

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

C-10 REVISED

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August 15, 2017

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the Federal Single Audit, Separately Issued Financial Statement, and the Auditor's Communication with Those Charged with Governance for the Fiscal Year Ended September 30, 2016. (Citywide)

DISCUSSION

On May 23, 2017, the Financial Management Department submitted to the City Council the City's Comprehensive Annual Financial Report (CAFR) and other separately issued financial reports and statements for the fiscal year ended September 30, 2016 (FY 16), as required by the City Charter.

Additional reports that were not available on the above date, including the Los Cerritos Wetlands Authority annual financial report, the Long Beach Airport schedule of passenger facility charges, and the Federal Single Audit report, are enclosed and issued annually to meet distinct legal and financial requirements.

Federal Single Audit

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

The Auditor's Communications with Those Charged with Governance

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

HONORABLE MAYOR AND CITY COUNCIL

April 18, 2017

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related to the financial statement audit that are, in KPMG's professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

Management Letter

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

TIMING CONSIDERATIONS

Action on this item is not time critical.

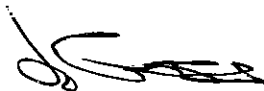
FISCAL IMPACT

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

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:


PATRICK H. WEST
CITY MANAGER

JG:SWH:NL
K:\EXEC\COUNCIL LETTERS\ACCOUNTING\08-15-17 CCL - FY 16 CAFR - SUPPLEMENTAL.DOC

ATTACHMENTS:

- FY 2016 FEDERAL SINGLE AUDIT
- FY 2016 AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
- FY 2016 MANAGEMENT LETTER FOR THE CITY OF LONG BEACH
- FY 2016 LOS CERRITOS WETLANDS AUTHORITY ANNUAL FINANCIAL REPORT
- THE 2016 LONG BEACH AIRPORT SCHEDULE OF PASSENGER FACILITY CHARGES.



CITY OF LONG BEACH, CALIFORNIA

Audit of Expenditures of Federal Awards Performed in
Accordance with the Uniform Guidance

Year ended September 30, 2016

(With Independent Auditors' Reports Thereon)

CITY OF LONG BEACH, CALIFORNIA

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 27, 2017. Our report includes an emphasis of matter paragraph regarding the City adopting provisions of Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors testing of internal controls over financial reporting or compliance with other matters that are reported on separately by that auditor.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.



Compliance and Other Matters

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

The City's Response to Finding

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

Purpose of this Report

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

KPMG LLP

Los Angeles, California
March 27, 2017



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

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Long Beach, California's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Long Beach Transportation Company, a discretely presented component unit, which received \$11,576,501 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2016. Our audit, described below, did not include the operations of the discretely presented component unit because Long Beach Transportation Company engaged other auditors to perform an audit in accordance with the Uniform Guidance.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on compliance. However, our audit does not provide a legal determination of the City's compliance.



Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-002 that we consider to be a significant deficiency.

The City's response to the internal control finding over compliance identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 27, 2017, that referred to the report of other auditors and contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California
June 19, 2017

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|---|---|--|------------------------------------|---------------------------------|
| <u>Department of Agriculture Food and Nutrition Service:</u> | | | | |
| Passed through the State of California Department of Health Services: | | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 14-10228 | \$ (1,112) | — |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 15-10061 | 18,867,701 | — |
| Total Special Supplemental Nutrition Program for Women, Infants, and Children (10.557) | | | 18,866,589 | — |
| Passed through the State of California Department of Education: | | | | |
| Summer Food Service Program for Children | 10.559 | 19-81908V | 321,951 | — |
| Passed through the State of California Department of Health Services: | | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) | 10.561 | 13-20015 | 1,126,208 | 239,746 |
| Total Department of Agriculture Food and Nutrition Service | | | 20,314,748 | 239,746 |
| <u>Department of Commerce Economic Development Administration:</u> | | | | |
| Direct: | | | | |
| Economic Adjustment Assistance | 11.307 | 07-49-05046 | 1,100,287 | — |
| Total Department of Commerce Economic Development Administration | | | 1,100,287 | — |
| <u>Department of Defense – Office of Economic Adjustment:</u> | | | | |
| Direct: | | | | |
| Community Economic Adjustment Assistance for Reductions in Defense Industry Employment | 12.611 | CR1517-15-01 | 3,620,153 | 2,476,544 |
| Total Department of Defense – Office of Economic Adjustment | | | 3,620,153 | 2,476,544 |
| <u>Department of Housing and Urban Development:</u> | | | | |
| Direct: | | | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | B-14-MC-06-0522 | 1,405,580 | — |
| Community Development Block Grant/Entitlement Grants | 14.218 | B-15-MC-06-0522 | 7,512,628 | — |
| Community Development Block Grant/Entitlement Grants | 14.218 | B-16-MC-06-0522 | 3,868 | — |
| | | | 8,922,076 | — |
| Community Development Block Grant/Entitlement Grants – NSP1 | 14.218 | B-08-MN-06-0511 | 1,004,603 | — |
| Community Development Block Grant/Entitlement Grants – NSP3 | 14.218 | B-11-MN-06-0511 | 108,084 | — |
| Total Community Development Block Grant/Entitlement Grants Cluster (14.218) | | | 10,034,763 | — |
| Emergency Solutions Grant Program | 14.231 | E-14-MC-06-0522 | 76,170 | — |
| Emergency Solutions Grant Program | 14.231 | E-15-MC-06-0522 | 479,063 | — |
| Total Emergency Solutions Grant Program (14.231) | | | 555,233 | — |
| Shelter Plus Care | 14.238 | CA1014C9D061000 | 41,489 | — |
| Shelter Plus Care | 14.238 | CA1132C9D061100 | 51,440 | — |
| Total Shelter Plus Care (14.238) | | | 92,929 | — |
| Home Investment Partnerships Program | 14.239 | M-11-MC-06-0518 | 69,371,724 | — |
| Home Investment Partnerships Program | 14.239 | M-12-MC-06-0518 | 1,822,607 | — |
| Home Investment Partnerships Program | 14.239 | M-13-MC-06-0518 | 284,766 | — |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|---|---|--|------------------------------------|---------------------------------|
| <u>Department of Housing and Urban Development:</u> | | | | |
| Direct: | | | | |
| Home Investment Partnerships Program | 14.239 | M-14-MC-06-0518 | \$ 226,897 | — |
| Home Investment Partnerships Program | 14.239 | M-15-MC-06-0518 | 1,289,986 | — |
| Home Investment Partnerships Program | 14.239 | M-16-MC-06-0518 | 3,126 | — |
| Total Home Investment Partnerships Program (14.239) | | | 72,999,106 | — |
| <u>Department of Housing and Urban Development:</u> | | | | |
| Passed through the City of Los Angeles: | | | | |
| Housing Opportunities for Persons with AIDS (HOPWA) | 14.241 | 98256 | 579,355 | — |
| Direct: | | | | |
| Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants | 14.251 | B-09-SP-CA-0144 | (1,363) | — |
| ARRA – Neighborhood Stabilization Program – NSP2 | 14.256 | B-09-CN-CA-0045 | 432,337 | — |
| Continuum of Care Program – CoC 2014 | 14.267 | CA0000U9D061402 | 4,889,243 | 3,941,955 |
| Continuum of Care Program | 14.267 | CA0622U9D061508 | 1,281,418 | 947,303 |
| Continuum of Care Program | 14.267 | CA0646U9D061407 | 276,496 | — |
| Continuum of Care Program | 14.267 | CA0646U9D061508 | 90,174 | — |
| Continuum of Care Program | 14.267 | CA0647U9D061407 | 159,387 | — |
| Continuum of Care Program | 14.267 | CA0647U9D061508 | 51,416 | — |
| Continuum of Care Program | 14.267 | CA0932U9D061405 | 55,933 | — |
| Continuum of Care Program | 14.267 | CA0932U9D061506 | 15,183 | — |
| Continuum of Care Program | 14.267 | CA1014U9D061501 | 13,659 | — |
| Total Continuum of Care Program (14.267) | | | 6,832,909 | 4,889,258 |
| General Research and Technology Activity | 14.506 | H-21652RG | 113,556 | — |
| Section 8 Housing Choice Vouchers | 14.871 | CA068VO | 63,617,089 | — |
| Family Self-Sufficiency Program | 14.896 | CA068FSH057A014 | 82,888 | — |
| Family Self-Sufficiency Program | 14.896 | CA068FSH057A015 | 162,515 | — |
| Total Family Self-Sufficiency Program (14.896) | | | 245,403 | — |
| Lead-based Paint Hazard Control in Privately Owned Housing | 14.900 | CALHB0514-12 | 40,040 | — |
| Lead-based Paint Hazard Control in Privately Owned Housing | 14.900 | CALHB0591-15 | 484,340 | — |
| Total Lead-based Paint Hazard Control in Privately Owned Housing (14.900) | | | 524,380 | — |
| Total Department of Housing and Urban Development | | | 156,025,697 | 4,889,258 |
| <u>Research and Development Cluster:</u> | | | | |
| <u>Department of the Interior Bureau of Reclamation:</u> | | | | |
| Direct: | | | | |
| Water Desalination Research and Development Program | 15.506 | R15AC00086 | 53,990 | — |
| Total Department of the Interior Bureau of Reclamation | | | 53,990 | — |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|---|---|--|------------------------------------|---------------------------------|
| Department of Justice : | | | | |
| Direct: | | | | |
| Community-Based Violence Prevention Program | 16.123 | 2014-NY-FX-K005 | \$ 154,754 | — |
| Community-Based Violence Prevention Program | 16.123 | 2015-PB-FX-K010 | 108,879 | — |
| Total Community-Based Violence Prevention Program (16.123) | | | 263,633 | — |
| Youth Gang Prevention | 16.544 | 2014-JV-FX-K004 | 112,627 | — |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2014-DJ-BX-0318 | 157,255 | — |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2015-DJ-BX-0249 | 59,038 | — |
| Total Edward Byrne Memorial Justice Assistance Grant Program (16.738) | | | 216,293 | — |
| Passed through the State of California Office of Emergency Services: | | | | |
| Paul Coverdell Forensic Sciences Improvement Grant Program | 16.742 | 2015-CD-BX-0073 | 46,892 | — |
| Paul Coverdell Forensic Sciences Improvement Grant Program | 16.742 | CQ15117240 | 2,615 | — |
| Total Paul Coverdell Forensic Sciences Improvement Grant Program (16.742) | | | 49,507 | — |
| Department of Justice: | | | | |
| Direct: | | | | |
| Asset Forfeiture | 16.922 | N/A | 409,225 | — |
| Total Department of Justice | | | 1,051,285 | — |
| Department of Labor: | | | | |
| Direct: | | | | |
| H-1B Job Training Grants | 17.268 | HG-22609-12-60-A-6 | 409,477 | 344,349 |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through El Camino College: | | | | |
| H-1B Job Training Grants | 17.268 | 33821 | 15,288 | — |
| Total H-1B Job Training Grants (17.268) | | | 424,765 | 344,349 |
| Passed through the State of California Employment Development Department: | | | | |
| WIOA National Dislocated Worker Grants/WIA National Emergency Grants – HealthCare NEG | 17.277 | K491023 | 43,858 | 26,084 |
| WIOA National Dislocated Worker Grants/WIA National Emergency Grants – NEG Sector Partnership | 17.277 | K698367 | 181,843 | — |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through the County of Orange: | | | | |
| WIOA National Dislocated Worker Grants/WIA National Emergency Grants – OC Healthcare NEG | 17.277 | 15-28-0010-OS | 7,745 | — |
| Total WIOA National Dislocated Worker Grants/WIA National Emergency Grants (17.277) | | | 233,446 | 26,084 |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|--|---|--|------------------------------------|---------------------------------|
| Department of Labor: | | | | |
| Passed through the State of California Employment Development Department: | | | | |
| WIA Adult Program – Adult | 17.258 | K594766 | \$ 19,071 | — |
| WIOA Adult Program – Adult Round 1 | 17.258 | K698367 | 25,934 | — |
| WIOA Adult Program – Adult Round 2 | 17.258 | K698367 | 1,500,145 | — |
| WIOA Adult Program – Adult Round 1 | 17.258 | K7102038 | 192,236 | — |
| | | | 1,737,386 | — |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through the County of Orange: | | | | |
| WIA/WIOA Adult Program – OCWIB Garden Grove Adult | 17.258 | 15-28-0010-OS | 14,671 | — |
| WIA/WIOA Adult Program – OCWIB Veteran’s Employment Assistance Program Adult 7 | 17.258 | 15-28-0005-VEAP | 84,684 | — |
| WIA/WIOA Adult Program – OCWIB Veteran’s Employment Assistance Program Adult 8 | 17.258 | 16-28-0005-VEAP | 2,166 | — |
| | | | 101,521 | — |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through the City of Los Angeles: | | | | |
| WIA Adult Program – Harbor Worksource Ctr WIA Adult | 17.258 | C-124397 | (1,310) | — |
| WIA Adult Program – Harbor Worksource Ctr WIA Adult | 17.258 | C-126394 | 317,994 | — |
| | | | 316,684 | — |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through the City of Los Angeles: | | | | |
| WIOA Adult Program-Harbor Worksource Ctr WIOA Adult | 17.258 | C-126394 | 154,472 | — |
| WIOA Adult Program-Harbor Worksource Ctr WIOA Adult | 17.258 | C-127938 | 145,922 | — |
| | | | 300,394 | — |
| Total WIA/WIOA Adult Program (17.258) | | | 2,455,985 | — |
| Passed through the State of California Employment Development Department: | | | | |
| WIA Youth Activities – WIA Youth | 17.259 | K594766 | 1,162,438 | 1,011,394 |
| WIA/WIOA Youth Activities – WAF Youth Demo Program | 17.259 | K698367 | 2,504 | — |
| WIOA Youth Activities – WIOA Youth | 17.259 | K698367 | 1,148,388 | 172,460 |
| WIOA Youth Activities – WIOA Youth | 17.259 | K7102038 | 27,988 | — |
| | | | 1,176,376 | 172,460 |
| Total WIA Youth Activities (17.259) | | | 2,341,318 | 1,183,854 |
| WIA Dislocated Worker Formula Grants – WIA Dislocated Worker | 17.278 | K594766 | 10,091 | — |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Layoff Aversion Round 2 | 17.278 | K698367 | 18,010 | — |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Rapid Response Round 2 | 17.278 | K698367 | 326,918 | — |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Round 2 | 17.278 | K698367 | 944,722 | — |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|--|---|--|------------------------------------|---------------------------------|
| Department of Labor: | | | | |
| Passed through the State of California Employment Development Department: | | | | |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Round 1 | 17.278 | K698367 | \$ 92,157 | — |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Round 1 | 17.278 | K7102038 | 146,908 | — |
| | | | <u>239,065</u> | <u>—</u> |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Layoff Aversion Round 1 | 17.278 | K7102038 | 2,040 | — |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Rapid Response Round 1 | 17.278 | K7102038 | 16,274 | — |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through the City of Los Angeles: | | | | |
| WIA Dislocated Worker Formula Grants – Harbor Worksource Ctr WIA Dislocated Worker | 17.278 | C-126394 | 279,919 | — |
| WIOA Dislocated Worker Formula Grants – Harbor Worksource Ctr Moving Forward Dislocated Worker | 17.278 | C-126164 | 25,971 | — |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker | 17.278 | C-126394 | 77,952 | — |
| WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker | 17.278 | C-127938 | 106,699 | — |
| | | | <u>184,651</u> | <u>—</u> |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through the County of Orange: | | | | |
| WIA/WIOA Dislocated Worker Formula Grants – OCWIB Healthcare Dislocated Worker | 17.278 | 15-28-0010-OS | 30,746 | — |
| WIA/WIOA Dislocated Worker Formula Grants – OCWIB Garden Grove Dislocated Worker | 17.278 | 15-28-0010-OS | 106,188 | — |
| WIA/WIOA Dislocated Worker Formula Grants – OCWIB Veteran's Employment Assistance Program Dislocated Worker 7 | 17.278 | 15-28-0005-VEAP | 87,556 | — |
| WIA/WIOA Dislocated Worker Formula Grants – OCWIB Veteran's Employment Assistance Program Dislocated Worker 8 | 17.278 | 16-28-0005-VEAP | 323 | — |
| Total WIA Dislocated Worker Formula Grants (17.278) | | | <u>2,272,474</u> | <u>—</u> |
| Total WIA cluster (17.258, 17.259, and 17.278) | | | <u>7,069,777</u> | <u>1,183,854</u> |
| Passed through the State of California Employment Development Department: | | | | |
| WIA/WIOA Dislocated Worker National Reserve Demonstration Grants – Youth Demonstration Project | 17.280 | K698367 | 629,096 | — |
| Passed through the State of California Employment Development Department: | | | | |
| Passed through Long Beach Community College District: | | | | |
| Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants – Workreadiness Construction | 17.282 | 99721.2 | 120,000 | — |
| Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants – Links | 17.282 | 99721.5 | 79,625 | — |
| Total Trade Adjustment Assistance Community College and Career Training (TAACCT) Grants (17.282) | | | <u>199,625</u> | <u>—</u> |
| Total Department of Labor | | | <u>8,556,709</u> | <u>1,554,287</u> |
| Department of Transportation: | | | | |
| Direct: | | | | |
| Airport Improvement Program | 20.106 | AIP 3-06-0127-040-2013 | 358,424 | — |
| Airport Improvement Program | 20.106 | AIP 3-06-0127-041-2014 | 5,000,284 | — |
| Airport Improvement Program | 20.106 | AIP 3-06-0127-042-2015 | 3,921,259 | — |
| Airport Improvement Program | 20.106 | AIP 3-06-0127-043-2015 | 629,318 | — |
| Total Airport Improvement Program (20.106) | | | <u>9,909,285</u> | <u>—</u> |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|--|---|--|------------------------------------|---------------------------------|
| Department of Transportation: | | | | |
| Passed through the State of California Department of Transportation: | | | | |
| Highway Planning and Construction | 20.205 | ACNH 7101 (807) | \$ 68,545,122 | — |
| Highway Planning and Construction | 20.205 | BRLS-5108 (137) | 14,547,737 | — |
| Highway Planning and Construction | 20.205 | CML-5108 (125) | 759,000 | — |
| Highway Planning and Construction | 20.205 | CML-5108 (130) | (94,429) | — |
| Highway Planning and Construction | 20.205 | CML-5108 (159) | 3,388 | — |
| Highway Planning and Construction | 20.205 | HPLUL-5108 (126) | 39,731 | — |
| Highway Planning and Construction | 20.205 | HSIPL-5108 (151) | 416,702 | — |
| Highway Planning and Construction | 20.205 | RPSTPL-5108 (154) | 1,700,431 | — |
| Highway Planning and Construction | 20.205 | STPL-5108 (140) | 4,632 | — |
| Highway Planning and Construction | 20.205 | STPL-5108 (144) | 68,777 | — |
| Highway Planning and Construction | 20.205 | STPL-5108 (145) | 8,030 | — |
| Highway Planning and Construction | 20.205 | STPL-5108 (147) | 1,715,877 | — |
| Highway Planning and Construction | 20.205 | STPL-5108 (161) | 156,149 | — |
| Highway Planning and Construction | 20.205 | STPL-5108 (162) | 903,468 | — |
| Highway Planning and Construction | 20.205 | STPL-5108 (163) | 50,557 | — |
| Total Highway Planning and Construction Programs (20.205) | | | 88,825,172 | — |
| Passed through the State of California Department of Transportation: | | | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated – Bicycle Safety Initiative (OTS) | 20.600 | PS1706 | 143,989 | 24,998 |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.600 | PT1663 | 151,449 | — |
| Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated (20.600) | | | 295,438 | 24,998 |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | PT1664 | 131,339 | — |
| Total Highway Safety Cluster (20.600 and 20.608) | | | 426,777 | 24,998 |
| Total Department of Transportation | | | 99,161,234 | 24,998 |
| Environmental Protection Agency: | | | | |
| Passed through the State of California Department of Health Services: | | | | |
| Beach Monitoring and Notification Program Implementation | 66.472 | D1514103 | 39,981 | — |
| Direct: | | | | |
| ARRA – Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements | 66.802 | V-99T06101-0 | 2,566 | — |
| Total Environmental Protection Agency | | | 42,547 | — |
| Department of Health and Human Services: | | | | |
| Passed through the State of California Department of Health Services: | | | | |
| Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services | 93.043 | 15-10831 | 40,847 | — |
| Passed through the County of Los Angeles: | | | | |
| Public Health Emergency Preparedness | 93.069 | PH-002224 | 880,125 | — |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|--|---|--|------------------------------------|---------------------------------|
| Department of Health and Human Services: | | | | |
| Direct: | | | | |
| Healthy Marriage Promotion and Responsible Fatherhood Grants | 93.086 | 90FK0112-01-00 | \$ 277,266 | 143,694 |
| Healthy Marriage Promotion and Responsible Fatherhood Grants | 93.086 | 90FK0112-02-00 | 786 | — |
| Total Healthy Marriage Promotion and Responsible Fatherhood Grants (93.086) | | | 278,052 | 143,694 |
| Passed through the State of California Department of Health Services: | | | | |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | MOU | 98,847 | |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | N/A | 32,020 | |
| Total Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116) | | | 130,867 | — |
| Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | 93.197 | 14-10023 | 292,877 | — |
| Immunization Cooperative Agreements | 93.268 | 15-10428 | 232,976 | — |
| Passed through the State of California Department of Health Services: | | | | |
| State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges | 93.525 | 14-N-15 | 22,438 | — |
| State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges | 93.525 | 15-N-11 | 120,935 | — |
| Total State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (93.525) | | | 143,373 | — |
| Passed through the County of Los Angeles: | | | | |
| Promoting Safe and Stable Families | 93.556 | 04-025-14 | 113,316 | 15,620 |
| Promoting Safe and Stable Families | 93.556 | 05-027-10 | 48,975 | 6,942 |
| Promoting Safe and Stable Families | 93.556 | 05-028-5 | 85,706 | 12,149 |
| Total Promoting Safe and Stable Families (93.556) | | | 247,997 | 34,711 |
| Passed through the State of California Department of Health Services: | | | | |
| Passed through the County of Los Angeles Department of Public Social Services: | | | | |
| Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – CALWORKS | 93.558 | IA0114 | 149,300 | — |
| Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – FOSTER | 93.558 | IA0114 | 21,529 | — |
| Passed through the State of California Department of Health Services: | | | | |
| Passed through the County of Orange: | | | | |
| Temporary Assistance for Needy Families – SSA Work Experience EPP Services | 93.558 | 15-28-0010-OS | 148,475 | — |
| Temporary Assistance for Needy Families – SSA Work Experience WEX Services | 93.558 | 15-28-0010-OS | 61,282 | — |
| Passed through the State of California Department of Health Services: | | | | |
| Passed through the County of Los Angeles Department of Public Social Services: | | | | |
| Passed through the City of Hawthorne/South Bay Workforce Investment Board: | | | | |
| Temporary Assistance for Needy Families – Calworks Transitional Subsidized Emp Pro | 93.558 | H1372 | 18 | — |
| Temporary Assistance for Needy Families – Calworks Transitional Subsidized Emp Pro | 93.558 | 13-W180 | 50,100 | — |
| | | | 50,118 | — |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|---|---|--|------------------------------------|---------------------------------|
| Department of Health and Human Services: | | | | |
| Passed through the City of Inglewood/South Bay Workforce Investment Board: | | | | |
| Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – CALWORKS | 93.558 | IA0615 | \$ 312,974 | — |
| Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – FOSTER | 93.558 | IA0615 | 46,842 | — |
| Total TANF Cluster (93.558) | | | 790,520 | — |
| Passed through the State of California Department of Health Services: | | | | |
| Medical Assistance Program – Childhood Health and Disability | 93.778 | V#002713-00 | 497,737 | — |
| Medical Assistance Program – Medical Gateway | 93.778 | V#002713-00 | 1,874 | — |
| Medical Assistance Program – MAA/ TCM Administration | 93.778 | 14-90021 | 43,718 | — |
| Medical Assistance Program – Nursing MAA Claiming | 93.778 | 09-86022-A01 | (8) | — |
| Medical Assistance Program – Nursing MAA Claiming | 93.778 | 14-90021 | 15,327 | — |
| | | | 15,319 | — |
| Medical Assistance Program – Nursing TCM Claiming | 93.778 | 61-1318 | (5,932) | — |
| Medical Assistance Program – Nursing TCM Claiming | 93.778 | 61-1318A | 95,787 | — |
| | | | 89,855 | — |
| Total Medical Assistance Program (93.778) | | | 648,503 | — |
| Passed through the County of Los Angeles: | | | | |
| HIV Emergency Relief Project Grants – AIDS EIP Outpatient Medical | 93.914 | PH-002425-2 | 53,231 | — |
| HIV Emergency Relief Project Grants – AIDS EIP Outpatient Medical | 93.914 | PH-002425-3 | 60,845 | — |
| | | | 114,076 | — |
| HIV Emergency Relief Project Grants – AIDS/HIV Benefits Specialty | 93.914 | PH-002900 | 93,547 | — |
| HIV Emergency Relief Project Grants – Medical Care Coordination | 93.914 | PH-002431-1 | 181,713 | — |
| HIV Emergency Relief Project Grants – Medical Care Coordination | 93.914 | PH-002431-2 | 211,578 | — |
| | | | 393,291 | — |
| Total HIV Emergency Relief Project Grants (93.914) | | | 600,914 | — |
| Passed through the State of California Department of Health Services: | | | | |
| HIV Prevention Activities – Health Department Based | 93.917 | 13-20055 | 551,178 | — |
| HIV Prevention Activities – Health Department Based | 93.917 | 15-11059 | 634,015 | — |
| | | | 1,185,193 | — |
| HIV Prevention Activities – Health Department Based – Outreach/Prevention for HIV Positive (Bridge) | 93.917 | 13-20055 | 78,742 | — |
| HIV Prevention Activities – Health Department Based – Outreach/Prevention for HIV Positive (Bridge) | 93.917 | 15-11059 | 68,280 | — |
| | | | 147,022 | — |
| Total HIV Prevention Activities (93.917) | | | 1,332,215 | — |

CITY OF LONG BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|--|---|--|------------------------------------|---------------------------------|
| Department of Health and Human Services: | | | | |
| Passed through the State of California Department of Health Services: | | | | |
| HIV Prevention Activities – Health Department Based – Counseling and Testing | 93.940 | 14-10964 | \$ 780,923 | — |
| Passed through the State of California Department of Health Services: | | | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 201460 | (1) | — |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 201560 | 152,048 | — |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 201660 | 101,344 | — |
| | | | <u>253,391</u> | — |
| Maternal and Child Health Services Block Grant to the States – Black Infant Health | 93.994 | 201560 | 225,884 | — |
| Maternal and Child Health Services Block Grant to the States – Black Infant Health | 93.994 | 201660 | 87,487 | — |
| | | | <u>313,371</u> | — |
| Total Maternal and Child Health Services Block Grant to the States (93.994) | | | <u>566,762</u> | — |
| Total Department of Health and Human Services | | | <u>6,966,951</u> | <u>178,405</u> |
| Department of Homeland Security: | | | | |
| Passed through United Way of Greater Los Angeles: | | | | |
| Emergency Food and Shelter National Board Program | 97.024 | N/A | 6,132 | — |
| Passed through the State of California – California Office of Emergency Services: | | | | |
| Passed through the County of Los Angeles: | | | | |
| Emergency Management Performance Grant | 97.042 | 2015-0049 | 78,659 | — |
| Direct: | | | | |
| Port Security Grant Program | 97.056 | EMW-2013-PU-0096 | (66,198) | — |
| Port Security Grant Program | 97.056 | EMW-2013-PU-00250 | (3,066) | — |
| Port Security Grant Program | 97.056 | EMW-2013-PU-00522 | 978,781 | — |
| Port Security Grant Program | 97.056 | EMW-2014-PU-00210 | 2,352,857 | — |
| Port Security Grant Program | 97.056 | EMW-2014-PU-00375 | 624,152 | — |
| Port Security Grant Program | 97.056 | EMW-2014-PU-00623 | 109,756 | — |
| Port Security Grant Program | 97.056 | EMW-2015-PU-00239 | 694,850 | — |
| Port Security Grant Program | 97.056 | EMW-2015-PU-00529 | 144,051 | — |
| Total Port Security Grant Program (97.056) | | | <u>4,835,183</u> | — |
| Passed through the State of California – California Office of Emergency Services: | | | | |
| Passed through the County of Los Angeles: | | | | |
| Homeland Security Grant Program | 97.067 | 2014-00093 | (4,013) | — |
| Homeland Security Grant Program | 97.067 | 2015-00078 | 113,077 | — |
| | | | <u>109,064</u> | — |

CITY OF LONG BEACH, CALIFORNIA
 Schedule of Expenditures of Federal Awards
 Year ended September 30, 2016

| Federal grantor/pass-through agency/program title | Catalog of federal domestic assistance number | Federal grantor/pass-through entity identifying number | Federal disbursements/expenditures | Passed through to subrecipients |
|--|---|--|------------------------------------|---------------------------------|
| Department of Homeland Security: | | | | |
| Passed through the State of California – California Office of Emergency Services: | | | | |
| Passed through the City of Los Angeles: | | | | |
| Homeland Security Grant Program – UASI | 97.067 | 2013-00110 | \$ 396 | — |
| Homeland Security Grant Program – UASI | 97.067 | 2014-00093 | 4,572,816 | — |
| Homeland Security Grant Program – UASI | 97.067 | 2015-00078 | 726,826 | — |
| | | | <u>5,300,038</u> | — |
| Total Homeland Security Grant Program (97.067) | | | 5,409,102 | — |
| Passed through the City of Los Angeles: | | | | |
| Securing the Cities Program | 97.106 | C-124773 | 46,016 | — |
| Total Department of Homeland Security | | | <u>10,375,092</u> | — |
| Total Federal Expenditures | | | <u>\$ 307,268,693</u> | <u>9,363,238</u> |

See accompanying notes to schedule of expenditures of federal awards and the Independent Auditors' Report on Federal Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.

CITY OF LONG BEACH, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2016

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal financial assistance programs of the City of Long Beach, California (the City). All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through to the City by other government agencies, has been included in the accompanying Schedule. The Schedule does not include federal expenditures of \$11,576,501 for the year ended September 30, 2016 of the Long Beach Transportation Company (LBTC), a discretely presented component unit of the City, as LBTC engaged other auditors to perform audits in accordance with the Uniform Guidance. The City's reporting entity is defined in note 1 to the City's basic financial statements.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Relationship to Federal Financial Reports

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

(4) Community-Based Loan Programs with Continuing Compliance

The City considers loans advanced to eligible participants for the Community Development Block /Grant Entitlement Grants (CDBG) and the Home Investment Partnerships Program (HOME) to have continuing compliance requirements. As such, the amounts reported in the accompanying Schedule for the CDBG and HOME programs include current year disbursements as well as the balance as of the beginning of the year of loans with continuing compliance requirements.

As of September 30, 2016 and 2015, the balance of loans with continuing compliance requirements for the HOME programs was \$66,120,964 and \$67,274,448, respectively.

As of September 30, 2016 and 2015, the balance of loans with continuing compliance requirements for the CDBG programs was \$3,720,935 and \$4,002,137, respectively.

(5) Food Instruments/Vouchers

Food instruments/vouchers expenditures represent the estimated value of the Special Supplemental Nutrition Program for Women, Infants, and Children food instruments as communicated by the State Department of Health Services distributed during the year. The food instruments/vouchers totaled \$14,557,839 but do not represent cash expenditures in the City's basic financial statements for the year ended September 30, 2016.

(6) Indirect Cost Rate

The City did not elect to use the 10% de minimis indirect cost rate as discussed in the Uniform Guidance Section 200.414. For the sponsored programs where the City claims indirect costs, the City's internal indirect cost rate is used.

CITY OF LONG BEACH, CALIFORNIA
Summary of Findings and Questioned Costs
Year ended September 30, 2016

(1) Summary of Auditors' Results

Basic Financial Statements

- (a) The type of report on whether the basic financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control over financial reporting:
- Material weakness(es) identified: **No**
 - Significant deficiencies identified that are not considered to be material weaknesses: **Yes, see item 2016-001**
- (c) Noncompliance that is material to the basic financial statements: **No**

Federal Awards

- (d) Internal control over major programs:
- Material weaknesses identified: **No**
 - Significant deficiencies identified that are not considered to be material weaknesses: **Yes, see 2016-002**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516 (a): **No**
- (g) Major programs:
- Section 8 Housing Choice Vouchers, CFDA number 14.871
 - Community Economic Adjustment Assistance for Reductions in Defense Industry Employment, CFDA number 12.611
 - Airport Improvement Program, CFDA number 20.106
 - Homeland Security Grant Program, CFDA number 97.067
 - WIA/WIOA Cluster, CFDA numbers 17.258, 17.259 and 17.278
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Responses

Year ended September 30, 2016

(1) Financial Statement Findings Section

Item 2016-001

Capital Grant Revenue

Condition and Context

During our audit procedures over capital grants, we noted that the Harbor Department of the City of Long Beach (the Department) recognized approximately \$28.7 million in nonoperating capital grant revenue during the year ended September 30, 2016, related to capital asset expenditures that were made during the year ended September 30, 2015. Expenditures made by the Department for the related capital asset projects are being reimbursed through contracts held with state and federal agencies.

Criteria

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

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

Based on our testwork, the \$28.7 million in allowable costs identified were incurred and eligible for reimbursement and revenue recognition during fiscal year 2015, as all of the above requirements were satisfied by the Department when the allowable costs were incurred for the reimbursable construction activities in 2015.

Cause and Possible Asserted Effect

The Department did not have a process in place to recognize nonoperating capital grant revenue in the proper financial reporting period for allowable costs eligible for grant reimbursements by the Department. As a result of this deficiency, nonoperating capital grant revenue earned in fiscal year 2015 was recognized in fiscal year 2016.

Recommendation

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

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Responses

Year ended September 30, 2016

View of Responsible Officials

We agree with the comment and recommendation. The Department made several improvements in grant accounting during fiscal year 2016. A revenue recognition policy was drafted and a monthly grant revenue recognition process has been put in place. Due to a modification of eligible expenditure categories in fiscal year 2013, the Department was required to amend the grant agreement with the grantor. As a result of this delay, \$28.7 million of Nonoperating capital grant earned in fiscal year 2015 was recognized in fiscal year 2016. All allowable expenditures incurred in fiscal year 2016 were both billed timely and recognized as revenue in the proper accounting period. A procedure manual for a detailed cut-off analysis for eligible grant expenditures at year-end will be developed in fiscal year 2017.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Responses

Year ended September 30, 2016

(2) Federal Award Findings and Questioned Cost Section

Finding Reference: 2016- 002

Type of Finding: Reporting
Significant Deficiency

Program Information

Federal Catalog Number: 17.258, 17.259, and 17.278

Federal Program Name: Workforce Investment Act/ Workforce Innovation and Opportunity Act (WIA/WIOA)
Cluster

Federal Grant Award Numbers: C-124397
C-126394
C-127938
C-126164
K491023
K594766
K698367
K7102038
15-28-0010-OS
15-28-0005-VEAP
16-28-0005-VEAP

Federal Agency: Department of Labor

Pass-Through Agency: State of California Employment Development Department

Criteria

Employment Development Department, State of California Workforce Services Directive Number WSD16-13; Monthly and Quarterly Financial Reporting Requirements

Federal regulations require that the state submit accurate financial reports to DOL on a quarterly basis. Therefore, the state requires sub recipients to submit financial reports on a monthly and quarterly basis in the CalJOBS system. Youth, Adult and Dislocated Worker formula expenditures must be reported quarterly. Expenditures for all other funds are required to be reported monthly. Sub recipients must submit their monthly and quarterly expenditure reports in the CalJOBS system by the 20th of the month following the end of each reporting period.

Section 200.303 of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) indicates that the nonfederal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

CITY OF LONG BEACH, CALIFORNIA

Schedule of Findings and Responses

Year ended September 30, 2016

In order for the City to ensure compliance with the reporting requirements noted above, a management review control has been established whereas the reports are reviewed before submission to the State of California through the CalJOBS system. The performance of the management review control is to be evidenced by signature or via email approval.

Condition and Context

In our testing of the operating effectiveness of the management review control over financial reporting, we selected 28 reports to ensure proper review over the reports occurred before the reports were submitted. In 15 of the 28 reports, we were unable to obtain evidence that a review occurred prior to submission.

Repeat Finding

The finding is not a repeat finding from the prior year.

Sampling Approach

The sample was not intended to be, and was not, a statistically valid sample.

Systemic or Isolated

Systemic to program noted above.

Questioned Costs

None noted.

Cause and Possible Asserted Effect

Management has indicated that this was attributed to a lack of actual signature but that the reports were reviewed prior to submission. As a result, we were unable to verify that the control was operating effectively. We did note that, during our compliance testwork performed, we performed tests to ensure the reports were complete and accurate, of which there were no compliance findings related to this requirement.

Recommendation

We recommend that management enhance current policies to ensure that there is evidence of review prior to submission to ensure the reports reflect complete and accurate data prior to submission to the State of California.

Views of Responsible Officials and Planned Corrective Action

To establish and maintain effective internal control over the federal award, the Workforce Development Bureau has strengthened its internal controls to include a signature and date, or email of approval for the amount to be reported, prior to reporting for the Federal award. This will provide documented evidence establishing effective internal control over the federal award and provide reasonable assurance of managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.



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

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

Ladies and Gentlemen:

We have audited the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City) as of and for the year ended September 30, 2016, and have issued our report thereon dated March 27, 2017. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the discretely presented component unit, is based solely on the report of the other auditor. We also issued separate audit reports for the City's Harbor and Water departments.

Under our professional standards, we are providing you with the accompanying information related to the conduct of our audits.

Our Responsibility under Professional Standards

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

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

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of City Council in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.



City Council
City of Long Beach, California
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Other Information in Documents Containing Audited Financial Statements

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

Accounting Practices and Alternative Treatments

Significant Accounting Policies

Significant accounting policies used by the City are described in note 2 to the City's financial statements. As described in note 2, in fiscal 2016, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 62, No. 72, *Fair Value Measurement and Application*, as well as GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Large or Unusual Transactions

During fiscal 2016, the City and the Harbor Department entered into a multiparty Public-Private Partnership agreement with an unrelated third party that will result in the construction of a new City Hall building, a new headquarters building for the Harbor Department, a new Main Library, and a revitalized Lincoln Park, collectively referred to as the Project. The Project is scheduled to be completed in June 2019, except for Lincoln Park that is scheduled for June 2020. Upon occupancy of the Project, the Harbor Department will be required to make a onetime payment of \$212.6 million and the City will be required to begin payment on a series of predetermined payments over the next 40 years. For accounting purposes, due to the build-to-suit nature of the agreement coupled with the Project being constructed on City and Harbor Department owned land, the City and the Harbor Department are deemed to be the owners of the Project during construction. Accordingly, at September 30, 2016, the City has recorded a construction in progress of \$42.0 million and a long-term liability of \$41.0 million for its share of construction contract costs to date. The Harbor Department has recorded construction in progress and a corresponding long-term obligation of \$49.1 million for its share of construction contract costs to date.

Qualitative Aspects of Accounting Practices

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

Management Judgments and Accounting Estimates

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



City Council
City of Long Beach, California
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Management's estimate of the allowance for uncollectible accounts is based on relevant historical data and the City's policy in which all accounts aged greater than a specified period are reserved. Management's estimates for workers' compensation, pension liabilities, other postemployment benefits, and general liabilities are based on historical data and other relevant factors to arrive at the actuarial determined estimated liabilities. Environmental remediation liabilities recorded by the Harbor Department are based on various vendor bids on the cost to perform the necessary site cleanup. Estimated oil field abandonment liabilities are based on the total number of wells mined by the City as well as the estimated cost per well based on historical estimates. Management's estimates of derivative instrument values are based on various cash flow projections including the future value of natural gas and interest rates.

Uncorrected and Corrected Misstatements

Uncorrected Misstatements

In connection with our audit of the City's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the City's books and records as of and for the year ended September 30, 2016. We have reported such misstatements to management on a Summary of Audit Misstatements by opinion unit and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

Disagreements with Management

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

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2016.

Significant Issues Discussed, or Subject to Correspondence, with Management

Material Written Communications

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

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

Significant Difficulties Encountered during the Audit

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



City Council
City of Long Beach, California
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Other Reports

In connection with our audit of the City's financial statements, we also issued a report dated March 27, 2017, on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* (GAS Report). The GAS Report identified a deficiency in internal control over the reporting of capital grant revenue asset expenditures at the Harbor Department that we considered to be a significant deficiency.

We also audited the City's federal awards for the year ended September 30, 2016, in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and issued a report dated June 19, 2017, on compliance for each major federal program, internal control over compliance, and on the schedules of expenditures of federal awards (Uniform Guidance Report). The Uniform Guidance Report expressed unmodified opinions on the City's major federal programs and identified a deficiency in internal control over monthly and quarterly financial reporting requirements of the Workforce Investment Act/Workforce Innovation and Opportunity Act (WIA/WIOA) Cluster that we considered to be a significant deficiency.

The GAS and Uniform Guidance Reports were provided to you under separate cover.

* * * * *

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

Very truly yours,

KPMG LLP

Los Angeles, California
July 14, 2017



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Boston, MA 02111
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Fax +1 617 507 8321
Internet www.kpmg.com/us

August 8, 2016

City of Long Beach
333 West Ocean Boulevard, 8th Floor
Long Beach, California 90802

Attention: Laura Doud, *City Auditor*

This letter (the Engagement Letter) is incorporated by reference to the agreement between the City of Long Beach (the City) and KPMG LLP dated June 28, 2016, the second amendment to agreement No. 33203 (the Agreement) and confirms our understanding of our engagement to provide professional services to the City of Long Beach, California (the City). The Engagement Letter and the Agreement, including all Exhibits, constitutes the entire understanding between the parties and supersedes all other agreements, oral or written, with respect to the subject matter in this Engagement Letter and Agreement. The parties agree that in the event of a conflict between Agreement and the Engagement Letter, the Agreement shall take precedence, except to the extent that the Agreement conflicts with applicable professional standards.

Objectives and Limitations of Services

Financial Statement Audit Services

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud, to provide a



City of Long Beach
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reasonable basis for our opinion on the financial statements. We also will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements will be planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to detect abuse.

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

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

Internal Control over Financial Reporting and Compliance and Other Matters

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

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

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



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statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include instances of:

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

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

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

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

Uniform Guidance Audit Services

We will also perform audit procedures with respect to the City's major federal programs in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("the Uniform Guidance"). The Uniform Guidance includes specific audit requirements, mainly in the areas of internal control and compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the City's major federal programs that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of the Uniform Guidance, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the City's major federal programs. The tests of internal control performed in accordance with the Uniform Guidance are less in scope than would be necessary to render an opinion on internal control.

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

- Identifying the City's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the City administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the City's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.



City of Long Beach
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We will perform tests of the City's compliance with federal statutes, regulations, and the terms and conditions of federal awards we determine to be necessary based on the *OMB Compliance Supplement*. The procedures outlined in the *OMB Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by the Uniform Guidance, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the City's financial statements. In addition, we will prepare a written report (single audit report) which 1) provides our opinion on the City's compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major federal programs and 2) communicates our consideration of internal control over major federal programs. The single audit report will describe its purpose and will state that it is not suitable for any other purpose.

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

Offering Documents

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

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

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

Our Responsibility to Communicate with the City Council

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

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditor's report, and the effect of uncorrected misstatements related to prior periods.



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- Significant difficulties and disagreements with management, if any, encountered during our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

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

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

Management Responsibilities

The management of the City acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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



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In addition to the Uniform Guidance requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, the Uniform Guidance also requires the City to prepare a:

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

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

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

To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2016.

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

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

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

Dispute Resolution

Dispute Resolution is governed by the Agreement 33203 and all related amendments.

Other Matters

In the event that any term or provision of this Engagement Letter or the Agreement shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality



City of Long Beach
August 8, 2016
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of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

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

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

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

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

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

Except as otherwise provided for in this Engagement Letter or the Agreement, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement Letter and the Agreement (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

The audit documentation for this engagement is the property of KPMG. If KPMG receives a subpoena; other validly issued administrative, judicial, government or investigative regulatory demand or request; or other legal process requiring it to disclose the City's confidential information ("Legal Demand"), KPMG shall, unless prohibited by law or such Legal Demand, provide prompt written notice to the City of such Legal Demand in order to permit it to seek a protective order. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is requested or authorized by the City, or is



City of Long Beach
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required by law, rule, regulation or Legal Demand in a proceeding or investigation to which KPMG is not a named party or respondent, to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the service under the Engagement Letter available to a third party, or the City, the City shall reimburse KPMG for its professional time, at its then-current standard hourly rates, and expenses, including reasonable attorneys' fees and expenses, incurred in producing documents or personnel or providing information pursuant to such requests, authorizations or requirements.

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

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

Additional Reports and Fees for Services

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

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

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

This Engagement Letter and the Agreement, including any exhibits, attachments and appendices hereto, and amendments thereto agreed in writing by the parties, shall constitute the entire agreement between KPMG and Regulators with respect to the subject matter hereof and thereof, and supersede all other previous oral and written representations, understandings or agreements relating to the subject matter of this agreement.



City of Long Beach
August 8, 2016
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We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

N. Brock Romano
Partner

Enclosures

NBR:bw:md

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

ACCEPTED

City of Long Beach

Authorized Signature

City Auditor

Title

Date

Fees for Services

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

| | |
|--|-----------|
| Audit of financial statements and related notes to the financial statements of the City of Long Beach as of and for the years ended September 30, 2016 (CAFR)* | \$460,440 |
|--|-----------|

Other Reports:

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

| Report | Fee |
|---|-----------|
| Reports issued in connection with the Uniform Guidance** | \$148,085 |
| Schedule of Passenger Facility Charges, Revenues and Expenses of the City of Long Beach Airport | \$ 20,355 |
| Harbor Department financial statements | \$130,575 |
| Water Department financial statements | \$ 58,785 |

Note: Audit services, if any, for the Aquarium of the Pacific Corporation will be performed in accordance with separate agreement(s).

* The estimated fees for the audit of the City's financial statements assumes the City Auditor or another firm will continue to perform the cash and investment testwork they performed in fiscal 2015.

**The fee estimate for the single audit is based on the assumption that no more than 6 major programs will be required to be audited for fiscal 2016. An additional fee of \$26,655 will be billed for each additional program required to be audited.

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

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



System Review Report

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

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

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

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

PricewaterhouseCoopers LLP

December 5, 2014

OFFICE OF THE CITY ATTORNEY
CHARLES PARKIN, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

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SECOND AMENDMENT TO AGREEMENT NO. 33203

THIS SECOND AMENDMENT TO AGREEMENT NO. 33203 is made and entered, in duplicate, as of June 28, 2016, for reference purposes only, pursuant to a minute order adopted by the City Council of the City of Long Beach at its meeting on July 16, 2013, by and between KPMG LLP, a Delaware limited liability partnership ("Consultant"), with a place of business at 20 Pacifica, Suite 700, Irvine, CA 92618-3391, and the CITY OF LONG BEACH, a municipal corporation ("City").

WHEREAS, City requires specialized services requiring unique skills to be performed in connection with its annual financial audits, including the audit of the Comprehensive Annual Financial Report ("CAFR"); and

WHEREAS, City and Consultant entered Agreement No. 33203 (the "Agreement") whereby Consultant agreed to provide such services; and

WHEREAS, City and Consultant entered the First Amendment to the Agreement to amend the payment of various programs and extend the term; and

WHEREAS, the parties desire to amend various terms and exercise their second and final option to extend the term;

NOW, THEREFORE, in consideration of the mutual terms, covenants, and conditions in this Agreement, the parties agree as follows:

1. Section 1.B is added to the Agreement to read as follows:
"B. Contract Deliverables. In order to endure the timeliness of deliverables, prior to September 30, 2016, the parties shall establish a communication process that involves both written and verbal status updates. At a minimum, Consultant shall inform City monthly of projected deadlines, delivery dates and any other significant information which may affect the delivery of work and services under this Agreement."

2. Section 2 of the Agreement is hereby amended to read as follows:

"2. PAYMENT. City shall pay Consultant a sum not to exceed Eight Hundred Eighteen Thousand Two Hundred Forty Dollars (\$818,240) for CAFR, Harbor

1 Department, Water Department, Airport Passenger Facility Charges, and Single Audit
2 services defined in Section 1 of the Agreement pertaining to fiscal year 2016, based on
3 the annual adjustment computed using the Consumer Price Index as shown in Section
4 2.C of the Agreement. The total costs are based on the A-133 audit covering six (6)
5 Programs. Each additional Program will be charged at Twenty-Six Thousand Six
6 Hundred Fifty-Five Dollars (\$26,655). The City shall have the option to elect additional
7 work, no later than August 31, 2016 unless mutually agreed upon to a later date, for the
8 Aquarium of the Pacific services defined in Section 1 of the Agreement pertaining to fiscal
9 year 2016, based on annual adjustment computed using the Consumer Price Index as
10 shown in Section 2.C of the Agreement, for a sum not to exceed Fifty-Five Thousand Six
11 Hundred Sixty Dollars (\$55,660). The total contract shall not exceed Eight Hundred
12 Seventy Three Thousand Nine Hundred Dollars (\$873,900).”

13 3. Section 3 of the Agreement is hereby amended to read as follows:

14 “3. TERM. The term of this Agreement shall commence at midnight on
15 July 1, 2013, and shall terminate at 11:59 p.m. on June 30, 2017, unless sooner
16 terminated as provided in this Agreement, or unless the services or the Project is
17 completed sooner.”

18 3. Except as expressly amended in this Second Amendment, all terms
19 and conditions in Agreement No. 33203 are ratified and confirmed and shall remain in full
20 force and effect.

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OFFICE OF THE CITY ATTORNEY
CHARLES PARKIN, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

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

3 KPMG LLP, a Delaware limited liability
4 partnership

5 July 18, 2016

By M. Brock Romano
6 Name M. Brock Romano
7 Title Partner

8 _____, 2016

By _____
9 Name _____
10 Title _____

11 "Consultant"

12 CITY OF LONG BEACH, a municipal
13 corporation

14 July 25, 2016

By RB EXECUTED PURSUANT
15 TO SECTION 301 OF
16 City Manager THE CITY CHARTER.

17 "City" Assistant City Manager

18 This Second Amendment to Agreement No. 33203 is approved as to form
19 on July 11, 2016.

20 CHARLES PARKIN, City Attorney

By Charles Parkin
21 Deputy



CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

333 West Ocean Boulevard • Long Beach, CA 90802 • (562) 570-6711 • Fax (562) 570-6583

PATRICK H. WEST
CITY MANAGER

March 27, 2017

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

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the related notes to the financial statements, of the City of Long Beach, California, (the City) as of and for the year ended September 30, 2016, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in accordance with U.S. generally accepted accounting principles.

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

We confirm, to the best of our knowledge and belief, as of March 27, 2017, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 8, 2016, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of the meetings of City Council, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. Except as disclosed to you in writing, there have been no:
 - a. Circumstances that have resulted in communications from the City's legal counsel to the City reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the City or any agent thereof.

- b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
 - c. False statements affecting the City's financial statements made to the City's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.
4. There are no:
- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
 - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
 - e. Side agreements or other arrangements (either written or oral) that have not been disclosed to you.
 - f. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
6. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedules are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent, deter, and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the City's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the City's financial statements involving:
- a. Management

- b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, regulators, or others.
 12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
 13. We have no knowledge of any officer or City Council member of the City, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
 14. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.
 - d. Agreements to repurchase assets previously sold, including sales with recourse.
 - e. Changes in accounting principle affecting consistency.
 - f. The existence of and transactions with joint ventures and other related organizations.
 15. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
 16. The City has complied with all aspects of laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 17. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the City. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
 18. The City's reporting entity includes all entities that are component units of the City. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the City holds an equity interest have been properly recorded on the statement of net position. The financial statements disclose all other joint ventures and other related organizations.
 19. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type. Definitions*.
 20. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
 21. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 22. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.

23. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
24. Deposits and investment securities are properly classified and reported.
25. We are responsible for making the fair value measurements and disclosures included in the financial statements in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, including determining the fair value of assets and liabilities for which there has been a significant decrease in the volume and level of activity in relation to the normal market activity for those assets or liabilities (or similar assets or liabilities), or for which transactions are deemed not orderly. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, in accordance with the fair value techniques included in GASB 72, considered the appropriateness of valuation techniques, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with U.S. generally accepted accounting principles, including the disclosure requirements of GASB 72. We believe the assumptions and techniques used by us, including those used by specialists engaged by us, are in accordance with the definition of fair value in GASB 72 and the disclosures adequately describe the level of the inputs used in the fair value measurement, in accordance with the fair value hierarchy in GASB 72.
26. The City has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The City complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the City has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
27. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
 - a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
28. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
29. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
30. The City has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.
31. The City has no:
 - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
 - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.
 - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.


32. The City has complied with all tax and debt limits and with all debt related covenants.
33. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
34. We believe the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with other post-employment benefits, and to determine information related to the City's funding progress related to such benefits for financial reporting purposes, are appropriate in the City's circumstances, and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
35. For each defined benefit OPEB plan in which the City is a participating employer:
 - a. The net OPEB liability, related deferred outflows of resources, deferred inflows of resources, and OPEB expense has been properly measured and recorded as of the measurement date in accordance with the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
 - b. All relevant plan provisions in force as of the measurement date have been properly reflected in the measurement of the net OPEB liability and OPEB expense.
 - c. We believe the actuarial assumptions and methods used to measure the net OPEB liability and OPEB expense are appropriate in the circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
 - d. The participants' data provided to the actuary for purpose of determining the net OPEB liability and OPEB expense is accurate and complete.
 - e. The total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been properly allocated to proprietary and fiduciary funds based on each fund's direct and indirect (for example, through a fringe benefit cost recovery rate) payment of employer contributions relative to total employer contributions of the City as a whole.
36. For each defined benefit pension plan in which the City is a participating employer:
 - a. The net pension liability, related deferred outflows of resources, deferred inflows of resources, and pension expense has been properly measured and recorded as of the measurement date in accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.
 - b. All relevant plan provisions in force as of the measurement date have been properly reflected in the measurement of the net pension liability and pension expense.
 - c. We believe the actuarial assumptions and methods used to measure the net pension liability and pension expense are appropriate in the circumstances, and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
 - d. The participants' data provided to the actuary for purpose of determining the net pension liability and pension expense is accurate and complete.
 - e. The basis for our proportion of the collective pension amounts is appropriate and consistent with the manner in which contributions to the pension plan are determined.
 - f. The net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense have been properly allocated to proprietary and fiduciary funds based on each fund's direct and indirect (for example, through a fringe benefit cost recovery rate) payment of employer contributions relative to total employer contributions of the City as a whole.

37. Provision has been made in the financial statements for the City's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.
38. The City has identified, and properly accounted for, and presented all deferred outflows of resources and deferred inflows of resources.
39. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (non-spendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
40. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
41. The City has identified and properly accounted for all nonexchange transactions.
42. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
43. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with US generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the City's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements, and our assessment of internal control over financial reporting, is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.
44. We agree with the findings of specialists in evaluating the describe assertion and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
45. We acknowledge our responsibility for the presentation of the supplementary information, which includes the additional financial section and other supplementary information, in accordance with the applicable criteria and:
 - a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria.
 - b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period; *and*
 - c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
46. We acknowledge our responsibility for the presentation of the required supplementary information which includes, management's discussion and analysis, budgetary comparison information, and the schedules listed under Required Supplementary Information in the table of contents, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
 - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.

- b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
 - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
47. The City has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
 48. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
 49. KPMG LLP assisted management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we confirm that we have reviewed, approved, and accept responsibility for the financial statements and notes.
 50. At September 30, 2016, the value of work performed on the new Civic Center and Port Administration Building are approximately 20% of the expected project cost.

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

Respectfully submitted,



PATRICK H. WEST
CITY MANAGER



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

City of Long Beach
 Government Activities
 Summary of Uncorrected Audit Misstatements
 9/30/2016

Amounts in dollars
 Method Used to Quantify Audit Misstatements Rollover
 Final Materiality 34,000,000
 Final AMPT 1,700,000

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

| Correcting Entry Required at Current Period End | | | | | | Income Statement Effect - Debit(Credit) | | | Balance Sheet Effect - Debit (Credit) | | | | | | | |
|---|-----------------------------|----------------------|---|------------|--------------|--|--|---|---------------------------------------|----------------|-------------------|-------------------|---------------------|------------------------|----------------------------|------|
| ID | Description of misstatement | Type of misstatement | Accounts | Debit | (Credit) | Income effect of correcting the balance sheet in prior period (carryforward from prior period) | Income effect of correcting the current period balance sheet | Income effect according to Rollover (Income Statement) method | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Deferred Inflows | |
| | | | | A | | B | C=A (Only Income Statement accounts) | C-B | | | | | | | | |
| AD <2> | Effective Interest Rate | Factual | Unamortized Bond premium/discount Interest Expense | 4,548,698 | (4,548,698) | | (4,548,698) | (4,548,698) | | | | | | | 4,548,698 | |
| AD <4> | Police and Fire Annuities | Factual | Other long term liabilities Net Pension Liability | 10,574,000 | (10,574,000) | | | | | | | | | | 10,574,000 (10,574,000) | |
| Aggregate of uncorrected audit differences (before tax) | | | | | | - | - | (4,548,698) | - | - | - | - | - | - | 4,548,698 | - |
| Tax effect of uncorrected audit differences | | | | | | | | - | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Aggregate of uncorrected audit differences (after tax) | | | | | | | | (4,548,698) | | | | | | | 4,548,698 | |
| Financial statement amounts (per final financial statements) | | | | | | | | | 129,403,000 | 470,531,000 | 1,296,961,000 | 264,237,000 | 190,308,000 | 1,537,565,000 | 174,453,000 | |
| Uncorrected audit differences after tax effect as a percentage of financial statement amounts | | | | | | | | | Note 1 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.3% | 0.0% |
| Aggregate of uncorrected audit differences - total impact on revenues | | | | | | | | - | | | | | | | | |
| Financial statement amounts (as per final financial statements) - revenues | | | | | | | | 701,889,000 | | | | | | | | |
| Uncorrected audit differences as a percentage of financial statement amounts | | | | | | | | 0.00% | | | | | | | | |
| Aggregate of uncorrected audit differences - total impact on expenditures | | | | | | | | (4,548,698) | | | | | | | | |
| Financial statement amounts (as per final financial statements) - expenses | | | | | | | | 711,325,000 | | | | | | | | |
| Uncorrected audit differences as a percentage of financial statement amounts | | | | | | | | (0.64%)* | | | | | | | | |

I/M/L
 *- not considered material

City of Long Beach
 Business-Type Activated
 Summary of Uncorrected Audit Misstatements
 9/30/2016

Amounts in dollars
 Method Used to Quantify Audit Misstatements Rollover
 Final Materiality 44,250,000
 Final AMPT 2,950,000

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

| Correcting Entry Required at Current Period End | | | | | | Income Statement Effect - Debit(Credit) | | | Balance Sheet Effect - Debit (Credit) | | | | | | |
|---|--|----------------------|---|-------------------|------------------|--|--|---|---------------------------------------|---------------------|-------------------|-------------------|---------------------|------------------------|------------------|
| ID | Description of misstatement | Type of misstatement | Accounts | Debit | (Credit) | Income effect of correcting the balance sheet in prior period (carryforward from prior period) | Income effect of correcting the current period balance sheet | Income effect according to Rollover (Income Statement) method | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Deferred Inflows |
| | | | | A | | B | C=A (Only Income Statement accounts) | C-B | | | | | | | |
| Water Fund | | | | | | | | | | | | | | | |
| AD W <3> | The Department does not currently record accrued unbilled revenue as the impact on revenue is not significant. | Judgmental | Accounts Receivable | 3,000,000 | | | | | | 3,000,000 | | | | | |
| | | | Unrestricted Net Assets | | 2,696,000 | | | | 2,696,000 | | | | | | |
| | | | Metered Water Sales | | 304,000 | | 304,000 | 304,000 | 304,000 | | | | | | |
| Non Major Proprietary | | | | | | | | | | | | | | | |
| SW 1 | SERRF Distribution | Factual | Accounts Receivable | 1,264,030 | | | | | | 1,264,030 | | | | | |
| | | | Charges for Services | 4,402,726 | | | 4,402,726 | 4,402,726 | 4,402,726 | | | | | | |
| | | | Net Assets | | (5,666,756) | | | | (5,666,756) | | | | | | |
| Harbor Fund | | | | | | | | | | | | | | | |
| AM-2 | In the prior period, the Company used total interest expense incurred (net of amortized bond premium) as the capitalized interest amount instead of using capitalized interest calculated by applying the interest rate to the average amount of CIP during the period. This resulted in an overstated capitalized interest balance of \$15.9M. This also understated interest expense for the period by the same amount. As this is a prior period error, the effect of the interest expense understatement would translate to a net assets adjustment. | Factual | construction in progress | 0 | (15,917,555) | 0 | 0 | 0 | 0 | 0 | (15,917,555) | | 0 | 0 | 0 |
| | | | Invested in capital assets, net of related debt | 15,917,555 | 0 | 15,917,555 | 0 | 15,917,555 | 0 | 0 | 0 | | 0 | 0 | 0 |
| AM-4 | Management recognized deferred revenue in 2016, that should have been recognized in the PY | Factual | Capital Grants | 28,207,536 | | 28,207,536 | | (28,207,536) | | | | | | | |
| | | | Net Assets | | (28,207,536) | | | | (28,207,536) | | | | | | |
| AM-5 | Under amortizing of bond premiums | Factual | Unamortized Bond Discount/Premium | 3,510,873 | | | | | | | | | | 3,510,873 | |
| | | | Interest Expense | | (3,510,873) | | (3,510,873) | (3,510,873) | | | | | | | |
| | | | Aggregate effect of uncorrected audit misstatements (before tax): | 44,125,091 | 1,195,853 | (11,094,128) | | (26,471,566) | 4,264,030 | (15,917,555) | 0 | 0 | 0 | 3,510,873 | 0 |
| | | | Aggregate effect of uncorrected audit misstatements (after tax): | 44,125,091 | 1,195,853 | (11,094,128) | | (26,471,566) | 4,264,030 | (15,917,555) | 0 | 0 | 0 | 3,510,873 | 0 |
| | | | Financial statement amounts (per final financial statements) (after tax): | 4,713,880,000 | 640,195,000 | 7,233,206,000 | 123,078,000 | 278,737,000 | 2,438,732,000 | 565,130,000 | | | | | |
| | | | Uncorrected audit misstatements as a percentage of financial statement amounts (after tax): | Note <1> | (0.56%) | 0.67% | (0.22%) | 0.00% | 0.00% | 0.14% | 0.00% | | | | |

| | |
|--|--------------|
| Aggregate of uncorrected audit differences - total impact on revenues | (23,500,810) |
| Financial statement amounts (as per final financial statements) - revenues | 970,194,000 |
| Uncorrected audit differences as a percentage of financial statement amounts | (2.42%) |
| Aggregate of uncorrected audit differences - total impact on expenditures | 12,406,682 |
| Financial statement amounts (as per final financial statements) - expenses | 809,341,000 |
| Uncorrected audit differences as a percentage of financial statement amounts | 1.53% |

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

* - Not considered material

City of Long Beach

General Fund

Summary of Uncorrected Audit Misstatements

9/30/2016

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

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

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

City of Long Beach
Gas Utility Fund
Summary of Uncorrected Audit Misstatements
9/30/2016

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

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

| Correcting Entry Required at Current Period End | | | | | | Income Statement Effect - Debit (Credit) | | | Balance Sheet Effect - Debit (Credit) | | | | | | |
|---|-------------------------------------|----------------------|---|---------|-----------|--|--|---|---------------------------------------|----------------|-------------------|-------------------|---------------------|------------------------|------------------|
| ID | Description of misstatement | Type of misstatement | Accounts | Debit | (Credit) | Income effect of correcting the balance sheet in prior period (carryforward from prior period) | Income effect of correcting the current period balance sheet | Income effect according to Rollover (Income Statement) method | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Deferred Inflows |
| | | | | A | | B | C-A (Only Income Statement accounts) | C-B | | | | | | | |
| GU <1> | Effective Interest Method- Non-GAAP | Factual | Unamortized Discount/Premium Interest expense | 453,142 | (453,142) | | (453,142) | (453,142) | (453,142) | | | | | 453,142 | |
| GU <2> | SURL Isolated Incident | Factual | Maintenance and Operations Net Assets | 44,067 | 773,752 | 773,752 | 44,067 | 44,067 | 44,067 | | | | | | |
| | | | Accounts Payable | | (817,819) | | | | | (817,819) | | | | | |
| | | | Aggregate of uncorrected audit differences (before tax) | | | 773,752 | (409,075) | (1,182,827) | (409,075) | (817,819) | | | | 453,142 | |
| | | | Tax effect of uncorrected audit differences | | | | | | | | | | | | |
| | | | Aggregate of uncorrected audit differences (after tax) | | | | | (1,182,827) | (409,075) | (817,819) | | | | 453,142 | |
| | | | Financial statement amounts (per final financial statements) | | | | | | (13,147,000) | 59,631,000 | 1,140,513,000 | 26,292,000 | 28,496,000 | 671,488,000 | 539,599,000 |
| | | | Uncorrected audit differences after tax effect as a percentage of financial statement amounts | | | | | Note 1 | 3.1% | -1.4% | 0.0% | 0.0% | 0.0% | 0.1% | 0.0% |
| | | | Aggregate of uncorrected audit differences - total impact on revenues | | | | | | | | | | | | |
| | | | Financial statement amounts (as per final financial statements) - revenues | | | | | 80,691,000 | | | | | | | |
| | | | Uncorrected audit differences as a percentage of financial statement amounts | | | | | 0.00% | | | | | | | |
| | | | Aggregate of uncorrected audit differences - total impact on expenditures | | | | | (1,182,827) | | | | | | | |
| | | | Financial statement amounts (as per final financial statements) - expenses | | | | | 78,865,000 | | | | | | | |
| | | | Uncorrected audit differences as a percentage of financial statement amounts | | | | | (1.50%)* | | | | | | | |

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

*- Not considered material

City of Long Beach

Water

Summary of Uncorrected Audit Misstatements

9/30/2016

Amounts in dollars
 Method Used to Quantify Audit Misstatements Rollover
 Final Materiality
 Final AMPT

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

| Correcting Entry Required at Current Period End | | | | | | Income Statement Effect - Debit(Credit) | | | Balance Sheet Effect - Debit (Credit) | | | | | | | Cash Flow Effect - Increase (Decrease) | | | Statement of Comprehensive Income - Debit (Credit) |
|---|---|----------------------|---------------------------------------|-----------|-------------|--|--|---|---------------------------------------|----------------|-------------------|-------------------|---------------------|------------------------|------------------|--|----------------------|----------------------|--|
| ID | Description of misstatement | Type of misstatement | Accounts | Debit | (Credit) | Income effect of correcting the balance sheet in prior period (carryforward from prior period) | Income effect of correcting the current period balance sheet | Income effect according to Rollover (Income Statement) method | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Deferred Inflows | Operating Activities | Investing Activities | Financing Activities | Comprehensive Income |
| | | | | A | | B | C-A (Only Income Statement accounts) | C-B | | | | | | | | | | | |
| | KPMG notes the overstatement of revenue is driven by fixed asset additions between 2006 and 2009 wherein additions were depreciated over the remaining useful life of the depreciated asset rather than | Projected | Property, plant and equipment, net | 2,304,794 | 0 | 0 | 0 | 0 | 0 | 0 | 2,304,794 | | 0 | 0 | 2,304,794 | 0 | 0 | 0 | |
| | | | Depreciation and Amortization Expense | 0 | (160,146) | 0 | 160,146 | 160,146 | (160,146) | 0 | 0 | | 0 | 0 | (160,146) | 0 | 0 | 0 | |
| AD W <1> | | | Unrestricted Net Assets | 0 | (2,144,648) | 0 | 0 | 0 | (2,144,648) | 0 | 0 | | 0 | 0 | (2,144,648) | 0 | 0 | 0 | |
| | The Department does not currently record accrued unbilled revenue as the impact on revenue is not significant. | Judgmental | Accounts Receivable | 3,000,000 | | | | | | 3,000,000 | | | | | | | | | |
| AD W <3> | | | Unrestricted Net Assets | | 2,696,000 | | | | 2,696,000 | | | | | | | | | | |
| | | | Metered Water Sales | | 304,000 | | 304,000 | 304,000 | | | | | | | | | | | |
| | Aggregate of uncorrected audit differences (before tax) | | | | | - | 464,146 | 464,146 | 695,206 | 3,000,000 | 2,304,794 | - | - | - | - | | | | |
| | Tax effect of uncorrected audit differences | | | | | - | - | - | - | - | - | - | - | - | - | | | | |
| | Aggregate of uncorrected audit differences (after tax) | | | | | - | 464,146 | 464,146 | 695,206 | 3,000,000 | 2,304,794 | - | - | - | - | | | | |
| | Financial statement amounts (per final financial statements) | | | | | | | | 322,110,000 | 48,460,000 | 303,365,000 | 11,526,000 | 18,189,000 | 65,770,000 | 3,362,000 | | | | |
| | Uncorrected audit differences after tax effect as a percentage of financial statement amounts | | | | | | | Note 1 | 0.2% | 6.2% | 0.8% | 0.0% | 0.0% | 0.0% | 0.0% | | | | |
| | Aggregate of uncorrected audit differences - total impact on revenues | | | | | | 304,000 | | | | | | | | | | | | |
| | Financial statement amounts (as per final financial statements) - revenues | | | | | | 97,650,000 | | | | | | | | | | | | |
| | Uncorrected audit differences as a percentage of financial statement amounts | | | | | | 0.31% | | | | | | | | | | | | |
| | Aggregate of uncorrected audit differences - total impact on expenditures | | | | | | 160,146 | | | | | | | | | | | | |
| | Financial statement amounts (as per final financial statements) - expenses | | | | | | 92,253,000 | | | | | | | | | | | | |
| | Uncorrected audit differences as a percentage of financial statement amounts | | | | | | 0.17% | | | | | | | | | | | | |

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

* - Not considered material

City of Long Beach

Tidelands

Summary of Uncorrected Audit Misstatements

9/30/2016

| | |
|---|-----------|
| Amounts in | dollars |
| Method Used to Quantify Audit Misstatements | Rollover |
| Final Materiality | 5,400,000 |
| Final AMPT | 270,000 |

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

| Correcting Entry Required at Current Period End | | | | Income Statement Effect - Debit(Credit) | | | Balance Sheet Effect - Debit (Credit) | | | | | | Cash Flow Effect - Increase (Decrease) | | | Statement of Comprehensive Income - Debit (Credit) | | | |
|---|-----------------------------|----------------------|---|---|-------------|--|--|---|-------------|----------------|-------------------|-------------------|--|------------------------|------------------|--|----------------------|----------------------|----------------------|
| ID | Description of misstatement | Type of misstatement | Accounts | Debit | (Credit) | Income effect of correcting the balance sheet in prior period (carryforward from prior period) | Income effect of correcting the current period balance sheet | Income effect according to Rollover (Income Statement) method | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Deferred Inflows | Operating Activities | Investing Activities | Financing Activities | Comprehensive Income |
| | | | | A | | B | C-A (Only Income Statement accounts) | C-B | | | | | | | | | | | |
| GU <1> | Effective Interest Rate | Factual | Unamortized Discount/Premium Interest expense | 2,062,674 | (2,062,674) | | (2,062,674) | (2,062,674) | (2,062,674) | | | | | 2,062,674 | | | | | |
| | | | Aggregate of uncorrected audit differences (before tax) | | | - | (2,062,674) | (2,062,674) | (2,062,674) | - | - | - | - | 2,062,674 | - | | | | |
| | | | Tax effect of uncorrected audit differences | | | | | | | | | | | | | | | | |
| | | | Aggregate of uncorrected audit differences (after tax) | | | | | (2,062,674) | (2,062,674) | | | | | 2,062,674 | | | | | |
| | | | Financial statement amounts (per final financial statements) | | | | | | 324,638,000 | 233,174,000 | 380,748,000 | 22,401,000 | 21,429,000 | 285,370,000 | 4,886,000 | | | | |
| | | | Uncorrected audit differences after tax effect as a percentage of financial statement amounts | | | | Note 1 | | -0.6% | 0.0% | 0.0% | 0.0% | 0.0% | 0.7% | 0.0% | | | | |
| | | | Aggregate of uncorrected audit differences - total impact on revenues | | | | | | - | | | | | | | | | | |
| | | | Financial statement amounts (as per final financial statements) - revenues | | | | | | 97,141,000 | | | | | | | | | | |
| | | | Uncorrected audit differences as a percentage of financial statement amounts | | | | | | 0.00% | | | | | | | | | | |
| | | | Aggregate of uncorrected audit differences - total impact on expenditures | | | | | | (2,062,674) | | | | | | | | | | |
| | | | Financial statement amounts (as per final financial statements) - expenses | | | | | | 108,054,000 | | | | | | | | | | |
| | | | Uncorrected audit differences as a percentage of financial statement amounts | | | | | | (1.91)% | | | | | | | | | | |

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

* - Not considered material

Company Harbor Department of Long Beach
 Summary of Uncorrected Audit Misstatements
 For Year End 9/30/2015
 ##### Method Used to Quantify Audit Misstatements Income Statement Method (Roll Over)
 Final Materiality 20,000,000
 Final AMPT 1,000,000

| Correcting Entry Required at Current Period End | | | | | | Income Statement Effect - Debit (Credit) | | | Balance Sheet Effect - Debit (Credit) | | | | | | | Cash Flow Effect - Increase (Decrease) | | |
|---|--|----------------------|---|------------|--------------|--|--|---|---------------------------------------|----------------|---------------------|-------------------|---------------------|------------------------|------------------|--|----------------------|----------------------|
| ID | Description of misstatement | Type of misstatement | Accounts | Debit | (Credit) | Income effect of correcting the balance sheet in prior period (carryforward from prior period) | Income effect of correcting the current period balance sheet | Income effect according to Rollover (Income Statement) method | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Deferred Inflows | Operating Activities | Investing Activities | Financing Activities |
| | | | | A | | B | C-A (Only Income Statement accounts) | C-B | | | | | | | | | | |
| AM-2 | In the prior period, the Company used total interest expense incurred (net of amortized bond premium) as the capitalized interest amount instead of using capitalized interest calculated by applying the interest rate to the average amount of CIP during the period. This resulted in an overstated capitalized interest balance of \$15.9M. This also understated interest expense for the period by the same amount. As this is a prior period error, the effect of the interest expense understatement would translate to a net assets adjustment. | Factual | Construction in progress | 0 | (15,917,555) | 0 | 0 | 0 | 0 | 0 | (15,917,555) | | 0 | 0 | | 0 | 0 | 0 |
| | | | Invested in capital assets, net of related debt | 15,917,555 | 0 | 15,917,555 | 0 | 15,917,555 | 0 | 0 | 0 | | 0 | 0 | | 0 | 0 | 0 |
| AM-3 | Management recorded \$2,068,953 of Grant Revenue in the current year that should have been recorded in previous years. | Factual | Restricted capital projects | 0 | (2,068,953) | (2,068,953) | 0 | 0 | | 0 | 0 | | 0 | 0 | | (2,068,953) | 0 | 0 |
| | | | Capital grants | 2,068,953 | 0 | 0 | 2,068,953 | 2,068,953 | 0 | 0 | 0 | | 0 | 0 | | 0 | 0 | 0 |
| AM-4 | Management recognized deferred revenue in 2016, that should have been recognized in the PY | Factual | Capital Grants | 28,207,536 | | 28,207,536 | | (28,207,536) | | | | | | | | | | |
| | | | Net Assets | | (28,207,536) | | | (28,207,536) | | | | | | | | | | |
| AM-5 | Under amortizing of bond premiums | Factual | Unamortized Bond Discount/Premium | 3,510,873 | | | | | | | | | | 3,510,873 | | | | |
| | | | Interest Expense | | (3,510,873) | | (3,510,873) | (3,510,873) | | | | | | | | | | |
| | | | Aggregate effect of uncorrected audit misstatements (before tax): | | | 42,056,138 | (1,441,920) | (13,731,901) | (28,207,536) | 0 | (15,917,555) | | 0 | 3,510,873 | | (2,068,953) | 0 | 0 |
| | | | Aggregate effect of uncorrected audit misstatements (after tax): | | | 42,056,138 | (1,441,920) | (13,731,901) | (28,207,536) | 0 | (15,917,555) | 0 | 0 | 3,510,873 | 0 | (2,068,953) | 0 | 0 |
| | | | Financial statement amounts (per final financial statements) (after tax): | | | 173,131,000 | 3,780,027,000 | 486,973,000 | 4,549,680,000 | 41,884,000 | 171,932,000 | 1,114,917,000 | 11,661,000 | 219,150,000 | 22,581,000 | (402,271,000) | | |
| | | | Uncorrected audit misstatements as a percentage of financial statement amounts (after tax): | | | (7.93%) | (0.75%) | 0.00% | (0.35%) | 0.00% | 0.00% | 0.31% | 0.00% | (0.94%) | 0.00% | 0.00% | | |
| | | | | | | | | | | | | | | | | | | |

** Not considered material to the Financial Statements

Note 1 As the Harbor Department is an enterprise fund of a government, the comparison of the passed audit adjustments as a percentage of the change in net position is not a reasonable basis for materiality. As such, the an additional analysis was added to measure the audit adjustments to total revenue and expenses instead.

| | | |
|---|--------------|----|
| Aggregate of uncorrected audit differences-total impact on revenues | (26,138,583) | |
| Financial statement amounts (as per final financial statements)- revenues | 360,660,000 | ** |
| Uncorrected audit differences as a percentage of financial statement amounts | -7.2% | ** |
| Aggregate of uncorrected audit differences- total impact on expenses | 12,406,682 | |
| Financial statement amounts (as per final financial statements)- expenses and transfers | 291,254,000 | |
| Uncorrected audit differences as a percentage of financial statement amounts | 4.3% | ** |

City of Long Beach
 Aggregate Remaining
 Uncorrected Audit Misstatements
 9/30/2016

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

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

| Correcting Entry Required at Current Period End | | | | | | Income Statement Effect - Debit (Credit) | | | Balance Sheet Effect - Debit (Credit) | | | | | | |
|---|---|----------------------|---|-----------|-------------|---|--|--|---------------------------------------|----------------|-------------------|-------------------|---------------------|------------------------|------------------|
| ID | Description of misstatement | Type of misstatement | Accounts | Debit | (Credit) | Income effect of correcting the balance sheet in prior period (carry forward) | Income effect of correcting the current period balance sheet | Income effect according to Rollover (Income Statement) | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Deferred Inflows |
| | | | | | | | | | | | | | | | |
| Non-Major Gov't | | | | | | | | | | | | | | | |
| None Noted | | | | | | | | | | | | | | | |
| Internal Service Funds | | | | | | | | | | | | | | | |
| None Noted | | | | | | | | | | | | | | | |
| Non-Major Enterprise | | | | | | | | | | | | | | | |
| SW 1 | SERRF Distribution | Factual | Accounts Receivable | 1,264,030 | | | | | | 1,264,030 | | | | | |
| | | | Charges for Services | 4,402,726 | | | 4,402,726 | 4,402,726 | 4,402,726 | | | | | | |
| | | | Net Assets | | (5,666,756) | | | | (5,666,756) | | | | | | |
| SF2 | KPMG notes the overstatement of revenue is driven by fixed asset additions between 2006 and 2009 wherein additions were depreciated over the remaining useful life of the depreciated asset rather than | Projected | Property, plant and equipment, net | 170,973 | 0 | 0 | 0 | 0 | 0 | 0 | 170,973 | | 0 | 0 | 0 |
| | | | Depreciation and Amortization Expense | 0 | (20,136) | 0 | (20,136) | (20,136) | (20,136) | 0 | 0 | 0 | | 0 | 0 |
| | | | Net Assets | 0 | (150,837) | 0 | 0 | 0 | (150,837) | 0 | 0 | | 0 | 0 | 0 |
| | | | Aggregate effect of uncorrected audit misstatements (before tax): | | | 0 | 4,382,590 | 4,382,590 | (1,435,003) | 1,264,030 | 170,973 | 0 | 0 | 0 | 0 |
| | | | Aggregate effect of uncorrected audit misstatements (after tax): | | | 0 | 4,382,590 | 4,382,590 | (1,435,003) | 1,264,030 | 170,973 | 0 | 0 | 0 | 0 |
| | | | Financial statement amounts (per final financial statements) (after tax): | | | | | Note <1> | 542,280,000 | 1,073,173,000 | 493,554,000 | 40,771,000 | 194,211,000 | 662,286,000 | 208,721,000 |
| | | | Uncorrected audit misstatements as a percentage of financial statement amounts (after tax): | | | | | | -0.26% | 0.12% | 0.03% | 0.00% | 0.00% | 0.00% | 0.00% |

| | |
|----------------|-------------|
| Gross Revenues | 860,874,000 |
| Adjustments | 4,402,726 |
| % | 0.51% * |
| Gross expenses | 807,205,000 |
| Adjustments | (20,136) |
| % | 0.00% |

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

* - Not considered material

| | Equity | Current Assets | Noncurrent Assets | Deferred Outflows | Current Liabilities | Noncurrent Liabilities | Noncurrent Liabilities | Deferred Inflow | Revenues | Expenses |
|------|--------------|----------------|-------------------|-------------------|---------------------|------------------------|------------------------|-----------------|-------------|-------------|
| ISF | (97,900,000) | 291,148,000 | 156,684,000 | 21,801,000 | 111,498,000 | 450,954,000 | | 5,081,000 | 386,486,000 | 344,682,000 |
| Prop | 435,909,000 | 340,137,000 | 336,870,000 | 18,970,000 | 43,816,000 | 211,332,000 | | 4,920,000 | 181,345,000 | 169,009,000 |
| Govt | 204,271,000 | 441,888,000 | - | - | 38,897,000 | - | | 198,720,000 | 293,043,000 | 293,514,000 |
| | 542,280,000 | 1,073,173,000 | 493,554,000 | 40,771,000 | 194,211,000 | 662,286,000 | | 208,721,000 | 860,874,000 | 807,205,000 |



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

March 27, 2017

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

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), for the year ended September 30, 2016, and have issued our report thereon dated March 27, 2017. In planning and performing our audit of the financial statements of the City of Long Beach, California, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Actuarial Reports

Observation

During our audit, we noted that the City obtains biennial actuarial reports to assist in determining the obligation of its Workers Compensation and General Liability claims. Using this approach, historical claims data and assumptions are used to project the year two liabilities for these activities. Consequently, the projected liabilities are less precise than if the City obtained annual actuarial reports that included current historical claims data and assumptions.

Recommendation

We recommend that the City request and obtain annual actuarial reports to measure the obligation for Workers Compensation and General Liability claims. This will ensure that the most recent and relevant data is used in the estimate of these obligations.

Management's Response

The City agrees with the recommendation and will look to institute this recommendation for the next audit cycle.



The City Council
City of Long Beach
March 27, 2017
Page 2 of 5

Non-Generally Accepted Accounting Principles (GAAP) Policies

Observation

During our audit, we reviewed the City's internal control process to identify new non-GAAP policies. We noted that the City does not have a formal process in place to identify and quantify the impact of all non-GAAP policies. In particular, management did not identify nor did management quantify the impact of transactions that should have been recorded on the accrual basis, but were recorded on the cash basis. Examples of these type of transactions include:

- Recording of medical payments for City insured medical plans when payment is made rather than when the medical service was provided.
- Reporting revenues and expenses in the period received or paid rather than the period earned or incurred.

Recommendation

We recommend that the City enhance its internal controls to identify and quantify the impact of all non-GAAP policies.

Managements Response

The City continues to work on correcting its non-GAAP policies. The City, in conformance with the recommendations of KPMG, will develop and adopt the policies and procedures needed to ensure the appropriate recognition period for revenues and expenses.

Pension Data

Observation

During our audit, we reviewed the participant data for the City's Safety and Miscellaneous pension plans. This data is used by CalPERS for the determination of the net pension liability reported on the financial statements. We noted that the total payroll reported by CalPERS for each plan was not materially different than the payroll reported by the City. However, for certain participants, we noted that the payroll reported between CalPERS and the City varied significantly.

Recommendation

Although the City reviews participant data transmitted to CalPERS each pay period, that review is done in total rather than by individual. We recommend that the City establish thresholds or tolerance levels for salary discrepancies and investigate any individual(s) exceeding those tolerance levels.

Managements Response

The City will adopt procedures to compare CalPERS participant payroll data between the City and CalPERS as well as to documents explanations of any significant variances.



The City Council
City of Long Beach
March 27, 2017
Page 3 of 5

Long-Term Notes Receivable

Observation

The City has entered into several long-term loan agreements in which the City has provided funds to residents and businesses to assist in the purchase or rehabilitation of a property. While the terms of the agreements vary, in general, the loans are to be paid upon future events such as the sale or transfer of the property or upon the death of the individual. As of September 30, 2016, the City has \$204.9M of such loans outstanding. The City has recorded no allowance for doubtful accounts related to these loans.

While it is possible that the City will recover 100% of its loan principle over time, it is also unlikely to do so given the nature of these loans.

Recommendation

We recommend that the City develop an analysis of its loan portfolio and adjust the reported loan portfolio to net realizable value as required by GAAP.

Managements Response

The City has initiated the analysis of its loan portfolio and believe this will be corrected during the FY 2017 fiscal year.

Oracle Database Password Policy

Observation

During our testing of password controls to the Oracle database supporting the Customer Care & Billing system, (CC&B) we noted that there is no formal password policy specifically defined for infrastructure and databases. We inspected the Oracle database password configuration and compared it to leading practice standards, noting the following weaknesses:

- Failed Logon attempts – Unlimited (updated with Oracle upgrade to 10 attempts in July 2016)
- Password Lifetime – Unlimited (updated with Oracle upgrade to 180 days in July 2016)
- Password Reuse Max – Unlimited
- Password Verify Function – Null

Recommendation

We recommend that Management establish and document the minimum password requirements for all financially relevant infrastructure, including the Oracle database in the information security policy, consistent with other platforms. Please see below for minimum requirements:

- A: Passwords regularly expire with the longest frequency being ninety (90) days.
- B: Password are at least eight (8) characters in length.
- C: Password complexity requirements mandate that passwords be alphanumeric.
- D: Accounts are locked out after a limited number of unsuccessful login attempts.



The City Council
City of Long Beach
March 27, 2017
Page 4 of 5

E: Password history is defined.

Managements Response

The City has identified 11 user ID's that are impacted by the Oracle database password policy. Six of these are user (human) passwords. These will be updated with the above recommendations by March 23, 2017. The remaining five are system account passwords. See response below for system accounts.

Oracle Database Privileged Access

Observation

During our review of privileged (direct database) access to the Oracle database supporting the CC&B system, we noted that the password to the SYS and SYSTEM accounts within the Oracle Database were not changed once a contractor no longer supported the City of Long Beach. The SYS and SYSTEM accounts are highly privileged predefined administrative accounts and are only needed by individuals authorized to perform administrative tasks such as starting/stopping the database, creating and managing database users and privileges, and direct access to data stored on the database. As such, it was determined that privileged access to the database was not restricted to authorized personnel based on business need.

Recommendation

We recommend that Management review the 'Database Security Guide' for Oracle databases – "*Guidelines for Securing User Accounts and Privileges*".

- Practice the principle of least privilege
- Restrict the following as much as possible
 - The number of people who are allowed to make SYS-privileged connections to the database
 - The number of SYSTEM and OBJECT privileges granted to database users
- Do not provide database users or roles more privileges than are necessary. (If possible, grant privileges to roles, not users.) In other words, the principle of least privilege is that users be given only those privileges that are actually required to efficiently perform their jobs

As identified in Section 10 on page 17 of the Oracle database reference material above, we recommend that the City of Long Beach monitor the granting of privileges (i.e., Section 10.4) as well as audit others (i.e., Section 10.4). We also recommend that the City of Long Beach create triggers that can be used by management in support of monitoring and auditing the use of the SYS database account as well as the SYSTEM database account. In addition to using the CSI number as provided by Oracle to contact Oracle Support for guidance on how to create these triggers, management should review the following as found in Section #6, i.e., Using Triggers, of the Oracle reference manual that is called "*Database 2 Day Developer's Guide*". Triggered event logs as well as audit logs should be reviewed by management on a regular basis with a frequency that is agreed to by management.



The City Council
City of Long Beach
March 27, 2017
Page 5 of 5

Managements Response

The City has identified 7 system related accounts. These system accounts are hard coded into several applications. It would require burdensome labor intensive maintenance to modify them based on the above recommendations, eg. Change password every 90 days. The risk of error is very high when you don't have an automated system. Having said that, we are looking at some of the options to tighten up the system, such as the principle of least privileges, or change system account passwords once a contractor or staff no longer supports the City of Long Beach. Technology and Innovation team would like to request some more time to research how best to address the recommendations. We would like to come to a solution that not only reduces the risk to the City, but also creates efficiencies in the process.

* * * * *

In addition, we identified certain deficiencies in internal control that we consider to be a significant deficiency, and in accordance with *Government Auditing Standards* communicated such in writing to the City in a separate report dated March 27, 2017.

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

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

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

Very truly yours,

KPMG LLP



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

March 27, 2017

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

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), for the year ended September 30, 2016, and have issued our report thereon dated March 27, 2017. In planning and performing our audit of the financial statements of the City of Long Beach, California, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Actuarial Reports

Observation

During our audit, we noted that the City obtains biennial actuarial reports to assist in determining the obligation of its Workers Compensation and General Liability claims. Using this approach, historical claims data and assumptions are used to project the year two liabilities for these activities. Consequently, the projected liabilities are less precise than if the City obtained annual actuarial reports that included current historical claims data and assumptions.

Recommendation

We recommend that the City request and obtain annual actuarial reports to measure the obligation for Workers Compensation and General Liability claims. This will ensure that the most recent and relevant data is used in the estimate of these obligations.

Management's Response

The City agrees with the recommendation and will look to institute this recommendation for the next audit cycle.



The City Council
City of Long Beach
March 27, 2017
Page 2 of 5

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Recommendation

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The City Council
City of Long Beach
March 27, 2017
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The City Council
City of Long Beach
March 27, 2017
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The City Council
City of Long Beach
March 27, 2017
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We would be pleased to discuss these comments and recommendations with you at any time.

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

Very truly yours,

KPMG LLP



Los Cerritos Wetlands Authority

Annual Financial Report

For the Fiscal Year Ended September 30, 2016



Los Cerritos Wetlands Authority

Our Mission Statement

“To provide for a comprehensive program of acquisition, protection, conservation, restoration, maintenance and operation, and environmental enhancement of the Los Cerritos Wetlands area consistent with the goals of flood protection, habitat protection and restoration, and improved water supply, water quality, groundwater recharge and water conservation.”

Our Governing Board

Members

City of Long Beach

Chair: Suzie Price

Alternate: Vacant

State Coastal Conservancy

Vice-chair: Sam Schuchat

Alternate: Joan Cardellino

City of Seal Beach

Member: Ellery Deaton

Alternate: Mike Varipapa

Rivers and Mountains Conservancy

Member: Roberto Uranga

Alternate: Celina Luna

Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2016

**Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2016**

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Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA

Fedak & Brown LLP

Certified Public Accountants

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Riverside, California 92505
(951) 977-9888

Independent Auditor's Report

Governing Board
Los Cerritos Wetlands Authority
Long Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2016, which collectively comprise the Authority'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 accounting principles generally accepted in the United States of America; 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2016, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the Budgetary Comparison Schedule – General Fund on page 20 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2017 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance. This report can be found on pages 21 and 22.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
April 13, 2017

Los Cerritos Wetlands Authority
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2016

As management of the Los Cerritos Wetlands Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities and performance of the Authority for the fiscal year ended September 30, 2016. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

Financial Highlights

- The Authority's net position increased 1.21% or \$134,685 from \$11,137,704 to \$11,272,389 as a result of this year's operations. Previously reported net position increased from \$11,073,437 to \$11,137,704 due to a prior period restatement in the amount of \$64,267. Please see note 5 to the basic financial statements for further discussion.
- The Authority's total revenues increased 89.22% or \$178,584 from \$200,172 to \$378,756, primarily due to an increase in general revenue.
- The Authority's total expenses increased 22.21% or \$44,354 from \$199,717 to \$244,071, primarily due to an increase in consulting fees and grant management expense.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the Authority's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the Statements of Activities. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Authority in a way that helps answer this question.

These statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources, using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net position* and changes in them. One can think of the Authority's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors, however, such as changes in the Authority's organizational agreements to assess the *overall health* of the Authority in future periods.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2016

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 11 through 19.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's budgetary information and compliance.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets of the Authority exceeded liabilities by \$11,272,389 as of September 30, 2016.

Condensed Statement of Net Position

| | 2016 | As Restated 2015 | Change |
|----------------------------------|---------------|-----------------------------|---------------|
| Assets: | | | |
| Current assets | \$ 587,548 | 177,980 | 409,568 |
| Capital assets, net | 11,000,000 | 11,000,000 | - |
| Total assets | 11,587,548 | 11,177,980 | 409,568 |
| Liabilities: | | | |
| Current liabilities | 215,159 | 40,276 | 174,883 |
| Non-current liabilities | 100,000 | - | 100,000 |
| Total liabilities | 315,159 | 40,276 | 274,883 |
| Net position: | | | |
| Net investment in capital assets | 11,000,000 | 11,000,000 | - |
| Unrestricted | 272,389 | 137,704 | 134,685 |
| Total net position | 11,272,389 | 11,137,704 | 134,685 |
| – as restated | \$ 11,272,389 | 11,137,704 | 134,685 |

At the end of fiscal year 2016, the Authority shows a positive balance in its unrestricted net position of \$272,389.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2016

Government-wide Financial Analysis, continued

Condensed Statement of Activities

| <i>Governmental Activities</i> | <u>2016</u> | <u>As Restated 2015</u> | <u>Change</u> |
|----------------------------------|----------------------|-----------------------------|----------------|
| Expenses: | | | |
| Authority operations | \$ 244,071 | 199,717 | 44,354 |
| Total expenses | <u>244,071</u> | <u>199,717</u> | <u>44,354</u> |
| Revenues: | | | |
| Program revenues | 191,311 | 175,164 | 16,147 |
| General revenues | <u>187,445</u> | <u>25,008</u> | <u>162,437</u> |
| Total revenues | <u>378,756</u> | <u>200,172</u> | <u>178,584</u> |
| Change in net position | 134,685 | 455 | 134,230 |
| Net position – beginning of year | | | |
| – as restated | <u>11,137,704</u> | <u>11,137,249</u> | <u>455</u> |
| Net position – end of year | | | |
| – as restated | <u>\$ 11,272,389</u> | <u>11,137,704</u> | <u>134,685</u> |

The Statement of Activities shows how the government's net position changed during the fiscal year. In the case of the Authority, net position increased by \$134,685 during the fiscal year ended September 30, 2016.

Governmental Funds Financial Analysis

The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of September 30, 2016, the Authority's General Fund reported a fund balance of \$272,389. Of the fund balance reported an amount of \$7,105 is designated as *nonspendable* as it has already been spent towards prepaid insurance. The remaining balance of \$265,284 constitutes the Authority's *unreserved undesignated fund balance* that is available for future Authority expenditures.

General Fund Budgetary Highlights

At fiscal year-end, actual expenditures for the General Fund were \$164,529 less than final budgeted expenditures and actual revenues were \$29,844 less than final budgeted revenues. This was principally due to lower than anticipated grant funding in the amount of \$136,189 from state, county and private agency sources, which was offset by higher than anticipated general revenues in the amount of \$100,000 from land option consideration income.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2016

Capital Asset Administration

At the end of fiscal year 2016, the Authority's investment in capital assets amounted to \$11,000,000. This investment in capital assets includes land that is managed by the Authority.

Changes in capital assets for the year were as follows:

| | <u>Balance</u> <u>2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2016</u> |
|---------------------------|-------------------------------|------------------|------------------|-------------------------------|
| Land | \$ 11,000,000 | - | - | 11,000,000 |
| Total capital assets, net | \$ <u>11,000,000</u> | | | <u>11,000,000</u> |

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Authority's current financial position, net position or operating results in terms of past, present and future.

Requests for Information

The Authority's basic financial statements are designed to present users with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have any questions about the report or need additional information, please contact the Authority at Los Cerritos Wetlands Authority, C/O the City of Long Beach Financial Management Department, 333 West Ocean Blvd., Long Beach, CA 90802 or directly at 100 Old San Gabriel Canyon Rd., Azusa, CA 91702, (626) 815-1019.

Basic Financial Statements

Los Cerritos Wetlands Authority
Statements of Net Position
September 30, 2016
(with comparative amounts for September 30, 2015)

| | 2016 | As Restated 2015 |
|---|----------------------|-----------------------------|
| Current assets: | | |
| Cash and cash equivalents (note 2) | \$ 314,064 | 13,056 |
| Accounts receivable | 60,779 | 71,322 |
| Accounts receivable – member agencies | 35,000 | 20,000 |
| Accounts receivable – grants | 170,600 | 64,267 |
| Prepaid insurance | 7,105 | 9,335 |
| Total current assets | 587,548 | 177,980 |
| Non-current assets: | | |
| Capital assets, net (note 3) | 11,000,000 | 11,000,000 |
| Total assets | 11,587,548 | 11,177,980 |
| Current liabilities: | | |
| Accounts payable | 110,859 | 37,876 |
| Security deposit | 4,300 | 2,400 |
| Unearned revenue – land option (note 6) | 100,000 | - |
| Total current liabilities | 215,159 | 40,276 |
| Non-current liabilities: | | |
| Unearned revenue – land option (note 6) | 100,000 | - |
| Total liabilities | 315,159 | 40,276 |
| Net position: (note 4, 5) | | |
| Net investment in capital assets | 11,000,000 | 11,000,000 |
| Unrestricted | 272,389 | 137,704 |
| Total net position – as restated | \$ 11,272,389 | 11,137,704 |

Los Cerritos Wetlands Authority
Statements of Activities
For the Fiscal Year Ended September 30, 2016
(with comparative amounts for the fiscal year ended September 30, 2015)

| Governmental Activities: | 2016 | As Restated 2015 |
|---|----------------------|-----------------------------|
| Expenses: | | |
| Authority operations | \$ 244,071 | 199,717 |
| Total expenses | 244,071 | 199,717 |
| Program revenues: | | |
| Contributions – operating | 35,000 | 67,399 |
| Capital grants – state and county | 105,302 | 107,765 |
| Capital contributions – private agency | 51,009 | - |
| Total program revenues | 191,311 | 175,164 |
| Net program expense | 52,760 | 24,553 |
| General revenues: | | |
| Rental income | 87,440 | 25,000 |
| Land option (note 6) | 100,000 | - |
| Interest earnings | 5 | 8 |
| Total general revenues | 187,445 | 25,008 |
| Change in net position | 134,685 | 455 |
| Net position – beginning of year – as restated | 11,137,704 | 11,137,249 |
| Net position – end of year – as restated | \$ 11,272,389 | 11,137,704 |

See accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Reconciliation of the Balance Sheet of Governmental
Type Funds to the Statements of Net Position
September 30, 2016

| | General Fund | Reclassifications & Eliminations | Statement of Net Position |
|--|-------------------------|---|--------------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 314,064 | - | 314,064 |
| Accounts receivable | 60,779 | - | 60,779 |
| Accounts receivable – member agencies | 35,000 | - | 35,000 |
| Accounts receivable – grants | 170,600 | - | 170,600 |
| Prepaid insurance | 7,105 | - | 7,105 |
| Total current assets | 587,548 | - | 587,548 |
| Non-current assets: | | | |
| Capital assets, net | - | 11,000,000 | 11,000,000 |
| Total assets | \$ 587,548 | 11,000,000 | 11,587,548 |
| Current liabilities: | | | |
| Accounts payable | \$ 110,859 | - | 110,859 |
| Security deposit | 4,300 | - | 4,300 |
| Unearned revenue – land option | 100,000 | - | 100,000 |
| Total current liabilities | 215,159 | - | 215,159 |
| Non-current liabilities: | | | |
| Unearned revenue – land option | 100,000 | - | 100,000 |
| Total liabilities | 315,159 | - | 315,159 |
| Fund balance: (note 4) | | | |
| Nonspendable | 7,105 | (7,105) | - |
| Unassigned | 265,284 | (265,284) | - |
| Total fund balance | 272,389 | (272,389) | - |
| Total liabilities and fund balance | \$ 587,548 | | |
| Net position: (note 4, 5) | | | |
| Net investment in capital assets | | 11,000,000 | 11,000,000 |
| Unrestricted | | 272,389 | 272,389 |
| Total net position | | \$ 11,272,389 | 11,272,389 |
| Reconciliation: | | | |
| Fund balance of governmental funds | | | \$ 272,389 |
| Amounts reported for governmental activities in the statement of net position is different because: | | | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. | | | 11,000,000 |
| Net position of governmental activities | | | \$ 11,272,389 |

See accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Type Funds to the Statements of Activities
For the Fiscal Year Ended September 30, 2016

| | <u>General Fund</u> | <u>Reclassifications & Eliminations</u> | <u>Statement of Activities</u> |
|--|-------------------------|---|------------------------------------|
| Expenditures/Expenses: | | | |
| Authority operations | \$ 244,071 | - | 244,071 |
| Total expenditures/expenses | <u>244,071</u> | <u>-</u> | <u>244,071</u> |
| Program revenues: | | | |
| Contributions – operating | 35,000 | - | 35,000 |
| Capital grant – state and county | 105,302 | - | 105,302 |
| Capital grant – private agency | 51,009 | - | 51,009 |
| Total program revenues | <u>191,311</u> | <u>-</u> | <u>191,311</u> |
| Net program revenue | | | <u>52,760</u> |
| General revenues: | | | |
| Rental income | 87,440 | - | 87,440 |
| Land option | 100,000 | - | 100,000 |
| Interest earnings | 5 | - | 5 |
| Total general revenues | <u>187,445</u> | <u>-</u> | <u>187,445</u> |
| Total revenues | <u>378,756</u> | <u>-</u> | |
| Excess of revenues over expenditures | 134,685 | (134,685) | - |
| Change in net position | - | 134,685 | 134,685 |
| Fund deficit/Net position – beginning of year – as restated | <u>137,704</u> | <u>-</u> | <u>11,137,704</u> |
| Fund balance/Net position – end of year | <u>\$ 272,389</u> | <u>-</u> | <u>11,272,389</u> |
| Reconciliation: | | | |
| Change in net position of governmental activities | | | \$ <u>134,685</u> |

See accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended September 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

In February 2006, a joint powers agreement was adopted among the Rivers and Mountains Conservancy, State Coastal Conservancy, City of Long Beach, and the City of Seal Beach. The agreement established the Los Cerritos Wetlands Authority (Authority). Each party shall, subject to the availability of funds, make equal annual contributions (minimum \$5,000 and maximum \$25,000) to, or on behalf of, the Authority. The purpose of the Authority is to provide for a comprehensive program of acquisition, protection, conservation, restoration, maintenance and operation, and environmental enhancement of the Los Cerritos Wetlands area consistent with the goals of flood protection, habitat protection and restoration and improved water supply, water quality, groundwater recharge and water conservation. The Authority has the ability to acquire and own real property, although it does not have the power of eminent domain. A second major purpose of the Authority is to conduct restoration planning and implement that restoration.

The Authority entered into an agreement of land transfer with the Trust for Public Land for approximately 68 acres of property and surface rights; commonly known as the Bryant property in Long Beach, California. The Bryant property has been an active oil field for several decades and currently contains several active oil wells and associated pipelines, roads and buildings.

The acquisition of the Bryant property involved several legal agreements as follows:

- Land Transfer Agreement - Under this agreement the Trust for Public Lands would cause the conveyance of surface fee interest in the 68 acres to the Authority. The Authority would not acquire the mineral rights or the lessor's interest in the oil and gas lease. The Authority would accept title to the surface fee interest property as-is, subject to the Land Use Agreement and the Indemnification Agreement as discussed below.
- Land Use Agreement - This agreement is between Trust for Public Lands, Signal Hill Petroleum, and the Authority, acknowledging the intended use of the conveyed property and the retained property by Signal Hill Petroleum and the Authority. The purpose of the agreement is to ensure the intended use and access of the property for both the Authority and Signal Hill Petroleum.
- Termination of Oil and Gas Lease and Grant of Easement Agreement - This agreement is to define the specific access over and use of the surface property that the Authority grants Signal Hill Petroleum to allow for the existing and future oil operations. The agreement also defines conditions for the oil operations to ensure that they are consistent with the Authority's intended use for habitat restoration and public access. The Authority grants specific easements to Signal Hill Petroleum for oil operations. The easement shall expire when all oil operations are abandoned, and Signal Hill Petroleum shall pay rent of \$25,000 per year to the Authority for the use of these easements.
- Environmental Indemnity Agreement- Under the terms of this agreement, Signal Hill Petroleum indemnifies parties from liabilities associated with any release of materials generated from the oil or gas operations beyond the levels accepted for industrial use. This indemnification only includes liabilities associated with past and future environmental releases associated with oil and gas operations but not for liability for contamination that is unrelated to those activities.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Authority are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Authority are interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The Authority reports the following major governmental fund:

General Fund – is a government's only operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund when necessary.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Statement Elements

1. Cash and Cash Equivalents

The Authority has contracted with the City of Long Beach Treasurer's Office to act as its fiscal agent. Substantially all of the Authority's cash is held in a financial institution bank account. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

2. Accounts Receivable

The Authority considers accounts receivable to be fully collectible. Accordingly, an allowance for uncollectible accounts has not been recorded.

3. Prepaids

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

4. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets is land held by the Authority. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Authority's capitalization threshold is met.

5. Net Position/Fund Balances

The financial statements utilize a net position presentation. Net position categories are follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of the net position balance that does not meet the definition of *restricted* or *net investment in capital assets*.

6. Fund Equity

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Authority is bound to honor constraints on how specific amounts can be spent.

- **Non-spendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Statement Elements, continued

6. Fund Equity (continued)

- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the Authority’s highest level of decision-making authority (the Governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the Authority’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Authority’s special revenue funds.
- **Unassigned fund balance** – the residual classification for the Authority’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Governing Board established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

The Authority believes that sound financial management principles require that sufficient funds be retained by the Authority to provide a stable financial base at all times. To retain this stable financial base, the Authority needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the Authority and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the Authority’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

7. Budgetary Policies

The Authority follows specific procedures in establishing the budgetary data reflected in the financial statements. Each June the Authority’s Executive Officer prepares and submits an operating budget to the Governing Board for the General Fund. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting.

8. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the Authority’s net position during the reporting period. Actual results could differ from those estimates.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Statement Elements, continued

9. Reclassification

The District has reclassified certain prior year information to conform to current year presentation.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2016, consist of the following:

| | | |
|---|----|-----------------------|
| Deposits held with financial institutions | \$ | <u>314,064</u> |
| Total cash and cash equivalents | \$ | <u><u>314,064</u></u> |

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the 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 California Government Code and the Authority's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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. The Authority had deposits with a bank balance of \$314,064 as of September 30, 2016. Of the bank balance, up to \$250,000 is federally insured and any remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Authority's name.

(3) Capital Assets

Changes in capital assets for the year were as follows:

| | <u>Balance</u> <u>2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2016</u> |
|---------------------------|-------------------------------|------------------|------------------|-------------------------------|
| Land | \$ 11,000,000 | - | - | 11,000,000 |
| Total capital assets, net | <u>\$ 11,000,000</u> | | | <u><u>11,000,000</u></u> |

(4) Unrestricted Net Position

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note (1)C.6 for a description of these categories). A detailed schedule of fund balance and their funding composition at September 30, 2016, is as follows:

| <u>Fund Balance Category</u> | |
|------------------------------|--------------------------|
| Nonspendable: | |
| Prepaid insurance | \$ 7,105 |
| Unassigned fund balance: | <u>265,284</u> |
| Total fund balance | <u><u>\$ 272,389</u></u> |

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(5) Adjustment to Net Position

Accounts Receivable – Grants

In fiscal year 2016, the Authority determined that certain State and County grant revenues were not recorded within the proper fiscal year. The effect was the under accrual of revenue and related accounts receivable in fiscal years ended September 30, 2014, and 2015. Accordingly, the Authority has recorded a prior period adjustment to net position in the amount of \$7,725 and \$56,542 at September 30, 2014 and 2015, respectively.

The adjustment to net position is as follows:

| | | |
|--|----|------------|
| Net position at September 30, 2013, as previously stated | \$ | 11,100,919 |
| Effect of adjustment to record grant receivables | | 7,725 |
| Change in net position at September 30, 2014, as previously stated | | 28,605 |
| Total adjustment to net position | | 36,330 |
| Net position at September 30, 2014, as restated | \$ | 11,137,249 |
| Effect of adjustment to record grant receivables | \$ | 56,542 |
| Change in net position at September 30, 2015, as previously stated | | (56,087) |
| Total adjustment to net position | | 455 |
| Net position at October 1, 2015, as restated | \$ | 11,137,704 |

(6) Land Option and Exchange Agreements

On September 27, 2016, the Authority entered into a land exchange option agreement with Los Cerritos Wetlands, LLC (the LLC). Terms of the agreement call for non-refundable consideration in the amount of \$300,000 to be paid to the Authority for an initial option term of 4 years, with an optional term of 4 years thereafter. The agreement provides a right of termination clause in the event the LLC determines to terminate the agreement. Upon termination, the agreement calls for the Authority to refund the LLC \$200,000 within the first year of the agreement, or \$100,000 if exercised within second year of the agreement. At September 30, 2016, the Authority has recorded \$200,000 as unearned revenue and recognized \$100,000 as income.

At September 30, 2016, the Authority and the LLC had not exercised the Land Exchange Agreement option.

(7) Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased various commercial insurance policies to manage the potential liabilities that may occur from the previously named sources.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Authority's insurance coverage during the years ending September 30, 2016, 2015, and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of September 30, 2016, 2015, and 2014.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2016, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (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 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

(9) Contingencies

Grant Awards

Grant funds received by the Authority are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Authority believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties. After consultation with legal counsel, the Authority believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2016

(10) Subsequent Events

Events occurring after September 30, 2016 have been evaluated for possible adjustment to the financial statements or disclosure as of April 13, 2017, which is the date the financial statements were available to be issued.

Required Supplementary Information

Los Cerritos Wetlands Authority
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended September 30, 2016

| | <u>Original Budget</u> | <u>Approved Changes</u> | <u>Revised Budget</u> | <u>Budgetary Basis</u> | <u>Positive (Negative)</u> |
|--|----------------------------|-----------------------------|---------------------------|----------------------------|--------------------------------|
| Expenditures/Expenses: | | | | | |
| Authority operations: | | | | | |
| Services and supplies | \$ 408,600 | - | 408,600 | 244,071 | 164,529 |
| Capital outlay | - | - | - | - | - |
| Total expenditures/expenses | <u>408,600</u> | <u>-</u> | <u>408,600</u> | <u>244,071</u> | <u>164,529</u> |
| Program revenues: | | | | | |
| Contributions – operating | 43,000 | - | 43,000 | 35,000 | (8,000) |
| Capital grant – state and county | 178,100 | - | 178,100 | 105,302 | (72,798) |
| Capital grant – private agency | 114,400 | - | 114,400 | 51,009 | (63,391) |
| Total program revenues | <u>335,500</u> | <u>-</u> | <u>335,500</u> | <u>191,311</u> | <u>(144,189)</u> |
| General revenues: | | | | | |
| Rental income | 73,100 | - | 73,100 | 87,440 | 14,340 |
| Land option | - | - | - | 100,000 | 100,000 |
| Interest earnings | - | - | - | 5 | 5 |
| Total general revenues | <u>73,100</u> | <u>-</u> | <u>73,100</u> | <u>187,445</u> | <u>114,345</u> |
| Total revenues | <u>408,600</u> | <u>-</u> | <u>408,600</u> | <u>378,756</u> | <u>(29,844)</u> |
| Excess(deficiency) of revenues over(under) expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>134,685</u> | <u>(194,373)</u> |
| Fund balance – beginning of year – as restated | <u>8,737</u> | | <u>8,737</u> | <u>137,704</u> | |
| Fund balance – end of year | <u>\$ 8,737</u> | | <u>8,737</u> | <u>272,389</u> | |

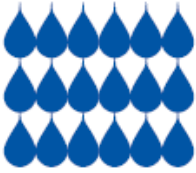
Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The Authority follows specific instructions in establishing the budgetary data reflected in the financial statements. Each year the Authority’s Executive Officer prepares and submits an operating and capital budget to the Board of Directors no later than September. The basis used to prepare the budget does not differ substantially in form from the modified accrual basis of accounting. The adopted budget becomes operative on October 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts.

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Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Los Cerritos Wetlands Authority
Long Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements, and have issued our report thereon dated April 13, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
April 13, 2017



CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedules of Passenger Facility Charges
Collected and Expended and Interest Credited

Year ended September 30, 2016

(With Independent Auditors' Reports Thereon)

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

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Independent Auditors' Report on Compliance for the Passenger Facility Charge Program; Report on Internal Control over Compliance; and Report on Schedules of Passenger Facility Charges Collected and Expended and Interest Credited in Accordance with the *Passenger Facility Charge Audit Guide for Public Agencies*

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

Report on Compliance for the Passenger Facility Charge Program

We have audited the City of Long Beach, California Airport Enterprise Fund's (the Airport) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies (the Guide)*, issued by the Federal Aviation Administration, that could have a direct and material effect on the Airport's passenger facility charge program for the year ended September 30, 2016. The Airport's passenger facility charge program is identified in the summary of auditors' results section of the accompanying schedule of findings and responses.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Airport's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on the Passenger Facility Charge Program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing



procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

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

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

Report on Schedules of Passenger Facility Charges Collected and Expended and Interest Credited

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), which includes the Airport Enterprise Fund, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 27, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedules of passenger facility charges collected and expended and interest credited are presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of passenger facility charges collected and expended and interest credited are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Los Angeles, California
June 12, 2017



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Long Beach Airport Enterprise Fund (the Airport) included in the City of Long Beach, California's (the City) comprehensive annual financial report, which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses, and change in fund net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

Los Angeles, California
March 27, 2017

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Amended Application 03-02-C-04-LGB

Year ended September 30, 2016

| | |
|--|-----------------------------|
| Passenger facility charges collected | \$ 1,957,828 |
| Transfer of PFC collections charges from application 14-07-C-00-LGB (note 4) | 57,062 |
| Transfer of PFC collections charges from application 10-05-C-01-LGB (note 4) | 213,711 |
| Interest credited (note 2) | <u>32,085</u> |
| | 2,260,686 |
| Expenditures for passenger facility charge approved projects | (1,322,611) |
| Excess PFC collections transferred to application 14-07-C-00-LGB (note 4) | <u>(39,089)</u> |
| Change in unexpended passenger facility charges | 898,986 |
| Unexpended passenger facility charges as of September 30, 2015 | <u>16,093,950</u> |
| Excess of passenger facility charges collected over charges expended as of September 30, 2016 | \$ <u><u>16,992,936</u></u> |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Application 06-03-C-01-LGB

Year ended September 30, 2016

| | |
|--|--------------------|
| Passenger facility charges collected | \$ — |
| Interest credited (note 2) | <u>—</u> |
| | — |
| Expenditures for passenger facility charge approved projects | <u>—</u> |
| Change in passenger facility charges | — |
| Unexpended passenger facility charges as of September 30, 2015 | <u>—</u> |
| Excess of passenger facility charges expended over charges collected as of September 30, 2016 | \$ <u><u>—</u></u> |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Amended Application 10-05-C-01-LGB

Year ended September 30, 2016

| | | |
|--|----|-----------------|
| Passenger facility charges collected | \$ | 184,748 |
| Interest credited (note 2) | | <u>4,410</u> |
| | | 189,158 |
| Excess PFC collections transferred to application 03-02-C-04-LGB (note 4) | | (213,711) |
| Expenditures for passenger facility charge approved projects | | (189,606) |
| Expenditures transferred to Grant AIP 40 (note 3) | | <u>214,159</u> |
| Change in unexpended passenger facility charges | | — |
| Unexpended passenger facility charges as of September 30, 2015 | | <u>—</u> |
| Excess of passenger facility charges collected over charges expended as of September 30, 2016 | \$ | <u><u>—</u></u> |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Application 11-06-U-00-LGB

Year ended September 30, 2016

| | | |
|--|----|--------------------|
| Passenger facility charges collected | \$ | 2,678,605 |
| Interest credited (note 2) | | <u>67,160</u> |
| | | 2,745,765 |
| Expenditures for passenger facility charge approved projects | | <u>(2,745,765)</u> |
| Change in passenger facility charges | | — |
| Unexpended passenger facility charges as of September 30, 2015 | | <u>—</u> |
| Excess of passenger facility charges expended over charges collected as of September 30, 2016 | \$ | <u><u>—</u></u> |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and
Expended and Interest Credited

Amended Application 14-07-C-00-LGB

Year ended September 30, 2016

| | | |
|--|----|-----------------|
| Passenger facility charges collected | \$ | 248,663 |
| Transfer of excess PFC collections from application 03-02-C-04-LGB (note 4) | | 39,089 |
| Interest credited (note 2) | | <u>7,590</u> |
| | | 295,342 |
| Excess PFC collections transferred to application 03-02-C-04-LGB (note 4) | | (57,062) |
| Expenditures for passenger facility charge approved projects | | (298,804) |
| Expenditures transferred to Grant AIP 40 (note 3) | | 50,873 |
| Expenditures transferred to Grant AIP 43 (note 3) | | <u>9,651</u> |
| Change in unexpended passenger facility charges | | — |
| Unexpended passenger facility charges as of September 30, 2015 | | <u>—</u> |
| Excess of passenger facility charges collected over charges expended as of September 30, 2016 | \$ | <u><u>—</u></u> |

See accompanying notes to schedules of passenger facility charges collected and expended and interest credited, and independent auditors' report on compliance with requirements applicable to the passenger facility charge program and on internal control over compliance and schedules of passenger facility charges collected and expended and interest credited.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Amended Application 03-02-C-04-LGB

Quarters ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016

| | December 31, 2015 | March 31, 2016 | June 30, 2016 | September 30, 2016 | Total |
|--|------------------------------|---------------------------|--------------------------|-------------------------------|-------------------|
| Passenger facility charges collected | \$ 105,071 | 870,427 | 647,853 | 334,477 | 1,957,828 |
| Transfer of excess PFC collections charges from application 14-07-C-00-LGB (note 4) | — | 57,062 | — | — | 57,062 |
| Transfer of excess PFC collections charges from application 10-05-C-01-LGB (note 4) | — | — | 213,711 | — | 213,711 |
| Interest credited (note 2) | 5,993 | 6,772 | 9,988 | 9,332 | 32,085 |
| | <u>111,064</u> | <u>934,261</u> | <u>871,552</u> | <u>343,809</u> | <u>2,260,686</u> |
| Expenditures for passenger facility charge approved projects | (338,132) | (240,607) | (400,063) | (343,809) | (1,322,611) |
| Excess PFC collections transferred to application 14-07-C-00-LGB (note 4) | — | — | — | (39,089) | (39,089) |
| Change in unexpended passenger facility charges | (227,068) | 693,654 | 471,489 | (39,089) | \$ <u>898,986</u> |
| Unexpended passenger facility charges at beginning of quarter | <u>16,093,950</u> | <u>15,866,882</u> | <u>16,560,536</u> | <u>17,032,025</u> | |
| Excess of passenger facility charges collected over charges expended at end of quarter | \$ <u>15,866,882</u> | <u>16,560,536</u> | <u>17,032,025</u> | <u>16,992,936</u> | |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Application 06-03-C-01-LGB

Quarters ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016

| | December 31, 2015 | March 31, 2016 | June 30, 2016 | September 30, 2016 | Total |
|--|------------------------------|---------------------------|--------------------------|-------------------------------|--------------|
| Passenger facility charges collected | \$ — | — | — | — | — |
| Interest credited (note 2) | — | — | — | — | — |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Expenditures for passenger facility charge approved projects | — | — | — | — | — |
| Change in passenger facility charges | — | — | — | — | \$ <u>—</u> |
| Excess of passenger facility charges expended over charges collected at beginning of quarter | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | |
| Excess of passenger facility charges expended over charges collected at end of quarter | \$ <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Amended Application 10-05-C-01-LGB

Quarters ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016

| | <u>December 31,</u> <u>2015</u> | <u>March 31,</u> <u>2016</u> | <u>June 30,</u> <u>2016</u> | <u>September 30,</u> <u>2016</u> | <u>Total</u> |
|--|------------------------------------|---------------------------------|--------------------------------|-------------------------------------|----------------|
| Passenger facility charges collected | \$ 84,602 | 70,053 | 8,473 | 21,620 | 184,748 |
| Interest credited (note 2) | 1,513 | 2,023 | 207 | 667 | 4,410 |
| | <u>86,115</u> | <u>72,076</u> | <u>8,680</u> | <u>22,287</u> | <u>189,158</u> |
| Excess PFC collections transferred to application 03-02-C-04-LGB (note 4) | — | — | (213,711) | — | (213,711) |
| Expenditures for passenger facility charge approved projects | (86,115) | (72,076) | (9,128) | (22,287) | (189,606) |
| Expenditures transferred to Grant AIP 40 (note 3) | | | 214,159 | — | 214,159 |
| Change in unexpended passenger facility charges | — | — | — | — | \$ <u>—</u> |
| Unexpended passenger facility charges at beginning of quarter | — | — | — | — | |
| Excess of passenger facility charges collected over charges expended at end of quarter | \$ <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Application 11-06-U-00-LGB

Quarters ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016

| | <u>December 31,</u> <u>2015</u> | <u>March 31,</u> <u>2016</u> | <u>June 30,</u> <u>2016</u> | <u>September 30,</u> <u>2016</u> | <u>Total</u> |
|--|------------------------------------|---------------------------------|--------------------------------|-------------------------------------|--------------------|
| Passenger facility charges collected | \$ 674,220 | 667,137 | 669,327 | 667,921 | 2,678,605 |
| Interest credited (note 2) | 12,146 | 19,278 | 17,072 | 18,664 | 67,160 |
| | <u>686,366</u> | <u>686,415</u> | <u>686,399</u> | <u>686,585</u> | <u>2,745,765</u> |
| Expenditures for passenger facility charge approved projects | <u>(686,366)</u> | <u>(686,415)</u> | <u>(686,399)</u> | <u>(686,585)</u> | <u>(2,745,765)</u> |
| Change in passenger facility charges | — | — | — | — | \$ <u>—</u> |
| Excess of passenger facility charges expended over charges collected at beginning of quarter | — | — | — | — | |
| Excess of passenger facility charges collected over charges expended at end of quarter | \$ <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | |

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Schedule of Passenger Facility Charges Collected and Expended and Interest Credited

Amended Application 14-07-C-00-LGB

Quarters ended December 31, 2015, March 31, 2016, June 30, 2016, and September 30, 2016

| | <u>December 31,</u> <u>2015</u> | <u>March 31,</u> <u>2016</u> | <u>June 30,</u> <u>2016</u> | <u>September 30,</u> <u>2016</u> | <u>Total</u> |
|--|------------------------------------|---------------------------------|--------------------------------|-------------------------------------|----------------|
| Passenger facility charges collected | \$ 29,368 | 889 | 90,793 | 127,613 | 248,663 |
| Transfer of excess PFC collections from application 03-02-C-04-LGB (note 4) | — | — | — | 39,089 | 39,089 |
| Interest credited (note 2) | 525 | 28 | 2,371 | 4,666 | 7,590 |
| | <u>29,893</u> | <u>917</u> | <u>93,164</u> | <u>171,368</u> | <u>295,342</u> |
| Excess PFC collections transferred to application 03-02-C-04-LGB (note 4) | — | (57,062) | — | — | (57,062) |
| Expenditures for passenger facility charge approved projects | (29,893) | (4,379) | (93,164) | (171,368) | (298,804) |
| Expenditures transferred to Grant AIP 40 (note 3) | — | 50,873 | — | — | 50,873 |
| Expenditures transferred to Grant AIP 43 (note 3) | — | 9,651 | — | — | 9,651 |
| Change in unexpended passenger facility charges | — | — | — | — | \$ <u>—</u> |
| Unexpended passenger facility charges at beginning of quarter | — | — | — | — | |
| Excess of passenger facility charges collected over charges expended at end of quarter | \$ <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | |

See accompanying notes to schedules of passenger facility charges collected and expended and interest credited, and report on compliance with requirements applicable to the passenger facility charge program and on internal control over compliance and schedules of passenger facility charges collected and expended and interest credited.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND
Notes to Schedules of Passenger Facility Charges Collected
and Expended and Interest Credited
Year ended September 30, 2016

(1) Basis of Accounting

The schedules of passenger facility charges (PFC) collected and expended and interest credited are prepared on the basis of cash receipts and disbursements, as prescribed by Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990, issued by the Federal Aviation Administration (FAA) of the U.S. Department of Transportation, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

PFC collected includes amounts collected by the airlines and transferred to the City of Long Beach Airport Enterprise Fund (the Airport). Expenditures for passenger facility charge approved projects are presented on a cash basis and include only the expenditures for approved PFC projects.

(2) Interest Credited

Interest credited represents interest income allocated to the PFC Program (the Program) based on the ratio of the Program's unexpended PFC cash balance to the Airport's total cash and investments balance included in the pooled cash funds of the City of Long Beach.

(3) Transfers of Expenditures

In 2016, certain expenditures incurred in the prior year and recorded in application 14-07-C-00-LGB and 10-05-C-01-LGB of \$61 thousand and \$214 thousand, respectively, were transferred as the funding source for the expenditures was revised to be Airport Improvement Grants (AIP). The expenditures relate to projects approved for both PFC and AIP funding and the Airport determined it appropriate that the expenditures be funded first with AIP grants, accordingly these expenditures were transferred.

(4) Transfers of Excess Charges to Other Applications

The Airport's policy is to match PFC charges collected and interest earned (collectively referred to as PFC collections) with expenditures from approved PFC projects. Any excess PFC collections over eligible expenditures are reported in application 03-02-C-04-LGB. To the extent there are cost adjustments, PFC collections are transferred between appropriate applications to adhere to the Airport's policy. For the year ended September 30, 2016, the Airport transferred \$214 thousand and \$57 thousand from applications 10-05-C-01-LGB and 14-07-C-00-LGB, respectively, to application 03-02-C-04-LGB. These amounts were transferred as a result of expenditure adjustments to other funding sources as discussed in note 3. During the year, the Airport also transferred \$39 thousand from application 03-02-C-04-LGB to 14-07-C-00-LGB due to other cost adjustments in application 14-07-C-00-LGB.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Schedules of Findings and Responses

Year ended September 30, 2016

(1) Summary of Auditors' Results

Airport Financial Statements

(a) The type of report issued on the financial statements: **Unmodified**

(b) Internal control over financial reporting:

- Material weakness(es): **No**
- Significant deficiencies identified that are not considered to be material weaknesses: **None reported**

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

Passenger Facility Charges Program

(d) Internal control over the passenger facility charge program:

- Material weakness(es) identified: **No**
- Significant deficiencies identified that are not considered to be material weaknesses: **None reported**

(e) The type of report issued on compliance for the passenger facility charge program: **Unmodified**

(f) Any audit findings required to be reported for the Passenger Facility Charges program: **No**

(2) Findings Related to the Financial Statements Reported in accordance with *Government Auditing Standards*

None noted

(3) Findings and Questioned Costs Related to the Passenger Facility Charge Program

None noted