

# 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, 2015**





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

Front cover design created by: Ivy Nguyen, Graphic Design Intern

**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, 2015**

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General Manager**

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**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 Year Ended September 30, 2015

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## **Long Beach Water Department**

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

DATE April 12, 2016  
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, 2015

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, 2015. 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 unmodified ("clean") opinion on the Department's financial statements for the fiscal year ended September 30, 2015. The independent auditors' 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 20<sup>th</sup> 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 473,577 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. This diversification helped the City to weather the effects of the national recession. Continuing positive trends in both the State and local economies indicate 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 sixty-nine percent (69%) 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. Between 2007 and May 2015, the Water Department's customers lowered their overall demand to just under 15% below a historical ten (10) year benchmark. Between June and September of 2015, Long Beach joined all California communities in responding to the Governor's mandated conservation levels, exceeding the 16% mandate specifically set for Long Beach. Currently, overall water consumption levels are approximately equivalent to those seen in the 1960's. These conservation efforts are the result of an aggressive public outreach effort, coupled with multiple, successful incentive programs including rebates and landscape retrofits. The Water Department will continue these efforts to incorporate the conservation success into a sustained change in consumption behavior.

Reduced water usage due to conservation does result in reduced revenues. At the same time, those reductions are also offset by a reduction in operating expenses as a result of less imported water purchases 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 effects from conservation, the Water Department's budget and rate structure has been based annually on cost recovery and 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 60% 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 2015, the Department served approximately 1,685 million gallons of reclaimed water to a variety of users throughout the City. Since October 1, 2005, the Water Department, through a contract with the Water Replenishment District (WRD), has operated the Leo J. Vander Lans Advanced Water Treatment Facility, which enables WRD to use recycled water from the Long Beach Reclamation Plant to replace imported MWD water previously supplied to the Alamitos Barrier. In 2015, the Vander Lans facility expansion was completed, providing the operational flexibility to meet the needs of the barrier almost completely with recycled water, and minimize imported water needs.

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.

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 promoting 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 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 also 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 13,050 samples and performed 57,070 tests while maintaining certification with the California Department of Health Services and

Environmental Protection Agency (EPA).

During fiscal year 2015, the Groundwater Treatment Plant processed approximately 7.1 billion gallons of drinking water. Overall, 17.3 billion gallons of high-quality water were delivered to the Long Beach community.

## **MAJOR INITIATIVES**

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

Since 1994, the Department has researched 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 2015. 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 MWD and the California Department of Water Resources (DWR) on an innovative groundwater storage program. The \$4.5 million project, which was funded by State of California Proposition 13, stored surplus water in the Central Groundwater Basin, and has previously delivered the stored water during previous drought conditions in 2008 and 2009. A second \$2.7 million joint conjunctive use project with the City of Lakewood was completed in 2009 and water stored under this project may also be called upon in a drought.

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

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2015, the water distribution system totaled 912 miles of water mains with approximately 90,000 service connections.

During fiscal year 2015, the Department and contractors replaced 16,366 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 643 large control valves 20 inches or more in diameter and 22,720 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. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. 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. At September 30, 2015, the sanitary sewer collection system totaled 714 miles of sewer pipelines. 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 multi-year Capital Improvement Program to address aging infrastructure identified by the Master Plan analysis.

### **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, 2014. 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, 2015.

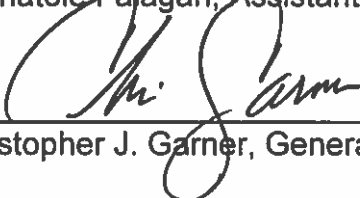
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Submitted and  
Recommended by:

  
\_\_\_\_\_  
B. Anatole Falagan, Assistant General Manager

Approved by:

  
\_\_\_\_\_  
Christopher J. Garner, General Manager

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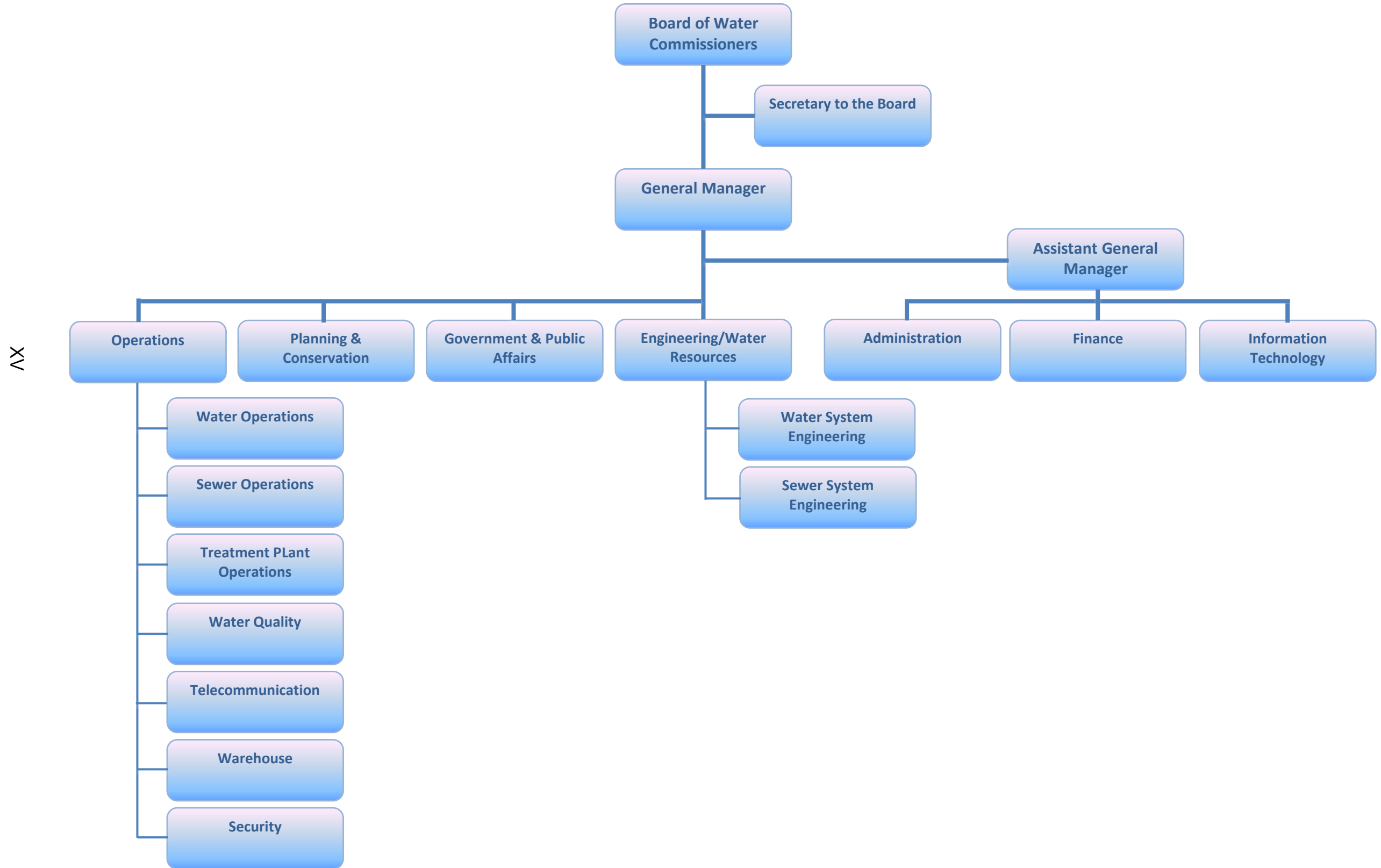
**Long Beach Water Department  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2014**

Executive Director/CEO

# Long Beach Water Department Organizational Chart



XX

# **LONG BEACH WATER DEPARTMENT**

## **BOARD OF WATER COMMISSIONERS**

|                  |                |
|------------------|----------------|
| FRANK MARTINEZ   | PRESIDENT      |
| ART LEVINE       | VICE PRESIDENT |
| ROBERT SHANNON   | SECRETARY      |
| GLORIA CORDERO   | MEMBER         |
| HARRY SALTZGAVER | MEMBER         |

## **STAFF**

CHRISTOPHER J. GARNER  
General Manager

B. ANATOLE FALAGAN  
Assistant General Manager

**FINANCIAL SECTION**

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**KPMG LLP**  
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## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and each major fund of the Long Beach Water Department (the Department) of the City of Long Beach, California (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### ***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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matters***

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, the changes in the financial position and cash flows of only that portion of the business-type activities and aggregate remaining fund information 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, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

### ***Adoption of New Accounting Pronouncement***

As discussed in Note 1 to the financial statements, in 2015, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

Our opinions are not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–21 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 audit 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.

#### ***Supplementary and Other Information***

The accompanying introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2016 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 internal control over



financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts  
April 12, 2016

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2015

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 year ended September 30, 2015. 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 and deferred outflows exceeded its liabilities and deferred inflows at the close of fiscal year 2015 (FY2015) by \$328,143 (*net position*). The Department's net position is further broken down between the Water Fund and Sewer Fund below.

**Water Fund.** Assets and deferred outflows exceeded liabilities and deferred inflows at the close of FY2015 by \$270,054. Of this amount, \$268,500 represents net investment in capital assets, and \$1,697 represents resources that are subject to restrictions on how they may be used. After the application of new pension reporting requirements, the Water Fund showed a deficit in unrestricted net position of \$143. Total Water Fund net position increased by \$118 (+0.04%) from the prior fiscal year. The increase reflects the contributed capital received during the year.

**Sewer Fund.** Net position totaled \$58,089 as of September 30, 2015, an increase of \$1,622 (+2.9%) from the prior fiscal year. Of this amount, \$53,895 represents net investment in capital assets. After the application of new pension reporting requirements, the unrestricted portion of net position for Sewer Fund totaled \$4,194.

**New significant Accounting Standards Implemented.** In FY2015, the Department adopted two new Government Accounting Standards Board (GASB) statements of financial accounting as follows:

- *GASB Statement No. 68 (GASB 68): "Accounting and Financial Reporting for Pensions – an amendment of Statement No. 27.* This statement requires the reporting of the Department's pension liability on the Department's financial Statements. Further discussion on this statement is provided within the Notes to Financial Statements.
- *GASB Statement No. 71 (GASB 71): "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* This statement amends GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made

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subsequent to the measurement date of the beginning net pension liability. Further discussion on this statement is provided within the Notes to Financial Statements.

Due to the implementation of the GASB Statements, The Department made prior period adjustments to the FY2014 Financial Statements. The FY2014 net positions decreased by \$28,693 (-9.6%) and \$5,867 (-9.4%) for Water Fund and Sewer Fund, respectively. These changes reflect the reporting of: 1) Net pension liabilities of \$29,218 for Water Fund and \$5,974 for Sewer Fund and 2) Deferred Outflow of Resources of \$525 for Water Fund and \$107 for Sewer Fund.

### 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 fiscal year. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2015.

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 fiscal year. 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.

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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 27-58 of this report.

### FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the Department's financial position. As of September 30, 2015, Water Fund assets exceeded liabilities by \$270,054, and Sewer Fund assets exceeded liabilities by \$58,089, representing a 0.04% increase in net position over the prior fiscal year for the Water Fund and a 2.9% increase in Sewer Fund net position. Net positions are further categorized by net investment in capital assets, and restricted and unrestricted net positions.

As of September 30, 2015, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represented 99.4% and 92.8% of Water Fund and Sewer Fund net positions, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to 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 (0.5% of total net position for both FY2015 and FY2014) 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 (1.2% and 2.8% of total net position as of September 30, 2015 and 2014, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

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The Department's Condensed Schedules of Net Position as of September 30, 2015 and 2014 are as follows (in thousands):

### Long Beach Water Department Condensed Schedules of Net Position September 30, 2015 and 2014 (in thousands)

|  | 2015       | 2014*      | Variance   |        |
|--|------------|------------|------------|--------|
|  |            |            | 2015/2014  |        |
|  |            |            | Amount     | %      |
| <b>Assets:</b>                         |            |            |            |        |
| Current and other assets               | \$ 57,011  | \$ 63,498  | \$ (6,487) | -10.2% |
| Capital assets                         | 362,343    | 356,470    | 5,873      | 1.6%   |
| Total assets                           | 419,354    | 419,968    | (614)      | -0.1%  |
| <b>Deferred Outflows of Resources:</b> |            |            |            |        |
| Deferred Outflows                      | 8,121      | 2,579      | 5,542      | 214.9% |
| <b>Liabilities:</b>                    |            |            |            |        |
| Current liabilities                    | 15,374     | 16,830     | (1,456)    | -8.7%  |
| Noncurrent liabilities                 | 79,967     | 79,314     | 653        | 0.8%   |
| Total liabilities                      | 95,341     | 96,144     | (803)      | -0.8%  |
| <b>Deferred Inflows of Resources:</b>  |            |            |            |        |
| Deferred Infows                        | 3,991      | -          | 3,991      | 100%   |
| <b>Net Position:</b>                   |            |            |            |        |
| Net investment in capital assets       | 322,395    | 315,544    | 6,851      | 2.2%   |
| Restricted                             | 1,697      | 1,673      | 24         | 1.4%   |
| Unrestricted                           | 4,051      | 9,186      | (5,135)    | -55.9% |
| Total net position                     | \$ 328,143 | \$ 326,403 | \$ 1,740   | 0.5%   |

\*Amounts restated due to implementation of GASB Statement No.68

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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, 2015 and 2014:

### Water Fund Condensed Schedules of Net Position September 30, 2015 and 2014 (in thousands)

|  | 2015       | 2014*      | Variance   |         |
|--|------------|------------|------------|---------|
|  |            |            | 2015/2014  |         |
|  |            |            | Amount     | %       |
| <b>Assets:</b>                         |            |            |            |         |
| Current and other assets               | \$ 46,201  | \$ 55,042  | \$ (8,841) | -16.1%  |
| Capital assets                         | 297,198    | 291,714    | 5,484      | 1.9%    |
| Total assets                           | 343,399    | 346,756    | (3,357)    | -1.0%   |
| <b>Deferred Outflows of Resources:</b> |            |            |            |         |
| Deferred Outflows                      | 7,040      | 2,472      | 4,568      | 184.8%  |
| <b>Liabilities:</b>                    |            |            |            |         |
| Current liabilities                    | 14,690     | 15,702     | (1,012)    | -6.5%   |
| Noncurrent liabilities                 | 62,376     | 63,590     | (1,214)    | -1.9%   |
| Total liabilities                      | 77,066     | 79,292     | (2,226)    | -2.8%   |
| <b>Deferred Inflows of Resources:</b>  |            |            |            |         |
| Deferred Infows                        | 3,319      | -          | 3,319      | 100%    |
| <b>Net Position:</b>                   |            |            |            |         |
| Net Investment in capital assets       | 268,500    | 260,538    | 7,962      | 3.1%    |
| Restricted                             | 1,697      | 1,673      | 24         | 1.4%    |
| Unrestricted                           | (143)      | 7,725      | (7,868)    | -101.9% |
| Total net position                     | \$ 270,054 | \$ 269,936 | \$ 118     | 0.04%   |

\*Amounts restated due to implementation of GASB Statement No.68



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## Management's Discussion and Analysis September 30, 2015

### Sewer Fund Condensed Schedules of Net Position September 30, 2015 and 2014 (in thousands)

|  | 2015             | 2014*            | Variance        |               |
|--|------------------|------------------|-----------------|---------------|
|  |                  |                  | 2015/2014       |               |
|  |                  |                  | Amount          | %             |
| <b>Assets:</b>                         |                  |                  |                 |               |
| Current and other assets               | \$ 10,810        | \$ 8,456         | \$ 2,354        | 27.8%         |
| Capital assets                         | 65,145           | 64,756           | 389             | 0.6%          |
| Total assets                           | <u>75,955</u>    | <u>73,212</u>    | <u>2,743</u>    | <u>3.7%</u>   |
| <b>Deferred Outflows of Resources:</b> |                  |                  |                 |               |
| Deferred Outflows                      | <u>1,081</u>     | <u>107</u>       | <u>974</u>      | <u>910.3%</u> |
| <b>Liabilities:</b>                    |                  |                  |                 |               |
| Current liabilities                    | 684              | 1,128            | (444)           | -39.4%        |
| Noncurrent liabilities                 | 17,591           | 15,724           | 1,867           | 11.9%         |
| Total liabilities                      | <u>18,275</u>    | <u>16,852</u>    | <u>1,423</u>    | <u>8.4%</u>   |
| <b>Deferred Inflows of Resources:</b>  |                  |                  |                 |               |
| Deferred Inflows                       | <u>672</u>       | <u>-</u>         | <u>672</u>      | <u>100.0%</u> |
| <b>Net Position:</b>                   |                  |                  |                 |               |
| Net Investment in capital assets       | 53,895           | 55,006           | (1,111)         | -2.0%         |
| Unrestricted                           | 4,194            | 1,461            | 2,733           | 187.1%        |
| Total net position                     | <u>\$ 58,089</u> | <u>\$ 56,467</u> | <u>\$ 1,622</u> | <u>2.9%</u>   |

\*Amounts restated due to implementation of GASB Statement No.68

### Fiscal Year Ended September 30, 2015 Compared to 2014

**Water Fund.** Net position increased by \$118 (+0.04%) over FY2014. This net increase is attributable to contributed capital of \$1,726 from various Developers for water distribution systems and expenses in excess of revenues of \$1,608.

Current and other assets decreased by amount to \$8,841 (-16.1%) from FY2014, reflecting decreases in cash due primarily to a decrease in cash received from sales revenue and increased operating expenditures.

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Capital assets increased by \$5,484 (+1.9%) over the prior year, mainly due to the ongoing capital improvement program for cast iron water main replacement, water service installations, and facility improvements.

Deferred outflows of resources increased by \$4,568 (+184.8%) over FY2014. This net amount represents an increase of \$4,816 (+917.3%) in deferred pension resulting from the implementation of GASB 68 and a decrease of \$248 (-12.7%) due to amortization of deferred losses on refundings of Water Revenue Bonds Series 2010A.

Current liabilities decreased by \$1,012 (-6.5%) compared to FY2014 mainly due to a decrease of accounts payable at the end of fiscal year.

Noncurrent liabilities decreased by \$1,214 (-1.9%) from FY2014 due to annual principal payments on debt and an increase of \$1,816 (+6.2%) in pension liability as a result of GASB 68 implementation.

Deferred inflows of resources amounted to \$3,319 in FY2015. This represents changes in pension actuarial assumptions and differences between actual and projected experience resulting from the implementation of GASB 68.

**Sewer Fund.** Net position increased \$1,622 (+2.9%) over FY2014. This increase was attributable to revenues in excess of expenses.

Current assets and other assets increased by \$2,354 (+27.8%), reflecting an increase in cash due primarily to a \$1,500 draw on the Subordinate Sewer Revolving Line of Credit to fund sewer capital projects in FY2015.

Capital assets increased by \$389 (+0.6%) over FY2014 due to the completion of several sewer main pipe relining and replacement projects across the city of Long Beach.

Deferred outflows of resources increased by \$974 (+910.3%) over FY2014. This reflects an increase in deferred pension resulting from the implementation of GASB 68.

Current liabilities decreased by \$444 (-39.4%) compared to FY2014 mainly due to a reduction in accounts payable at the end of fiscal year.

Noncurrent liabilities increased by \$1,867 (+11.9%) from FY2014 primarily due to the \$1,500 drawing on the Subordinate Sewer Revolving Line of Credit totaled and an increase of \$367 (+6.1%) in pension liability resulting from the implementation of GASB 68.

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## Management's Discussion and Analysis September 30, 2015

Deferred inflows of resources amounted to \$672 in FY2015. This represents changes in pension actuarial assumptions and differences between actual and projected experience resulting from the implementation of GASB 68.

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, 2015 and 2014 (in thousands):

**Long Beach Water Department  
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position  
Fiscal Years Ended September 30, 2015 and 2014  
(in thousands)**

|  | 2015             | 2014*            | Variance        |              |
|--|------------------|------------------|-----------------|--------------|
|  |                  |                  | 2015/2014       |              |
|  |                  |                  | Amount          | %            |
| <b>Operating Revenues:</b>             |                  |                  |                 |              |
| Metered water sales                    | \$ 65,136        | \$ 70,851        | \$ (5,715)      | -8.1%        |
| Reclaimed water sales                  | 3,100            | 3,398            | (298)           | -8.8%        |
| Service charges                        | 32,977           | 32,185           | 792             | 2.5%         |
| Maintenance services                   | 86               | 86               | -               | -            |
| Other services                         | 16,079           | 11,620           | 4,459           | 38.4%        |
| Total operating revenues               | <u>117,378</u>   | <u>118,140</u>   | <u>(762)</u>    | <u>-0.6%</u> |
| <b>Operating Expenses:</b>             |                  |                  |                 |              |
| Cost of water                          | 42,178           | 34,378           | 7,800           | 22.7%        |
| Personal services                      | 22,944           | 21,865           | 1,079           | 4.9%         |
| Maintenance and other                  | 26,153           | 24,847           | 1,306           | 5.3%         |
| Depreciation and amortization          | 12,749           | 12,187           | 562             | 4.6%         |
| Permit fees                            | 10,243           | 10,075           | 168             | 1.7%         |
| Commercial Services                    | 3,891            | 4,119            | (228)           | -5.5%        |
| Total operating expenses               | <u>118,158</u>   | <u>107,471</u>   | <u>10,687</u>   | <u>9.9%</u>  |
| Operating income                       | (780)            | 10,669           | (11,449)        | -107.3%      |
| <b>Nonoperating Income (Expenses):</b> |                  |                  |                 |              |
| Interest income                        | 275              | 143              | 132             | 92.3%        |
| Interest expense                       | (343)            | (614)            | 271             | -44.1%       |
| Gain (Loss) on disposition of property | (196)            | 35               | (231)           | -660.0%      |
| Rents                                  | 1,256            | 1,158            | 98              | 8.5%         |
| Land sales                             | -                | -                | -               | -            |
| Other                                  | (198)            | (1,400)          | 1,202           | -85.9%       |
| Income before contributed capital      | 14               | 9,991            | (9,977)         | -99.9%       |
| Capital contributions                  | 1,726            | 3,683            | (1,957)         | -53.1%       |
| Change in net position                 | 1,740            | 13,674           | (11,934)        | -87.3%       |
| Beginning net position                 | 326,403          | 312,729          | 13,674          | 4.4%         |
| Ending net position                    | <u>\$328,143</u> | <u>\$326,403</u> | <u>\$ 1,740</u> | <u>0.5%</u>  |

\*Amounts restated due to implementation of GASB Statement No.68

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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, 2015 and 2014:

### Water Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position Fiscal Years Ended September 30, 2015 and 2014 (in thousands)

|  | 2015             | 2014*            | Variance            |                |
|--|------------------|------------------|---------------------|----------------|
|  |                  |                  | 2015/2014<br>Amount | %              |
| <b>Operating Revenues:</b>             |                  |                  |                     |                |
| Metered water sales                    | \$ 58,895        | \$ 64,420        | \$ (5,525)          | -8.6%          |
| Reclaimed water sales                  | 3,100            | 3,398            | (298)               | -8.8%          |
| Service charges                        | 22,061           | 21,548           | 513                 | 2.4%           |
| Other services                         | 15,419           | 10,821           | 4,598               | 42.5%          |
| Total operating revenues               | <u>99,475</u>    | <u>100,187</u>   | <u>(712)</u>        | <u>-0.7%</u>   |
| <b>Operating Expenses:</b>             |                  |                  |                     |                |
| Cost of water                          | 42,178           | 34,378           | 7,800               | 22.7%          |
| Personal services                      | 18,923           | 17,822           | 1,101               | 6.2%           |
| Maintenance and other                  | 22,442           | 21,656           | 786                 | 3.6%           |
| Depreciation and amortization          | 10,739           | 10,226           | 513                 | 5.0%           |
| Permit fees                            | 5,794            | 5,694            | 100                 | 1.8%           |
| Commercial Services                    | 2,058            | 2,216            | (158)               | -7.1%          |
| Total operating expenses               | <u>102,134</u>   | <u>91,992</u>    | <u>10,142</u>       | <u>11.0%</u>   |
| Operating income                       | (2,659)          | 8,195            | (10,854)            | -132.4%        |
| <b>Nonoperating Income (Expenses):</b> |                  |                  |                     |                |
| Interest income                        | 223              | 120              | 103                 | 85.8%          |
| Interest expense                       | (292)            | (587)            | 295                 | -50.3%         |
| Gain (Loss) on disposition of property | (198)            | 36               | (234)               | -650.0%        |
| Rents                                  | 1,256            | 1,158            | 98                  | 8.5%           |
| Land sales                             | -                | -                | -                   | -              |
| Other                                  | 62               | (943)            | 1,005               | -106.6%        |
| Income before contributed capital      | <u>(1,608)</u>   | <u>7,979</u>     | <u>(9,587)</u>      | <u>-120.2%</u> |
| Capital contributions                  | 1,726            | 2,924            | (1,198)             | -41.0%         |
| Change in net position                 | 118              | 10,903           | (10,785)            | -98.9%         |
| Beginning net position                 | 269,936          | 259,033          | 10,903              | 4.2%           |
| Ending net position                    | <u>\$270,054</u> | <u>\$269,936</u> | <u>\$ 118</u>       | <u>0.04%</u>   |

\*Amounts restated due to implementation of GASB Statement No.68

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### Sewer Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position Fiscal Years Ended September 30, 2015 and 2014 (in thousands)

|  | 2015             | 2014*            | Variance        |               |
|--|------------------|------------------|-----------------|---------------|
|  |                  |                  | 2015/2014       |               |
|  |                  |                  | Amount          | %             |
| <b>Operating Revenues:</b>             |                  |                  |                 |               |
| Metered water sales                    | \$ 6,241         | \$ 6,431         | (190)           | -3.0%         |
| Service charges                        | 10,916           | 10,637           | 279             | 2.6%          |
| Maintenance services                   | 86               | 86               | -               | -             |
| Other services                         | 660              | 799              | (139)           | -17.4%        |
| Total operating revenues               | <u>17,903</u>    | <u>17,953</u>    | <u>(50)</u>     | <u>-0.3%</u>  |
| <b>Operating Expenses:</b>             |                  |                  |                 |               |
| Personal services                      | 4,021            | 4,043            | (22)            | -0.5%         |
| Maintenance and other                  | 3,711            | 3,191            | 520             | 16.3%         |
| Permit fees                            | 4,449            | 4,381            | 68              | 1.6%          |
| Depreciation                           | 2,010            | 1,961            | 49              | 2.5%          |
| Commercial Services                    | 1,833            | 1,903            | (70)            | -3.7%         |
| Total operating expenses               | <u>16,024</u>    | <u>15,479</u>    | <u>545</u>      | <u>3.5%</u>   |
| Operating income (expenses)            | 1,879            | 2,474            | (595)           | -24.1%        |
| <b>Nonoperating Income (Expenses):</b> |                  |                  |                 |               |
| Interest income                        | 52               | 23               | 29              | 126.1%        |
| Interest expense                       | (51)             | (27)             | (24)            | 88.9%         |
| Gain (Loss) on disposition of property | 2                | (1)              | 3               | -300.0%       |
| Other                                  | (260)            | (457)            | 197             | -43.1%        |
| Income before contributed capital      | <u>1,622</u>     | <u>2,012</u>     | <u>(390)</u>    | <u>-19.4%</u> |
| Capital contributions                  | -                | 759              | (759)           | -100.0%       |
| Change in net position                 | <u>1,622</u>     | <u>2,771</u>     | <u>(1,149)</u>  | <u>-41.5%</u> |
| Beginning net position                 | <u>56,467</u>    | <u>53,696</u>    | <u>2,771</u>    | <u>5.2%</u>   |
| Ending net position                    | <u>\$ 58,089</u> | <u>\$ 56,467</u> | <u>\$ 1,622</u> | <u>2.9%</u>   |

\*Amounts restated due to implementation of GASB Statement No.68

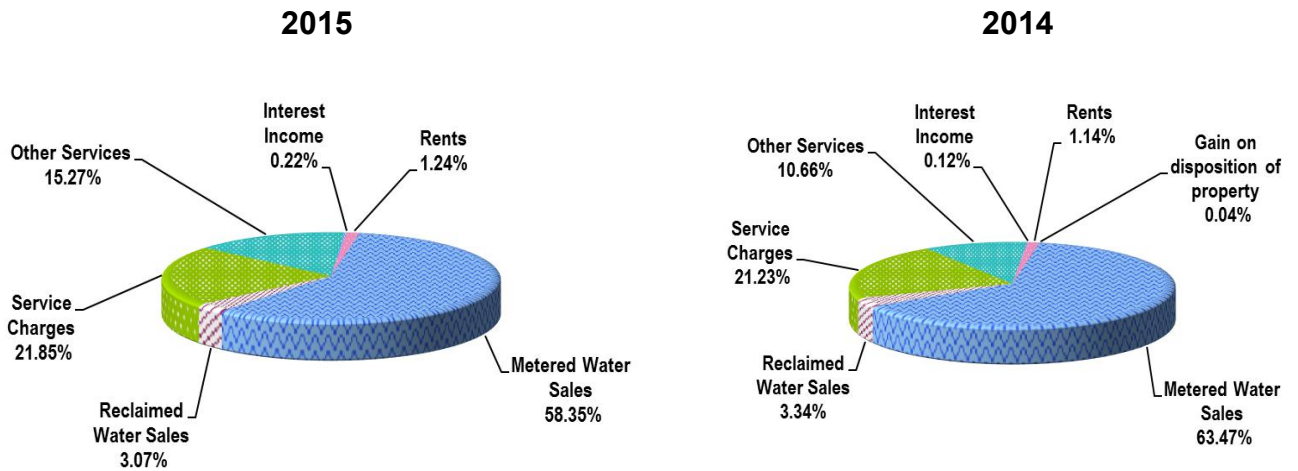
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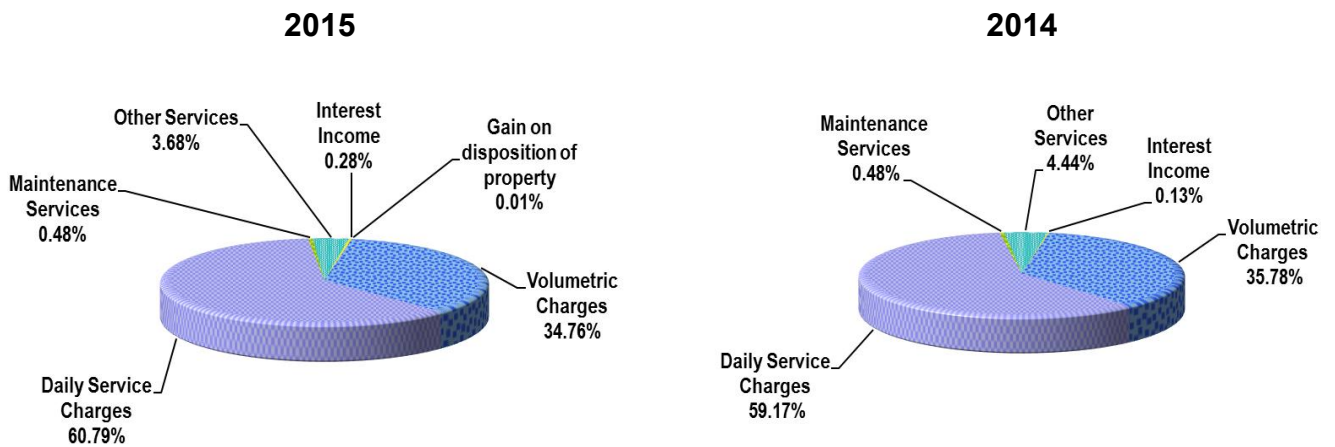
## Sources of Revenues

Sources of revenue for fiscal years 2015 and 2014 are shown on the following charts.

### Water Fund



### Sewer Fund



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

#### **Water Fund**

#### **Fiscal Year Ended September 30, 2015 Compared to 2014**

Total operating revenues were \$99,475, a decrease of \$712 (-0.7 %) over FY2014. The major elements of this decrease are as follows:

- Metered potable water sales and Reclaimed water sales revenue decreased by \$5,525 (-8.6 %) and \$298 (-8.8 %) respectively, in FY2015 primarily due to decreases in consumption as a result of the Department's effective water conservation campaigns and programs. These decreases in revenue were offset by a 4% water rate increase in FY2015.
- Service charges increased by \$513 (+2.4%) in FY2015 primarily due to a 4% water rate increase.
- Revenue from other services totaled \$15,419, a net increase of \$4,598 (+42.5%) from the prior year. The major factors of this net increase are as follows:
  - Revenue from In-Lieu Groundwater Replenishment Agreements with Water Replenishment District of Southern California (WRD) increased by \$4,583 (+276.4%) over FY2014. This is due to an increase in imported water in-lieu of groundwater pumping by 9,149 acre feet (AF) (+256.0%).
  - Revenue received from sales of potable water to WRD and Orange County Water District (OCWD) for the Alamitos Seawater Intrusion Barrier decreased by \$851 (-14.7%), due to a decrease in demand and WRD's drawdown of banked groundwater in FY2015.
  - Reimbursements received from Metropolitan Water District of Southern California (MWD) for the Department's Lawn-to-Garden Conservation Incentive program increased by \$754 (+129.4%) in FY2015.

FY2015 net nonoperating income totaled \$1,051, a net increase of \$1,267 (+586.6%) over FY2014 which is primarily due to a \$919 (-72.3%) decrease in expenses offsetting income. These expenses reflect a decrease in development costs for a new customer information system and water capital improvement projects charged to expense.

Capital contributions decreased by \$1,198 (-41.0%) compared to FY2014 primarily due to a decrease in distribution system development agreements with the Department.

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## Sewer Fund

### Fiscal Year Ended September 30, 2015 Compared to 2014

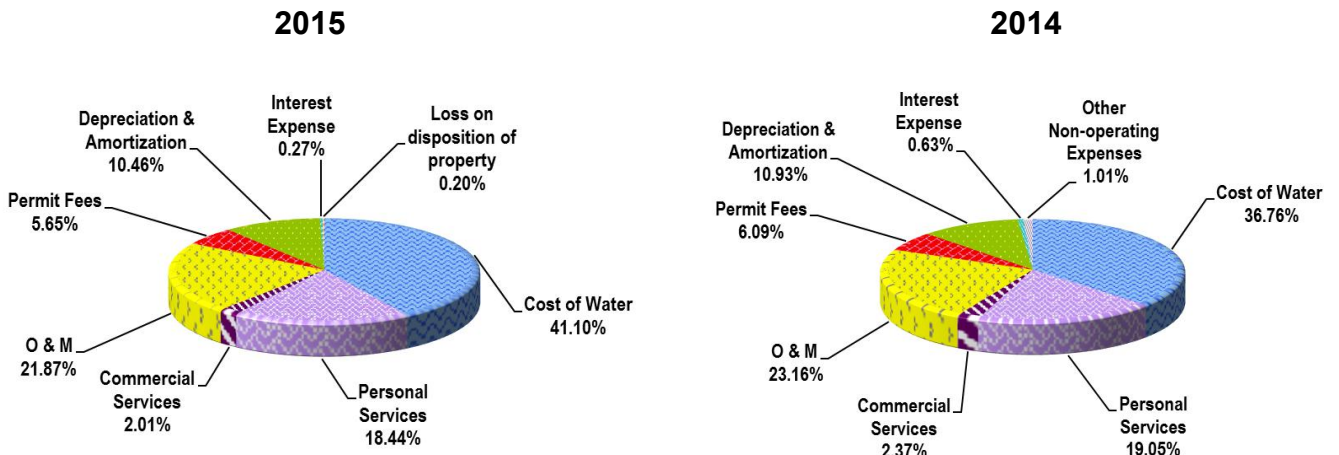
Total operating revenues decreased \$50 (-0.3%) over FY2014. The key elements of this decrease are as follows:

- Metered water sales revenue decreased by \$190 (-3.0%) over FY2014 due to decreased demand in FY2015 as a result of the Department's effective water conservation campaigns and programs. The decrease in volumetric sales revenue was offset by a 4% sewer rate increase.
- Service charges increased by \$279 (+2.6%) over FY2014 which reflects the 4% sewer rate increase.
- Other services revenue decreased by \$139 (-17.4%) over FY2014 which is primarily attributable to decreased sewer capacity charges revenue as a result of a decline in building construction activity.

### Functional Expenses

Functional expenses for the 2015 and 2014 fiscal years are shown on the following charts.

### Water Fund

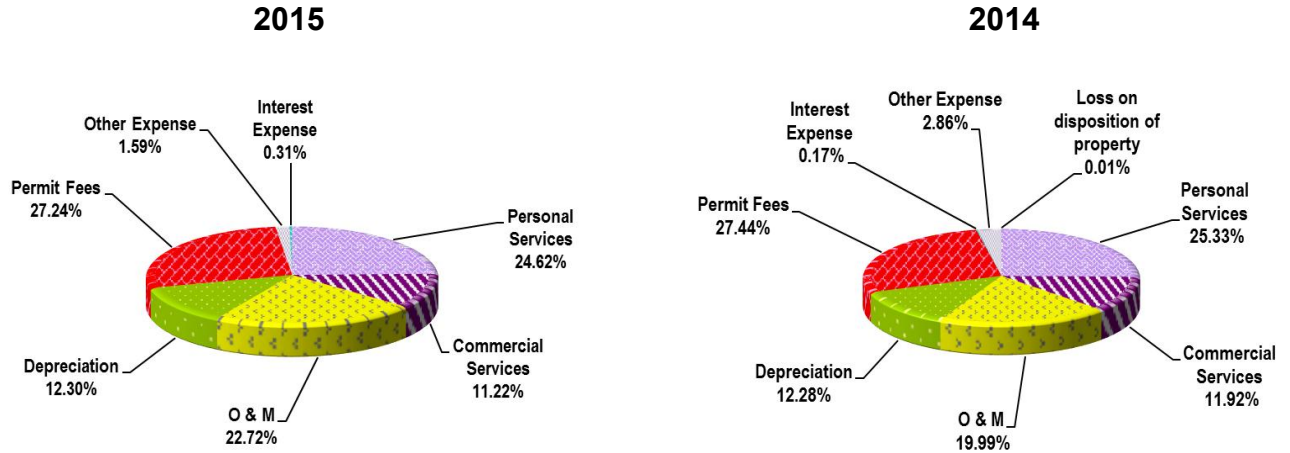




# LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2015

## Sewer Fund



### ***Management Review of the Department's Expenses.***

#### **Water Fund**

##### **Fiscal Year Ended September 30, 2015 Compared to 2014**

Operating expenses totaled \$102,134, an increase of \$10,142 (+11.0%) over FY2014. The major elements attributable to the net increase are as follows:

- Purchased water costs increased by \$7,800 (+22.7%), in FY2015. This is due to MWD rate increases and increases in potable water purchases as follows:
  - A payment made to MWD in relation to 6,402 AF of MWD stored water under the Long Beach Conjunctive Use Program (CUP).
  - Potable water purchases relating to the In-Lieu Groundwater Replenishment Agreement with WRD increased by 9,149 AF (+256.0%) in FY2015.
- Labor costs increased by \$1,101 (+6.2%) in FY2015, as a result of increases in salary range increases, fringe benefits, and worker's compensation.
- Maintenance and other expenses had a net increase of \$786 (+3.6%) from FY2014. The net increase is primarily attributable to the following factors:
  - Incentive payments for conservation programs increased by \$940 (+70.9%) compared to FY2014 due to an increase in residents participating in the Lawn-to-Garden Conservation Incentive program.

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2015

- In FY2015, the Department shared the cost on the Enterprise Resource Planning (ERP) effort for a new financial and human resources system which totaled to \$1,154.
- Replenishment assessment (pump tax) decreased by \$1,215 (-16.6%) due to a decrease in groundwater pumped during FY2015.

### **Sewer Fund**

#### **Fiscal Year Ended September 30, 2015 Compared to 2014**

Total operating expenses amounted to \$16,024, an increase of \$545 (+3.5%) over FY2014. This is attributable to an increase in Maintenance and other expenses incurred for sewer lateral repairs by \$520 (+16.3%). In addition, the Department shared the cost on professional services for the ERP effort which started in FY2015.

FY2015 net nonoperating expense totaled \$257, a net decrease of \$205 (-44.2%) over FY2014, which was primarily due to a decrease in the acquisition and implementation costs of the new Customer Information System.

#### **Capital Assets and Debt Administration**

**Capital assets.** The Department's capital assets (net of accumulated depreciation and amortization) as of September 30, 2015 amounted to \$297,198 for the Water Fund and \$65,145 for the Sewer Fund. Capital assets include investments in production, transmission, patent, improvements on buildings and structures, and distribution related facilities, as well as general items such as office equipment and furniture. For FY2015, net capital assets increased \$5,485 (+1.9%) and \$389 (+0.6%) 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.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2015

The Department's capital assets are summarized as follows for the years ended September 30, 2015 and 2014 (in thousands):

| <b>Long Beach Water Department<br/>Capital Assets<br/>September 30, 2015 and 2014<br/>(in thousands)</b> |                   |                   |                  |               |
|--|-------------------|-------------------|------------------|---------------|
|  | <b>2015</b>       | <b>2014</b>       | <b>Variance</b>  |               |
|  |                   |                   | <b>2015/2014</b> |               |
|  |                   |                   | <b>Amount</b>    | <b>%</b>      |
| Land   | \$ 11,248         | \$ 11,248         | \$ -             | -             |
| Water Rights   | 40                | 40                | -                | -             |
| Patent - Desalination  | 815               | 815               | -                | -             |
| Buildings, structures, and facilities  | 131,313           | 131,215           | 98               | 0.1%          |
| Distribution/collection systems  | 524,252           | 505,840           | 18,412           | 3.6%          |
| Machinery and equipment  | 20,388            | 19,683            | 705              | 3.6%          |
| Construction in progress   | <u>22,822</u>     | <u>26,091</u>     | <u>(3,269)</u>   | <u>-12.5%</u> |
| Total capital assets   | 710,878           | 694,932           | 15,946           | 2.3%          |
| Less: accumulated depreciation<br>and amortization   | <u>(348,535)</u>  | <u>(338,462)</u>  | <u>(10,073)</u>  | <u>3.0%</u>   |
| Net capital assets   | <u>\$ 362,343</u> | <u>\$ 356,470</u> | <u>\$ 5,873</u>  | <u>1.6%</u>   |

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, 2015 and 2014:

| <b>Water Fund<br/>Capital Assets<br/>September 30, 2015 and 2014<br/>(in thousands)</b> |                   |                   |                  |              |
|---|-------------------|-------------------|------------------|--------------|
|   | <b>2015</b>       | <b>2014</b>       | <b>Variance</b>  |              |
|   |                   |                   | <b>2015/2014</b> |              |
|   |                   |                   | <b>Amount</b>    | <b>%</b>     |
| Land  | \$ 11,248         | \$ 11,248         | \$ -             | -            |
| Water Rights  | 40                | 40                | -                | -            |
| Patent - Desalination   | 815               | 815               | -                | -            |
| Buildings, structures, and facilities   | 125,632           | 125,534           | 98               | 0.1%         |
| Distribution/collection systems   | 324,778           | 310,075           | 14,703           | 4.7%         |
| Machinery and equipment   | 15,277            | 14,815            | 462              | 3.1%         |
| Construction in progress  | <u>19,498</u>     | <u>19,811</u>     | <u>(313)</u>     | <u>-1.6%</u> |
| Total capital assets  | 497,288           | 482,338           | 14,950           | 3.1%         |
| Less: accumulated depreciation<br>and amortization                                      | <u>(200,090)</u>  | <u>(190,624)</u>  | <u>(9,466)</u>   | <u>5.0%</u>  |
| Net capital assets  | <u>\$ 297,198</u> | <u>\$ 291,714</u> | <u>\$ 5,484</u>  | <u>1.9%</u>  |

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2015

#### Sewer Fund Capital Assets September 30, 2015 and 2014 (in thousands)

|                                       | 2015      | 2014      | Variance  |        |
|---------------------------------------|-----------|-----------|-----------|--------|
|                                       |           |           | 2015/2014 |        |
|                                       |           |           | Amount    | %      |
| Buildings, structures, and facilities | \$ 5,681  | \$ 5,681  | \$ -      | -      |
| Distribution/collection systems       | 199,474   | 195,765   | 3,709     | 1.9%   |
| Machinery and equipment               | 5,111     | 4,868     | 243       | 5.0%   |
| Construction in progress              | 3,324     | 6,280     | (2,956)   | -47.1% |
| Total capital assets                  | 213,590   | 212,594   | 996       | 0.5%   |
| Less: accumulated depreciation        | (148,445) | (147,838) | (607)     | 0.4%   |
| Net capital assets                    | \$ 65,145 | \$ 64,756 | \$ 389    | 0.6%   |

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

**Long-term debt.** As of September 30, 2015, the Department had total long-term debt outstanding of \$30,343 for the Water Fund and \$11,250 for the Sewer Fund. All debt is supported by Water Fund revenues and Sewer Fund revenues. Total Department outstanding debt as of September 30, 2015 and 2014 is summarized as follows:

#### Long Beach Water Department Summary of Long-Term Debt September 30, 2015 and 2014 (in thousands)

|                            | 2015      | 2014      | Variance  |         |
|----------------------------|-----------|-----------|-----------|---------|
|                            |           |           | 2015/2014 |         |
|                            |           |           | Amount    | %       |
| <b>Water Fund</b>          |           |           |           |         |
| Revenue refunding bonds    | \$ 27,640 | \$ 30,270 | \$(2,630) | -8.7%   |
| Long-term debt outstanding | 27,640    | 30,270    | (2,630)   | -8.7%   |
| Less:                      |           |           |           |         |
| Unamortized bond discount  | -         | (5)       | 5         | -100.0% |
| Unamortized bond premium   | 2,703     | 3,107     | (404)     | -13.0%  |
| Total long-term debt       | \$ 30,343 | \$ 33,372 | \$(3,029) | -9.1%   |
| <b>Sewer Fund</b>          |           |           |           |         |
| Revolving line of credit   | \$ 11,250 | \$ 9,750  | \$ 1,500  | 15.4%   |
| Total long-term debt       | \$ 11,250 | \$ 9,750  | \$ 1,500  | 15.4%   |

## **LONG BEACH WATER DEPARTMENT**

Management's Discussion and Analysis  
September 30, 2015

The Department maintains AA+ credit ratings from Standard & Poor's for the Water and Sewer Funds. 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, 2015, with budgeted expenditures totaling approximately \$106.3 million and \$19.3 million for the Water Fund and Sewer Fund, respectively. In fiscal year 2016 (FY2016), there were 4% rate increases for potable water, reclaimed water and sewer collection services.

### **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  
Business Type Activity - Enterprise  
September 30, 2015  
(in thousands of dollars)**

|   | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u>     |
|---|-------------------|-------------------|------------------|
| <b>ASSETS</b>                                   |                   |                   |                  |
| Current Assets:                                 |                   |                   |                  |
| Pooled cash and cash equivalents                | \$ 29,003         | 9,905             | 38,908           |
| Interest receivable                             | 9                 | -                 | 9                |
| Customer accounts receivable                    | 6,226             | 894               | 7,120            |
| Due from other funds                            | 37                | -                 | 37               |
| Allowance for doubtful accounts                 | (330)             | (56)              | (386)            |
| Material and supplies inventory                 | 3,248             | 67                | 3,315            |
| Prepaid expense                                 | 2,552             | -                 | 2,552            |
| Restricted assets                               |                   |                   |                  |
| Pooled cash and cash equivalents:               |                   |                   |                  |
| Funds held in trust                             | 1,039             | -                 | 1,039            |
| Bond service funds                              | 1,623             | -                 | 1,623            |
| Sub-total pooled cash and cash equivalents      | <u>2,662</u>      | <u>-</u>          | <u>2,662</u>     |
| Non-pooled cash equivalents                     | 2,650             | -                 | 2,650            |
| Total restricted assets                         | <u>5,312</u>      | <u>-</u>          | <u>5,312</u>     |
| Total current assets                            | <u>46,057</u>     | <u>10,810</u>     | <u>56,867</u>    |
| Noncurrent Assets:                              |                   |                   |                  |
| Capital assets:                                 |                   |                   |                  |
| Land  | 11,248            | -                 | 11,248           |
| Water rights                                    | 40                | -                 | 40               |
| Patents   | 815               | -                 | 815              |
| Buildings, structures and facilities            | 125,632           | 5,681             | 131,313          |
| Distribution/collection systems                 | 324,778           | 199,474           | 524,252          |
| Machinery and equipment                         | 15,277            | 5,111             | 20,388           |
| Construction in progress                        | 19,498            | 3,324             | 22,822           |
| Total capital assets                            | <u>497,288</u>    | <u>213,590</u>    | <u>710,878</u>   |
| Less: Accumulated depreciation and amortization | <u>(200,090)</u>  | <u>(148,445)</u>  | <u>(348,535)</u> |
| Total capital assets, net                       | 297,198           | 65,145            | 362,343          |
| Other assets, net of amortization               |                   |                   |                  |
| Other assets                                    | 144               | -                 | 144              |
| Total noncurrent assets                         | <u>297,342</u>    | <u>65,145</u>     | <u>362,487</u>   |
| Total assets                                    | <u>343,399</u>    | <u>75,955</u>     | <u>419,354</u>   |

*(Continued)*

**LONG BEACH WATER DEPARTMENT**

**Statements of Net Position  
Business Type Activity - Enterprise  
September 30, 2015  
(in thousands of dollars)**

|  | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u>   |
|--|-------------------|-------------------|----------------|
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                |                   |                   |                |
| Economics loss from the refunding of debt                            | 1,699             | -                 | 1,699          |
| Pension contributions after measurement date                         | 560               | 113               | 673            |
| Difference between actual and expected<br>CalPERS investment returns | 4,781             | 968               | 5,749          |
| Total deferred outflows of resources                                 | <u>7,040</u>      | <u>1,081</u>      | <u>8,121</u>   |
| <br><b>LIABILITIES</b>   |                   |                   |                |
| Current Liabilities:   |                   |                   |                |
| Accounts payable   | \$ 9,269          | 474               | 9,743          |
| Accrued wages payable  | 662               | 179               | 841            |
| Unearned revenue   | 39                | -                 | 39             |
| Due to other funds   | 297               | -                 | 297            |
| Advances from developers   | 234               | 31                | 265            |
| Accrued interest payable   | 527               | -                 | 527            |
| Long-term debt due within one year                                   | 2,630             | -                 | 2,630          |
| Customer deposits  | 1,032             | -                 | 1,032          |
| Noncurrent Liabilities:  |                   |                   |                |
| Long-term debt, net of current portion                               | 30,343            | 11,250            | 41,593         |
| Net pension liability  | 31,033            | 6,341             | 37,374         |
| Accrued site restoration cost  | 1,000             | -                 | 1,000          |
| Total Liabilities  | <u>77,066</u>     | <u>18,275</u>     | <u>95,341</u>  |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>                             |                   |                   |                |
| CalPERS difference between actual<br>and expected experience         | 1,741             | 353               | 2,094          |
| CalPERS change in assumptions  | 1,578             | 319               | 1,897          |
| Total deferred inflows of resources                                  | <u>3,319</u>      | <u>672</u>        | <u>3,991</u>   |
| <br><b>NET POSITION</b>  |                   |                   |                |
| Net investment in capital assets                                     | 268,500           | 53,895            | 322,395        |
| Restricted for:  |                   |                   |                |
| Bond Service   | 1,623             | -                 | 1,623          |
| Bond Reserve   | 74                | -                 | 74             |
| Unrestricted   | (143)             | 4,194             | 4,051          |
| Total Net Position   | <u>\$ 270,054</u> | <u>58,089</u>     | <u>328,143</u> |

*See accompanying notes to financial statements*

## LONG BEACH WATER DEPARTMENT

### Statements of Revenues, Expenses, and Changes in Fund Net Position Business Type Activity - Enterprise Year Ended September 30, 2015 (in thousands of dollars)

|  | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u>   |
|--|-------------------|-------------------|----------------|
| <b>Operating Revenues:</b>                     |                   |                   |                |
| Metered water sales                            | \$ 58,895         | 6,241             | 65,136         |
| Reclaimed water sales                          | 3,100             | -                 | 3,100          |
| Service charges                                | 22,061            | 10,916            | 32,977         |
| Maintenance services                           | -                 | 86                | 86             |
| Other services                                 | 15,419            | 660               | 16,079         |
| Total operating revenues                       | <u>99,475</u>     | <u>17,903</u>     | <u>117,378</u> |
| <b>Operating Expenses:</b>                     |                   |                   |                |
| Cost of water                                  | 42,178            | -                 | 42,178         |
| Personal services                              | 18,923            | 4,021             | 22,944         |
| Commercial services                            | 2,058             | 1,833             | 3,891          |
| Maintenance and other                          | 22,442            | 3,711             | 26,153         |
| Permit fees                                    | 5,794             | 4,449             | 10,243         |
| Depreciation and amortization                  | 10,739            | 2,010             | 12,749         |
| Total operating expenses                       | <u>102,134</u>    | <u>16,024</u>     | <u>118,158</u> |
| Operating income(loss)                         | <u>(2,659)</u>    | <u>1,879</u>      | <u>(780)</u>   |
| <b>Non-operating Income (Expense):</b>         |                   |                   |                |
| Interest income                                | 223               | 52                | 275            |
| Interest expense                               | (292)             | (51)              | (343)          |
| Gain (loss) on disposition of property         | (198)             | 2                 | (196)          |
| Rental income                                  | 1,256             | -                 | 1,256          |
| Other  | 62                | (260)             | (198)          |
| Total non-operating income (expense)           | <u>1,051</u>      | <u>(257)</u>      | <u>794</u>     |
| Income(loss) before contributed capital        | <u>(1,608)</u>    | <u>1,622</u>      | <u>14</u>      |
| Contributed capital                            | <u>1,726</u>      | <u>-</u>          | <u>1,726</u>   |
| Changes in net position                        | 118               | 1,622             | 1,740          |
| Net position at beginning of year, as restated | <u>269,936</u>    | <u>56,467</u>     | <u>326,403</u> |
| Net Position - September 30                    | <u>\$ 270,054</u> | <u>58,089</u>     | <u>328,143</u> |

*See accompanying notes to financial statements*



**LONG BEACH WATER DEPARTMENT**

**Statements of Cash Flows  
Business Type Activity - Enterprise  
Years Ended September 30, 2015  
(in thousands of dollars)**

|  | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u>    |
|--|-------------------|-------------------|-----------------|
| <b>Cash flows from operating activities:</b>                     |                   |                   |                 |
| Cash received from customers                                     | \$ 100,542        | 17,885            | 118,427         |
| Cash paid to employees   | (18,467)          | (3,920)           | (22,387)        |
| Cash paid for water  | (44,071)          | -                 | (44,071)        |
| Cash paid for goods and services                                 | (23,926)          | (6,022)           | (29,948)        |
| Cash paid for permit fees  | (5,794)           | (4,449)           | (10,243)        |
| Other operating cash received(paid)                              | 979               | (273)             | 706             |
| Net cash provided by operating activities                        | <u>9,263</u>      | <u>3,221</u>      | <u>12,484</u>   |
| <b>Cash flows from capital and related financing activities:</b> |                   |                   |                 |
| Proceeds from issuance of long-term obligations                  | -                 | 1,500             | 1,500           |
| Proceeds from sale of capital assets                             | 141               | 15                | 156             |
| Contributions in aid of construction                             | 1,757             | -                 | 1,757           |
| Payments for capital acquisitions                                | (15,227)          | (2,370)           | (17,597)        |
| Principal repayments-bonds                                       | (2,510)           | -                 | (2,510)         |
| Interest payments  | (1,390)           | (79)              | (1,469)         |
| Net cash used for capital and related financing activities       | <u>(17,229)</u>   | <u>(934)</u>      | <u>(18,163)</u> |
| <b>Cash flows from investing activities:</b>                     |                   |                   |                 |
| Interest income received   | 221               | 52                | 273             |
| Net cash provided by investing activities                        | <u>221</u>        | <u>52</u>         | <u>273</u>      |
| Net increase (decrease) in cash and cash equivalents             | (7,745)           | 2,339             | (5,406)         |
| <b>Cash and cash equivalents, October 1</b>                      | <u>42,060</u>     | <u>7,566</u>      | <u>49,626</u>   |
| <b>Cash and cash equivalents, September 30</b>                   | <u>\$ 34,315</u>  | <u>9,905</u>      | <u>44,220</u>   |

*(Continued)*

# LONG BEACH WATER DEPARTMENT

## Statements of Cash Flows Business Type Activity - Enterprise Years Ended September 30, 2015 (in thousands of dollars)

|   | Water Fund | Sewer Fund | Total   |
|---|------------|------------|---------|
| <b>Reconciliation of operating income to net cash provided by operating activities:</b>       |            |            |         |
| Operating income(loss)  | \$ (2,659) | 1,879      | (780)   |
| Adjustments to reconcile operating income(loss) to net cash provided by operating activities: |            |            |         |
| Depreciation expense and amortization   | 10,739     | 2,010      | 12,749  |
| Amortization of other assets  | 38         | -          | 38      |
| Other expense   | 319        | 64         | 383     |
| Increase prepaid expense  | 77         | -          | 77      |
| Increase property rental and other income   | 979        | (273)      | 706     |
| (Increase) decrease in customer accounts receivable   | 942        | (18)       | 924     |
| (Increase) decrease in due from City of Long Beach  | (35)       | -          | (35)    |
| (Increase) decrease in material and supplies inventory  | 45         | 3          | 48      |
| Increase (decrease) in accounts and retainage payable   | (1,532)    | (465)      | (1,997) |
| Increase in accrued wages payable   | 137        | 37         | 174     |
| Increase (decrease) in unearned revenue   | 8          | -          | 8       |
| Increase in due to City of Long Beach   | 54         | (16)       | 38      |
| Increase (decrease) in customer deposits  | 151        | -          | 151     |
| Total adjustments   | 11,922     | 1,342      | 13,264  |
| Net cash provided by operating activities   | \$ 9,263   | 3,221      | 12,484  |
| <br>Supplemental schedule of noncash capital and related financing activities:                |            |            |         |
| Contributed capital assets  | 1,090      | -          | 1,090   |
| Accrued capital asset costs   | 1,196      | 85         | 1,281   |

*See accompanying notes to financial statements*

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(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 714 miles of sewer mains, 15,129 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. As of September 30, 2015, the Department also delivered over 1.7 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, 2015, and the changes in its financial position, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(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.

### Implementation of New Accounting Pronouncements

Application of the following Statements was effective for the City's fiscal year ended September 30, 2015:

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The Statement will improve the decision-usefulness of information in the 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. Net pension liability is measured as of a date no later than the end of the City's prior fiscal year (the measurement date), consistently applied from period to period. Pension expense and deferred outflows of resources and deferred inflows of resources primarily result from changes in the components of net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position. It requires that most changes in net pension liability to be included in pension expense in the period of change. The effects of certain other changes in the net pension liability are required to be included in pension expense over current and future periods. The notes to financial statements shall include descriptive information, such as types of benefits provided, number and classes of employees covered, sources of changes in net pension liability, and significant assumptions and other inputs used in valuations. Finally, the government is to present, once data is available, required supplementary information for each of the ten most recent fiscal years. The application of this Statement had a material impact on the Department's financial statements.

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In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This Statement amends Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension liability. This Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation. The application of this Statement had a material impact on the Department's financial statements.

Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Application of this Statement was effective for the City's fiscal year ended September 30, 2015. Application of this statement had no impact on the Department's financial statements.

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

In February of 2015, GASB issued Statement No. 72 – *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015.

In June of 2015, GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions. It also amends certain provisions of Statement No. 67 and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental

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nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is not applicable to the Department.

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015.

### Pooled and Non-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 and non-pooled cash and investments, including restricted pooled cash and cash equivalents, regardless of their maturity. The Department has defined non-pooled cash and cash equivalents as investments with maturities of three months or less at the time of purchase.

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).

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### 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 facilities | 10 to 50 years |
| Distribution/collection systems       | 20 to 75 years |
| Patents                               | 20 years       |
| Other machinery and equipment         | 5 to 10 years  |

### Capitalized Interest

In fiscal year 2015, the Department incurred interest expense on Revenue Refunding Bonds and Sewer Revolving Line of Credit in the amount of \$1,338 and \$79 for the Water and Sewer Funds, respectively, of which \$895 was capitalized for Water Fund and \$28 for Sewer Fund.

### Capital Contributions

Advances received for construction of plant assets are recorded as unearned 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.

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### 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.

### 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 City's Miscellaneous Plan. The Department's policy is to fund all pension costs accrued. The costs to be funded are determined annually as of October 1 and are incorporated into the payroll burden rate to reimburse the Employee Benefits Internal Service Fund for contributions made on behalf of Department employees (see note 5).

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous Plan and additions to/deductions from Miscellaneous Plan's fiduciary net position have been determined on the same



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basis as they are reported by the Miscellaneous Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Department also participates in the City's 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.

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position reports a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position reports a separate section for deferred inflows of resources. The separate financial element, Deferred Inflows of Resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### 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.

## LONG BEACH WATER DEPARTMENT

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### 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 - 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

### **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.

**LONG BEACH WATER DEPARTMENT**

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

| <u>Water Fund</u>                                  |                  |
|--|------------------|
| Equity in the City of Long Beach's investment pool | \$ 31,665        |
| Non-pooled cash equivalents                        | 2,650            |
| Total cash and investments                         | <u>\$ 34,315</u> |
| <u>Sewer Fund</u>                                  |                  |
| Equity in the City of Long Beach's investment pool | \$ 9,905         |
| Total cash and investments                         | <u>\$ 9,905</u>  |

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:

| <u>Water Fund</u>                     |                  |
|---------------------------------------|------------------|
| Unrestricted cash and investments     | \$ 29,003        |
| Restricted cash and investments       |                  |
| Water Trust Fund                      | 1,039            |
| Bond Service Fund                     | 1,623            |
| Bond Reserve Fund                     | 2,650            |
| Total restricted cash and investments | <u>5,312</u>     |
| Total cash and investments            | <u>\$ 34,315</u> |
| <u>Sewer Fund</u>                     |                  |
| Unrestricted cash and investments     | \$ 9,905         |
| Total cash and investments            | <u>\$ 9,905</u>  |

*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.

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

### Investments Authorized by Debt Agreements

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

### Disclosures Relating to Interest Rate Risk

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

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The City had no investments with values that were highly sensitive to interest rate risk changes as of September 30, 2015. Highly sensitive investments are investments whose 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, 2015:

| Investment Type                       | Fair Value   | Weighted Average<br>Maturity (in years) |
|---------------------------------------|--------------|---|
| Cash and Investments in City Pool     |              |   |
| Money Market Account                  | \$ 647       | 0.05                                    |
| U.S. Treasury Notes                   | 331,078      | 1.13                                    |
| Federal Agency Securities             | 925,502      | 1.40                                    |
| Time certificates of deposits         | 9,998        | 0.23                                    |
| Local Agency Investment Fund (LAIF)   | 121,009      | 0.58                                    |
| Subtotal City Pool                    | 1,388,234    |   |
| Cash and Deposits                     |              |   |
| Cash and Deposits                     | 169,572      |   |
| Outstanding Checks                    | (10,507)     |   |
| Total City Pool                       | \$ 1,547,299 |   |
| Non-pooled cash and investments       |              |   |
| Cash and deposits                     | \$ 472       | —                                       |
| Money market funds                    | 248,805      | —                                       |
| U.S. Treasury notes                   | 135,203      | 1.65                                    |
| Guaranteed investment contracts       | 20,148       | 4.31                                    |
| Total non-pooled cash and investments | \$ 404,628   |   |

At September 30, 2015, the Water Fund and Sewer Fund had equity in the City's pool of \$31,665 and \$9,905, respectively, which represents approximately 2.05% and 0.64%, respectively, for a total departmental equity of \$41,570 or 2.69%.

### 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.

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### 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.

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, 2015 for each investment type:

| Investment Type                          | Rating as of Year-End |                     |                          |                |                |                |
|--|-----------------------|---------------------|--------------------------|----------------|----------------|----------------|
|  | Legal rating          | Total               | Not required to be rated | AAA            | AA+            | Unrated        |
| <b>Cash and Investments in City Pool</b> |                       |                     |                          |                |                |                |
| Money Market Account                     | N/A                   | \$ 647              | -                        | 647            | -              | -              |
| U.S. Treasury Notes                      | N/A                   | 331,078             | 331,078                  | -              | -              | -              |
| Federal Agency Securities                | N/A                   | 925,502             | -                        | 125,530        | 799,972        | -              |
| Time certificates of deposits            | N/A                   | 9,998               | -                        | -              | 9,998          | -              |
| Local Agency Investment Fund (LAIF)      | N/A                   | 121,009             | -                        | -              | -              | 121,009        |
| Subtotal City Pool                       |                       | <u>1,388,234</u>    | <u>331,078</u>           | <u>126,177</u> | <u>809,970</u> | <u>121,009</u> |
| Cash and Deposits                        |                       | 169,572             | -                        | -              | -              | 169,572        |
| Outstanding Checks                       |                       | (10,507)            | -                        | -              | -              | (10,507)       |
| Total City Pool                          |                       | <u>\$ 1,547,299</u> | <u>331,078</u>           | <u>126,177</u> | <u>809,970</u> | <u>280,074</u> |
| <b>Non-pooled cash and investments</b>   |                       |                     |                          |                |                |                |
| Cash and deposits                        | N/A                   | \$ 472              | -                        | -              | -              | 472            |
| Money Market Account                     | N/A                   | 248,805             | -                        | -              | -              | 248,805        |
| U.S. Treasury Notes                      | N/A                   | 135,203             | 135,203                  | -              | -              | -              |
| Guaranteed Investment Contracts          | N/A                   | 20,148              | -                        | -              | -              | 20,148         |
| Total non-pooled cash and investments    |                       | <u>\$ 404,628</u>   | <u>135,203</u>           | <u>-</u>       | <u>-</u>       | <u>269,425</u> |

The Department's non-pooled cash and cash equivalents total is \$2,650 for September 30, 2015, which are not required to be rated.

## LONG BEACH WATER DEPARTMENT

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### 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:

| <u>Issuer</u>                          | <u>Investment type</u>              | <u>Reported amount</u> |
|--|-------------------------------------|------------------------|
| Federal Home Loan Bank                 | Federal agency securities           | \$ 341,248             |
| Federal Home Loan Mortgage Corporation | Federal agency securities           | 241,137                |
| Federal National Mortgage Association  | Federal agency securities           | 275,374                |
| Local Agency Investment Fund (LAIF)    | Local Agency Investment Fund (LAIF) | 121,009                |
| U.S. Treasuries                        | U.S. Treasury notes & bills         | 331,078                |

### 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, 2015, the City reported deposits of \$170.0 million, collateralized in compliance with California Government Code, less \$11.0 million for checks outstanding.

### 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

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2015 (in thousands of dollars)

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 investments are fixed rate U.S. Treasury and Agency securities, Commercial Paper and Certificate of Deposits with fixed maturities. In addition, LAIF has mortgage-backed securities issued by government sponsored agencies, SBA Loans pools and CMOs' issued by government sponsored agencies. All these securities are fixed rate. The pool is authorized to loan funds to state agencies and the General Fund on a temporary basis.

### **Note 3 – Capital Assets**

Capital assets at September 30, 2015 were as follows:

| <b>Water Fund</b>                                   | Balance<br>September 30,<br>2014 | Additions       | Deletions,<br>Retirements<br>and Transfers | Balance<br>September 30,<br>2015 |
|---|----------------------------------|-----------------|--|----------------------------------|
| Capital assets, not being depreciated:              |                                  |                 |  |                                  |
| Land  | \$ 11,248                        | -               | -  | 11,248                           |
| Construction in progress                            | 19,811                           | 16,695          | (17,008)                                   | 19,498                           |
| Water Rights  | 40                               | -               | -  | 40                               |
| <b>Total capital assets, not being depreciated</b>  | <b>31,099</b>                    | <b>16,695</b>   | <b>(17,008)</b>                            | <b>30,786</b>                    |
| Capital assets, being depreciated:                  |                                  |                 |  |                                  |
| Buildings, structures and facilities                | 125,534                          | 248             | (150)                                      | 125,632                          |
| Patents   | 815                              | -               | -  | 815                              |
| Distribution/collection systems                     | 310,075                          | 15,236          | (533)                                      | 324,778                          |
| Machinery and equipment                             | 14,815                           | 1,200           | (738)                                      | 15,277                           |
| <b>Total capital assets, being depreciated</b>      | <b>451,239</b>                   | <b>16,684</b>   | <b>(1,421)</b>                             | <b>466,502</b>                   |
| Less accumulated depreciation for:                  |                                  |                 |  |                                  |
| Buildings, structures and facilities                | (52,520)                         | (3,511)         | 150  | (55,881)                         |
| Patents   | (326)                            | (41)            | -  | (367)                            |
| Distribution/collection systems                     | (123,776)                        | (6,370)         | 446  | (129,700)                        |
| Machinery and equipment                             | (14,002)                         | (817)           | 677  | (14,142)                         |
| <b>Total accumulated depreciation</b>               | <b>(190,624)</b>                 | <b>(10,739)</b> | <b>1,273</b>                               | <b>(200,090)</b>                 |
| <b>Total capital assets, being depreciated, net</b> | <b>260,615</b>                   | <b>5,945</b>    | <b>(148)</b>                               | <b>266,412</b>                   |
| <b>Total Water Fund capital assets, net</b>         | <b>\$ 291,714</b>                | <b>22,640</b>   | <b>(17,156)</b>                            | <b>297,198</b>                   |



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### Notes to Financial Statements September 30, 2015 (in thousands of dollars)

| <b>Sewer Fund</b>                            | Balance<br>September 30,<br>2014 | Additions | Deletions,<br>Retirements<br>and Transfers | Balance<br>September 30,<br>2015 |
|--|----------------------------------|-----------|--|----------------------------------|
| Capital assets, not being depreciated:       |                                  |           |  |                                  |
| Construction in progress                     | \$ 6,280                         | 2,441     | (5,397)                                    | 3,324                            |
| Total capital assets, not being depreciated  | 6,280                            | 2,441     | (5,397)                                    | 3,324                            |
| Capital assets, being depreciated:           |                                  |           |  |                                  |
| Buildings, structures and facilities         | 5,681                            | -         | -  | 5,681                            |
| Distribution/collection systems              | 195,765                          | 4,903     | (1,194)                                    | 199,474                          |
| Machinery and equipment                      | 4,868                            | 457       | (214)                                      | 5,111                            |
| Total capital assets, being depreciated      | 206,314                          | 5,360     | (1,408)                                    | 210,266                          |
| Less accumulated depreciation for:           |                                  |           |  |                                  |
| Buildings, structures and facilities         | (1,579)                          | (112)     | -  | (1,691)                          |
| Distribution/collection systems              | (143,072)                        | (1,641)   | 1,188                                      | (143,525)                        |
| Machinery and equipment                      | (3,187)                          | (257)     | 215  | (3,229)                          |
| Total accumulated depreciation               | (147,838)                        | (2,010)   | 1,403                                      | (148,445)                        |
| Total capital assets, being depreciated, net | 58,476                           | 3,350     | (5)  | 61,821                           |
| Total Sewer Fund capital assets, net         | \$ 64,756                        | 5,791     | (5,402)                                    | 65,145                           |
| <b>Combined Total</b>                        | Balance<br>September 30,<br>2014 | Additions | Deletions,<br>Retirements<br>and Transfers | Balance<br>September 30,<br>2015 |
| Capital assets, not being depreciated:       |                                  |           |  |                                  |
| Land   | \$ 11,248                        | -         | -  | 11,248                           |
| Construction in progress                     | 26,091                           | 19,136    | (22,405)                                   | 22,822                           |
| Water Rights                                 | 40                               | -         | -  | 40                               |
| Total capital assets, not being depreciated  | 37,379                           | 19,136    | (22,405)                                   | 34,110                           |
| Capital assets, being depreciated:           |                                  |           |  |                                  |
| Buildings, structures and facilities         | 131,215                          | 248       | (150)                                      | 131,313                          |
| Patents                                      | 815                              | -         | -  | 815                              |
| Distribution/collection systems              | 505,840                          | 20,139    | (1,727)                                    | 524,252                          |
| Machinery and equipment                      | 19,683                           | 1,657     | (952)                                      | 20,388                           |
| Total capital assets, being depreciated      | 657,553                          | 22,044    | (2,829)                                    | 676,768                          |
| Less accumulated depreciation for:           |                                  |           |  |                                  |
| Buildings, structures and facilities         | (54,099)                         | (3,623)   | 150  | (57,572)                         |
| Patents                                      | (326)                            | (41)      | -  | (367)                            |
| Distribution/collection systems              | (266,848)                        | (8,011)   | 1,634                                      | (273,225)                        |
| Machinery and equipment                      | (17,189)                         | (1,074)   | 892  | (17,371)                         |
| Total accumulated depreciation               | (338,462)                        | (12,749)  | 2,676                                      | (348,535)                        |
| Total capital assets, being depreciated, net | 319,091                          | 9,295     | (153)                                      | 328,233                          |
| Total Department capital assets, net         | \$ 356,470                       | 28,431    | (22,558)                                   | 362,343                          |

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
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In FY2015, the Department completed major projects as part of ongoing improvements to its current water distribution system and sewer collection system, which totaled \$15,236 for the Water Fund and \$3,909 for the Sewer Fund. These improvements include ongoing programs for Water Cast Iron Main replacement, Water Services installations, Fireline and Fire Hydrant Installations, Water Meter replacement, Large Valve Replacement, Water Main Pipe Bridge Crossing rehabilitation, Sewer Manhole and Sewer Pipe Relining and Rehabilitation. In addition, the Department capitalized a total of \$994 for the completion of the Sewage System Master Plan updates which focus on capacity and structural issues with the Department's sewage collection system. The Department also purchased machinery and equipment which totaled \$1,200 for the Water Fund and \$457 for the Sewer Fund.

### Construction in Progress

Construction in progress at September 30, 2015 includes the following projects:

| Project                                 | 2015      | 2014      |
|---|-----------|-----------|
| Water Main Replacement Program          | \$ 4,130  | \$ 8,412  |
| Reclaimed Water System                  | 1,497     | 1,373     |
| Sewer main Replacement Program          | 3,324     | 4,573     |
| Other Projects                          | 13,871    | 11,733    |
| Total Combined Construction in Progress | \$ 22,822 | \$ 26,091 |
| Such costs are allocated as follows:    |           |           |
| Water Enterprise Fund                   | 19,498    | 19,811    |
| Sewer Enterprise Fund                   | 3,324     | 6,280     |
| Total Water Department                  | \$ 22,822 | \$ 26,091 |

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 year ended September 30, 2015, completed projects were transferred from Construction in progress as follows:

|                             | 2015       |            |
|-----------------------------|------------|------------|
|                             | Water Fund | Sewer Fund |
| Transfers to Capital Assets | \$ 16,703  | 5,211      |
| Transfers to Expense        | 305        | 186        |
| Total                       | \$ 17,008  | 5,397      |

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2015 (in thousands of dollars)

#### **Note 4 – Noncurrent Liabilities:**

| September 30,<br>2015                | Water Fund           |                |                | End of<br>year | Due within<br>one year |
|--------------------------------------|----------------------|----------------|----------------|----------------|------------------------|
|                                      | Beginning of<br>year | Additions      | Reductions     |                |                        |
| 1997 Water Revenue Refunding Bonds   | \$ 1,825             | -              | (1,825)        | -              | -                      |
| 2010 Water Revenue Refunding Bonds   | 21,995               | -              | (135)          | 21,860         | 2,065                  |
| 2012 Water Revenue Refunding Bonds   | 8,960                | -              | (550)          | 8,410          | 565                    |
|                                      | <u>32,780</u>        | <u>-</u>       | <u>(2,510)</u> | <u>30,270</u>  | <u>2,630</u>           |
| Less current portion                 | (2,510)              | (2,630)        | 2,510          | (2,630)        | -                      |
| Less 1997 unamortized bond discounts | (5)                  | -              | 5              | -              | -                      |
| Add 2010 unamortized bond premium    | 2,016                | -              | (277)          | 1,739          | -                      |
| Add 2012 unamortized bond premium    | 1,091                | -              | (127)          | 964            | -                      |
| Total long-term debt                 | <u>33,372</u>        | <u>(2,630)</u> | <u>(399)</u>   | <u>30,343</u>  | <u>2,630</u>           |
| Net Pension Liability                | 29,218               | 7,503          | (5,688)        | 31,033         | -                      |
| Accrued site restoration cost        | 1,000                | -              | -              | 1,000          | -                      |
| Total noncurrent liabilities         | <u>\$ 63,590</u>     | <u>4,873</u>   | <u>(6,087)</u> | <u>62,376</u>  | <u>2,630</u>           |

| September 30,<br>2015          | Sewer Fund           |              |                | End of<br>year | Due within<br>one year |
|--------------------------------|----------------------|--------------|----------------|----------------|------------------------|
|                                | Beginning of<br>year | Additions    | Reductions     |                |                        |
| Sewer Revolving Line of Credit | 9,750                | 1,500        | -              | 11,250         | -                      |
| Net Pension Liability          | 5,974                | 1,519        | (1,152)        | 6,341          | -                      |
| Total noncurrent liabilities   | <u>\$ 15,724</u>     | <u>3,019</u> | <u>(1,152)</u> | <u>17,591</u>  | <u>-</u>               |

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

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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 were not subject to redemption prior to maturity, and the \$1,825 outstanding was paid off on May 1, 2015.

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 outflow on the refunding and is reported in the Statements of Net Position as a separate category under Deferred Outflows of Resources. The deferred outflow from the 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

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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 Statements of Net Position as a separate category under Deferred Outflows of Resources and 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 were used for interim financing needs to assist with completing reclaimed system expansion projects that were 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

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On January 8, 2003, Series A notes in the amount of \$6,000 were issued. The notes are issued in denominations in excess of \$100 thousands, and 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 and terminated the Commercial Paper program.

### 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 (LOC) in an amount not to exceed \$20,000 at any time. Obligations under the LOC 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 original term of the LOC was for three years, with a Commitment Expiration Date of May 26, 2014. Effective July 8, 2013, the Commitment Expiration Date was extended by an additional three years to May 26, 2017. The LOC 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 suspended the issuance of sewer commercial paper notes under the existing commercial paper program, but reserves the right to issue obligations in the future senior to its obligations created under the LOC.

On May 26, 2011, the Department drew \$6,000 on the LOC to retire \$4,000 of outstanding Sewer Revenue Commercial Paper notes and fund \$2,000 in sewer system improvements. On September 3, 2013, the Department drew \$3,750 to fund sewer system improvements. On August 12, 2015, the Department drew another \$1,500 again to fund 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 0.76% 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

## LONG BEACH WATER DEPARTMENT

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and sale on June 2, 2009. Proceeds from the variable debt was 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 were issued in denominations in excess of \$100 thousands and matured 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 and suspended the issuance of sewer commercial paper notes under the existing commercial paper program, but reserves the right to issue obligations in the future senior to its obligations created under the LOC.

### 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 were 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. On July 14, 2011, the Department was granted an extension for the restoration of the coastal area to May 26, 2017. 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.

## LONG BEACH WATER DEPARTMENT

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### Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending Sept 30 | Series 2010 Bonds |              | Series 2012 Bonds |              | Total         |              | Total Debt<br>Service |
|-------------------------------|-------------------|--------------|-------------------|--------------|---------------|--------------|-----------------------|
|                               | Principal         | Interest     | Principal         | Interest     | Principal     | Interest     |                       |
| 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                          | 2,210             | 778          | 605               | 299          | 2,815         | 1,077        | 3,892                 |
| 2019                          | 2,300             | 690          | 630               | 275          | 2,930         | 965          | 3,895                 |
| 2020                          | 2,395             | 598          | 655               | 250          | 3,050         | 848          | 3,898                 |
| 2021-2025                     | 10,740            | 1,321        | 3,695             | 827          | 14,435        | 2,148        | 16,583                |
| 2026-2027                     | -                 | -            | 1,680             | 127          | 1,680         | 127          | 1,807                 |
| Total                         | <u>21,860</u>     | <u>5,155</u> | <u>8,410</u>      | <u>2,439</u> | <u>30,270</u> | <u>7,594</u> | <u>37,864</u>         |

The Department had Sewer LOC issued and outstanding balance of \$11,250 at September 30, 2015 maturing on May 26, 2017.

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

#### Retirement Plan

As mentioned in Note 1, the Department adopted GASB 68 for fiscal year 2015. GASB 68 requires that the reported results pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation date (VD) June 30, 2014

Measurement date (MD) June 30, 2015

Measurement period (MP) July 1, 2014 to June 30, 2015

#### Plan Description – Public Employees’ Retirement System (CalPERS)

The City contributes to the California Public Employees’ Retirement System (CalPERS) agent multiple-employer defined benefit pension plan. The City is considered the employer and the Department is a department of the City. The Department’s employees are enrolled in the City Miscellaneous Plan. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. All City departments are considered collectively to be a single employer, and the Department’s pension elements are determined as the Department’s percentage of the City as a single employer.

#### Benefits Provided

CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment, age at retirement and final compensation. Members with five years of total service are eligible to



## LONG BEACH WATER DEPARTMENT

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retire at age 50 with statutorily reduced benefits. The cost of living adjustments for the plan is applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at September 30, 2015, are summarized in the following table:

|                          | <b>Miscellaneous</b>                |   |                                |
|--------------------------|-------------------------------------|---|--------------------------------|
| Hire date                | Prior to<br>October 1, 2006         | On or after<br>October 1, 2006<br>and prior to<br>January 1, 2013 | On or after<br>January 1, 2013 |
| Benefit formula          | 2.7% @ 55                           | 2.5% @ 55   | 2.0% @ 62                      |
| Benefit vesting schedule | 5 years of service                  |   |                                |
| Benefit payments         | Monthly for life                    |   |                                |
| Retirement age           | 50 - 55                             | 50 - 55   | 52 - 60                        |
|                          | Required Contribution Rates         |   |                                |
| Employee                 | 8.0%                                | 8.0%  | 6.5%                           |
| Employer                 | 16.288%                             | 16.288%   | 16.288%                        |
|                          | Percentage of Eligible Compensation |   |                                |
| Monthly benefits         | 2.0% to 2.7%                        | 2.0% to 2.5%  | 1.0% to 2.0%                   |

*Contributions* - California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the average active employee contribution rate for Miscellaneous Plan members was 7.772% of annual pay, and the City's contribution rate was 15.525% of annual payroll.

### Allocation Methodology

The City used a calculated percentage based on the Department's share of the pensionable compensation to the City's total pensionable compensation amounts for each plan, to provide the Department's net pension liability and related GASB 68 accounting elements. The Department's calculated percentages was 7.2% (6.0% for Water and 1.2% for Sewer) for the Plan.

## LONG BEACH WATER DEPARTMENT

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### Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows Related to Pensions

The City's net pension liability for the Plan was measured as the total pension liability, less the plan's fiduciary net position. Net pension liability is measured as of June 30, 2015 (measurement date). The Department's net pension liability for the Plan was \$35.2 million (\$29.2 million for Water and \$6.0 million for Sewer) at the beginning of the measurement period (MP) and \$37.3 million (\$31.0 million for Water and \$6.3 million for Sewer) at September 30, 2015.

For the measurement period ending June 30, 2015 (the measurement date), the Department incurred a pension expense of \$383 (\$319 for Water and \$65 for Sewer).

As of September 30, 2015, the Department had deferred outflows and deferred inflows related to pensions as follows:

|   | <i><b>Water</b></i> | <i><b>Sewer</b></i> | <i><b>Total</b></i> |
|---|---------------------|---------------------|---------------------|
| <b>Deferred Outflows of Resources:</b>                    |                     |                     |                     |
| Pension contributions after measurement date              | \$ 560              | 113                 | 673                 |
| Difference between actual and expected investment returns | 4,781               | 968                 | 5,749               |
| Total deferred outflows of resources                      | <u>\$ 5,341</u>     | <u>1,081</u>        | <u>6,422</u>        |
| <b>Deferred Inflows of Resources:</b>                     |                     |                     |                     |
| CalPERS difference between actual and expected Experience | \$ 1,741            | 353                 | 2,094               |
| CalPERS change in assumptions                             | 1,578               | 319                 | 1,897               |
| Total deferred inflows of resources                       | <u>\$ 3,319</u>     | <u>672</u>          | <u>3,991</u>        |

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

| <i><b>Measurement<br/>Period Ended</b></i> | <i><b>Water</b></i> | <i><b>Sewer</b></i> | <i><b>Total</b></i> |
|--|---------------------|---------------------|---------------------|
| <i><b>June 30</b></i>                      | <i><b>Water</b></i> | <i><b>Sewer</b></i> | <i><b>Total</b></i> |
| 2016                                       | (648)               | (131)               | (779)               |
| 2017                                       | (280)               | (57)                | (337)               |
| 2018                                       | 1,195               | 242                 | 1,437               |
| 2019                                       | 1,195               | 242                 | 1,437               |
| Total                                      | <u>\$ 1,462</u>     | <u>296</u>          | <u>1,758</u>        |

## LONG BEACH WATER DEPARTMENT

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### Actuarial Methods and Assumptions Used to Determine Total Pension Liability

A summary of principal assumptions and methods used to determine the net pension liability is as follows:

|                           | <u><i>Miscellaneous</i></u>     |
|---------------------------|---------------------------------|
| Actuarial Cost Method     | Entry Age Normal                |
| Actuarial Assumptions:    |                                 |
| Discount Rate             | 7.65%                           |
| Inflation                 | 2.75%                           |
| Payroll Growth            | 3.00%                           |
| Projected Salary Increase | Varies by entry age and service |
| Investment Rate of Return | 7.5% <sup>1</sup>               |
| Mortality                 | <sup>2</sup>                    |

<sup>1</sup> Net of pension Plan Investment and Administrative Expenses; includes inflation

<sup>2</sup> The mortality table used was developed on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scal AA. For more details on this table, refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 Actuarial Valuation Report were based on the results of an actuarial experience study for the period from 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

### Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

The long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference to the Plans.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(in thousands of dollars)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments of 7.50% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table on the following page reflects the long-term expected real rate of return by asset class for both Safety and Miscellaneous Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| <b>Asset Class</b>             | <b>New Strategic Allocation</b> | <b>Real return Years 1 - 10<sup>a</sup></b> | <b>Real Return Years 11+<sup>b</sup></b> |
|--------------------------------|---------------------------------|---|--|
| Global Equity                  | 51.0%                           | 5.25%                                       | 5.71%                                    |
| Global Fixed Income            | 19.0                            | 0.99  | 2.43                                     |
| Inflation Sensitive            | 6.0                             | 0.45  | 3.36                                     |
| Private Equity                 | 10.0                            | 6.83  | 6.95                                     |
| Real Estate                    | 10.0                            | 4.50  | 5.13                                     |
| Infrastructural and Forestland | 2.0                             | 4.50  | 5.09                                     |
| Liquidity                      | 2.0                             | (0.55)                                      | (1.05)                                   |

<sup>a</sup> An expected inflation of 2.5% used for this period

<sup>b</sup> An expected inflation of 3.0% used for this period

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(in thousands of dollars)

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the City for each plan as of the measurement date, calculated using the discount rate of 7.65 percent, compared to a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%).

| <i><u>Net Pension Liability/(Asset)</u></i> | <i><u>Water</u></i> | <i><u>Sewer</u></i> | <i><u>Total</u></i> |
|---|---------------------|---------------------|---------------------|
| 1% Decrease (6.65%)                         | \$ 49,739           | 10,163              | 59,902              |
| Current Discount Rate (7.65%)               | 31,033              | 6,341               | 37,374              |
| 1% Increase (8.65%)                         | 15,543              | 3,176               | 18,719              |

### 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. Information is not available separately for the Water Department as to the cost of benefits funded, the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related OPEB assets. The below disclosures relate to the City of Long Beach. The Water Department contributes pay-as-you-go costs annually to the City through the Employee Benefit Internal Service Fund. Refer to the City's Comprehensive Annual Financial Report as of September 30, 2015 for further information.

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 2 one-time early retirement incentive programs. The first had a maximum value of \$25 thousand 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.

At September 30, 2015, there were 585 participants in the City's Retired Employees Health Insurance Program and their non-interest-bearing cash value equivalent of the remaining unused sick leave totaled \$19.5 million. Total premiums and actual claims paid by the City

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(in thousands of dollars)

under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2015 were \$8.6 million and are included as an expense of the Employee Benefits Internal Service Fund.

### Termination Benefits

As of September 30, 2015, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$138.1 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's Association agreed to defer an October 1, 2009 general salary adjustment to October 1, 2010 and to extend all other adjustments by one year. The supplement eligibility is limited to Fire employees retiring on or before December 31, 2009. The 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. The supplement is credited annually to retirees Health account and is adjusted by CalPERS cost-of-living adjustment (COLA). Each account will be adjusted as long as retirees 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 3.2% for sergeants, 14.8% for lieutenants, and 9.3% for corporals and officers, to a 2.0% minimum increase per year. The midpoint adjustment is based on the Strategic Plan Cities Survey of salaries in similar cities. The 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. The 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. The supplement is credited annually to retirees Health account and is adjusted by CalPERS cost-of-living adjustment (COLA). Each 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 safety employees. The estimated current portion of such obligation of \$9.1 million has been fully funded and the long-term portion of the liability of \$129.0 million is being funded, over time, through burden rates charged to the various City funds, applied as a percentage of current productive salaries.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(in thousands of dollars)

### Other Postemployment Benefits

As of September 30, 2015, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$72.2 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 toward the cost of premiums for retirees, the ability to obtain coverage at active employees 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 \$0. 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, 2015, 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 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:

|  |                  |
|--|------------------|
| Annual required contribution               | \$ 21,233        |
| Interest on net OPEB obligation            | 2,384            |
| Adjustment to annual required contribution | <u>(4,398)</u>   |
| Annual OPEB cost                           | 19,219           |
| Contribution made                          | <u>(6,218)</u>   |
| Increase in net OPEB obligation            | 13,001           |
| Net OPEB obligation - beginning of year    | <u>59,207</u>    |
| Net OPEB obligation - end of year          | <u>\$ 72,208</u> |



## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(in thousands of dollars)

The ARC was determined as part of the September 2015 actuarial valuation. For the year ended September 30, 2015, 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<br>Ended | Annual<br>OPEB Cost | Percentage<br>of Annual<br>OPEB Cost<br>Contributed | Net<br>OPEB<br>Obligation |
|----------------------|---------------------|---|---------------------------|
| 9/30/2013            | \$ 14,437           | 32.6%   | \$ 45,242                 |
| 9/30/2014            | 19,161              | 27.1%   | 59,207                    |
| 9/30/2015            | 19,219              | 32.4%   | 72,208                    |

### Funded Status and Funding Progress

The funded status of the plan as of September 30, 2015 was as follows:

|   |                   |
|---|-------------------|
| Actuarial accrued liability (AAL)                 | \$ 153,386        |
| Actuarial value of plan assets                    | -                 |
| Unfunded actuarial accrued liability (UAAL)       | <u>\$ 153,386</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0%                |
| Covered payroll                                   | \$ 357,543        |
| UAAL as a percentage of covered payroll           | 42.9%             |
| ARC as a percentage of covered payroll            | 5.9%              |

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.

### 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.



## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2015  
(in thousands of dollars)

The September 30, 2015 actuarial valuation used the Entry Age Normal Cost method. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 7.5% for non-Medicare plans and 7.8% for Medicare plans with both decreasing to 5.0% for all plans by September 30, 2021, and an inflation assumption of 3.0 percent. 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 \$0. 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 ending September 30:    |                        |
|------------------------------|------------------------|
| 2016                         | \$ 1,000               |
| 2017                         | 816                    |
| 2018                         | 782                    |
| 2019                         | 541                    |
| 2020                         | 510                    |
| 2021-2025                    | 2,160                  |
| 2026-2030                    | 1,296                  |
| 2031-2035                    | <u>1,296</u>           |
| Total minimum future rentals | \$ <u><u>8,401</u></u> |

### **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.

## **LONG BEACH WATER DEPARTMENT**

Notes to Financial Statements  
September 30, 2015  
(in thousands of dollars)

### *Commitments*

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2015 amount to \$5,414 and \$4,513 for the Water Fund and Sewer Fund, respectively.

**STATISTICAL SECTION**  
(Unaudited)

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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)

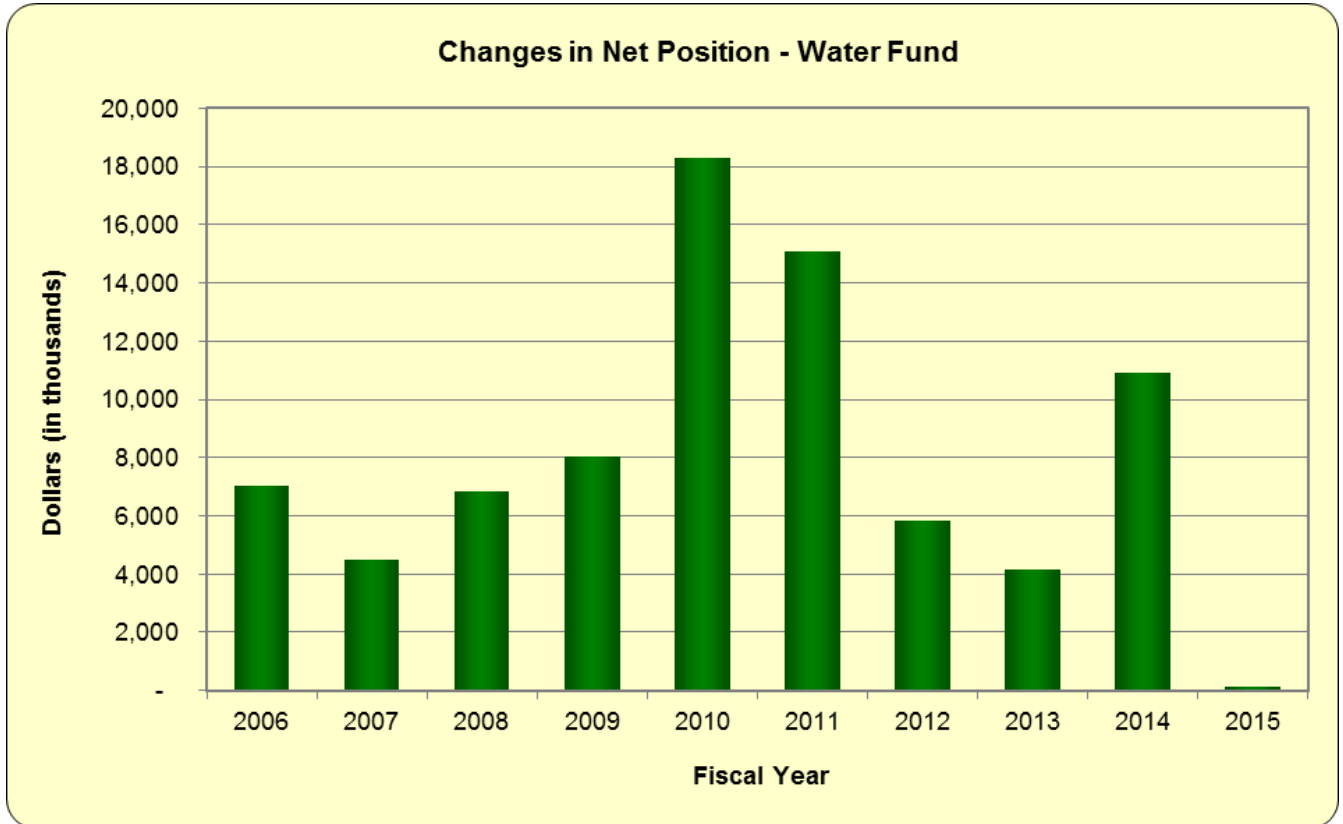
| <u>Fiscal Year Ended</u> | <u>Total Operating Revenue <sup>(1)</sup></u> | <u>Total Operating Expense</u> | <u>Operating Income</u> | <u>Total Non-Operating Income (Expense)</u> | <u>Total Contributed capital</u> | <u>Changes in Net Position</u> |
|--------------------------|---|--------------------------------|-------------------------|---|----------------------------------|--------------------------------|
| 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                            | 4,472                          |
| 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                          |
| 9/30/2013                | 91,949  | 85,783                         | 6,166                   | (2,152)                                     | 131                              | 4,145 <sup>(2)</sup>           |
| 9/30/2014                | 100,187                                       | 91,992                         | 8,195                   | (216)                                       | 2,924                            | 10,903                         |
| 9/30/2015                | 99,475  | 102,134                        | (2,659)                 | 1,051                                       | 1,726                            | 118                            |

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

(2) Changes in Net Position amount excludes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

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)

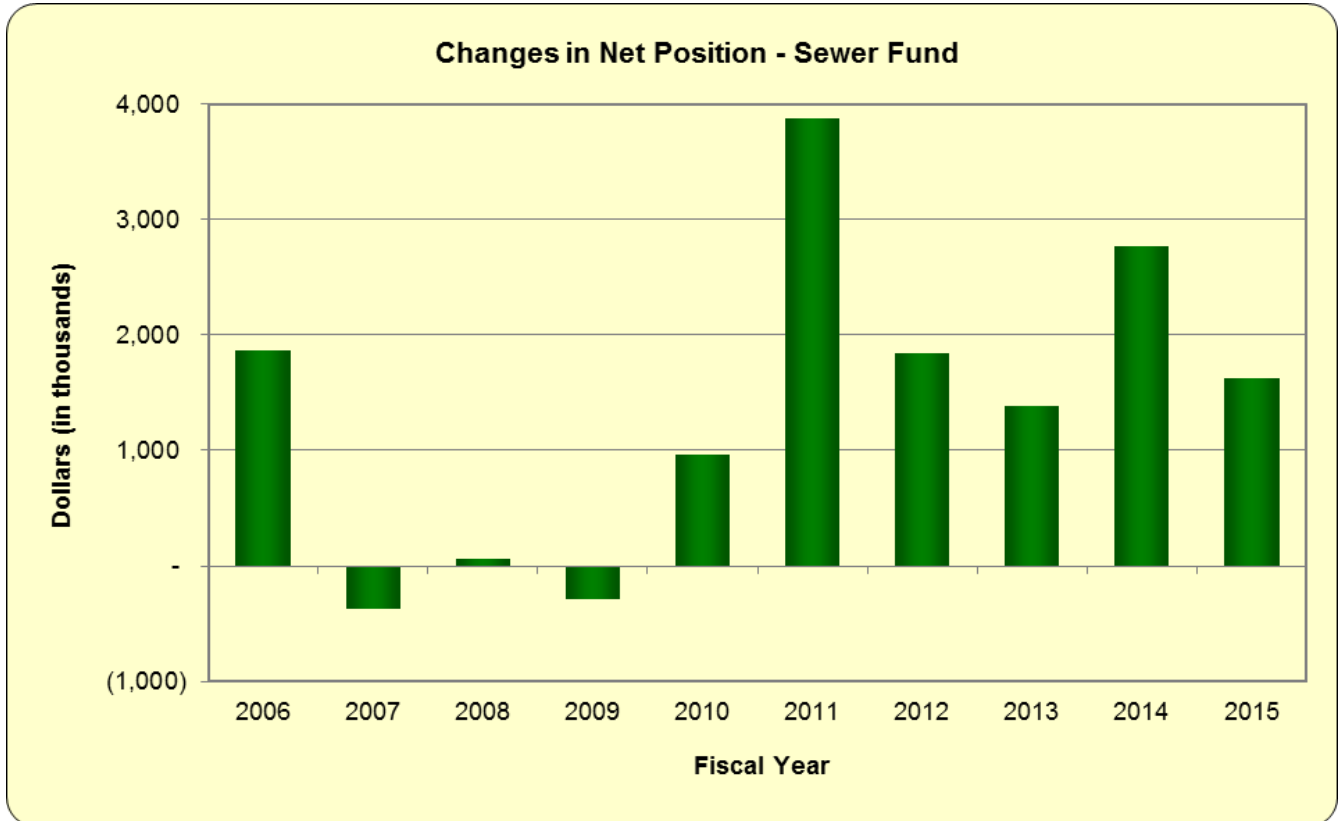
| <u>Fiscal Year Ended</u> | <u>Total Operating Revenue <sup>(1)</sup></u> | <u>Total Operating Expense</u> | <u>Operating Income (Loss)</u> | <u>Total Non-Operating Income (Expense)</u> | <u>Total Contributed capital</u> | <u>Changes in Net Position</u> |
|--------------------------|---|--------------------------------|--------------------------------|---|----------------------------------|--------------------------------|
| 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                          |
| 9/30/2013                | 17,311  | 15,165                         | 2,146                          | (761)                                       | -                                | 1,385 <sup>(2)</sup>           |
| 9/30/2014                | 17,953  | 15,479                         | 2,474                          | (462)                                       | 759                              | 2,771                          |
| 9/30/2015                | 17,903  | 16,024                         | 1,879                          | (257)                                       | -                                | 1,622                          |

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

(2) Changes in Net Position amount excludes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

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)

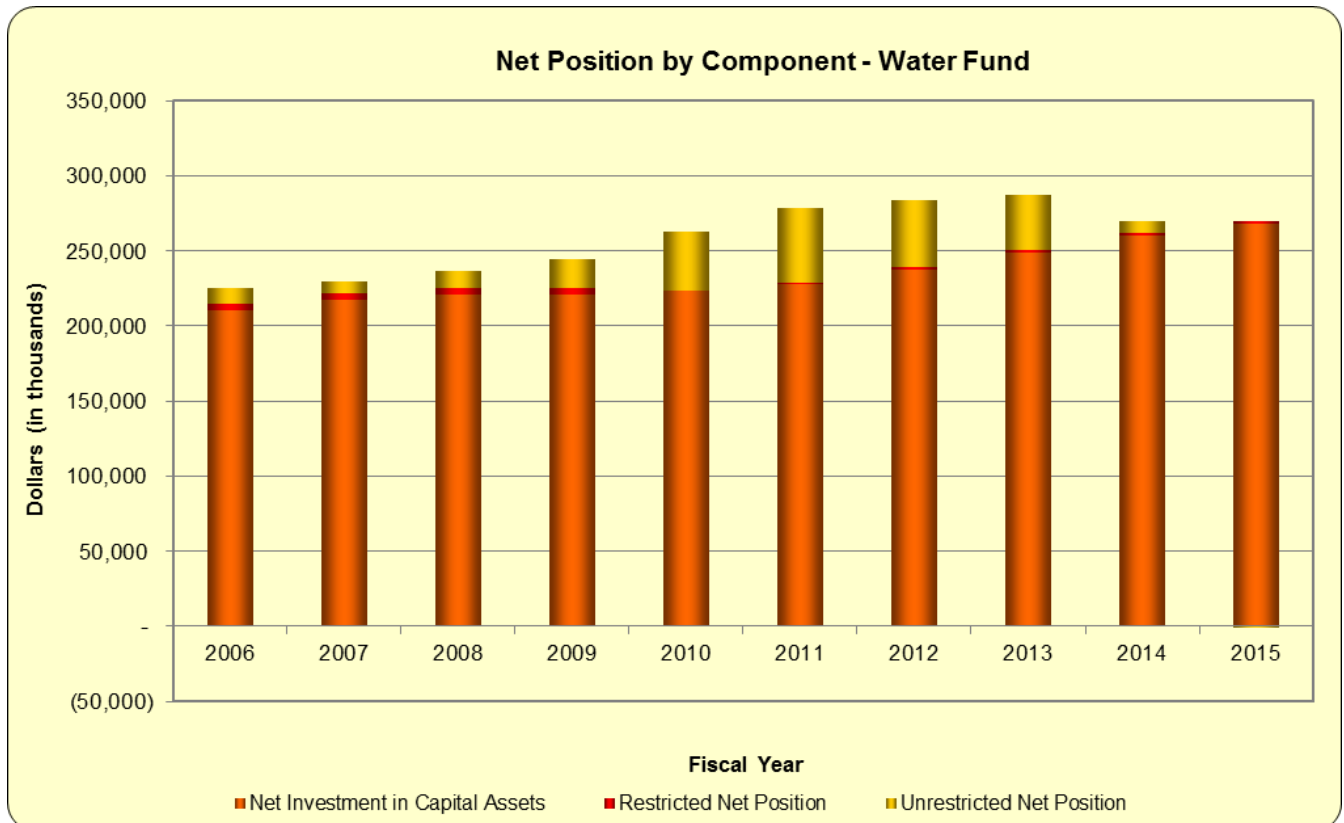
| <u>Fiscal Year Ended</u> | <u>Net Investment in Capital Assets</u> | <u>Restricted Net Position</u> | <u>Unrestricted Net Position</u> | <u>Total Net Position</u> |
|--------------------------|---|--------------------------------|----------------------------------|---------------------------|
| 9/30/2006                | 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                   |
| 9/30/2013                | 249,256                                 | 1,656                          | 36,814                           | 287,726 <sup>(1)</sup>    |
| 9/30/2014 <sup>(2)</sup> | 260,538                                 | 1,673                          | 7,725                            | 269,936                   |
| 9/30/2015                | 268,500                                 | 1,697                          | (143)                            | 270,054                   |

Notes: (1) Total Net Position amount includes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

(2) Amounts restated due to implementation of GASB Statement No. 68.

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 4

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

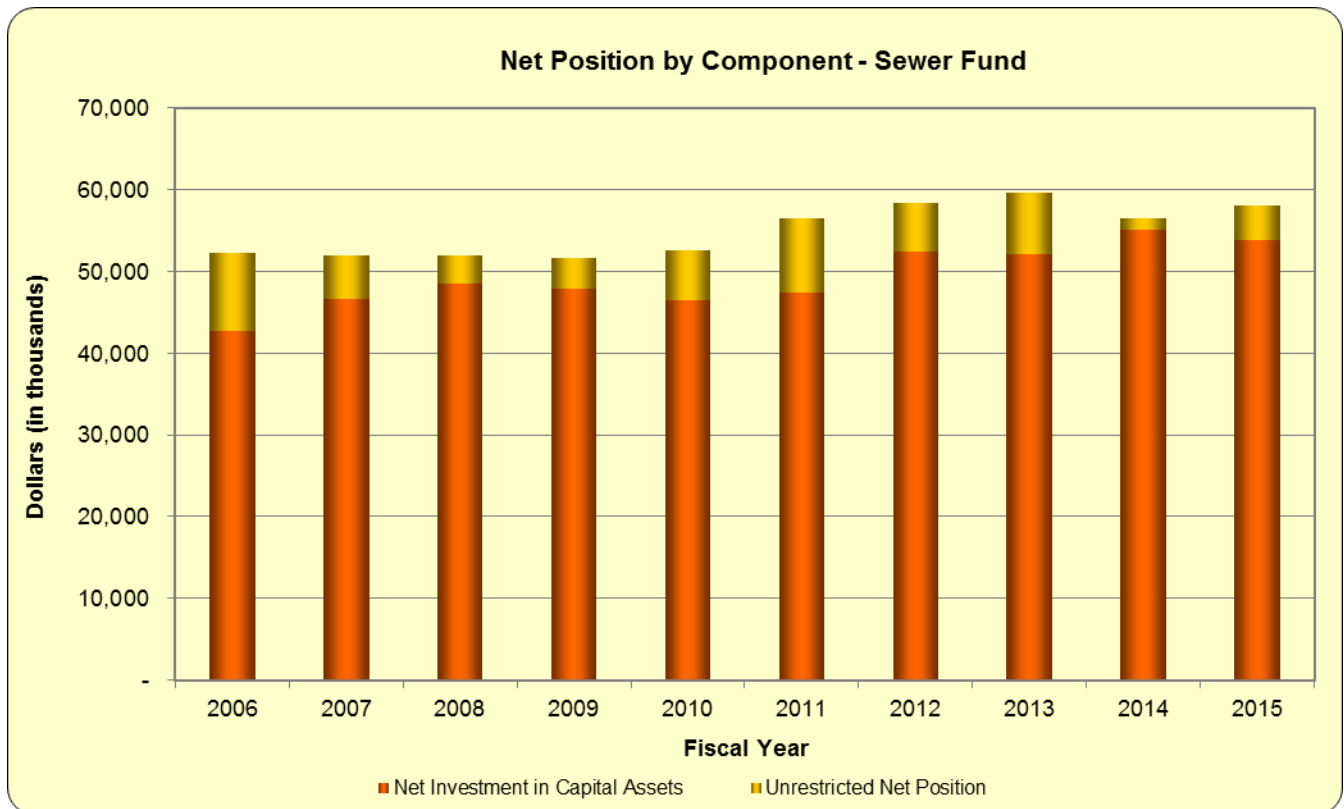
| <u>Fiscal Year Ended</u> | <u>Net Investment in Capital Assets</u> | <u>Restricted Net Position</u> | <u>Unrestricted Net Position</u> | <u>Total Net Position</u> |
|--------------------------|---|--------------------------------|----------------------------------|---------------------------|
| 9/30/2006                | 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                    |
| 9/30/2013                | 52,151                                  | -                              | 7,412                            | 59,563 <sup>(1)</sup>     |
| 9/30/2014 <sup>(2)</sup> | 55,006                                  | -                              | 1,461                            | 56,467                    |
| 9/30/2015                | 53,895                                  | -                              | 4,194                            | 58,089                    |

Notes: (1) Total Net Position amount includes adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

(2) Amounts restated due to implementation of GASB Statement No. 68.

Source: Department's annual reports

See accompanying independent auditors' report



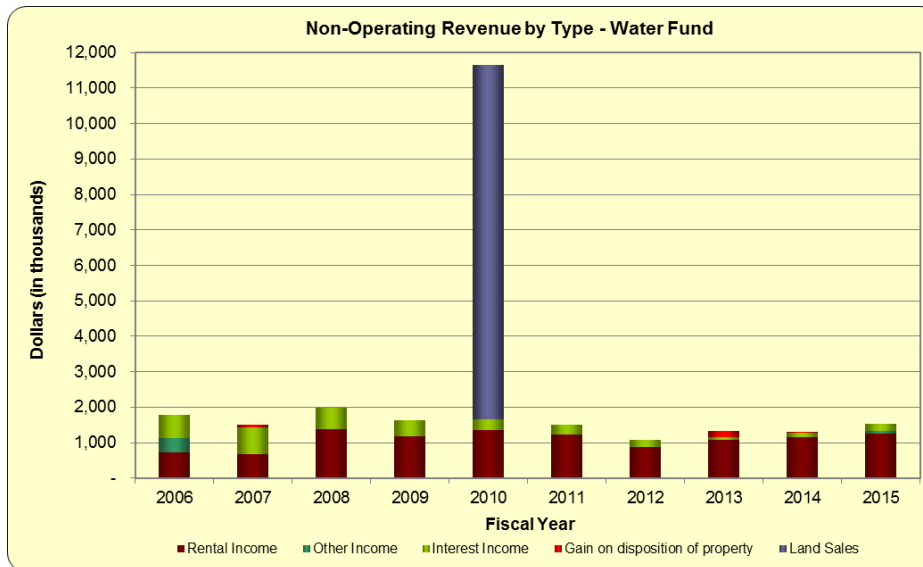
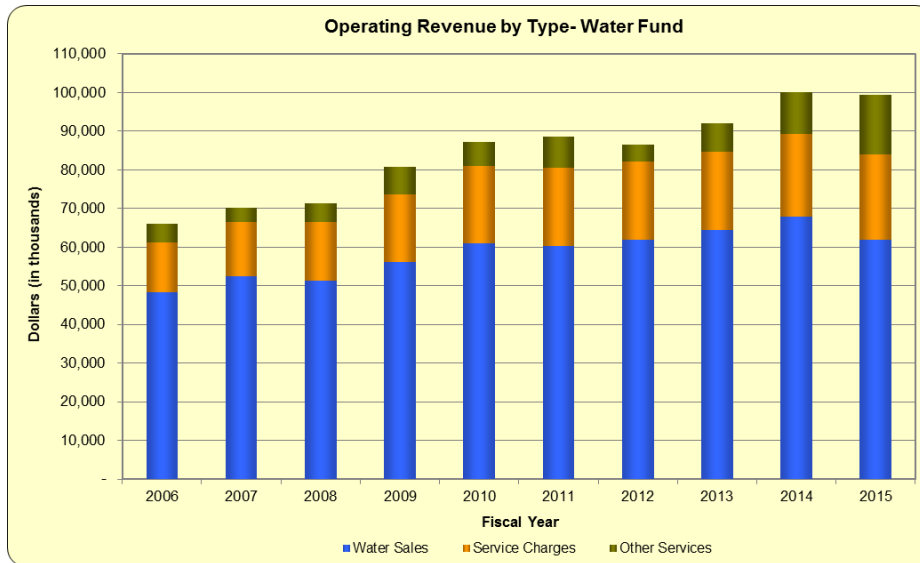
**LONG BEACH WATER DEPARTMENT**  
**WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

| Fiscal Year Ended | OPERATING                  |                 |                |                         | NON-OPERATING   |               |            |              |                                 |                            |
|-------------------|----------------------------|-----------------|----------------|-------------------------|-----------------|---------------|------------|--------------|---------------------------------|----------------------------|
|                   | Water Sales <sup>(1)</sup> | Service Charges | Other Services | Total Operating Revenue | Interest Income | Rental Income | Land sales | Other Income | Gain on disposition of property | Total Non-Operating Income |
| 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                      |
| 9/30/2013         | 64,347                     | 20,363          | 7,239          | 91,949                  | 58              | 1,087         | -          | -            | 196                             | 1,341                      |
| 9/30/2014         | 67,818                     | 21,548          | 10,821         | 100,187                 | 120             | 1,158         | -          | -            | 36                              | 1,314                      |
| 9/30/2015         | 61,995                     | 22,061          | 15,419         | 99,475                  | 223             | 1,256         | -          | 62           | -                               | 1,541                      |

Notes: (1) Water Sales is net of Provision for doubtful accounts expense.

Source: Department's annual reports

See accompanying independent auditors' report

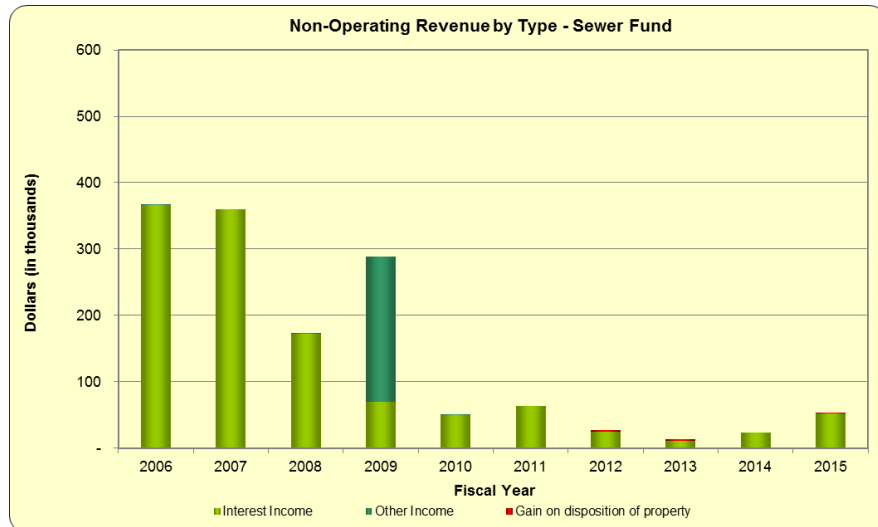
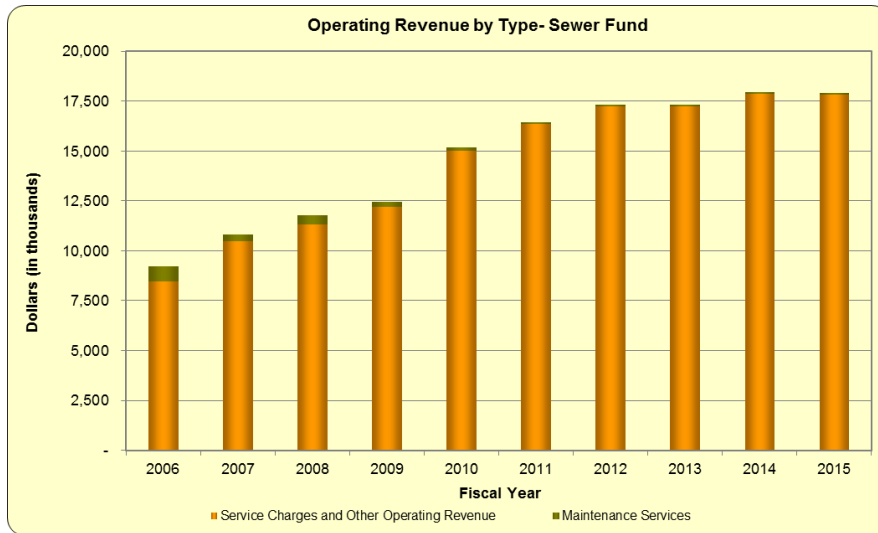


**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

| Fiscal Year Ended | OPERATING                                   |                      |                         | NON-OPERATING   |              |                                 |                            |
|-------------------|---|----------------------|-------------------------|-----------------|--------------|---------------------------------|----------------------------|
|                   | Service Charges and Other Operating Revenue | Maintenance Services | Total Operating Revenue | Interest Income | Other Income | Gain on disposition of property | Total Non-Operating Income |
| 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                         |
| 9/30/2013         | 17,225                                      | 86                   | 17,311                  | 11              | -            | 2                               | 13                         |
| 9/30/2014         | 17,867                                      | 86                   | 17,953                  | 23              | -            | -                               | 23                         |
| 9/30/2015         | 17,817                                      | 86                   | 17,903                  | 52              | -            | 2                               | 54                         |

Source: Department's annual reports

See accompanying independent auditors' report

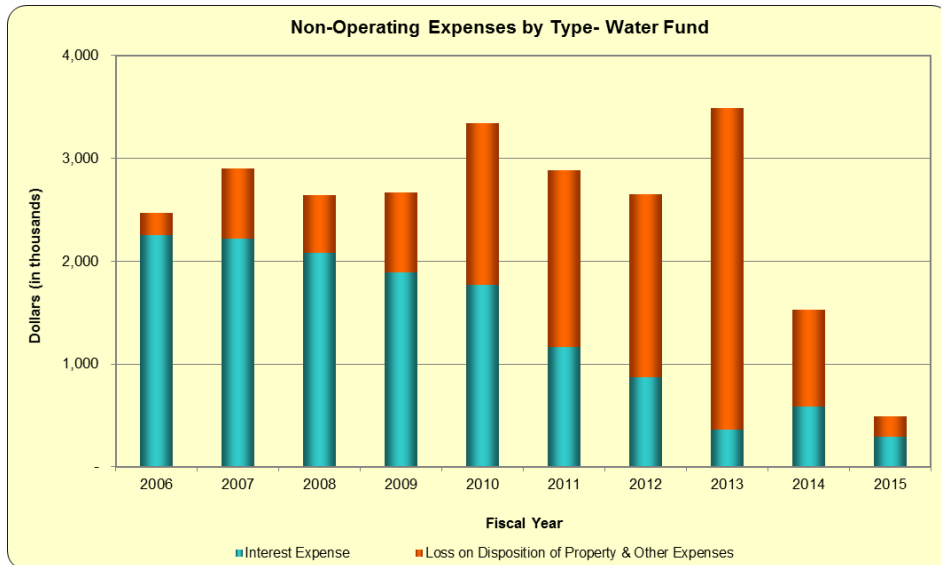
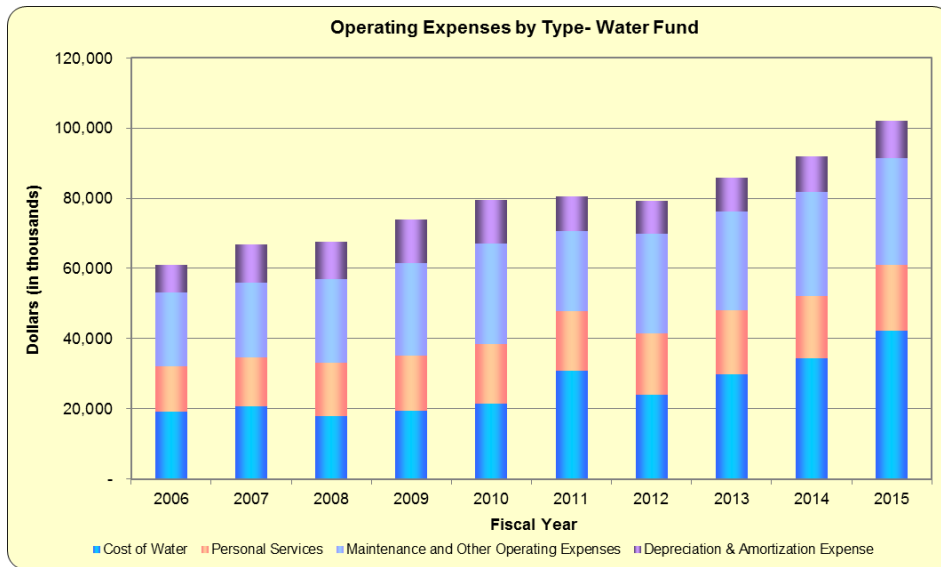


**LONG BEACH WATER DEPARTMENT**  
**WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

| Fiscal Year Ended | OPERATING     |                   |  |                                     |                          | NON-OPERATING    |  |                             |
|-------------------|---------------|-------------------|--|-------------------------------------|--------------------------|------------------|--|-----------------------------|
|                   | Cost of Water | Personal Services | Maintenance and Other Operating Expenses | Depreciation & Amortization Expense | Total Operating Expenses | Interest Expense | Loss on Disposition of Property & Other Expenses | Total Non-Operating Expense |
| 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                       |
| 9/30/2013         | 29,753        | 18,309            | 28,155                                   | 9,566                               | 85,783                   | 363              | 3,130  | 3,493                       |
| 9/30/2014         | 34,378        | 17,822            | 29,566                                   | 10,226                              | 91,992                   | 587              | 943  | 1,530                       |
| 9/30/2015         | 42,178        | 18,923            | 30,294                                   | 10,739                              | 102,134                  | 292              | 198  | 490                         |

Source: Department's annual reports

See accompanying independent auditors' report

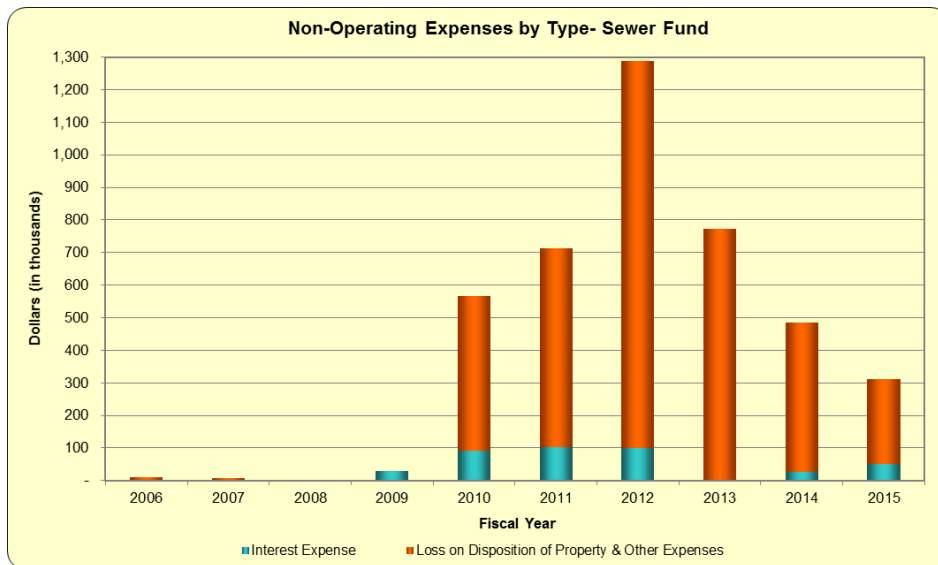
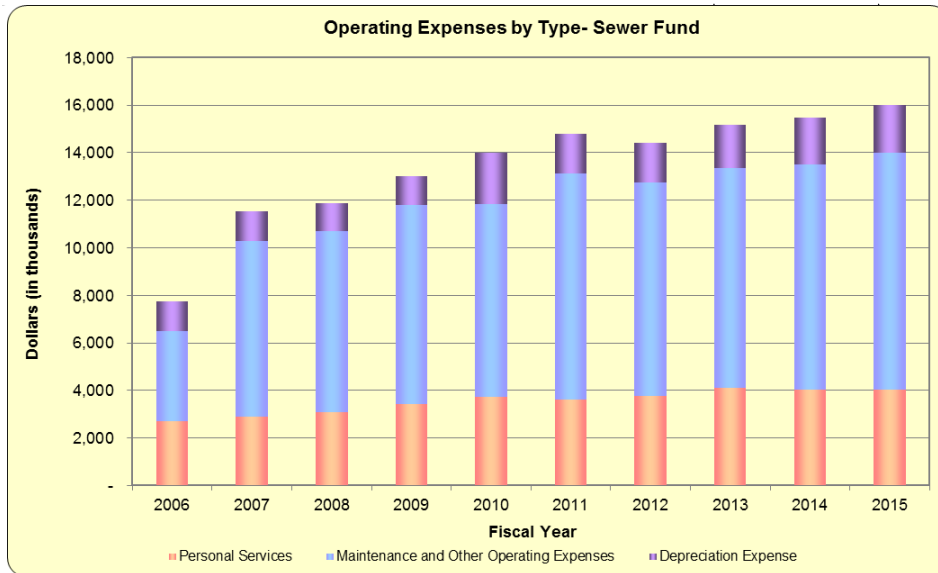


**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

| Fiscal Year Ended | OPERATING         |  |                      | NON-OPERATING            |                  |  |                             |
|-------------------|-------------------|--|----------------------|--------------------------|------------------|--|-----------------------------|
|                   | Personal Services | Maintenance and Other Operating Expenses | Depreciation Expense | Total Operating Expenses | Interest Expense | Loss on Disposition of Property & Other Expenses | Total Non-Operating Expense |
| 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                       |
| 9/30/2013         | 4,122             | 9,246                                    | 1,797                | 15,165                   | 2                | 772  | 774                         |
| 9/30/2014         | 4,043             | 9,475                                    | 1,961                | 15,479                   | 27               | 458  | 485                         |
| 9/30/2015         | 4,021             | 9,993                                    | 2,010                | 16,024                   | 51               | 260  | 311                         |

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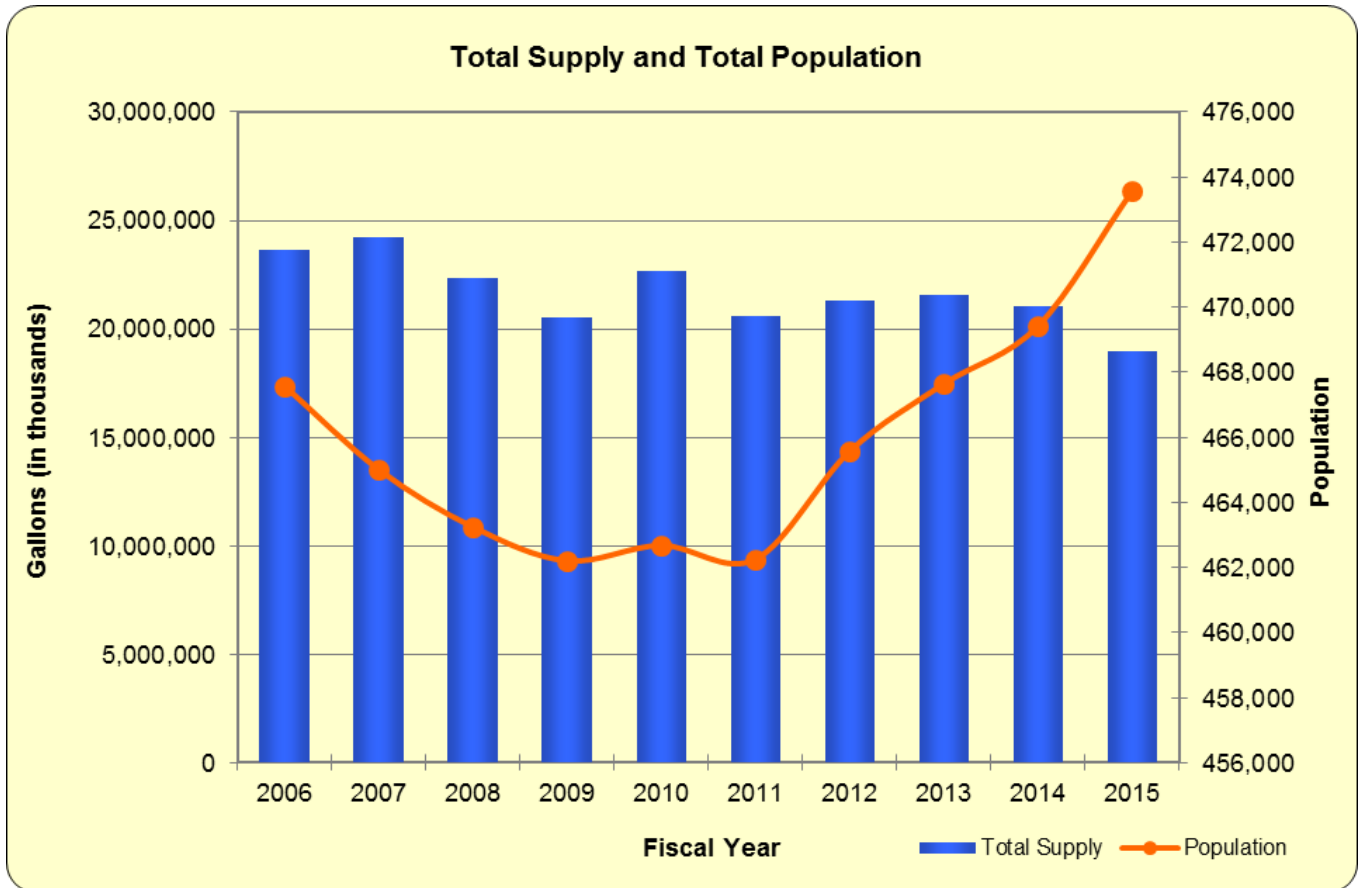
**LONG BEACH WATER DEPARTMENT**  
**SOURCE OF WATER (PUMPED, PURCHASED, AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS**  
 (in thousands of gallons, except population)

| Fiscal Year Ended | SOURCE OF SUPPLY |            |                 |              | CONSUMPTION                                       |                       |                                |            |
|-------------------|------------------|------------|-----------------|--------------|---|-----------------------|--------------------------------|------------|
|                   | Potable Water    |            | Reclaimed Water | Total Supply | Average Daily Demand Potable Water <sup>(1)</sup> | Peak Day Distribution | Average Daily Sales Per Capita | Population |
|                   | Pumped           | Purchased  |                 |              |   |                       |                                |            |
| 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    |
| 9/30/2013         | 10,125,461       | 9,248,531  | 2,164,954       | 21,538,946   | 53,079  | 68,700                | 126                            | 467,646    |
| 9/30/2014         | 9,131,485        | 9,990,526  | 1,897,724       | 21,019,735   | 52,389  | 72,000                | 123                            | 469,428    |
| 9/30/2015         | 7,132,976        | 10,146,544 | 1,684,650       | 18,964,170   | 47,341  | 68,600                | 110                            | 473,577    |

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 <sup>(1)</sup> |                           |                               | Reclaimed Water                               |  |  |
|----------------|------------------------------|---------------------------|-------------------------------|---|--|--|
|                | TIER I                       | TIER II <sup>(2)</sup>    | TIER III                      | Peaking Rate<br>Per Cubic Foot <sup>(3)</sup> | Non-Peaking<br>Rate Per Cubic<br>Foot <sup>(4)</sup> | Interruptible<br>Rate Per Cubic<br>Foot <sup>(5)</sup> |
|                | First Five Billing<br>Units  | Next Ten<br>Billing Units | Over Fifteen<br>Billing Units |   |  |  |
| 10/1/2005      | \$ 1.52                      | \$ 1.68                   | \$ 2.53                       | \$ 1.18                                       | \$ 0.84  | -  |
| 11/1/2006      | 1.56                         | 1.73                      | 2.60                          | 1.21  | 0.87   | -  |
| 10/1/2007      | 1.65                         | 1.83                      | 2.74                          | 1.28  | 0.92   | -  |
| 10/1/2008      | 1.89                         | 2.10                      | 3.16                          | 1.47  | 1.05   | -  |
| 10/1/2009      | 2.20                         | 2.44                      | 3.66                          | 1.71  | 1.22   | -  |
| 10/1/2010      | 2.20                         | 2.44                      | 3.66                          | 1.71  | 1.22   | -  |
| 10/1/2011      | 2.20                         | 2.44                      | 3.66                          | 1.71  | 1.22   | 1.22   |
| 10/1/2012      | 2.20                         | 2.44                      | 3.66                          | 1.71  | 1.22   | 1.22   |
| 10/1/2013      | 2.28                         | 2.54                      | 3.81                          | 1.78  | 1.27   | 1.27   |
| 10/1/2014      | 2.37                         | 2.64                      | 3.96                          | 1.85  | 1.32   | 1.32   |

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.

(3) Rate for total average daily demand occurring between the hours of 9:00pm and 6:00am.

(4) Rate for total average daily demand occurring at a continuous, constant level over a 24 hour period.

(5) Rate for reclaimed water service that can be suspended at anytime at the Board of Water Commissioner's discretion, without liability and dependent upon the Department's reclaimed water system needs for such service.

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" <sup>(1)</sup> | 1-1/2"  | 2"      | 3"      | 4"      | 6"      | 8"       | 10"      | 12"      | 16"      |
|----------------|---------|-------------------|---------|---------|---------|---------|---------|----------|----------|----------|----------|
| 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    |
| 10/1/2012      | 0.42    | 0.63              | 1.18    | 1.74    | 3.61    | 5.71    | 10.52   | 16.51    | 27.04    | 33.05    | 54.70    |
| 10/1/2013      | 0.44    | 0.66              | 1.22    | 1.81    | 3.75    | 5.94    | 10.94   | 17.17    | 28.12    | 34.37    | 56.88    |
| 10/1/2014      | 0.45    | 0.68              | 1.27    | 1.88    | 3.90    | 6.17    | 11.38   | 17.86    | 29.25    | 35.75    | 59.16    |

Note: (1) Normal residential size.

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"     |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| 10/1/2005      | \$ 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   |
| 10/1/2012      | 0.87    | 1.49    | 2.20    | 3.75    | 5.50    | 7.44    | 9.38    | 13.76   |
| 10/1/2013      | 0.91    | 1.55    | 2.29    | 3.90    | 5.72    | 7.74    | 9.76    | 14.31   |
| 10/1/2014      | 0.94    | 1.61    | 2.38    | 4.06    | 5.95    | 8.05    | 10.15   | 14.88   |

Source: Department's records

See accompanying independent auditors' report

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

| Fiscal Year 2015        |         |                    |                |                     | Fiscal Year 2006        |         |                    |                |                     |
|-------------------------|---------|--------------------|----------------|---------------------|-------------------------|---------|--------------------|----------------|---------------------|
| Industry                | Ranking | Sales in thousands | Acre Feet (AF) | AF Percent of Total | Industry                | Ranking | Sales in thousands | Acre Feet (AF) | AF Percent of Total |
| Government              | 1       | \$ 4,814           | 3,431          | 6.69 %              | Government              | 1       | \$ 2,319           | 3,588          | 5.77 %              |
| Education               | 2       | 963                | 557            | 1.09                | Education               | 2       | 641                | 655            | 1.05                |
| Utility                 | 3       | 819                | 705            | 1.37                | Utility                 | 3       | 440                | 593            | 0.95                |
| Education               | 4       | 547                | 437            | 0.85                | Utility                 | 4       | 390                | 523            | 0.84                |
| Utility                 | 5       | 470                | 396            | 0.77                | Education               | 5       | 346                | 438            | 0.70                |
| Hotel                   | 6       | 440                | 370            | 0.72                | Utility                 | 6       | 318                | 415            | 0.67                |
| Healthcare              | 7       | 403                | 301            | 0.59                | Government              | 7       | 271                | 273            | 0.44                |
| Utility                 | 8       | 362                | 297            | 0.58                | Healthcare              | 8       | 236                | 312            | 0.50                |
| Oil Production          | 9       | 184                | 154            | 0.30                | Healthcare              | 9       | 222                | 286            | 0.46                |
| Manufacturing           | 10      | 182                | 112            | 0.22                | Government              | 10      | 202                | 237            | 0.38                |
| Total Ten Largest Users |         | 9,184              | 6,760          | 13.18               | Total Ten Largest Users |         | 5,385              | 7,320          | 11.76               |
| Total All Other Users   |         | 71,772             | 44,549         | 86.82               | Total All Other Users   |         | 54,219             | 54,911         | 88.24               |
| Total City              |         | \$ 80,956          | 51,309         | 100.00              | Total City              |         | \$ 59,604          | 62,231         | 100.00              |

Source: Department's utility billing records

See accompanying independent auditors' report

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

| Fiscal Year 2015          |         |                |                     | Fiscal Year 2006          |         |                |                     |
|---------------------------|---------|----------------|---------------------|---------------------------|---------|----------------|---------------------|
| Industry                  | Ranking | Acre Feet (AF) | AF Percent of Total | Industry                  | Ranking | Acre Feet (AF) | AF Percent of Total |
| Golf Course               | 1       | 1,405          | 27.18 %             | Government                | 1       | 1,363          | 22.80 %             |
| Government                | 2       | 1,131          | 21.88               | Oil Production            | 2       | 1,291          | 21.60               |
| Oil Production            | 3       | 916            | 17.72               | Water Resource Management | 3       | 1,170          | 19.57               |
| Water Resource Management | 4       | 678            | 13.11               | Golf Course               | 4       | 1,109          | 18.55               |
| Golf Course               | 5       | 222            | 4.29                | Golf Course               | 5       | 333            | 5.57                |
| Education                 | 6       | 178            | 3.44                | Education                 | 6       | 140            | 2.34                |
| Education                 | 7       | 139            | 2.69                | Memorial Park             | 7       | 113            | 1.89                |
| Memorial Park             | 8       | 128            | 2.48                | Memorial Park             | 8       | 103            | 1.72                |
| Education                 | 9       | 99             | 1.91                | Education                 | 9       | 83             | 1.39                |
| Memorial Park             | 10      | 85             | 1.64                | Plant Nursery             | 10      | 75             | 1.26                |
| Total Ten Largest Users   |         | 4,981          | 96.34               | Total Ten Largest Users   |         | 5,780          | 96.69               |
| Total All Other Users     |         | 189            | 3.66                | Total All Other Users     |         | 198            | 3.31                |
| Total City                |         | 5,170          | 100.00              | Total City                |         | 5,978          | 100.00              |

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

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

| Effective Date | Volumetric Rate Charges <sup>(1)</sup> | Capacity Charges <sup>(2)</sup> |
|----------------|--|---------------------------------|
| 10/1/2005      | \$ 0.15                                | \$ 75.02                        |
| 11/1/2006      | 0.18                                   | 77.65                           |
| 10/1/2007      | 0.21                                   | 80.37                           |
| 10/1/2008      | 0.25                                   | 84.71                           |
| 10/1/2009      | 0.30                                   | 88.52                           |
| 10/1/2010      | 0.33                                   | 90.38                           |
| 10/1/2011      | 0.35                                   | 91.37                           |
| 10/1/2012      | 0.35                                   | 93.20                           |
| 10/1/2013      | 0.35                                   | 93.39                           |
| 10/1/2014      | 0.36                                   | 97.31                           |

Note: (1) Volumetric rate charges one (1) billing unit equals 100 cubic feet.

(2) A one-time capacity charge 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  
SEWER RATES: DAILY SERVICE CHARGE BY SIZE  
LAST TEN FISCAL YEARS**

| Effective Date | 3/4"    | 1"      | 1-1/2"  | 2"      | 3"      | 4"      | 6" (1)  | 8"      | 10"     | 12"     | 16"      |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| 10/1/2005      | \$ 0.11 | \$ 0.18 | \$ 0.32 | \$ 0.46 | \$ 0.96 | \$ 1.52 | \$ 2.80 | \$ 4.40 | \$ 7.20 | \$ 8.80 | \$ 14.40 |
| 11/1/2006      | 0.13    | 0.20    | 0.37    | 0.54    | 1.11    | 1.76    | 3.25    | 5.10    | 8.35    | 10.21   | 16.70    |
| 10/1/2007      | 0.15    | 0.24    | 0.43    | 0.62    | 1.29    | 2.05    | 3.77    | 5.92    | 9.69    | 11.84   | 19.37    |
| 10/1/2008      | 0.18    | 0.28    | 0.52    | 0.75    | 1.55    | 2.46    | 4.52    | 7.11    | 11.62   | 14.21   | 23.25    |
| 10/1/2009      | 0.22    | 0.35    | 0.63    | 0.91    | 1.89    | 2.99    | 5.52    | 8.67    | 14.18   | 17.33   | 28.36    |
| 10/1/2010      | 0.24    | 0.38    | 0.69    | 0.99    | 2.06    | 3.27    | 6.01    | 9.45    | 15.46   | 18.89   | 30.92    |
| 10/1/2011      | 0.25    | 0.40    | 0.72    | 1.05    | 2.16    | 3.43    | 6.32    | 9.92    | 16.23   | 19.84   | 32.46    |
| 10/1/2012      | 0.25    | 0.40    | 0.72    | 1.05    | 2.16    | 3.43    | 6.32    | 9.92    | 16.23   | 19.84   | 32.46    |
| 10/1/2013      | 0.25    | 0.40    | 0.72    | 1.05    | 2.16    | 3.43    | 6.32    | 9.92    | 16.23   | 19.84   | 32.46    |
| 10/1/2014      | 0.26    | 0.41    | 0.75    | 1.09    | 2.25    | 3.57    | 6.57    | 10.32   | 16.88   | 20.63   | 33.76    |

Note: (1) Normal residential size

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**

| Industry                | Fiscal Year 2015 |                    |                |                     | Industry                | Fiscal Year 2006 |                    |                |                     |
|-------------------------|------------------|--------------------|----------------|---------------------|-------------------------|------------------|--------------------|----------------|---------------------|
|                         | Ranking          | Sales in thousands | Acre Feet (AF) | AF Percent of Total |                         | Ranking          | Sales in thousands | Acre Feet (AF) | AF Percent of Total |
| Government              | 1                | \$ 299             | 1,131          | 2.83 %              | Government              | 1                | \$ 155             | 1,507          | 3.30 %              |
| Education               | 2                | 177                | 332            | 0.83                | Education               | 2                | 76                 | 376            | 0.82                |
| Education               | 3                | 100                | 456            | 1.14                | Education               | 3                | 39                 | 426            | 0.93                |
| Healthcare              | 4                | 66                 | 298            | 0.74                | Manufacturing           | 4                | 28                 | 268            | 0.59                |
| Education               | 5                | 44                 | 75             | 0.19                | Healthcare              | 5                | 24                 | 282            | 0.62                |
| Manufacturing           | 6                | 33                 | 96             | 0.24                | Government              | 6                | 23                 | 201            | 0.44                |
| Hotel                   | 7                | 32                 | 127            | 0.32                | Government              | 7                | 13                 | 122            | 0.27                |
| Hotel                   | 8                | 24                 | 60             | 0.15                | Manufacturing           | 8                | 12                 | 155            | 0.34                |
| Manufacturing           | 9                | 22                 | 119            | 0.30                | Manufacturing           | 9                | 11                 | 162            | 0.36                |
| Manufacturing           | 10               | 21                 | 60             | 0.15                | Hotel                   | 10               | 10                 | 145            | 0.32                |
| Total Ten Largest Users |                  | 818                | 2,754          | 6.89                | Total Ten Largest Users |                  | 391                | 3,644          | 7.99                |
| Total All Other Users   |                  | 16,339             | 37,199         | 93.11               | Total All Other Users   |                  | 7,253              | 41,964         | 92.01               |
| Total City              |                  | \$ 17,157          | 39,953         | 100.00              | Total City              |                  | \$ 7,644           | 45,608         | 100.00              |

Source: Department's utility billing records

See accompanying independent auditors' report

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# **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 <sup>(1)</sup> | Operating Expenses <sup>(2)</sup> | Net Operating Income | Net Non-Operating Income/ (Expense) <sup>(3)</sup> | Amount Available for Debt Service | Principal | Interest           | Total Debt Service <sup>(4)</sup> | Times Coverage |
|-------------------|--|-----------------------------------|----------------------|--|-----------------------------------|-----------|--------------------|-----------------------------------|----------------|
| 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 <sup>(5)</sup> | 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           |
| 9/30/2013         | 91,949                                 | 76,217                            | 15,732               | (1,985)  | 13,747                            | 2,385     | 1,502              | 3,887                             | 3.54           |
| 9/30/2014         | 100,187                                | 81,766                            | 18,421               | 335  | 18,756                            | 2,510     | 1,390              | 3,900                             | 4.81           |
| 9/30/2015         | 99,475                                 | 91,395                            | 8,080                | 1,541  | 9,621                             | 2,630     | 1,264              | 3,894                             | 2.47           |

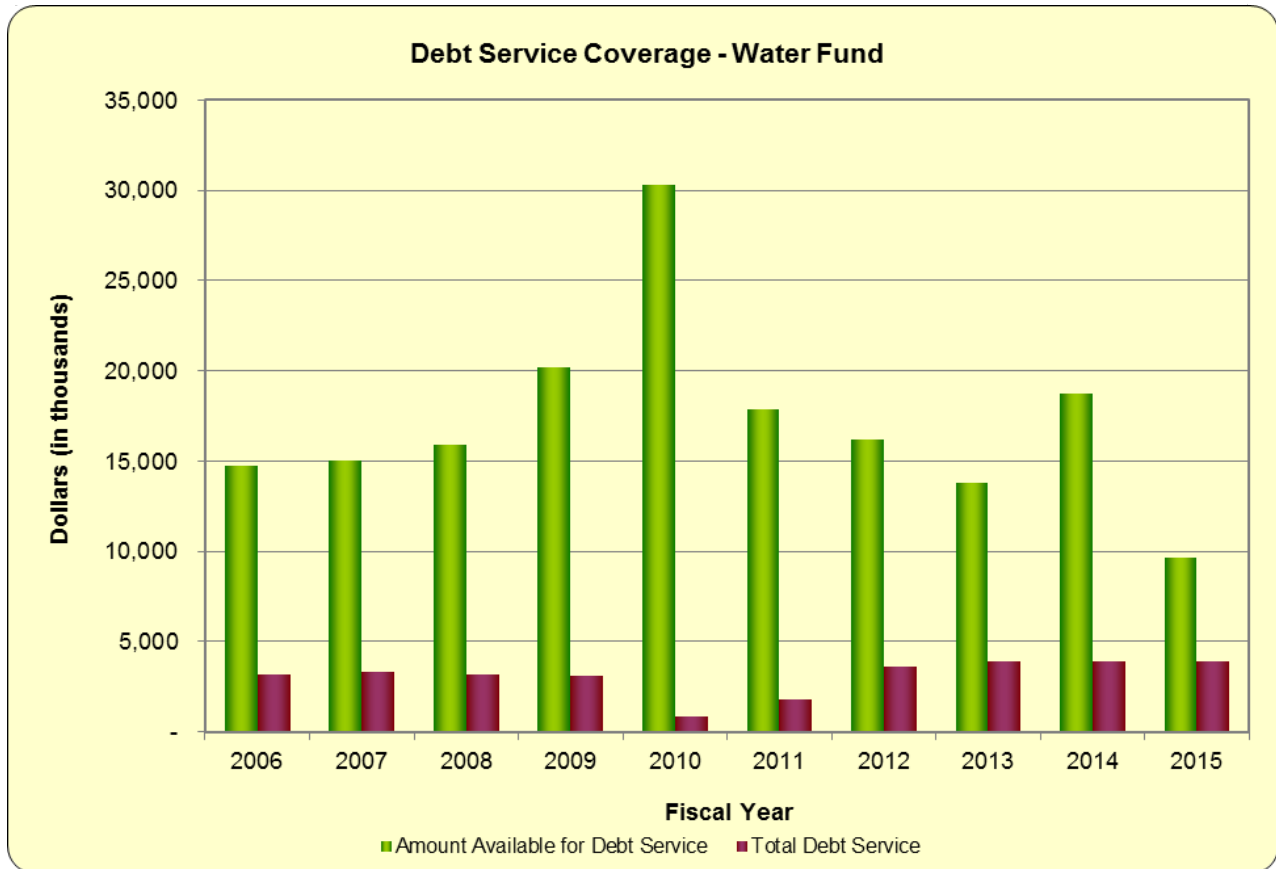
Bond Issues: Water Revenue Refunding Bonds - 1997 Series A, 2010 Series A, & 2012 Series A

|  |      |
|--|------|
| Average Coverage, ten years                  | 8.17 |
| 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 <sup>(1)</sup> | Operating Expenses <sup>(2)</sup> | Net Operating Income | Net Non-Operating Income (Expense) <sup>(3)</sup> | Amount Available for Debt Service | Principal | Interest | Total Debt Service | Times Coverage |
|-------------------|--|-----------------------------------|----------------------|---|-----------------------------------|-----------|----------|--------------------|----------------|
| 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          |
| 9/30/2013         | 17,311                                 | 13,368                            | 3,943                | (761)   | 3,182                             | -         | 54       | 54                 | 58.93          |
| 9/30/2014         | 17,953                                 | 13,518                            | 4,435                | (434)   | 4,001                             | -         | 76       | 76                 | 52.64          |
| 9/30/2015         | 17,903                                 | 14,014                            | 3,889                | (208)   | 3,681                             | -         | 79       | 79                 | 46.59          |

Bond Issues: None

|               |      |
|---------------|------|
| Rate Covenant | 1.10 |
|---------------|------|

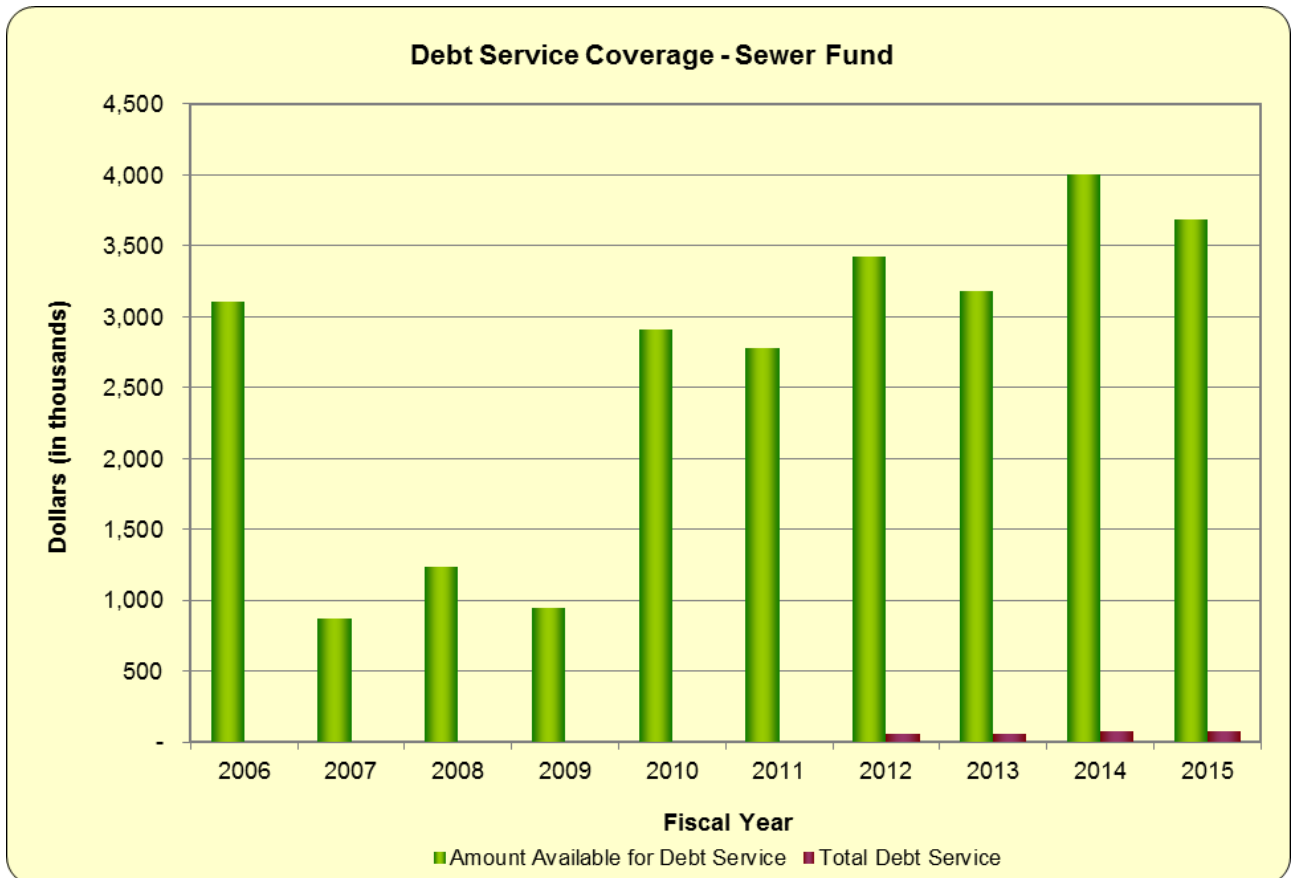
Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.

(2) Operating Expenses are exclusive of depreciation expense.

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

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 20

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

| Fiscal Year<br>Ended | Revenue Refunding Bonds |             |             | Subordinate Water Revenue |            | Total  | Percentage<br>of Personal<br>Income <sup>(1)</sup> | Per<br>Capita <sup>(1)</sup> |
|----------------------|-------------------------|-------------|-------------|---------------------------|------------|--------|--|------------------------------|
|                      | Series 1997             | Series 2010 | Series 2012 | Commercial Paper Notes    | State Loan |        |  |                              |
| 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 | 0.28%  | 0.083                        |
| 9/30/2012            | 5,175                   | 22,250      | 9,850       | -                         | -          | 37,275 | 0.27%  | 0.080                        |
| 9/30/2013            | 3,545                   | 22,125      | 9,495       | -                         | -          | 35,165 | 0.24%  | 0.075                        |
| 9/30/2014            | 1,825                   | 21,995      | 8,960       | -                         | -          | 32,780 | 0.21%  | 0.070                        |
| 9/30/2015            | -                       | 21,860      | 8,410       | -                         | -          | 30,270 | 0.19%  | 0.064                        |

Notes: (1) See Exhibit 22-Demographic Statistics for Personal Income and Population Data.

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

Exhibit 21

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

| Fiscal Year<br>Ended | Subordinate Sewer Revenue<br>Commercial Paper Notes | Sewer Revolving<br>Line of Credit | Total  | Percentage<br>of Personal<br>Income <sup>(1)</sup> | Per<br>Capita <sup>(1)</sup> |
|----------------------|---|-----------------------------------|--------|--|------------------------------|
|                      |   |                                   |        |  |                              |
| 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  | 0.04%  | 0.013                        |
| 9/30/2012            | -   | 6,000                             | 6,000  | 0.04%  | 0.013                        |
| 9/30/2013            | -   | 9,750                             | 9,750  | 0.07%  | 0.021                        |
| 9/30/2014            | -   | 9,750                             | 9,750  | 0.06%  | 0.021                        |
| 9/30/2015            | -   | 11,250                            | 11,250 | 0.07%  | 0.024                        |

Notes: (1) See Exhibit 22-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**

| <u>Fiscal Year Ended</u> | <u>Estimated Population</u> <sup>(1) (4)</sup> | <u>Personal Income (in millions)</u> <sup>(2) (4)</sup> | <u>Per Capita Personal Income</u> <sup>(2) (4)</sup> | <u>Unemployment Rate</u> <sup>(3)</sup> |
|--------------------------|--|---|--|---|
| 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  | 13,387  | 28,898   | 8.2%                                    |
| 9/30/2009                | 462,211  | 12,752  | 27,589   | 12.8%                                   |
| 9/30/2010                | 462,685  | 12,938  | 27,964   | 13.9%                                   |
| 9/30/2011                | 462,257  | 13,486  | 29,173   | 13.4%                                   |
| 9/30/2012                | 465,576  | 14,058  | 30,196   | 12.2%                                   |
| 9/30/2013                | 467,646  | 14,757  | 31,556   | 10.3%                                   |
| 9/30/2014                | 469,428  | 15,525  | 33,072   | 8.6%                                    |
| 9/30/2015                | 473,577  | 16,242  | 34,296   | 6.8%                                    |

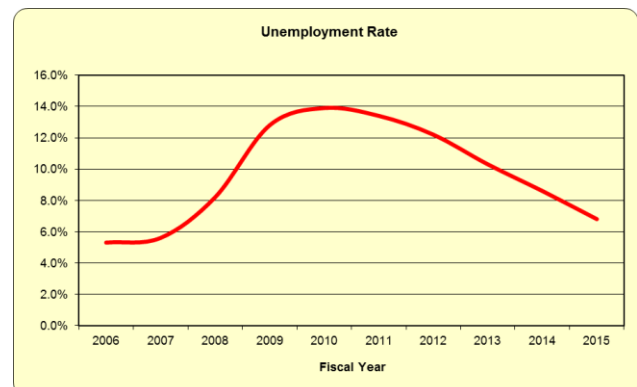
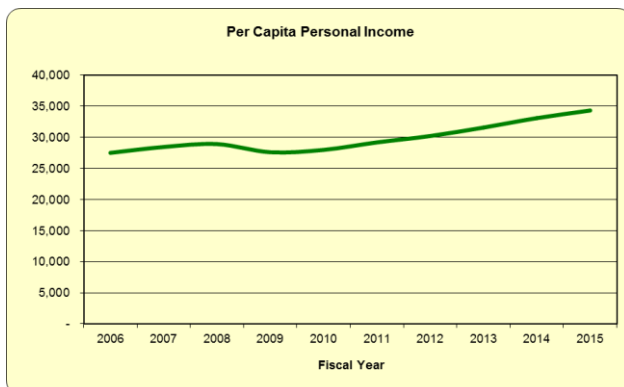
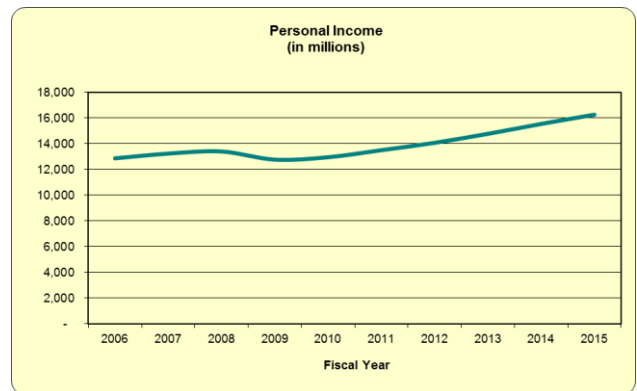
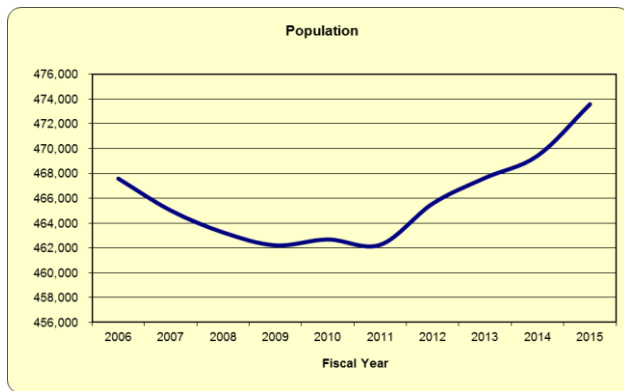
Source: (1) California Department of Finance Demographic Reports

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Personal Income and per capita personal income with exception of 2005 is based on percent change of per capita personal income for Los Angeles-Long Beach Santa Ana, CA. (Metropolitan Statistical Area). The BEA's Report does not have personal income available for 2014, 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 2015 |                                    |  | Fiscal Year 2006 |                                    |  |
|--|------------------|------------------------------------|--|------------------|------------------------------------|--|
|  | Ranking          | Number of Employees <sup>(1)</sup> | Percentage of Total City Employment <sup>(2)</sup> | Ranking          | Number of Employees <sup>(1)</sup> | Percentage of Total City Employment <sup>(2)</sup> |
| Long Beach Unified School District                   | 1                | 12,508                             | 5.24%  | 1                | 9,064                              | 3.90%  |
| City of Long Beach                                   | 2                | 5,286                              | 2.12%  | 4                | 5,854                              | 2.03%  |
| Long Beach Memorial Medical Center                   | 3                | 5,212                              | 2.18%  | 5                | 3,500                              | 2.67%  |
| The Boeing Company                                   | 4                | 3,707                              | 1.55%  | 2                | 6,525                              | 3.99%  |
| California State University Long Beach               | 5                | 2,961                              | 1.24%  | 3                | 6,007                              | 1.76%  |
| Veteran Affairs Medical Center                       | 6                | 2,665                              | 1.12%  | 9                | 1,700                              | 1.02%  |
| Long Beach City College                              | 7                | 2,637                              | 1.10%  | 7                | 2,000                              | 0.79%  |
| California State Univ Long Beach Research Foundation | 8                | 1,523                              | 0.64%  | -                | -                                  | -  |
| Molina Healthcare Inc                                | 9                | 1,488                              | 0.62%  | -                | -                                  | -  |
| St. Mary Medical Center                              | 10               | 1,458                              | 0.61%  | 10               | 1,634                              | 0.70%  |
| Verizon  |                  |                                    |  | 6                | 2,000                              | 0.86%  |
| United States Postal Service                         |                  |                                    |  | 8                | 1,900                              | 0.82%  |

Sources: (1) Department of Financial Management Accounting and Business License  
(2) State of California Employment Development Department Labor Market Info for 2006 and 2015.

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

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

| Fiscal Year Ended | Water Fund | Sewer Fund | Total |
|-------------------|------------|------------|-------|
| 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   |
| 9/30/2013         | 179        | 47         | 226   |
| 9/30/2014         | 170        | 49         | 219   |
| 9/30/2015         | 172        | 47         | 219   |

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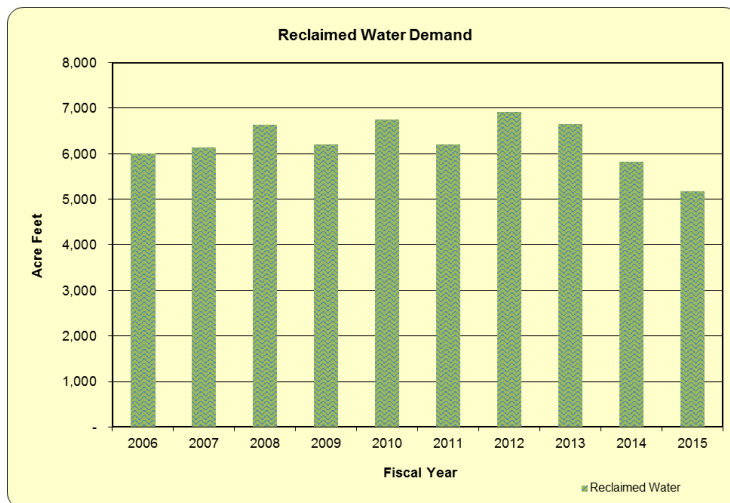
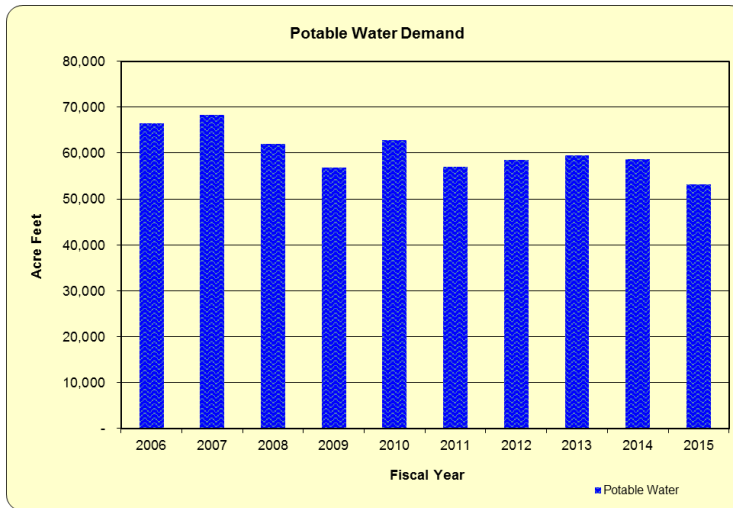
**LONG BEACH WATER DEPARTMENT**  
**WATER DEMAND - LAST TEN FISCAL YEARS**  
(in acre feet)

| Fiscal Year Ended | Potable Water |           |                      |                 | Total Demand |
|-------------------|---------------|-----------|----------------------|-----------------|--------------|
|                   | Pumped        | Purchased | Total Potable Demand | Reclaimed Water |              |
| 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       |
| 9/30/2013         | 31,074        | 28,383    | 59,457               | 6,644           | 66,101       |
| 9/30/2014         | 28,024        | 30,660    | 58,683               | 5,824           | 64,507       |
| 9/30/2015         | 22,002        | 31,139    | 53,141               | 5,170           | 58,311       |

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 26

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

| <u>Effective Date</u> | <u>Non-Interruptible Treated Water</u> | <u>Percent Change Non-Interruptible Treated Water</u> | <u>Seasonal Treated Water <sup>(1)</sup></u> |
|-----------------------|--|---|--|
| 1/1/2006              | 453                                    | 2   | 312  |
| 1/1/2007              | 478                                    | 6   | 337  |
| 1/1/2008              | 508                                    | 6   | 367  |
| 5/1/2008              | 508                                    | -   | -  |
| 1/1/2009              | 579                                    | 14  | -  |
| 9/1/2009              | 701                                    | 21  | -  |
| 1/1/2010              | 701                                    | -   | -  |
| 1/1/2011              | 744                                    | 6   | -  |
| 1/1/2012              | 794                                    | 7   | -  |
| 1/1/2013              | 847                                    | 7   | -  |
| 1/1/2014              | 890                                    | 5   | -  |
| 1/1/2015              | 923                                    | 4   | -  |

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 27

**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> |
|-----------------------|---------------------------|-----------------------|
| 7/1/2006              | 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                    | -                     |
| 7/1/2013              | 268.00                    | 10                    |
| 7/1/2014              | 268.00                    | -                     |
| 7/1/2015              | 283.00                    | 6                     |

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 | Number of fire hydrants | Number of water samples collected | Number of tests performed | Miles of Pipeline |
| 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                |
| 9/30/2013         | 31                          | 912                  | 89,996                         | 6,589                   | 14,388                            | 60,819                    | 34                |
| 9/30/2014         | 31                          | 912                  | 89,895                         | 6,604                   | 13,750                            | 58,968                    | 34                |
| 9/30/2015         | 31                          | 912                  | 89,897                         | 6,631                   | 13,050                            | 57,070                    | 34                |

Source: Department's records

See accompanying independent auditors' report

**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 |
|-------------------|-------------------------------|--------------------------|--------------------------|
| 9/30/2006         | 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                   |
| 9/30/2013         | 28                            | 714                      | 16,158                   |
| 9/30/2014         | 28                            | 714                      | 16,170                   |
| 9/30/2015         | 28                            | 714                      | 15,129                   |

Source: Department's records

See accompanying independent auditors' report

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

| <b>Fiscal Year Ended</b> | <b>Cast Iron Water Mains Replaced (in feet)</b> | <b>Fire Hydrants Repaired</b> | <b>Water Meters Repaired</b> | <b>Sewer Mains &amp; Laterals Repaired<sup>(1)</sup></b> | <b>Sewer Mains Cleaned (in miles)</b> | <b>Sewer Manholes Chemically Treated</b> |
|--------------------------|---|-------------------------------|------------------------------|--|---------------------------------------|--|
| 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                                    |
| 9/30/2013                | 24,595  | 266                           | 3,348                        | 241  | 535                                   | 5,000                                    |
| 9/30/2014                | 19,475  | 208                           | 1,835                        | 213  | 498                                   | 5,000                                    |
| 9/30/2015                | 16,366  | 544                           | 760                          | 224  | 492                                   | 5,000                                    |

Note: (1) Repairs are tracked according to the number of jobs.

Source: Department's records

*See accompanying independent auditors' report*