



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

# LONG BEACH WATER DEPARTMENT

*A Department Of The City Of Long Beach, California*

FOR THE FISCAL YEAR  
ENDED SEPTEMBER 30, 2011



# 1911-2011

ONE HUNDRED YEARS OF DEDICATED SERVICE



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

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

**On the front cover:**

**Top:** In a 1921 photograph, The Department employees dig trenches to accommodate a new water pipeline.

**Middle:** A newly drilled groundwater well in 1931 pumps water to the surface.

**Bottom:** By the 1930's machines were used to cover newly installed water pipelines.

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

**For the Fiscal Years Ended  
SEPTEMBER 30, 2011 and 2010**

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

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# INTRODUCTORY SECTION

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# Comprehensive Annual Financial Report

of the

## Long Beach Water Department

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

For the Fiscal Years Ended September 30, 2011 and 2010

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## **Long Beach Water Department**

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

DATE May 15, 2012  
TO Board of Water Commissioners  
FROM B. Anatole Falagan, Deputy General Manager - Business  
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal years ended  
September 30, 2011 and 2010

Management is pleased to present the Comprehensive Annual Financial Report (CAFR) of the Long Beach Water Department (Department), for the fiscal years ended September 30, 2011 and 2010. The Department's financial statements are also included in the City of Long Beach (the City) Financial Statements as enterprise funds (Water Fund and Sewer Fund).

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

The accompanying financial statements have been audited by KPMG LLP, an independent certified public accounting firm. KPMG LLP has issued an unqualified ("clean") opinion on the Department's financial statements for the fiscal years ended September 30, 2011 and 2010. The independent auditor's report is located at the front of the financial section of this report.

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

## **THE REPORTING ENTITY**

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

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

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

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

The Department's service area encompasses the boundaries of the City of Long Beach, the sixth largest city in State, with an area of approximately 50 square miles and a population of 462,257 with some customers outside the City limits. The Department is not subject to regulation by the California Public Utilities Commission.

## **LOCAL ECONOMY**

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

## **WATER SUPPLY**

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

### ***Drought Related Developments***

Since 2007, the Water Department has undertaken a comprehensive public communications strategy to emphasize the need for a comprehensive reduction in water consumption. The Water Department began communicating a regular update on the overall demand in its service area, compared to a historical ten (10) year average period immediately predating the call for conservation. Since 2007, the Water Department's customers have achieved a sustained conservation response leading to annual demands at about 16% below the historical ten (10) year average. Currently, overall consumption by Water Department customers is approximately equivalent to the consumption levels in 1966. The Water Department continues to provide additional communications and programs such as landscape retrofits to its customers, and believes the conservation response is a sustained change in consumption behavior.

Reduced water usage by the customers of the City has resulted in reduced Department revenues. However, such reduction in revenues has also been offset by a reduction in operating expenses as a result of less water having to be purchased from Metropolitan Water District (MWD). Additionally, the Department has managed discretionary budget expenses to minimize budget and rate impacts from reduced consumption.

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

### ***Groundwater***

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

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

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

### ***Imported Supplies***

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

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

### ***Water Recycling***

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

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

The Department remains committed to developing alternatives to imported potable (drinking) water supplies to meet the water needs of the City. Reclaimed water will continue to be an integral part in efforts to reduce our need to purchase imported water and to develop new sources of water. In FY 2011, the Department served approximately 2,022.3 million gallons of reclaimed water to a variety of users throughout the City. Since October 1, 2005, the Department, on contract with the Water Replenishment District (WRD), has operated a 3.0 million gallon per day reverse osmosis water treatment plant, enabling WRD to use recycled water from the Long Beach Water Reclamation Plant to replace up to 3,000 acre-feet per year of imported water previously supplied to the Alamitos Barrier. The Alamitos Barrier is an engineered freshwater pressure ridge and seawater trough constructed to prevent seawater intrusion into the Central Groundwater Basin of Los Angeles County and neighboring Orange County Groundwater Basin.

### ***Conservation***

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

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

Most single-family residential water use appears to be for landscape irrigation. For these customers, the Department provides, at no cost to the customer, very well attended and received classroom instruction on the design, installation, and maintenance of California-friendly landscapes. Another innovative program is the Department's direct installation of weather-based irrigation controllers, a program under which we identify landscape accounts, offer free water-use studies and free installation of weather-based irrigation controllers. The Department has also developed and implemented a landscape retrofit program whereby customers, on a first-come-first-serve basis, can apply for incentives to relandscape turf surfaces. Up to 1,000 square feet of landscape per customer can qualify, until annual program funds are exhausted. Information and results from the program will be used to reinforce the need for landscape water conservation throughout the City.

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

business community through advertisements and other promotional means.

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

## **WATER QUALITY**

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

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

The Department conducts extensive sampling and testing of groundwater wells, water storage reservoirs, the water distribution system and, when appropriate, selected homes, businesses, schools and public facilities. This year, our Water Quality laboratories collected 15,814 samples and performed 71,472 tests while maintaining certification with the California Department of Health Services and Environmental Protection Agency (EPA).

During fiscal year 2011, the Groundwater Treatment Plant processed approximately 5.86 billion gallons of drinking water. Overall, 18.58 billion gallons of high-quality water were delivered to the Long Beach community.

## **MAJOR INITIATIVES**

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

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

as a report to the U.S. Bureau of Reclamation. Additionally, the Department operates an ongoing research project for an under-ocean intake and discharge system.

### ***Conjunctive Use***

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

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

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2011, the water distribution system totaled 909 miles of water mains with 89,851 active service connections.

During fiscal year 2011, the Department and contractors replaced 21,294 feet of deteriorated cast iron water mains with new ductile iron pipe. This critical replacement program addresses upgrading old pipelines, many of which were installed more than 50 years ago.

The Department maintains approximately 589 old control valves 20 inches or more in diameter and 19,278 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. During the year, the Department performed maintenance on 1,719 valves, repaired 15 and replaced 72.

The Department also replaced 561 water services utilizing copper pipe, replaced or repaired 223 fire hydrants, responded to 11,954 customer service requests and reviewed 71 high bill reports. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. During the year, the Department repaired 39 water main pipeline breaks citywide and tested, installed, repaired or exchanged 1,725 water meters.

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

### ***Sanitary Sewer Collection System***

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



repair of sewer lines including:

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

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

This year the Department completed 259 sewer lateral and sewer main pipeline repair jobs, repaired private sewer lines damaged by the roots from City trees (including sidewalk replacement), chemically treated 5,000 of the 16,147 sewer manholes to control vectors (roaches, other insects and rodents), and cleaned 470 of the 712 miles of sewer pipelines throughout the City.

### **RELEVANT FINANCIAL POLICIES**

The Department's financial statements are presented on the accrual basis of accounting. As an enterprise fund, the cost of providing water is recovered through user charges assessed by meter size, volumetric charges and other miscellaneous charges. The cost of providing sewer service is also recovered through user and volumetric charges for all water customers who are connected to the City's sewers. Certain services, such as payroll, civil service, public service, general service, customer billing, data processing, legal, etc., are provided to the Department by other City departments; these costs are reimbursed to the City by transfer of funds from the Water Fund or the Sewer Fund.

#### ***Internal Control Structure***

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

### ***Budgetary Control***

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

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

## AWARDS AND ACKNOWLEDGEMENTS

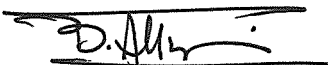
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2010. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting and its attainment represents a significant accomplishment by a government agency and its management. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR whose contents not only conform to the high program standards of the GFOA, but also satisfy both generally accepted accounting principles and applicable legal requirements.

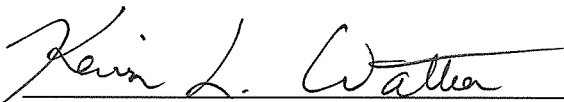
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

It is recommended that the Board of Water Commissioners receive and file the Comprehensive Annual Financial Report for the fiscal years ended September 30, 2011 and 2010.

Prepared by:   
Paul T. Fujita, Director of Finance

Submitted and  
Recommended by:   
B. Anatole Falagan, Deputy General Manager - Business

Approved by:   
Kevin L. Wattier, General Manager

Att.  
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# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Long Beach Water Department  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2010

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



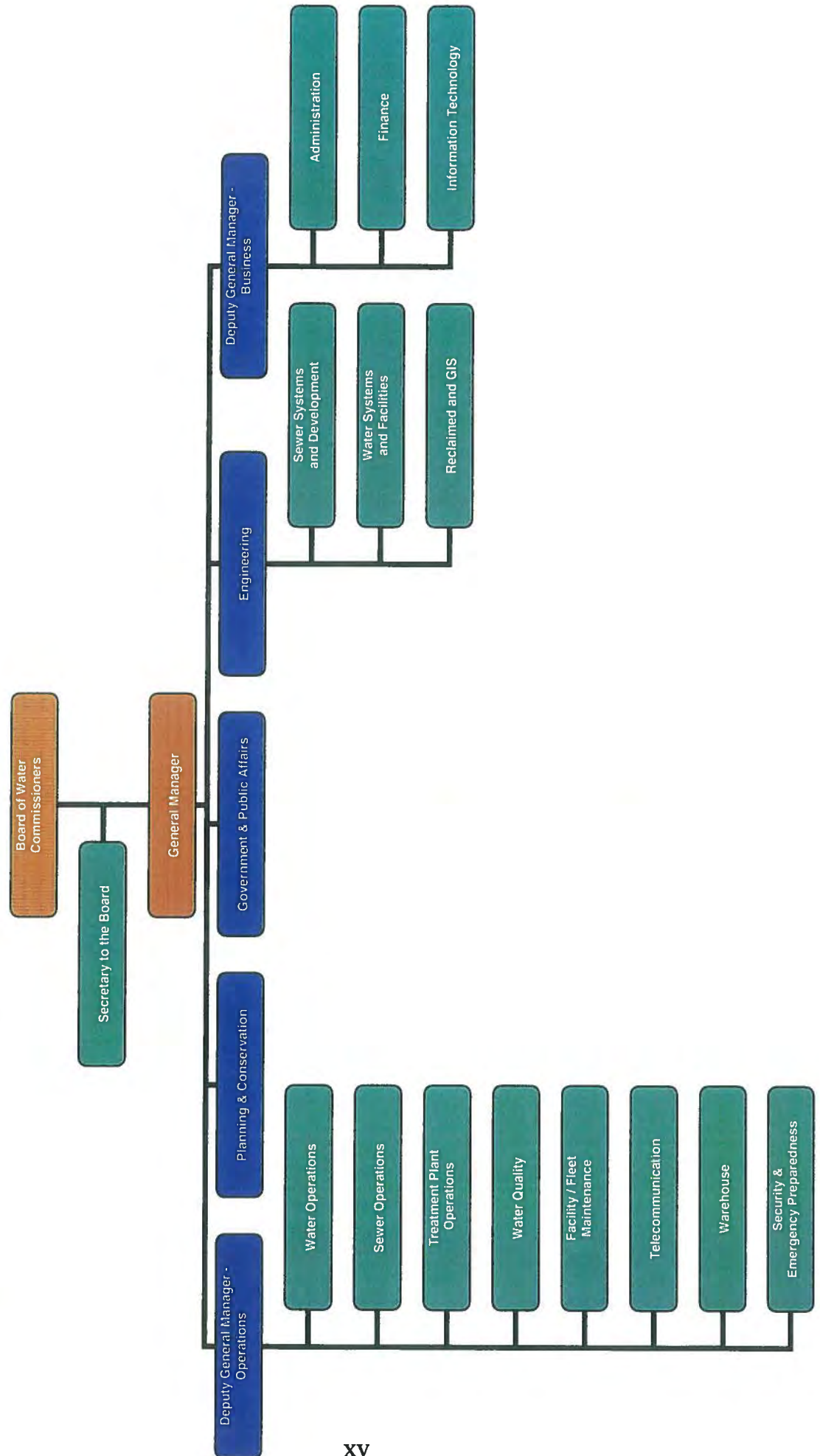
*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director

# Long Beach Water Department Organizational Chart



# **LONG BEACH WATER DEPARTMENT**

## **BOARD OF WATER COMMISSIONERS**

FRANK CLARKE	PRESIDENT
WILLIAM B. TOWNSEND	VICE PRESIDENT
JOHN D. S. ALLEN	SECRETARY
PAUL BLANCO	MEMBER
SUZANNE DALLMAN	MEMBER

## **STAFF**

KEVIN L. WATTIER  
General Manager

B. ANATOLE FALAGAN  
Deputy General Manager - Business

ROBERT C. CHENG  
Deputy General Manager - Operations

# FINANCIAL SECTION

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KPMG LLP  
Suite 700  
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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of the Long Beach Water Department (the Department) of the City of Long Beach, California (the City) as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed more fully in note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City as of September 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2011 and 2010, and the respective changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2012 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.



The information in the Management's Discussion and Analysis on pages 3 to 22 is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Department's basic financial statements. The accompanying information identified in the table of contents as the introductory section and the statistical section are presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory sections and the statistical section have not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

May 15, 2012

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2011 and 2010

As the management of the Long Beach Water Department, a department of the City of Long Beach (the City), we offer readers of the Long Beach Water Department's financial statements this narrative overview and analysis of the financial activities of the Long Beach Water Department (the Department) for the fiscal years ended September 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. The Department comprises the City's Water Enterprise Fund (Water Fund) and Sewer Enterprise Fund (Sewer Fund) operations. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### FINANCIAL HIGHLIGHTS

The Department's assets exceeded its liabilities at the close of fiscal year 2011 (FY2011) by \$334,749 (*net assets*). The Department's net assets are further broken down between the Water Fund and Sewer Fund below.

**Water Fund.** Assets exceeded liabilities at the close of FY2011 by \$278,274. Of this amount, \$46,248 (*unrestricted net assets*) is available to meet the Water Fund's ongoing obligations to creditors and customers. Unrestricted net assets represented 57.5% of the Water Fund's annual operating expenses for FY2011 as compared with 45.8% for fiscal year 2010 (FY2010). Total Water Fund net assets were increased by \$15,082 (+5.7%) from the prior fiscal year. This increase is attributable to income of \$6,799 and capital contributions of \$8,283.

**Sewer Fund.** Net assets totaled \$56,475 as of September 30, 2011, an increase of \$3,871 (+7.4%) from the prior fiscal year. The increase reflects income in excess of expenses and contributed capital received during the year. At the end of the current fiscal year, the Sewer Fund's unrestricted net assets represented 61.5% of annual operating expenses for FY2011 as compared with 44.4% for FY2010.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. Because the Department is a business-type activity of the City, enterprise funds are used to account for its water and sewer operations. These financial statements include only the activities of the Department and provide comparative information for the last two fiscal years. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2011.

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2011 and 2010

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

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

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

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

The *Notes to Financial Statements* provide additional information that is essential to the full understanding of the data provided in the financial statements and can be found on pages 26-55 of this report.

### FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. A summary of the Department's Statements of Net Assets for the past three years is presented on page 5. As of September 30, 2011, Water Fund assets exceeded liabilities by \$278,274, and Sewer Fund assets exceeded liabilities by \$56,475, representing a 5.7% increase in net assets over the prior fiscal year for the Water Fund and a 7.4% increase in Sewer Fund net assets. Net assets are further categorized by investments in capital assets, and restricted and unrestricted net assets.

As of September 30, 2011, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represented 82.0% and 83.9% of Water Fund and Sewer Fund net assets, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2011 and 2010

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

The restricted portion of the Water Fund's net assets (1.4% and 1.2% of total net assets as of September 30, 2011 and 2010, respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Department's net assets (16.5% and 13.5% of total net assets as of September 30, 2011 and 2010, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed Schedules of Net Assets as of September 30, 2011, 2010, and 2009 are as follows (in thousands):

<b>Long Beach Water Department Condensed Schedules of Net Assets September 30, 2011, 2010, and 2009 (in thousands)</b>							
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Variance</b>			
				<b>2011/2010</b>		<b>2010/2009</b>	
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Assets:</b>							
Current and other assets	\$ 74,088	\$ 62,473	\$ 44,137	\$ 11,615	18.6%	\$ 18,336	41.5%
Capital assets	320,224	307,507	309,010	12,717	4.14%	(1,503)	-0.49%
Total assets	<u>394,312</u>	<u>369,980</u>	<u>353,147</u>	<u>24,332</u>	<u>6.6%</u>	<u>16,833</u>	<u>4.8%</u>
<b>Liabilities:</b>							
Current liabilities	14,164	10,363	13,751	3,801	36.7%	(3,388)	-24.6%
Noncurrent liabilities	45,399	43,821	42,858	1,578	3.6%	963	2.2%
Total liabilities	<u>59,563</u>	<u>54,184</u>	<u>56,609</u>	<u>5,379</u>	<u>9.9%</u>	<u>(2,425)</u>	<u>-4.3%</u>
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	275,574	269,942	268,865	5,632	2.1%	1,077	0.4%
Restricted	3,830	3,247	4,240	583	18.0%	(993)	-23.4%
Unrestricted	55,345	42,607	23,433	12,738	29.9%	19,174	81.8%
Total net assets	<u>\$ 334,749</u>	<u>\$ 315,796</u>	<u>\$ 296,538</u>	<u>\$ 18,953</u>	<u>6.0%</u>	<u>\$ 19,258</u>	<u>6.5%</u>

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2011 and 2010

The Department's financial position is further broken down as follows between the Department's Water Fund and the Sewer Fund as of September 30, 2011, 2010, and 2009:

#### Long Beach Water Department Condensed Schedules of Net Assets September 30, 2011, 2010, and 2009 (in thousands)

<b>Water Fund</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Variance</b>			
				<b>2011/2010</b>		<b>2010/2009</b>	
				<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Assets:</b>							
Current and other assets	\$ 62,966	\$ 53,227	\$ 36,187	\$ 9,739	18.3%	\$ 17,040	47.1%
Capital assets	267,063	259,288	260,666	7,775	3.0%	(1,378)	-0.5%
Total assets	330,029	312,515	296,853	17,514	5.6%	15,662	5.3%
<b>Liabilities:</b>							
Current liabilities	12,356	9,502	13,097	2,854	30.0%	(3,595)	-27.4%
Noncurrent liabilities	39,399	39,821	38,858	(422)	-1.1%	963	2.5%
Total liabilities	51,755	49,323	51,955	2,432	4.9%	(2,632)	-5.1%
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	228,196	223,559	220,974	4,637	2.1%	2,585	1.2%
Restricted	3,830	3,247	4,240	583	18.0%	(993)	-23.4%
Unrestricted	46,248	36,386	19,684	9,862	27.1%	16,702	84.9%
Total net assets	\$ 278,274	\$ 263,192	\$ 244,898	\$ 15,082	5.7%	\$ 18,294	7.5%
<b>Sewer Fund</b>							
<b>Assets:</b>							
Current and other assets	\$ 11,122	\$ 9,246	\$ 7,950	\$ 1,876	20.3%	1,296	16.3%
Capital assets	53,161	48,219	48,344	4,942	10.2%	(125)	-0.3%
Total assets	64,283	57,465	56,294	6,818	11.9%	1,171	2.1%
<b>Liabilities:</b>							
Current liabilities	1,808	861	654	947	110.0%	207	31.7%
Noncurrent liabilities	6,000	4,000	4,000	2,000	50%	-	-
Total liabilities	7,808	4,861	4,654	2,947	60.6%	207	4.4%
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	47,378	46,383	47,891	995	2.1%	(1,508)	-3.1%
Unrestricted	9,097	6,221	3,749	2,876	46.2%	2,472	65.9%
Total net assets	\$ 56,475	\$ 52,604	\$ 51,640	\$ 3,871	7.4%	\$ 964	1.9%

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2011 and 2010

### Fiscal Year Ended September 30, 2011 Compared to 2010

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

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

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

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

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

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

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

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2011 and 2010

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

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

### Fiscal Year Ended September 30, 2010 Compared to 2009

**Water Fund.** Net assets increased by \$18,294 (+7.5%) over fiscal year 2009 (FY2009). Approximately 87.6% (\$16,031) of this increase was attributable to revenues in excess of expenses. The remaining 12.4% (\$2,263) is due to contributed capital from state and federal grants for seawater desalination capital projects totaling \$1,801, and contributed capital from developer project water infrastructure improvements totaling \$462.

Current and other assets increased by \$17,040 (+47.1%) from FY2009, due primarily to an increase in cash reserves from the sale of surplus land adjacent to the Department's J. Will Johnson Water Tank Reservoir in Rancho Dominguez, increases on water rates, and a decrease on capital improvements spending. Capital assets decreased by \$1,378 (-0.5%) over the prior year mainly due to retirement of the Seawater Desalination Prototype Research and Development Facility.

Current liabilities decreased by \$3,595 (-27.4%) from FY2009, primarily due to the issuance of Water Revenue Refunding Bonds, Series 2010A, to advance refund \$24,290 (82.4%) of the outstanding Series 1997A Water Revenue Refunding Bonds to take advantage of lower interest rates. The refunding was structured to achieve debt service savings upfront over the next two fiscal years. Additionally, accounts payable decreased from FY2009, reflecting additional water purchases under the Metropolitan Water District's Conjunctive Use Program in FY2009, which did not occur in FY2010.

**Sewer Fund.** Net assets increased \$964 (+1.9%) over FY2009 due to income exceeding expenses for the year. Current assets increased by \$1,296 (+16.3%), reflecting an increase in sewer rates, capacity charges revenue, and contributions in aid of construction. Current liabilities increased by \$207 (+31.7%) compared to FY2009 mainly due to contracted engineering design services and other technical services for sewer system infrastructure.



# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2011 and 2010

The Water Department's Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets provide further insight as to the nature and source of changes in net assets and are summarized as follows for the years ended September 30, 2011, 2010, and 2009 (in thousands):

**Long Beach Water Department  
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets  
Fiscal Years Ended September 30, 2011, 2010, and 2009  
(in thousands)**

	2011	2010	2009	Variance			
				2011/2010		2010/2009	
				Amount	%	Amount	%
<b>Operating Revenues:</b>							
Metered water sales	\$ 63,702	\$ 63,459	\$ 58,338	\$ 243	0.4%	\$ 5,121	8.8%
Reclaimed water sales	2,470	2,806	2,458	(336)	-12.0%	348	14.2%
Service charges	30,131	28,927	24,721	1,204	4.2%	4,206	17.0%
Maintenance services	86	173	252	(87)	-50.3%	(79)	-31.3%
Other services	8,635	6,972	7,463	1,663	23.9%	(491)	-6.6%
Total operating revenues	105,024	102,337	93,232	2,687	2.6%	9,105	9.8%
<b>Operating Expenses:</b>							
Cost of water	30,825	21,588	19,509	9,237	42.8%	2,079	10.7%
Personal services	20,702	20,590	19,094	112	0.5%	1,496	7.8%
Maintenance and other	18,744	23,767	22,096	(5,023)	-21.1%	1,671	7.6%
Depreciation and amortization	11,499	14,498	13,634	(2,999)	-20.7%	864	6.3%
Permit fees	9,827	9,861	9,545	(34)	-0.3%	316	3.3%
Commercial Services	3,601	3,133	3,041	468	14.9%	92	3.0%
Total operating expenses	95,198	93,437	86,919	1,761	1.9%	6,518	7.5%
Operating income	9,826	8,900	6,313	926	10.4%	2,587	41.0%
<b>Nonoperating Income (Expenses):</b>							
Interest income	357	352	526	5	1.4%	(174)	-33.1%
Interest expense	(1,269)	(1,864)	(1,922)	595	-31.9%	58	-3.0%
Loss on disposition of property	(65)	(170)	(42)	105	-61.8%	(128)	304.8%
Rents	1,221	1,345	1,181	(124)	-9.2%	164	13.9%
Land sales	-	10,000	-	(10,000)	-100.0%	10,000	100.0%
Other	(2,268)	(1,878)	(514)	(390)	20.8%	(1,364)	265.4%
Income before contributed capital	7,802	16,685	5,542	(8,883)	-53.2%	11,143	201.1%
Capital contributions	11,151	2,573	2,221	8,578	333.4%	352	15.8%
Change in net assets	18,953	19,258	7,763	(305)	-1.6%	11,495	148.1%
Beginning net assets	315,796	296,538	288,775	19,258	6.5%	7,763	2.7%
Ending net assets	\$334,749	\$315,796	\$296,538	\$18,953	6.0%	\$19,258	6.5%

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2011 and 2010

The Department's operations are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2011, 2010, and 2009:

**Water Fund**  
**Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets**  
**Fiscal Years Ended September 30, 2011, 2010, and 2009**  
**(in thousands)**

	2011	2010	2009	Variance			
				2011/2010		2010/2009	
				Amount	%	Amount	%
<b>Operating Revenues:</b>							
Metered water sales	\$ 57,928	\$ 58,169	\$ 53,798	\$ (241)	-0.4%	\$ 4,371	8.1%
Reclaimed water sales	2,470	2,806	2,458	(336)	-12.0%	348	14.2%
Service charges	20,251	19,983	17,299	268	1.3%	2,684	15.5%
Other services	7,927	6,193	7,222	1,734	28.0%	(1,029)	-14.2%
Total operating revenues	<u>88,576</u>	<u>87,151</u>	<u>80,777</u>	<u>1,425</u>	<u>1.6%</u>	<u>6,374</u>	<u>7.9%</u>
<b>Operating Expenses:</b>							
Cost of water	30,825	21,588	19,509	9,237	42.8%	2,079	10.7%
Personal services	17,095	16,855	15,654	240	1.4%	1,201	7.7%
Maintenance and other	15,102	21,371	19,225	(6,269)	-29.3%	2,146	11.2%
Depreciation and amortization	9,839	12,331	12,434	(2,492)	-20.2%	(103)	-0.8%
Permit fees	5,551	5,568	5,393	(17)	-0.3%	175	3.2%
Commercial Services	1,991	1,709	1,701	282	16.5%	8	0.5%
Total operating expenses	<u>80,403</u>	<u>79,422</u>	<u>73,916</u>	<u>981</u>	<u>1.2%</u>	<u>5,506</u>	<u>7.4%</u>
Operating income	8,173	7,729	6,861	444	5.7%	868	12.7%
<b>Nonoperating Income (Expenses):</b>							
Interest income	294	302	456	(8)	-2.6%	(154)	-33.8%
Interest expense	(1,167)	(1,773)	(1,891)	606	-34.2%	118	-6.2%
Loss on disposition of property	(55)	(170)	(42)	115	-67.6%	(128)	304.8%
Rents	1,221	1,345	1,181	(124)	-9.2%	164	13.9%
Land sales	-	10,000	-	(10,000)	-100.0%	10,000	100.0%
Other	(1,667)	(1,402)	(733)	(265)	18.9%	(669)	91.3%
Income before contributed capital	<u>6,799</u>	<u>16,031</u>	<u>5,832</u>	<u>(9,232)</u>	<u>-57.6%</u>	<u>10,199</u>	<u>174.9%</u>
Capital contributions	8,283	2,263	2,221	6,020	266.0%	42	1.9%
Change in net assets	15,082	18,294	8,053	(3,212)	-17.6%	10,241	127.2%
Beginning net assets	263,192	244,898	236,845	18,294	7.5%	8,053	3.4%
Ending net assets	<u>\$278,274</u>	<u>\$263,192</u>	<u>\$244,898</u>	<u>\$15,082</u>	<u>5.7%</u>	<u>\$18,294</u>	<u>7.5%</u>

# LONG BEACH WATER DEPARTMENT

## Management's Discussion and Analysis September 30, 2011 and 2010

### Sewer Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets Fiscal Years Ended September 30, 2011, 2010, and 2009 (in thousands)

	2011	2010	2009	Variance			
				2011/2010		2010/2009	
				Amount	%	Amount	%
<b>Operating Revenues:</b>							
Metered water sales	\$ 5,774	\$ 5,290	\$ 4,540	484	9.1%	\$ 750	16.5%
Service charges	9,880	8,944	7,422	936	10.5%	1,522	20.5%
Maintenance services	86	173	252	(87)	-50.3%	(79)	-31.3%
Other services	708	779	241	(71)	-9.1%	538	223.2%
Total operating revenues	16,448	15,186	12,455	1,262	8.3%	2,731	21.9%
<b>Operating Expenses:</b>							
Personal services	3,607	3,735	3,440	(128)	-3.4%	295	8.6%
Maintenance and other	3,642	2,396	2,871	1,246	52.0%	(475)	-16.5%
Permit fees	4,276	4,293	4,152	(17)	-0.4%	141	3.4%
Depreciation	1,660	2,167	1,200	(507)	-23.4%	967	80.6%
Commercial Services	1,610	1,424	1,340	186	13.1%	84	6.3%
Total operating expenses	14,795	14,015	13,003	780	5.6%	1,012	7.8%
Operating income (expenses)	1,653	1,171	(548)	482	41.2%	1,719	-313.7%
<b>Nonoperating Income (Expenses):</b>							
Interest income	63	50	70	13	26.0%	(20)	-28.6%
Interest expense	(102)	(91)	(31)	(11)	12.1%	(60)	193.5%
Loss on disposition of property	(10)	-	-	(10)	100.0%	-	-
Other	(601)	(476)	219	(125)	26.3%	(695)	-317.4%
Income (loss) before contributed capital	1,003	654	(290)	349	53.4%	944	-325.5%
Capital contributions	2,868	310	-	2,558	825.2%	310	100.0%
Change in net assets	3,871	964	(290)	2,907	301.6%	1,254	-432.4%
Beginning net assets	52,604	51,640	51,930	964	1.9%	(290)	-0.6%
Ending net assets	\$ 56,475	\$ 52,604	\$ 51,640	\$ 3,871	7.4%	\$ 964	1.9%

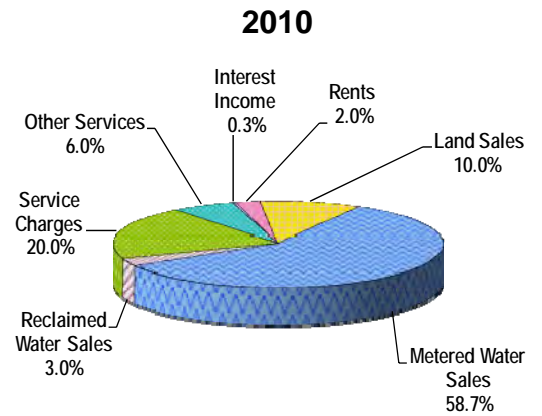
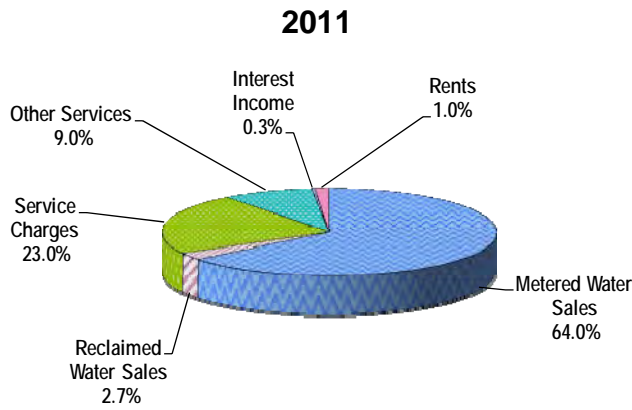
# LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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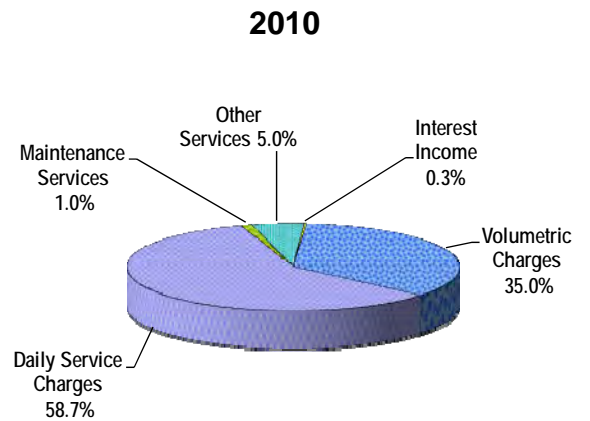
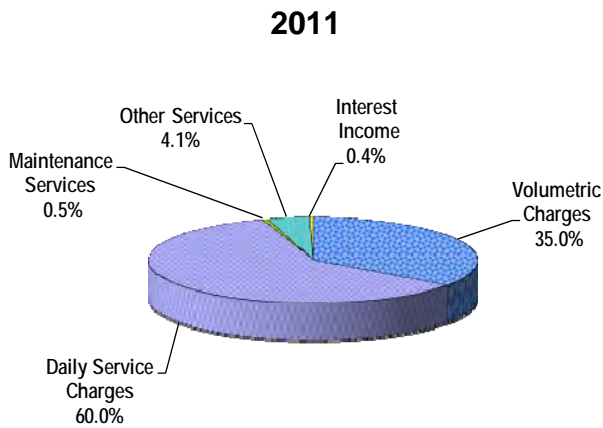
## Sources of Revenues

Sources of revenue for fiscal years 2011 and 2010 are shown on the following charts.

### Water Fund



### Sewer Fund



## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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### ***Management Review of the Department's Revenues***

#### **Water Fund**

##### **Fiscal Year Ended September 30, 2011 Compared to 2010**

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

- Metered potable water sales decreased by \$241 (-0.4%) primarily due to no increase in water rates in FY2011. Potable water consumption in FY2011 is relatively the same as FY2010.
- Reclaimed water sales decreased by \$336 (-12.0%) compared to FY2010, primarily due to no increase on reclaimed water rates. In addition, the Department implemented the Interruptible Reclaimed Water Service program, which gave qualifying customers reduced reclaimed water rates in FY2011.
- Daily service charges increased by \$268 (+1.3%) over FY2010 due to the increase of number of customers in FY2011.
- Revenue from other services totaled \$7,927, an increase of \$1,734 (+28.0%) from the prior year. The major factors to this net increase are as follows:
  - Revenue from water sales in connection with an In-Lieu Groundwater Replenishment Agreement with the Water Replenishment District of Southern California (WRD) amounted to \$3,252 in FY2011. No revenue from the same agreement was received in FY2010.
  - Revenue from unmetered water sales decreased by \$2,041 (-46.5%) in FY2011. The net decrease is primarily due to; (1) a prior year WRD reimbursement received for untreated replenishment water purchased from MWD on behalf of WRD pursuant to a Water Purchase Agreement between the Department, Central Basin Municipal Water District (CBMWD), and WRD to replenish the Central Basin aquifer and (2) an increase in sales of potable water to WRD and Orange County Water District (OCWD) for the Alamitos Seawater Intrusion Barrier by \$1,240 (+139.5%).

##### **Fiscal Year Ended September 30, 2010 Compared to 2009**

Total operating revenues were \$87,151, a net increase of \$6,374 (+7.9 %) over FY2009. The major elements of this net increase are as follows:

- Metered potable water sales increased by \$4,371 (+8.1%) and reclaimed water sales increased by \$348 (+14.2%) compared to FY2009, primarily due to a 16% increase in potable water and reclaimed water rates effective October 1, 2009. The increase in

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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sales was partially offset by the Department's effective water conservation campaigns and programs.

- Daily service charges increased by \$2,684 (+15.5%) over FY2009, which reflects the 16% rate increase imposed on October 1, 2009.
- Revenue from other services totaled \$6,193, a decrease of \$1,029 (-14.2%) from the prior year. The major factors to this net decrease are as follows:
  - Revenue received from operating the WRD Leo Vander Lans Reclaimed Water Treatment facility decreased by \$978 (-46.1%) compared to FY2009 due to the renegotiated operations contract during FY2010.
  - Revenue from unmetered water sales increased by \$1,058 (+31.7%) mainly due to water purchases used to replenish the Central Basin aquifer as part of the agreements between the Department, CBMWD, and WRD.
  - Revenue received mainly from sales of potable water to WRD to replenish the central groundwater basin for Alamitos Barrier operations decreased by \$1,036 (-100.0%) in FY2010.

### Sewer Fund

#### **Fiscal Year Ended September 30, 2011 Compared to 2010**

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

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

#### **Fiscal Year Ended September 30, 2010 Compared to 2009**

Total operating revenues increased \$2,731 (+21.9%) over FY2009. The key elements of this net increase are as follows:

- Metered water sales and service charges revenue increased by \$750 (+16.5%) and \$1,522 (+20.5%) over FY2009, respectively, as a result of a 22% rate increase effective October 1, 2009. The increase in volumetric sales was partially offset by the Department's effective water conservation campaigns and programs.

# LONG BEACH WATER DEPARTMENT

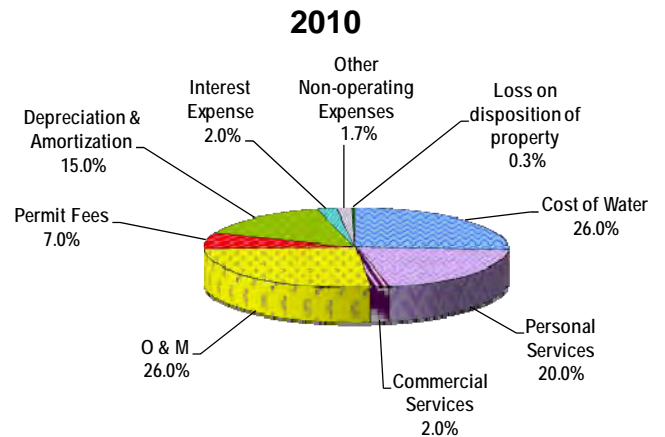
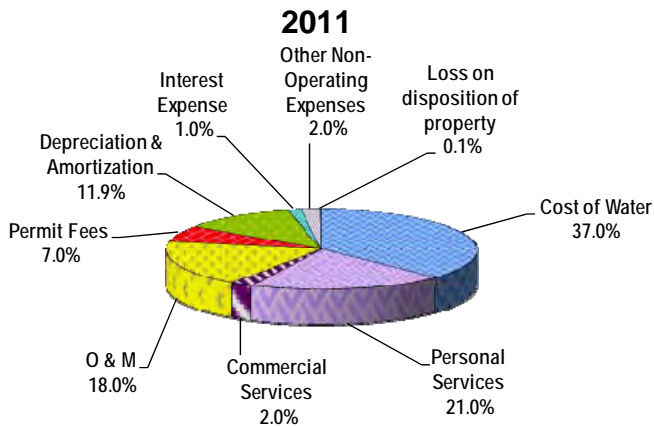
## Management's Discussion and Analysis September 30, 2011 and 2010

- Other services revenue increased by \$538 (+223.2 %) compared to FY2009. This net increase is mainly due to an increase in capacity charges, reflecting completion of a major construction development located in downtown Long Beach.

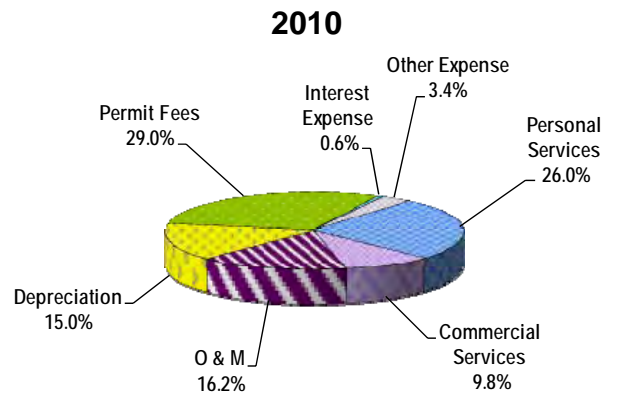
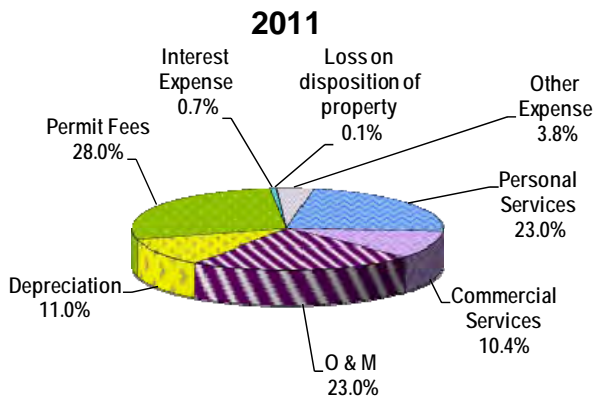
### Functional Expenses

Functional expenses for the 2011 and 2010 fiscal years are shown on the following charts.

#### Water Fund



#### Sewer Fund



## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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### ***Management Review of the Department's Expenses.***

#### **Water Fund**

##### **Fiscal Year Ended September 30, 2011 Compared to 2010**

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

- Purchased water costs increased by \$9,237 (+42.8%) due to an increase in volume of potable water purchases from MWD for the purpose of in-lieu replenishment through an agreement with WRD. In addition, MWD imposed a 6% rate increase during FY2011.
- Maintenance and other expenses had a net decrease of \$6,269 (-29.3%) from FY2010. The net decrease is primarily attributable to the following major factors:
  - Replenishment assessment (pump tax) costs decreased by \$2,768 (-78.9%) primarily due to a 50.3% decrease in groundwater pumping, reflecting implementation of an In-lieu Groundwater Replenishment Agreement with WRD. The net decrease is partially offset by increases in the replenishment assessment rate of 12.7% for the first three quarters and 19% for the last quarter of FY2011.
  - Utility services, mainly electricity costs, decreased by \$1,107 (-29.1%) due to the decrease in groundwater pumping in FY2011.
  - Laboratory and chemical supplies decreased by \$780 (-45.2%) due to less purchases of chemicals used for treating groundwater.
  - Other taxes and assessments decreased by \$1,290 (-78.9%), reflecting a payment made in FY2010 to County Sanitation District of Los Angeles for an additional wastewater connection fee surcharge.
- Depreciation and amortization expenses decreased by \$2,492 (-20.2%) over FY2010. This net decrease is primarily due to the increase of fully depreciated assets, particularly the seawater desalination facilities.

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

##### **Fiscal Year Ended September 30, 2010 Compared to 2009**

FY2010 operating expenses totaled \$79,422, an increase of \$5,506 (+7.4%) over FY2009. Key elements of this increase are as follows:

- Purchased water costs increased by \$2,079 (+10.7%) primarily due to a 21% rate increase imposed by MWD, which was offset by less demand on imported water.



## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2011 and 2010

- Labor costs increased by \$1,201 (+7.7%) over FY2009, as a result of increases in negotiated Cost of Living Allowance (COLA), salary ranges increases, fringe benefits, workers' compensation costs, and overtime pay.
- Maintenance and other expenses had a net increase of \$2,146 (+11.2%) over FY2009. The net increase is attributable to the following major factors:
  - Repairs and maintenance and Materials and supplies costs increased by \$359 (+18.3%) mainly due to major repairs and improvements on the Department's pump stations and facility access doors, computer software purchases for potable and reclaimed water systems, and landscaping improvements on Department facilities.
  - Replenishment assessment (pump tax) costs increased by \$1,055 (+19.3%) due to rate increases of 18.9% for the first three quarters and 12.7% for the last quarter of FY2010.
  - Other taxes and assessments increased by \$726 (+79.8%) primarily due to additional wastewater connection fee surcharge payments to County Sanitation District of Los Angeles County in FY2010.

FY2010 net nonoperating income totaled \$8,302, a net increase of \$9,331 (+906.8%) over FY2009. The net increase is primarily due to the sale of surplus land adjacent to the Department's J. Will Johnson Water Tank Reservoir in Rancho Dominguez.

### Sewer Fund

#### **Fiscal Year Ended September 30, 2011 Compared to 2010**

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

- Maintenance and other expenses increased by \$1,246 (+52.0%) over FY2010. The increase is mostly attributable to the following major factors:
  - Technical services and inspection services expenses increased by \$267 (+1,079.8%) and \$366 (+100%), respectively, in FY2011. These increases are due to contracted CCTV on the sewer pipe system.
  - Materials and supplies, paving services, refuse services, and other contractual services increased by \$369 (+77.7%) due primarily to an increase in sewer line repairs in FY2011.
- Depreciation expense decreased by \$507 (-23.4%) compared to FY2010.

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

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
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### **Fiscal Year Ended September 30, 2010 Compared to 2009**

FY2010 operating expenses totaled \$14,015, an increase of \$1,012 (+7.8%) over FY2009. Key elements of this net increase are as follows:

- Personal services increased by \$295 (+8.6%) over FY2009 as a result of increases in negotiated COLA, salary ranges increases, overtime pay, fringe benefits, and workers' compensation costs.
- Depreciation expense increased by \$967 (+80.6%) over FY2009 mainly due to several major emergency sewer pipeline replacements and the completion of sewer rehabilitation master plans.

FY2010 net nonoperating expense totaled \$517, a net increase of \$775 (+300.4%) over FY2009, which was primarily due to a full year of fiscal agent fees on outstanding Sewer Commercial Paper notes.

## LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis  
September 30, 2011 and 2010

### Capital Assets and Debt Administration

**Capital assets.** The Department's capital assets (net of accumulated depreciation and amortization) as of September 30, 2011 amounted to \$267,063 for the Water Fund and \$53,161 for the Sewer Fund. Capital assets include investments in production, transmission, patent, seawater desalination projects, and distribution related facilities, as well as general items such as office equipment and furniture. For FY2011, net capital assets increased \$7,775 (+3.0%) and \$4,942 (+10.2%) for Water Fund and Sewer Fund, respectively. The net increase is due primarily to machinery and equipment purchases and capitalization of major potable water and reclaimed water distribution systems, and sewer collection systems.

The Department's capital assets are summarized as follows for the years ended September 30, 2011, 2010, and 2009 (in thousands):

Long Beach Water Department Capital Assets September 30, 2011, 2010, and 2009 (in thousands)							
	2011	2010	2009	Variance			
				2011/2010		2010/2009	
				Amount	%	Amount	%
Land	\$ 11,248	\$ 11,248	\$ 11,280	\$ -	-	\$ (32)	-0.3%
Water Rights	40	40	-	-	-	40	100%
Patent - Desalination	815	815	815	-	-	-	-
Seawater Desalination Project	4,614	4,614	12,486	-	0%	(7,872)	-63%
Buildings, structures, and facilities	113,080	111,749	107,788	1,331	1.19%	3,961	3.7%
Distribution/collection systems	468,243	436,825	411,234	31,418	7.2%	25,591	6.2%
Machinery and equipment	18,333	18,028	16,850	305	1.7%	1,178	7.0%
Construction in progress	14,706	25,362	43,800	(10,656)	-42.0%	(18,438)	-42.1%
Total capital assets	631,079	608,681	604,253	22,398	3.7%	4,428	0.7%
Less: accumulated depreciation and amortization	(310,855)	(301,174)	(295,243)	(9,681)	3.2%	(5,931)	2.0%
Net capital assets	<u>\$ 320,224</u>	<u>\$ 307,507</u>	<u>\$ 309,010</u>	<u>\$ 12,717</u>	4.14%	<u>\$ (1,503)</u>	-0.49%

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2011 and 2010

The Department's capital assets are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2011, 2010, and 2009:

<b>Long Beach Water Department Capital Assets September 30, 2011, 2010, and 2009 (in thousands)</b>							
<b>Water Fund</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Variance</b>			
				<b>2011/2010</b>		<b>2010/2009</b>	
				<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Land	\$ 11,248	\$ 11,248	\$ 11,280	\$ -	-	\$ (32)	-0.3%
Water Rights	40	40	-	-	-	40	100%
Patent - Desalination	815	815	815	-	-	-	-
Seawater Desalination Project	4,614	4,614	12,486	-	-	(7,872)	-63%
Buildings, structures, and facilities	107,399	106,068	102,107	1,331	1.25%	3,961	3.9%
Distribution/collection systems	282,159	255,488	240,686	26,671	10.4%	14,802	6.1%
Machinery and equipment	14,012	13,860	12,716	152	1.1%	1,144	9.0%
Construction in progress	11,891	23,942	33,407	(12,051)	-50.3%	(9,465)	-28.3%
Total capital assets	432,178	416,075	413,497	16,103	3.9%	2,578	0.6%
Less: accumulated depreciation and amortization	(165,115)	(156,787)	(152,831)	(8,328)	5.3%	(3,956)	2.6%
Net capital assets	<u>\$ 267,063</u>	<u>\$ 259,288</u>	<u>\$ 260,666</u>	<u>\$ 7,775</u>	<u>3.0%</u>	<u>\$ (1,378)</u>	<u>-0.5%</u>
<b>Sewer Fund</b>							
Buildings, structures, and facilities	\$ 5,681	\$ 5,681	\$ 5,681	\$ -	-	\$ -	-
Distribution/collection systems	186,084	181,337	170,548	4,747	2.6%	10,789	6.3%
Machinery and equipment	4,321	4,168	4,134	153	3.7%	34	0.8%
Construction in progress	2,815	1,420	10,393	1,395	98.2%	(8,973)	-86.3%
Total capital assets	198,901	192,606	190,756	6,295	3.27%	1,850	1.0%
Less: accumulated depreciation	(145,740)	(144,387)	(142,412)	(1,353)	0.94%	(1,975)	1.4%
Net capital assets	<u>\$ 53,161</u>	<u>\$ 48,219</u>	<u>\$ 48,344</u>	<u>\$ 4,942</u>	<u>10.2%</u>	<u>\$ (125)</u>	<u>-0.3%</u>

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

## LONG BEACH WATER DEPARTMENT

### Management's Discussion and Analysis September 30, 2011 and 2010

**Long-term debt.** As of September 30, 2011, the Department had total long-term debt outstanding of \$38,399 for the Water Fund and \$6,000 for the Sewer Fund. All debt is supported by Water Fund revenues and Sewer Fund revenues. Total Department outstanding debt as of September 30, 2011, 2010, and 2009 is summarized as follows:

Long Beach Water Department Summary of Long-Term Debt September 30, 2011, 2010, and 2009 (in thousands)							
Water Fund	2011	2010	2,009	Variance			
				2010/2009		2009/2008	
				Amount	%	Amount	%
Revenue refunding bonds	\$ 27,425	\$ 27,915	\$ 30,870	(490)	-1.8%	(2,955)	-9.6%
Commercial paper notes	11,000	11,000	11,000	-	-	-	0.0%
Long-term debt outstanding	38,425	38,915	41,870	(490)	-1.3%	(2,955)	-7.1%
Less:							
Unamortized bond discount	(26)	(33)	(200)	7	-21.2%	167	-83.5%
Unamortized bond premium	2,800	3,023	-	(223)	-7.4%	3,023	100%
Unamortized loss on refunding	(2,800)	(3,084)	(2,407)	284	-9.2%	(677)	28.1%
Total long-term debt	\$ 38,399	\$ 38,821	\$ 39,263	(422)	-1.1%	(442)	-1.1%
<b>Sewer Fund</b>							
Commercial paper notes	\$ -	\$ 4,000	\$ 4,000	(4,000)	-100%	-	-
Revolving line of credit	6,000	-	-	6,000	100%	-	-
Total long-term debt	\$ 6,000	\$ 4,000	\$ 4,000	2,000	50%	-	-

The Department maintains AA+ credit ratings from Standard & Poor's for the Water and Sewer Funds. Additional information on the Department's long-term debt can be found in note 4 of this report.

### Economic Factors and Next Year's Budget and Rates

The Board of Water Commissioners (Board) approved the budget for the fiscal year-end September 30, 2012, with budgeted expenditures totaling approximately \$100.1 million and \$21.3 million for the Water Fund and Sewer Fund, respectively. Budgeted expenditures include capital improvement program expenditures and Water Fund debt service. The Board also approved a 5.0% sewer rate increase effective October 1, 2011, which equates to a 1.0% increase in the average household combined monthly bill for water and sewer service. The sewer rate increase was necessary to cover costs of upgrading and maintaining sewer infrastructure to be in compliance with stricter

## **LONG BEACH WATER DEPARTMENT**

Management's Discussion and Analysis  
September 30, 2011 and 2010

regulations imposed by the California State Water Resources Control Board in recent years.

### **Requests for Information**

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

**LONG BEACH WATER DEPARTMENT**

**Statements of Net Assets  
September 30, 2011 and 2010  
(in thousands)**

	2011			2010		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
<b>ASSETS</b>						
Current Assets:						
Pooled cash and cash equivalents	\$ 48,770	10,018	58,788	\$ 39,966	6,275	46,241
Nonperforming investments	25	8	33	25	8	33
Interest receivable	14	-	14	-	-	-
Customer accounts receivable	6,060	826	6,886	5,780	768	6,548
Allowance for doubtful accounts	(417)	(58)	(475)	(313)	(50)	(363)
Material and supplies inventory	2,752	110	2,862	2,522	82	2,604
Prepaid expense	566	-	566	566	-	566
Restricted assets						
Pooled cash and cash equivalents:						
Funds held in trust	680	-	680	673	-	673
1997 bond service fund	123	-	123	124	-	124
2010 bond service fund	601	-	601	29	-	29
Subtotal pooled cash and cash equivalents	1,404	-	1,404	826	-	826
Nonpooled cash equivalents	3,106	-	3,106	3,094	1,864	4,958
Total restricted assets	4,510	-	4,510	3,920	1,864	5,784
Total current assets	62,280	10,904	73,184	52,466	8,947	61,413
Noncurrent Assets:						
Capital assets:						
Land	11,248	-	11,248	11,248	-	11,248
Water rights	40	-	40	40	-	40
Patent desalination	815	-	815	815	-	815
Seawater desalination project	4,614	-	4,614	4,614	-	4,614
Buildings, structures and facilities	107,399	5,681	113,080	106,068	5,681	111,749
Distribution/collection systems	282,159	186,084	468,243	255,488	181,337	436,825
Machinery and equipment	14,012	4,321	18,333	13,860	4,168	18,028
Construction in progress	11,891	2,815	14,706	23,942	1,420	25,362
Total capital assets	432,178	198,901	631,079	416,075	192,606	608,681
Less: Accumulated depreciation and amortization	(165,115)	(145,740)	(310,855)	(156,787)	(144,387)	(301,174)
Total capital assets, net	267,063	53,161	320,224	259,288	48,219	307,507
Other assets, net of amortization						
Deferred charges	686	218	904	761	299	1,060
Total noncurrent assets	267,749	53,379	321,128	260,049	48,518	308,567
Total assets	330,029	64,283	394,312	312,515	57,465	369,980
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	\$ 9,876	1,611	11,487	\$ 7,404	469	7,873
Accrued wages payable	528	93	621	988	262	1,250
Deferred revenue	69	-	69	67	-	67
Due to City of Long Beach	-	-	-	85	-	85
Advances from developers	199	104	303	135	130	265
Accrued interest payable	522	-	522	153	-	153
Long-term debt due within one year	490	-	490	-	-	-
Customer deposits	672	-	672	670	-	670
Noncurrent Liabilities:						
Long-term debt, net of current portion	38,399	6,000	44,399	38,821	4,000	42,821
Accrued site restoration cost	1,000	-	1,000	1,000	-	1,000
Total liabilities	51,755	7,808	59,563	49,323	4,861	54,184
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	228,196	47,378	275,574	223,559	46,383	269,942
Restricted for:						
Bond Service	724	-	724	153	-	153
Bond Reserve	3,106	-	3,106	3,094	-	3,094
Unrestricted	46,248	9,097	55,345	36,386	6,221	42,607
Total net assets	\$ 278,274	56,475	334,749	\$ 263,192	52,604	315,796

See accompanying notes to financial statements

**LONG BEACH WATER DEPARTMENT**

**Statements of Revenues, Expenses,  
and Changes in Fund Net Assets  
Years Ended September 30, 2011 and 2010  
(in thousands)**

	2011			2010		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
<b>Operating Revenues:</b>						
Metered water sales	\$ 57,928	5,774	63,702	\$ 58,169	5,290	63,459
Reclaimed water sales	2,470	-	2,470	2,806	-	2,806
Service charges	20,251	9,880	30,131	19,983	8,944	28,927
Maintenance services	-	86	86	-	173	173
Other services	7,927	708	8,635	6,193	779	6,972
Total operating revenues	<u>88,576</u>	<u>16,448</u>	<u>105,024</u>	<u>87,151</u>	<u>15,186</u>	<u>102,337</u>
<b>Operating Expenses:</b>						
Cost of water	30,825	-	30,825	21,588	-	21,588
Personal services	17,095	3,607	20,702	16,855	3,735	20,590
Commercial services	1,991	1,610	3,601	1,709	1,424	3,133
Maintenance and other	15,102	3,642	18,744	21,371	2,396	23,767
Permit fees	5,551	4,276	9,827	5,568	4,293	9,861
Depreciation and amortization	9,839	1,660	11,499	12,331	2,167	14,498
Total operating expenses	<u>80,403</u>	<u>14,795</u>	<u>95,198</u>	<u>79,422</u>	<u>14,015</u>	<u>93,437</u>
Operating income	<u>8,173</u>	<u>1,653</u>	<u>9,826</u>	<u>7,729</u>	<u>1,171</u>	<u>8,900</u>
<b>Nonoperating Income (Expense):</b>						
Interest income	294	63	357	302	50	352
Interest expense	(1,167)	(102)	(1,269)	(1,773)	(91)	(1,864)
Loss on disposition of property	(55)	(10)	(65)	(170)	-	(170)
Rental income	1,221	-	1,221	1,345	-	1,345
Land sales	-	-	-	10,000	-	10,000
Other	(1,667)	(601)	(2,268)	(1,402)	(476)	(1,878)
Total non-operating income (expense)	<u>(1,374)</u>	<u>(650)</u>	<u>(2,024)</u>	<u>8,302</u>	<u>(517)</u>	<u>7,785</u>
Income before contributed capital	6,799	1,003	7,802	16,031	654	16,685
Contributed capital	<u>8,283</u>	<u>2,868</u>	<u>11,151</u>	<u>2,263</u>	<u>310</u>	<u>2,573</u>
Changes in net assets	15,082	3,871	18,953	18,294	964	19,258
Net assets at beginning of year	<u>263,192</u>	<u>52,604</u>	<u>315,796</u>	<u>244,898</u>	<u>51,640</u>	<u>296,538</u>
Net assets at end of year	<u>\$ 278,274</u>	<u>56,475</u>	<u>334,749</u>	<u>\$ 263,192</u>	<u>52,604</u>	<u>315,796</u>

*See accompanying notes to financial statements*



## LONG BEACH WATER DEPARTMENT

### Statements of Cash Flows Years Ended September 30, 2011 and 2010 (in thousands)

	2011			2010		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 88,216	16,398	104,614	\$ 88,072	15,059	103,131
Cash paid to employees	(17,554)	(3,775)	(21,329)	(16,692)	(3,695)	(20,387)
Cash paid for water	(27,521)	-	(27,521)	(23,931)	-	(23,931)
Cash paid for goods and services	(18,202)	(4,139)	(22,341)	(22,606)	(3,718)	(26,324)
Cash paid for permit fees	(5,551)	(4,276)	(9,827)	(5,568)	(4,293)	(9,861)
Other operating cash received	(937)	(611)	(1,548)	(265)	(476)	(741)
Net cash provided by operating activities	<u>18,452</u>	<u>3,597</u>	<u>22,049</u>	<u>19,010</u>	<u>2,877</u>	<u>21,887</u>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from refunding issue	-	6,000	6,000	22,740	-	22,740
Payment for commercial paper	-	(4,000)	(4,000)	-	-	-
Original issuance premium	-	-	-	3,021	-	3,021
Payment to defease bonds	-	-	-	(24,290)	-	(24,290)
Redemption premium	-	-	-	(486)	-	(486)
Payments for issuance costs	-	-	-	(386)	-	(386)
Proceeds from sale of capital assets	435	-	435	10,039	-	10,039
Contributions in aid of construction	8,469	2,868	11,337	2,555	310	2,865
Payments for capital acquisitions	(17,550)	(6,628)	(24,178)	(11,134)	(1,984)	(13,118)
Principal repayments - bonds	-	-	-	(1,405)	-	(1,405)
Interest payments	(692)	(21)	(713)	(2,115)	(9)	(2,124)
Net cash provided by (used for) capital and related financing activities	<u>(9,338)</u>	<u>(1,781)</u>	<u>(11,119)</u>	<u>(1,461)</u>	<u>(1,683)</u>	<u>(3,144)</u>
<b>Cash flows from investing activities:</b>						
Purchase of investments	-	1,864	1,864	-	1,300	1,300
Interest income received	280	63	343	302	50	352
Net cash provided by (used for) investing activities	<u>280</u>	<u>1,927</u>	<u>2,207</u>	<u>302</u>	<u>1,350</u>	<u>1,652</u>
Net increase (decrease) in cash and cash equivalents	9,394	3,743	13,137	17,851	2,544	20,395
<b>Cash and cash equivalents, October 1</b>	<u>43,886</u>	<u>6,275</u>	<u>50,161</u>	<u>26,035</u>	<u>3,731</u>	<u>29,766</u>
<b>Cash and cash equivalents, September 30</b>	<u>\$ 53,280</u>	<u>10,018</u>	<u>63,298</u>	<u>\$ 43,886</u>	<u>6,275</u>	<u>50,161</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>						
Operating income	\$ 8,173	1,653	9,826	\$ 7,729	1,171	8,900
Adjustments to reconcile operating income (expense) to net cash provided by operating activities:						
Depreciation expense	9,839	1,660	11,499	12,331	2,167	14,498
Amortization expense	38	-	38	38	-	38
(Increase) in prepaid expense	-	-	-	(134)	-	(134)
(Increase) property rental and other income	(935)	(611)	(1,546)	(265)	(475)	(740)
(Increase) decrease in customer accounts receivable	(364)	(50)	(414)	943	(127)	816
Increase in material and supplies inventory	(230)	(28)	(258)	(164)	(7)	(171)
Increase (decrease) in accounts and retainage payable	2,472	1,142	3,614	(1,209)	108	(1,101)
Increase (decrease) in accrued wages payable	(460)	(169)	(629)	163	40	203
Decrease in other accrued liability	-	-	-	(400)	-	(400)
Increase (decrease) in deferred revenue	2	-	2	(14)	-	(14)
Decrease in due to City of Long Beach	(85)	-	(85)	-	-	-
Increase (decrease) in customer deposits	2	-	2	(8)	-	(8)
Total adjustments	<u>10,279</u>	<u>1,944</u>	<u>12,223</u>	<u>11,281</u>	<u>1,706</u>	<u>12,987</u>
Net cash provided by operating activities	<u>\$ 18,452</u>	<u>3,597</u>	<u>22,049</u>	<u>\$ 19,010</u>	<u>2,877</u>	<u>21,887</u>
<b>Supplemental schedule of noncash transactions:</b>						
Contributed capital assets	\$ 7,392	2,742	10,134	\$ -	-	-
Capitalized interest	200	6	206	-	-	-
Accrued capital asset costs	2,090	451	2,541	1,516	94	1,610
Amortization of bond premium, net	106	82	188	201	82	283
Other	3,390	-	3,390	2,188	-	2,188

See accompanying notes to financial statements

## **LONG BEACH WATER DEPARTMENT**

Notes to Financial Statements  
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### **Note 1 - Description of the Department and Summary of Significant Accounting Policies**

#### **Description of the Department**

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

The Department services the City's sewer system that consists of 712 miles of sewer mains, 16,147 manholes, and 28 sewage pumping stations. This system is capable of transporting for treatment approximately 40 million gallons of raw sewage daily.

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

#### **Reporting Entity**

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

The accompanying Department financial statements include the Water and Sewer Fund operations of the City of Long Beach. The statements of the Department are intended to present the financial position, and changes in financial position, and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City, as of September 30, 2011 and 2010, and the changes in its financial position, and, where applicable, its cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.

## LONG BEACH WATER DEPARTMENT

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

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

### Basis of Accounting

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

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

### Implementation of New Accounting Pronouncements

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

In June 2010, GASB issued Statement No. 59, Financial Instruments Omnibus. The statement is intended to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Application of this Statement was effective for the City's fiscal year ended September 30, 2011 and the provisions of GASB 59 did not have a material impact to the Department's financial statements.

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

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

## LONG BEACH WATER DEPARTMENT

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

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

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

In June 2011, GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and when hedge accounting should continue to be applied. Application of this Statement is effective for the City's fiscal year ending September 30, 2012.

### Pooled Cash, Cash Equivalents, and Other Investments

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

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

## LONG BEACH WATER DEPARTMENT

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

### Material and Supplies Inventory

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

### Capital Assets

Capital assets, which include property, plant, equipment, and transmission and distribution infrastructure, are composed of assets with an initial, individual cost of more than \$5 and an estimated useful life in excess of one year. The cost of additions to capital assets and replacement of retired property is capitalized. Significant interest costs incurred during construction of assets are also capitalized. The costs of minor replacement expenditures are expensed as incurred. Upon retirement or sale of capital assets, the cost and related accumulated depreciation are removed from the accounts, with any resulting gain or loss recorded in the Department's financial statements (see note 3).

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

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

### Capitalized Interest

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

### Capital Contributions

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

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
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### Revenue Recognition

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

### Operating Expenses

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

### Employee Benefits

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

### Pension Plan and Postretirement Benefits

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

## LONG BEACH WATER DEPARTMENT

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

### Restricted Assets

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

### Risk Management

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

### Estimates

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

### Net Assets

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

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

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

Restricted - Amounts designated for bond indenture requirements.

Unrestricted - All other categories of net assets

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
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### **Note 2 - Pooled Cash, Cash Equivalents, and Other Investments**

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

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

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

<b>Water Fund</b>	2011	2010
Equity in the City of Long Beach's investment pool	\$ 50,174	\$ 40,792
Nonperforming investments	25	25
Cash with fiscal agents - money market funds	539	3,094
Investments at par - nonpooled	2,567	-
Total cash and investments	\$ 53,305	\$ 43,911
<b>Sewer Fund</b>	2011	2010
Equity in the City of Long Beach's investment pool	\$ 10,018	\$ 6,275
Nonperforming investments	8	8
Commercial Paper Construction Fund	-	1,864
Total cash and investments	\$ 10,026	\$ 8,147



## LONG BEACH WATER DEPARTMENT

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

<b>Water Fund</b>	2011	2010
Unrestricted cash and investments	\$ 48,795	\$ 39,991
Restricted cash and investments		
Water Trust Fund	680	673
Bond Service Fund	724	153
Bond Reserve Fund	3,106	3,094
Total restricted cash and investments	4,510	3,920
Total cash and investments	\$ 53,305	\$ 43,911
<b>Sewer Fund</b>	2011	2010
Unrestricted cash and investments	\$ 10,026	\$ 6,283
Commercial Paper Construction Fund	-	1,864
Total cash and investments	\$ 10,026	\$ 8,147

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

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

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

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

### Investments Authorized by Debt Agreements

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

### Disclosures Relating to Interest Rate Risk

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

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The City had no investments with values that were highly sensitive to market interest rate changes as of September 30, 2011. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2011 and 2010:

<u>Investment Type</u>	<u>2011</u>		<u>2010</u>	
		<b>Weighted Average Maturity (in years)</b>		<b>Weighted Average Maturity (in years)</b>
Cash and Investments in City Pool				
Interdepartment Loan (Health SAVRS) <sup>1</sup>	\$ 2,111	7.564	\$ 2,383	8.604
U.S. Treasury Notes	224,058	1.020	333,400	0.051
Federal Agency Securities	1,199,476	1.090	1,136,279	1.036
Money Market Account	704	0.003	137	0.003
Local Agency Investment Fund (LAIF)	150,096	0.003	50,116	0.003
Government Managed Rate Account	-		220	0.003
Subtotal City Pool	<u>1,576,445</u>		<u>1,522,535</u>	
Cash and Deposits	192,012		113,126	
Outstanding Checks	(14,303)		(12,168)	
Total City Pool	<u>\$ 1,754,154</u>		<u>\$ 1,623,493</u>	
Nonperforming Short-Term Investment	<u>\$ 3,963</u>		<u>\$ 3,962</u>	
Cash and investments held by bond trustee				
Guaranteed Investment Contracts	\$ 48,263	21.295	\$ 48,263	21.295
Money market funds	120,383	-	120,384	-
U.S. Treasury notes	79,995	1.239	79,996	1.239
Federal agency securities	49,758	2.620	49,758	2.620
Time certificates of deposit	10,000	1.000	10,000	1.000
City Bonds	1,726	8.675	1,726	8.675
Total held by bond trustees	<u>\$ 310,125</u>		<u>\$ 310,127</u>	

<sup>1</sup> Loan authorized as a long-term investment by the City Council

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

## LONG BEACH WATER DEPARTMENT

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At September 30, 2010, the Water Fund and Sewer Fund had equity in the City's pool of \$40,792 and \$6,275, respectively, which represents approximately 1.51% and 0.39%, respectively, for a total departmental equity of \$47,067 or 2.90%.

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

### Risks and Uncertainties

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

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

### Disclosures Relating to Credit Risk

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

## LONG BEACH WATER DEPARTMENT

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Presented on following table are the minimum ratings required by the California Government Code, the City's investment policy, and the actual rating as September 30, 2011 and 2010 for each investment type:

Investment Type	Rating as of Year-End 2011					
	Legal Rating	Total	Not required to be rated	AAA	AA+	Unrated
<b>Cash and Investments in City Pool</b>						
Interdepartment Loan						
(Health SA VRS)	N/A	\$ 2,111	2,111	-	-	-
U.S. Treasury Notes	N/A	224,058	224,058	-	-	-
Federal Agency Securities	N/A	1,199,476	-	-	1,199,476	-
Money Market Account	N/A	704	-	704	-	-
Local Agency Investment Fund (LAIF)	N/A	150,096	-	-	-	150,096
Government Managed Rate Account	N/A	-	-	-	-	-
Subtotal City Pool		<u>1,576,445</u>	<u>226,169</u>	<u>704</u>	<u>1,199,476</u>	<u>150,096</u>
Cash and Deposits		192,012	-	-	-	192,012
Outstanding Checks		(14,303)	-	-	-	(14,303)
Total City Pool		<u>\$ 1,754,154</u>	<u>226,169</u>	<u>704</u>	<u>1,199,476</u>	<u>327,805</u>
<b>Nonperforming Short-Term Investment</b>	N/A	<u>\$ 3,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,963</u>
<b>Cash and investments held by bond trustee</b>						
Guaranteed Investment Contracts	N/A	\$ 48,263	48,263	-	-	-
Money market funds	N/A	120,283	120,283	-	-	-
U.S. Treasury notes	N/A	79,995	-	79,995	-	-
Federal agency securities	N/A	49,758	-	49,758	-	-
Time certificates of deposit	N/A	10,000	-	-	-	10,000
City Bonds	N/A	1,726	-	-	-	1,726
Total held by bond trustees		<u>\$ 310,025</u>	<u>168,546</u>	<u>129,753</u>	<u>-</u>	<u>11,726</u>

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2011 and 2010 (in thousands of dollars)

Rating as of year-end 2010					
Investment Type	Legal rating	Total	Not required to be rated	AAA	Unrated
Cash and Investments in City Pool					
Interdepartment Loan (Health SAVRS)	N/A	\$ 2,383	2,383	—	—
U.S. Treasury Notes	N/A	333,400	333,400	—	—
Federal Agency Securities	N/A	1,136,279	—	1,136,279	—
Money Market Account	N/A	137	—	137	—
LAIF	N/A	50,116	—	—	50,116
Government Managed Rate Account	N/A	220	220	—	—
Subtotal City Pool		1,522,535	336,003	1,136,416	50,116
Cash and Deposits		113,126	—	—	113,126
Outstanding Checks		(12,168)	—	—	(12,168)
Total City Pool		<u>\$ 1,623,493</u>	<u>336,003</u>	<u>1,136,416</u>	<u>151,074</u>
Non Performing Short Term Investment	N/A	<u>\$ 3,962</u>	<u>—</u>	<u>—</u>	<u>3,962</u>
Cash and investments held by bond trustee					
Guaranteed Investment Contracts	N/A	\$ 48,263	48,263	-	-
Money market funds	N/A	120,284	120,283	-	-
U.S. Treasury notes	N/A	79,996	-	79,995	-
Federal agency securities	N/A	49,758	-	49,758	-
Time certificates of deposit	N/A	10,000	-	-	10,000
City Bonds	N/A	1,726	-	-	1,726
Total held by bond trustees		<u>\$ 310,027</u>	<u>168,546</u>	<u>129,753</u>	<u>11,726</u>

The following schedule indicates the credit risk of the Water Department's non-pooled investments as of September 30, 2011:

Rating as of Year End September 30, 2011							
Investment Type	Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Investments at par-nonpooled	N/A	<u>\$ 2,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## LONG BEACH WATER DEPARTMENT

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### Concentration of Credit Risk

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

<u>Issuer</u>	<u>Investment type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	Federal agency securities	\$ 241,381
Federal Home Loan Bank	Federal agency securities	365,100
Federal Home Mortgage Corporation	Federal agency securities	292,853
Federal National Mortgage Association	Federal agency securities	300,142
U.S. Treasuries	U.S. Treasury notes & bonds	224,058

### Custodial Credit Risk

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

As of September 30, 2011, the City reported deposits of \$192.0 million, collateralized in compliance with California Government Code, less \$14.3 million for checks outstanding.

### Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2011 and 2010 (in thousands of dollars)

by LAIF, which are recorded on an amortized-cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

#### Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2011 and 2010.

#### Securities Lending

The City did not engage in securities-lending activities. These activities would be governed by formal agreement with the City's contract bank, limiting the nature and amount of transactions that are subject to full collateralization.

#### Note 3 – Capital Assets

Capital assets at September 30, 2011 and 2010 were as follows:

<b>Water Fund</b>	Balance, September 30, 2009	Additions	Deletions And Retirements	Balance, September 30, 2010	Additions	Deletions And Retirements	Balance, September 30, 2011
Capital assets, not being depreciated:							
Land	\$ 11,280	-	(32)	11,248	-	-	11,248
Construction in progress	33,407	12,923	(22,388)	23,942	18,942	(30,993)	11,891
Water Rights	-	40	-	40	-	-	40
<b>Total capital assets, not being depreciated</b>	<b>44,687</b>	<b>12,963</b>	<b>(22,420)</b>	<b>35,230</b>	<b>18,942</b>	<b>(30,993)</b>	<b>23,179</b>
Capital assets, being depreciated:							
Buildings, structures, and facilities	114,593	3,960	(7,871)	110,682	1,331	-	112,013
Patent	815	-	-	815	-	-	815
Distribution/collection systems	240,686	14,959	(157)	255,488	28,079	(1,408)	282,159
Machinery and equipment	12,716	1,546	(402)	13,860	732	(580)	14,012
<b>Total capital assets, being depreciated</b>	<b>368,810</b>	<b>20,465</b>	<b>(8,430)</b>	<b>380,845</b>	<b>30,142</b>	<b>(1,988)</b>	<b>408,999</b>
Less accumulated depreciation for:							
Buildings, structures, and facilities	(43,099)	(6,083)	7,871	(41,311)	(2,789)	-	(44,100)
Patent	(122)	(41)	-	(163)	(41)	-	(204)
Distribution/collection systems	(96,793)	(5,374)	135	(102,032)	(6,179)	965	(107,246)
Machinery and equipment	(12,817)	(833)	369	(13,281)	(830)	546	(13,565)
<b>Total accumulated depreciation</b>	<b>(152,831)</b>	<b>(12,331)</b>	<b>8,375</b>	<b>(156,787)</b>	<b>(9,839)</b>	<b>1,511</b>	<b>(165,115)</b>
<b>Total capital assets, being depreciated, net</b>	<b>215,979</b>	<b>8,134</b>	<b>(55)</b>	<b>224,058</b>	<b>20,303</b>	<b>(477)</b>	<b>243,884</b>
<b>Total Water Fund capital assets, net</b>	<b>\$ 260,666</b>	<b>21,097</b>	<b>(22,475)</b>	<b>259,288</b>	<b>39,245</b>	<b>(31,470)</b>	<b>267,063</b>



## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2011 and 2010 (in thousands of dollars)

	Balance, September 30, 2009	Additions	Deletions And Retirements	Balance, September 30, 2010	Additions	Deletions And Retirements	Balance, September 30, 2011
<b>Sewer Fund</b>							
Capital assets, not being depreciated:							
Construction in progress	\$ 10,393	2,021	(10,994)	1,420	6,585	(5,190)	2,815
Total capital assets, not being depreciated	10,393	2,021	(10,994)	1,420	6,585	(5,190)	2,815
Capital assets, being depreciated:							
Buildings, structures, and facilities	5,681	-	-	5,681	-	-	5,681
Distribution/collection systems	170,548	10,789	-	181,337	4,928	(181)	186,084
Machinery and equipment	4,134	225	(191)	4,168	290	(137)	4,321
Total capital assets, being depreciated	180,363	11,014	(191)	191,186	5,218	(318)	196,086
Less accumulated depreciation for:							
Buildings, structures, and facilities	(1,024)	(111)	-	(1,135)	(111)	-	(1,246)
Distribution/collection systems	(138,076)	(1,897)	-	(139,973)	(1,379)	170	(141,182)
Machinery and equipment	(3,312)	(158)	191	(3,279)	(170)	137	(3,312)
Total accumulated depreciation	(142,412)	(2,166)	191	(144,387)	(1,660)	307	(145,740)
Total capital assets, being depreciated, net	37,951	8,848	-	46,799	3,558	(11)	50,346
Total Sewer Fund capital assets, net	\$ 48,344	10,869	(10,994)	48,219	10,143	(5,201)	53,161
<b>Combined Total</b>							
Capital assets, not being depreciated:							
Land	\$ 11,280	-	(32)	11,248	-	-	11,248
Construction in progress	43,800	14,944	(33,382)	25,362	25,527	(36,183)	14,706
Water Rights	-	40	-	40	-	-	40
Total capital assets, not being depreciated	55,080	14,984	(33,414)	36,650	25,527	(36,183)	25,994
Capital assets, being depreciated:							
Buildings, structures, and facilities	120,274	3,960	(7,871)	116,363	1,331	-	117,694
Patent	815	-	-	815	-	-	815
Distribution/collection systems	411,234	25,748	(157)	436,825	33,007	(1,589)	468,243
Machinery and equipment	16,850	1,771	(593)	18,028	1,022	(717)	18,333
Total capital assets, being depreciated	549,173	31,479	(8,621)	572,031	35,360	(2,306)	605,085
Less accumulated depreciation for:							
Buildings, structures, and facilities	(44,123)	(6,194)	7,871	(42,446)	(2,900)	-	(45,346)
Patent	(122)	(41)	-	(163)	(41)	-	(204)
Distribution/collection systems	(234,869)	(7,271)	135	(242,005)	(7,558)	1,135	(248,428)
Machinery and equipment	(16,129)	(991)	560	(16,560)	(1,000)	683	(16,877)
Total accumulated depreciation	(295,243)	(14,497)	8,566	(301,174)	(11,499)	1,818	(310,855)
Total capital assets, being depreciated, net	253,930	16,982	(55)	270,857	23,861	(488)	294,230
Total Department capital assets, net	\$ 309,010	31,966	(33,469)	307,507	49,388	(36,671)	320,224

In FY2011, several major Developer projects totaling \$10,107 were completed and capitalized as additions to the Department's distribution and collection system. These projects includes construction of potable water and reclaimed water distribution systems, and sewer collection systems for the Long Beach City College South Quad Complex and parking structure, Long Beach Memorial Miller Children's Hospital, Lyons West Gateway apartments, and Douglas Business Park. Furthermore, the Department completed major projects as part of ongoing improvements to its current distribution system facilities, which totaled \$14,788 for the Water

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Fund and \$1,446 for the Sewer Fund. These improvements include ongoing programs for Water Meter replacement, Water Cast Iron Main replacement, Water Services installations, and Sewer Pipe Relining and Rehabilitation. The Department also capitalized enhancements to the Department's building structures and facilities, which amounted to \$1,331. These include rehabilitation of the Cistern 3 East Vault located in the Department's Treatment Plant and improvements on fences surrounding several water wells. In addition, the Department purchased machinery and equipment totaling \$732 for the Water Fund and \$290 for the Sewer Fund. These machinery and equipment purchases included heavy construction equipment such as backhoe loaders, pick-up trucks, and a portable laboratory trailer, which support Water and Sewer operations.

In FY2010, the Department completed several major projects totaling \$3,960, which were capitalized as enhancements to the Department's building structures and facilities. These projects included completion of Heating, Ventilation, and Air-conditioning improvements to the Department's Administration Building, construction of a concrete security wall for the Groundwater Treatment Plant, upgrades to Underground Storage Tanks, and rehabilitation of North Long Beach 9 and North Long Beach 11 groundwater wells. The Department also completed major projects as part of ongoing improvements to its Distribution system facilities, which totaled \$14,959 for the Water Fund and \$10,789 for the Sewer Fund. These improvements include ongoing programs for Large Valve replacement, Water Meter replacement, Water Cast Iron Main replacement, and Cathodic Protection upgrades for the Alamitos and J. Will Johnson Reservoir Tanks, the Long Beach Conjunctive Use Expansion project, Water Treatment pump replacement, North Long Beach 8 Well conversion, and the Sewer Main Pipe Rehabilitation program. In addition, the Department also purchased machinery and equipment totaling \$1,546 for the Water Fund and \$225 for the Sewer Fund. These machinery and equipment purchases included heavy construction equipment such as dump trucks, forklifts, and pick-up trucks, which support Water and Sewer operations.

With the completion of the Department's study on Seawater Nanofiltration Desalination Processes in March 2010, the Department dismantled the 300,000 gallon per day prototype desalination research and development facility. The facility's book value was \$7,871 when retired from the Department's fixed assets. The facility was located on land leased from Los Angeles Department of Water and Power. Under the terms of the lease, the Department was required to dismantle the facility and restore the site to its original condition. The site restoration costs incurred were recorded as a nonoperating expense.

In May 2010, the Board approved the sale of 8.7 acres of surplus land adjacent to the Department's J. Will Johnson Reservoir located in Dominguez Hills. The book value of this real property was \$32.

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### Construction in Progress

Construction in Progress at September 30, 2011 and 2010 includes the following projects:

<u>Project</u>	<u>2011</u>	<u>2010</u>
Water Main Replacement Program	\$ 3,200	\$ 16,524
Seawater Desalination Project	2,234	1,928
Reclaimed Water System	2,135	2,052
Sewer main Replacement Program	2,815	1,420
Other Projects	4,322	3,438
Total Combined Construction in Progress	<u>\$ 14,706</u>	<u>\$ 25,362</u>

Such costs are allocated as follows:

Water Fund	\$ 11,891	\$ 23,942
Sewer Fund	2,815	1,420
Total Department	<u>\$ 14,706</u>	<u>\$ 25,362</u>

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal years ended September 30, 2011 and 2010, completed projects were transferred from Construction in Progress as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Transfers to Capital Assets	\$ 29,497	4,996	\$ 20,122	10,874
Transfers to Expense	1,496	194	2,266	120
Total	<u>\$ 30,993</u>	<u>5,190</u>	<u>\$ 22,388</u>	<u>10,994</u>

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2011 and 2010 (in thousands of dollars)

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

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

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

## LONG BEACH WATER DEPARTMENT

### Notes to Financial Statements September 30, 2011 and 2010 (in thousands of dollars)

September 30, 2010	<b>Water Fund</b>			End of year	Due within one year
	Beginning of year	Additions	Reductions		
1997 Water Revenue Refunding Bonds	\$ 30,870	-	(25,695)	5,175	-
2010 Water Revenue Refunding Bonds	-	22,740	-	22,740	-
Subordinate Water Revenue Commercial Paper Notes	11,000	-	-	11,000	-
	41,870	22,740	(25,695)	38,915	-
Less current portion	(1,405)	-	1,405	-	-
Less 1997 unamortized bond discounts	(200)	-	167	(33)	-
Less 1997 unamortized loss on refunding	(2,407)	-	2,012	(395)	-
Add 2010 unamortized bond premium	-	3,021	2	3,023	-
Less 2010 unamortized loss on refunding	-	(2,697)	8	(2,689)	-
Total long-term debt	37,858	23,064	(22,101)	38,821	-
Accrued site restoration cost	1,000	-	-	1,000	-
Total noncurrent liabilities	\$ 38,858	23,064	(22,101)	39,821	-

September 30, 2010	<b>Sewer Fund</b>			End of year	Due within one year
	Beginning of year	Additions	Reductions		
Subordinate Sewer Revenue Commercial Paper Notes	\$ 4,000	-	-	4,000	-
Total noncurrent liabilities	\$ 4,000	-	-	4,000	-

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

#### **Water Revenue Refunding Bonds - Series 2010A**

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

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

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

## LONG BEACH WATER DEPARTMENT

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

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

### **Water Revenue Refunding Bonds - Series 1997A**

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

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

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

## **LONG BEACH WATER DEPARTMENT**

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### **Subordinate Water Revenue Commercial Paper Notes**

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

On January 8, 2003, Series A notes in the amount of \$6,000 were issued. The notes are issued in denominations of \$100,000 and integral multiples of \$1,000 in excess of \$100,000 and will mature not more than 270 days after date of issuance. On March 19, 2008, Series A notes in the amount of \$2,000 were issued. On April 6, 2009, additional Series A notes in amount of \$3,000 were issued. Interest rates have ranged from 0.28% to 3.72%. The Department has the ability and intends to continue to extend the notes to periods greater than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

### **Subordinate Sewer Revolving Line of Credit**

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

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

## **LONG BEACH WATER DEPARTMENT**

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### **Senior Sewer Revenue Commercial Paper Notes**

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

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

### **Accrued Site Restoration Cost**

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

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



**LONG BEACH WATER DEPARTMENT**

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**Total Annual Debt Service Requirements to Maturity**

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended Sept 30	Series 1997 Bonds		Series 2010 Bonds		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ -	298	490	951	490	1,249	1,739
2013	1,630	297	125	937	1,755	1,234	2,989
2014	1,720	204	130	932	1,850	1,136	2,986
2015	1,825	105	135	929	1,960	1,034	2,994
2016			2,065	925	2,065	925	2,990
2017-2021	-	-	11,545	3,410	11,545	3,410	14,955
2022-2024	-	-	8,250	819	8,250	819	9,069
Total	<u>\$ 5,175</u>	<u>904</u>	<u>22,740</u>	<u>8,903</u>	<u>27,915</u>	<u>9,807</u>	<u>37,722</u>

**Note 5 - Retirement Programs**

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

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

Contribution requirements of plan members and the City are established and may be amended by CalPERS. For the fiscal year ended September 30, 2011, Miscellaneous plan participants were required to contribute 8.0% of their annual covered salary of which the City pays 6% of the participant contributions and the employee pays 2%. In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rate is 12.297%. For fiscal year 2012, the contribution rate was 16.072%. In fiscal years 2011, 2010,

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2011 and 2010  
(in thousands of dollars)

and 2009, the Department's contributions to CalPERS were \$2,371, \$2,160, and \$2,152 for Water Fund and \$439, \$423, and \$387 for Sewer Fund, respectively, which represented 100% of the Department's required contributions.

Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2011.

### **Deferred Compensation Plan**

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which the Department and its employees participate, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue financial hardship for the employee.

Further information regarding the City's participation in the deferred compensation plan may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2011.

### **Note 6 – Post Retirement Health Care Benefits**

#### **Plan Description**

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

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

At September 30, 2011, there were 557 participants in the City's Retired Employees Health Insurance Program, and the noninterest-bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled \$20.9 million. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2011 were \$9.0 million, and are included in the expenses of the Employee Benefits Internal Service Fund.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2011 and 2010  
(in thousands of dollars)

### Termination Benefits

As of September, 30, 2011, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$105.7 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, Accounting for Compensated Absences (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996 and 2009 negotiated public safety health benefit supplements as described below.

### Fire Retirement Supplement Benefit

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

### Police Retirement Supplement Benefit

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

The actuarial study assumes an investment return of 5.0%; wage increases of 3.5% per year for miscellaneous and 4.5% per year for safety employees; and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$7.8 million is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2011 and 2010  
(in thousands of dollars)

### Other Postemployment Benefits

As of September, 30, 2011, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$26.1 million based on an actuarial study of the “implicit subsidy” as defined by GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, (GASB 45). While the City does not directly contribute any funding towards the cost of premiums for retirees, the ability to obtain coverage at an active employee’s rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City’s healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an “implicit subsidy” under GASB 45.

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

This plan does not issue a separate financial report.

### Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2011, the City has not prefunded the plan.

### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 12,739
Interest on net OPEB obligation	901
Adjustment to annual required contribution	<u>(1,351)</u>
Annual OPEB cost	12,289
Contribution made	<u>(4,172)</u>
Increase in net OPEB obligation	8,117
Net OPEB obligation – beginning of year	<u>18,022</u>
Net OPEB obligation – end of year	<u>\$ 26,139</u>

**LONG BEACH WATER DEPARTMENT**

Notes to Financial Statements  
September 30, 2011 and 2010  
(in thousands of dollars)

The ARC was determined as part of the September 2010 actuarial valuation. For the year ended September 30, 2011, the City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2008	\$ 8,102	35.2%	\$ 5,249
9/30/2009	\$ 8,461	39.1%	\$10,404
9/30/2010	\$11,472	33.6%	\$18,022
9/30/2011	\$12,289	34.0%	\$26,139

Funded Status and Funding Progress

The funded status of the plan as of September 30, 2011 was as follows:

Actuarial accrued liability (AAL)	\$ 130,252
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 130,252
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll	\$ 328,107
UAAL as a percentage of covered payroll	39.7%
ARC as a percentage of covered payroll	3.9%

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

## LONG BEACH WATER DEPARTMENT

Notes to Financial Statements  
September 30, 2011 and 2010  
(in thousands of dollars)

### Actuarial Methods and Assumption

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

The September 30, 2010 actuarial valuation used the entry age normal cost method. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 11.3% for HMO plans and 8.6% for PPO plans that grades down to 4.5% for all plans by September 30, 2021, and an inflation assumption of 3.0%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was zero. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

### Note 7 - Operating Leases

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

Year ended September 30:	
2012	\$ 860
2013	529
2014	318
2015	281
2016	277
2017-2021	1,472
2022-2026	1,639
2027-2031	<u>1,833</u>
Total minimum future rentals	<u>\$ 7,209</u>

## **LONG BEACH WATER DEPARTMENT**

Notes to Financial Statements  
September 30, 2011 and 2010  
(in thousands of dollars)

### **Note 8 - Commitments and Contingencies**

#### Litigation

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

#### Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2011 amount to \$2,745 and \$3,665 for the Water Fund and Sewer Fund, respectively.

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**STATISTICAL SECTION**  
**(Not Covered by Independent Auditors' Report)**

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# **Financial Trends**

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

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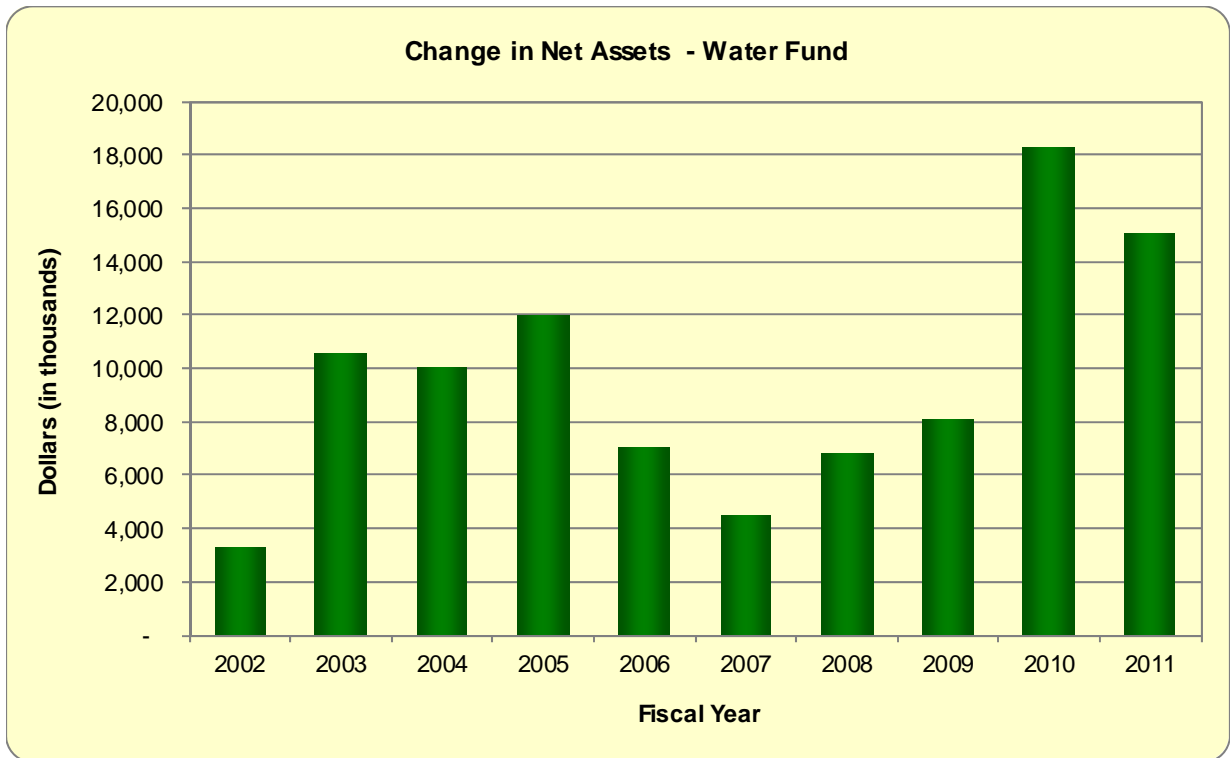
**LONG BEACH WATER DEPARTMENT**  
**CHANGES IN NET ASSETS - WATER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue <sup>(1)</sup></u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Change in Net Assets</u>
9/30/2002	58,970	56,071	2,899	(665)	1,086	3,320
9/30/2003	58,887	52,237	6,650	(1,128)	5,063	10,586
9/30/2004	63,125	55,544	7,581	(188)	2,649	10,042
9/30/2005	64,464	58,262	6,202	(542)	6,289	11,949
9/30/2006	66,026	60,933	5,093	(691)	2,634	7,036
9/30/2007	70,192	66,870	3,322	(1,394)	2,544	4,471
9/30/2008	71,384	67,647	3,737	(660)	3,746	6,823
9/30/2009	80,777	73,916	6,861	(1,029)	2,221	8,053
9/30/2010	87,151	79,422	7,729	8,302	2,263	18,294
9/30/2011	88,576	80,403	8,173	(1,374)	8,283	15,082

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

Source: Department's annual reports

See accompanying independent auditors' report



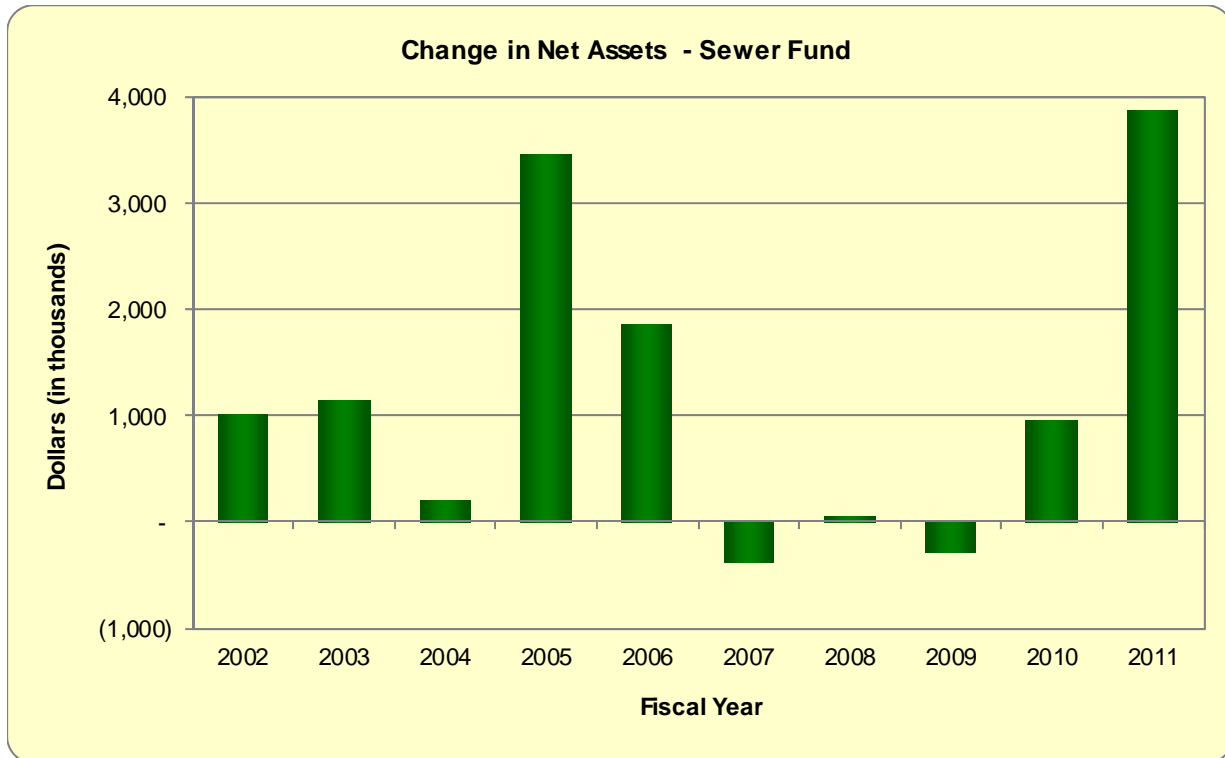
**LONG BEACH WATER DEPARTMENT**  
**CHANGES IN NET ASSETS - SEWER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue <sup>(1)</sup></u>	<u>Total Operating Expense</u>	<u>Operating Income (Expenses)</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Change in Net Assets</u>
9/30/2002	8,050	7,538	512	312	183	1,007
9/30/2003	9,015	8,420	595	264	277	1,136
9/30/2004	9,267	7,753	1,514	(1,695)	380	199
9/30/2005	9,708	7,058	2,650	225	585	3,460
9/30/2006	9,237	7,730	1,507	355	-	1,862
9/30/2007	10,796	11,524	(728)	352	-	(376)
9/30/2008	11,759	11,875	(116)	174	-	58
9/30/2009	12,455	13,003	(548)	258	-	(290)
9/30/2010	15,186	14,015	1,171	(517)	310	964
9/30/2011	16,448	14,795	1,653	(650)	2,868	3,871

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

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

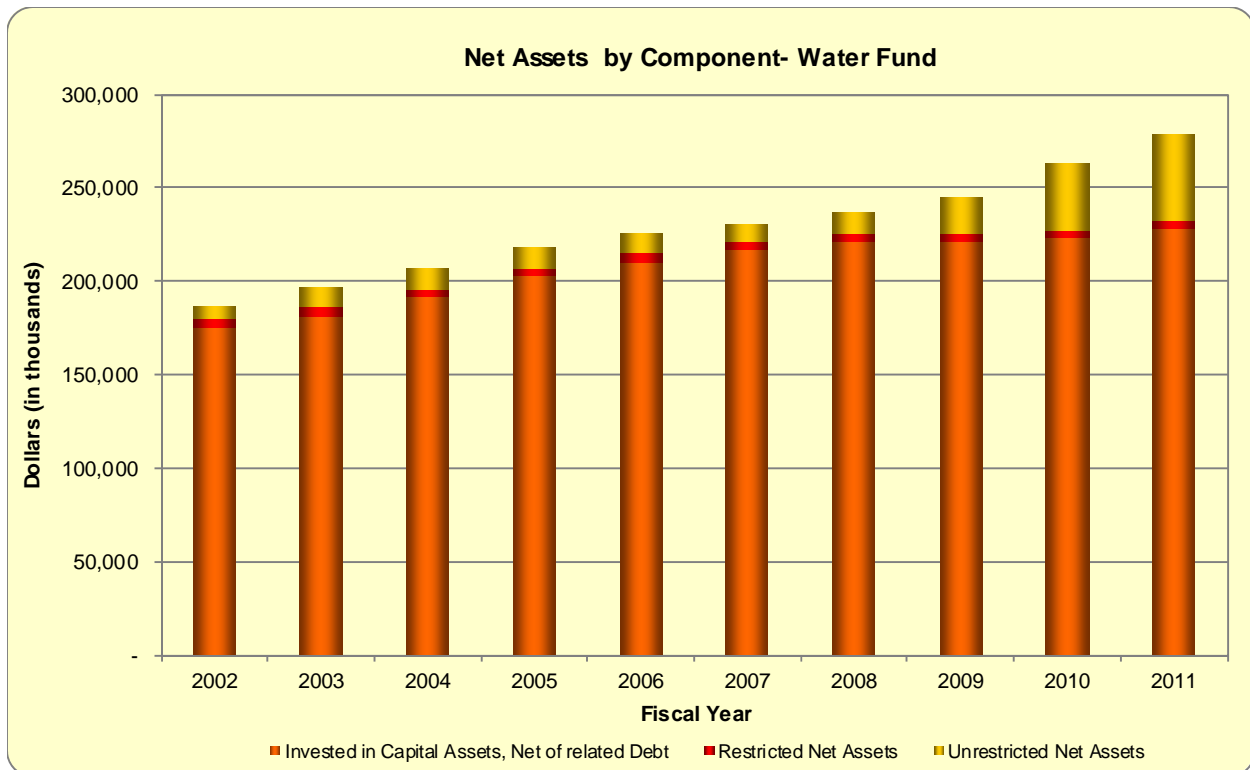
Exhibit 3

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

<u>Fiscal Year Ended</u>	<u>Invested in Capital Assets (net of related debt)</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
9/30/2002	175,501	5,098	5,341	185,939
9/30/2003	181,535	5,116	9,874	196,525
9/30/2004	191,067	4,298	11,202	206,567
9/30/2005	202,959	4,316	11,240	218,515
9/30/2006	210,282	4,355	10,914	225,551
9/30/2007	217,247	4,409	8,366	230,022
9/30/2008	221,225	4,178	11,442	236,845
9/30/2009	220,974	4,240	19,684	244,898
9/30/2010	223,559	3,247	36,386	263,192
9/30/2011	228,196	3,830	46,248	278,274

Source: Department's annual reports

See accompanying independent auditors' report

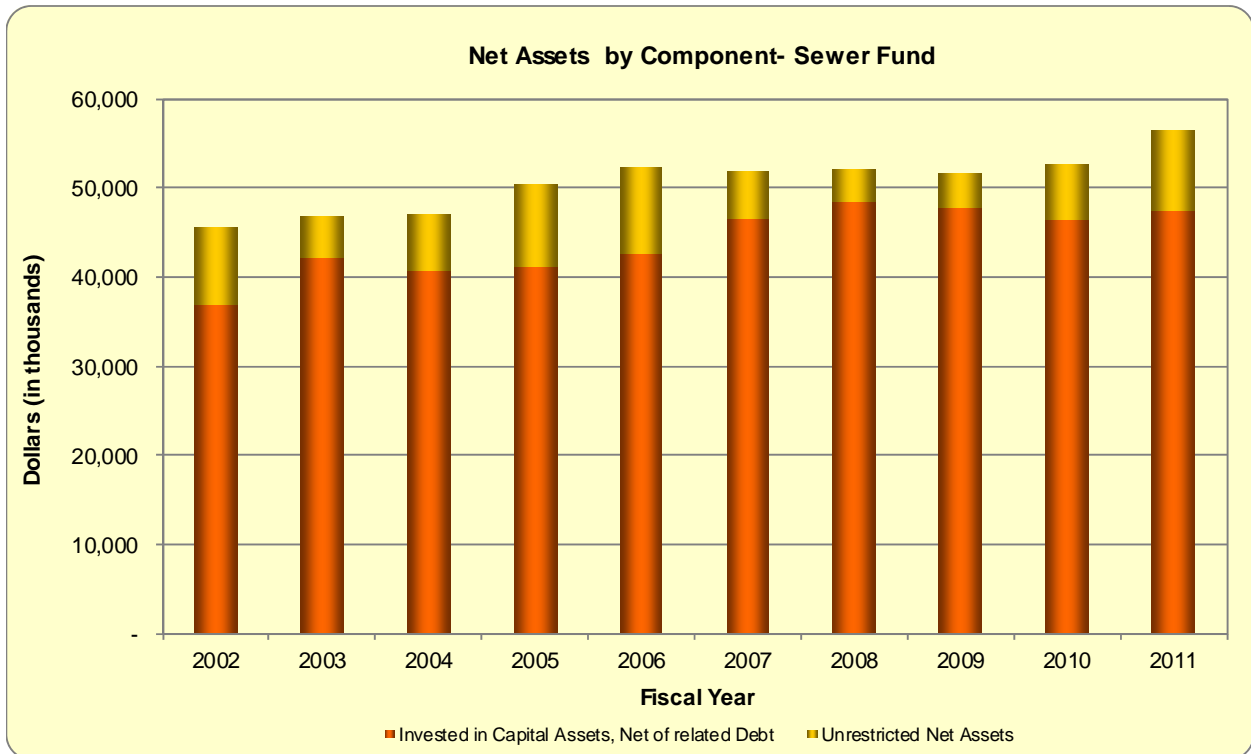


**LONG BEACH WATER DEPARTMENT**  
**NET ASSETS BY COMPONENT - SEWER FUND**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

<b>Fiscal Year Ended</b>	<b>Invested in Capital Assets (net of related debt)</b>	<b>Restricted Net Assets</b>	<b>Unrestricted Net Assets</b>	<b>Total Net Assets</b>
9/30/2002	36,848	-	8,742	45,590
9/30/2003	42,095	-	4,631	46,725
9/30/2004	40,600	-	6,325	46,925
9/30/2005	41,206	-	9,179	50,385
9/30/2006	42,619	-	9,628	52,247
9/30/2007	46,637	-	5,235	51,872
9/30/2008	48,541	-	3,389	51,930
9/30/2009	47,891	-	3,749	51,640
9/30/2010	46,383	-	6,221	52,604
9/30/2011	47,378	-	9,097	56,475

Source: Department's annual reports

See accompanying independent auditors' report



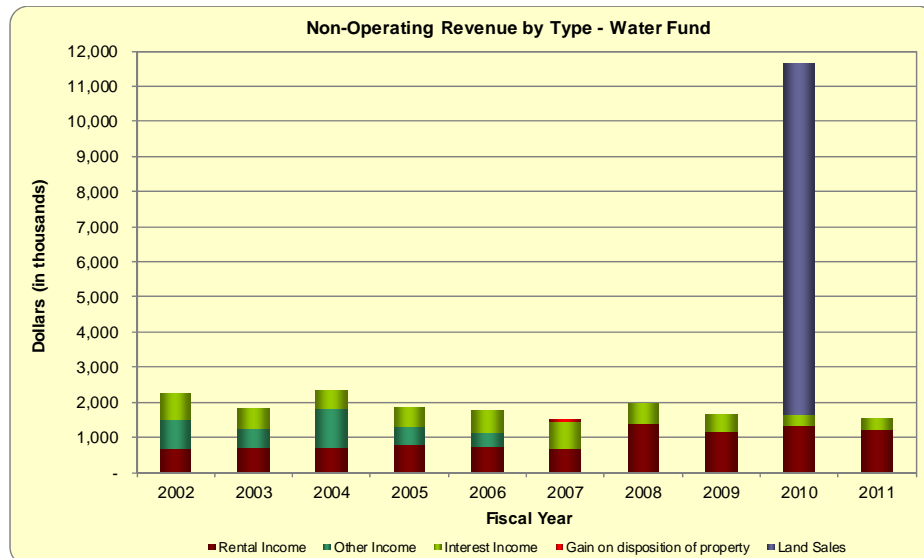
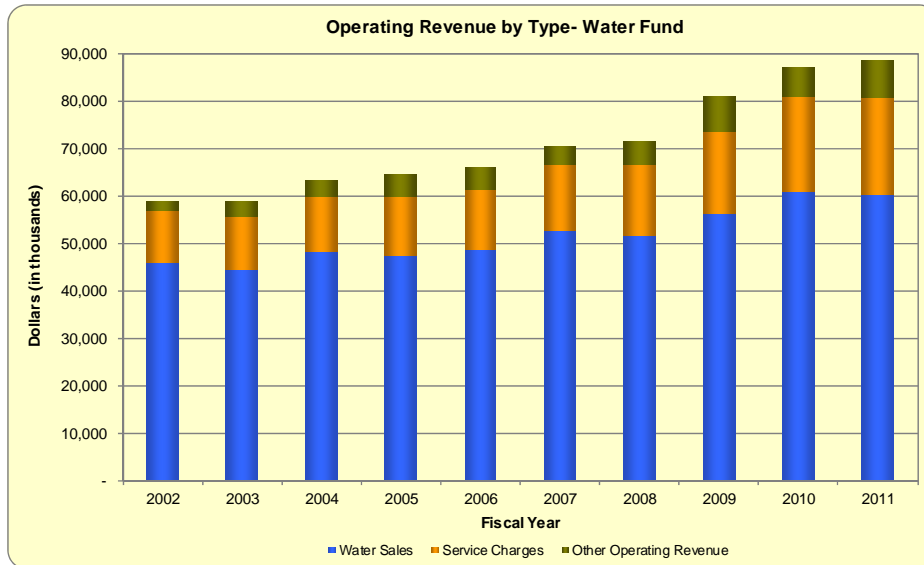


**LONG BEACH WATER DEPARTMENT**  
**WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING					
	Water Sales	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Rental Income	Land sales	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2002	45,917	10,987	2,066	58,970	751	660	-	824	-	2,235
9/30/2003	44,490	11,175	3,222	58,887	576	699	-	554	-	1,829
9/30/2004	48,160	11,648	3,317	63,125	541	700	-	1,099	-	2,340
9/30/2005	47,296	12,302	4,866	64,464	556	804	-	488	-	1,848
9/30/2006	48,429	12,727	4,870	66,026	653	733	-	391	-	1,777
9/30/2007	52,507	13,959	3,726	70,192	758	682	-	-	66	1,506
9/30/2008	51,389	15,156	4,839	71,384	602	1,382	-	-	-	1,984
9/30/2009	56,256	17,299	7,222	80,777	456	1,181	-	-	-	1,637
9/30/2010	60,975	19,983	6,193	87,151	302	1,345	10,000	-	-	11,647
9/30/2011	60,398	20,251	7,927	88,576	294	1,221	-	-	-	1,515

Source: Department's annual reports

See accompanying independent auditors' report

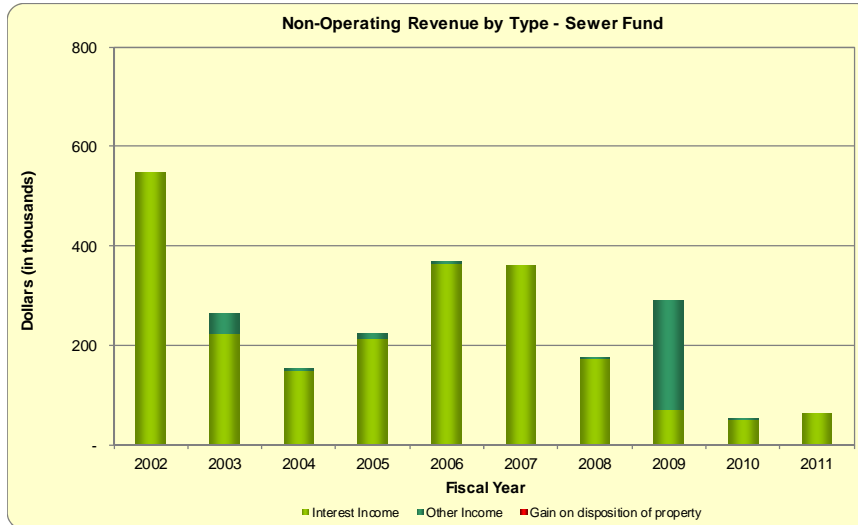
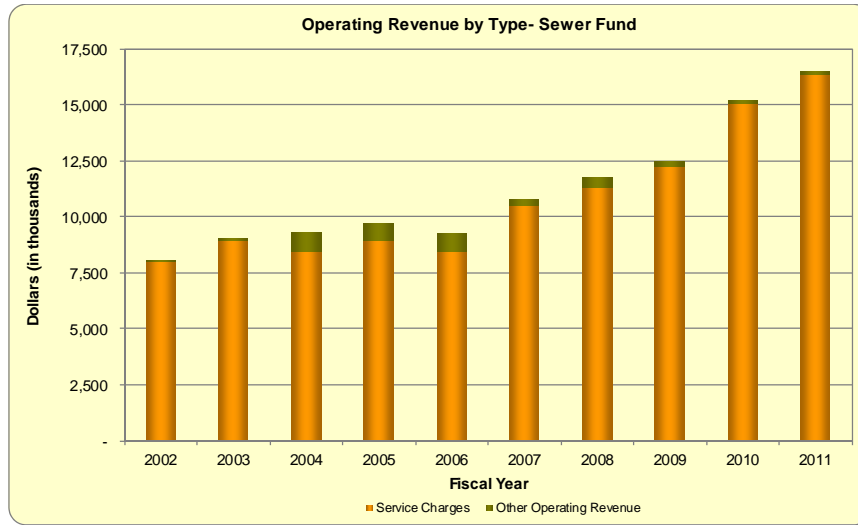


**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING		
	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Other Income	Total Non-Operating Income
9/30/2002	7,963	86	8,050	547	-	547
9/30/2003	8,929	86	9,015	223	41	264
9/30/2004	8,434	832	9,267	149	5	154
9/30/2005	8,976	732	9,708	213	12	225
9/30/2006	8,457	780	9,237	366	1	367
9/30/2007	10,500	296	10,796	359	-	359
9/30/2008	11,317	442	11,759	172	2	174
9/30/2009	12,203	252	12,455	70	219	289
9/30/2010	15,013	173	15,186	50	0.01	50
9/30/2011	16,362	86	16,448	63	-	63

Source: Department's annual reports

See accompanying independent auditors' report

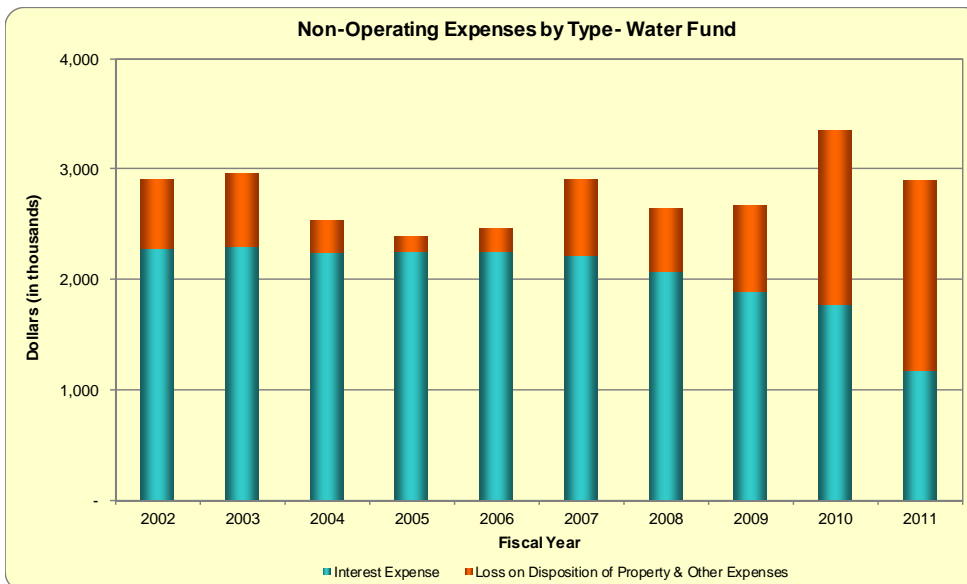
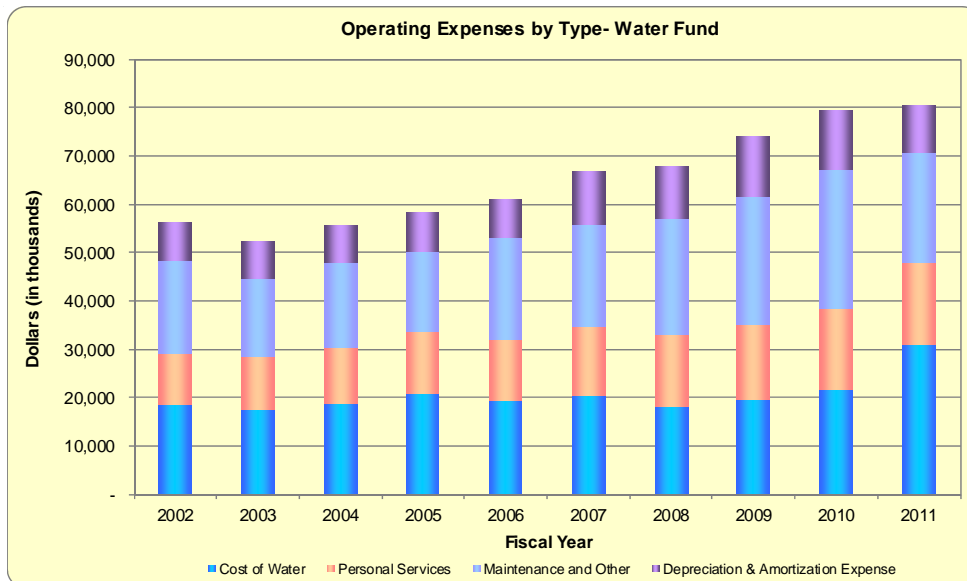


**LONG BEACH WATER DEPARTMENT**  
**WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING			
	Cost of Water	Personal Services	Maintenance and Other	Depreciation & Amortization Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2002	18,384	10,781	19,158	7,748	56,071	2,280	620	2,900
9/30/2003	17,490	10,978	16,128	7,641	52,237	2,290	667	2,957
9/30/2004	18,581	11,572	17,539	7,852	55,544	2,243	285	2,528
9/30/2005	20,936	12,731	16,421	8,174	58,262	2,253	137	2,390
9/30/2006	19,179	12,974	20,895	7,885	60,933	2,255	213	2,468
9/30/2007	20,606	14,069	21,224	10,972	66,871	2,217	683	2,900
9/30/2008	18,036	14,974	24,009	10,628	67,647	2,078	566	2,644
9/30/2009	19,509	15,654	26,319	12,434	73,916	1,891	775	2,666
9/30/2010	21,588	16,855	28,648	12,331	79,422	1,773	1,572	3,345
9/30/2011	30,825	17,095	22,644	9,839	80,403	1,167	1,722	2,889

Source: Department's annual reports

See accompanying independent auditors' report

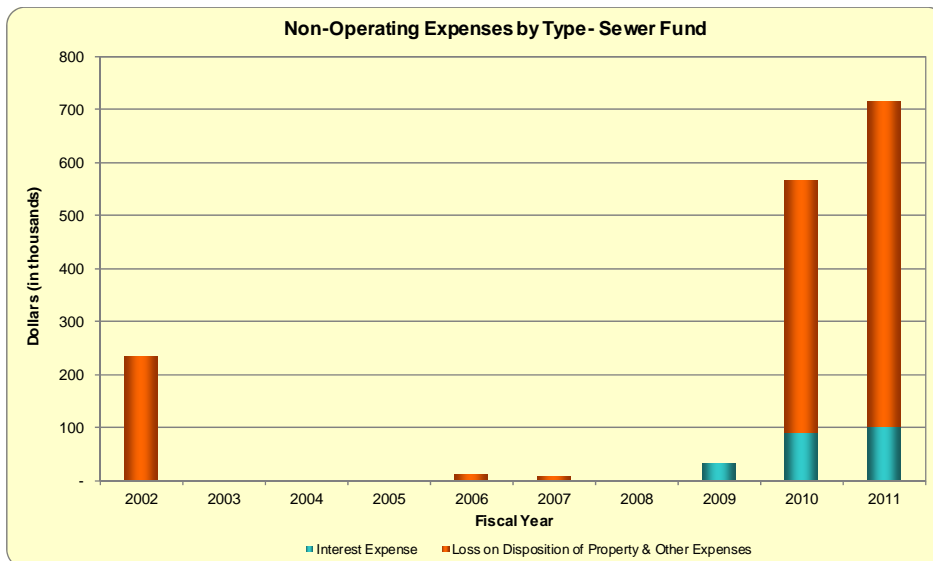
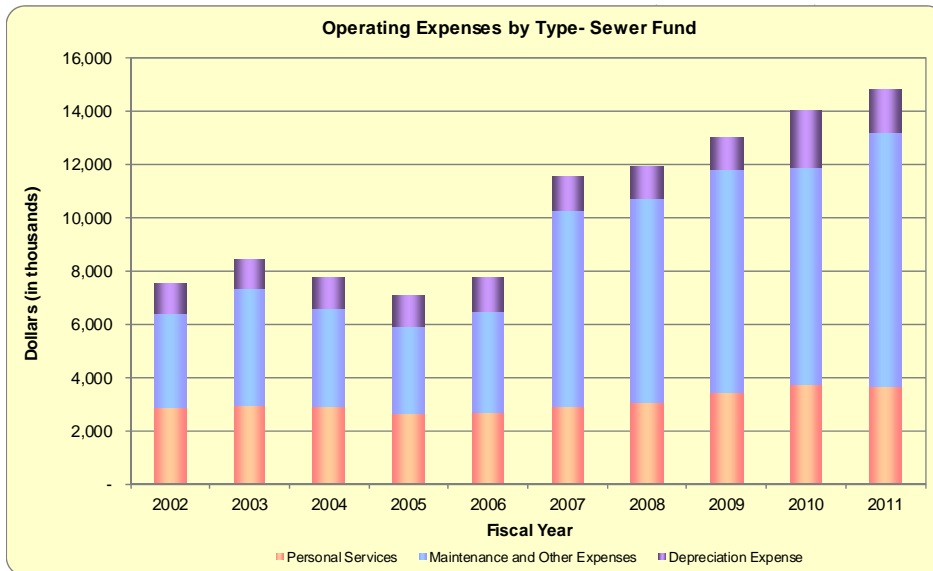


**LONG BEACH WATER DEPARTMENT**  
**SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Fiscal Year Ended	OPERATING			Total Operating Expenses	Interest Expense	NON-OPERATING	
	Personal Services	Maintenance and Other Expenses	Depreciation Expense			Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2002	2,829	3,538	1,171	7,538	-	235	235
9/30/2003	2,938	4,379	1,103	8,420	-	-	-
9/30/2004	2,912	3,693	1,148	7,753	-	-	-
9/30/2005	2,648	3,248	1,161	7,057	-	-	-
9/30/2006	2,689	3,808	1,233	7,730	-	12	12
9/30/2007	2,900	7,378	1,246	11,524	-	7	7
9/30/2008	3,067	7,635	1,173	11,875	-	-	-
9/30/2009	3,440	8,363	1,200	13,003	31	-	31
9/30/2010	3,735	8,113	2,167	14,015	91	476	567
9/30/2011	3,607	9,528	1,660	14,795	102	611	713

Source: Department's annual reports

See accompanying independent auditors' report



# **Revenue Capacity**

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

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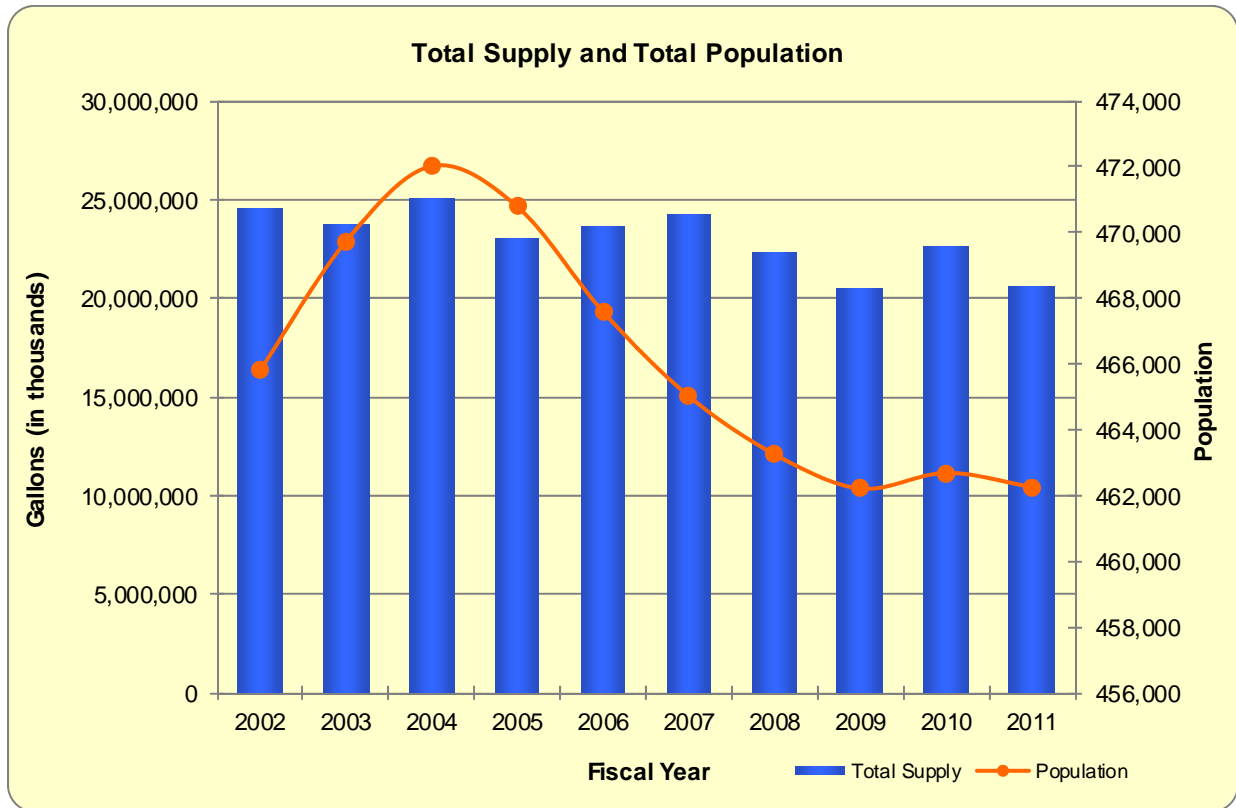
**LONG BEACH WATER DEPARTMENT**  
**SOURCE OF WATER (PUMPED, PURCHASED, AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS**  
 (in thousands of gallons, except population)

Fiscal Year Ended	SOURCE OF SUPPLY				CONSUMPTION			
	Potable Water		Reclaimed Water	Total Supply	Average Daily Demand Potable Water <sup>(1)</sup>	Peak Day Distribution	Average Daily Sales Per Capita	Population
	Pumped	Purchased						
9/30/2002	8,479,000	14,246,000	1,790,000	24,515,000	62,260	87,000	144	465,795
9/30/2003	7,445,000	14,567,000	1,671,000	23,683,000	60,307	89,000	138	469,713
9/30/2004	8,354,494	14,761,376	1,956,084	25,071,953	63,331	84,310	146	472,013
9/30/2005	7,041,640	14,536,539	1,382,586	22,960,765	59,118	86,570	134	470,781
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	138	467,586
9/30/2007	8,416,014	13,837,621	1,999,911	24,253,546	60,969	80,180	143	465,017
9/30/2008	11,006,041	9,179,092	2,161,793	22,346,926	55,302	82,080	132	463,250
9/30/2009	11,038,496	7,462,640	2,021,971	20,523,107	50,688	72,650	122	462,211
9/30/2010	11,789,387	8,651,083	2,197,803	22,638,273	56,001	71,220	134	462,685
9/30/2011	5,856,585	12,725,394	2,022,264	20,604,243	50,910	72,300	122	462,257

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

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 10

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

Effective Date	Potable Water - Monthly Amount per Billing Unit <sup>(1)</sup>			Reclaimed Water
	TIER I	TIER II <sup>(2)</sup>	TIER III	Monthly Amount Per Cubic Foot
	First Five Billing Units	Next Ten Billing Units	Over Fifteen Billing Units	
10/1/2001	1.305	1.535	2.072	1.075
10/1/2002	1.356	1.507	2.109	1.055
10/1/2003	1.394	1.549	2.323	1.084
10/1/2004	1.457	1.619	2.428	1.133
10/1/2005	1.515	1.683	2.525	1.178
11/1/2006	1.561	1.734	2.601	1.214
10/1/2007	1.646	1.829	2.744	1.281
10/1/2008	1.893	2.103	3.155	1.472
10/1/2009	2.196	2.439	3.659	1.708
10/1/2010	2.196	2.439	3.659	1.708

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

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

Source: Department's records

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 11

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

Effective Date	3/4" <sup>(1)</sup>	1"	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2001	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2002	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2003	0.27	0.40	0.75	1.11	2.29	3.62	6.68	10.48	17.16	20.98	34.72
10/1/2004	0.28	0.42	0.78	1.16	2.39	3.79	6.98	10.95	17.94	21.92	36.28
10/1/2005	0.29	0.44	0.81	1.20	2.49	3.94	7.26	11.39	18.65	22.80	37.73
11/1/2006	0.30	0.45	0.84	1.24	2.56	4.06	7.47	11.73	19.21	23.48	38.87
10/1/2007	0.31	0.47	0.88	1.31	2.70	4.28	7.89	12.38	20.27	24.77	41.00
10/1/2008	0.36	0.54	1.01	1.50	3.11	4.92	9.07	14.23	23.31	28.49	47.15
10/1/2009	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2010	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70

Note: (1) Normal residential size (69,469 of the 89,706 total services).

Source: Department's records

*See accompanying independent auditors' report*



(Unaudited)

Exhibit 12

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

<b>Effective Date</b>	<b>2"</b>	<b>3"</b>	<b>4"</b>	<b>6"</b>	<b>8"</b>	<b>10"</b>	<b>12"</b>	<b>16"</b>
10/1/2001	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2002	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2003	0.55	0.95	1.40	2.38	3.49	4.73	5.96	8.73
10/1/2004	0.58	0.99	1.46	2.49	3.65	4.94	6.22	9.13
10/1/2005	0.60	1.03	1.52	2.59	3.80	5.14	6.47	9.49
11/1/2006	0.62	1.06	1.57	2.67	3.91	5.29	6.67	9.78
10/1/2007	0.65	1.12	1.65	2.81	4.13	5.58	7.03	10.31
10/1/2008	0.75	1.29	1.90	3.24	4.74	6.42	8.09	11.86
10/1/2009	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2010	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 13

**LONG BEACH WATER DEPARTMENT**  
**NUMBER OF WATER SERVICES, AVERAGE MONTHLY WATER CONSUMPTION, AND**  
**AVERAGE MONTHLY WATER BILL BY SERVICE SIZE**  
**Fiscal Year Ended September 30, 2011**

<b>Water Service Size</b>	<b>Number of Services</b>	<b>Average Consumption per Month (in hundred cubic feet)</b>	<b>Average Monthly Bill</b>
3/4"	69,513	12	\$ 42.60
1"	11,236	20	68.16
1-1/2"	4,298	53	166.85
2"	2,750	84	253.58
3"	601	198	581.42
4"	507	101	343.54
6"	518	173	576.53
8"	349	299	954.84
10"	69	1,321	2,383.36
12"	8	2,112	5,944.14
16"	2	14	420.19
<b>Total</b>	<b>89,851</b>		

Source: Department's utility billing records

See accompanying independent auditors' report

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

Customer	Fiscal Year 2011				Fiscal Year 2002			
	Ranking	Sales <sup>(1)</sup>	Acre Feet	Percent of Total	Ranking	Sales <sup>(1)</sup>	Acre Feet	Percent of Total
City of Long Beach	1	\$ 3,812	3,369	6.13 %	1	\$ 2,971	3,979	6.05 %
Long Beach Unified School District	2	934	666	1.21	2	670	795	1.21
Montenay Pacific Power Corporation	3	745	692	1.26	3	511	754	1.15
California State University Long Beach	4	475	410	0.75	5	314	433	0.66
AES Southland LLC	5	458	419	0.76	4	393	575	0.87
L.A.D.W.P.	6	381	338	0.61	-	-	-	-
Memorial Medical Center	7	325	274	0.50	10	184	255	0.39
L.A. County Community Development	8	321	243	0.44	7	235	290	0.44
Veterans Affairs Medical Hospital	9	274	247	0.45	6	240	345	0.52
Carnival Corporation	10	267	245	0.45	-	-	-	-
International Garment Finish	-	-	-	-	8	216	321	0.49
State of California Dept. of Transportation	-	-	-	-	9	197	255	0.39
Total Ten Largest Users		7,991	6,903	12.54		5,931	8,002	12.17
Total All Other Users		70,188	48,128	87.46		49,985	57,793	87.83
Total City		\$ 78,179	55,031	100.00		\$ 55,916	65,795	100.00

Note: (1) Sales figures are in thousands.

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

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

**LONG BEACH WATER DEPARTMENT**  
**SEWER RATES: DAILY SERVICE CHARGES BY SIZE,**  
**VOLUMETRIC RATE, AND CAPACITY CHARGES <sup>(1)</sup>**  
**Fiscal Year Ended September 30, 2011**

Water Service Size	Daily Charge	Volumetric Rate per 100 cubic feet
5/8 or 3/4"	\$ 0.238	\$ 0.330
1"	0.377	0.330
1-1/2"	0.687	0.330
2"	0.996	0.330
3"	2.061	0.330
4"	3.265	0.330
6"	6.014	0.330
8"	9.448	0.330
10"	15.456	0.330
12"	18.893	0.330
16"	30.916	0.330

Note: (1) A one-time capacity charge of \$90.38 per equivalent fixture unit is applied to all new developments in the City.

Source: Department's records

See accompanying independent auditors' report

**LONG BEACH WATER DEPARTMENT**  
**NUMBER OF SEWER SERVICES AND**  
**AVERAGE MONTHLY SEWER BILL BY SERVICE SIZE**  
**Fiscal Year Ended September 30, 2011**

<u>Water Service Size</u>	<u>Number of Services</u>	<u>Average Monthly Bill</u>
3/4"	69,795	\$ 9.97
1"	11,111	16.06
1-1/2"	4,090	35.44
2"	2,267	54.72
3"	428	123.83
4"	142	190.64
6"	88	418.21
8"	54	514.57
10"	9	1,736.12
12"	5	802.29
Total	<u><u>87,989</u></u>	

Source: Department's records

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 17

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

<u>Customer</u>	<u>Fiscal Year 2011</u>				<u>Fiscal Year 2002</u>			
	<u>Ranking</u>	<u>Sales</u>	<u>Acre Feet</u>	<u>Percent of Total</u>	<u>Ranking</u>	<u>Sales</u>	<u>Acre Feet</u>	<u>Percent of Total</u>
City of Long Beach	1	\$ 321	1,385	3.41 %	1	\$ 149	1,607	3.30 %
Long Beach Unified School District	2	165	377	0.93	2	82	543	1.11
California State University Long Beach	3	79	400	0.99	4	32	384	0.79
Memorial Medical Center	4	52	270	0.66	7	20	251	0.51
LA County Community Development	5	46	191	0.47	5	24	224	0.46
Hyatt Regency Hotel	6	22	55	0.14		-	-	-
Parwood Apartments	7	21	98	0.24		-	-	-
Marina Pacifica Association	8	19	83	0.20		-	-	-
Winward Village	9	16	74	0.18		-	-	-
American Textile Maintenance Company	10	15	95	0.23		-	-	-
The Boeing Company		-	-	-	3	34	254	0.52
International Garment Finish		-	-	-	6	21	321	0.66
RMS Foundation Inc.		-	-	-	8	16	121	0.25
California State Department of Transportation		-	-	-	9	14	149	0.30
Toyota Auto Body		-	-	-	10	12	134	0.27
Total Ten Largest Users		756	3,028	7.45		404	3,988	8.17
Total All Other Users		14,898	37,576	92.55		6,891	44,785	91.83
Total City		<u>\$ 15,654</u>	<u>40,604</u>	<u>100.00</u>		<u>\$ 7,295</u>	<u>48,773</u>	<u>100.00</u>

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

*See accompanying independent auditors' report*

**LONG BEACH WATER DEPARTMENT**  
**WATER REUSE SITES (RECLAIMED WATER USERS)**  
**Fiscal Year Ended September 30, 2011**

		<b>Reuse (in acre feet)</b>
1	Alamitos Barrier	2,248.4
2	Thums	1,139.3
3	El Dorado Park & Golf Course	723.6
4	Recreation Park South, etc.	380.2
5	Lakewood County Golf Course	306.4
6	Skylinks Golf Course	253.3
7	Heartwell Park & Golf Course	203.2
8	California State University, Long Beach	123.3
9	All Souls Cemetery	108.3
10	City of Long Beach Parks, Recreation & Marine (Others)	99.6
11	Virginia Country Club Golf Course	79.8
12	Forest Lawn	77.4
13	LBCC and Veterans Stadium	68.2
14	Long Beach Unified School District	53.6
15	Marina Vista Park, etc.	43.7
16	Cal-Trans Freeway Landscaping	37.3
17	Scherer Park	34.7
18	Jauregui Nursery	30.8
19	El Dorado Lakes Condominiums	26.6
20	Vestar Development	24.4
21	Stearns Park	22.2
22	City of Long Beach Public Works/Public Service	21.8
23	Whaley Park	19.3
24	Bluff Park	16.4
25	Wal-Mart Corp.	15.9
26	Bixby Park	13.5
27	Cherry Avenue Park	13.3
28	Signal Hill - Reservoir Park	9.6
29	City of Lakewood	5.1
30	Douglas Park	2.3
31	Somerset Park	2.0
32	Water Department Irrigation	1.2
33	The Boeing Company	0.6
34	Alamitos Reservoir-Irrigation	0.4
35	Rubbercraft	0.3
36	Lakewood First Presbyterian Church	0.1
Totals		6,206.1

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

Source: Department's records

See accompanying independent auditors' report

# **Debt Capacity Information**

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

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

Fiscal Year Ended	Total Operating Revenue <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Operating Income	Net Non-Operating Income/Expense <sup>(3)</sup>	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Times Coverage
9/30/2002	58,970	48,323	10,647	2,234	12,881	1,692	2,049	3,741	3.44
9/30/2003	58,887	44,596	14,291	1,829	16,120	1,772	1,979	3,751	4.30
9/30/2004	63,125	47,692	15,433	2,340	17,773	1,242	1,904	3,146	5.65
9/30/2005	64,464	50,088	14,376	1,848	16,224	1,292	1,851	3,143	5.16
9/30/2006	66,026	53,048	12,978	1,777	14,755	1,353	1,794	3,147	4.69
9/30/2007	70,192	55,898	14,294	757	15,051	1,352	1,947	3,299	4.56
9/30/2008	71,384	57,019	14,365	1,526	15,891	1,330	1,834	3,164	5.02
9/30/2009	80,777	61,482	19,295	904	20,199	1,405	1,657	3,062	6.60
9/30/2010	87,151	67,091	20,060	10,245	30,305	-	855	855	35.44
9/30/2011	88,576	70,564	18,012	(152)	17,860	490	1,282	1,772	10.08

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

Average Coverage, ten years	8.49
Rate Covenant (Series:1997 A & 2010A)	1.10

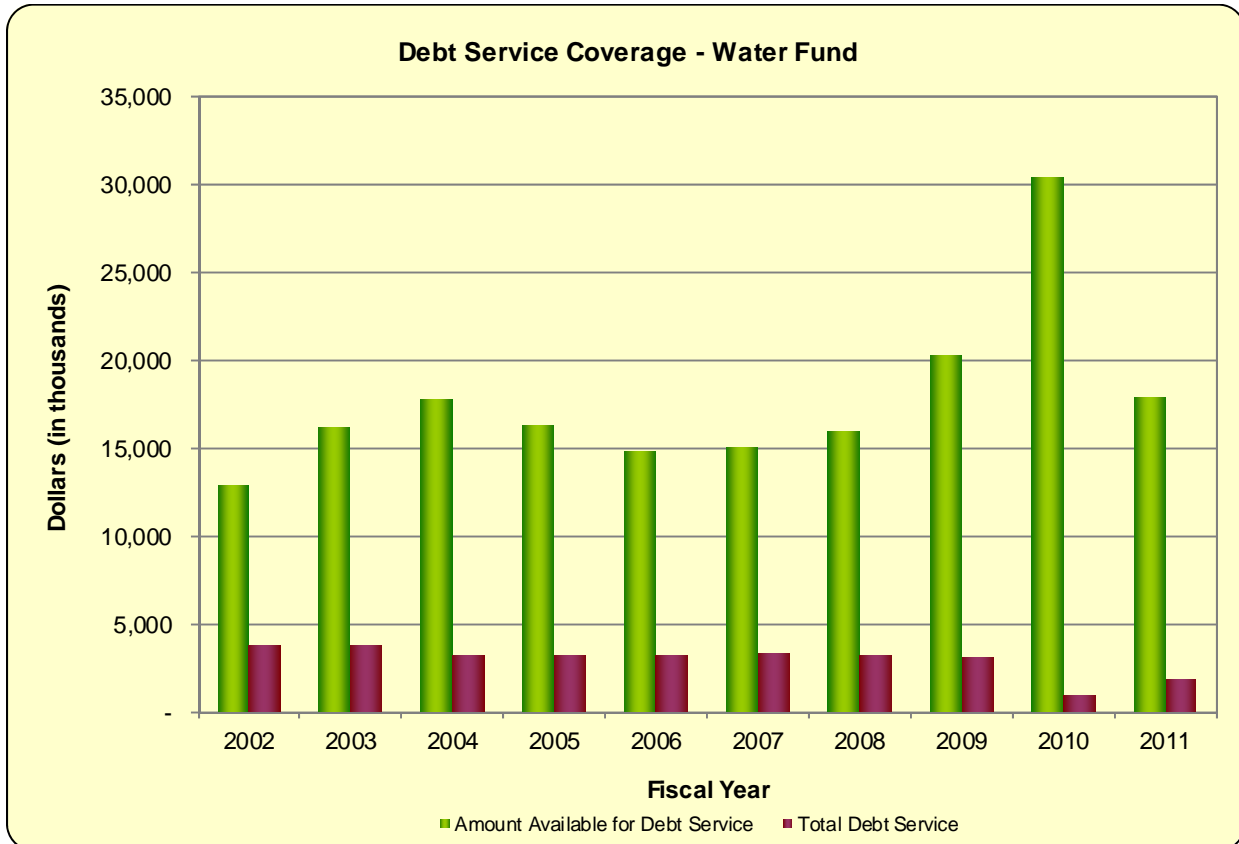
Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.

(2) Operating Expenses are exclusive of depreciation expense.

(3) Net Non-Operating Income (Expense) is exclusive of bond interest, amortization of bond issue costs, contributed capital and loss on disposition of property.

Source: Department's annual reports

See accompanying independent auditors' report



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

Fiscal Year Ended	Total Operating Revenue <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Operating Income	Net Non-Operating Income (Expense) <sup>(3)</sup>	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Times Coverage
9/30/2002	8,050	6,367	1,683	312	1,995	-	-	-	n/a
9/30/2003	9,015	7,317	1,698	264	1,962	-	-	-	n/a
9/30/2004	9,267	6,605	2,662	154	2,816	-	-	-	n/a
9/30/2005	9,708	5,896	3,812	225	4,038	-	-	-	n/a
9/30/2006	9,237	6,497	2,740	367	3,107	-	-	-	n/a
9/30/2007	10,796	10,278	518	352	870	-	-	-	n/a
9/30/2008	11,759	10,702	1,057	174	1,231	-	-	-	n/a
9/30/2009	12,455	11,803	652	289	941	-	4	4	235.25
9/30/2010	15,186	11,848	3,338	(426)	2,912	-	10	10	291.20
9/30/2011	16,448	13,135	3,313	(538)	2,775	-	27	27	102.78

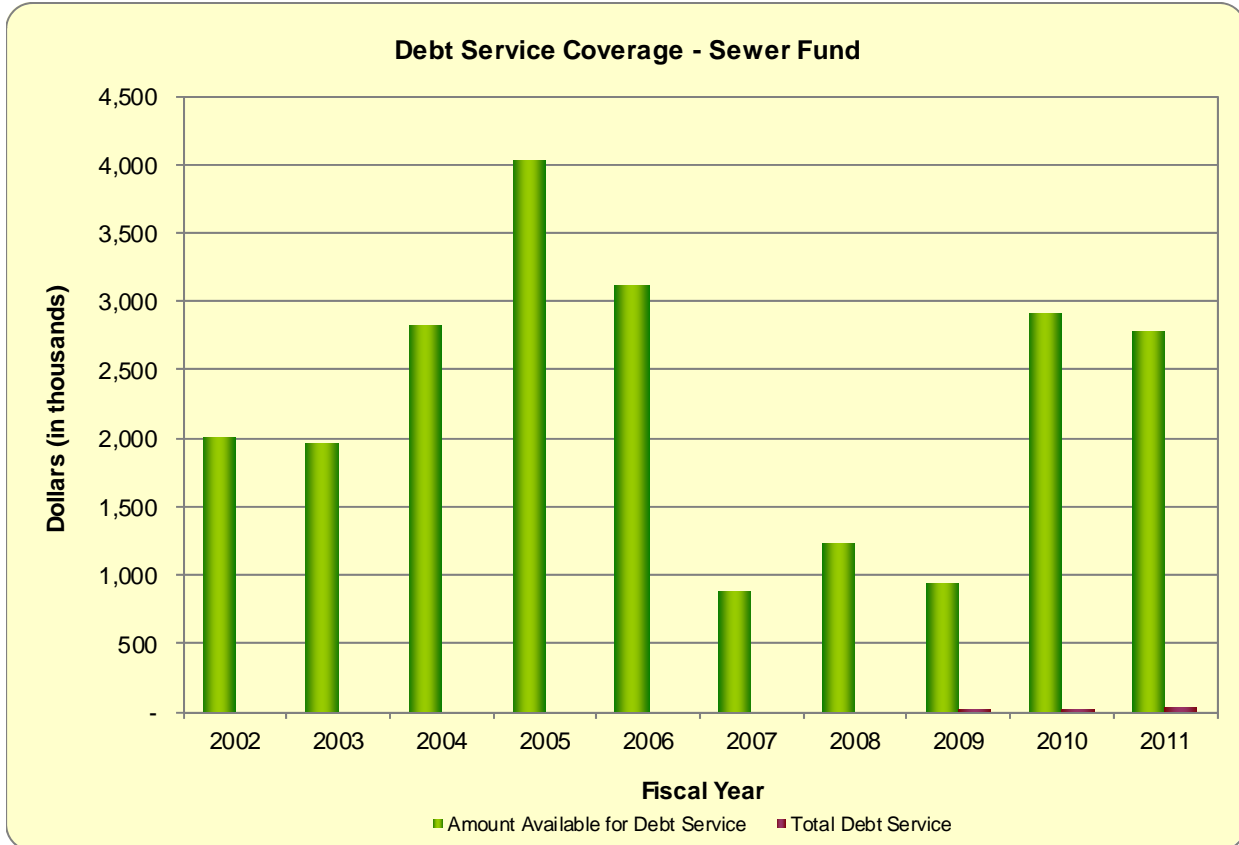
Bond Issues: None

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

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

Source: Department's annual reports

See accompanying independent auditors' report





(Unaudited)

Exhibit 21

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

Fiscal Year Ended	Revenue Refunding Bonds		Subordinate Water Revenue		Total	Percentage of Personal Income <sup>(1)</sup>	Per Capita <sup>(1)</sup>
	Series 1997	Series 2010	Commercial Paper Notes	State Loan			
9/30/2002	40,155	-	-	749	40,904	0.40%	0.088
9/30/2003	38,585	-	6,000	627	45,212	0.42%	0.096
9/30/2004	36,940	-	6,000	500	43,440	0.38%	0.092
9/30/2005	35,830	-	6,000	368	42,198	0.35%	0.090
9/30/2006	34,675	-	6,000	230	40,905	0.32%	0.087
9/30/2007	33,465	-	6,000	87	39,552	0.30%	0.085
9/30/2008	32,200	-	8,000	-	40,200	0.30%	0.087
9/30/2009	30,870	-	11,000	-	41,870	0.33%	0.091
9/30/2010	5,175	22,740	11,000	-	38,915	0.30%	0.084
9/30/2011	5,175	22,250	11,000	-	38,425	0.30%	0.083

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

Source: Department's annual reports

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 22

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

Fiscal Year Ended	Subordinate Sewer Revenue	Sewer Revolving	Total	Percentage of Personal Income <sup>(1)</sup>	Per Capita <sup>(1)</sup>
	Commercial Paper Notes	Line of Credit			
9/30/2002	-	-	-	-	\$ -
9/30/2003	-	-	-	-	\$ -
9/30/2004	-	-	-	-	\$ -
9/30/2005	-	-	-	-	\$ -
9/30/2006	-	-	-	-	\$ -
9/30/2007	-	-	-	-	\$ -
9/30/2008	-	-	-	-	\$ -
9/30/2009	4,000	-	4,000	0.03%	\$ 0.009
9/30/2010	4,000	-	4,000	0.03%	\$ 0.009
9/30/2011	-	6,000	6,000	0.05%	\$ 0.013

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

Source: Department's annual reports

*See accompanying independent auditors' report*

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# **Demographic and Economic Information**

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

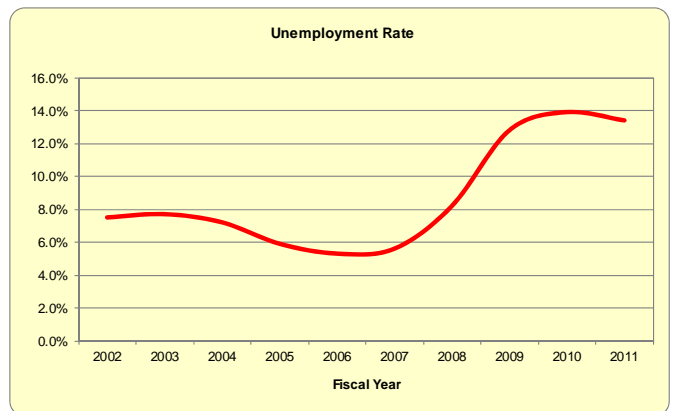
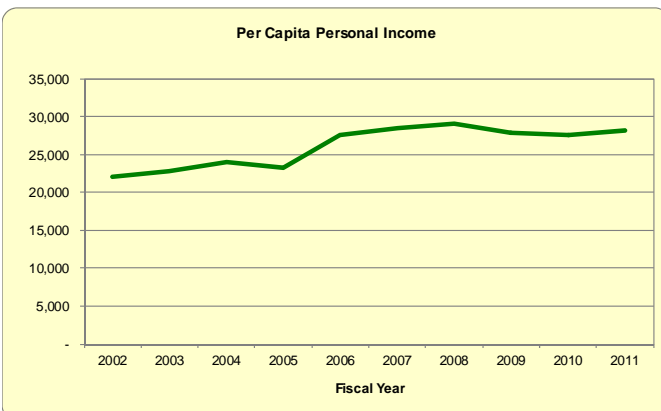
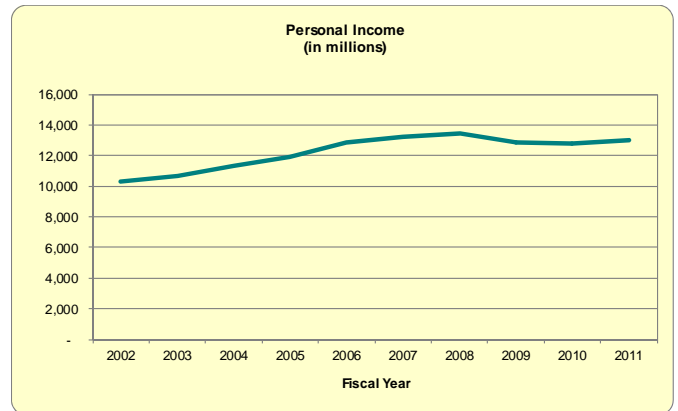
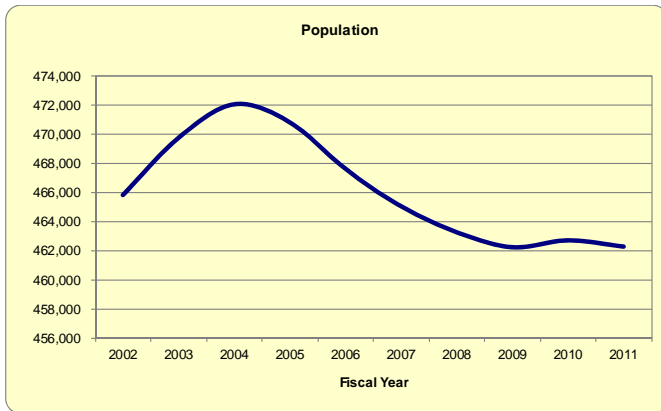
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**LONG BEACH WATER DEPARTMENT  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended</b>	<b>Estimated Population <sup>(1) (4)</sup></b>	<b>Personal Income (in millions) <sup>(2) (4)</sup></b>	<b>Per Capita Personal Income <sup>(2) (4)</sup></b>	<b>Unemployment Rate <sup>(3)</sup></b>
9/30/2002	465,795	10,267	22,042	7.5%
9/30/2003	469,713	10,703	22,787	7.7%
9/30/2004	472,013	11,290	23,919	7.2%
9/30/2005	470,781	11,939	23,266	5.9%
9/30/2006	467,586	12,854	27,490	5.3%
9/30/2007	465,017	13,222	28,434	5.6%
9/30/2008	463,250	13,422	28,974	8.2%
9/30/2009	462,211	12,866	27,880	12.8%
9/30/2010	462,685	12,783	27,627	13.9%
9/30/2011	462,257	12,981	28,081	13.4%

Source: (1) California Department of Finance Demographic Reports  
(2) U.S. Department of Commerce, Bureau of Economic Analysis: Personal Income and per capita personal income with exception of 1999 and 2005 is based on percent change of per capita personal income for Los Angeles-Long Beach Santa Ana, CA. (Metropolitan Statistic Are). The BEA's Report does not have personal income and per capita personal income available for 2010 and 2011, so an average of the last five years was used.  
(3) Average annual rate reported by California Employment Development Department (EDD) for Long Beach city.  
(4) Restated prior years due to the data's annual revision.

See accompanying independent auditors' report



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

<u>Employer</u>	<u>Fiscal Year 2011</u>		<u>Fiscal Year 2002</u>	
	<u>Number of Employees<sup>(1)</sup></u>	<u>Percentage of Total City Employment<sup>(2)</sup></u>	<u>Number of Employees<sup>(1)</sup></u>	<u>Percentage of Total City Employment<sup>(2)</sup></u>
Long Beach Unified School District	8,304	3.51%	15,000	6.51%
The Boeing Company	6,847	2.89%	14,000	6.08%
City of Long Beach	5,312	2.24%	6,740	2.93%
Long Beach Memorial Medical Center	5,805	2.45%	4,102	1.78%
California State University Long Beach	5,790	2.44%	2,755	1.20%
Veterans Affairs Medical Center	2,332	0.98%	1,985	0.86%
Long Beach City College	1,579	0.67%	1,800	0.78%
St. Mary Medical Center	1,556	0.66%	1,650	0.72%
United States Postal Service	1,257	0.53%	910	0.40%
California State Univ Long Beach Foundation	1,020	0.43%	680	0.30%

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

(2) State of California Employment Development Department Labor Market Info for 2002 and 2011.

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

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 25

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

<u>Fiscal Year Ended</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
9/30/2002	199	36	235
9/30/2003	196	41	237
9/30/2004	198	33	231
9/30/2005	192	27	219
9/30/2006	184	30	214
9/30/2007	185	43	228
9/30/2008	169	41	210
9/30/2009	172	37	209
9/30/2010	175	44	219
9/30/2011	174	43	217

Sources: Department's Personnel records

*See accompanying independent auditors' report*

# **Operating Information**

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

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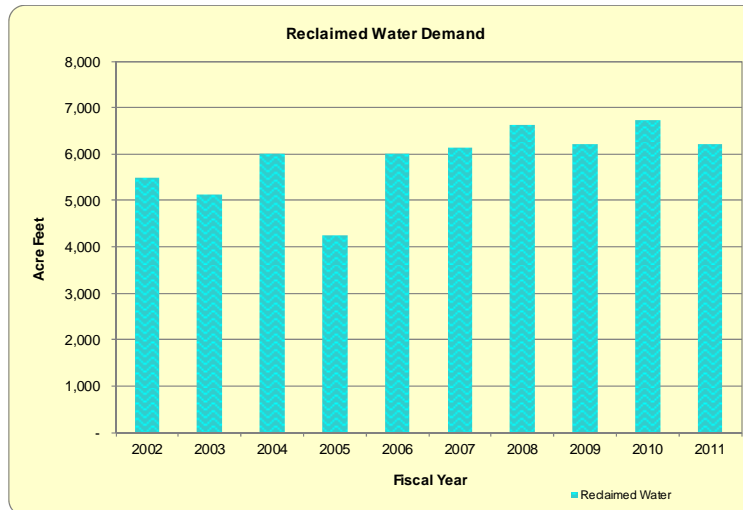
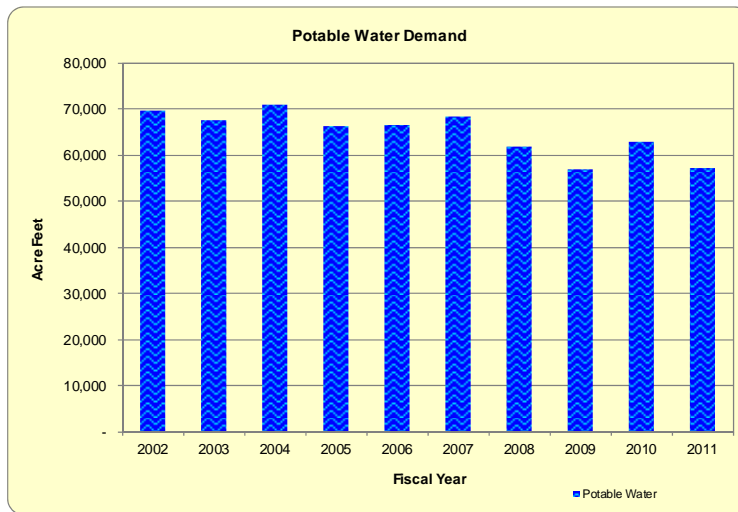
**LONG BEACH WATER DEPARTMENT**  
**WATER DEMAND - LAST TEN FISCAL YEARS**  
(in acre feet)

Fiscal Year Ended	Potable Water		Total Potable Demand	Reclaimed Water	Total Demand
	Pumped	Purchased			
9/30/2002	25,993	43,718	69,711	5,493	75,204
9/30/2003	22,849	44,705	67,554	5,127	72,681
9/30/2004	25,639	45,301	70,940	6,003	76,943
9/30/2005	21,610	44,611	66,221	4,243	70,464
9/30/2006	25,160	41,284	66,444	6,005	72,449
9/30/2007	25,828	42,466	68,294	6,138	74,432
9/30/2008	33,776	28,170	61,946	6,634	68,580
9/30/2009	33,876	22,902	56,778	6,205	62,983
9/30/2010	36,180	26,549	62,729	6,744	69,473
9/30/2011	17,973	39,053	57,026	6,206	63,232

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

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 27

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

<u>Effective Date</u>	<u>Non-Interruptible Treated Water</u>	<u>Percent Change Non-Interruptible Treated Water</u>	<u>Seasonal Treated Water <sup>(1)</sup></u>
7/1/2002	431	0	290
1/1/2003	408	-5	267
1/1/2004	418	2	277
1/1/2005	443	6	302
1/1/2006	453	2	312
1/1/2007	478	6	337
1/1/2008	508	6	367
5/1/2008	508	6	-
1/1/2009	579	14	-
9/1/2009	701	21	-
1/1/2010	701	0	-
1/1/2011	744	6	-

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

Source: Metropolitan Water District of Southern California

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 28

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

<u>Effective Date</u>	<u>Rate per Acre-Foot</u>	<u>Percent Change</u>
7/1/2002	117.60	5
7/1/2003	115.00	(2)
7/1/2004	128.25	12
7/1/2005	134.66	5
7/1/2006	138.00	2
7/1/2007	149.00	8
7/1/2008	153.00	3
7/1/2009	181.85	19
7/1/2010	205.00	13
7/1/2011	244.00	19

Source: Water Replenishment District of Southern California (WRD)

*See accompanying independent auditors' report*

(Unaudited)

Exhibit 29

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

Fiscal Year Ended	Water System			Water Quality		Reclaimed System	
	Number of Groundwater wells	Miles of water mains	Number of active water service connections	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline
9/30/2002	29	911	88,912	6,500	14,083	49,306	30
9/30/2003	29	911	89,139	6,442	14,000	54,000	33
9/30/2004	29	907	89,273	6,640	16,400	55,000	33
9/30/2005	29	907	89,365	6,501	16,030	48,910	33
9/30/2006	29	907	89,471	6,505	15,676	57,581	33
9/30/2007	31	905	89,535	6,489	16,761	60,235	33
9/30/2008	31	904	89,583	6,507	16,805	81,378	33
9/30/2009	31	908	89,630	6,525	19,238	118,799	33
9/30/2010	31	909	89,706	6,529	17,126	84,923	33
9/30/2011	31	911	89,851	6,603	15,814	71,472	33

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 30

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

Fiscal Year Ended	Number of sewer pump stations	Miles of sewer pipelines	Number of sewer manholes
9/30/2002	28	712	15,595
9/30/2003	28	712	15,924
9/30/2004	28	712	16,031
9/30/2005	28	712	16,041
9/30/2006	28	712	16,044
9/30/2007	28	711	16,055
9/30/2008	28	711	16,078
9/30/2009	28	712	16,129
9/30/2010	28	712	16,135
9/30/2011	28	712	16,147

Source: Department's records

See accompanying independent auditors' report

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

<b>Fiscal Year Ended</b>	<b>Cast Iron Water Mains Replaced (in feet)</b>	<b>Fire Hydrants Repaired</b>	<b>Water Meters Repaired</b>	<b>Sewer Mains &amp; Laterals Repaired <sup>(1)</sup></b>	<b>Sewer Mains Cleaned (in miles)</b>	<b>Sewer Manholes Chemically Treated</b>
9/30/2002	85,297	732	2,960	147	396	5,000
9/30/2003	71,000	395	2,900	97	341	3,000
9/30/2004	63,960	376	7,076	316	437	3,000
9/30/2005	50,601	342	6,889	246	338	3,000
9/30/2006	55,404	259	5,370	296	474	3,000
9/30/2007	54,423	407	7,050	270	364	3,000
9/30/2008	44,332	346	10,637	278	365	3,000
9/30/2009	23,676	485	6,350	215	424	5,000
9/30/2010	21,137	94	8,441	182	547	5,000
9/30/2011	21,294	223	5,428	259	470	5,000

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

Source: Department's records

*See accompanying independent auditors' report*