30/2012	13,486	30.5%	35,514

Funded Status and Funding Progress

The funded status of the plan as of September 30, 2012 was as follows:

Actuarial accrued liability (AAL)	\$ 219,785
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 219,785</u>
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll	\$ 321,013
UAAL as a percentage of covered payroll	68.5%
ARC as a percentage of covered payroll	4.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The September 30, 2012 actuarial valuation used the entry age normal cost method. The actuarial assumptions included a 4.3% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 11.3% for HMO plans and 8.6% for PPO plans that grades down to 4.5% for all plans by September 30, 2021, and an inflation assumption of 3.0%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was zero. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

Note 7 - Operating Leases

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

Year ended September 30:	
2013	\$ 971
2014	720
2015	686
2016	678
2017	440
2018-2022	1,483
2023-2027	1,652
2028-2032	1,847
2033-2037	1,941
2038-2040	<u>1,169</u>
Total minimum future rentals	\$ <u>11,587</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2012 and 2011
(in thousands of dollars)

Note 8 - Commitments and Contingencies

Litigation

The Department is subject to claims and lawsuits arising from the normal course of business. Such claims are routinely evaluated by representatives of the City Attorney's office. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying basic financial statements. Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that any liability for unreserved claims and lawsuits will not have a material impact on the basic financial statements of the Department.

Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2012 amount to \$3,627 and \$435 for the Water Fund and Sewer Fund, respectively.

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STATISTICAL SECTION
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Financial Trends

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

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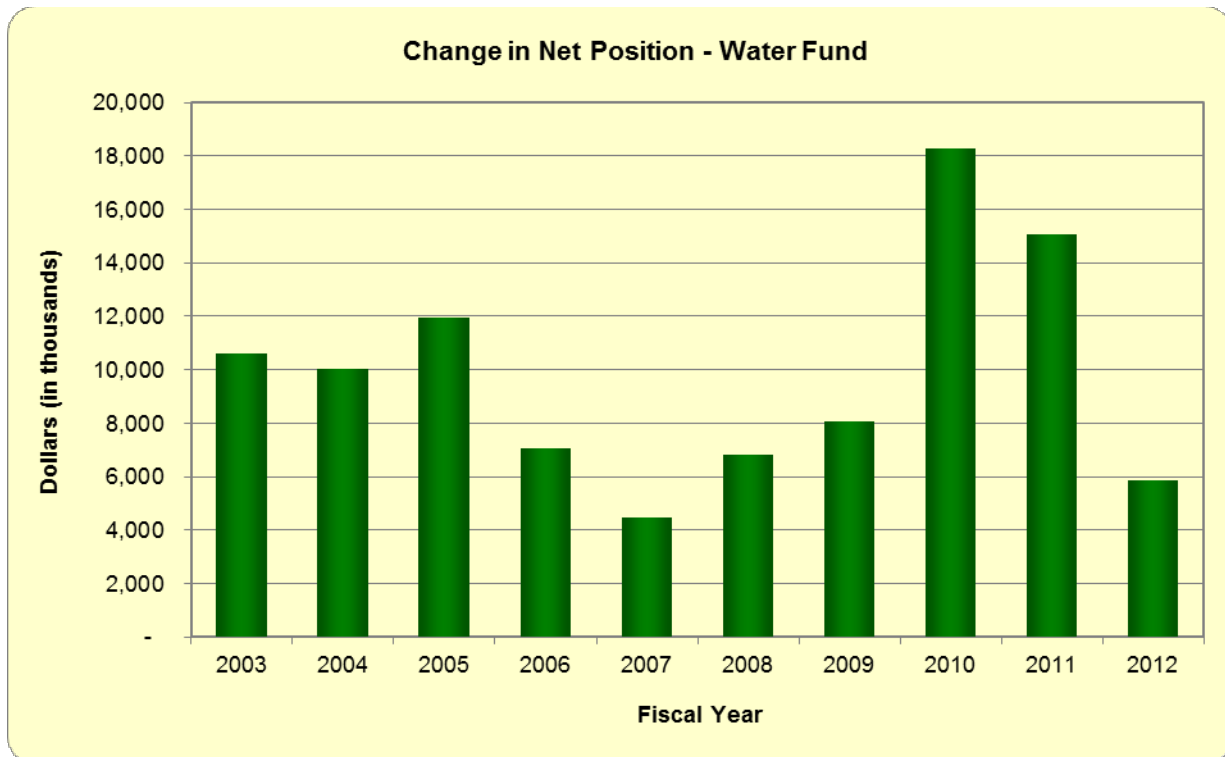
**LONG BEACH WATER DEPARTMENT
CHANGES IN NET POSITION - WATER FUND
LAST TEN FISCAL YEARS**
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue ⁽¹⁾</u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Change in Net Position</u>
9/30/2003	58,887	52,237	6,650	(1,128)	5,063	10,586
9/30/2004	63,125	55,544	7,581	(188)	2,649	10,042
9/30/2005	64,464	58,262	6,202	(542)	6,289	11,949
9/30/2006	66,026	60,933	5,093	(691)	2,634	7,036
9/30/2007	70,192	66,870	3,322	(1,394)	2,544	4,471
9/30/2008	71,384	67,647	3,737	(660)	3,746	6,823
9/30/2009	80,777	73,916	6,861	(1,029)	2,221	8,053
9/30/2010	87,151	79,422	7,729	8,302	2,263	18,294
9/30/2011	88,576	80,403	8,173	(1,374)	8,283	15,082
9/30/2012	86,515	79,342	7,173	(1,573)	247	5,847

Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.

Source: Department's annual reports

See accompanying independent auditors' report



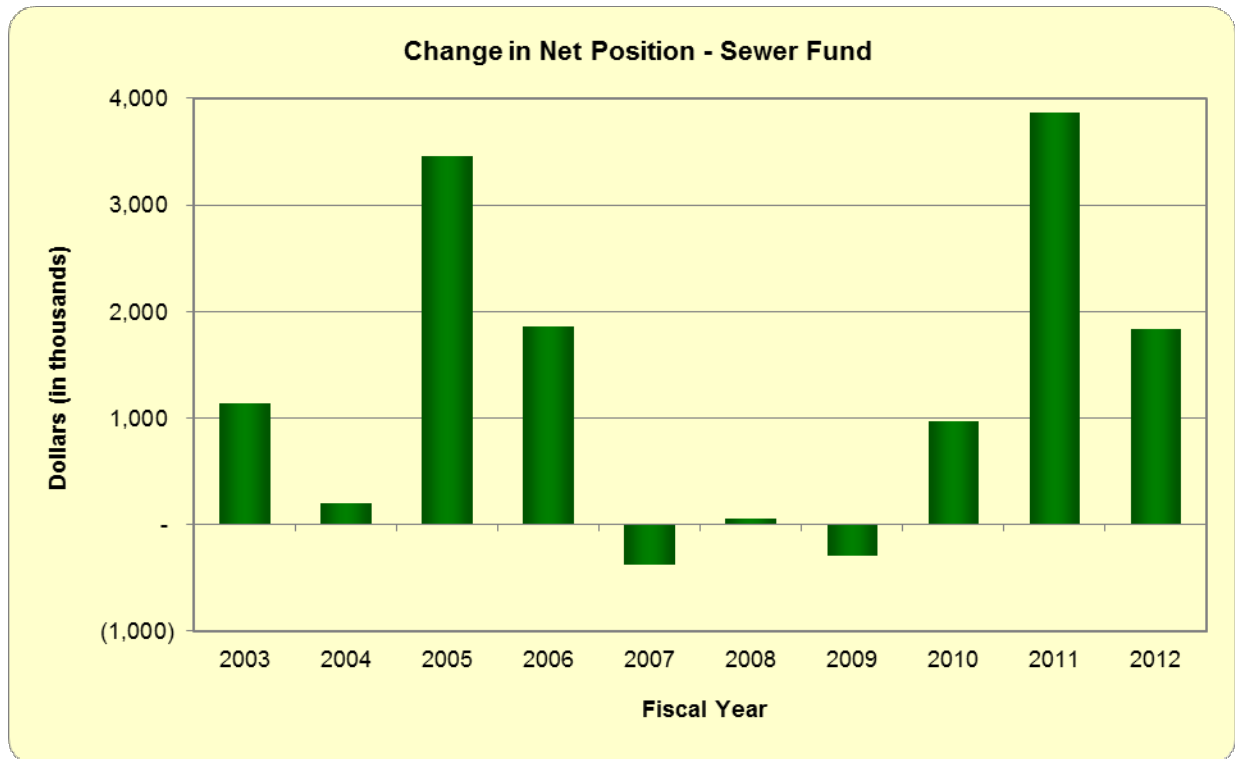
LONG BEACH WATER DEPARTMENT
CHANGES IN NET POSITION - SEWER FUND
LAST TEN FISCAL YEARS
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue ⁽¹⁾</u>	<u>Total Operating Expense</u>	<u>Operating Income (Expenses)</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Change in Net Position</u>
9/30/2003	9,015	8,420	595	264	277	1,136
9/30/2004	9,267	7,753	1,514	(1,695)	380	199
9/30/2005	9,708	7,058	2,650	225	585	3,460
9/30/2006	9,237	7,730	1,507	355	-	1,862
9/30/2007	10,796	11,524	(728)	352	-	(376)
9/30/2008	11,759	11,875	(116)	174	-	58
9/30/2009	12,455	13,003	(548)	258	-	(290)
9/30/2010	15,186	14,015	1,171	(517)	310	964
9/30/2011	16,448	14,795	1,653	(650)	2,868	3,871
9/30/2012	17,325	14,411	2,914	(1,260)	185	1,839

Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.

Source: Department's annual reports

See accompanying independent auditors' report

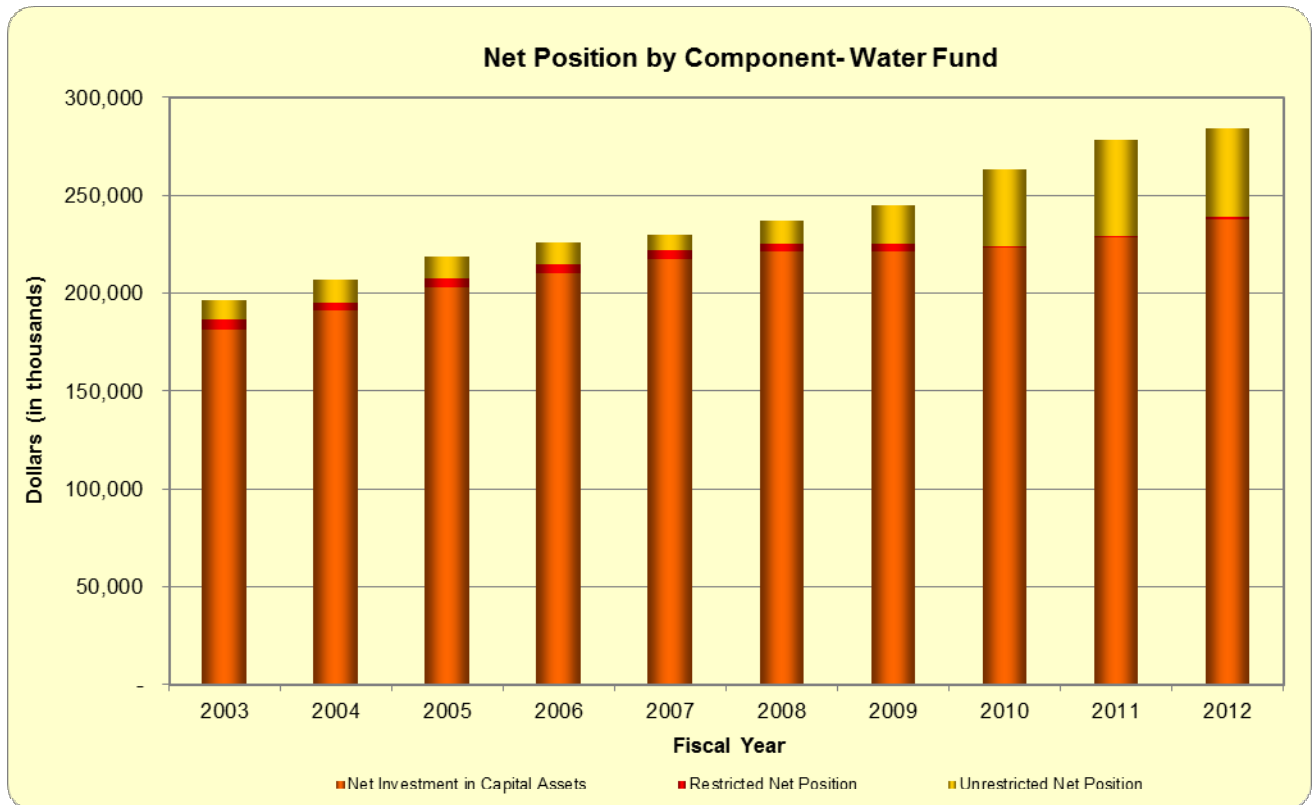


LONG BEACH WATER DEPARTMENT
NET POSITION BY COMPONENT - WATER FUND
LAST TEN FISCAL YEARS
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
9/30/2003	181,535	5,116	9,874	196,525
9/30/2004	191,067	4,298	11,202	206,567
9/30/2005	202,959	4,316	11,240	218,515
9/30/2006	210,282	4,355	10,914	225,551
9/30/2007	217,247	4,409	8,366	230,022
9/30/2008	221,225	4,178	11,442	236,845
9/30/2009	220,974	4,240	19,684	244,898
9/30/2010	223,560	153	39,479	263,192
9/30/2011	228,196	736	49,342	278,274
9/30/2012	237,793	1,350	44,978	284,121

Source: Department's annual reports

See accompanying independent auditors' report

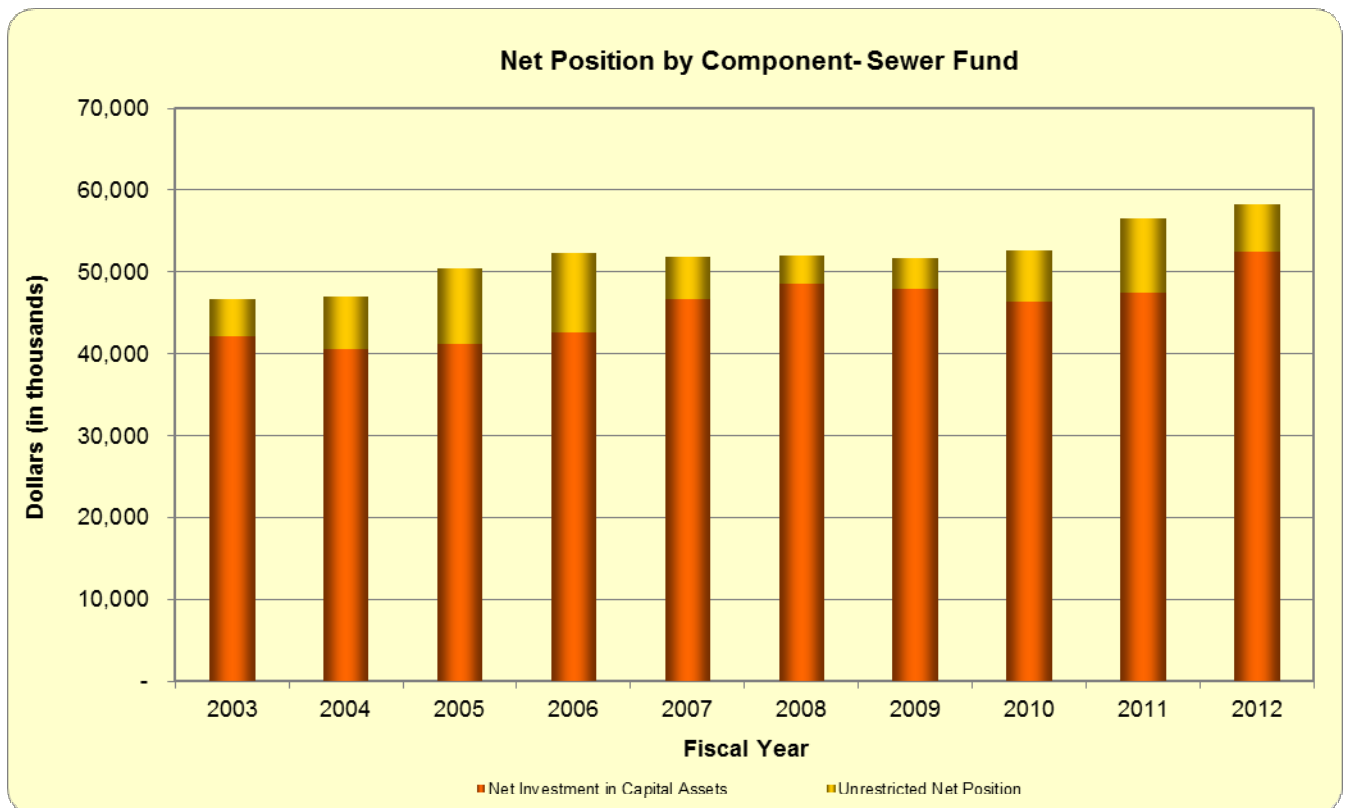


**LONG BEACH WATER DEPARTMENT
NET POSITION BY COMPONENT - SEWER FUND
LAST TEN FISCAL YEARS
(in thousands of dollars)**

<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
9/30/2003	42,095	-	4,631	46,725
9/30/2004	40,600	-	6,325	46,925
9/30/2005	41,206	-	9,179	50,385
9/30/2006	42,619	-	9,628	52,247
9/30/2007	46,637	-	5,235	51,872
9/30/2008	48,541	-	3,389	51,930
9/30/2009	47,891	-	3,749	51,640
9/30/2010	46,383	-	6,221	52,604
9/30/2011	47,378	-	9,097	56,475
9/30/2012	52,465	-	5,849	58,314

Source: Department's annual reports

See accompanying independent auditors' report



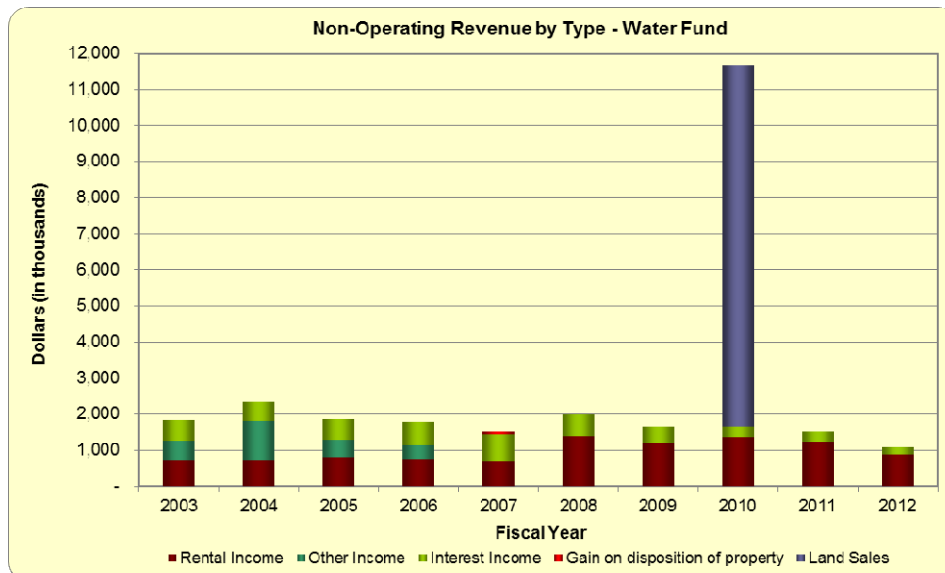
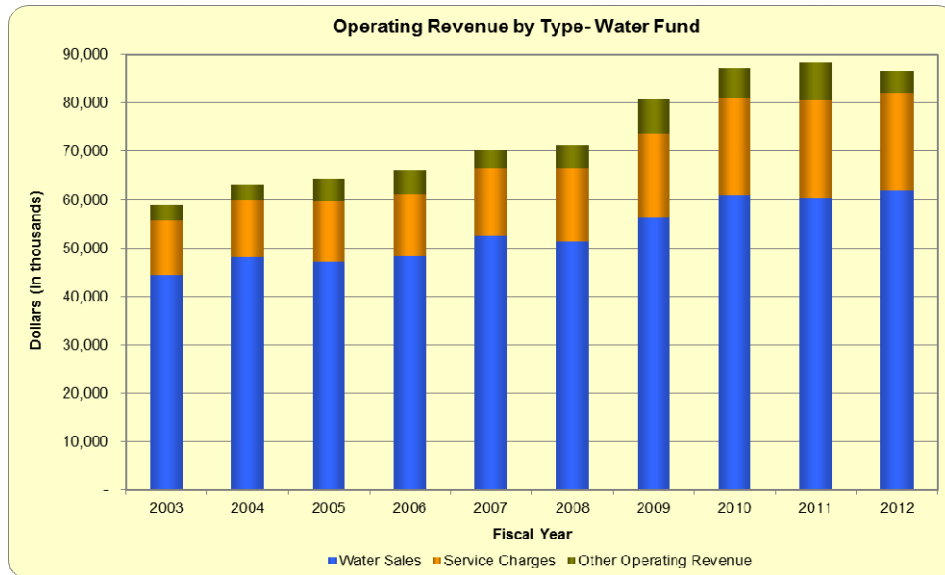
LONG BEACH WATER DEPARTMENT
WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING					
	Water Sales ⁽¹⁾	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Rental Income	Land sales	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2003	44,490	11,175	3,222	58,887	576	699	-	554	-	1,829
9/30/2004	48,160	11,648	3,317	63,125	541	700	-	1,099	-	2,340
9/30/2005	47,296	12,302	4,866	64,464	556	804	-	488	-	1,848
9/30/2006	48,429	12,727	4,870	66,026	653	733	-	391	-	1,777
9/30/2007	52,507	13,959	3,726	70,192	758	682	-	-	66	1,506
9/30/2008	51,389	15,156	4,839	71,384	602	1,382	-	-	-	1,984
9/30/2009	56,256	17,299	7,222	80,777	456	1,181	-	-	-	1,637
9/30/2010	60,975	19,983	6,193	87,151	302	1,345	10,000	-	-	11,647
9/30/2011	60,398	20,251	7,927	88,576	294	1,221	-	-	-	1,515
9/30/2012	61,884	20,223	4,408	86,515	193	885	-	-	-	1,078

Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.

Source: Department's annual reports

See accompanying independent auditors' report

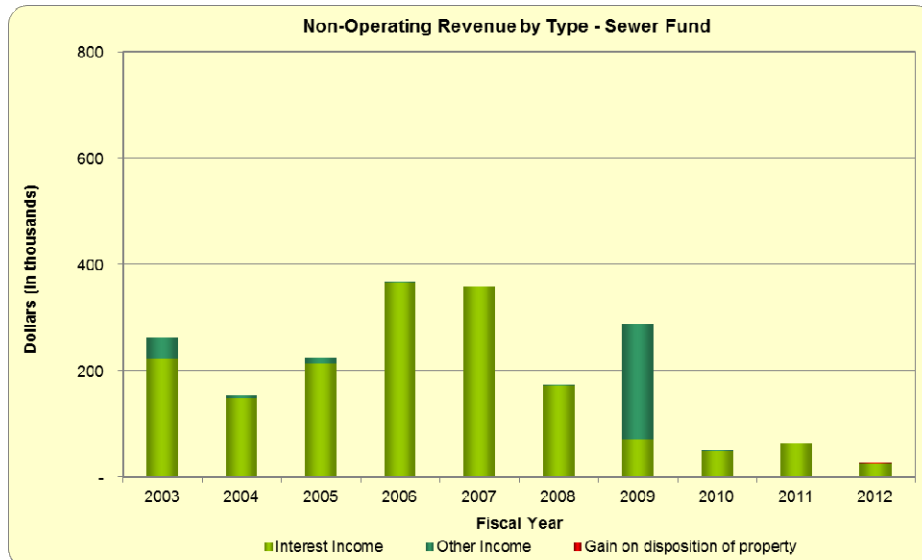
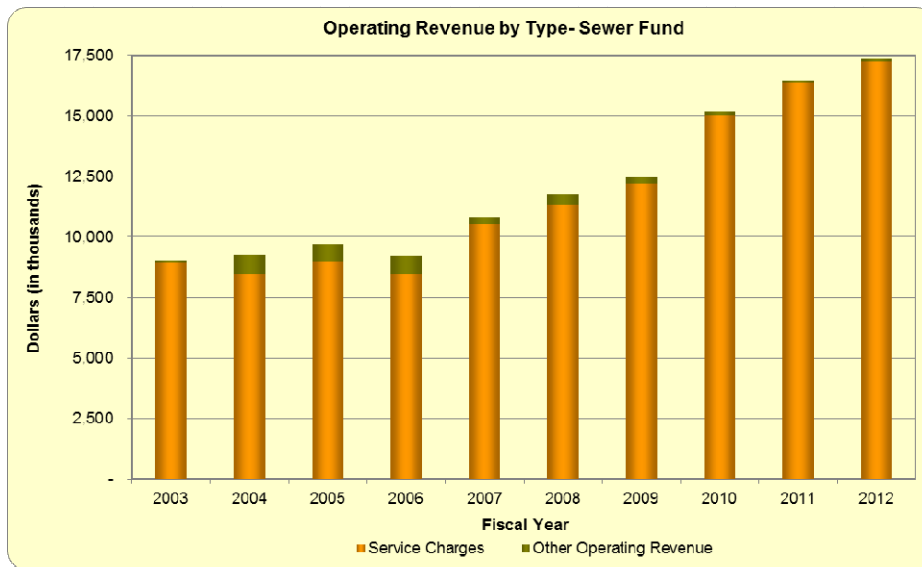


LONG BEACH WATER DEPARTMENT
SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING			
	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2003	8,929	86	9,015	223	41	-	264
9/30/2004	8,434	832	9,267	149	5	-	154
9/30/2005	8,976	732	9,708	213	12	-	225
9/30/2006	8,457	780	9,237	366	1	-	367
9/30/2007	10,500	296	10,796	359	-	-	359
9/30/2008	11,317	442	11,759	172	2	-	174
9/30/2009	12,203	252	12,455	70	219	-	289
9/30/2010	15,013	173	15,186	50	0.01	-	50
9/30/2011	16,362	86	16,448	63	-	-	63
9/30/2012	17,239	86	17,325	25	-	2	27

Source: Department's annual reports

See accompanying independent auditors' report

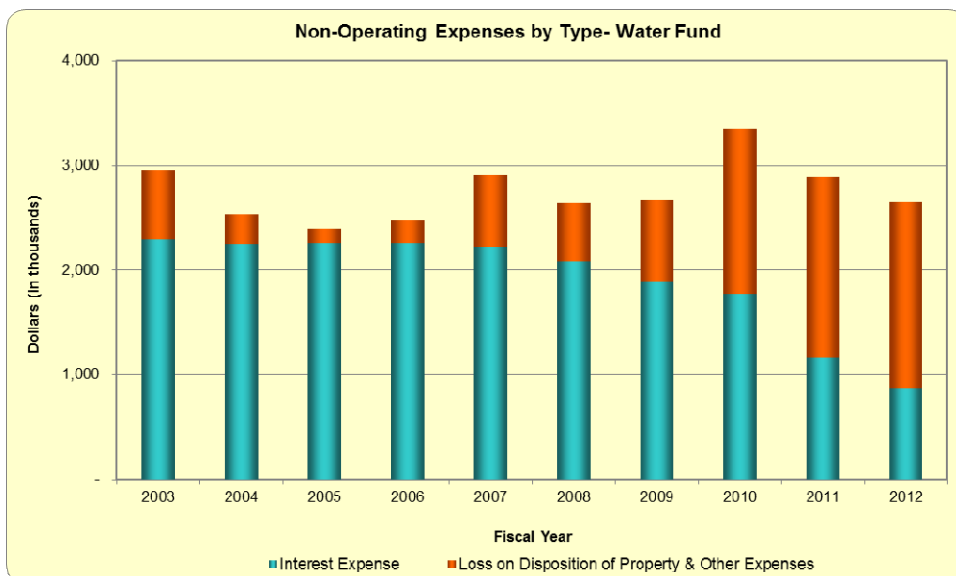
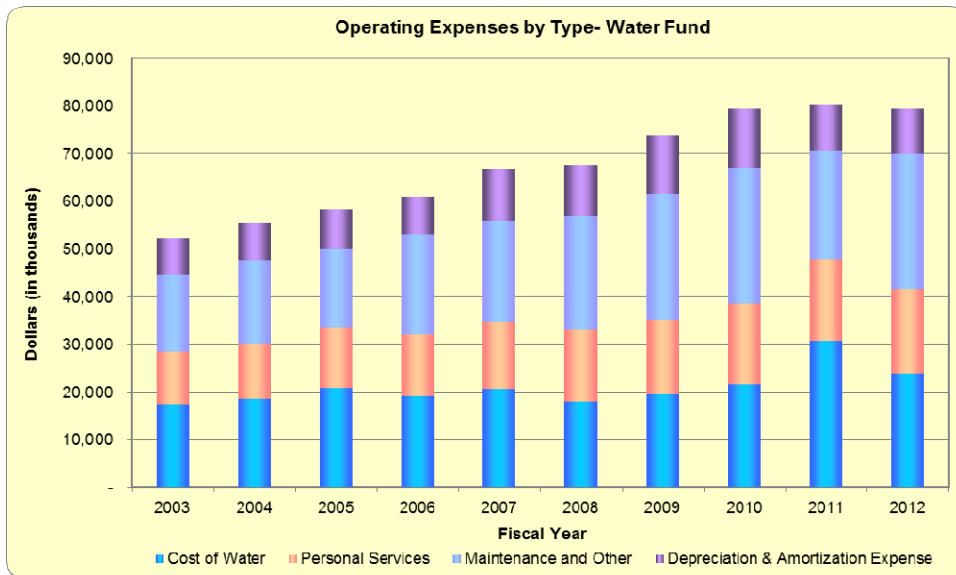


LONG BEACH WATER DEPARTMENT
WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING				Total Operating Expenses	NON-OPERATING		Total Non-Operating Expense
	Cost of Water	Personal Services	Maintenance and Other	Depreciation & Amortization Expense		Interest Expense	Loss on Disposition of Property & Other Expenses	
9/30/2003	17,490	10,978	16,128	7,641	52,237	2,290	667	2,957
9/30/2004	18,581	11,572	17,539	7,852	55,544	2,243	285	2,528
9/30/2005	20,936	12,731	16,421	8,174	58,262	2,253	137	2,390
9/30/2006	19,179	12,974	20,895	7,885	60,933	2,255	213	2,468
9/30/2007	20,606	14,069	21,224	10,972	66,871	2,217	683	2,900
9/30/2008	18,036	14,974	24,009	10,628	67,647	2,078	566	2,644
9/30/2009	19,509	15,654	26,319	12,434	73,916	1,891	775	2,666
9/30/2010	21,588	16,855	28,648	12,331	79,422	1,773	1,572	3,345
9/30/2011	30,825	17,095	22,644	9,839	80,403	1,167	1,722	2,889
9/30/2012	23,887	17,594	28,502	9,359	79,342	872	1,779	2,651

Source: Department's annual reports

See accompanying independent auditors' report

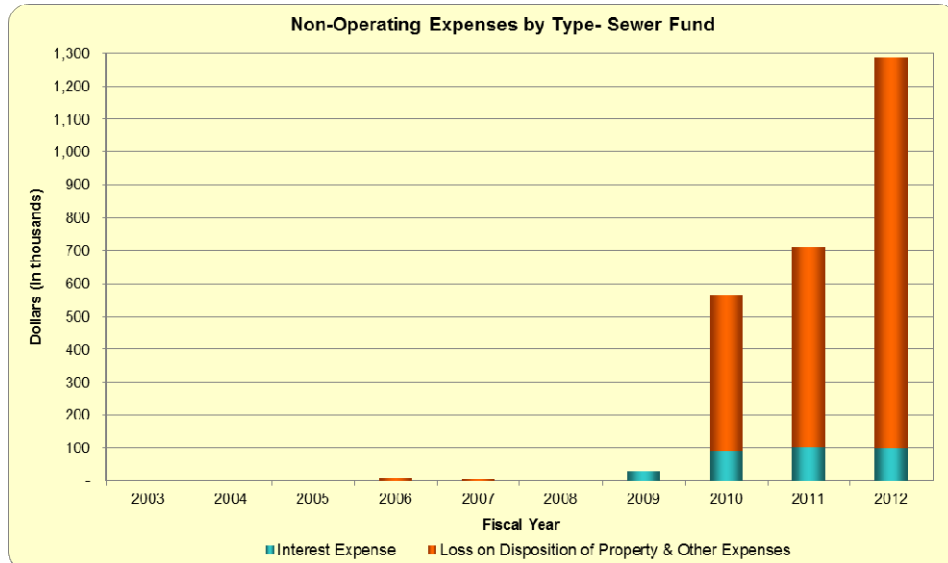
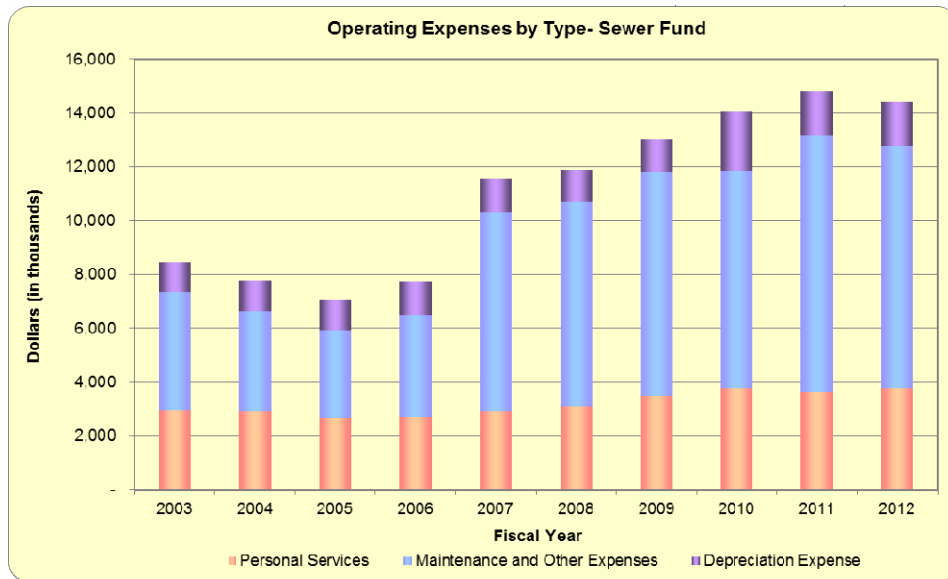


LONG BEACH WATER DEPARTMENT
SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING			
	Personal Services	Maintenance and Other Expenses	Depreciation Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2003	2,938	4,379	1,103	8,420	-	-	-
9/30/2004	2,912	3,693	1,148	7,753	-	-	-
9/30/2005	2,648	3,248	1,161	7,057	-	-	-
9/30/2006	2,689	3,808	1,233	7,730	-	12	12
9/30/2007	2,900	7,378	1,246	11,524	-	7	7
9/30/2008	3,067	7,635	1,173	11,875	-	-	-
9/30/2009	3,440	8,363	1,200	13,003	31	-	31
9/30/2010	3,735	8,113	2,167	14,015	91	476	567
9/30/2011	3,607	9,528	1,660	14,795	102	611	713
9/30/2012	3,748	8,988	1,675	14,411	101	1,186	1,287

Source: Department's annual reports

See accompanying independent auditors' report



Revenue Capacity

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

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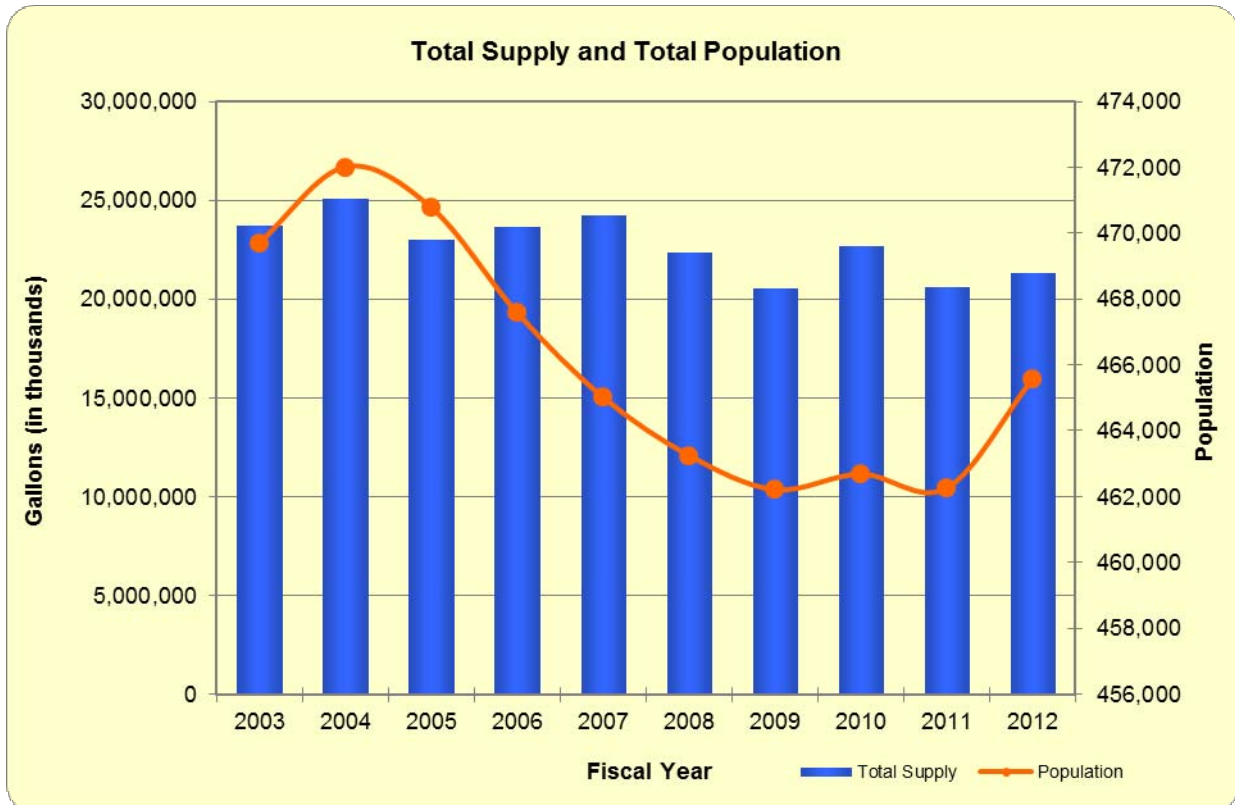
LONG BEACH WATER DEPARTMENT
SOURCE OF WATER (PUMPED, PURCHASED, AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS
(in thousands of gallons, except population)

Fiscal Year Ended	SOURCE OF SUPPLY				CONSUMPTION			
	Potable Water		Reclaimed Water	Total Supply	Average Daily Demand Potable Water ⁽¹⁾	Peak Day Distribution	Average Daily Sales Per Capita	Population
	Pumped	Purchased						
9/30/2003	7,445,000	14,567,000	1,671,000	23,683,000	60,307	89,000	138	469,713
9/30/2004	8,354,494	14,761,376	1,956,084	25,071,953	63,331	84,310	146	472,013
9/30/2005	7,041,640	14,536,539	1,382,586	22,960,765	59,118	86,570	134	470,781
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	138	467,586
9/30/2007	8,416,014	13,837,621	1,999,911	24,253,546	60,969	80,180	143	465,017
9/30/2008	11,006,041	9,179,092	2,161,793	22,346,926	55,302	82,080	132	463,250
9/30/2009	11,038,496	7,462,640	2,021,971	20,523,107	50,688	72,650	122	462,211
9/30/2010	11,789,387	8,651,083	2,197,803	22,638,273	56,001	71,220	134	462,685
9/30/2011	5,856,585	12,725,394	2,022,264	20,604,243	50,910	72,300	122	462,257
9/30/2012	10,772,406	8,302,455	2,255,671	21,330,532	52,260	74,700	126	465,576

Note: (1) Does not include reclaimed water which is used for irrigation only.

Source: Department's annual reports

See accompanying independent auditors' report



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

Effective Date	Potable Water - Monthly Amount per Billing Unit ⁽¹⁾			Reclaimed Water
	TIER I First Five Billing Units	TIER II ⁽²⁾ Next Ten Billing Units	TIER III Over Fifteen Billing Units	Amount Per Cubic Foot
10/1/2002	1.356	1.507	2.109	1.055
10/1/2003	1.394	1.549	2.323	1.084
10/1/2004	1.457	1.619	2.428	1.133
10/1/2005	1.515	1.683	2.525	1.178
11/1/2006	1.561	1.734	2.601	1.214
10/1/2007	1.646	1.829	2.744	1.281
10/1/2008	1.893	2.103	3.155	1.472
10/1/2009	2.196	2.439	3.659	1.708
10/1/2010	2.196	2.439	3.659	1.708
10/1/2011	2.196	2.439	3.659	1.708

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

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

Source: Department's records

See accompanying independent auditors' report

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

Effective Date	3/4" ⁽¹⁾	1"	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2002	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2003	0.27	0.40	0.75	1.11	2.29	3.62	6.68	10.48	17.16	20.98	34.72
10/1/2004	0.28	0.42	0.78	1.16	2.39	3.79	6.98	10.95	17.94	21.92	36.28
10/1/2005	0.29	0.44	0.81	1.20	2.49	3.94	7.26	11.39	18.65	22.80	37.73
11/1/2006	0.30	0.45	0.84	1.24	2.56	4.06	7.47	11.73	19.21	23.48	38.87
10/1/2007	0.31	0.47	0.88	1.31	2.70	4.28	7.89	12.38	20.27	24.77	41.00
10/1/2008	0.36	0.54	1.01	1.50	3.11	4.92	9.07	14.23	23.31	28.49	47.15
10/1/2009	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2010	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2011	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70

Note: (1) Normal residential size (69,545 of the 89,957 total services).

Source: Department's records

See accompanying independent auditors' report

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

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2002	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2003	0.55	0.95	1.40	2.38	3.49	4.73	5.96	8.73
10/1/2004	0.58	0.99	1.46	2.49	3.65	4.94	6.22	9.13
10/1/2005	0.60	1.03	1.52	2.59	3.80	5.14	6.47	9.49
11/1/2006	0.62	1.06	1.57	2.67	3.91	5.29	6.67	9.78
10/1/2007	0.65	1.12	1.65	2.81	4.13	5.58	7.03	10.31
10/1/2008	0.75	1.29	1.90	3.24	4.74	6.42	8.09	11.86
10/1/2009	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2010	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2011	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
NUMBER OF WATER SERVICES, AVERAGE MONTHLY WATER CONSUMPTION, AND
AVERAGE MONTHLY WATER BILL BY SERVICE SIZE
Fiscal Year Ended September 30, 2012

Water Service Size	Number of Services	Average Consumption per Month (in hundred cubic feet)	Average Monthly Bill
3/4"	69,545	12	\$ 43.04
1"	11,277	20	68.61
1-1/2"	4,298	52	165.77
2"	2,761	84	254.69
3"	602	196	573.47
4"	516	96	332.11
6"	524	171	569.21
8"	350	300	957.43
10"	73	1,524	2,987.23
12"	9	2,132	5,931.22
16"	2	21	418.47
Total	<u>89,957</u>		

Source: Department's utility billing records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
TEN LARGEST WATER USERS IN CITY OF LONG BEACH
CURRENT YEAR AND NINE YEARS AGO

Customer	Fiscal Year 2012				Fiscal Year 2003			
	Ranking	Sales ⁽¹⁾	Acre Feet	Percent of Total	Ranking	Sales ⁽¹⁾	Acre Feet	Percent of Total
City of Long Beach	1	\$ 4,391	4,393	7.84 %	1	\$ 2,712	3,642	5.39 %
Long Beach Unified School District	2	950	680	1.21	2	609	715	1.06
Montenay Pacific Power Corporation	3	765	710	1.27	3	480	720	1.07
California State University Long Beach	4	500	433	0.77	5	297	416	0.62
L.A.D.W.P.	5	489	440	0.79	8	209	297	0.44
AES Southland LLC	6	474	435	0.78	4	424	634	0.94
L.A. County Community Development	7	335	247	0.44	6	235	280	0.42
Memorial Medical Center	8	310	269	0.48	9	188	267	0.40
Veterans Affairs Medical Hospital	9	308	279	0.50	7	210	306	0.45
Carnival Corporation	10	244	224	0.40				
State of California Dept. of Transportation		-	-	-	10	188	246	0.36
Total Ten Largest Users		8,766	8,110	14.48		5,552	7,523	11.15
Total All Other Users		70,575	47,919	85.52		48,620	60,031	88.85
Total City		\$ 79,341	56,029	100.00		\$ 54,172	67,554	100.00

Note: (1) Sales figures are in thousands.

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

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

LONG BEACH WATER DEPARTMENT
SEWER RATES: DAILY SERVICE CHARGES BY SIZE,
VOLUMETRIC RATE, AND CAPACITY CHARGES ⁽¹⁾
Fiscal Year Ended September 30, 2012

Water Service Size	Daily Charge	Volumetric Rate per 100 cubic feet
5/8 or 3/4"	\$ 0.250	\$ 0.347
1"	0.396	0.347
1-1/2"	0.721	0.347
2"	1.046	0.347
3"	2.164	0.347
4"	3.428	0.347
6"	6.315	0.347
8"	9.920	0.347
10"	16.229	0.347
12"	19.838	0.347
16"	32.462	0.347

Note: (1) A one-time capacity charge of \$91.37 per equivalent fixture unit is applied to all new developments in the City.

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
NUMBER OF SEWER SERVICES AND
AVERAGE MONTHLY SEWER BILL BY SERVICE SIZE
Fiscal Year Ended September 30, 2012

<u>Water Service Size</u>	<u>Number of Services</u>	<u>Average Monthly Bill</u>
3/4"	69,637	\$ 10.59
1"	11,080	17.07
1-1/2"	4,061	37.41
2"	2,225	58.81
3"	422	131.53
4"	139	201.55
6"	87	452.14
8"	51	556.48
10"	9	2,007.38
12"	4	622.01
Total	<u><u>87,715</u></u>	

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
TEN LARGEST SEWER USERS IN CITY OF LONG BEACH
CURRENT YEAR AND NINE YEARS AGO

<u>Customer</u>	<u>Fiscal Year 2012</u>				<u>Fiscal Year 2003</u>			
	<u>Ranking</u>	<u>Sales</u>	<u>Acre Feet</u>	<u>Percent of Total</u>	<u>Ranking</u>	<u>Sales</u>	<u>Acre Feet</u>	<u>Percent of Total</u>
City of Long Beach	1	\$ 334	1,412	3.44 %	1	\$ 157	1,468	2.17 %
Long Beach Unified School District	2	179	395	0.96	2	88	513	0.76
California State University Long Beach	3	86	416	1.01	4	37	404	0.60
Memorial Medical Center	4	55	264	0.64	6	23	262	0.39
LA County Community Development	5	45	170	0.41	5	23	183	0.27
Parwood Apartments	6	23	104	0.25				
Hyatt Regency Hotel	7	22	53	0.13				
Marina Pacifica Association	8	20	82	0.20				
The Boeing Company	9	17	75	0.18	3	38	255	0.38
Winward Village	10	17	71	0.17				
International Garment Finish		-	-	-	8	16	228	0.34
RMS Foundation Inc.		-	-	-	7	17	118	0.17
California State Department of Transportation		-	-	-	9	14	138	0.20
Toyota Auto Body		-	-	-	10	12	116	0.17
Total Ten Largest Users		798	3,042	7.39		425	3,685	5.45
Total All Other Users		<u>15,744</u>	<u>38,051</u>	<u>92.61</u>		<u>7,368</u>	<u>63,869</u>	<u>94.55</u>
Total City		<u>\$ 16,542</u>	<u>41,093</u>	<u>100.00</u>		<u>\$ 7,793</u>	<u>67,554</u>	<u>100.00</u>

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

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
WATER REUSE SITES (RECLAIMED WATER USERS)
Fiscal Year Ended September 30, 2012

	Reuse (in acre feet)
1 Alamitos Barrier	2,277.3
2 Thums	1,454.2
3 El Dorado Park & Golf Course	876.1
4 Recreation Park South, etc.	429.1
5 Lakewood Country Golf Course	348.8
6 Skylinks Golf Course	276.3
7 Heartwell Park & Golf Course	248.7
8 California State University, Long Beach	166.0
9 All Souls Cemetery	116.2
10 Virginia Country Club Golf Course	94.3
11 Forest Lawn	86.8
12 Long Beach Unified School District	82.1
13 LBCC and Veterans Stadium	75.1
14 Marina Vista Park, etc.	43.3
15 Scherer Park	39.4
16 Jauregui Nursery	37.8
17 El Dorado Lakes Condominiums	28.9
18 Stearns Park	28.3
19 Vestar Development	27.6
20 City of Long Beach Public Works/Public Service	27.1
21 Cal-Trans Freeway Landscaping	26.2
22 Whaley Park	24.8
23 Bluff Park	23.6
24 City of Long Beach Parks, Recreation & Marine (Others)	19.0
25 Cherry Avenue Park	15.5
26 Bixby Park	11.5
27 Wal-Mart Corp.	9.2
28 Signal Hill - Reservoir Park	8.3
29 City of Lakewood	5.4
30 LD Products	3.1
31 Douglas Park	3.0
32 Rubbercraft	2.9
33 Somerset Park	2.5
34 Alamitos Reservoir-Irrigation	1.8
35 Water Department Irrigation	1.5
36 The Boeing Company	0.7
37 Lakewood First Presbyterian Church	0.1
Totals	<u><u>6,922.4</u></u>

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

Source: Department's records

See accompanying independent auditors' report

Debt Capacity Information

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

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

Fiscal Year Ended	Total Operating Revenue ⁽¹⁾	Operating Expenses ⁽²⁾	Net Operating Income	Net Non-Operating Income/ (Expense) ⁽³⁾	Amount Available for Debt Service	Principal	Interest	Total Debt Service ⁽⁴⁾	Times Coverage
9/30/2003	58,887	44,596	14,291	1,829	16,120	1,772	1,979	3,751	4.30
9/30/2004	63,125	47,692	15,433	2,340	17,773	1,242	1,904	3,146	5.65
9/30/2005	64,464	50,088	14,376	1,848	16,224	1,292	1,851	3,143	5.16
9/30/2006	66,026	53,048	12,978	1,777	14,755	1,353	1,794	3,147	4.69
9/30/2007	70,192	55,898	14,294	757	15,051	1,352	1,947	3,299	4.56
9/30/2008	71,384	57,019	14,365	1,526	15,891	1,330	1,834	3,164	5.02
9/30/2009	80,777	61,482	19,295	904	20,199	1,405	1,657	3,062	6.60
9/30/2010	87,151	67,091	20,060	10,245	30,305	-	855 ⁽⁵⁾	855	35.44
9/30/2011	88,576	70,564	18,012	(152)	17,860	490	1,282	1,772	10.08
9/30/2012	86,515	69,983	16,532	(331)	16,201	2,110	1,502	3,612	4.49

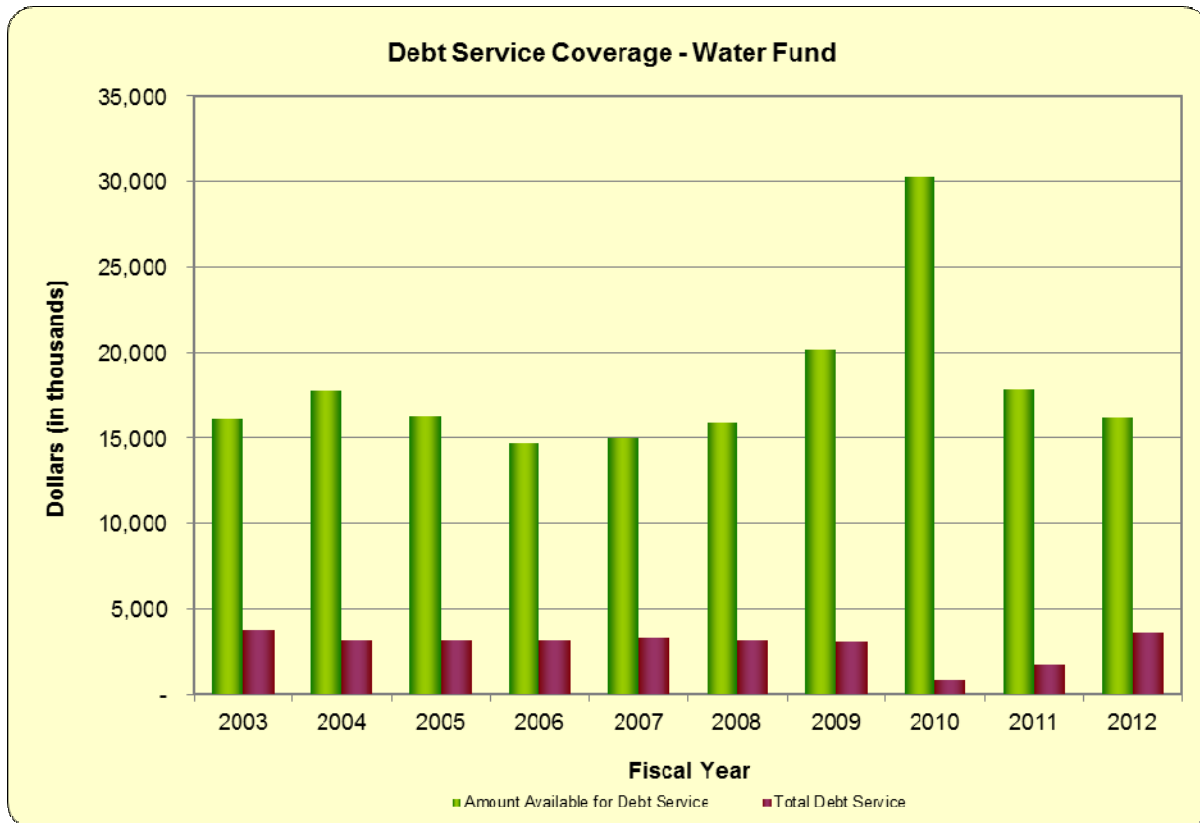
Bond Issues: Water Revenue Refunding Bonds - 1997 Series A, 2010 Series A, & 2012 Series A

Average Coverage, ten years	8.60
Rate Covenant (Series:1997A, 2010A, & 2012A)	1.10

- Notes:(1) Total Operating Revenue is net of Provision for doubtful accounts expense.
(2) Operating Expenses are exclusive of depreciation expense.
(3) Net Non-Operating Income (Expense) is exclusive of bond interest, amortization of bond issue costs, contributed capital and loss on disposition of property.
(4) Total Debt Service includes the following year's interest payments due each November 1st and May 1st and principal payments due on May 1st.
(5) Debt Service for FY2010 includes interest only, reflecting the issuance of Water Revenue Refunding Bonds - Series 2010A to advance refund 82.4% of outstanding Series 1997A Water Revenue Refunding Bonds. The refunding reduced the Department's aggregate debt service payments by \$3.3 million, with the refunding structured to achieve such savings upfront over fiscal years 2011 and 2012.

Source: Department's annual reports

See accompanying independent auditors' report



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

Fiscal Year Ended	Total Operating Revenue ⁽¹⁾	Operating Expenses ⁽²⁾	Net Operating Income	Net Non-Operating Income (Expense) ⁽³⁾	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Times Coverage
9/30/2003	9,015	7,317	1,698	264	1,962	-	-	-	n/a
9/30/2004	9,267	6,605	2,662	154	2,816	-	-	-	n/a
9/30/2005	9,708	5,896	3,812	225	4,038	-	-	-	n/a
9/30/2006	9,237	6,497	2,740	367	3,107	-	-	-	n/a
9/30/2007	10,796	10,278	518	352	870	-	-	-	n/a
9/30/2008	11,759	10,702	1,057	174	1,231	-	-	-	n/a
9/30/2009	12,455	11,803	652	289	941	-	4	4	235.25
9/30/2010	15,186	11,848	3,338	(426)	2,912	-	10	10	291.20
9/30/2011	16,448	13,135	3,313	(538)	2,775	-	27	27	102.78
9/30/2012	17,325	12,736	4,589	(1,161)	3,428	-	57	57	60.14

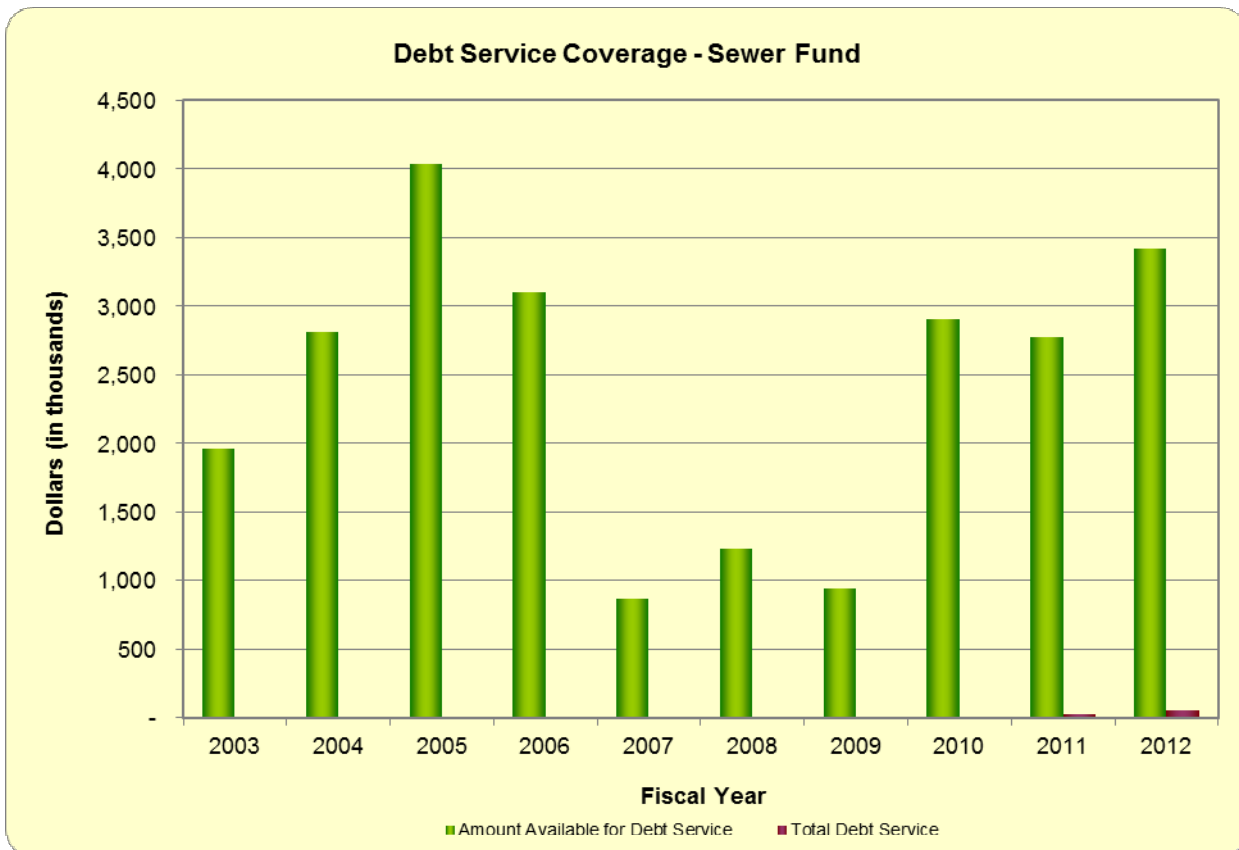
Bond Issues: None

Rate Covenant	1.10
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Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.
(2) Operating Expenses are exclusive of depreciation expense.
(3) Net Non-Operating Income (Expense) is exclusive of contributed capital and loss on disposition of property.

Source: Department's annual reports

See accompanying independent auditors' report



LONG BEACH WATER DEPARTMENT
WATER FUND RATIOS OF OUTSTANDING DEBT BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	Revenue Refunding Bonds			Subordinate Water Revenue			Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
	Series 1997	Series 2010	Series 2012	Commercial Paper Notes	State Loan	Total		
9/30/2003	38,585	-	-	6,000	627	45,212	0.42%	0.096
9/30/2004	36,940	-	-	6,000	500	43,440	0.38%	0.092
9/30/2005	35,830	-	-	6,000	368	42,198	0.35%	0.090
9/30/2006	34,675	-	-	6,000	230	40,905	0.32%	0.087
9/30/2007	33,465	-	-	6,000	87	39,552	0.30%	0.085
9/30/2008	32,200	-	-	8,000	-	40,200	0.30%	0.087
9/30/2009	30,870	-	-	11,000	-	41,870	0.33%	0.091
9/30/2010	5,175	22,740	-	11,000	-	38,915	0.30%	0.084
9/30/2011	5,175	22,250	-	11,000	-	38,425	0.30%	0.083
9/30/2012	5,175	22,250	9,850	-	-	37,275	0.28%	0.080

Notes: (1) See Exhibit 23-Demographic Statistics for Personal Income and Population Data.

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

Exhibit 22

LONG BEACH WATER DEPARTMENT
SEWER FUND RATIOS OF OUTSTANDING DEBT - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	Subordinate Sewer Revenue		Sewer Revolving Line of Credit	Total	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
	Commercial Paper Notes					
9/30/2003	-	-	-	-	-	\$ -
9/30/2004	-	-	-	-	-	\$ -
9/30/2005	-	-	-	-	-	\$ -
9/30/2006	-	-	-	-	-	\$ -
9/30/2007	-	-	-	-	-	\$ -
9/30/2008	-	-	-	-	-	\$ -
9/30/2009	4,000	-	-	4,000	0.03%	\$ 0.009
9/30/2010	4,000	-	-	4,000	0.03%	\$ 0.009
9/30/2011	-	6,000	-	6,000	0.05%	\$ 0.013
9/30/2012	-	6,000	-	6,000	0.05%	\$ 0.013

Notes: (1) See Exhibit 23-Demographic Statistics for Personal Income and Population Data.

Source: Department's annual reports

See accompanying independent auditors' report

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Demographic and Economic Information

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

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

Fiscal Year Ended	Estimated Population ^{(1) (4)}	Personal Income (in millions) ^{(2) (4)}	Per Capita Personal Income ^{(2) (4)}	Unemployment Rate ⁽³⁾
9/30/2003	469,713	10,703	22,787	7.7%
9/30/2004	472,013	11,290	23,919	7.2%
9/30/2005	470,781	11,939	23,266	5.9%
9/30/2006	467,586	12,854	27,490	5.3%
9/30/2007	465,017	13,222	28,434	5.6%
9/30/2008	463,250	13,422	28,974	8.2%
9/30/2009	462,211	12,866	27,880	12.8%
9/30/2010	462,685	12,783	27,627	13.9%
9/30/2011	462,257	12,981	28,081	13.4%
9/30/2012	465,576	13,129	28,199	12.2%

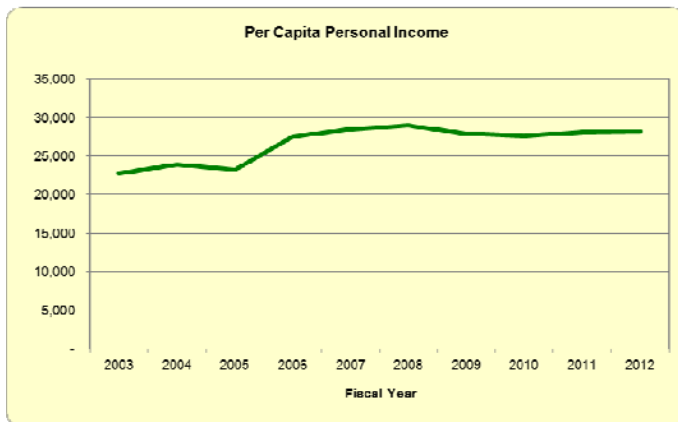
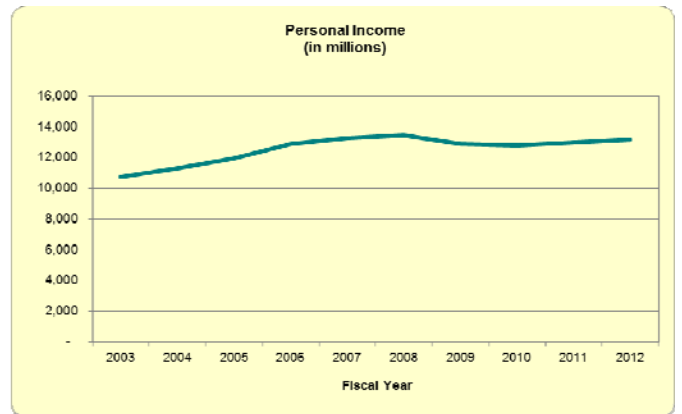
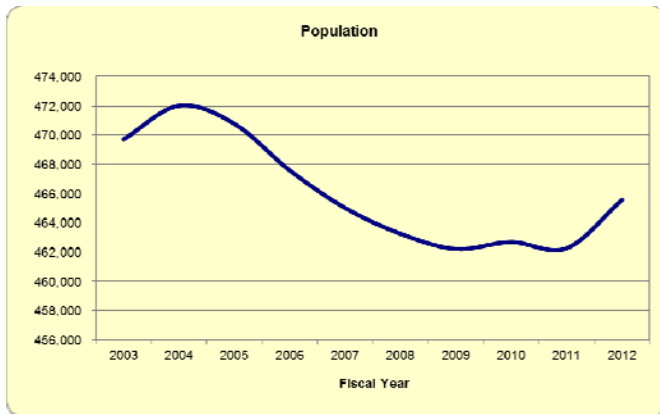
Source: (1) California Department of Finance Demographic Reports

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Personal Income and per capita personal income with exception of 1999 and 2005 is based on percent change of per capita personal income for Los Angeles-Long Beach Santa Ana, CA (Metropolitan Statistic Are). The BEA's Report does not have personal income and per capita personal income available for 2010 and 2011, so an average of the last five years was used.

(3) Average annual rate reported by California Employment Development Department (EDD) for Long Beach city.

(4) Restated prior years due to the data's annual revision.

See accompanying independent auditors' report



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

Employer	Fiscal Year 2012		Fiscal Year 2003	
	Number of Employees ⁽¹⁾	Percentage of Total City Employment ⁽²⁾	Number of Employees ⁽¹⁾	Percentage of Total City Employment ⁽²⁾
Long Beach Unified School District	11,334	4.83%	11,096	4.83%
City of Long Beach	5,758	2.45%	6,542	2.85%
Long Beach Memorial Medical Center	5,743	2.45%	4,400	1.91%
The Boeing Company	5,186	2.21%	10,500	4.57%
California State University Long Beach	3,527	1.50%	5,609	2.44%
Veteran Affairs Medical Center	2,200	0.94%	3,000	1.31%
Long Beach City College	1,785	0.76%	2,000	0.87%
St. Mary Medical Center	1,432	0.61%	1,900	0.83%
California State Univ Long Beach Foundation	1,500	0.64%	1,600	0.70%
United States Postal Service	1,306	0.56%	1,900	0.83%

Sources: (1) Economic Research Group, Department of Development Services

(2) State of California Employment Development Department Labor Market Info for 2003 and 2012.

This data was compiled from various sources by the City of Long Beach Departments of Development Services and Financial Management. Employment data is intended for use as a general guide only. The City of Long Beach does not warrant the accuracy of this data. Inquiries should be directed to the respective employer.

See accompanying independent auditors' report

(Unaudited)

Exhibit 25

**LONG BEACH WATER DEPARTMENT
NUMBER OF EMPLOYEES BY FUND
LAST TEN FISCAL YEARS**

Fiscal Year Ended	Water Fund	Sewer Fund	Total
9/30/2003	196	41	237
9/30/2004	198	33	231
9/30/2005	192	27	219
9/30/2006	184	30	214
9/30/2007	185	43	228
9/30/2008	169	41	210
9/30/2009	172	37	209
9/30/2010	175	44	219
9/30/2011	174	43	217
9/30/2012	184	48	232

Sources: Department's Personnel records

See accompanying independent auditors' report

Operating Information

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

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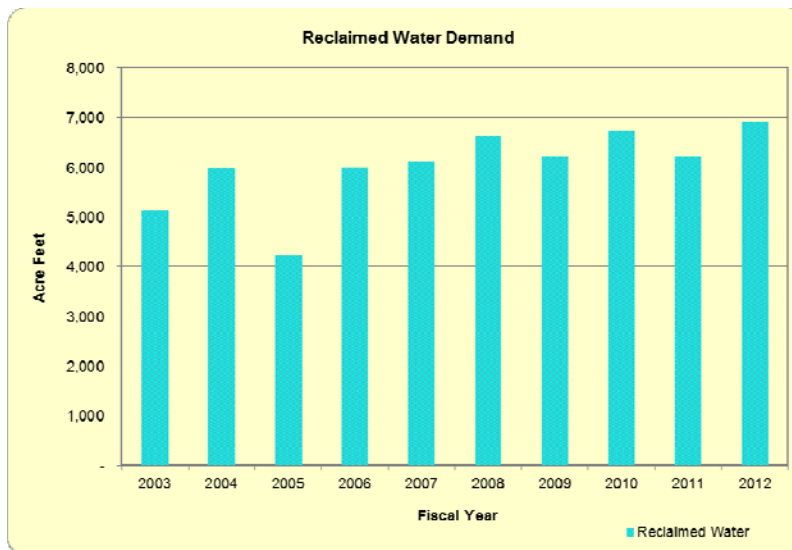
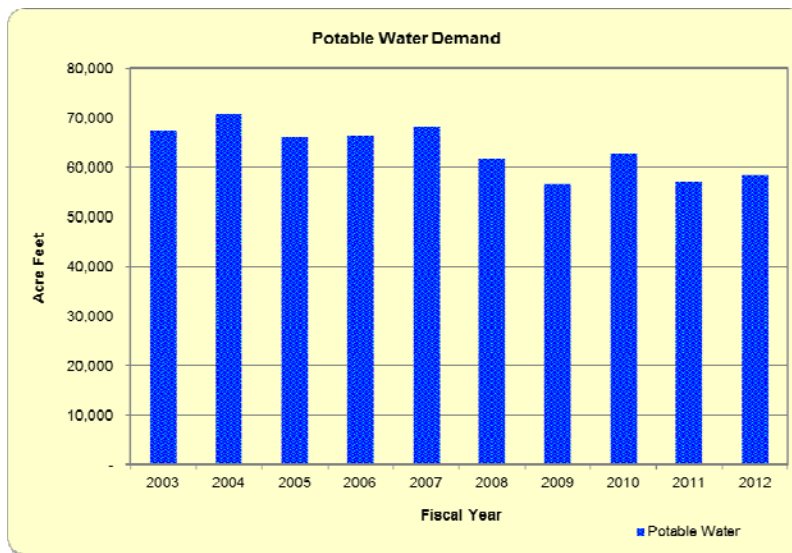
LONG BEACH WATER DEPARTMENT
WATER DEMAND - LAST TEN FISCAL YEARS
(in acre feet)

Fiscal Year Ended	Potable Water		Total Potable Demand	Reclaimed Water	Total Demand
	Pumped	Purchased			
9/30/2003	22,849	44,705	67,554	5,127	72,681
9/30/2004	25,639	45,301	70,940	6,003	76,943
9/30/2005	21,610	44,611	66,221	4,243	70,464
9/30/2006	25,160	41,284	66,444	6,005	72,449
9/30/2007	25,828	42,466	68,294	6,138	74,432
9/30/2008	33,776	28,170	61,946	6,634	68,580
9/30/2009	33,876	22,902	56,778	6,205	62,983
9/30/2010	36,180	26,549	62,729	6,744	69,473
9/30/2011	17,973	39,053	57,026	6,206	63,232
9/30/2012	33,059	25,479	58,538	6,922	65,460

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

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 27

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

<u>Effective Date</u>	<u>Non-Interruptible Treated Water</u>	<u>Non-Interruptible Treated Water</u>	<u>Seasonal Treated Water ⁽¹⁾</u>
1/1/2003	408	-5	267
1/1/2004	418	2	277
1/1/2005	443	6	302
1/1/2006	453	2	312
1/1/2007	478	6	337
1/1/2008	508	6	367
5/1/2008	508	6	-
1/1/2009	579	14	-
9/1/2009	701	21	-
1/1/2010	701	0	-
1/1/2011	744	6	-
1/1/2012	794	7	-

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

Source: Metropolitan Water District of Southern California

See accompanying independent auditors' report

(Unaudited)

Exhibit 28

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

<u>Effective Date</u>	<u>Rate per Acre-Foot</u>	<u>Percent Change</u>
7/1/2003	115.00	(2)
7/1/2004	128.25	12
7/1/2005	134.66	5
7/1/2006	138.00	2
7/1/2007	149.00	8
7/1/2008	153.00	3
7/1/2009	181.85	19
7/1/2010	205.00	13
7/1/2011	244.00	19
7/1/2012	244.00	0

Source: Water Replenishment District of Southern California (WRD)

See accompanying independent auditors' report

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

Fiscal Year Ended	Water System			Water Quality		Reclaimed System	
	Number of Groundwater wells	Miles of water mains	Number of active water service connections	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline
9/30/2003	29	911	89,139	6,442	14,000	54,000	33
9/30/2004	29	907	89,273	6,640	16,400	55,000	33
9/30/2005	29	907	89,365	6,501	16,030	48,910	33
9/30/2006	29	907	89,471	6,505	15,676	57,581	33
9/30/2007	31	905	89,535	6,489	16,761	60,235	33
9/30/2008	31	904	89,583	6,507	16,805	81,378	33
9/30/2009	31	908	89,630	6,525	19,238	118,799	33
9/30/2010	31	909	89,706	6,529	17,126	84,923	33
9/30/2011	31	911	89,851	6,603	15,814	71,472	33
9/30/2012	31	911	89,957	6,594	12,292	57,310	33

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 30

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

Fiscal Year Ended	Number of sewer pump stations	Miles of sewer pipelines	Number of sewer manholes
9/30/2003	28	712	15,924
9/30/2004	28	712	16,031
9/30/2005	28	712	16,041
9/30/2006	28	712	16,044
9/30/2007	28	711	16,055
9/30/2008	28	711	16,078
9/30/2009	28	712	16,129
9/30/2010	28	712	16,135
9/30/2011	28	712	16,147
9/30/2012	28	712	16,148

Source: Department's records

See accompanying independent auditors' report

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

Fiscal Year Ended	Cast Iron Water Mains Replaced (in feet)	Fire Hydrants Repaired	Water Meters Repaired	Sewer Mains & Laterals Repaired⁽¹⁾	Sewer Mains Cleaned (in miles)	Sewer Manholes Chemically Treated
9/30/2003	71,000	395	2,900	97	341	3,000
9/30/2004	63,960	376	7,076	316	437	3,000
9/30/2005	50,601	342	6,889	246	338	3,000
9/30/2006	55,404	259	5,370	296	474	3,000
9/30/2007	54,423	407	7,050	270	364	3,000
9/30/2008	44,332	346	10,637	278	365	3,000
9/30/2009	23,676	485	6,350	215	424	5,000
9/30/2010	21,137	94	8,441	182	547	5,000
9/30/2011	21,294	223	5,428	259	470	5,000
9/30/2012	25,733	269	3,690	261	414	5,000

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

Source: Department's records

See accompanying independent auditors' report



AQUARIUM OF THE PACIFIC CORPORATION

Financial Statements

December 31, 2012 and 2011

(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 Corporation:

We have audited the accompanying financial statements of the Aquarium of the Pacific Corporation (the Corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 Corporation'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 Corporation'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 Corporation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

April 15, 2013

AQUARIUM OF THE PACIFIC CORPORATION

Statements of Financial Position

December 31, 2012 and 2011

Assets	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Cash and cash equivalents	\$ 2,316,100	4,238,450	390,909	6,945,459	1,521,897	4,082,715	364,884	5,969,496
Accounts receivable, net of allowance for doubtful accounts of \$157,299 and \$226,767 in 2012 and 2011, respectively (note 3)	2,209,770	—	—	2,209,770	2,229,370	—	—	2,229,370
Contributions receivable, net	—	3,822,986	—	3,822,986	25,000	985,963	—	1,010,963
Prepaid expenses and other	455,021	—	—	455,021	324,736	—	—	324,736
Gift store inventory	369,981	—	—	369,981	358,414	—	—	358,414
Other assets	25,407	—	—	25,407	66,533	—	—	66,533
Property and equipment, net (note 5)	17,905,035	2,058,184	—	19,963,219	17,014,218	1,093,103	—	18,107,321
Total assets	\$ 23,281,314	10,119,620	390,909	33,791,843	21,540,168	6,161,781	364,884	28,066,833
Liabilities and Net Assets								
Accounts payable	\$ 2,909,002	—	—	2,909,002	2,696,461	—	—	2,696,461
Accrued liabilities	1,349,050	—	—	1,349,050	1,197,581	—	—	1,197,581
Deferred revenue	498,501	—	—	498,501	669,509	—	—	669,509
Total liabilities	4,756,553	—	—	4,756,553	4,563,551	—	—	4,563,551
Net assets:								
Unrestricted	18,524,761	—	—	18,524,761	16,976,617	—	—	16,976,617
Temporarily restricted (note 7)	—	10,119,620	—	10,119,620	—	6,161,781	—	6,161,781
Permanently restricted (notes 8 and 9)	—	—	390,909	390,909	—	—	364,884	364,884
Total net assets	18,524,761	10,119,620	390,909	29,035,290	16,976,617	6,161,781	364,884	23,503,282
Commitments and contingencies								
Total liabilities and net assets	\$ 23,281,314	10,119,620	390,909	33,791,843	21,540,168	6,161,781	364,884	28,066,833

See accompanying notes to financial statements.

AQUARIUM OF THE PACIFIC CORPORATION

Statements of Activities

Years ended December 31, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:								
Admissions	\$ 17,018,035	—	—	17,018,035	15,239,140	—	—	15,239,140
Memberships	3,897,826	—	—	3,897,826	3,245,176	—	—	3,245,176
Educational programs	1,109,634	—	—	1,109,634	952,885	—	—	952,885
Gift store	3,866,035	—	—	3,866,035	3,663,196	—	—	3,663,196
Contributions	1,652,703	7,047,751	26,025	8,726,479	1,161,821	2,993,321	18,389	4,173,531
Ancillary	688,425	—	—	688,425	654,728	—	—	654,728
Food service	601,043	—	—	601,043	485,157	—	—	485,157
Fund-raising events	272,925	—	—	272,925	414,203	—	—	414,203
Donated goods and services	385,675	—	—	385,675	772,588	—	—	772,588
Parking garage (note 3)	1,420,138	—	—	1,420,138	1,374,613	—	—	1,374,613
Other	164,952	—	—	164,952	130,640	10,796	—	141,436
Net assets released from restriction for operations	3,089,912	(3,089,912)	—	—	3,283,147	(3,283,147)	—	—
Total operating revenues	<u>34,167,303</u>	<u>3,957,839</u>	<u>26,025</u>	<u>38,151,167</u>	<u>31,377,294</u>	<u>(279,030)</u>	<u>18,389</u>	<u>31,116,653</u>
Operating expenses:								
Husbandry and facilities	6,655,822	—	—	6,655,822	6,471,683	—	—	6,471,683
Education, interpretation, and outreach	3,117,029	—	—	3,117,029	2,695,363	—	—	2,695,363
Guest services	4,047,417	—	—	4,047,417	3,736,476	—	—	3,736,476
Gift store	2,751,666	—	—	2,751,666	2,665,719	—	—	2,665,719
Development and membership	2,211,021	—	—	2,211,021	2,153,649	—	—	2,153,649
Marketing	3,835,811	—	—	3,835,811	4,037,988	—	—	4,037,988
Human resources	843,936	—	—	843,936	759,499	—	—	759,499
Finance and administration	2,205,564	—	—	2,205,564	2,186,870	—	—	2,186,870
Total operating expenses before other changes	<u>25,668,266</u>	<u style="text-align: center;">—</u>	<u style="text-align: center;">—</u>	<u>25,668,266</u>	<u>24,707,247</u>	<u style="text-align: center;">—</u>	<u style="text-align: center;">—</u>	<u>24,707,247</u>
Earnings from operations before other changes	8,499,037	3,957,839	26,025	12,482,901	6,670,047	(279,030)	18,389	6,409,406
Other operating expenses – other changes:								
Net rent to the City of Long Beach (note 3)	(3,528,000)	—	—	(3,528,000)	(3,528,000)	—	—	(3,528,000)
Amounts transferred to bond-related reserves (note 3)	(687,232)	—	—	(687,232)	(83,311)	—	—	(83,311)
Depreciation and amortization	(2,735,661)	—	—	(2,735,661)	(2,294,316)	—	—	(2,294,316)
Change in net assets	1,548,144	3,957,839	26,025	5,532,008	764,420	(279,030)	18,389	503,779
Net assets at beginning of year	16,976,617	6,161,781	364,884	23,503,282	16,212,197	6,440,811	346,495	22,999,503
Net assets at end of year	<u>\$ 18,524,761</u>	<u>10,119,620</u>	<u>390,909</u>	<u>29,035,290</u>	<u>16,976,617</u>	<u>6,161,781</u>	<u>364,884</u>	<u>23,503,282</u>

See accompanying notes to financial statements.

AQUARIUM OF THE PACIFIC CORPORATION

Statement of Functional Expenses

Year ended December 31, 2012

	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	\$ 3,523,296	1,788,845	2,893,350	887,573	1,050,826	1,041,970	576,026	1,305,442	13,067,328
Cost of goods sold	—	—	—	1,626,477	—	—	—	—	1,626,477
Insurance	60,888	65,482	64,997	22,473	916	1,110	578	53,810	270,254
Permits, maintenance, and construction	341,863	10,032	21,292	2,862	—	—	—	18,392	394,441
Occupancy	12,424	51,155	46,703	85,487	49,194	45,184	67,928	152,059	510,134
Utilities	1,240,709	—	—	4,039	—	—	—	—	1,244,748
Husbandry/animals and collecting	415,339	—	—	—	—	—	—	—	415,339
Services	212,011	840,213	321,219	14,654	496,105	251,136	147,431	321,011	2,603,780
Supplies and other expendables	760,901	228,608	384,135	44,018	98,583	36,325	25,952	99,011	1,677,533
Postage, shipping, and courier	40,517	7,929	4,582	6,044	121,398	70,441	2,339	5,313	258,563
Information technology and telecommunications	10,155	4,439	63,643	2,368	28,877	6,000	1,810	170,733	288,025
Printing and publishing	625	15,573	2,151	—	191,619	287,821	1,014	10,569	509,372
Advertising, promotions, and public relations	—	48,572	75	—	8,848	1,960,303	50	7,545	2,025,393
Travel, meals, and training	37,094	56,181	20,715	3,182	10,660	6,716	20,508	31,557	186,613
Other	—	—	224,555	52,489	153,995	128,805	300	30,122	590,266
Operating expenses before other changes	6,655,822	3,117,029	4,047,417	2,751,666	2,211,021	3,835,811	843,936	2,205,564	25,668,266
Other operating expenses – other changes:									
Net rent to the City of Long Beach (note 3)	1,285,588	1,030,281	1,093,353	69,162	—	8,401	19,601	21,614	3,528,000
Amounts transferred to bond-related reserves (note 3)	250,424	200,692	212,978	13,472	—	1,636	3,818	4,212	687,232
Depreciation and amortization	1,421,930	218,087	543,210	12,213	10,468	26,170	10,468	493,115	2,735,661
Total operating expenses	\$ 9,613,764	4,566,089	5,896,958	2,846,513	2,221,489	3,872,018	877,823	2,724,505	32,619,159

See accompanying notes to financial statements.

AQUARIUM OF THE PACIFIC CORPORATION

Statement of Functional Expenses

Year ended December 31, 2011

	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	\$ 3,254,658	1,530,316	2,755,413	875,921	1,081,736	1,011,762	494,727	1,480,737	12,485,270
Cost of goods sold	—	—	—	1,545,580	—	—	—	—	1,545,580
Insurance	55,272	61,507	61,046	21,127	864	1,046	545	51,174	252,581
Permits, maintenance, and construction	320,998	4,484	25,082	3,110	62	—	—	10,684	364,420
Occupancy	10,744	56,966	41,183	92,584	47,027	44,573	65,072	147,299	505,448
Utilities	1,381,452	937	—	4,217	—	—	—	—	1,386,606
Husbandry/animals and collecting	387,441	—	—	—	—	—	—	—	387,441
Services	277,558	580,781	169,813	7,979	492,095	229,881	155,974	125,354	2,039,435
Supplies and other expendables	686,523	279,598	360,262	44,054	87,136	39,477	19,766	68,957	1,585,773
Postage, shipping, and courier	53,242	11,807	7,755	4,758	116,095	101,206	2,433	5,455	302,751
Information technology and telecommunications	9,284	2,975	55,577	9,206	27,983	6,245	1,407	198,776	311,453
Printing and publishing	719	37,279	2,553	—	63,973	284,521	954	4,062	394,061
Advertising, promotions, and public relations	—	21,262	575	—	8,394	2,103,481	25	7,935	2,141,672
Travel, meals, and training	33,792	102,973	9,935	2,202	15,315	8,569	18,596	21,462	212,844
Other	—	4,478	247,282	54,981	212,969	207,227	—	64,975	791,912
Operating expenses before other changes	6,471,683	2,695,363	3,736,476	2,665,719	2,153,649	4,037,988	759,499	2,186,870	24,707,247
Other operating expenses – other changes:									
Net rent to the City of Long Beach (note 3)	1,285,588	1,030,281	1,093,353	69,162	—	8,401	19,601	21,614	3,528,000
Amounts transferred to bond-related reserves (note 3)	30,358	24,329	25,819	1,633	—	198	463	511	83,311
Depreciation and amortization	1,168,954	203,189	454,108	11,790	10,105	25,263	10,105	410,802	2,294,316
Total operating expenses	<u>\$ 8,956,583</u>	<u>3,953,162</u>	<u>5,309,756</u>	<u>2,748,304</u>	<u>2,163,754</u>	<u>4,071,850</u>	<u>789,668</u>	<u>2,619,797</u>	<u>30,612,874</u>

See accompanying notes to financial statements.

AQUARIUM OF THE PACIFIC CORPORATION

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 5,532,008	503,779
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,735,661	2,294,316
Loss on disposal of fixed assets	—	1,485
Contributions restricted for long-term purposes	(2,773,789)	(2,329,327)
Decrease (increase) in assets:		
Accounts receivable, net	19,600	(115,549)
Contributions receivable	(2,812,023)	644,594
Prepaid expenses	(130,285)	(49,065)
Gift store inventory	(11,567)	(61,252)
Other assets	41,126	41,126
Increase (decrease) in liabilities:		
Accounts payable	212,541	693,780
Accrued liabilities	151,469	44,822
Deferred revenue	(171,008)	27,988
Net cash provided by operating activities	2,793,733	1,696,697
Net cash used in investing activity – purchases of property and equipment	(4,591,559)	(3,106,196)
Net cash provided by financing activity – contributions restricted for long-term purposes	2,773,789	2,329,327
Net increase in cash and cash equivalents	975,963	919,828
Cash and cash equivalents, beginning of year	5,969,496	5,049,668
Cash and cash equivalents, end of year	\$ 6,945,459	5,969,496

See accompanying notes to financial statements.

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(1) Description of Business

Organization and Business Activity

The Aquarium of the Pacific Corporation (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. The Corporation's policy is to record temporarily restricted contributions received and expended in the same accounting period as temporarily restricted contributions and net assets released from restrictions. For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is placed in service.
- 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.

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(b) *Fair Value Measurements*

The Corporation implemented the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In accordance with ASC Topic 820, fair value is defined as the price that the Corporation would receive upon selling an investment in an orderly transaction to a market participant in the principal or most advantageous market of the investment. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC Topic 820 also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information. ASC Topic 820 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date.
- Level II inputs are other than quoted prices included within Level I that are observable for the assets, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data.
- Level III inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's money market accounts which totaled \$6,505,624 and \$5,513,284 at December 31, 2012 and 2011, respectively, are considered cash equivalents and use Level 1 inputs for valuation purposes.

(c) *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.

(d) *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.

(e) *Gift Store Inventory*

Inventory is valued at the lower of cost or market.

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(f) Live Animal Inventory

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

(g) 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.

(h) Property and Equipment

Building 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.

(i) 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.

(j) 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 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.

(k) 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

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

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 \$228,824 and \$573,515 of contributed services in the accompanying financial statements for the years ended December 31, 2012 and 2011, 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.

(l) 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 \$226,037 and \$342,866 for the years ended December 31, 2012 and 2011, respectively.

(m) 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 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 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 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 tax positions 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 2009 and State of California tax authorities before 2008.

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(n) *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, 2012 and 2011, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

(o) *Reclassifications*

Certain reclassifications have been made to the 2011 financial data to conform to the 2012 presentation.

(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 2012 Refunding Revenue Bonds (Aquarium of the Pacific Project) (the Series 2012 Bonds) was 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 shall be \$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).

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

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

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.

As of December 31, 2012 and 2011, \$1,714,725 and \$1,615,996, respectively, is due from the City and is included in accounts receivable in the accompanying statements of financial position.

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.

(4) Property and Equipment

A summary of the Corporation's property and equipment at December 31, 2012 and 2011 is as follows:

	2012	2011
Building	\$ 12,672,350	11,840,587
Leasehold improvements	24,712	24,712
Furniture and fixtures	4,019,921	3,044,634
Equipment	14,020,945	11,888,639
Construction in progress	2,495,395	1,843,193
Total	33,233,323	28,641,765
Less accumulated depreciation	(13,270,104)	(10,534,444)
Property and equipment, net	\$ 19,963,219	18,107,321

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(5) Commitments and Contingencies

(a) Operating Leases

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

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

2013	\$	537,079
2014		540,060
2015		527,840
2016		462,395
2017		212,897
Thereafter		600,000
	\$	2,880,271

Office, warehouse, and equipment leases aggregating \$563,649 and \$348,592 were paid during the years ended December 31, 2012 and 2011, 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.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2012 and 2011 consist of the following:

	2012	2011
Marketing	\$ 242	245
Scholarships	333,786	300,152
Equipment and construction	9,031,143	5,332,117
Education and conservation projects	754,449	529,267
	\$ 10,119,620	6,161,781

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(7) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31, 2012 and 2011 consist of \$390,909 and \$364,884, respectively, related to endowment activities.

(8) 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

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(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 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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	24,534	390,909	415,443
Board-designated endowments	—	—	—	—
Total	\$ —	24,534	390,909	415,443

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

Changes in endowment net assets for the fiscal year ended December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	25,559	364,884	390,443
Investment return:				
Investment income	—	520	—	520
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	520	—	520
Contributions	—	—	26,025	26,025
Appropriation for endowment spending	—	(1,545)	—	(1,545)
Net assets, end of year	<u>\$ —</u>	<u>24,534</u>	<u>390,909</u>	<u>415,443</u>

Endowment net asset composition by type of fund as of December 31, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	25,559	364,884	390,443
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>25,559</u>	<u>364,884</u>	<u>390,443</u>

Changes in endowment net assets for the fiscal year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	25,074	346,495	371,569
Investment return:				
Investment income	—	821	—	821
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	821	—	821
Contributions	—	—	18,389	18,389
Appropriation for endowment spending	—	(336)	—	(336)
Net assets, end of year	<u>\$ —</u>	<u>25,559</u>	<u>364,884</u>	<u>390,443</u>

AQUARIUM OF THE PACIFIC CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(9) Contributions Receivable

As of December 31, 2012 and 2011, contributions receivable are expected to be received as follows:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 1,055,201	644,323
Within two to five years	<u>3,390,750</u>	<u>369,500</u>
	4,445,951	1,013,823
Less discount at 7.25% to reflect contributions receivable at present value	<u>(622,965)</u>	<u>(2,860)</u>
Contributions receivable, net	<u>\$ 3,822,986</u>	<u>1,010,963</u>

(10) Retirement Plan

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2012 and 2011, 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 \$17,000 and \$16,500 for the years ended December 31, 2012 and 2011, respectively. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was \$53,309 and \$54,665 for the years ended December 31, 2012 and 2011, respectively.

(11) Subsequent Events

Subsequent events have been evaluated through April 15, 2013, which is the date the financial statements were issued.



CITY OF LONG BEACH, CALIFORNIA

Single Audit Reports

Year ended September 30, 2012

(With Independent Auditors' Reports Thereon)

CITY OF LONG BEACH, CALIFORNIA

Table of Contents

	Page(s)
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 <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3-5
Schedule of Expenditures of Federal Awards	6-20
Notes to Schedule of Expenditures of Federal Awards	21-22
Schedule of Findings and Questioned Costs	23-41



KPMG LLP
Suite 700
20 Pacifica
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 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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 29, 2013. Our report was modified to include a reference to another auditor and the City's adoption of Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Another auditor audited the financial statements of the discretely presented component unit, as described in our report on the City's 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated March 29, 2013.

This report is intended solely for the information and use of the City Council, management, others within the City, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 29, 2013



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

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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

Compliance

We have audited the City of Long Beach, California's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's financial statements include the operations of the Long Beach Transportation Company, a discretely presented component unit, which received \$10,042,516 in federal awards which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2012. Our audit, described below, did not include the operations of the discretely presented component unit because the Long Beach Transportation Company engaged other auditors to perform audits in accordance with OMB Circular A-133.

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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Long Beach, California complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F-12-01 through F-12-07.



Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items F-12-01 through F-12-07. A significant deficiency in internal control over compliance is a deficiency, or 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.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended September 30, 2012, and have issued our report thereon date March 29, 2013, which contained unqualified opinions on those financial statements. Our report was modified to include a reference to another auditor who audited the City's discretely presented component unit. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to March 29, 2013. 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 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.



The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the City of Long Beach's City Council, others within the City, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 24, 2013

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
<u>Department of Agriculture Food and Nutrition Service:</u>			
Passed through the State of California Department of Health Services:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	08-85418 A02	\$ 3,514
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10440	<u>4,159,621</u>
Total Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)			<u>4,163,135</u>
Passed through the State of California Department of Education:			
Summer Food Service Program for Children	10.599	19-81908V	416,357
Passed through the State of California Department of Health Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	08-85135	(240)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	11-10227	<u>612,629</u>
Total SNAP Cluster (10.561)			<u>612,389</u>
Total Department of Agriculture Food and Nutrition Service			<u>5,191,881</u>
<u>Department of Commerce Economic Development Administration:</u>			
Direct:			
Economic Adjustment Assistance	11.307	07-49-05046	1,175,301
Passed through the State Coastal Conservancy:			
Habitat Conservation	11.463	NA10NMF4630082	<u>690,997</u>
Total Department of Commerce Economic Development Administration			<u>1,866,298</u>
<u>Department of Defense:</u>			
Direct:			
Estuary Habitat Restoration Program	12.130	W912PL-12-2-0001	\$ <u>835,000</u>
Total Department of Defense			<u>835,000</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
<u>Department of Housing and Urban Development:</u>			
Direct:			
Community Development Block Grant/Entitlement Grants	14.218	B-10-MC-06-0522	5,476,405
Community Development Block Grant/Entitlement Grants	14.218	B-11-MC-06-0522	2,335,230
			<u>7,811,635</u>
Neighborhood Stabilization Program	14.218	B-08-MN-06-0511	558,360
Total CDBG – Entitlement Grants Cluster (14.218)			<u>8,369,995</u>
Emergency Shelter Grants Program	14.231	S-10-MC-06-0522	66,118
Emergency Shelter Grants Program	14.231	E-11-MC-06-0522	290,599
Total Emergency Shelter Grants Program (14.231)			<u>356,717</u>
Supportive Housing Program SHP09	14.235	CA06B9D060802	169,706
Supportive Housing Program SHP10	14.235	CA06B9D061003	3,774,238
Supportive Housing Program SHP11	14.235	CA06B9D061104	1,588,421
Total Supportive Housing Program (14.235)			<u>5,532,365</u>
Shelter Plus Care	14.238	CA16C506-001	5,256
Shelter Plus Care	14.238	CA0645C9D060802	18,898
Shelter Plus Care	14.238	CA0645C9D061003	73,039
Shelter Plus Care	14.238	CA0646C9D061003	218,143
Shelter Plus Care	14.238	CA0646C9D061104	99,308
Shelter Plus Care	14.238	CA0647C9D061003	96,998
Shelter Plus Care	14.238	CA0647C9D061104	129,035
Shelter Plus Care	14.238	CA0932C9D061001	59,096
Shelter Plus Care	14.238	CA1014C9D061000	31,690
Total Shelter Plus Care (14.238)			<u>731,463</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
<u>Department of Housing and Urban Development (continued):</u>			
Direct:			
Home Investment Partnerships Program	14.239	M-10-MC-06-0518	\$ 3,554,978
Home Investment Partnerships Program	14.239	M-11-MC-06-0518	627,050
Total Home Investment Partnerships Program (14.239)			<u>4,182,028</u>
Passed through the City of Los Angeles:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	98256	758,807
Direct:			
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-09-SP-CA-0144	11,378
ARRA – Neighborhood Stabilization Program	14.256	B-09-CN-CA-0045	3,714,833
ARRA – Homeless Prevention and Rapid Re-Housing Program	14.262	S-09-MY-06-0522	917,912
Section 8 Housing Choice Vouchers	14.871	CA068VO	77,155,662
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	CALHB0514-12	56,589
ARRA – Lead-Based Paint Hazard Control in Privately Owned Housing	14.907	CALHB0408-08	468,448
ARRA – Healthy Homes Demonstration Grant Program	14.908	CALHH0188-08	144,050
Total Lead Hazard Control Cluster (14.907 and 14.908)			<u>612,498</u>
Total Department of Housing and Urban Development			<u>102,400,247</u>
<u>Department of the Interior Bureau of Reclamation:</u>			
Direct:			
ARRA – Water Reclamation and Reuse Program	15.504	R09AC35R11	22,823
Water Desalination Research and Development Program	15.506	R02AC35053	13,310
Passed through the State Parks Department:			
Outdoor Recreation Acquisition, Development and Planning	15.916	C8940014/06-01554	(5,682)
Total Department of the Interior Bureau of Reclamation			<u>30,451</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
Department of Justice:			
Direct:			
Asset Forfeiture	16.000	N/A	\$ 46,582
Part E – Developing, Testing and Demonstrating Promising New Programs	16.541	2010-JL-FX-0532	183,046
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2009 DN BX K044	109,806
Bulletproof Vest Partnership Program	16.607	N/A	44,846
COPS Technology Equipment	16.710	2010-CD-WX-0228	87,355
Child Sexual Predator Program	16.710	2011-CS-WX-0004	<u>162,075</u>
Total Public Safety Partnership and Community Policing Grants (16.710)			<u>249,430</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0327	256,625
Passed through the City of Los Angeles:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	C-118155	<u>83,488</u>
Total Edward Bryne Memorial Justice Assistance Grant Program (16.738)			340,113
ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government	16.804	2009 SB B9 2024	<u>219,144</u>
Total JAG Program Cluster (16.738 and 16.804)			<u>559,257</u>
Direct:			
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	2011-CD-BX-0067	171,673
Passed through the State of California Office of Emergency Services:			
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ10077240	<u>31,143</u>
Total Paul Coverdell Forensic Sciences Improvement Grant Program (16.742)			<u>202,816</u>
Total Department of Justice			<u>1,395,783</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
Department of Labor:			
Direct:			
H-1B Job Training Grants	17.268	HG-22609-12-60-A-6	\$ 396,097
Passed through the South Bay Workforce Investment Board, Inc.:			
Workforce Investment Act (WIA) National Emergency Grants	17.277	EM-22035-11-60-A-6/11-W128	735,497
Passed through the State of California Employment Development Department:			
CA New Start Prison to Employment 3	17.258	K074146/AA-17110-08-55-A-6	152,915
Workforce Development Incentives II	17.258	K178665	7,657
Workforce Investment Act (WIA) Title I Adult Formula	17.258	K282480	1,554,993
Workforce Investment Act (WIA) Title I Adult Formula	17.258	K386302	444,322
			<u>1,999,315</u>
Passed through the State of California Employment Development Department:			
Passed through the City of Los Angeles:			
City of LA Sector Initiative Adult	17.258	C-121134	4,635
Workforce Investment Act (WIA) Harbor Worksource Ctr Adult	17.258	C-119216	389,466
Workforce Investment Act (WIA) Harbor Worksource Ctr Adult	17.258	C-121276	104,831
			<u>494,297</u>
Passed through the State of California Employment Development Department:			
Passed through the County of Orange:			
OCWIB – Vet Assistance Employment Program	17.258	V1-V-09	23,908
OCWIB – Vet Assistance Employment Program II	17.258	V1-V-11	256,488
			<u>280,396</u>
Passed through the State of California Employment Development Department:			
Passed through the South Bay Center for Counseling			
SBCC – Vet Assistance Employment Program II	17.258	MOU	6,371
Total WIA Adult Program (17.258)			<u>2,945,586</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
Department of Labor (continued):			
Passed through the State of California Employment Development Department:			
High Concentration Youth 2	17.259	K178665	\$ 68,442
Workforce Investment Act (WIA) Title I Youth Formula	17.259	K282480	1,272,005
Workforce Investment Act (WIA) Title I Youth Formula	17.259	K386302	20,276
			<u>1,292,281</u>
Total WIA Youth Program (17.259)			<u>1,360,723</u>
ARRA – On-The-Job-Training Grant	17.260	K074146/AA-17110-08-55-A-6	369,720
Passed through the State of California Employment Development Department:			
Passed through the County of Orange			
OCWIB – Vet Assistance Employment Program	17.260	V1-V-09	16,877
Total WIA Dislocated Workers (17.260)			<u>386,597</u>
Passed through the State of California Employment Development Department:			
Workforce Investment Act (WIA) Dislocated Worker to Adult Transfer	17.278	K282480	641,461
Workforce Investment Act (WIA) Title I Dislocated Worker	17.278	K282480	878,491
Workforce Investment Act (WIA) Title I Dislocated Worker	17.278	K386302	222,694
			<u>1,101,185</u>
Workforce Investment Act (WIA) Rapid Response	17.278	K282480	192,986
Workforce Investment Act (WIA) Rapid Response	17.278	K386302	76,265
			<u>269,251</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
<u>Department of Labor (continued):</u>			
Passed through the State of California Employment Development Department:			
Passed through the City of Los Angeles:			
City of LA Sector Initiative Dislocated	17.278	C-121134	\$ 3,476
Workforce Investment Act (WIA) Harbor Worksource Ctr Dislocated Worker	17.278	C-119216	252,891
Workforce Investment Act (WIA) Harbor Worksource Ctr Dislocated Worker	17.278	C-121276	82,490
			<hr/>
			335,381
City of Los Angeles Lay Off Aversion	17.278	C-119706	100,000
City of Los Angeles Lay Off Aversion	17.278	C-121290	15,117
			<hr/>
			115,117
			<hr/>
Total WIA Dislocated Worker Formula Grants (17.278)			2,465,871
			<hr/>
Total WIA Cluster (17.258, 17.259, 17.260, and 17.278)			7,158,777
			<hr/>
Total Department of Labor			8,290,371
			<hr/>
<u>Department of Transportation:</u>			
Direct:			
Airport Improvement Program	20.106	AIP 3-06-0127-031	1,264
Airport Improvement Program	20.106	AIP 3-06-0127-032-2009	57,226
Airport Improvement Program	20.106	AIP 3-06-0127-033-2009	62,485
Airport Improvement Program	20.106	AIP 3-06-0127-034-2010	4,108
Airport Improvement Program	20.106	AIP 3-06-0127-035-2010	2,813,790
Airport Improvement Program	20.106	AIP 3-06-0127-036-2011	596,191
Airport Improvement Program	20.106	AIP 3-06-0127-037-2011	721,164
Airport Improvement Program	20.106	AIP 3-06-0127-038-2011	384,152
			<hr/>
Total Airport Improvement Program (20.106)			4,640,380

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
Department of Transportation (continued):			
Passed through the State of California Department of Transportation:			
Highway Planning and Construction	20.205	BRLS-5108 (137)	\$ 16,837,525
Highway Planning and Construction	20.205	CML-5108 (125)	84,502
Highway Planning and Construction	20.205	CML-5108 (130)	14,645
Highway Planning and Construction	20.205	DPM-5108 (122)	174,399
Highway Planning and Construction	20.205	HPLUL-5108 (086)	306,999
Highway Planning and Construction	20.205	PNRSLN-5108 (116)	35,466,045
Highway Planning and Construction	20.205	RPSTPLE-5108 (080)	(112)
Highway Planning and Construction	20.205	RPSTPLE-5108 (081)	113,549
Highway Planning and Construction	20.205	STPL-5108 (106)	248,420
Highway Planning and Construction	20.205	STPL-5108 (118)	(2,666)
Highway Planning and Construction	20.205	STPL-5108 (119)	1,017,717
Highway Planning and Construction	20.205	STPL-5108 (134)	1,060,176
Highway Planning and Construction	20.205	STPL-5108 (143)	15,399
Highway Planning and Construction	20.205	STPL-5108 (144)	29,947
Highway Planning and Construction	20.205	STPL-5108 (146)	7,887
Highway Planning and Construction	20.205	STPL-5108 (147)	68,459
Highway Planning and Construction	20.205	STPLHSR-5108 (092)	13,667
Highway Planning and Construction	20.205	STPLX-5108 (044)	23,761
			<u>55,480,319</u>
Safe Routes to School	20.205	SRTSLNI-5108(123)	198,246
Safe Routes to School	20.205	SRTSNI-5108(149)	239
			<u>198,485</u>
ARRA – Highway Planning and Construction	20.205	ESPL-5108 (107)	22,550
ARRA – Highway Planning and Construction	20.205	ESPL-5108 (112)	(54,103)
ARRA – Highway Planning and Construction	20.205	ESPL-5108 (124)	(2,867)
ARRA – Highway Planning and Construction	20.205	ESPL-5108 (127)	(3,291)
ARRA – Highway Planning and Construction	20.205	ESPL-5108 (129)	858
ARRA – Highway Planning and Construction	20.205	ESPLE-5108 (132)	92,584
			<u>55,731</u>
ARRA – Caltrans	20.205	88A0073	74,438
Total Highway Planning and Construction Programs (20.205)			<u>55,808,973</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
<u>Department of Transportation (continued):</u>			
Passed through the State of California Office of Traffic Safety:			
State and Community Highway Safety	20.600	PT1141	\$ 109,222
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1141	<u>151,146</u>
Total Highway Safety Cluster (20.600 and 20.608)			<u>260,368</u>
Total Department of Transportation			<u>60,709,721</u>
<u>National Endowment for the Humanities:</u>			
Passed through California Council for the Humanities:			
Promotion of the Humanities Federal/State Partnership	45.129	CAR11-29	10,751
Promotion of the Humanities We the People	45.168	CAR11-29	<u>54</u>
Total National Endowment for the Humanities			<u>10,805</u>
<u>Environmental Protection Agency:</u>			
Direct:			
National Clean Diesel Emissions Reduction Program	66.039	00T37301	1,373,409
National Clean Diesel Emissions Reduction Program	66.039	00T66601	<u>127,358</u>
Total National Clean Diesel Emissions Reduction Program (66.039)			<u>1,500,767</u>
Passed through the State of California Department of Health Services:			
ARRA – Water Quality Management Planning	66.454	11-002	25,867
ARRA – Water Quality Management Planning	66.454	11-451-550	<u>19,882</u>
Total ARRA – Water Quality Management Planning (66.454)			<u>45,749</u>
Passed through the State of California Water Resources Control Board:			
ARRA – Capitalization Grants for Clean Water State Revolving Funds	66.458	C-06-6951-110/08-300-550	(2,331)
Passed through the State of California Department of Health Services:			
Beach Monitoring and Notification Program Implementation	66.472	11-10771	25,000
Beach Monitoring and Notification Program Implementation	66.472	12-040-250	<u>9,941</u>
Total Beach Monitoring and Notification Program Implementation (66.472)			<u>34,941</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
<u>Environmental Protection Agency (continued):</u>			
Direct:			
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716	V-98972501-2	\$ 18,044
Total Environmental Protection Agency			<u>1,597,170</u>
<u>Department of Energy:</u>			
Passed through the South Coast Air Quality Management District (AQMD):			
ARRA – Conservation Research and Development	81.086	DE-EE0002547	22,758
Direct:			
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0000866	<u>2,276,837</u>
Total Department of Energy			<u>2,299,595</u>
<u>Department of Education:</u>			
Passed through the State of California Department of Education:			
Even Start-State Education Agencies	84.213	11-14331-2199-2	96,884
Direct:			
Fund for the Improvement of Education	84.215	U215K090230	174,412
Passed through the State of California Department of Education:			
Passed through the Long Beach Unified School District:			
Twenty-First Century Community Learning Centers	84.287	11-14349-6472	<u>79,519</u>
Total Department of Education			<u>350,815</u>
<u>Department of Health & Human Services:</u>			
Passed through the County of Los Angeles:			
Public Health Emergency Preparedness	93.069	PH-001964	781,103
Public Health Emergency Preparedness	93.069	PH-002224	<u>146,665</u>
Total Public Health Emergency Preparedness (93.069)			<u>927,768</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
Department of Health & Human Services (continued):			
Passed through the State of California Department of Health Services:			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	\$ (214)
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	106,477
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	<u>27,088</u>
Total Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116)			<u>133,351</u>
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	08-85064	150,523
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	11-10545	<u>48,654</u>
Total Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children (93.197)			<u>199,177</u>
Immunization Grants	93.268	11-10575	212,952
Passed through the County of Los Angeles:			
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507	PH-001655-2	165,422
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Community Transformation Grants and National Dissemination and Support for Community Transformation Grants	93.531	PH-002196	92,530
Promoting Safe and Stable Families	93.556	31035	27,690
Promoting Safe and Stable Families	93.556	04-025-14	26,852
Promoting Safe and Stable Families	93.556	05-027-10	11,934
Promoting Safe and Stable Families	93.556	05-028-5	<u>20,885</u>
Total Promoting Safe and Stable Families (93.556)			<u>87,361</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
Department of Health & Human Services (continued):			
Passed through the State of California Department of Health Services:			
Passed through the County of Los Angeles Department of Public Social Services:			
Passed through the City of Hawthorne/South Bay Workforce Investment Board:			
Calworks Transitional Subsidized Emp Pro	93.558	H1372	\$ 71,012
Los Angeles County Summer Youth Calworks	93.558	IA1101	<u>94,523</u>
Total Temporary Assistance for Needy Families (93.558)			165,535
Passed through the State of California Department of Health Services:			
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	09-H226	<u>8,000</u>
Total TANF Cluster (93.558 and 93.714)			<u>173,535</u>
Passed through RAND Corporation:			
ARRA – Trans-NIH Recovery Act Research Support	93.701	R01HD050150/ 9920100098	88,341
Passed through the County of Los Angeles:			
ARRA – Healthy Food Initiative – RENEW	93.724	PH-001138/1U58DP002485-01	87,808
ARRA – Smoking Cessation Initiative – TRUST	93.724	PH-001138/1U58DP002543-01	138,652
ARRA – Exercise and Wellness – RENEW	93.724	PH-001147	<u>12,104</u>
Total ARRA – Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) (93.724)			<u>238,564</u>
Passed through the State of California Department of Health Services:			
Childhood Health and Disability	93.778	V#002713-00	521,532
Medical Gateway	93.778	V#002713-00	71,722
MAA/TCM Administration	93.778	09-86022-A01	45,188
Nursing MAA Claiming	93.778	09-86022-A01	416,585
Nursing TCM Claiming	93.778	61-0713A2	<u>103,212</u>
Total Medicaid Cluster (93.778)			<u>1,158,239</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
Department of Health & Human Services (continued):			
Passed through the State of California Department of Health and Human Services:			
AIDS/HIV AIDS/HIV Benefits Specialty	93.915	H-210813	\$ 72,150
Passed through the County of Los Angeles:			
AIDS EIP Outpatient Medical	93.915	H209210	75,352
AIDS Case Management	93.915	H210813	194,015
Total AIDS Case Management (93.915)			<u>341,517</u>
Passed through the State of California Department of Health Services:			
AIDS Surveillance	93.940	10-95266 A02	286,081
HIV Care Coordination	93.940	10-95266 A02	797,482
HIV Prevention – Counseling and Testing	93.940	10-95266 A02	653,848
Outreach/Prevention for HIV Positive (Bridge)	93.940	10-95266 A02	74,068
Total HIV Prevention Activities – Health Department Based (93.940)			<u>1,811,479</u>
Maternal and Child Health Services Block Grant to the States	93.994	201160-MCH	127,548
Maternal and Child Health Services Block Grant to the States	93.994	201260-MCH	81,765
			<u>209,313</u>
Maternal and Child Health Services Block Grant to the States -Black Infant Health	93.994	201160-BIH	200,882
Maternal and Child Health Services Block Grant to the States -Black Infant Health	93.994	201260-BIH	78,820
			<u>279,702</u>
Total Maternal and Child Health Services Block Grant to the States (93.994)			<u>489,015</u>
Total Department of Health & Human Services			<u>6,119,251</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
U.S. Department of Homeland Security:			
Passed through the State of California – California Emergency			
Management Agency:			
State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program)	97.004	2004-GE-T4-0045	\$ (1,644)
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1577	(907)
Passed through the State of California – California Emergency			
Management Agency:			
Passed through the County of Los Angeles:			
Emergency Management Performance Grant	97.042	2005-0015 2006-08	9,528
Passed through Port of Los Angeles:			
Port Security Grant Program	97.056	2007-GB-T7-K429	1,260,763
Port Security Grant Program	97.056	2008-GB-T8-K014	4,486,982
Passed through the Marine Exchange of Los Angeles – Long Beach Harbor:			
Port Security Grant Program	97.056	2009-PU-T9-K020	245,008
Port Security Grant Program	97.056	2010-PU-T0-K004	56,316
Port Security Grant Program	97.056	EMW-2011-PU-K00001	520,769
Port Security Grant Program	97.056	2008-GB-T8-K014	2,408,140
Port Security Grant Program	97.056	2010-PU-T0-K004	128,322
Total Port Security Grant Program (97.056)			<u>9,106,300</u>
Passed through the State of California – California Emergency			
Management Agency:			
Passed through the County of Los Angeles:			
Homeland Security Grant Program	97.067	2009-0019	480,614
Homeland Security Grant Program	97.067	2010-0085	3,991
			<u>484,605</u>

CITY OF LONG BEACH, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Federal grantor/pass-through entity identifying number</u>	<u>Federal disbursements/expenditures</u>
U.S. Department of Homeland Security (continued):			
Passed through the State of California – California Emergency Management Agency:			
Passed through the City of Los Angeles:			
Urban Area Security Initiative Program	97.067	2007-0008	\$ (137)
Urban Area Security Initiative Program	97.067	2008-0006	2,456,094
Urban Area Security Initiative Program	97.067	2009-0019	4,015,315
Urban Area Security Initiative Program	97.067	2010-0085	289,825
Urban Area Security Initiative Program	97.067	2011-SS-077	4,087
			<u>6,765,184</u>
Total Homeland Security Grant Program (97.067)			<u>7,249,789</u>
Direct:			
Law Enforcement Officers Reimbursement Agreement Program	97.090	HSTS02-08-H-SLR324	289,300
ARRA Port Security Grant Program	97.116	2009-PU-R1-0191	3,144,756
ARRA Port Security Grant Program	97.116	2009-PU-R1-0211	99,089
Total Port Security Grant (97.116)			<u>3,243,845</u>
Advanced Surveillance Program (ASP)	97.118	HSTS04-09-H-CT7027	218,494
Total Department of Homeland Security			<u>20,114,705</u>
Total Federal Expenditures			<u>\$ 211,212,093</u>

CITY OF LONG BEACH, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

(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 \$10,042,516, for the year ended September 30, 2012 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 \$5,004,387, \$62,679,062, and \$10,181,644 at September 30, 2012, 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, 2012. Program income of \$3,743,093 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 \$19,414,956 but do not represent cash expenditures in the City's basic financial statements for the year ended September 30, 2012.

CITY OF LONG BEACH, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

(6) Payments to Subrecipients

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

<u>Program title</u>	<u>CFDA numbers</u>	<u>Amount provided to subrecipients</u>
Supportive Housing Program	14.235	\$ 4,558,420
Part E – Developing, Testing, and Demonstrating Promising New Programs	16.541	112,616
H-1B Job Training Grants	17.268	174,574
Workforce Investment Act Cluster	17.258, 17.259, 17.260, and 17.278	581,108
National Clean Diesel Emissions Reduction Program	66.039	1,373,409
Even Start-State Education Agencies	84.213	89,644

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

(1) Summary of Auditors' Results

Basic Financial Statements

(a) The type of report on the basic financial statements:

- Governmental activities: **Unqualified.**
- Business-type activities: **Unqualified.**
- Each major fund: **Unqualified.**
- Aggregate remaining fund information: **Unqualified.**
- Discretely presented component unit (Long Beach Transportation Company*): **Unqualified.**

* Another auditor audited the financial statements of the Long Beach Transportation Company as described in our report on the City of Long Beach's financial statements.

(b) Internal control over financial reporting:

- Material weakness(es) identified: **No.**
- Significant deficiencies identified that are not considered to be material weaknesses: **No.**

(c) Noncompliance that is material to the basic financial statements: **No.**

Federal Awards

(d) Internal control over major programs:

- Material weakness(es) identified: **No.**
- Significant deficiencies identified that are not considered to be material weaknesses: **Yes. See items F-12-01 through F-12-07.**

(e) The type of report issued on compliance for major programs: **We have issued an unqualified opinion on compliance related to each major program.**

(f) Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **Yes. See items F-12-01 through F-12-07.**

(g) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

(h) Major programs:

- Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA number 10.557

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

- Community Development Block Grants – Entitlements Grants Cluster:
 - Community Development Block Grants/Entitlement Grants, CFDA number 14.218
 - Neighborhood Stabilization Program, CFDA number 14.218
 - Supportive Housing Program, CFDA number 14.235
 - Home Investment Partnerships Program, CFDA number 14.239
 - ARRA-Neighborhood Stabilization Program, CFDA number 14.256
 - Section 8 Housing Vouchers, CFDA number 14.871
 - Lead Hazard Control Cluster:
 - ARRA-Lead-Based Paint Hazard Control in Privately Owned Housing, CFDA number 14.907
 - ARRA-Healthy Homes Demonstration Grant Program, CFDA number 14.908
 - Airport Improvement Program, CFDA number 20.106
 - Highway Planning and Construction Programs:
 - Highway Planning and Construction, CFDA number 20.205
 - Safe Routes to School, CFDA number 20.205
 - ARRA-Highway Planning and Construction, CFDA number 20.205
 - ARRA-Caltrans, CFDA number 20.205
 - Port Security Grant Program, CFDA number 97.056
 - Homeland Security Grant Program, CFDA number 97.067
 - ARRA-Port Security Grant Program, CFDA number 97.116
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes.**

(2) Findings Relating to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*

None noted.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

(3) Findings and Questioned Costs Relating to Federal Awards

F-12-01 Eligibility

Program Information

Federal Program

Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA number 10.557

Federal Grant Award Number and Grant Period

<u>Federal grant number</u>	<u>Grant period</u>	<u>Location</u>
08-85418 A02	10/1/2008 to 9/30/2011	Department of Health and Human Services
11-10440	10/1/2011 to 9/30/2014	

Federal Agency

Department of Agriculture Food and Nutrition Service

Pass-Through Agency

State of California Department of Health Services

Specific Requirements

California Department of Public Health

WIC Program Manual

Section 200 – Nutrition Assessment and Certification

200-210: Eligibility Requirements

210-11 Determining Biochemical Nutrition Need for All Categories Required procedures:

- I. If a biochemical result is not provided at certification or enrollment, the LA is required to obtain the biochemical results within 90 days.

Condition and Context

In accordance with WIC Program Manual 210-11, a blood test must be taken at enrollment as well as on a yearly basis for recertification purposes. We sampled a total of 65 participants, of which 2 participants hematological test was taken beyond the required time period of 90 days.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Questioned Costs

\$156

Two participants were found to have received monthly vouchers during periods of ineligibility. The aggregate period of ineligibility was equivalent to 2.5 months. The average voucher cost according to the California Department of Health was \$62.45 ($2.5 \times \$62.45 = \156).

Cause and Effect

Eligibility requirements are established so that benefits of the WIC program will be distributed in accordance with priority levels set by participant needs. Adequate monitoring controls do not appear to be in place to ensure that participants comply with the eligibility provisions noted in the grant agreement. As a result, participants received monthly vouchers during periods of ineligibility.

Recommendation

We recommend that management implements policies and procedures to strengthen existing internal controls to ensure eligibility is properly documented when verified to ensure eligibility requirements are properly followed. Additionally, we recommend that the annual self-auditing is not frequent enough to catch errors in a timely manner and that the procedure be performed more frequently.

Views of Responsible Officials and Planned Corrective Action

The City has not and will not intentionally implement practices or policies that are inconsistent with OMB Circular A-133 or the WIC program manual. The Department of Health and Human Services (DHHS) has and continues to take measures to improve their management of the grant. Over the past few years the City has hired registered nurses to provide free hemoglobin testing to WIC participants without health insurance and invested in hemoglobin test equipment for each site and trained staff on use of the equipment.

As quoted in these findings from the WIC Program Manual, WIC participants have 90 days to provide an up-to-date hemoglobin test result. This test has been cumbersome to provide because it involves a pin prick, blood and a trained nurse to provide the test. If a nurse was not available, the participant would have to schedule a separate visit for the test. Often times the participant would not be able to return for the test within the 90 days. There is now new testing equipment called the Masimo Pronto that is noninvasive, quick and provides immediate results without the need of a nurse to administer. DHHS is in the process of acquiring Masimo Pronto hemoglobin test equipment for each site by August 2013. This will allow a participant to be tested if they do not have a primary health care provider for this service.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

F-12-02 Eligibility

Program Information

Federal Program

ARRA Neighborhood Stabilization Program, CFDA Number. 14.256

Federal Grant Award Number and Grant Period

<u>Federal grant number</u>	<u>Grant period</u>	<u>Location</u>
B-09-CN-CA-0045	2/11/2010 to 2/11/2013	Department of Development Services

Federal Agency

Department of Housing and Urban Development

Pass-Through Agency

N/A

Specific Requirements

Department of Housing and Urban Development Docket No. FR-5321-N-01

Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009

Current market appraised value: The current market appraised value means the value of a foreclosed upon home or residential property that is established through an appraisal made in conformity with the appraisal requirements of the URA at 49 CFR 24.103 and completed within 60 days prior to an offer made for the property by a recipient, subrecipient, developer, or individual homebuyer; provided, however, if the anticipated value of the proposed acquisition is estimated at \$25,000 or less, the current market appraised value of the property may be established by a valuation of the property that is based on a review of available data and is made by a person the recipient determines is qualified to make the valuation.

Condition and Context

In accordance with the Department of Housing and Urban Development's Notice of Funds Available, an appraisal must be completed within 60 days prior to an offer made for the property by a the City. In our sample of 8 properties out of 13 total, we noted an appraisal for one properly was completed 77 days prior to making an offer.

Questioned Costs

None noted

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Cause and Effect

Eligibility requirements are established so that benefits of the program will be distributed in accordance with HUD standards. Adequate monitoring controls do not appear to be in place to ensure that the City complies with the eligibility provisions noted in the grant agreement.

Recommendation

We recommend that management implements policies and procedures to strengthen existing internal controls to ensure eligibility is properly documented when verified to ensure eligibility requirements are properly followed.

Views of Responsible Officials and Planned Corrective Action

The finding referenced above is a concurrence of a finding that was previously noted by the Office of the Inspector General (OIG) during their audit. The OIG audit culminated with their September 21, 2012 Audit Report, No. 2012-LA-1012, to the Department of Housing and Urban Development (HUD).

Subsequently, on March 13, 2013, the City, in its response to HUD management decision letter dated December 27, 2012, outlined and submitted a change in policy and procedure to address this particular finding mentioned in this single audit report. The changes are documented in the City's NSP2 Process Changes and Policy Additions/Clarification Manual. In addition, the changes were communicated to staff via written communication.

The manual states:

- Residential appraisal reports must be completed within 60 days of the date escrow is opened as evidenced by the date of Confirmation of Acceptance of the Agreement between Buyer and Sell under the Escrow Holder Acknowledgement on the California Residential Purchase Agreement
- If closing does not occur before the 60 days has expired, an update to the initial appraisal is required and shall be submitted to the City within five (5) business days of the Effective Date of Appraisal.
- Appraisals exceeding 120 days will be considered invalid and require the submission of a new appraisal to the City

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

F-12-03 Special Tests and Provisions

Program Information

Federal Program

Section 8 Housing Choice Vouchers, CFDA number 14.871

Federal Grant Award Number and Grant Period

<u>Federal grant number</u>	<u>Grant period</u>	<u>Location</u>
CA068VO	10/1/2011 to 9/30/2012	Housing Authority

Federal Agency

Department of Housing and Urban Development (HUD)

Pass-Through Agency

N/A

Specific Requirement

Code of Federal Regulations: Title 24 – *Housing and Urban Development*, Section 982.405 – Public Housing Authority (PHA) initial and periodic unit inspection states: (a) The PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standard (HQS). (See 982.305(b)(2) concerning timing of initial inspection by the PHA.) (b) The PHA must conduct supervisory quality control Housing Quality Standards inspections. (c) In scheduling inspections, the PHA must consider complaints and any other information brought to the attention of the PHA. (d) The PHA must notify the owner of defects shown by the inspection and (e) The PHA may not charge the family or owner for initial inspection or reinspection of the unit.

Code of Federal Regulations: Title 24 – *Housing and Urban Development*, Section 982.158 – Program accounts and records states:

- (a) The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR part 5, subpart H.
- (b) The PHA must furnish to HUD accounts and other records, reports, documents, and information, as required by HUD. For provisions on electronic transmission of required family data, see 24 CFR part 908.
- (c) HUD and the Comptroller General of the United States shall have full and free access to all PHA offices and facilities, and to all accounts and other records of the PHA that are pertinent to

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

administration of the program, including the right to examine or audit the records, and to make copies. The PHA must grant such access to computerized or other electronic records, and to any computers, equipment, or facilities containing such records, and shall provide any information or assistance needed to access the records.

- (d) The PHA must prepare a unit inspection report.
- (e) During the term of each assisted lease, and for at least three years thereafter, the PHA must keep:
 - (1) A copy of the executed lease;
 - (2) The Housing Assistance Payment (HAP) contract; and
 - (3) The application from the family.
- (f) The PHA must keep the following records for at least three years:
 - (1) Records that provide income, racial, ethnic, gender, and disability status data on program applicants and participants
 - (2) An application from each ineligible family and notice that the applicant is not eligible
 - (3) HUD-required reports
 - (4) Unit inspection reports
 - (5) Lead-based paint records as required by part 35, subpart B of this title
 - (6) Accounts and other records supporting PHA budget and financial statements for the program
 - (7) Records to document the basis for PHA determination that rent to owner is a reasonable rent (initially and during the term of a HAP contract)
 - (8) Other records specified by HUD

Code of Federal Regulations: Title 24 – *Housing and Urban Development*, Section 982.404 – *Maintenance: Owner and family responsibility*; PHA remedies states:

- (a) Owner obligation:
 - (1) The owner must maintain the unit in accordance with Housing Quality Standards.
 - (2) If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous action to enforce the owner obligations. PHA remedies for such breach of the HQS include termination, suspension, or reduction of housing assistance payments and termination of the HAP contract.
 - (3) The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

- (4) The owner is not responsible for a breach of the HQS that is not caused by the owner, and for which the family is responsible (as provided in § 982.404(b) and § 982.551(c)) (however, the PHA may terminate assistance to a family because of HQS breach caused by the family).

(b) Family obligation:

- (1) The family is responsible for a breach of the HQS that is caused by any of the following:
 - (i) The family fails to pay for any utilities that the owner is not required to pay for, but which are to be paid by the tenant.
 - (ii) The family fails to provide and maintain any appliances that the owner is not required to provide, but which are to be provided by the tenant.
 - (iii) Any member of the household or guest damages the dwelling unit or premises (damages beyond ordinary wear and tear).
- (2) If an HQS breach caused by the family is life threatening, the family must correct the defect within no more than 24 hours. For other family caused defects, the family must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

Condition and Context

Under 24 CFR Section 982.404(a)(3), the City is required to abate HAP beginning no later than the first of the month following the specified correction period or must terminate the HAP contract if the owner does not correct the cited HQS deficiencies. Of the 40 selections over abated participants, there were two cases where participants received housing assistance payments the month after they were abated.

Questioned Costs

\$1,893

This amount represents the total annual housing assistance payments paid to the participants that did not have the required reinspection during fiscal year 2012.

Cause and Effect

Adequate monitoring controls are in place but do not appear to be operating effectively to ensure that the abated participants do not receive the following month's housing assistance payment, which resulted in the findings noted above.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Recommendation

We recommend that the City implement policies and procedures to ensure abated participants do not receive the following month HAP payment, and that subsequent adjustments are made to recover overpayment amounts.

Views of Responsible Officials and Planned Corrective Actions

The City and Housing Authority of the City of Long Beach (HACLB) has not and will not intentionally implement controls, policies or procedures that are inconsistent with OMB Circular or the Housing and Urban Development Grant Regulations. For the two (2) cases noted in the finding the inspections did occur timely and the owner was properly cited for not being in compliance. Due to staff oversight overpayment letters did not go out and funds were not recaptured in a timely manner. As of this date, the funds have been received.

To further explain the process, previously abatements required the manual intervention of staff to enter into the system and calculate the correct amount to deduct based on the prorated rent amount for the month. This required reviewing the certification for the correct subsidy amount and the number of days for the month. While we have had challenges in this area over the years, improvement has been shown but human oversight or error of this very manual process has occurred. To ensure that abated owners do not receive Housing Assistance Payment (HAP), HACLB implemented the use of automatic HAP Abatements and adjustments effective March 2013 as a result of new software capability.

With the new enhancement to the Elite software, once the second fail is entered into the system, the software automatically abates payment for any future HAP. Once the abatement is cured due to a passed inspection or a cancelled inspection, the inspection documents are reviewed by the Housing Assistance Coordinator. The Housing Assistance Coordinator updates the abatement in the Elite system by entering the second failed inspection date and the pass date. The automated adjustment uses the failed and passed dates to calculate and deduct overpaid HAP during the abatement period and releases outstanding HAP to the payee. The process no longer requires the manual placement of the abatement and manual calculation of the pro-rated rent; the process is automated when the inspector uploads field inspections. The system then automatically checks for the correct amount of HAP in the effective certification and pro-rates the amount across the correct months using the correct number of days in the month.

The automatic adjustment is then reviewed and approved in the check processing procedure by the Housing Assistance Coordinator/Inspections Supervisor. The Housing Assistance Officer does final review and approval. For those abatements that remain outstanding beyond the Lease Contract Termination date an overpayment letter is sent. The Inspections Clerk via an Elite report identifies these outstanding abatements. The Inspections Clerk ends the abatement as of the Lease Contract Termination date thus generating an automatic negative adjustment. The adjustment is for any HAP already paid as a result of an abatement that commences after payment is rendered for the prior month. Because the contract has terminated the owner is not due any future HAP for this unit, however the negative adjustment ensures repayment against any other participating unit. The owner is sent an overpayment letter. If the owner does not remit the funds and has no other participating units on the program, the negative adjustment remains on the check register should the owner return to the program with new properties in the future or until according to policy the debt is written off. In addition, the HACLB was recently approved for the state intercept program, which will capture any funds due to the owner of record by the State of California and remit payment to the HACLB for the overpaid HAP.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

F-12-04 Reporting

Program Information

Federal Program

Airport Improvement Program, CFDA number 20.106

Federal Grant Award Number and Grant Period

<u>Federal grant number</u>	<u>Grant period</u>	<u>Location</u>
AIP 3-06-0127-037-2011	9/13/2011 to 9/13/2015	Long Beach Airport
AIP 3-06-0127-038-2011	9/13/2011 to 9/13/2015	

Federal Agency

Department of Transportation

Pass-Through Agency

N/A

Specific Requirement

AIP Handbook, Chapter 13 Section 1300, General

The AIP program has drawn criticism that AIP funds under grant are idle while critical projects are not funded because of a shortage of funds. One measurement that a project is progressing acceptably is the regularity that grant payments are being made or drawn down to reimburse for project accomplishments. When grant funds are drawn down regularly, this would prove that the funds are not idle. To facilitate reaching this stage, the FAA Airports Office requests that each AIP grantee request or initiate a draw down grant payment for project accomplishments every 30 days during the course of the project life. This 30-day requirement can be waived when the accomplishments are not significant enough to warrant a grant payment, i.e., less than \$10,000. However, a request for or a drawdown of a grant payment will be required within 30 days after the end of each federal fiscal year to cover all accrued grant costs from the prior fiscal year that have not been reimbursed. This would give an accounting of the year-end status of each project.

Federal Aviation Authority (FAA) Order 5100.38B, Section 25, Disbursement of Funds, Subsection f, Discretionary Funds

- (2) The sponsor must be able to commence the work on projects using discretionary funds during the same fiscal year as the grant agreement or within 6 months, whichever is later. Regions should ensure project schedules are realistic. (When a project has been delayed, see Paragraph 1151 on suspension of the grant, if appropriate.) For purposes of this provision, regions should construe.

“commence the work” to mean:

- (a) Initiation of the effort for projects with planning or design;

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

- (b) Initial title search or other preliminary work for land projects;
- (c) Physically underway for construction or noise compatibility implementation; and
- (d) Execution of the purchase contract for equipment projects.

Condition and Context

Under the Airport Improvement Program Handbook, Chapter 13, the City is required to submit reimbursement requests on a monthly basis unless the cumulative expenses are less than \$10,000. Under FAA order 5100.38B, the City is required to complete reimbursement requests to the grantor no later than six months of project approval. In our review, we noted that expenditures for project No. 37 incurred between March 2011 and December 2011 totaling \$19,652 were submitted in January 2012. The expenditures should have been reported in September 2011 as the total expenditures were greater than \$10,000. In addition, we noted that expenditures for project No. 38 should have been reported no later than 6 months after the approval of the project. However, we noted that the expenditure reports were submitted for 18 months from the date of project approval.

Questioned Costs

None noted.

Cause and Effect

Adequate monitoring controls are in place but do not appear to be operating effectively to ensure that the reimbursement requests are submitted within the required time frame.

Recommendation

We recommend that City implement policies and procedures to ensure reports are submitted when required as expenditures are incurred on grants.

Views of Responsible Officials and Planned Corrective Actions

The City has not and will not intentionally implement practices or policies that are inconsistent with OMB Circular A-133 or the FAA Airport Improvement Program. With both grants the delays were due to either new processes or contract negotiations.

AIP 38 is a planning grant requiring the hiring of a consultant for the technical expertise. Due to lengthy negotiations between the City, the FAA and the consultant related to the proposal submitted by the consultant and the consulting contract prepared by the City, minimal charges occurred, thus no expenditure report was submitted. After the notice to proceed was submitted to the consultant there was ongoing communication on the formatting of the documentation between the consultant, the City, and the FAA. Both the contract negotiations and documentation formatting delayed the overall process of reporting on an ongoing basis. Once all parties were in agreement, the reporting proceeded on a regular basis. The City has been and will continue to report this grant on a monthly basis, in compliance with the agreement.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

AIP 37 was awarded September 2011. The initial reimbursement was for design work, which per the FAA requirements, must be completed prior to a grant award. As a result of past internal procedures the request for reimbursement of these expenses were delayed in billing until January 2012. From initial reimbursement reporting the City has continued to bill on a monthly basis as documented per the FAA agreement.

The City will work on strengthening internal procedures for monthly billing in accordance with FAA requirements

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

F-12-05 Special Tests and Provisions

Program Information

Federal Program

Airport Improvement Program, CFDA number 20.106

Federal Grant Award Number and Grant Period

<u>Federal grant number</u>	<u>Grant period</u>	<u>Location</u>
AIP 3-06-0127-035-2010	8/11/2010 to 8/11/2014	
AIP 3-06-0127-036-2011	3/11/2011 to 3/11/2015	Long Beach Airport
AIP 3-06-0127-037-2011	9/13/2011 to 9/13/2015	

Federal Agency

Department of Transportation (DOT)

Pass-Through Agency

N/A

Specific Requirement

Grant Agreement between the City of Long Beach, California and the Federal Aviation Authority (FAA)

Attachment A: Special Conditions

3-Construction Management Program: The Sponsor agrees to perform the following:

- a. Furnish a construction management program to FAA prior to the start of construction, which shall detail the measures and procedures to be used to comply with the quality control provisions of the construction contract, including, but not limited to, all quality control provisions and tests required by the federal specifications. The program shall include as a minimum:
 - (1) The name of the person representing the Sponsor who has overall responsibility for contract administration for the project and the authority to take necessary actions to comply with the contract;
 - (2) Names of testing laboratories and consulting engineer firms with quality control responsibilities on the project, together with a description of the services to be provided;
 - (3) Procedures for determining that testing laboratories meet the requirements of the American Society of Testing Materials standards on laboratory evaluation, referenced in the contract specifications (D3666 and C1077);
 - (4) Qualifications of engineering supervision and construction inspection personnel;

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

- (5) A listing of all tests required by the contract specifications, including the type and frequency of tests to be taken, the method of sampling, the applicable test standard, and the acceptance criteria or tolerances permitted for each type of test; and
- (6) Procedures for ensuring that the tests are taken in accordance with the program, that they are documented daily, that the proper corrective actions, where necessary, are undertaken.

Condition and Context

The City is required to provide the grantor with a Construction Management Program (CMP) prior to the start of any construction. In our testwork, we noted that construction for projects Nos. 36 and 37 began in fiscal year 2012 and construction for project No. 35 continued in 2012. These three projects represent 100% of the population of projects with construction expenses in fiscal year 2012. We note that no CMPs were submitted to the FAA for any of the projects. However, the CMPs were completed by the City. Subsequent to our testing, management submitted the CMPs to the FAA.

Questioned Costs

None noted.

Cause and Effect

Adequate monitoring controls are in place but do not appear to be operating effectively to ensure that the proper documentation is submitted to the granting agency.

Recommendation

We recommend that City implement policies and procedures to that required documentation is provided to the granting agency.

Views of Responsible Officials and Planned Corrective Actions

The City has not and will not intentionally implement practices or policies that are inconsistent with OMB Circular A-133 or the FAA Airport Improvement Program.

During fiscal year 2012, the engineer in charge of the FAA grants resigned from the City. After the resignation of the engineer in charge, her duties including the AIP grants, were transitioned to other engineers within the City's Airport Department. The CMP documents required were completed and on file with the City's Public Works Department and believed by the engineers taking over the AIP grants to have been transmitted to the FAA. Only after the fact was it discovered that the CMP documents had not been transmitted to the FAA. As of this date, CMP reports have been submitted for all AIP funded projects.

Currently, all active FAA Airport Improvement Projects are under the direction of Airport staff. Airport staff is working closely with the Public Works Department to meet all FAA grant requirements and follow the existing FAA policies and procedures for any open projects and all future FAA funded projects.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

F-12-06 Special Tests and Provisions

Program Information

Federal Program

Highway Planning and Construction Program, CFDA number 20.205

Federal Grant Award Number and Grant Period

<u>Federal grant number</u>	<u>Grant period</u>	<u>Location</u>
RPSTPLE-5108(080)	2007-2008	Public Works

Federal Agency

Department of Transportation (DOT)

Pass-Through Agency

State of California Department of Transportation

Specific Requirement

In the agreements between the Department of Transportation and the City of Long Beach, the City is required to submit the final report documents that collectively constitute a "Report of Expenditures" within one hundred eighty (180) days of the Project completion. Failure of the administering agency to submit a "Final Report of Expenditures" within 180 days of the project completion will result in the State imposing sanctions upon the administering agency in accordance with the current *Local Assistance Procedures Manual*.

Condition and Context

Under 24 CFR Section 982.404(a)(3), the City is required to complete the Final Report of Expenditures within in 180 days after the project is completed. In our sample of 5, which represents 100% of the population, one of the reports which was submitted 248 days late.

Questioned Costs

None noted.

Cause and Effect

Adequate monitoring controls are in place but do not appear to be operating effectively to ensure that the close out reports are submitted within the required time frame.

Recommendation

We recommend that City implement policies and procedures to ensure reports are submitted when required.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Views of Responsible Officials and Planned Corrective Actions

The City has not and will not intentionally implement a practice or policy that is inconsistent with OMB Circular A-133 or a grant agreement. There was a lapse in communication between City Departments as to how to define the completion date for a project. This shortcoming impacted the timely submission of documentation between departments as well as the timely submission of the Final Report of Expenditures to the grantor.

The Department of Financial Management (FM) completes the Final Report of Expenditures in cooperation with the Department of Public Works (PW). The Departments have been working together to improve the current procedures to ensure either the timely submission of the Final Report of Expenditures consistent with OMB guidance or an approved extension for submitting the Final Report of Expenditures.

As a corrective action, late in fiscal year 2012 FM implemented an internal department procedure to review financial system data for all open projects each month for activity. For any projects that do not have any activity noted for a 30 to 60 day period, FM will inquire from PW the status of the project with the intent on identifying projects that have been completed and initiating the Final Report of Expenditures process. In cases where the Final Report of Expenditure cannot be submitted within the 180 days of project completion, FM will work with the grantor on any necessary actions to be taken.

In addition, in June of 2012, the requirement for PW to submit to FM the Notice of Completion as provided by the County Assessor's Office within 10 days of receipt has been formalized. Once FM has received the Notice of Completion, FM will proceed in obtaining and processing all appropriate documentation needed to complete and submit the Final Report of Expenditures.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

F-12-07 Special Tests and Provisions

Program Information

Federal Program

Homeland Security Grant Program, CFDA number 97.067

Federal Grant Award Number and Grant Period

<u>Federal grant number</u>	<u>Grant period</u>	<u>Location</u>
2009-0019	9/30/2009 to 7/31/2012	Emergency Services Building

Federal Agency

Departments of Homeland Security

Pass-Through Agency

The State of California – California Emergency Management Agency and passed through the County of Los Angeles

Specific Requirement

Agreement No. C-118454 between the City of Long Beach and the City of Los Angeles, Title II: Terms and Services to be provided, part 202 – Use of Grant Money, subpart (G)(6).

§202 (G)(6) Subrecipients must obtain performance bonds for any equipment item over \$250,000, or any vehicle, aviation, or watercraft (regardless of cost) financed with UASI funds.

Condition and Context

The City is required to have obtained performance bonds for all vehicles, aviation, or watercrafts, regardless of cost and equipment over \$250,000. In our testwork, we noted two items, which represents 50% of the population, for which the City had not obtained a performance bond.

Questioned Costs

\$29,765

This represents the cost of the two equipment items purchased where the City did not obtain a performance bond.

Cause and Effect

Adequate monitoring controls are in place but do not appear to be operating effectively to ensure that the all items required items, including performance bonds are obtained prior to requesting the use of grant funds.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Recommendation

We recommend that City implement policies and procedures to ensure that all required documents are obtained.

Views of Responsible Officials and Planned Corrective Actions

The City has not and will not intentionally implement controls, policies, or procedures that are inconsistent with the OMB Circular 133 or the Urban Area Security Initiative Program. The City continues to develop policies and procedures to improve monitoring controls to ensure that it meets its requirement to obtain performance bonds as noted in this finding as well as all grant requirements. As a part of these efforts, the bonding requirements and any requirements specific to the grant have been communicated and emphasized to all department-level program managers. The City Purchasing Agent has been notified of all grant purchasing requirements such as the bonding requirements. Further, all grant requirements are highlighted at monthly grant coordination meetings as needed. These new procedures help ensure the City will meet all requirement in future reporting periods.

The City notes that while it understands the requirements of the grant, all procurements subject to this finding were completed within the performance period of the grant. The City received all equipment prior to making payment to its suppliers and, subsequently, requesting reimbursement from the grantor. This effectively mitigated any financial exposure to the City or the grantor that would have otherwise been covered by a performance bond.



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

July 11, 2013

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

Ladies and Gentlemen:

We have audited the governmental, 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, 2012, and have issued our report thereon under date of March 29, 2013. 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. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit. We also audited the following entities and have issued or will issue shortly separate reports for each entity as of the City's annual audit.

- Aquarium of the Pacific
- The Harbor Department
- The Water Department

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 professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements 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.



City Council
City of Long Beach
July 11, 2013
Page 2 of 4

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 our auditing procedures for the purpose of expressing our 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.

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 City's financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies

As discussed in note 2 to the basic financial statements, the City adopted Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of this statement was effective as of October 1, 2011.

Additional significant accounting policies used by the City are described in Note 2 to the City's financial statements.

Unusual Transactions

In June 2011, Assembly Bill 1X 26 (AB 26) was signed into law as part of the State's budget package. The law was to be effective as of October 1, 2011. AB 26 required each California redevelopment agency to suspend activities except for those required to implement existing contracts, meet already incurred obligations, preserve Agency assets, and prepare for the impending dissolution of the agency. A lawsuit was filed on July 18, 2011 on behalf of cities, counties, and redevelopment agencies petitioning the California Supreme Court to overturn AB 26 on the grounds the bill violated the California Constitution. On December 29, 2011, the Court upheld AB 26 resulting in the Agency ceasing operations as of February 1, 2012.



City Council
City of Long Beach
July 11, 2013
Page 3 of 4

The cessation of operations of the Agency and of the Low and Moderate Income Housing function did not result in any change to total beginning balance in net Position/fund balances at either the government-wide or fund presentations. The City's financial statements include Agency's Operations through its dissolution date of January 31, 2012.

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. Lastly, the derivative estimates are based on various cash flow projections including the future value of natural gas and interest rates.

Uncorrected and Corrected 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, 2012. We have reported such misstatements to management on a Summary of Audit Differences 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, if not satisfactorily resolved, would have caused a modification of our auditors' reports on the City's financial statements.



City Council
City of Long Beach
July 11, 2013
Page 4 of 4

Management's Consultation with Other Accountants

To the best of our knowledge, management has no consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2012.

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;
3. Management Letter; and
4. Report on internal control over financial reporting and on compliance and other matters based on an audit performed in accordance with *Government Auditing Standards*.

Significant Difficulties Encountered During the Audit

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

Other Significant Findings or Issues

We did not identify any other significant findings or issues in our audit.

* * * * *

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

Very truly yours,

KPMG LLP

1 statements, as a whole. Where applicable, Contractor shall also perform all
2 necessary and required procedures to issue a report on compliance and/or internal
3 controls as required by legal or professional standards. The examinations of the
4 individual financial statements will also include an analysis of the differences
5 between the Generally Accepted Accounting Principles (GAAP) basis and the
6 Budget basis of accounting and of the components of the Budget basis fund equity
7 for those entities selected by City. Contractor will also assist City in meeting the
8 requirements of the Government Finance Officers Association's Certificate of
9 Achievement for Excellence in Financial Reporting program for the entities
10 selected by the City.

- 11 1) Comprehensive Annual Financial Report
- 12 2) Water Department
- 13 3) Aquarium of the Pacific
- 14 4) Aquarium of the Pacific Corporation
- 15 5) Harbor Department

16 2. Section 1.C of Agreement No. 30387 is amended in its entirety to

17 read as follows:

18 C. [DELETED]

19 3. Section 3 of Agreement No. 30387 is amended in its entirety to read

20 as follows:

21 "3. TERM. The term of this Agreement shall commence at midnight on
22 October 29, 2007, and shall terminate at 11:59 on September 30, 2013, or unless sooner
23 terminated as provided in this Agreement, or unless the services or the Project is
24 completed sooner."

25 4. Section 4.A. of Agreement No. 30387 is amended in its entirety to

26 read as follows:

27 "4. PAYMENT.

28 A. City shall pay Contractor a sum not to exceed \$862,820 for

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 the services defined in Section 1 of this Agreement pertaining to fiscal year 2012.
2 The fees for each subsequent year will be annually subject to negotiation and
3 approval by the Management."

4 5. Section 4.B. of Agreement No. 30387 is amended in its entirety to
5 read as follows:

6 "B. The services defined in Section 1.B of this Agreement include
7 audit services pertaining to a maximum of six (6) "Major Programs." In the event
8 that laws, regulations or professional standards require additional programs to be
9 audited, such additional programs shall be audited at a cost of \$25,664 per
10 program, provided that Contractor notifies City in writing of the requirement to
11 audit such additional programs and City acknowledges in writing its understanding
12 of such requirement prior to the commencement of audit work."

13 6. Exhibit "A" is replaced by Exhibit "A-1", and Exhibit "A-1" is replaced
14 by Exhibit "A-2", attached hereto and incorporated by this reference, and all references in
15 the Agreement to Exhibit "A" shall now mean and refer to Exhibit "A-2".

16 7. Except as expressly amended in this Second Amendment, all terms
17 and conditions in Contract No. 30387 are ratified and confirmed and shall remain in full
18 force and effect.

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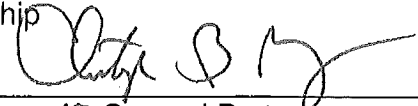
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1 IN WITNESS WHEREOF, the parties have caused this document to be duly
2 executed with all formalities required by law as of the date first stated above.

3 KPMG LLP, a Delaware limited liability
4 partnership


5 July 12, 2012

By 
or General Partner
CHRISTOPHER B RAY
Type or Print Name

7 "Contractor"

8
9 CITY OF LONG BEACH, a municipal
10 corporation

11 9.20, 2012

By  Assistant City Manager
City Manager

EXECUTED PURSUANT
TO SECTION 301 OF
THE CITY CHARTER.

13 "City"

14 This Second Amendment to Contract No. 30387 is approved as to form on
15 9-13, 2012.

16 ROBERT E. SHANNON, City Attorney

17 By 
Deputy

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OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

EXHIBIT "A-2"



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

Telephone +1 949 885 5400
Fax +1 949 885 5410
Internet www.us.kpmg.com

March 8, 2012

Ms. Laura Doud
City Auditor
City of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802

Dear Ms. Doud:

This letter (the Engagement Letter) is incorporated by reference in the agreement between the City of Long Beach, California (the City) and KPMG LLP dated November 12, 2007 (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

We will issue a written report upon our audit of 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.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is 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. Therefore, there is a risk that material errors, 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 performed in accordance with the auditing standards generally accepted in the United States of America. 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* does not expect auditors to provide reasonable assurance of detecting abuse.



City of Long Beach
March 8, 2012
Page 2 of 9

Our report will be addressed to the City Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

While our report may be sent to the City electronically for your convenience, only the hard copy report is to be relied upon as our work product.

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the effectiveness of the City's internal control over financial reporting. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about 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, violations of 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 on 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 over financial reporting 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 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. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of provisions of contracts and grant agreements and abuse. It will indicate that it is intended solely for the information and use of the City Council and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential that come to our attention.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.



City of Long Beach
March 8, 2012
Page 3 of 9

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.

Compliance with laws, regulations, contracts, and grant agreements applicable to federal programs is the responsibility of management, including:

- 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.
- 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 indicate that it is intended solely for the information and use of the City Council and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

Offering Document

Should the City wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our



City of Long Beach
March 8, 2012
Page 4 of 9

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 reports thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our reports 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:

“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, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the City’s financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of 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 audit committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee 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.



City of Long Beach
March 8, 2012
Page 5 of 9

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for modification or withdrawal.

Management Responsibilities

The management of the City is responsible for the 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 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 establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. 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 agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by the 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
March 8, 2012
Page 6 of 9

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will evaluate whether the City has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2012.

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. 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 reports, the reports will indicate the status of management's responses.

Government Auditing Standards require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the Government Auditing Standards CPE hours of those internal auditors assigned to the audit in direct assistance roles.

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
March 8, 2012
Page 7 of 9

In connection with the performance of services under the Engagement Letter, KPMG may utilize the services of KPMG controlled entities, KPMG member firms and/or third party service providers within and without the United States to complete the services under the Engagement Letter. Moreover, KPMG may utilize third party service providers within and without the United States to provide, at KPMG's direction, administrative and clerical support services to KPMG.

The City agrees to provide prompt notification if the City or any of its subsidiaries currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the City or such subsidiary.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers 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 be requested to make certain work papers available to Regulators pursuant to authority provided by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to Regulators. Such Regulators may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for the City in judicial or administrative proceedings to which KPMG is not a party, the City shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Collaboration Site

KPMG has developed a collaborative, virtual workspace ('Collaboration Site') in a protected, online environment. This Collaboration Site allows for the placement of certain documents into the Collaboration Site to be used by those providing the Services to you. The Collaboration Site will be decommissioned at the end of the Engagement, unless otherwise required by applicable law or professional standards, or other requirements of the engagement team.

In order to maintain the confidentiality of the information contained in the Collaboration Site, KPMG has taken certain steps to provide protection against unauthorized access. Access to the Collaboration Site is limited to KPMG authenticated and authorized users and the Collaboration Site is protected by encryption and a secure network.

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 per this letter.



City of Long Beach
March 8, 2012
Page 8 of 9

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 and 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 Client's subsequent fiscal years until either Management 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 the Management.

In accordance with your instructions, we have forwarded a copy of this letter to Patrick West, Robert Shannon, and John Gross.

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.

Very truly yours,

KPMG LLP

Christopher B. Ray
Partner

CBR:bmp:glb:T1088_revised

Enclosures:
Appendix I
Peer Review Report

cc: Patrick West, City Manager, City of Long Beach
Robert Shannon, City Attorney, City of Long Beach
John Gross, Director of Finance, City of Long Beach



City of Long Beach
March 8, 2012
Page 9 of 9

ACCEPTED:

City of Long Beach, California

[Signature] **Assistant City Manager**
Authorized Signature EXECUTED PURSUANT
TO SECTION 301 OF
THE CITY CHARTER.

City Manager
Title

9.20.12
Date

APPROVED AS TO FORM

9-13, 2012
[Signature]
ROBERT E. SHANNON, City Attorney

AMY R. WEBBER
DEPUTY CITY ATTORNEY

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 of the City of Long Beach, California as of and for the years ended September 30, 2012	\$862,820
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Other Reports:

The reports that we will issue as part of this engagement are as follows:

Report	Fee
Reports issued on the basic financial statements of the City ¹	\$ 443,680
Reports issued in connection with OMB Circular A-133 ²	141,500
Passenger Facility Charges	19,650
Aquarium of the Pacific – 9/30	53,490
Aquarium of the Pacific – 12/31	23,640
Harbor Department	125,780
Water Department	55,080

Additional fees for each single audit program exceeding 6 programs:	\$25,665
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¹ Fee assumes the City Auditor completes quarterly Cash & Investment audits similar to those completed in Fiscal Year 2011 and provides KPMG access to the audits to review and the ability to rely on the work performed in conjunction with our year-end audit. Fee also includes \$55,080 for the Airport Enterprise Fund audit.

² Fee includes agreed-upon procedures to the financial information submitted electronically through the Department of Housing and Urban Development's (HUD) Real Estate Assessment Center (REAC) system of the Housing Authority of the City (the Housing Authority).

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.



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 non-SEC issuers, in effect for the year ended March 31, 2011. 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. 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.

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, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, 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*.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers US".

December 2, 2011



CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (562) 570-6711 • FAX (562) 570-6583

PATRICK H. WEST
CITY MANAGER

March 29, 2013

Mr. Chris Ray
KPMG LLP
20 Pacifica, Suite 700
Irvine, CA 92618-3391

Dear Mr. Ray

We are providing this letter in connection with your audit of the financial statements of the City of Long Beach, California, as of and for the year ended September 30, 2012, for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position 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 (The City), and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, for the year then ended, in conformity 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, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All financial records and related data.
 - b. All minutes of the meetings of the 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 Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
 - 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 assets ⁽⁴⁾ and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedules are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

7. We have no knowledge of any fraud or suspected fraud affecting the City 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, analysts, regulators, or others.
9. The City has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. We have no knowledge of any officer or Council Member of the City, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
11. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
 - 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 and 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.
12. 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.
13. The City has complied with applicable laws, regulations, contracts, and grants that could have a material effect on the financial statements in the event of noncompliance.
14. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the City. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

15. 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 Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
16. 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 assets ⁽⁴⁾. The financial statements disclose all other joint ventures and other related organizations.
17. 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*.
18. 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.
19. The City has not elected to apply the option allowed in paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, to its proprietary funds.
20. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
21. 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.
22. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.
23. Deposits and investment securities are properly classified and reported.
24. 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.

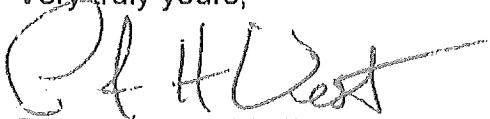
25. The City has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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.
26. 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.
27. 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. 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.
28. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
29. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
30. 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.
31. 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.
 - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.

32. 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.
33. The City has complied with all tax and debt limits and with all debt related covenants.
34. 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.
35. We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and 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 that the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
36. 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.
37. Components of net asset (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
38. 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.
39. The City has identified and properly accounted for all nonexchange transactions.
40. 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.
41. Special and extraordinary items are appropriately classified and reported.
42. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

43. 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 our assessment of internal control over financial reporting, 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 and our assessment of internal control over financial reporting 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.
44. We acknowledge our responsibility for the presentation of supplementary information, combining and individual nonmajor fund financial statements, in accordance with the applicable criteria and/or prescribed guidelines and:
 - a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.
 - b. The methods of measurement or presentation of the 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 supplementary information are reasonable and appropriate in the circumstances.
45. We acknowledge our responsibility for the presentation of required supplementary information, management's discussion and analysis, schedule of funding progress and budgetary comparison information] 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.
46. The City has complied with all applicable laws and regulations in adopting, approving and amending budgets.
47. 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 financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,



PATRICK H. WEST
CITY MANAGER



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

City of Long Beach
 Summary of Uncorrected Audit Misstatements
 For Year Ended 9/30/12

Success Agency Fund

Correcting Entry Required at Current Period End				Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)					Cash Flow Effect - Increase (Decrease)			Identify the deficiency in internal control or provide rationale. If no deficiency is noted, or cross-reference to the work paper where this is documented.		
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	Current Liabilities	Noncurrent Liabilities	Operating Activities	Investing Activities	Financing Activities	Comprehensive Income
				A	B		C-A (Only Income Statement accounts)	C-B									

None noted.

City of Long Beach
 Summary of Uncorrected Audit Misstatements
 For Year Ended 9/30/12

Tidelands Fund

Correcting Entry Required at Current Period End						Income Statement Effect - Debit (Credit)			Balance Sheet Effect - Debit (Credit)					Cash Flow Effect - Increase / Decrease			Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.		
ID	Workpaper Ref	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	Current Liabilities	Noncurrent Liabilities	Operating Activities	Investing Activities	Financing Activities		
					A		B	C-A (Only Income Statement accounts)	C-B										
Tidelands Fund																			
TF 1	KK 2.2	The interest expense did not capture the cost of issuance or premium/discount for the Aquarium bonds.	MLD	Interest Expense Non-pooled Cash	2,117,179	(2,117,179)		2,117,179	2,117,179	2,117,179									Non-GAAP Deficiency
TF 2	PY	To properly record deferred revenue (Coca Cola Agreement)	MLD	Deferred Revenue Revenue	1,406,667	(1,406,667)		(1,406,667)	(1,406,667)	(1,406,667)		1,406,667							PY Deficiency
TF 3	PY	To record cumulative impact of capitalized interest	MLD	CIP Net Assets	6,964,000	(6,964,000)				(6,964,000)		6,964,000							PY Deficiency
TF 4	2.6.12.01	To reclassify unamortized issuance costs used in net invested in capital assets computation	KD	Net Inv. In Capital Assets Unrestricted Cap. Assets	1,150,000	(1,150,000)				1,150,000									Non-GAAP Deficiency
Aggregate of uncorrected audit differences (before tax)					-	-		710,512	710,512	(6,253,488)	(2,117,179)	8,370,667	-	-					
Tax effect of uncorrected audit differences					-	-		-	-	-	-	-	-	-					
Aggregate of uncorrected audit differences (after tax)					-	-		710,512	710,512	(6,253,488)	(2,117,179)	8,370,667	-	-					
Financial statement amounts (per final financial statements)										Note 1	348,099,000	209,889,000	345,338,000	23,515,000	183,613,000				
Uncorrected audit differences after tax effect as a percentage of financial statement amounts:					Note 1														
Aggregate of uncorrected audit differences-total impact on revenue					-	-					-2%	-1%	2%	0%	0%				
FS amount-revenue					58,101,000														
As a % of FS amount					0.00%														
Aggregate of uncorrected audit differences-total impact on expenditures					2,117,179														
FS amount-expenditures					99,877,000														
As a % of FS amount					2.12%														

Aggregate of uncorrected audit differences-total impact on revenue	58,101,000
FS amount-revenue	99,877,000
As a % of FS amount	2.12%
Aggregate of uncorrected audit differences-total impact on expenditures	2,117,179
FS amount-expenditures	99,877,000
As a % of FS amount	2.12%

City of Long Beach
 Summary of Uncorrected Audit Misstatements
 For Year Ended 9/30/12

Tidelands Oil Fund

Correcting Entry Required at Current Period End						Income Statement Effect - Debit (Credit)			Balance Sheet Effect - Debit (Credit)					Cash Flow Effect - Increase (Decrease)			Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
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	Current Liabilities	Noncurrent Liabilities	Operating Activities	Investing Activities	Financing Activities	
				A	B		C-A (Only Income Statement accounts)	C-B									

None noted.



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

March 29, 2013

City Council
City of Long Beach
333 West Ocean Blvd.
Long Beach, California 90081

Ladies and Gentlemen:

We have audited 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 of Long Beach, California (the City), for the year ended September 30, 2012, and have issued our report thereon dated March 29, 2013. In planning and performing our audit of the financial statements of the City of Long Beach, California, 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 as follows:

Net Assets

Observation

During our audit, we noted that there are no written policies or procedures in place related to the annual review of the classification of net assets as part of the City's comprehensive annual financial reporting process.

Recommendation

We recommend that the City formalize its policies or procedures for the documentation and support for the classification of net assets to ensure that the basis of the restriction is external and not an internal designation by the City.



City Council
City of Long Beach, California
March 29, 2013
Page 2 of 5

Management's Response

The City accepts KPMG's recommendation. However, it is important to note that while formal written policies and procedures are not currently in place, there is an annual review of net position that is performed during the development of the comprehensive annual financial report. The City will enhance its review process and formalize policies and procedures for the annual review, classification and documentation of net assets to ensure the basis for the restriction is external and not an internal designation by the City.

Non-GAAP Policies

Observation

During our audit, we reviewed the City's internal control process in place to identify new non-GAAP policies and quantify the impact of new and existing non-GAAP policies to the financial statements. We noted that the City does not have a formal process in place to identify new non-GAAP policies. Furthermore, 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 a result of the procedures performed, we noted the City did not quantify the impact of the following non-GAAP policies:

- Recognition of revenue for several revenue sharing agreements in the year subsequent to the when the exchange transaction has taken place.
- Recognition of certain items as prepaid although there is no future benefit.
- Recognition of unamortized bond issuances costs as a component of net investment in capital assets rather than as unrestricted.
- Transfers of completed construction projects are not made timely to the appropriate depreciable asset category when the asset is substantially completed and in use.

Recommendation

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

Managements Response

The City accepts KPMG's recommendation. The City continues to correct its non-GAAP policies. The City recognizes the necessity and, 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. The City



City Council
City of Long Beach, California
March 29, 2013
Page 3 of 5

will continue its efforts to ensure that depreciable assets are recorded when they are placed into service. Finally, with the implementation of GASB 65, the City will expense all remaining unamortized bond issuance costs.

Revenue and Expense Cut-off Procedures

Observation

During our testwork of internal control over the revenue and expenditure cycle, we noted \$307,500 of revenues and \$1,060,000 of expenses that should have been accrued in fiscal year 2011 that were recorded in fiscal year 2012. Reporting revenues and expenditures in a period other than the period of service may result in a misstatement of expenditures and net assets.

Recommendation

We recommend that the City enhance its internal controls related to the recognition, documentation and communication of the recognition criteria for revenues and expenses.

Management's Response

The City has enhanced these procedures. The City performs cut-off procedures that entail reviewing all invoices with service periods and/or received dates in the Comprehensive Annual Financial Report (CAFR) fiscal year that have been posted in the subsequent fiscal year. When appropriate, the City accrues the expense. In an effort to improve consistent recording of liabilities and expenses Citywide, the City has updated the internal operating procedure governing accounts payable and continues to further develop an Financial Policy and Procedure regarding accounts payable for departments Citywide. Finally, the City continues to strengthen year-end communications with departments, through year-end workshops, training, memos and e-mails.

IT General Controls – Logical Access 1

Observation

During our testwork over Migrator Access, we noted that SCLM is used to migrate changes to the BC and UB applications. We noted that all users with access to migrate changes within SCLM have access to both develop and migrate changes. This creates a segregation of duties issue.

Recommendation

We recommend management consider performing a periodic review/monitoring of SCLM program changes migrated into production to validate the appropriateness of application level changes.



City Council
City of Long Beach, California
March 29, 2013
Page 4 of 5

Management's Response

All users that should not have update access to SCLM were removed from access. Only the Data Center staff can migrate changes from Test to Production in SCLM. If anyone else attempts a migration an email is sent to the Data Center staff notifying them of the failed attempt. As part of the quarterly security review we have added a review of all SCLM changes.

IT General Controls – Logical Access 2

Observation

During our testwork over Migrator Access, we noted that changes to the FAMIS, ADPICs, and Payroll applications are manually migrated to the CICSDB.PCICS01.FA.*.** (for FAMIS and ADPICs) and PROD.TS.PMP.*.** (for HR/TESSERACT) production libraries within Mainframe. We noted that access to develop and migrate changes is not segregated.

Recommendation

We recommend management consider increasing the frequency (i.e. bi-weekly) of the periodic monitoring of FAMIS, ADPICs, and HR/TESSERACT changes migrated into production to validate the appropriateness of application level changes.

Management's Response

HR/Tesseract: TSD management will review the Access/changes to Prod.TS.PMP.Dev.SRC and Prod.TS.PM.Dev.CPY on a bi-weekly basis. The review will be documented in an Excel Spreadsheet and also noted on the review document.

FAMIS: TSD management will review the Access/changes to CICSDB.PCICS01.FA.FAMIS51.LBLIB on a bi-weekly basis. The review will be documented in an Excel Spreadsheet and also noted on the review document.

* * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the 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 City's organization gained during our work to make comments and suggestions that we hope will be useful to you.



City Council
City of Long Beach, California
March 29, 2013
Page 5 of 5

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



KPMG LLP
Suite 700
20 Pacifica
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 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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 29, 2013. Our report was modified to include a reference to another auditor and the City's adoption of Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Another auditor audited the financial statements of the discretely presented component unit, as described in our report on the City's 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated March 29, 2013.

This report is intended solely for the information and use of the City Council, management, others within the City, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 29, 2013



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

March 29, 2013

City Council
City of Long Beach
333 West Ocean Blvd.
Long Beach, California 90081

Ladies and Gentlemen:

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City Council
City of Long Beach, California
March 29, 2013
Page 2 of 5

Management's Response

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City Council
City of Long Beach, California
March 29, 2013
Page 3 of 5

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Management's Response

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City Council
City of Long Beach, California
March 29, 2013
Page 4 of 5

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Management's Response

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FAMIS: TSD management will review the Access/changes to CICSDB.PCICS01.FA.FAMIS51.LBLIB on a bi-weekly basis. The review will be documented in an Excel Spreadsheet and also noted on the review document.

* * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the 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 City's organization gained during our work to make comments and suggestions that we hope will be useful to you.



City Council
City of Long Beach, California
March 29, 2013
Page 5 of 5

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

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Very truly yours,

KPMG LLP