GAS ENTERPRISE FUND OF THE CITY OF LONG BEACH

Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

GAS ENTERPRISE FUND OF THE CITY OF LONG BEACH

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Gas Enterprise Fund of the City of Long Beach, California (Gas Enterprise Fund), an enterprise fund of the City of Long Beach, California (the City), as of and for the years ended September 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the City. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed more fully in note 1, the accompanying financial statements of the Gas Enterprise Fund are intended to present the financial position and the changes in financial position and cash flows attributable to the Gas Enterprise Fund. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2009 and 2008, and the changes in its financial position and, where applicable, its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gas Enterprise Fund of the City of Long Beach, California, as of September 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2010 on our consideration of the Gas Enterprise Fund'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 or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying schedules of funding progress on pages 31 and 32 are not a required part of the financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it.

The management of the Gas Enterprise Fund of the City of Long Beach has not presented management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements.

KPMG LLP

July 27, 2010

GAS ENTERPRISE FUND OF THE CITY OF LONG BEACH

Statements of Net Assets

September 30, 2009 and 2008

(In thousands)

		2009	2008
Assets:			
Current assets:			
Pooled cash and cash equivalents (note 2)	$	1,553	2,821
Nonperforming investments (note 2)		104	104
Accounts receivable, net of allowance for doubtful accounts of $564 and $667 at September 30, 2009 and 2008, respectively		4,314	5,436
Advance to Tidelands Enterprise Fund (note 3)		813	768
Due from Long Beach Bond Finance Authority		873	807
Inventory		1,476	1,535
Prepaid expenses		41	46
Total current assets		9,174	11,517
Noncurrent assets:			
Restricted assets:			
Nonpooled investments (note 2)		650	650
Advance to Tidelands Enterprise Fund – net of current portion (note 3)		2,631	3,445
Capital assets (note 4):			
Nondepreciable		7,761	9,309
Depreciable, net		81,502	72,728
Total capital assets, net		89,263	82,037
Total noncurrent assets		92,544	86,132
Total assets		101,718	97,649
Liabilities:			
Current liabilities:			
Accounts payable		1,840	5,303
Accrued wages payable		521	513
Due to the City of Long Beach		287	237
Deferred revenues		124	400
Commercial paper		11,755	—
Customer deposits		2,190	2,144
Amounts payable from restricted assets:			
Accrued interest payable		18	22
Current portion of long-term debt (note 5)		970	940
Total current liabilities		17,705	9,559
Long-term debt, net of current portion (note 5)		8,264	20,989
Less unamortized discount/deferred cost		(60)	(76)
Net long-term debt		8,204	20,913
Total liabilities		25,909	30,472
Net assets:			
Invested in capital assets, net of related debt		68,335	60,184
Restricted for capital projects		39	243
Restricted for debt service		732	782
Unrestricted		6,703	5,968
Total net assets	$	75,809	67,177

See accompanying notes to financial statements.

GAS ENTERPRISE FUND OF THE CITY OF LONG BEACH

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended September 30, 2009 and 2008

(In thousands)

		2009	2008
Operating revenues:			
Sale of gas (note 8)	$	73,921	101,003
Remarketed gas		5,017	13,951
Other service charges		8,798	8,131
Total operating revenues		87,736	123,085
Operating expenses:			
Purchase of gas (note 8)		40,314	81,219
Personal services		14,349	13,817
Customer service and general		10,645	10,616
Provision for doubtful accounts		302	503
Amortization		11	11
Depreciation expense (note 4)		3,540	3,297
Total operating expenses		69,161	109,463
Operating income		18,575	13,622
Nonoperating income (expense):			
Interest income		245	147
Interest expense		(290)	(523)
Loss on disposition of property		(254)	(136)
Other income, net		1,458	1,308
Total nonoperating income, net		1,159	796
Net income before transfers		19,734	14,418
Transfers to other City departments (note 7)		(11,102)	(11,711)
Change in net assets		8,632	2,707
Total net assets, beginning of year		67,177	64,470
Total net assets, end of year	$	75,809	67,177

See accompanying notes to financial statements.

GAS ENTERPRISE FUND OF THE CITY OF LONG BEACH

Statements of Cash Flows

Years ended September 30, 2009 and 2008

(In thousands)

		2009	2008
Cash flows from operating activities:			
Cash received from customers	$	84,306	107,381
Cash received from remarketed gas		4,018	12,741
Cash paid to employees		(14,096)	(13,475)
Cash paid to suppliers		(54,592)	(92,429)
Other income		1,433	501
Net cash provided by operating activities		21,069	14,719
Cash flows used in noncapital financing activities:			
Transfer to other City departments		(11,102)	(11,711)
Net cash used in noncapital financing activities		(11,102)	(11,711)
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets		1	—
Proceeds from Tidelands Enterprise Fund		768	733
Payments for capital acquisitions		(11,021)	(12,181)
Principal repayments of long-term debt		(940)	(925)
Interest paid		(290)	(522)
Proceeds from issuance of long-term obligation		—	2,004
Net cash used in capital and related financing activities		(11,482)	(10,891)
Cash flows from investing activities:			
Interest income		247	43
Net cash provided by investing activities		247	43
Net decrease in cash and cash equivalents		(1,268)	(7,840)
Cash and cash equivalents, beginning of year		2,821	10,661
Cash and cash equivalents, end of year	$	1,553	2,821
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	18,575	13,622
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		3,551	3,308
Other income		1,458	1,308
Decrease (increase) in accounts receivable, net		1,122	(2,614)
Increase in due from Long Beach Bond Finance Authority		(66)	(807)
Decrease (increase) in inventory		59	(407)
Decrease (increase) in other assets		5	(46)
(Decrease) increase in accounts payable		(3,463)	62
Increase in accrued wages payable		8	105
Increase in due to City of Long Beach		50	36
Decrease in deferred revenues		(276)	(140)
Increase in customer deposits		46	292
Total adjustments		2,494	1,097
Net cash provided by operating activities	$	21,069	14,719

See accompanying notes to financial statements.

(1) Description of Gas Utility Operation and Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies for the Gas Enterprise Fund of the City of Long Beach (Gas Enterprise Fund).

(a) General

The Long Beach Gas Department (the Department) was established in 1924 under a provision of the City Charter of the City of Long Beach, California (City). The Department's purpose is to regulate and control the use, sale, and distribution of natural gas by the City. These activities are accounted for in the City's Gas Enterprise Fund. To accomplish its stated purpose, the Gas Enterprise Fund purchases natural gas on the open market and then distributes it to more than 145,000 commercial and residential customers. Natural gas rates are established by the Long Beach City Council and are based on prevailing natural gas rates. As a regulated enterprise, SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS No. 71), requires that the effects of the rate-making process be recorded in financial statements. Such effects primarily concern the time at which various items enter into the determination of changes in fund net assets. However, as the Department's rates are based on weighted average current costs of gas, management believes these effects to be minimal.

Natural gas is purchased by the City under long-term natural gas contracts from both local and out-of-state sources and is transported through Southern California Gas Company's pipelines on behalf of the City. Natural gas is then delivered to customers' homes and businesses via the City's 1,800 miles of gas pipeline infrastructure.

In October 1998, the Long Beach City Council approved the direct pass-through of natural gas commodity costs to customers allowing the City to fully recover its actual cost. The methodology is used by other gas utilities in California.

(b) Reporting Entity

The Gas Enterprise Fund is part of the overall financial reporting entity of the City. As a proprietary fund of the City, the Gas Enterprise Fund's financial operations are included in the City's Comprehensive Annual Financial Report (CAFR). The City's CAFR may be obtained by contacting the City's Department of Financial Management at 333 W. Ocean Blvd., Long Beach, California 90802.

The Gas Enterprise Fund's revenues are collected through the City's customer billing system and its expenditures are paid through the City's disbursement system and are, therefore, subject to the City's internal control procedures.

(c) Implementation of New Accounting Pronouncements

The following summarizes implemented Government Accounting Standards Board (GASB) pronouncements and their impact, if any, on the financial statements:

In November 2006, GASB issued Statement No. 49, A*ccounting and Financial Reporting for Pollution Remediation Obligations*. The statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The statement focuses on the current or potential detrimental effects of existing pollution through the participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning. The requirements of this statement are effective for financial statements periods beginning after December 15, 2007 and include measurement of pollution remedial liabilities at the beginning of the fiscal period as to restate beginning net assets. Governments with sufficient objective verifiable information to apply expected cash flow techniques to determine prior period liabilities are required to do for all periods presented. The application of this statement is effective for the City’s fiscal year ending September 30, 2009. The provisions of GASB Statement No. 49, does not have material impact to the Gas Enterprise Fund for the fiscal year ended September 30, 2009.

In November of 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users’ ability to meaningfully evaluate an entity’s investment decisions and performance. Application of this statement is effective for the City’s fiscal year ending September 30, 2009. The provisions of GASB Statement No. 52 does not have material impact to the Gas Enterprise Fund for the fiscal year ended September 30, 2009.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement specifically requires governments to measure and report derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government’s derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. The City has chosen to implement the statement a year early making it effective for the City’s fiscal year ended September 30, 2009. The provisions of GASB Statement No. 53 does not have material impact to the Gas Enterprise Fund for the fiscal year ended September 30, 2009.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s (GASB) authoritative literature. Implementation of this statement is not expected to result in any changes in current practice. Application of this statement is effective for the City's fiscal year ending September 30, 2009.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The Statement incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. Application of this statement is effective for the City's fiscal year ending September 30, 2009.

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

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending September 30, 2010.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement is intended to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. Application of this statement is effective for the City's fiscal year ending September 30, 2011. The provisions of GASB Statement No. 54 have been determined to be nonapplicable to the Gas Enterprise Fund.

(d) Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Gas Enterprise Fund generally follows private sector standards of accounting and financial reporting issued on or before November 30, 1989 to the extent that such standards do not conflict with or contradict guidance of the GASB. The Gas Enterprise Fund has the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Gas Enterprise Fund has elected not to follow subsequent private sector guidance.

Operating revenues consist of charges to customers for services provided; the costs of providing such services are considered to be operating expenses and all other revenues and expenses are considered to be nonoperating in nature. In keeping with City policy, unbilled service receivables are not recognized, as their effect on a year-to-year basis is not material. Revenues collected in advance such as customer deposits are recorded as deferred revenue, a liability account, for financial statement purposes. Revenue is recognized in the fiscal year in which the earnings process is complete.

(e) Pooled Cash, Cash Equivalents, and Other Investments

In order to maximize investment return, the Gas Enterprise Fund pools its available general cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating units; therefore, the Gas Enterprise Fund has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments. Investment decisions are made by the City Treasurer and approved by a general investment committee whose membership includes a member of the management group of the Gas Enterprise Fund.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of an individual unit's respective daily cash balances to aggregated pooled cash and investments. The Gas Enterprise Fund's share of pooled cash and investments, as of September 30, 2009 and 2008, are stated at fair value. The value of each investment is based on independent third-party pricing provided to the City (note 2).

The Gas Enterprise Fund's nonpooled investments consist of guaranteed investment contracts held by the bond trustee and amounted to $650,000 at September 30, 2009 and 2008. These guaranteed investment contracts do not have stated maturity dates.

(f) Inventories

Inventories of supplies are stated at the lower of average cost or market determined on a first-in, first-out basis.

(g) Restricted Assets

Amounts designated for bond indenture requirements are recorded as restricted assets. Related liabilities of the Gas Enterprise Fund are identified as amounts payable from restricted assets when such obligations are incurred.

(h) Capital Assets

The Gas Enterprise Fund defines capital assets as those with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed assets are recorded at fair market value when received. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of additions to property, plant, and equipment, and replacement of retired

(Continued)

property is capitalized. The cost of constructed assets includes labor, materials, interest, and allocated indirect expenses such as engineering, supervision, and construction and transportation equipment. The cost of minor replacements is regarded as a period cost and is expensed as incurred. Upon retirement or sale, the costs of the affected plant assets as well as the related accumulated depreciation are removed from the Gas Enterprise Fund's accounting records. Resulting gains or losses are recognized as a component of the change in net assets in the year of removal (note 4).

Depreciation of capital assets is provided using the straight-line method over the estimated service lives of the assets, as follows:

Building, structures, and improvements	10 to 50 years
Transmission and distribution equipment	35 to 50 years
Other machinery and equipment	5 to 30 years

(i) Compensated Absences

Vacation and sick leave benefits are paid through a citywide Employee Benefits Internal Service Fund administered by the City. The cost of these benefits is recognized by the Gas Enterprise Fund through regular payroll burden charges from the Employee Benefits Internal Service Fund based on estimates of benefits earned for vacation pay and sick leave.

(j) Pension Plan and Postretirement Benefits

All full time Gas Enterprise Fund employees are members of the State of California Public Employees' Retirement System (CalPERS), a statewide plan available to most municipalities in the state. CalPERS acts as a common investment and administrative agent for cities in California. The Gas Enterprise Fund is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. No separate pension benefit obligation is calculated for the Gas Enterprise Fund; accordingly, no obligation is presented herein. The Gas Enterprise Fund also participates in the City's Retired Employee Health Insurance Program. This program is a single employer defined benefit healthcare plan.

(k) Net Assets

The Gas Enterprise Fund 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 Gas Enterprise Fund's net assets are classified into the following net asset categories:

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

Restricted – Amounts designated for bond indenture requirements. Related liabilities of the Gas Enterprise Fund are identified as amounts payable from restricted assets when such obligations are incurred.

Unrestricted – All other categories of net assets.

(l) Use of Estimates

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

(m) Reclassifications

Certain amounts reported in fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation. Such reclassifications had no effect on the previously reported change in net assets.

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(2) Pooled Cash and Investments

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

The table below 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 trustee, which 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.

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

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

(b) Investments Authorized by Debt Agreement

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

(c) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing evenly over time as necessary to provide cash flow and liquidity need for operations. The following schedule indicates the interest rate risk of the City's investments, which includes $1,553 and $2,821 the Gas Enterprise Fund has invested with the City as of September 30, 2009 and 2008, respectively (in thousands):

Investment type	2009		2009 Weighted average maturity (in years)	2008		2008 Weighted average maturity (in years)
Cash and investments in city pool:						
Interdepartment loan (Health SAVRS)	$	2,654	9.60	$	2,892	10.60
U.S. Treasury notes		930,125	0.50		55,817	0.41
Federal agency securities		592,312	0.50		1,289,370	1.96
Medium-term notes		—	—		84,148	0.99
LAIF		—	—		160,849	0.09
Government-managed rate account		104,667	—		69,931	—
Subtotal city pool		1,629,758			1,663,007	
Cash and deposits		80,099			60,313	
Outstanding checks		(13,698)			(19,752)	
Total city pool	$	1,696,159		$	1,703,568	
Nonperforming short-term investment	$	3,962	—	$	3,963	—

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

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2009 and 2008. 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.

(e) 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 changes could materially affect the amounts reported in the statements of financial position.

(Continued)

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.

(f) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented on the following page is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

City's pooled investments investment type	Minimum legal rating	Rating as of year-end 2009				
				Not required to be rated	AAA	Unrated
Cash and investments in city pool:						
Interdepartment loan (Health SAVRS)	N/A	$	2,654	2,654	—	—
U.S. Treasury notes	N/A		930,125	930,125	—	—
Federal agency securities	N/A		592,312	—	592,312	—
Government-managed rate account	N/A		104,667	104,667	—	—
Subtotal city pool			1,629,758	1,037,446	592,312	—
Cash and deposits			80,099	—	—	80,099
Outstanding checks			(13,698)	—	—	(13,698)
Total city pool		$	1,696,159	1,037,446	592,312	66,401
Nonperforming short-term investment	N/A	$	3,962	—	—	3,962

City's pooled investments investment type	Minimum legal rating		Rating as of year-end 2008 Not required to be rated	AAA	Unrated
Interdepartment loan (Health SAVRS)	N/A	$ 2,892	2,892	—	—
U.S. Treasury notes	N/A	55,817	55,817	—	—
Federal agency securities	N/A	1,289,370	—	1,289,370	—
Medium-term notes	A	84,148	—	84,148	—
LAIF	N/A	160,849	160,849	—	—
Government-managed rate account	N/A	69,931	69,931	—	—
Subtotal city pool		1,663,007	289,489	1,373,518	—
Cash and deposits		60,313	—	—	60,313
Outstanding checks		(19,752)	—	—	(19,752)
Total city pool		$ 1,703,568	289,489	1,373,518	40,561
Nonperforming short-term investment	N/A	$ 3,963	—	—	3,963

(g) 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 represents 5% or more of the City's total pooled investments are as follows (in thousands):

Issuer	Investment type	Reported amount 2009	2008
Federal Farm Credit Bank	Federal agency securities	$ 20,823	93,000
Federal Home Loan Bank	Federal agency securities	102,848	477,696
Federal Home Loan Mortgage Association	Federal agency securities	91,865	359,571
Federal National Mortgage Association	Federal agency securities	376,776	359,103
U.S. Treasury	U.S. Treasury notes and bonds	930,125	55,817
LAIF	State pool investment	—	160,849
Corporate debt securities	Unsecured corporate debt	—	84,148

(h) Custodial Credit Risk

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

As of September 30, 2009, the City reported deposits of $80,099,000 less $13,698,000 for checks outstanding. As of September 30, 2008, the City's deposits were $60,313,000 less $19,752,000 for checks outstanding.

(i) Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2009 and 2008.

(j) GASB Statement No. 31

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that certain investments and external investment pools be reported at fair value. At September 30, 2009 and 2008, the effect of valuating the City's investments at fair value did not have a material impact on either the City's or Gas Enterprise Fund's financial position.

(k) Securities Lending

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2009 and 2008. Accordingly, in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, no assets or liabilities have been recorded in the accompanying financial statements. However, from time to time, the City engages in limited securities lending activities. These activities are governed by formal agreement with the City's contract bank. This agreement limits the nature and amount of the transactions and provides for full collateralization of each transaction.

(3) Advances to Other General City Funds

The Gas Enterprise Fund has a long-term receivable from the City's Tidelands Enterprise Fund. Under the terms of the agreement, the Gas Enterprise Fund is to receive annual payments in an amount necessary to cover the actual debt service requirements of the Gas Utility Revenue Bonds (note 5).

(Continued)

(4) Capital Assets

Activities in capital assets for the years ended September 30, 2009 and 2008 are as follows (in thousands):

	2009				
	Balance, October 1, 2008	Additions	Retirements	Transfers	Balance, September 30, 2009
Capital assets, not being depreciated:					
Land	$ 203	—	—	—	203
Construction in progress	9,106	10,982	—	(12,530)	7,558
Total capital assets not being depreciated	9,309	10,982	—	(12,530)	7,761
Capital assets being depreciated:					
Buildings and improvements	5,642	—	—	—	5,642
Distribution systems	137,061	—	(879)	12,530	148,712
Storage structures	318	—	—	—	318
Machinery and equipment	1,801	39	(17)	—	1,823
Total capital assets being depreciated	144,822	39	(896)	12,530	156,495
Less accumulated depreciation:					
Buildings and improvements	(3,580)	(124)	—	—	(3,704)
Distribution systems	(66,763)	(3,334)	624	—	(69,473)
Storage structures	(242)	(6)	—	—	(248)
Machinery and equipment	(1,509)	(76)	17	—	(1,568)
Total accumulated depreciation	(72,094)	(3,540)	641	—	(74,993)
Total capital assets being depreciated, net	72,728	(3,501)	(255)	12,530	81,502
Total	$ 82,037	7,481	(255)	—	89,263

	2008				
	Balance, October 1, 2007	**Additions**	**Retirements**	**Transfers**	**Balance, September 30, 2008**
Capital assets, not being depreciated:					
Land	$ 203	—	—	—	203
Construction in progress	6,196	12,029	—	(9,119)	9,106
Total capital assets not being depreciated	6,399	12,029	—	(9,119)	9,309
Capital assets being depreciated:					
Buildings and improvements	5,642	—	—	—	5,642
Distribution systems	128,652	—	(710)	9,119	137,061
Storage structures	318	—	—	—	318
Machinery and equipment	1,783	152	(134)	—	1,801
Total capital assets being depreciated	136,395	152	(844)	9,119	144,822
Less accumulated depreciation:					
Buildings and improvements	(3,456)	(124)	—	—	(3,580)
Distribution systems	(64,243)	(3,094)	574	—	(66,763)
Storage structures	(236)	(6)	—	—	(242)
Machinery and equipment	(1,570)	(73)	134	—	(1,509)
Total accumulated depreciation	(69,505)	(3,297)	708	—	(72,094)
Total capital assets being depreciated, net	66,890	(3,145)	(136)	9,119	72,728
Total	$ 73,289	8,884	(136)	—	82,037

(Continued)

(5) Long-Term Debt

Long-term debt activities for the 2009 and 2008 fiscal years are as follows (in thousands):

	2009			
	Balance, October 1, 2008	Increase	Decrease	Balance, September 30, 2009
Long-term debt:				
2005 Commercial paper	$ 17,259	—	—	17,259
2005 Gas Utility Revenue Bonds	4,670	—	(940)	3,730
Unamortized discount	(22)	—	5	(17)
Unamortized issuance cost	(54)	—	11	(43)
Net long-term debt	$ 21,853	—	(924)	20,929
Less current portion of long-term debt				(12,725)
				$ 8,204

	2008			
	Balance, October 1, 2007	Increase	Decrease	Balance, September 30, 2008
Long-term debt:				
2005 Commercial paper	$ 15,255	2,004	—	17,259
2005 Gas Utility Revenue Bonds	5,595	—	(925)	4,670
Unamortized discount	(26)	—	4	(22)
Unamortized issuance cost	(65)	—	11	(54)
Net long-term debt	$ 20,759	2,004	(910)	21,853
Less current portion of long-term debt				(940)
				$ 20,913

As of September 30, 2009 and 2008, $17,259,000 in commercial paper notes has been issued and has had interest rates ranging from 0.200% to 4.600% since their issuance. The commercial paper notes, Series A and B (taxable), were authorized in an aggregate principal amount not to exceed $35,000,000. The program termination date is July 1, 2020 unless terminated earlier or extended in accordance with program terms. The commercial paper notes shall not have maturities exceeding 270 days and shall not bear interest rate in excess of the lower of (a) 12% per annum and (b) the maximum rate of interest permitted by law.

As of September 30, 2009, $11,755,000 of the outstanding commercial paper balance has been classified as a short-term liability as the Gas Enterprise Fund plans to pay off $11,755,000 of the outstanding balance in the subsequent year. The Gas Enterprise Fund has the ability and intends to continue to refinance the remaining balance of the commercial paper notes to periods greater than a year, and accordingly, the remaining balance has been classified as a long-term obligation.

The 2005 Gas Utility Revenue Bonds (2005 Bonds) are payable through August 1, 2013 with a total debt service in the amount of $3,998,000 as of September 30, 2009. The 2005 Bonds have interest rates ranging from 2.000% to 3.125%.

Annual debt service requirements to maturity for these bonds are as follows:

		Annual debt service requirements	
	Principal	**Interest**	**Total**
Fiscal year ending September 30:			
2010	$ 970	108	1,078
2011	990	83	1,073
2012	1,020	54	1,074
2013	750	23	773
Total	$ 3,730	268	3,998

The bond agreement contains certain restrictive covenants. The Gas Enterprise Fund's management believes that the Gas Enterprise Fund has complied with these covenants during the fiscal years ended September 30, 2009 and 2008.

(6) Retirement Programs

Pension Plan

Plan Description – Public Employees' Retirement System (CalPERS)

The City contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. A copy of CalPERS' annual financial report may be obtained from its executive office at 400 P. Street, Sacramento, California 95814. Since CalPERS is on a fiscal year ending June 30th, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30th, which differs from the City's September 30th fiscal year-end.

Under the terms of the contract between CalPERS and the City, all full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple tier retirement plan with benefits varying by plan.

Safety: Vested first and second tier safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 3.000% of the employee's highest paid year of employment for each year of credited service. Retirees under the first tier are eligible to receive a maximum annual 5.000% cost-of-living increase while those under the second tier are eligible to receive a maximum annual 2.000% cost-of-living increase.

Miscellaneous: Vested first and second tier nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.700% of their highest paid year of employment for each year of credited service. The City created tier three for nonsafety employees hired after October 1, 2006. Vested tier three nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.500% of their highest paid year of employment for each year of credited service. Retirees under the first tier are eligible to receive a maximum annual 5.000% cost-of-living increase while those under the second and third tier are eligible to receive a maximum annual 2.000% cost-of-living increase. Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Funding Policy

For the fiscal year ended September 30, 2009, Safety and Miscellaneous plan participants were required to contribute 9.000% and 8.000% of their annual covered salary, respectively. For miscellaneous employees the City pays 6.000% of the participant contributions and the employee pays 2.000%. For safety employees the City pays 7.000% of the participant contributions and the employee pays 2.000%. In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rates are 12.198% for miscellaneous employees and 15.850% for safety employees. For fiscal year 2010, the contribution rates will be 11.830% for miscellaneous employees and 16.007% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2009, the City’s annual pension cost (APC) of $72,015,000 for CalPERS was equal to the City’s annual required contributions (ARC) of $79,642,000 less employees’ contributions of $7,627,000. The required contribution was determined as a part of the June 30, 2006 actuarial valuations.

During fiscal year 2009, the City implemented a furlough program for most nonsafety departments. Since the underlying benefit did not change, the City determined that it was appropriate to continue to pay the full ARC for all effected employees. For the fiscal year ended September 30, 2009, additional payments in the amount of $846,000 (included in APC and ARC above) were remitted to CalPERS to ensure full payment of the ARC.

The City's APC, the percentage of APC contributed to the plans, and the net pension obligation for the miscellaneous and safety plans for the fiscal years ended September 30, 2007, 2008, and 2009 are as follows (dollars in thousands):

Fiscal year	Miscellaneous annual pension cost	Safety annual pension cost	Annual pension costs (APC)	Percentage contribution	Net pension obligation
2007	N/A	N/A	64,437	100%	—
2008	N/A	N/A	67,800	100	—
2009	40,503	31,512	72,015	100	—

Actuarial Methods and Assumptions

A summary of principal assumptions and methods used to determine the ARC rate for fiscal year 2009 for miscellaneous and safety employees is shown below:

	Assumptions
Valuation date	June 30, 2006
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining period	32 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.750% (net of administrative expenses)
Projected salary increases	3.250% to 14.450% depending on age, service, and type of employment
Inflation	3.000%
Payroll growth	3.25
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.000% and an annual production growth of 0.25%.

The schedule of funding progress, known as required supplementary information (RSI), following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for pension benefits.

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the miscellaneous and safety plans funding status were (dollars in thousands):

Plan		Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry age (b)	AAL (UAAL) (excess of assets over AAL) (b-a)	Funded ratio actuarial value basis (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Miscellaneous	$	1,576,159	1,667,773	91,614	94.5%	$	215,224	42.6%
Safety		1,602,457	1,592,667	(9,790)	100.6%		132,156	(7.4)%

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information, which shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Plans' initial unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

Plan Description – Public Agency Retirement System – Defined Benefit Plan

In November 1994, the City established Public Agency Retirement System (PARS) Defined Benefit Plans for Special Status Contractors and Seasonal and Temporary Employees (The Plans). During fiscal year 2003, the Plans were reported under a combined plan (The Plan). The Plan is a defined benefit, single-employer retirement plan. The Plan, which took effect on January 1, 1995, is administered for the City through a third-party administrator. The Plan provides for retirement as well as death and disability benefits to eligible individuals and their beneficiaries.

The Plan benefit is a lifetime monthly annuity equal to 1.500% times the final average of the participant's highest 36 consecutive month's salary times the years of service. The Plan requires employee contributions of 6.200% of earnings (Contractors Special Status) and 3.000% of earnings (Seasonal and Temporary Employees). All employees enter the Plan upon hire and all benefits are vested after five years of service (Contractors Special Status) or immediately (Seasonal and Temporary Employees) and employees are always vested in their employee contributions. It is assumed that upon termination, employees will choose to receive an actuarially equivalent lump sum (based on the actuarial assumptions described below). Audited annual financial statements are available from PARS Public Agency Retirement Services, 4350 Von Karman Avenue, Ste. 100, Newport Beach, CA 92660.

Funding Policy and Annual Pension Cost

The City's funding policy is to make the contribution as determined by the Plan's actuary as of September 30, 2007. The following information describes the calculation methodology:

- The Plan's APC for the fiscal year ended September 30, 2009 is based on the period from October 1, 2006 to September 30, 2007. The APC for fiscal year ending 2009 is $16,352, the same amount contributed for this period.
- The actuarial liabilities and assets are valued as of September 30, 2008.
- The actuarial funding method used is the projected-unit-credit-method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll.

In determining the Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between past years and future years. This allocation is made by multiplying the projected benefit by a fraction, the numerator of which is the participant's total credited years of service on the valuation date, and the denominator is the participant's total credited years of service at anticipated benefit commencement.

The unfunded actuarial liability is the difference between the actuarial accrued liability and Plan assets. This difference is amortized as a level dollar amount (over an average nine-year period in the 2008 actuarial valuation used to determine fiscal year 2010 APC) to determine the unfunded actuarial liability rate. The actuarial value of plan assets is based on a five year smoothing of gains and losses.

The net pension obligation information below is based on periods from October 1 through September 30.

Fiscal year	Annual pension costs	Actual contribution	Percentage contribution	Net pension obligation
2007	$ 92,546	92,546	100%	—
2008	20,546	20,546	100	—
2009	16,352	16,352	100	—

Funded Status and Funding Progress

As of the most recent actuarial valuation date, September 30, 2008, the Plan's funding status was (dollars in thousands):

Plan		Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (excess of assets over AAL) (b-a)	Funded ratio actuarial value basis (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
PARS	$	1,102	1,047	(55)	105.3%	$	9,178	(0.6)%

Actuarial Methods and Assumptions

The following is a summary of September 30, 2008 actuarial assumptions:

Interest rate	5.250% (5.750% used in September 30, 2007 valuation)
Mortality	1983 Group annuity mortality table
Turnover	Sample rates are:

Age	Turnover	Age	Turnover
25	15%	45	10%
30	15	50	10
35	15	55	5
40	15	60	5

Seasonal and temporary employees' first five years:

Years of service	Turnover
0	50%
1	35
2	30
3	25
4	20

Salary scale	5.000%
Retirement age	Age 65 or attained age, if older.
Form of benefit	Participants are assumed to receive a lump sum upon termination.

The interest rate was changed for the 2008 valuation from 5.750% to 5.250%. The net impact of this assumption change increased the actuarial accrued liability by approximately $33,000.

(7) Post Retirement Health Care Benefits

(a) Plan Description

The City's Retired Employees Health Insurance Program is a single-employer defined benefit healthcare plan.

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

At September 30, 2009, there were 580 participants in the City's Retired Employees Health Insurance Program, and the non-interest-bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled $17,517,000. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2009 were $7,250,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

(b) Termination Benefits

As of September 30, 2009, the City has recorded a liability in the Employee Benefits Internal Service Fund of $87,342,000 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, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.000%; wage increases of 3.500% per year for miscellaneous and 4.500% per year for safety employees, and insurance premium increases of 4.500%. The estimated current portion of such obligation of $6,250,000 has been fully funded and the long-term portion of the liability of $81,092,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

(c) Other Postemployment Benefits

As of September 30, 2009, the City has also recorded a liability in the Employee Benefits Internal Service Fund of $10,404,000 based on an actuarial study of the "implicit subsidy" as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (GASB 45). While the City does not directly contribute any funding towards the cost of premiums for retirees, the ability to obtain coverage at an active employees rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City's health care benefit plans increases the overall health plan rates. The economic benefit is defined as an "implicit subsidy" under GASB 45.

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

This plan does not issue a separate financial report.

(d) 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, 2009, the City has not prefunded the plan.

(e) 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 (in thousands):

Annual required contribution	$	8,418
Interest on net OPEB obligation		262
Adjustment to annual required contribution		(219)
Annual OPEB cost		8,461
Contribution made		(3,306)
Increase in net OPEB obligation		5,155
Net OPEB obligation – beginning of year		5,249
Net OPEB obligation – end of year	$	10,404

The ARC was determined as part of the September 2008 actuarial valuation. For the year ended September 30, 2009, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
September 30, 2008	$ 8,102	35.2%	$ 5,249
September 30, 2009	8,461	39.1	10,404

(f) Funded Status and Funding Progress

The funded status of the plan as of September 30, 2009 was as follows (in thousands):

Actuarial accrued liability (AAL)	$ 110,324
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	$ 110,324
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll	$ 295,450
UAAL as a percentage of covered payroll	37.3%
ARC as a percentage of covered payroll	2.8

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

(g) Actuarial Methods and Assumption

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

The September 30, 2008 actuarial valuation used the entry age normal cost method. The actuarial assumptions included a 5.000% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 12.000% for HMO plans and 9.000% for PPO plans that grades down to 4.500% for all plans by September 30, 2021, and an inflation assumption of 3.000%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was zero. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

(8) Transfers to Other City Departments

Transfers consist of $11,102,000 and $11,711,000 to the General Fund for the fiscal years ended September 30, 2009 and 2008, respectively. These transfers are required by the City Charter.

(9) Gas Rates

The City of Long Beach Gas Enterprise Fund passes along the actual cost of natural gas it provides to its customers.

Effective October 1, 2007, LBGO renegotiated terms with local suppliers which includes a purchase price equal to LBGO's lowest cost of gas purchased during the month of delivery and the understanding that their volumes will be supplemental to the prepay volumes purchases.

Effective November 1, 2007, LBGO entered into a long-term prepay contract with Merrill Lynch Commodities Inc. (MLCI). Under this new contract, MLCI became the primary provider of natural gas for LBGO. The contract price is equal to the applicable market index price for the month in which the gas delivery occurs, less $0.83 per one million British thermal units (MMBtus) of gas delivered. LBGO reserves the gas prepay cost savings to facilitate funding of its gas utility's long-term infrastructure requirements.

Effective April 1, 2009, the City entered into a three-year gas services contract with Shell Energy North America (SENA) to continue to provide storage, scheduling, forecasting, and balancing services. This contract replaced the prior gas services contract with SENA, which expired March 31, 2009. The current contract also provides a cost savings from the previous contract. Additional agreements with SENA allow for the purchase of additional gas supply, if needed, and also provide fixed priced gas, ceilings, and floor caps to protect LBGO customers from large fluctuations in the natural gas market.

(10) Commitments and Contingencies

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

(11) Subsequent Event

Amendment to Prepaid Natural Gas Agreement and Subsequent Transfer Received

Effective October 1, 2009, the City renegotiated the terms of the 30-year prepay natural gas contract with Merrill Lynch Commodities Inc. (MLCI). Prior to renegotiation, Long Beach Gas and Oil (LBGO) would purchase half of its predetermined gas volume at the SoCal Border index price and half at the Natural Gas Intelligence (NGI) Southern California Border index price, less $0.83 per one million British thermal units (MMBtus). Under the terms of the renegotiated contract, LBGO will purchase the entire predetermined gas volume at the NGI Southern California Border index price, which has historically been lower than the SoCal Border price.

The Long Beach Bond Finance Authority (the Authority) redeemed $48,255,000 and $182,690,000 of their series A and B Natural Gas Purchase Revenue Bonds, respectively, during the fiscal year. The redemption resulted in a decrease in the gas supply purchased over the term of the Prepaid Natural Gas Purchase and Sale Agreement between MLCI and the Authority, and resulted in a one-time upfront payment to the Authority for the forfeited gas prepay cost discount on the reduced volume, and a partial return of the debt service fund held with the Bond Trustee. In October and November 2009, the Authority transferred a portion of the proceeds, totaling $17,725,000, to the Gas Enterprise Fund, of which $11,755,000 were used to pay off outstanding commercial paper debt. The remaining balance is budgeted for capital projects including pipeline infrastructure, facility upgrades, and relocation of downtown operations to the 2400 Spring Street location.

CITY OF LONG BEACH

Required Supplementary Information

CalPERS Analysis of Funding Progress

(Unaudited)

(In thousands)

June 30 actuarial valuation date		Actuarial value of assets (a)	Entry age normal accrued liability (b)	Excess funded (deficit/ unfunded) assets (a) – (b)	Funded status (AVA) (a) / (b)	Funded status Market value		Annual covered payroll (c)	Excess funded (deficit/ unfunded) assets as a percentage of covered payroll [(a) – (b)] / (c)
Miscellaneous employees:									
2006	$	1,394,797	1,467,665	(72,868)	95.0%	100.9%	$	193,944	(37.6)%
2007		1,489,681	1,558,205	(68,524)	95.6	111.2		204,765	(33.5)
2008		1,576,158	1,667,773	(91,615)	94.5	96.7		215,224	(42.6)
Safety employees:									
2006	$	1,424,542	1,388,324	36,218	102.6%	108.9%	$	110,146	32.9%
2007		1,514,813	1,479,271	35,542	102.4	119.1		119,753	29.7
2008		1,602,457	1,592,667	9,790	100.6	103.1		132,156	7.4

See accompanying independent auditors' report.

CITY OF LONG BEACH

Required Supplementary Information

Public Agency Retirement System

Analysis of Funding Progress

(Unaudited)

Actuarial valuation date (1)		Actuarial value of assets	Actuarial accrued liabilities	Funded (excess assets)	Funded ratio		Annual covered payroll	Rate of funded liability to annual covered payroll
1998	$	628,037	493,178	134,859	127%	$	14,636,213	0.92%
1999		844,349	644,922	199,427	131		16,239,480	1.23
2000		1,071,241	575,446	495,795	186		15,124,582	3.28
2001		1,317,055	410,609	906,446	321		10,697,767	8.47
2002		1,526,586	475,029	1,051,557	321		8,472,945	12.41
2003		1,703,852	517,234	1,186,618	329		8,504,901	13.95
2004		1,536,647	545,083	991,564	282		8,265,983	12.00
2005		1,388,268	675,055	713,213	206		7,697,497	9.27
2006		1,307,680	789,799	517,881	166		7,927,910	6.53
2007		1,421,066	860,013	561,053	165		8,460,717	6.63
2008		1,101,797	1,047,157	54,640	105		9,178,269	0.60

Postemployment Health Care Benefits

Analysis of Funding Progress

(Unaudited)

Valuation date		Actuarial accrued liability (a)	Actuarial value of assets (b)	Unfunded liability (a) – (b)	Funded ratio (b) / (a)		Annual covered payroll (c)	UAAL as a percentage of payroll [(a) – (b)] / (c)
January 1, 2006	$	86,868	—	86,868	—%	$	284,484	30.5%
September 30, 2008		110,324	—	110,324	—		328,205	33.6

See accompanying independent auditors' report.