

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, 2013



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

Front cover design created by: Michael Camacho, Business Systems Specialist III

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

**For the Fiscal Years Ended
SEPTEMBER 30, 2013 and 2012**

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General Manager**

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

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INTRODUCTORY SECTION

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Comprehensive Annual Financial Report

of the

Long Beach Water Department

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

For the Fiscal Years Ended September 30, 2013 and 2012

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Long Beach Water Department

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

DATE March 28, 2014
TO Board of Water Commissioners
FROM B. Anatole Falagan, Assistant General Manager
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal years ended
September 30, 2013 and 2012

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, 2013 and 2012. The Department's financial statements are also included in the City of Long Beach (the City) Financial Statements as enterprise funds (Water Fund and Sewer Fund).

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

The accompanying financial statements have been audited by KPMG LLP, an independent certified public accounting firm. KPMG LLP has issued an unmodified ("clean") opinion on the Department's financial statements for the fiscal years ended September 30, 2013 and 2012. The independent auditor's report is located at the front of the financial section of this report.

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

THE REPORTING ENTITY

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

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

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

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

The Department's service area encompasses the boundaries of the City of Long Beach, the sixth largest city in State, with an area of approximately 50 square miles and a population of 467,646 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, continuing positive trends in both the State and local economies indicate slow and steady economic growth for the near future. As an older, established and geographically built-out City, the Department's customer base is relatively stable and is comprised of ninety percent (90%) residential accounts, with the remaining ten percent (10%) comprised of commercial, industrial, irrigation and other accounts. The residential accounts comprise approximately 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 just under 15% below the historical ten (10) year average. Currently, overall consumption by Water Department customers is approximately equivalent to consumption levels in the 1960's. The Water Department continues to provide additional communications and programs such as landscape retrofits to its customers, and believes the conservation response is a sustained change in consumption behavior.

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

rate setting (Proposition 218).

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

Groundwater

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

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

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

Imported Supplies

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

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

Water Recycling

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

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

The Department remains committed to developing alternatives to imported potable (drinking) water supplies to meet the water needs of the City. Reclaimed water will continue to be an integral part in efforts to reduce our need to purchase imported water and to develop new sources of water. In FY 2013, the Department served approximately 2,165 million gallons of reclaimed water to a variety of users throughout the City. Since October 1, 2005, the Department, on contract with the Water Replenishment District (WRD), has operated a 3.0 million gallon per day reverse osmosis water treatment plant, enabling WRD to use recycled water from the Long Beach Water Reclamation Plant to replace up to 3,000 acre-feet per year of imported water previously supplied to the Alamitos Barrier. The Alamitos Barrier is an engineered freshwater pressure ridge and seawater trough constructed to prevent seawater intrusion into the Central Groundwater Basin of Los Angeles County and neighboring Orange County Groundwater Basin.

Conservation

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

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

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

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

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

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

WATER QUALITY

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

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

The Department conducts extensive sampling and testing of groundwater wells, water storage reservoirs, the water distribution system and, when appropriate, selected homes, businesses, schools and public facilities. This year, our Water Quality laboratories collected 14,388 samples and performed 60,819 tests while maintaining certification with the California Department of Health Services and Environmental Protection Agency (EPA).

During fiscal year 2013, the Groundwater Treatment Plant processed approximately 10.1 billion gallons of drinking water. Overall, 19.4 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 2013. 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 fiscal years 2008 and 2009 to deliver 2,150 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 drought conditions and in fiscal year 2010, 293.5 million gallons were called and delivered.

Water Distribution System

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2013, the water distribution system totaled 912 miles of water mains with 89,996 active service connections.

During fiscal year 2013, the Department and contractors replaced 24,595 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 621 large control valves 20 inches or more in diameter and 19,369 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies.

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

Sanitary Sewer Collection System

The Department has made considerable progress since 1988 in addressing the substantial challenges posed by an aging sanitary sewer infrastructure, much of which is between 60 and 80 years old. At September 30, 2013, the sanitary sewer collection system totaled 714 miles of sewer pipelines. The Department developed the first City-wide Sewer Master Plan in 1991, which provided an initial prioritization of sewer deficiencies to be addressed. The Department has since developed a comprehensive program of maintenance, monitoring and repair of sewer lines including:

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

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

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, 2012. 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, 2013 and 2012.

Prepared by:



Paul T. Fujita, Director of Finance

Submitted and
Recommended by:



B. Anatole Falagan, Assistant General Manager

Approved by:



Kevin L. Wattier, General Manager

Att.
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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

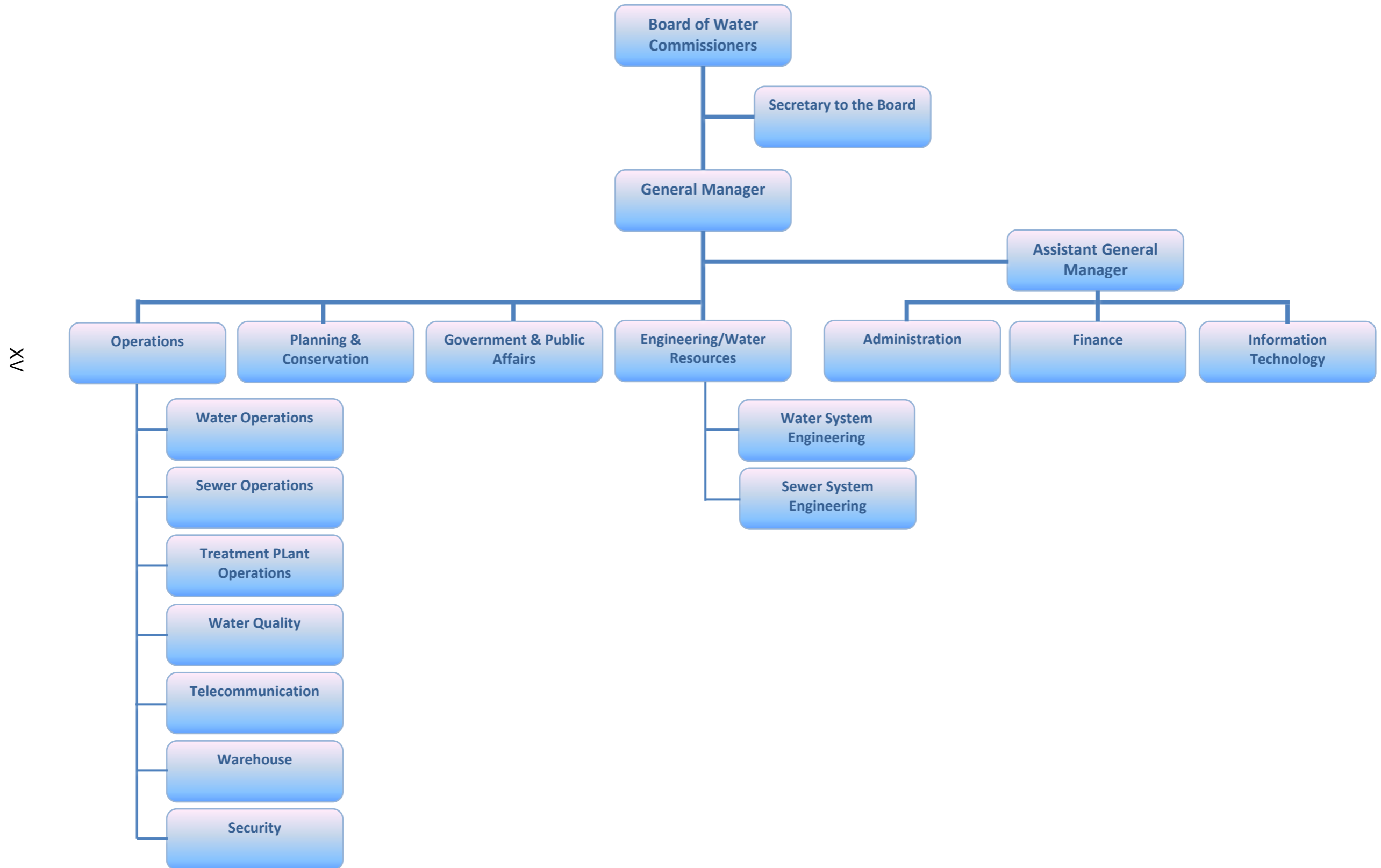
**Long Beach Water Department
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

Long Beach Water Department Organizational Chart



LONG BEACH WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

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

STAFF

KEVIN L.WATTIER
General Manager

B. ANATOLE FALAGAN
Assistant General Manager

FINANCIAL SECTION

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KPMG LLP
Suite 700
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Irvine, CA 92618-3391

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Long Beach Water Department (the Department) of the City of Long Beach, California (the City), as of and for the year ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2013 and 2012, and the respective changes in



financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities, and aggregate remaining fund information of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City as of September 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, the Department adopted Government Accounting Standard Board Statement No. 65, *Items previously reported as Assets and Liabilities* as of October 1, 2012.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KPMG LLP

Irvine, California
March 28, 2014

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

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, 2013 and 2012. 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 2013 (FY2013) by \$347,289 (*net position*). The Department's net position is further broken down between the Water Fund and Sewer Fund below.

Water Fund. Assets exceeded liabilities at the close of FY2013 by \$287,726. Of this amount, \$36,814 (*unrestricted net position*) is available to meet the Water Fund's ongoing obligations to creditors and customers. Unrestricted net position represented 42.9% of the Water Fund's annual operating expenses for FY2013 as compared with 56.7% for fiscal year 2012 (FY2012). Total Water Fund net position increased by \$3,605 (+1.3%) from the prior fiscal year. The increase reflects income in excess of expenses and contributed capital received during the year.

Sewer Fund. Net position totaled \$59,563 as of September 30, 2013, an increase of \$1,249 (+2.1%) from the prior fiscal year. The increase reflects income in excess of expenses during the year. At the end of the current fiscal year, the Sewer Fund's unrestricted net position represented 48.9% of annual operating expenses for FY2013 as compared with 40.6% for FY2012.

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, 2013.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

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

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

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

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

The *Notes to Financial Statements* provide additional information that is essential to the full understanding of the data provided in the financial statements and can be found on pages 27-54 of this report.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the Department's financial position. A summary of the Department's Statements of Net Position for the past three years is presented on page 5. As of September 30, 2013, Water Fund assets exceeded liabilities by \$287,726, and Sewer Fund assets exceeded liabilities by \$59,563, representing a 1.3% increase in net position over the prior fiscal year for the Water Fund and a 2.1% increase in Sewer Fund nets position. Net position are further categorized by net investment in capital assets, and restricted and unrestricted net assets.

As of September 30, 2013, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represented 86.6% and 87.6% 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, 2013 and 2012

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

The restricted portion of the Department's net position (0.5% and 0.4% of total net position as of September 30, 2013 and 2012, respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Department's net position (12.7% and 14.8% of total net position as of September 30, 2013 and 2012, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed Schedules of Net Position as of September 30, 2013, 2012, and 2011 are as follows (in thousands):

Long Beach Water Department Condensed Schedules of Net Position September 30, 2013, 2012, and 2011 (in thousands)							
	2013	2012	2011	Variance			
				2013/2012		2012/2011	
	2013	2012	2011	Amount	%	Amount	%
Assets:							
Current and other assets	\$ 66,238	\$ 69,760	\$ 74,088	\$ (3,522)	-5.0%	\$ (4,328)	-5.8%
Capital assets	344,483	331,782	320,224	12,701	3.8%	11,558	3.6%
Total assets	<u>410,721</u>	<u>401,542</u>	<u>394,312</u>	<u>9,179</u>	<u>2.3%</u>	<u>7,230</u>	<u>1.8%</u>
Deferred Outflows of Resources:							
Deferred Outflows on refundings	2,231	-	-	2,231	100.0%	-	-
Liabilities:							
Current liabilities	18,647	15,600	14,164	3,047	19.5%	1,436	10.1%
Noncurrent liabilities	47,016	43,507	45,399	3,509	8.1%	(1,892)	-4.2%
Total liabilities	<u>65,663</u>	<u>59,107</u>	<u>59,563</u>	<u>6,556</u>	<u>11.1%</u>	<u>(456)</u>	<u>-0.8%</u>
Net Position:							
Net investment in capital assets	301,407	290,258	275,574	11,149	3.8%	14,684	5.3%
Restricted	1,656	1,350	736	306	22.7%	614	83.4%
Unrestricted	44,226	50,827	58,439	(6,601)	-13.0%	(7,612)	-13.0%
Total net position	<u>\$ 347,289</u>	<u>\$ 342,435</u>	<u>\$ 334,749</u>	<u>\$ 4,854</u>	<u>1.4%</u>	<u>\$ 7,686</u>	<u>2.3%</u>

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The Department's financial position is further broken down as follows between the Department's Water Fund and the Sewer Fund as of September 30, 2013, 2012, and 2011:

Long Beach Water Department Condensed Schedules of Net Position September 30, 2013, 2012, and 2011 (in thousands)							
Water Fund	2013	2012	2011	Variance			
				2013/2012		2012/2011	
	Amount	%	Amount	%	Amount	%	%
Assets:							
Current and other assets	\$ 56,236	\$ 61,912	\$ 62,966	\$ (5,676)	-9.2%	\$ (1,054)	-1.7%
Capital assets	282,582	273,317	267,063	9,265	3.4%	6,254	2.3%
Total assets	338,818	335,229	330,029	3,589	1.1%	5,200	1.6%
Deferred Outflows of Resources:							
Deferred Outflows on refundings	2,231	-	-	2,231	100.0%	-	-
Liabilities:							
Current liabilities	16,057	13,601	12,356	2,456	18.1%	1,245	10.1%
Noncurrent liabilities	37,266	37,507	39,399	(241)	-0.6%	(1,892)	-4.8%
Total liabilities	53,323	51,108	51,755	2,215	4.33%	(647)	-1.3%
Net Position:							
Net Investment in capital assets	249,256	237,793	228,196	11,463	4.8%	9,597	4.2%
Restricted	1,656	1,350	736	306	22.7%	614	83.4%
Unrestricted	36,814	44,978	49,342	(8,164)	-18.2%	(4,364)	-8.8%
Total net position	\$ 287,726	\$ 284,121	\$ 278,274	\$ 3,605	1.3%	\$ 5,847	2.1%
Sewer Fund							
Assets:							
Current and other assets	\$ 10,002	\$ 7,848	\$ 11,122	\$ 2,154	27.4%	(3,274)	-29.4%
Capital assets	61,901	58,465	53,161	3,436	5.9%	5,304	10.0%
Total assets	71,903	66,313	64,283	5,590	8.4%	2,030	3.2%
Liabilities:							
Current liabilities	2,590	1,999	1,808	591	29.6%	191	10.6%
Noncurrent liabilities	9,750	6,000	6,000	3,750	62.5%	-	-
Total liabilities	12,340	7,999	7,808	4,341	54.3%	191	2.4%
Net Position:							
Net Investment in capital assets	52,151	52,465	47,378	(314)	-0.6%	5,087	10.7%
Unrestricted	7,412	5,849	9,097	1,563	26.7%	(3,248)	-35.7%
Total net position	\$ 59,563	\$ 58,314	\$ 56,475	\$ 1,249	2.1%	\$ 1,839	3.3%

LONG BEACH WATER DEPARTMENT

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Fiscal Year Ended September 30, 2013 Compared to 2012

Water Fund. Net position increased by \$3,605 (+1.3%) over FY2012. This net increase is attributable to revenues in excess of expenses of \$4,014, contributed capital of \$131 from various Developers for water distribution systems, offset by a \$540 adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with Governmental Accounting Standards Board (GASB) Statement No. 65. Further discussion relating to this statement is in the Notes to Financial Statements on page 29.

Current and other assets decreased by \$5,676 (-9.2%) from FY2012, reflecting increased capital expenditures.

Capital assets increased by \$9,265 (+3.4%) over the prior year mainly due to continued expenditures on capital improvement program for water cast iron main replacement, water meter replacement, water services installations, and recycled water services installations. In addition, the Department purchased machinery and equipment to support Water operations.

Deferred losses on refundings totaling \$2,231 in FY2013 are classified as Deferred Outflows of Resources rather than a deduction from Noncurrent liabilities in compliance with GASB 65.

Current liabilities increased by \$2,456 (+18.1%) from FY2012, primarily due to an increase in potable water purchases from Metropolitan Water District (MWD) and increased expenditures relating to ongoing improvements in potable and reclaimed water distribution systems.

Noncurrent liabilities decreased by \$241 (-0.6%) from FY2012 due to annual principal payments on debt.

Sewer Fund. Net position increased \$1,249 (+2.1%) over FY2012. This increase was attributable to revenues in excess of expenses of \$1,385, offset by a \$136 adjustment reflecting the removal of deferred charges relating to the issuance of debt in compliance with GASB Statement No. 65.

Current assets and other assets increased by \$2,154 (+27.4%), reflecting an increase in cash reserves due primarily to a \$3,750 draw on the Subordinate Sewer Revolving Line of Credit to fund sewer capital projects in FY2013.

Capital assets increased by \$3,436 (+5.9%) over FY2012 due to the completion of several sewer main pipe relining and replacement projects and purchases of machinery and equipment to support Sewer operations.

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Management's Discussion and Analysis September 30, 2013 and 2012

Current liabilities increased by \$591 (+29.6%) compared to FY2012 mainly due to an increase in expenditures relating to sewer capital improvement projects such as construction management services, professional engineering services and construction contracts.

Noncurrent liabilities increased by \$3,750 (+62.5%) from FY2012 reflecting the draw on the Subordinate Sewer Revolving Line of Credit to fund sewer collection systems improvements.

Fiscal Year Ended September 30, 2012 Compared to 2011

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

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

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

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

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

LONG BEACH WATER DEPARTMENT

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

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

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

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

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The Water Department's Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position provide further insight as to the nature and source of changes in net position and are summarized as follows for the years ended September 30, 2013, 2012, and 2011 (in thousands):

Long Beach Water Department
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position
Fiscal Years Ended September 30, 2013, 2012, and 2011
(in thousands)

	2013	2012	2011	Variance			
				2013/2012		2012/2011	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 67,609	\$ 65,280	\$ 63,702	\$ 2,329	3.6%	\$ 1,578	2.5%
Reclaimed water sales	3,041	2,766	2,470	275	9.9%	296	12.0%
Service charges	30,840	30,603	30,131	237	0.8%	472	1.6%
Maintenance services	86	86	86	-	-	-	-
Other services	7,684	5,105	8,635	2,579	50.5%	(3,530)	-40.9%
Total operating revenues	109,260	103,840	105,024	5,420	5.2%	(1,184)	-1.1%
Operating Expenses:							
Cost of water	29,753	23,887	30,825	5,866	24.6%	(6,938)	-22.5%
Personal services	22,431	21,342	20,702	1,089	5.1%	640	3.1%
Maintenance and other	23,728	24,273	18,744	(545)	-2.2%	5,529	29.5%
Depreciation and amortization	11,363	11,034	11,499	329	3.0%	(465)	-4.0%
Permit fees	9,851	9,822	9,827	29	0.3%	(5)	-0.1%
Commercial Services	3,822	3,395	3,601	427	12.6%	(206)	-5.7%
Total operating expenses	100,948	93,753	95,198	7,195	7.7%	(1,445)	-1.5%
Operating income	8,312	10,087	9,826	(1,775)	-17.6%	261	2.7%
Nonoperating Income (Expenses):							
Interest income	69	218	357	(149)	-68.3%	(139)	-38.9%
Interest expense	(365)	(973)	(1,269)	608	-62.5%	296	-23.3%
Gain (Loss) on disposition of property	198	(368)	(65)	566	-153.8%	(303)	466.2%
Rents	1,087	885	1,221	202	22.8%	(336)	-27.5%
Land sales	-	-	-	-	-	-	-
Other	(3,902)	(2,595)	(2,268)	(1,307)	50.4%	(327)	14.4%
Income before contributed capital	5,399	7,254	7,802	(1,855)	-25.6%	(548)	-7.0%
Capital contributions	131	432	11,151	(301)	-69.7%	(10,719)	-96.1%
Change in net position	5,530	7,686	18,953	(2,156)	-28.1%	(11,267)	-59.4%
Beginning net position	342,435	334,749	315,796	7,686	2.3%	18,953	6.0%
Adjustment for GASB 65 Implementation	(676)	-	-	(676)	-100.0%	-	-
Ending net position	\$347,289	\$342,435	\$334,749	\$ 4,854	1.4%	\$ 7,686	2.3%

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The Department's operations are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2013, 2012, and 2011:

Water Fund							
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position							
Fiscal Years Ended September 30, 2013, 2012, and 2011							
(in thousands)							
	2013	2012	2011	Variance			
				2013/2012		2012/2011	
	Amount	%	Amount	%	Amount	%	
Operating Revenues:							
Metered water sales	\$ 61,306	\$ 59,118	\$ 57,928	\$ 2,188	3.7%	\$ 1,190	2.1%
Reclaimed water sales	3,041	2,766	2,470	275	9.9%	296	12.0%
Service charges	20,363	20,223	20,251	140	0.7%	(28)	-0.1%
Other services	7,239	4,408	7,927	2,831	64.2%	(3,519)	-44.4%
Total operating revenues	91,949	86,515	88,576	5,434	6.3%	(2,061)	-2.3%
Operating Expenses:							
Cost of water	29,753	23,887	30,825	5,866	24.6%	(6,938)	-22.5%
Personal services	18,309	17,594	17,095	715	4.1%	499	2.9%
Maintenance and other	20,540	21,269	15,102	(729)	-3.4%	6,167	40.8%
Depreciation and amortization	9,566	9,359	9,839	207	2.2%	(480)	-4.9%
Permit fees	5,567	5,549	5,551	18	0.3%	(2)	0.0%
Commercial Services	2,048	1,684	1,991	364	21.6%	(307)	-15.4%
Total operating expenses	85,783	79,342	80,403	6,441	8.1%	(1,061)	-1.3%
Operating income	6,166	7,173	8,173	(1,007)	-14.0%	(1,000)	-12.2%
Nonoperating Income (Expenses):							
Interest income	58	193	294	(135)	-69.9%	(101)	-34.4%
Interest expense	(363)	(872)	(1,167)	509	-58.4%	295	-25.3%
Gain (Loss) on disposition of property	196	(370)	(55)	566	-153.0%	(315)	572.7%
Rents	1,087	885	1,221	202	22.8%	(336)	-27.5%
Land sales	-	-	-	-	-	-	-
Other	(3,130)	(1,409)	(1,667)	(1,721)	122.1%	258	-15.5%
Income before contributed capital	4,014	5,600	6,799	(1,586)	-28.3%	(1,199)	-17.6%
Capital contributions	131	247	8,283	(116)	-47.0%	(8,036)	-97.0%
Change in net position	4,145	5,847	15,082	(1,702)	-29.1%	(9,235)	-61.2%
Beginning net position	284,121	278,274	263,192	5,847	2.1%	15,082	5.7%
Adjustment for GASB 65 Implementation	(540)	-	-	(540)	-100.0%	-	-
Ending net position	\$287,726	\$284,121	\$278,274	\$ 3,605	1.3%	\$ 5,847	2.1%

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

Sewer Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position Fiscal Years Ended September 30, 2013, 2012, and 2011 (in thousands)

	2013	2012	2011	Variance			
				2013/2012		2012/2011	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 6,303	\$ 6,162	\$ 5,774	141	2.3%	\$ 388	6.7%
Service charges	10,477	10,380	9,880	97	0.9%	500	5.1%
Maintenance services	86	86	86	-	-	-	-
Other services	445	697	708	(252)	-36.2%	(11)	-1.6%
Total operating revenues	<u>17,311</u>	<u>17,325</u>	<u>16,448</u>	<u>(14)</u>	<u>-0.1%</u>	<u>877</u>	<u>5.3%</u>
Operating Expenses:							
Personal services	4,122	3,748	3,607	374	10.0%	141	3.9%
Maintenance and other	3,188	3,004	3,642	184	6.1%	(638)	-17.5%
Permit fees	4,284	4,273	4,276	11	0.3%	(3)	-0.1%
Depreciation	1,797	1,675	1,660	122	7.3%	15	0.9%
Commercial Services	1,774	1,711	1,610	63	3.7%	101	6.3%
Total operating expenses	<u>15,165</u>	<u>14,411</u>	<u>14,795</u>	<u>754</u>	<u>5.2%</u>	<u>(384)</u>	<u>-2.6%</u>
Operating income (expenses)	2,146	2,914	1,653	(768)	-26.4%	1,261	76.3%
Nonoperating Income (Expenses):							
Interest income	11	25	63	(14)	-56.0%	(38)	-60.3%
Interest expense	(2)	(101)	(102)	99	-98.0%	1	-1.0%
Gain (Loss) on disposition of property	2	2	(10)	-	-	12	-120.0%
Other	(772)	(1,186)	(601)	414	-34.9%	(585)	97.3%
Income (loss) before contributed capital	1,385	1,654	1,003	(269)	-16.3%	651	64.9%
Capital contributions	-	185	2,868	(185)	-100.0%	(2,683)	-93.5%
Change in net position	1,385	1,839	3,871	(454)	-24.7%	(2,032)	-52.5%
Beginning net position	58,314	56,475	52,604	1,839	3.3%	3,871	7.4%
Adjustment for GASB 65 Implementation	(136)	-	-	(136)	-100.0%	-	-
Ending net position	<u>\$ 59,563</u>	<u>\$ 58,314</u>	<u>\$ 56,475</u>	<u>\$ 1,249</u>	<u>2.1%</u>	<u>\$ 1,839</u>	<u>3.3%</u>

LONG BEACH WATER DEPARTMENT

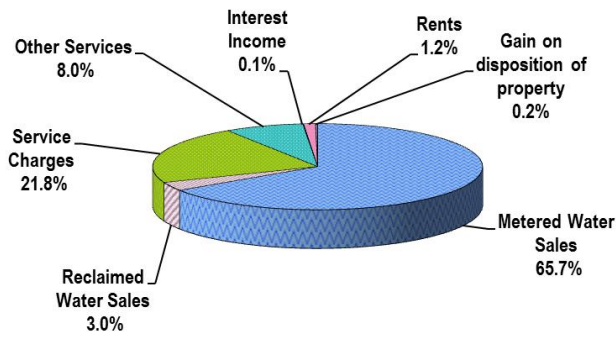
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Sources of Revenues

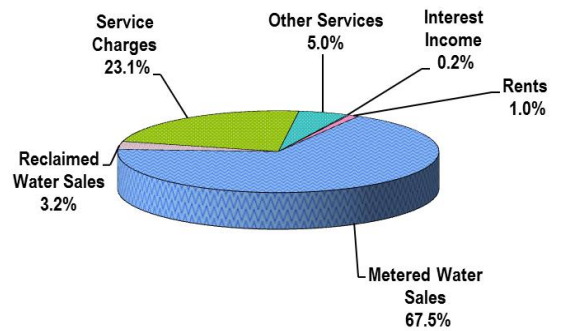
Sources of revenue for fiscal years 2013 and 2012 are shown on the following charts.

Water Fund

2013

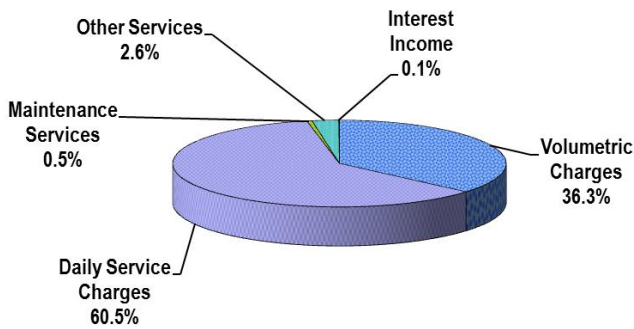


2012

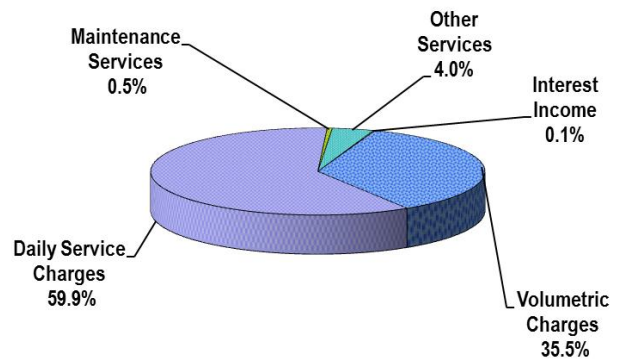


Sewer Fund

2013



2012



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

Water Fund

Fiscal Year Ended September 30, 2013 Compared to 2012

Total operating revenues were \$91,949 a net increase of \$5,434 (+6.3 %) over FY2012. The major elements of this net increase are as follows:

- Metered potable water sales and Reclaimed water sales increased by \$2,188 (+3.7%) and \$275 (+9.9%) respectively, in FY2013 primarily due to an increase in demand compared to FY2012. There were no potable and reclaimed water rate increases in FY2013.
- Revenue from other services totaled \$7,239, an increase of \$2,831 (+64.2%) from the prior year. The major factors are as follows:
 - Revenue from In-Lieu Groundwater Replenishment Agreements with the Water Replenishment District of Southern California (WRD) increased by \$1,217 (+2,308.8%) over FY2012. The Department increased purchases of imported water in-lieu of the groundwater pumping during FY2013.
 - Revenue received from sales of potable water to WRD and Orange County Water District (OCWD) for the Alamitos Seawater Intrusion Barrier increased by \$1,132 (+55.2%) over FY2012.
 - Reimbursements from operating the WRD Leo Vander Lans Reclaimed Water Treatment facility increased by \$176 (+14.3%) compared to FY2012 primarily due to increased operations and maintenance expense.

Capital contributions decreased by \$116 (-47.0%) compared to FY2012 due primarily to a decrease in distribution system development agreements with the Department.

Fiscal Year Ended September 30, 2012 Compared to 2011

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

- Metered potable water sales increased by \$1,190 (+2.1%) primarily due to an increase in consumption by 1,547 acre feet (AF) (+2.7%) compared to FY2011. There was no potable water rate increase in FY2012.
- Reclaimed water sales increased by \$296 (+12.0%) compared to FY2011, primarily due to an increase in consumption by 686 AF (+17.3%) in FY2012. There was no reclaimed water rate increase in FY2012.
- Revenue from other services totaled \$4,408, a decrease of \$3,519 (-44.4%) from the prior year. The major factors to this net decrease are as follows:

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

- Revenue from unmetered water sales decreased by \$3,199 (-98.4%) due to the conclusion of In-Lieu Groundwater Replenishment Agreements with the Water Replenishment District of Southern California (WRD), whereas the Department agreed to increase purchases of imported water in-lieu of the groundwater pumping in FY2011.
- Reimbursements from operating the WRD Leo Vander Lans Reclaimed Water Treatment facility decreased by \$193 (-13.6%) compared to FY2011 primarily due to no major equipment purchases and less repair services required in FY2012.

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

Sewer Fund

Fiscal Year Ended September 30, 2013 Compared to 2012

Total operating revenues decreased \$14 (-0.1%) over FY2012. The key elements of this net decrease are as follows:

- Metered water sales and service charges revenue increased by \$141 (+2.3%) and \$97 (+0.9%) respectively, over FY2012 as a result of an increase in water volumetric demand in FY2013. There was no sewer rate increase in FY2013.
- Other services revenue decreased by \$252 (-36.2%) over FY2012 due to a decrease in sewer capacity charges revenue as a result of a decline in major building construction activity as compared to FY2012.

Fiscal Year Ended September 30, 2012 Compared to 2011

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

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

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

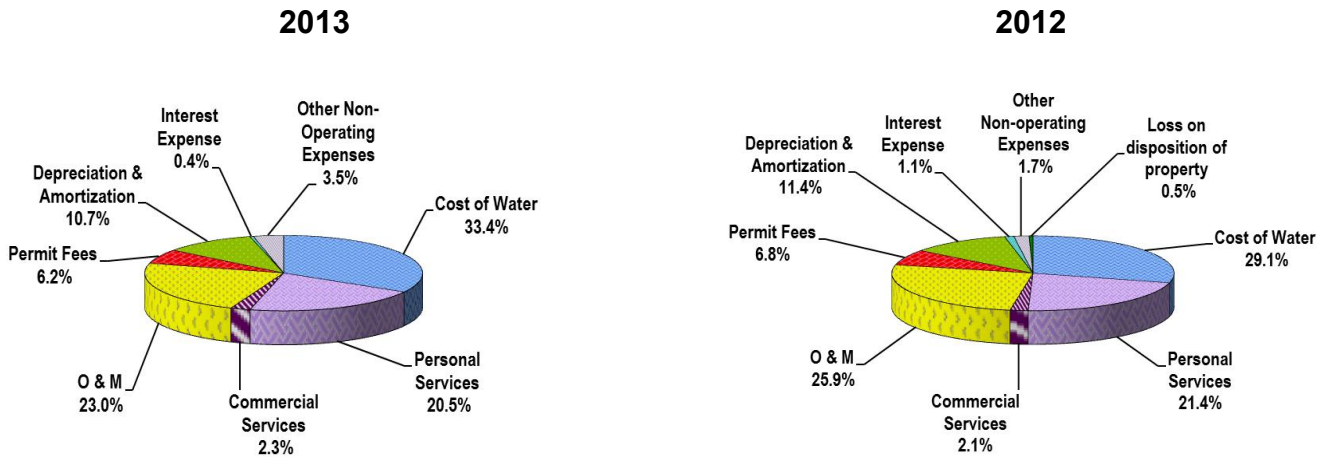
LONG BEACH WATER DEPARTMENT

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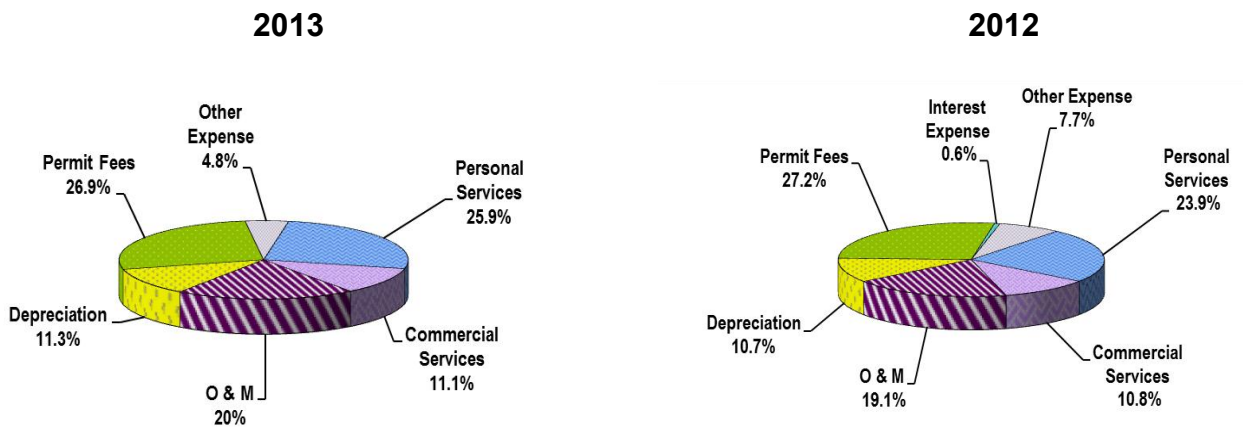
Functional Expenses

Functional expenses for the 2013 and 2012 fiscal years are shown on the following charts.

Water Fund



Sewer Fund



LONG BEACH WATER DEPARTMENT

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Management Review of the Department's Expenses.

Water Fund

Fiscal Year Ended September 30, 2013 Compared to 2012

Total operating expenses totaled \$85,783, an increase of \$6,441 (+8.1%) over FY2012. The major factors attributable to the net increase are as follows:

- Purchased water costs and volume increased by \$5,866 (+24.6%) and 5,807 AF (+20.7%) respectively, in FY2013 due to increased demand, MWD rate increases, and increases in potable water purchases as follows:
 - The Department purchased 2,856 AF (+100.0%) of potable water relating to In-Lieu Groundwater Replenishment Agreements with WRD in FY2013.
 - In FY2013, the Department entered into an agreement with the City of Lakewood to purchase surplus potable water through a metered water distribution inter-tie connection totaling 1,718 AF.
 - Purchased potable water for the Alamitos Seawater Intrusion Barrier increased by 1,185 AF (+45.6%) over FY2012.
- Labor costs increased by \$715 (+4.1%) over FY2012, as a result of increases in negotiated Cost of Living Allowance (COLA), fringe benefits, workers' compensation costs, and overtime.
- Maintenance and other expenses had a net decrease of \$729 (-3.4%) from FY2012. The net decrease is primarily attributable to the following factors:
 - Replenishment Assessment (RA) costs decreased by \$714 (-8.8%) due to a decrease in groundwater pumping as a result of the In-Lieu Groundwater Replenishment agreements with WRD during FY2013.
 - Laboratory and chemical supplies decreased by \$333 (-19.2%) due to a decrease in purchases of chemicals used for treating groundwater.
 - Paving and other construction services increased by \$421 (+192.5%) due to an increase in repairs on large water gate valves and water pipeline services in FY2013.

FY2013 net nonoperating expense totaled \$2,152, a net increase of \$579 (+36.8%) over FY2012. The net increase is primarily due to the following factors:

- Other expenses had a net increase of \$1,721 (+122.1%) over FY2012 primarily due to expenses incurred on the seawater desalination research and development project.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

- Gain on disposition of property had a net increase of \$566 (+153.0%) primarily due to proceeds from sale of retired equipment and scrap metals, and a decrease in inventory adjustments in FY2013.
- Interest expense decreased by \$509 (-58.4%) over FY2012 due to an increase in interest expenses capitalized in relation to the capital improvement program in FY2013.

Fiscal Year Ended September 30, 2012 Compared to 2011

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

- Purchased water costs decreased by \$6,938 (-22.5%) due to a decrease in volume of potable water purchased from MWD in connection with the conclusion of the In-Lieu Groundwater Replenishment agreements with WRD in FY2011.
- Labor costs increased by \$499 (+2.9%) over FY2011, as a result of increases in negotiated Cost of Living Allowance (COLA) and increased pension costs.
- Maintenance and other expenses had a net increase of \$6,167 (+40.8%) from FY2011. The net increase is primarily attributable to the following factors:
 - Replenishment assessment (pump tax) costs increased by \$4,317 (+115.1%) due to increased groundwater pumping as a result of the conclusion of In-Lieu Groundwater Replenishment agreements with WRD in FY2011.
 - Laboratory and chemical supplies increased by \$787 (+83.2%) due to an increase in purchases of chemicals used for treating groundwater.
 - Utility services, mainly electricity costs, increased by \$612 (+21.0%) due to an increase in groundwater pumping in FY2012.
 - Materials and supplies costs increased by \$360 (+29.6%) due to an increase in materials used for repair and maintenance of backflow devices, water meters, and chemical equipment.

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

- Other expenses decreased by \$1,066 (-71%) over FY2011 primarily due to fewer capital improvement projects closed to expense in FY2012.
- Development costs of a new customer information system increased by \$874 (+419%) over FY2011 primarily due to the purchase of software licenses and increase in consultant's costs.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

Loss on disposition of property had a net increase of \$315 (+572.7%) over FY2011 primarily due to a \$342 decrease in proceeds from sale of retired equipment and scrap metals, adjustments reducing inventory by \$338, and a \$415 decrease in losses on retirement of distribution system assets in FY2012.

Sewer Fund

Fiscal Year Ended September 30, 2013 Compared to 2012

Total operating expenses totaled \$15,165, an increase of \$754 (+5.2%) over FY2012. Key elements of this net increase are as follows:

- Personal services expenses increased by \$374 (+10.0%) over FY2012 due to increases in negotiated Cost of Living Allowance (COLA), fringe benefits, workers' compensation costs, and overtime.
- Maintenance and other expenses increased by \$184 (+6.1%) over FY2012. The net increase is mostly attributable to the following major factors:
 - Paving services increased by \$87 (+29.5%) over FY2012 due to an increase in sewer pipeline repairs during FY2013.
 - Disposal services increased by \$99 (+116.6%) over FY2012 due to the increased activity in sewer pipeline repair in FY2013.
- Depreciation expense increased by \$122 (+7.3%) compared to FY2012 mainly due to the completion of several sewer main pipeline relining projects, and machinery and equipment purchases.

FY2013 net nonoperating expense totaled \$761, a net decrease of \$499 (-39.6%) over FY2012, which was primarily due to a \$412 (-36.4%) decrease in development costs for a new customer information system and sewer capital improvement projects charged to expense.

Fiscal Year Ended September 30, 2012 Compared to 2011

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

- Maintenance and other expenses decreased by \$638 (-17.5%) over FY2011. The decrease is mostly attributable to the following major factors:
 - Professional services decreased by \$93 (-100.0%) which is primarily due to legal services in FY2011 in connection with the issuance of the Subordinate Sewer Revolving Line of Credit.
 - Technical services and inspection services expenses decreased by \$254 (87.0%) and \$366 (-100%), respectively, in FY2012. These decreases are due

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

to contracted CCTV services conducted on the sewer pipe system in FY2011. Similar services were not conducted in FY2012.

- Personal services expenses increased by \$141 (+3.9%) over FY2011 due to increases in negotiated Cost of Living Allowance (COLA) and increased pension costs.

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

Capital Assets and Debt Administration

Capital assets. The Department's capital assets (net of accumulated depreciation and amortization) as of September 30, 2013 amounted to \$282,582 for the Water Fund and \$61,901 for the Sewer Fund. Capital assets include investments in production, transmission, patent, improvements on buildings and structures, and distribution related facilities, as well as general items such as office equipment and furniture. For FY2013, net capital assets increased \$9,265 (+3.4%) and \$3,436 (+5.9%) 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, 2013, 2012, and 2011 (in thousands):

Long Beach Water Department Capital Assets September 30, 2013, 2012, and 2011 (in thousands)							
	2013	2012	2011	Variance			
				2013/2012		2012/2011	
	Amount	Amount	Amount	Amount	%	Amount	%
Land	\$ 11,248	\$ 11,248	\$ 11,248	\$ -	-	\$ -	-
Water Rights	40	40	40	-	-	-	-
Patent - Desalination	815	815	815	-	-	-	-
Buildings, structures, and facilities	121,092	118,444	117,694	2,648	2.2%	750	0.6%
Distribution/collection systems	493,371	477,959	468,243	15,412	3.2%	9,716	2.1%
Machinery and equipment	19,950	18,556	18,333	1,394	7.5%	223	1.2%
Construction in progress	26,041	23,556	14,706	2,485	10.5%	8,850	60.2%
Total capital assets	672,557	650,618	631,079	21,939	3.4%	19,539	3.1%
Less: accumulated depreciation and amortization	(328,074)	(318,836)	(310,855)	(9,238)	2.9%	(7,981)	2.6%
Net capital assets	<u>\$ 344,483</u>	<u>\$ 331,782</u>	<u>\$ 320,224</u>	<u>\$ 12,701</u>	<u>3.8%</u>	<u>\$ 11,558</u>	<u>3.6%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2013 and 2012

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, 2013, 2012, and 2011:

Long Beach Water Department Capital Assets September 30, 2013, 2012, and 2011 (in thousands)							
Water Fund	2013	2012	2011	Variance			
				2013/2012		2012/2011	
				Amount	%	Amount	%
Land	\$ 11,248	\$ 11,248	\$ 11,248	\$ -	-	\$ -	-
Water Rights	40	40	40	-	-	-	-
Patent - Desalination	815	815	815	-	-	-	-
Buildings, structures, and facilities	115,411	112,763	112,013	2,648	2.3%	750	0.7%
Distribution/collection systems	300,377	286,747	282,159	13,630	4.8%	4,588	1.6%
Machinery and equipment	15,050	14,275	14,012	775	5.4%	263	1.9%
Construction in progress	20,854	20,186	11,891	668	3.3%	8,295	69.8%
Total capital assets	463,795	446,074	432,178	17,721	4.0%	13,896	3.2%
Less: accumulated depreciation and amortization	(181,213)	(172,757)	(165,115)	(8,456)	4.9%	(7,642)	4.6%
Net capital assets	<u>\$ 282,582</u>	<u>\$ 273,317</u>	<u>\$ 267,063</u>	<u>\$ 9,265</u>	<u>3.4%</u>	<u>\$ 6,254</u>	<u>2.3%</u>
Sewer Fund							
Buildings, structures, and facilities	\$ 5,681	\$ 5,681	\$ 5,681	\$ -	-	\$ -	-
Distribution/collection systems	192,994	191,212	186,084	1,782	0.9%	5,128	2.8%
Machinery and equipment	4,900	4,281	4,321	619	14.5%	(40)	-0.9%
Construction in progress	5,187	3,370	2,815	1,817	53.9%	555	19.7%
Total capital assets	208,762	204,544	198,901	4,218	2.1%	5,643	2.8%
Less: accumulated depreciation	(146,861)	(146,079)	(145,740)	(782)	0.5%	(339)	0.2%
Net capital assets	<u>\$ 61,901</u>	<u>\$ 58,465</u>	<u>\$ 53,161</u>	<u>\$ 3,436</u>	<u>5.9%</u>	<u>\$ 5,304</u>	<u>10.0%</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, 2013 and 2012

Long-term debt. As of September 30, 2013, the Department had total long-term debt outstanding of \$34,035 for the Water Fund and \$9,750 for the Sewer Fund. All debt is supported by Water Fund revenues and Sewer Fund revenues. Total Department outstanding debt as of September 30, 2013, 2012, and 2011 is summarized as follows:

Long Beach Water Department Summary of Long-Term Debt September 30, 2013, 2012, and 2011 (in thousands)							
Water Fund	2013	2012	2011	Variance			
				2013/2012		2012/2011	
				Amount	%	Amount	%
Revenue refunding bonds	\$ 32,780	\$ 35,165	\$ 27,425	(2,385)	-6.8%	7,740	28.2%
Commercial paper notes	-	-	11,000	-	-	(11,000)	-100.0%
Long-term debt outstanding	32,780	35,165	38,425	(2,385)	-6.8%	(3,260)	-8.5%
Less:							
Unamortized bond discount	(12)	(19)	(26)	7	-36.8%	7	-26.9%
Unamortized bond premium	3,498	3,877	2,800	(379)	-9.8%	1,077	38.5%
Unamortized loss on refunding	(2,231)	(2,516)	(2,800)	285	-11.3%	284	-10.1%
Total long-term debt	\$ 34,035	\$ 36,507	\$ 38,399	(2,472)	-6.8%	(1,892)	-4.9%
Sewer Fund							
Revolving line of credit	9,750	6,000	6,000	3,750	62.5%	-	-
Total long-term debt	\$ 9,750	\$ 6,000	\$ 6,000	3,750	62.5%	-	-

The Department maintains AA+ credit ratings from Standard & Poor's for the Water and Sewer Funds. In FY2012 the Department issued \$9,850 in Second Lien Water Revenue Bonds, Series 2012A, at a premium of \$1,342 to retire \$11,000 outstanding Subordinate Water Revenue Commercial Paper Notes. In FY2013, the Department drew an additional \$3,750 from the Subordinate Sewer Revolving Line of Credit to fund sewer collection system improvements. 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, 2014, with budgeted expenditures totaling approximately \$101.9 million and \$18.3 million for the Water Fund and Sewer Fund, respectively. Budgeted expenditures include capital improvement program expenditures and Water Fund debt

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2013 and 2012

service. In fiscal year 2014 (FY2014), there was a 4% potable water and reclaimed water rate increase. There was no sewer rate increase for FY2014.

Requests for Information

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

LONG BEACH WATER DEPARTMENT

**Statements of Net Position
Business Type Activity - Enterprise
September 30, 2013 and 2012
(in thousands of dollars)**

	2013			2012		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
ASSETS						
Current Assets:						
Pooled cash and cash equivalents	\$ 41,062	9,076	50,138	\$ 46,834	6,625	53,459
Non performing investments	3	1	4	14	4	18
Interest receivable	9	-	9	15	-	15
Customer accounts receivable	6,666	920	7,586	6,254	1,021	7,275
Allowance for doubtful accounts	(333)	(58)	(391)	(365)	(60)	(425)
Due from other funds	-	-	-	226	14	240
Material and supplies inventory	2,518	63	2,581	2,414	108	2,522
Prepaid expense	629	-	629	566	-	566
Restricted assets						
Pooled cash and cash equivalents:						
Funds held in trust	713	-	713	715	-	715
Bond service funds	1,620	-	1,620	1,324	-	1,324
Sub-total pooled cash and cash equivalents	2,333	-	2,333	2,039	-	2,039
Non-pooled cash equivalents	3,130	-	3,130	3,119	-	3,119
Total restricted assets	5,463	-	5,463	5,158	-	5,158
Total current assets	56,017	10,002	66,019	61,116	7,712	68,828
Noncurrent Assets:						
Capital assets:						
Land	11,248	-	11,248	11,248	-	11,248
Water rights	40	-	40	40	-	40
Patent desalination	815	-	815	815	-	815
Buildings, structures and facilities	115,411	5,681	121,092	112,763	5,681	118,444
Distribution/collection systems	300,377	192,994	493,371	286,747	191,212	477,959
Machinery and equipment	15,050	4,900	19,950	14,275	4,281	18,556
Construction in progress	20,854	5,187	26,041	20,186	3,370	23,556
Total capital assets	463,795	208,762	672,557	446,074	204,544	650,618
Less: Accumulated depreciation and amortization	(181,213)	(146,861)	(328,074)	(172,757)	(146,079)	(318,836)
Total capital assets, net	282,582	61,901	344,483	273,317	58,465	331,782
Other assets, net of amortization	219	-	219	796	136	932
Total noncurrent assets	282,801	61,901	344,702	274,113	58,601	332,714
Total assets	338,818	71,903	410,721	335,229	66,313	401,542
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows on refundings	2,231	-	2,231	-	-	-
LIABILITIES						
Current Liabilities:						
Accounts payable	\$ 11,477	2,358	13,835	\$ 9,674	1,806	11,480
Accrued wages payable	463	140	603	376	107	483
Unearned revenue	45	-	45	-	-	-
Advances from developers	355	92	447	185	86	271
Accrued interest payable	626	-	626	546	-	546
Long-term debt due within one year	2,385	-	2,385	2,110	-	2,110
Customer deposits	706	-	706	710	-	710
Noncurrent Liabilities:						
Long-term debt, net of current portion	36,266	9,750	46,016	36,507	6,000	42,507
Accrued site restoration cost	1,000	-	1,000	1,000	-	1,000
Total Liabilities	53,323	12,340	65,663	51,108	7,999	59,107
NET POSITION						
Net investment in capital assets	249,256	52,151	301,407	237,793	52,465	290,258
Restricted for:						
Bond Service	1,620	-	1,620	1,324	-	1,324
Bond Reserve	36	-	36	26	-	26
Unrestricted	36,814	7,412	44,226	44,978	5,849	50,827
Total Net Position	\$ 287,726	59,563	347,289	\$ 284,121	58,314	342,435

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

**Statements of Revenues, Expenses,
and Changes in Fund Net Position
Business Type Activity - Enterprise
Years Ended September 30, 2013 and 2012
(in thousands of dollars)**

	2013			2012		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Operating Revenues:						
Metered water sales	\$ 61,306	6,303	67,609	\$ 59,118	6,162	65,280
Reclaimed water sales	3,041	-	3,041	2,766	-	2,766
Service charges	20,363	10,477	30,840	20,223	10,380	30,603
Maintenance services	-	86	86	-	86	86
Other services	7,239	445	7,684	4,408	697	5,105
Total operating revenues	<u>91,949</u>	<u>17,311</u>	<u>109,260</u>	<u>86,515</u>	<u>17,325</u>	<u>103,840</u>
Operating Expenses:						
Cost of water	29,753	-	29,753	23,887	-	23,887
Personal services	18,309	4,122	22,431	17,594	3,748	21,342
Commercial services	2,048	1,774	3,822	1,684	1,711	3,395
Maintenance and other	20,540	3,188	23,728	21,269	3,004	24,273
Permit fees	5,567	4,284	9,851	5,549	4,273	9,822
Depreciation and amortization	9,566	1,797	11,363	9,359	1,675	11,034
Total operating expenses	<u>85,783</u>	<u>15,165</u>	<u>100,948</u>	<u>79,342</u>	<u>14,411</u>	<u>93,753</u>
Operating income	<u>6,166</u>	<u>2,146</u>	<u>8,312</u>	<u>7,173</u>	<u>2,914</u>	<u>10,087</u>
Non-operating Income (Expense):						
Interest income	58	11	69	193	25	218
Interest expense	(363)	(2)	(365)	(872)	(101)	(973)
Gain (Loss) on disposition of property	196	2	198	(370)	2	(368)
Rental income	1,087	-	1,087	885	-	885
Other	(3,130)	(772)	(3,902)	(1,409)	(1,186)	(2,595)
Total non-operating income (expense)	<u>(2,152)</u>	<u>(761)</u>	<u>(2,913)</u>	<u>(1,573)</u>	<u>(1,260)</u>	<u>(2,833)</u>
Income before contributed capital	4,014	1,385	5,399	5,600	1,654	7,254
Contributed capital	<u>131</u>	<u>-</u>	<u>131</u>	<u>247</u>	<u>185</u>	<u>432</u>
Changes in net position	4,145	1,385	5,530	5,847	1,839	7,686
Net position at beginning of year	284,121	58,314	342,435	278,274	56,475	334,749
Adjustment for GASB 65 implementation	(540)	(136)	(676)	-	-	-
Net position at beginning of year, as restated	<u>283,581</u>	<u>58,178</u>	<u>341,759</u>	<u>278,274</u>	<u>56,475</u>	<u>334,749</u>
Net position at end of year	<u>\$ 287,726</u>	<u>59,563</u>	<u>347,289</u>	<u>\$ 284,121</u>	<u>58,314</u>	<u>342,435</u>

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

Statements of Cash Flows
Business Type Activity - Enterprise
Years Ended September 30, 2013 and 2012
(in thousands of dollars)

	2013			2012		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Cash flows from operating activities:						
Cash received from customers	\$ 91,798	17,427	109,225	\$ 85,931	17,123	103,054
Cash paid to employees	(18,222)	(4,089)	(22,311)	(17,746)	(3,735)	(21,481)
Cash paid for water	(28,749)	-	(28,749)	(25,826)	-	(25,826)
Cash paid for goods and services	(21,920)	(4,364)	(26,284)	(20,840)	(4,518)	(25,358)
Cash paid for permit fees	(5,566)	(4,284)	(9,850)	(5,549)	(4,273)	(9,822)
Other operating cash paid	(2,223)	(804)	(3,027)	(988)	(1,207)	(2,195)
Net cash provided by operating activities	<u>15,118</u>	<u>3,886</u>	<u>19,004</u>	<u>14,982</u>	<u>3,390</u>	<u>18,372</u>
Cash flows from capital and related financing activities:						
Proceeds from refunding issue	-	-	-	9,850	-	9,850
Payment for commercial paper	-	-	-	(11,000)	-	(11,000)
Original issuance premium	-	3,750	3,750	1,342	-	1,342
Payments for issuance costs	-	-	-	(191)	-	(191)
Proceeds from sale of capital assets	377	33	410	93	23	116
Contributions in aid of construction	115	-	115	339	185	524
Payments for capital acquisitions	(17,547)	(5,174)	(22,721)	(15,138)	(6,959)	(22,097)
Principal repayments-bonds	(2,110)	-	(2,110)	(490)	-	(490)
Interest payments	(1,484)	(55)	(1,539)	(1,267)	(57)	(1,324)
Net cash used for capital and related financing activities	<u>(20,649)</u>	<u>(1,446)</u>	<u>(22,095)</u>	<u>(16,462)</u>	<u>(6,808)</u>	<u>(23,270)</u>
Cash flows from investing activities:						
Interest income received	64	11	75	192	25	217
Net cash provided by investing activities	<u>64</u>	<u>11</u>	<u>75</u>	<u>192</u>	<u>25</u>	<u>217</u>
Net increase (decrease) in cash and cash equivalents	(5,467)	2,451	(3,016)	(1,288)	(3,393)	(4,681)
Cash and cash equivalents, October 1	<u>51,992</u>	<u>6,625</u>	<u>58,617</u>	<u>53,280</u>	<u>10,018</u>	<u>63,298</u>
Cash and cash equivalents, September 30	<u>\$ 46,525</u>	<u>9,076</u>	<u>55,601</u>	<u>\$ 51,992</u>	<u>6,625</u>	<u>58,617</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 6,166	2,146	8,312	\$ 7,173	2,914	10,087
Adjustments to reconcile operating income (expense) to net cash provided by operating activities:						
Depreciation expense and amortization	9,566	1,797	11,363	9,359	1,675	11,034
Amortization of other assets	38	-	38	38	-	38
Increase prepaid expense	(64)	-	(64)	-	-	-
Increase property rental and other income	(2,223)	(804)	(3,027)	(988)	(1,207)	(2,195)
(Increase) decrease in customer accounts receivable	(417)	102	(315)	(327)	(189)	(516)
(Increase)/decrease in due from City of Long Beach	225	14	239	(226)	(14)	(240)
(Increase)/decrease in material and supplies inventory	(105)	45	(60)	338	2	340
Increase (decrease) in accounts and retainage payable	1,804	553	2,357	(202)	195	(7)
Increase (decrease) in accrued wages payable	87	33	120	(152)	14	(138)
Increase (decrease) in unearned revenue	45	-	45	(69)	-	(69)
Increase (decrease) in customer deposits	(4)	-	(4)	38	-	38
Total adjustments	<u>8,952</u>	<u>1,740</u>	<u>10,692</u>	<u>7,809</u>	<u>476</u>	<u>8,285</u>
Net cash provided by operating activities	<u>\$ 15,118</u>	<u>3,886</u>	<u>19,004</u>	<u>\$ 14,982</u>	<u>3,390</u>	<u>18,372</u>
Supplemental schedule of noncash transactions:						
Accrued capital asset costs	1,492	598	2,090	1,803	42	1,845
Amortization of bond premium, net	87	-	87	70	82	152
Accrued cost of water purchases	5,740	-	5,740	3,044	-	3,044

See accompanying 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 714 miles of sewer mains, 16,158 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, 2013 and 2012, and the changes in its financial position, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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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.

Implementation of New Accounting Pronouncements

The following summarizes implemented GASB pronouncements and their impact, if any, on the financial 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 was effective for the City's fiscal year ended September 30, 2013, and the provision of GASB 60 did not have a material impact to the Department's financial statements.

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 was effective for the City's fiscal year ended September 30, 2013, and the provision of GASB 61 did not have a material impact to the Department's financial statements.

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

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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 was effective for the City's fiscal year ended September 30, 2013, and the provision of GASB 62 did not have a material impact to the Department's financial statements.

In March of 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Application of this Statement was effective for the City during the fiscal year ended September 30, 2013. The Department did not consider it practical to restate the financial statements for all periods presented as the City's financial statements are a one-year presentation and restatement of all periods presented for the Department would prevent the information included herein from matching the information included in the City's financial statements. The implementation of the Statement resulted in cumulative adjustments to the Department's net position as of September 30, 2012 to remove deferred charges related to the issuance of debt of \$540 for the Water Fund and \$136 for the Sewer Fund. In addition the implementation resulted in the reclassification of unmortized loss on refundings in the Statements of Net Position from noncurrent liabilities to a separate category under Deferred Outflows of Resources.

In March of 2012, GASB issued Statement No. 66, *Technical Corrections 2012 - an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Application of this Statement was effective for the City's fiscal year ended September 30, 2013, and the provision of GASB 66 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 June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. As such, the statement applies to CalPERS and not the City.

In June of 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial

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support for pensions that is provided by other entities. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The requirements of this Statement will improve the decision-usefulness of information in employer financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The Department will implement GASB 68 in fiscal year 2015.

Pooled Cash, Cash Equivalents, and Other Investments

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

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

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

Material and Supplies Inventory

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

Capital Assets

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

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

Buildings, structures, and facilities	10 to 50 years
Distribution/collection systems	20 to 75 years
Patents	20 years
Other machinery and equipment	5 to 10 years

Capitalized Interest

In fiscal year 2013, the Department incurred interest expense on Revenue Refunding Bonds and Sewer Revolving Line of Credit in the amount of \$1,564 and \$55 for the Water and Sewer Funds, respectively, of which \$1,114 was capitalized for Water Fund and \$53 for Sewer Fund.

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

Capital Contributions

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

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.

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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 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.

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Risk Management

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

Estimates

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

Net Position

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

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

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

Restricted - Amounts restricted for bond indenture requirements.

Unrestricted - All other categories of net position

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

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

Substantially all of the Department's cash, including restricted cash, is deposited with the City Treasurer under the City Treasurer's pooled cash and investment program. Individual pool participants' cash and investments are not specifically identifiable. Interest income earned on pooled cash and investments is allocated monthly to pool participants based on their average

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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:

Water Fund	2013	2012
Equity in the City of Long Beach's investment pool	\$ 43,395	\$ 48,873
Non performing investments	3	14
Non-pooled cash equivalents	3,130	3,119
Total cash and investments	\$ 46,528	\$ 52,006
Sewer Fund		
	2013	2012
Equity in the City of Long Beach's investment pool	\$ 9,076	\$ 6,625
Non performing investments	1	4
Total cash and investments	\$ 9,077	\$ 6,629

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

Water Fund	2013	2012
Unrestricted cash and investments	\$ 41,065	\$ 46,848
Restricted cash and investments		
Water Trust Fund	713	715
Bond Service Fund	1,620	1,324
Bond Reserve Fund	3,130	3,119
Total restricted cash and investments	5,463	5,158
Total cash and investments	\$ 46,528	\$ 52,006
Sewer Fund		
	2013	2012
Unrestricted cash and investments	\$ 9,077	\$ 6,629
Total cash and investments	\$ 9,077	\$ 6,629

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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.

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

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

Investments Authorized by Debt Agreements

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

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Disclosures Relating to Interest Rate Risk

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

The City had no investments with values that were highly sensitive to interest rate risk changes as of September 30, 2013 and 2012. 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, 2013 and 2012:

	2013		2012	
Investment Type	Weighted Average Maturity (in years)		Weighted Average Maturity (in years)	
Cash and Investments in City Pool				
Interdepartment Loan				
(Health SAVRS)	\$ 1,555	5.562	\$ 1,833	6.564
U.S. Treasury Bills	36,996	0.361	111,962	0.247
U.S. Treasury Notes	226,158	0.759	405,979	0.917
Federal Agency Securities	738,293	1.544	902,310	1.183
Money Market Account	233	0.003	536	0.003
Local Agency Investment Fund (LAIF)	<u>120,399</u>	0.003	<u>70,163</u>	0.003
Subtotal City Pool	1,123,634		1,492,783	
Cash and Deposits	220,376		210,021	
Outstanding Checks	(21,507)		(15,527)	
Deposit in Transit	-		20,315	
Total City Pool	<u>\$ 1,322,503</u>		<u>\$ 1,707,592</u>	
Nonperforming Short Term Investment	<u>\$ 429</u>		<u>\$ 2,185</u>	

At September 30, 2013, the Water Fund and Sewer Fund had equity in the City's pool of \$43,395 and \$9,076, respectively, which represents approximately 3.28% and 0.68%, respectively, for a total departmental equity of \$52,471 or 3.97%.

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

The City's investment pool held Lehman Commercial Paper with a par value of \$20 million, which was not paid when it matured on September 30, 2008. The loss on this nonperforming investment was distributed to all funds in proportion to their equity in the pool. The Water Fund's and Sewer Fund's share of this loss was \$99 and \$30, respectively. The fair value of this non-performing investment as of September 30, 2013, was \$3 and \$1 for Water and Sewer fund, 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.

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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, 2013 and 2012 for each investment type:

Rating as of year-end 2013					
Investment Type	Minimum legal rating	Total	Not required to be rated	AA+	Unrated
Cash and Investments in City Pool					
Interdepartment Loan					
(Health SAVRS)	N/A	\$ 1,555	1,555	-	-
U.S. Treasury Bills	N/A	36,996	36,996	-	-
U.S. Treasury Notes	N/A	226,158	226,158	-	-
Federal Agency Securities	N/A	738,293	-	738,293	-
Money Market Account	N/A	233	-	233	-
Local Agency Investment Fund (LAIF)	N/A	120,399	-	-	120,399
Subtotal City Pool		<u>1,123,634</u>	<u>264,709</u>	<u>738,526</u>	<u>120,399</u>
Cash and Deposits		220,376	-	-	220,376
Outstanding Checks		(21,507)	-	-	(21,507)
Deposit in Transit		-	-	-	-
Total City Pool		<u>\$ 1,322,503</u>	<u>264,709</u>	<u>738,526</u>	<u>319,268</u>
Nonperforming Short-Term Investment	N/A	<u>\$ 429</u>	<u>-</u>	<u>-</u>	<u>429</u>

Rating as of year-end 2012					
Investment Type	Minimum legal rating	Total	Not required to be rated	AA+	Unrated
Cash and Investments in City Pool					
Interdepartment Loan					
(Health SAVRS)	N/A	\$ 1,833	1,833	-	-
U.S. Treasury Bills	N/A	111,962	111,962	-	-
U.S. Treasury Notes	N/A	405,979	405,979	-	-
Federal Agency Securities	N/A	902,310	-	902,310	-
Money Market Account	N/A	536	-	536	-
Local Agency Investment Fund (LAIF)	N/A	70,163	-	-	70,163
Subtotal City Pool		<u>1,492,783</u>	<u>519,774</u>	<u>902,846</u>	<u>70,163</u>
Cash and Deposits		210,021	-	-	210,021
Outstanding Checks		(15,527)	-	-	(15,527)
Deposit in Transit		20,315	-	-	20,315
Total City Pool		<u>\$ 1,707,592</u>	<u>519,774</u>	<u>902,846</u>	<u>284,972</u>
Nonperforming Short-Term Investment	N/A	<u>\$ 2,185</u>	<u>-</u>	<u>-</u>	<u>2,185</u>

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The Department's non-pooled cash and cash equivalents are \$3,130 and \$3,119 for September 30, 2013 and 2012, respectively, which are not required to be rated.

Concentration of Credit Risk

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

Issuer	Investment type	Reported amount	
		2013	2012
Federal Farm Credit Bank	Federal agency securities	\$ 58,349	161,175
Federal Home Loan Bank	Federal agency securities	155,034	245,103
Federal Home Loan Mortgage Corporation	Federal agency securities	276,246	181,000
Federal National Mortgage Association	Federal agency securities	248,664	315,033
U.S. Treasury	U.S. Treasury notes & bills	263,154	517,941
Local Agency Investment Fund	State pool investment	120,399	70,163

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, 2013, the City reported deposits of \$220 million less \$21.5 million for checks outstanding. As of September 30, 2012, the City's deposits were \$210.0 million less \$15.5 million for checks outstanding.

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Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized-cost basis. Included in LAIF investments are fixed rate U.S. Treasury and Agency securities, Commercial Paper and Certificate of Deposits with fixed maturities. In addition, LAIF has mortgage-backed securities issued by government sponsored agencies, SBA Loans pools and CMOs' issued by government sponsored agencies. All these securities are fixed rate. The pool is authorized to loan funds to state agencies and the General Fund on a temporary basis.

Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2013 and 2012.

Note 3 – Capital Assets

Capital assets at September 30, 2013 and 2012 were as follows:

Water Fund	Balance September 30, 2011	Additions	Deletions, Retirements and Transfers	Balance September 30, 2012	Additions	Deletions, Retirements and Transfers	Balance September 30, 2013
Capital assets, not being depreciated:							
Land	\$ 11,248	-	-	11,248	-	-	11,248
Construction in progress	11,891	15,878	(7,583)	20,186	20,792	(20,124)	20,854
Water Rights	40	-	-	40	-	-	40
Total capital assets, not being depreciated	<u>23,179</u>	<u>15,878</u>	<u>(7,583)</u>	<u>31,474</u>	<u>20,792</u>	<u>(20,124)</u>	<u>32,142</u>
Capital assets, being depreciated:							
Buildings, structures and facilities	112,013	1,278	(528)	112,763	2,740	(92)	115,411
Patents	815	-	-	815	-	-	815
Distribution/collection systems	282,159	5,098	(510)	286,747	14,157	(527)	300,377
Machinery and equipment	14,012	1,055	(792)	14,275	1,434	(659)	15,050
Total capital assets, being depreciated	<u>408,999</u>	<u>7,431</u>	<u>(1,830)</u>	<u>414,600</u>	<u>18,331</u>	<u>(1,278)</u>	<u>431,653</u>
Less accumulated depreciation for:							
Buildings, structures and facilities	(44,100)	(2,805)	525	(46,380)	(2,921)	83	(49,218)
Patents	(204)	(41)	-	(245)	(40)	-	(285)
Distribution/collection systems	(107,246)	(5,712)	447	(112,511)	(5,775)	385	(117,901)
Machinery and equipment	(13,565)	(801)	745	(13,621)	(829)	641	(13,809)
Total accumulated depreciation	<u>(165,115)</u>	<u>(9,359)</u>	<u>1,717</u>	<u>(172,757)</u>	<u>(9,565)</u>	<u>1,109</u>	<u>(181,213)</u>
Total capital assets, being depreciated, net	<u>243,884</u>	<u>(1,928)</u>	<u>(113)</u>	<u>241,843</u>	<u>8,766</u>	<u>(169)</u>	<u>250,440</u>
Total Water Fund capital assets, net	<u>\$ 267,063</u>	<u>13,950</u>	<u>(7,696)</u>	<u>273,317</u>	<u>29,558</u>	<u>(20,293)</u>	<u>282,582</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2013 and 2012 (in thousands of dollars)

	Balance September 30, 2011	Additions	Deletions, Retirements and Transfers	Balance September 30, 2012	Additions	Deletions, Retirements and Transfers	Balance September 30, 2013
Sewer Fund							
Capital assets, not being depreciated:							
Construction in progress	\$ 2,815	6,729	(6,174)	3,370	4,499	(2,682)	5,187
Total capital assets, not being depreciated	2,815	6,729	(6,174)	3,370	4,499	(2,682)	5,187
Capital assets, being depreciated:							
Buildings, structures and facilities	5,681	-	-	5,681	-	-	5,681
Distribution/collection systems	186,084	6,326	(1,198)	191,212	2,631	(849)	192,994
Machinery and equipment	4,321	98	(138)	4,281	785	(166)	4,900
Total capital assets, being depreciated	196,086	6,424	(1,336)	201,174	3,416	(1,015)	203,575
Less accumulated depreciation for:							
Buildings, structures and facilities	(1,246)	(111)	-	(1,357)	(111)	-	(1,468)
Distribution/collection systems	(141,182)	(1,383)	1,198	(141,367)	(1,504)	849	(142,022)
Machinery and equipment	(3,312)	(181)	138	(3,355)	(182)	166	(3,371)
Total accumulated depreciation	(145,740)	(1,675)	1,336	(146,079)	(1,797)	1,015	(146,861)
Total capital assets, being depreciated, net	50,346	4,749	-	55,095	1,619	-	56,714
Total Sewer Fund capital assets, net	\$ 53,161	11,478	(6,174)	58,465	6,118	(2,682)	61,901
Combined Total							
Capital assets, not being depreciated:							
Land	\$ 11,248	-	-	11,248	-	-	11,248
Construction in progress	14,706	22,607	(13,757)	23,556	25,291	(22,806)	26,041
Water Rights	40	-	-	40	-	-	40
Total capital assets, not being depreciated	25,994	22,607	(13,757)	34,844	25,291	(22,806)	37,329
Capital assets, being depreciated:							
Buildings, structures and facilities	117,694	1,278	(528)	118,444	2,740	(92)	121,092
Patents	815	-	-	815	-	-	815
Distribution/collection systems	468,243	11,424	(1,708)	477,959	16,788	(1,376)	493,371
Machinery and equipment	18,333	1,153	(930)	18,556	2,219	(825)	19,950
Total capital assets, being depreciated	605,085	13,855	(3,166)	615,774	21,747	(2,293)	635,228
Less accumulated depreciation for:							
Buildings, structures and facilities	(45,346)	(2,916)	525	(47,737)	(3,032)	83	(50,686)
Patents	(204)	(41)	-	(245)	(40)	-	(285)
Distribution/collection systems	(248,428)	(7,095)	1,645	(253,878)	(7,279)	1,234	(259,923)
Machinery and equipment	(16,877)	(982)	883	(16,976)	(1,011)	807	(17,180)
Total accumulated depreciation	(310,855)	(11,034)	3,053	(318,836)	(11,362)	2,124	(328,074)
Total capital assets, being depreciated, net	294,230	2,821	(113)	296,938	10,385	(169)	307,154
Total Department capital assets, net	\$ 320,224	25,428	(13,870)	331,782	35,676	(22,975)	344,483

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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In FY2013, the Department completed several projects as part of ongoing improvements to its water distribution system and sewer collection system, totaling \$14,157 for the Water Fund and \$2,631 for the Sewer Fund. These improvements included water cast iron main replacements, water services and meter installations, cathodic protective system installations, and sewer main pipe relining and replacement. In addition, the Department completed several facility improvements totaling \$2,740. These improvements included a new data center, potable water tank rehabilitation, chemical feed tank replacement, building reroofing, and repaving of main facility yard. The Department also purchased machinery and equipment which totaled \$1,434 for the Water Fund and \$785 for the Sewer Fund. These machinery and equipment purchases included dump trucks, sewer cleaning trucks, utility pick-up trucks, fleet vans, chemical sterilizer system, portable water transfer pumps, data and electrical equipment, and water system hydraulic modeling software.

In FY2012, the Department completed several projects as part of ongoing improvements to its water distribution system and sewer collection system, totaling \$5,098 for the Water Fund and \$6,326 for the Sewer Fund. These improvements included water cast iron main replacements, water services and meter installations, recycled water service installations and sewer main pipe relining and replacement. In addition, the Department completed several facility improvements totaling \$1,278. These improvements included treatment plant cistern vault rehabilitation, building reroofing and elevator system upgrades. The Department also purchased machinery and equipment which totaled \$1,055 for the Water Fund and \$98 for the Sewer Fund. These machinery and equipment purchases included backhoe and wheel loaders, trucks, a boom lift, and a mobile emergency response trailer.

Construction in Progress

Construction in progress at September 30, 2013 and 2012 include the following projects:

<u>Project</u>	<u>2013</u>	<u>2012</u>
Water Main Replacement Program	\$ 8,419	\$ 8,661
Seawater Desalination Project	-	2,295
Reclaimed Water System	1,689	1,152
Sewer main Replacement Program	5,187	3,370
Other Projects	10,746	8,078
Total Combined Construction in Progress	<u>\$ 26,041</u>	<u>\$ 23,556</u>
Such costs are allocated as follows:		
Water Enterprise Fund	20,854	20,186
Sewer Enterprise Fund	5,187	3,370
Total Water Department	<u>\$ 26,041</u>	<u>\$ 23,556</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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(in thousands of dollars)

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal years ended September 30, 2013 and 2012, completed projects were transferred from Construction in progress as follows:

	2013		2012	
	Water Fund	Sewer Fund	Water Fund	Sewer Fund
Transfers to Capital Assets	\$ 17,701	2,680	\$ 7,153	5,837
Transfers to Expense	2,423	2	430	337
Total	<u>\$ 20,124</u>	<u>2,682</u>	<u>\$ 7,583</u>	<u>6,174</u>

Note 4 – Noncurrent Liabilities:

September 30, 2013	Water Fund			End of year	Due within one year
	Beginning of year	Additions	Reductions		
1997 Water Revenue Refunding Bonds	\$ 5,175	-	(1,630)	3,545	1,720
2010 Water Revenue Refunding Bonds	22,250	-	(125)	22,125	130
2012 Water Revenue Refunding Bonds	9,850	-	(355)	9,495	535
	<u>37,275</u>	<u>-</u>	<u>(2,110)</u>	<u>35,165</u>	<u>2,385</u>
Less current portion	(2,110)	(2,385)	2,110	(2,385)	-
Less 1997 unamortized bond discounts	(19)	-	7	(12)	-
Add 2010 unamortized bond premium	2,545	-	(261)	2,284	-
Add 2012 unamortized bond premium	1,332	-	(118)	1,214	-
Total long-term debt	<u>39,023</u>	<u>(2,385)</u>	<u>(372)</u>	<u>36,266</u>	<u>2,385</u>
Accrued site restoration cost	1,000	-	-	1,000	-
Total noncurrent liabilities	<u>\$ 40,023</u>	<u>(2,385)</u>	<u>(372)</u>	<u>37,266</u>	<u>2,385</u>

September 30, 2013	Sewer Fund			End of year	Due within one year
	Beginning of year	Additions	Reductions		
Sewer Revolving Line of Credit	6,000	3,750	-	9,750	-
Total noncurrent liabilities	<u>\$ 6,000</u>	<u>3,750</u>	<u>-</u>	<u>9,750</u>	<u>-</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2013 and 2012 (in thousands of dollars)

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

* These amounts were reclassified and reported as deferred outflow of resources effective October 1, 2012, in accordance with GASB Statement No. 65, see further discussion on page 29.

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

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

Second Lien Water Revenue Bonds - Series 2012A

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

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

LONG BEACH WATER DEPARTMENT

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

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

Water Revenue Refunding Bonds - Series 2010A

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

The remaining Series 1997A Bonds maturing on May 1, 2015 are not subject to redemption prior to maturity, and remain outstanding in the amount of \$5,175 at September 30, 2013.

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

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

LONG BEACH WATER DEPARTMENT

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

Water Revenue Refunding Bonds - Series 1997A

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

The refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$4,320. This difference, reported in the Statements of Net Position as a separate category under Deferred Outflows of Resources and being amortized using the straight-line method over the life of the bonds. The Department in effect reduced its aggregate debt service payments by \$2,493 over the remaining 27 years thereby resulting in an economic gain of \$1,303.

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

Subordinate Water Revenue Commercial Paper Notes

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

LONG BEACH WATER DEPARTMENT

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

Subordinate Sewer Revolving Line of Credit

On May 5, 2011, the Board approved Resolution WD-1282 authorizing the issuance from time to time of Subordinate Sewer Revenue Obligations pursuant to the terms of a credit agreement with Wells Fargo Bank, National Association, which provides for a Revolving Line of Credit (LOC) in an amount not to exceed \$20,000 at any time. Obligations under the LOC are secured by and payable from a subordinate lien upon the City's Sewer Enterprise net revenues (gross revenues less operation and maintenance costs). The original term of the LOC was for three years, with a Commitment Expiration Date of May 26, 2014. Effective July 8, 2013, the Commitment Expiration Date was extended by an additional three years to May 26, 2017. The LOC was secured to pay off the outstanding principal on Senior Sewer Revenue Commercial Paper Notes and to continue to provide interim financing of sewer system improvements and sewer pipe rehabilitation and replacement programs. The Department 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 LOC.

On May 26, 2011, the Department drew \$6,000 on the LOC to retire \$4,000 of outstanding Sewer Revenue Commercial Paper notes and fund \$2,000 in sewer system improvements. On September 3, 2013, the department drew another \$3,750 to fund sewer system improvements. Interest rates are based on 70% of the London Interbank Offered Rate (LIBOR) plus an applicable margin, and can be designated as fixed or variable for one-month, three-month, or six-month interest periods. Interest rates have ranged from 0.88% to 1.07%.

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 was used for interim financing of sewer system improvements and sewer pipe rehabilitation and replacement programs.

LONG BEACH WATER DEPARTMENT

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

Accrued Site Restoration Cost

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

In FY2008, the Department completed construction of a subsurface seawater intake and discharge facility. Facility construction costs totaling \$4,614 have been capitalized and were depreciated over a period of two years. A Coastal Development Permit granted by the California Coastal Commission in September 2007, required the Department to restore the project site to its preexisting condition no later than May 21, 2012. On July 14, 2011, the Department was granted an extension for the restoration of the coastal area to May 26, 2017. Estimated site restoration costs of \$1,000 have been accrued as a long-term liability and recorded as nonoperating expenses. Operating costs of the facility are expensed as incurred.

Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending Sept 30	Series 1997 Bonds		Series 2010 Bonds		Series 2012 Bonds		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2014	1,720	204	130	932	535	366	2,385	1,502	3,887
2015	1,825	105	135	929	550	356	2,510	1,390	3,900
2016	-	-	2,065	925	565	339	2,630	1,264	3,894
2017	-	-	2,150	843	580	322	2,730	1,165	3,895
2018	-	-	2,210	778	605	299	2,815	1,077	3,892
2019-2023	-	-	12,490	2,461	3,410	1,112	15,900	3,573	19,473
2024-2027	-	-	2,945	147	3,250	366	6,195	513	6,708
Total	<u>\$ 3,545</u>	<u>309</u>	<u>22,125</u>	<u>7,015</u>	<u>9,495</u>	<u>3,160</u>	<u>35,165</u>	<u>10,484</u>	<u>45,649</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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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.

Effective January 1, 2013, miscellaneous employees who are either new to CalPERS or who have had a break in CalPERS service of at least 6 months, and who retire at age 62, are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.0 percent of their highest average annual pensionable compensation earned during a period of at least 36 consecutive months for each year of credited service. For fiscal year 2013, salaries are capped at \$113.7. The salary cap is permitted to be adjusted based on changes in the CPI for all urban areas.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. For the fiscal year ended September 30, 2013, Miscellaneous plan participants were required to contribute 8.0% of their annual covered salary. In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rate is 15.159%. For fiscal year 2014, the contribution rate was 15.324%. In fiscal years 2013, 2012, and 2011, the Department's contributions to CalPERS were \$2,452, \$2,824, and \$2,371 for Water Fund and \$478, \$566, and \$439 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, 2013.

LONG BEACH WATER DEPARTMENT

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September 30, 2013 and 2012
(in thousands of dollars)

Note 6 – City Post Retirement Health Care Benefits

Plan Description

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

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses, and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental, and long-term care insurance premiums. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested. The City has provided two one-time early retirement incentive programs. The first had a maximum value of \$25 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, 2013, there were 586 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 \$20.6 million. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2013 were \$7.4 million, and are included in the expenses of the City's Employee Benefits Internal Service Fund.

Termination Benefits

As of September 30, 2013, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$123.3 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.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2013 and 2012
(in thousands of dollars)

- 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 4.3%; wage increases of 3.3% per year for both miscellaneous and safety employees; and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$8.1 million has been fully funded and the long – term portion of the liability of \$115.2 million is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

Other Postemployment Benefits

As of September, 30, 2013, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$45.2 million based on an actuarial study of the “implicit subsidy” as defined by GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, (GASB 45). While the City does not directly contribute any funding 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.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2013 and 2012
(in thousands of dollars)

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, 2013, 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	\$	15,405
Interest on net OPEB obligation		1,776
Adjustment to annual required contribution		<u>(2,744)</u>
Annual OPEB cost		14,437
Contribution made		<u>(4,709)</u>
Increase in net OPEB obligation		9,728
Net OPEB obligation – beginning of year		<u>35,514</u>
 Net OPEB obligation – end of year	 \$	 <u>45,242</u>

The ARC was determined as part of the September 2012 actuarial valuation. For the year ended September 30, 2013, 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
9/30/2011	\$ 12,289	34.0%	\$ 26,139
9/30/2012	13,486	30.5%	35,514
9/30/2013	14,437	32.6%	45,242

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2013 and 2012
(in thousands of dollars)

Funded Status and Funding Progress

The funded status of the plan as of September 30, 2013 was as follows:

Actuarial accrued liability (AAL)	\$ 238,683
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 238,683</u>
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll	\$ 331,504
UAAL as a percentage of covered payroll	72.0%

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.

Actuarial Methods and Assumption

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

The September 30, 2012 actuarial valuation used the entry age normal cost method. The actuarial assumptions included a 4.3% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 8.5% for non-Medicare plans and 8.9% for Medicare plans with both decreasing to 5.0% 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.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2013 and 2012
(in thousands of dollars)

Note 7 - Operating Leases

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

Year ending September 30:	
2014	\$ 811
2015	688
2016	676
2017	426
2018	255
2019-2023	1,277
2024-2028	1,277
2029-2033	1,277
2034-2038	1,078
2039-2041	<u>1,078</u>
Total minimum future rentals	\$ <u>8,843</u>

Note 8 - Commitments and Contingencies

Litigation

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

Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2013 amount to \$2,106 and \$2,086 for the Water Fund and Sewer Fund, respectively.

STATISTICAL SECTION
(Unaudited)

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Financial Trends

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

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

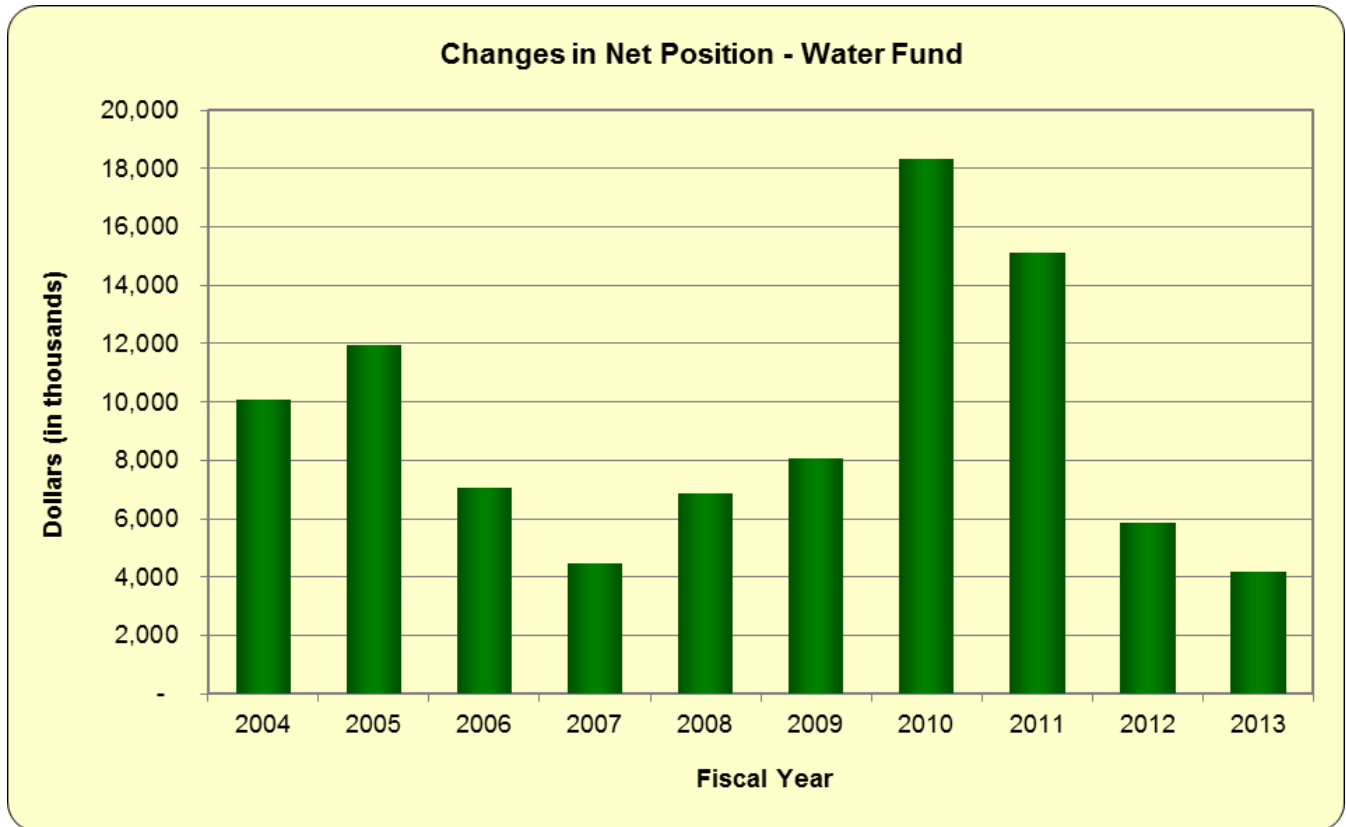
<u>Fiscal Year Ended</u>	<u>Total Operating Revenue ⁽¹⁾</u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Changes in Net Position</u>
9/30/2004	\$ 63,125	\$ 55,544	\$ 7,581	\$ (188)	\$ 2,649	\$ 10,042
9/30/2005	64,464	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	4,472
9/30/2008	71,384	67,647	3,737	(660)	3,746	6,823
9/30/2009	80,777	73,916	6,861	(1,029)	2,221	8,053
9/30/2010	87,151	79,422	7,729	8,302	2,263	18,294
9/30/2011	88,576	80,403	8,173	(1,374)	8,283	15,082
9/30/2012	86,515	79,342	7,173	(1,573)	247	5,847
9/30/2013	91,949	85,783	6,166	(2,152)	131	4,145 ⁽²⁾

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

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

Source: Department's annual reports

See accompanying independent auditors' report



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

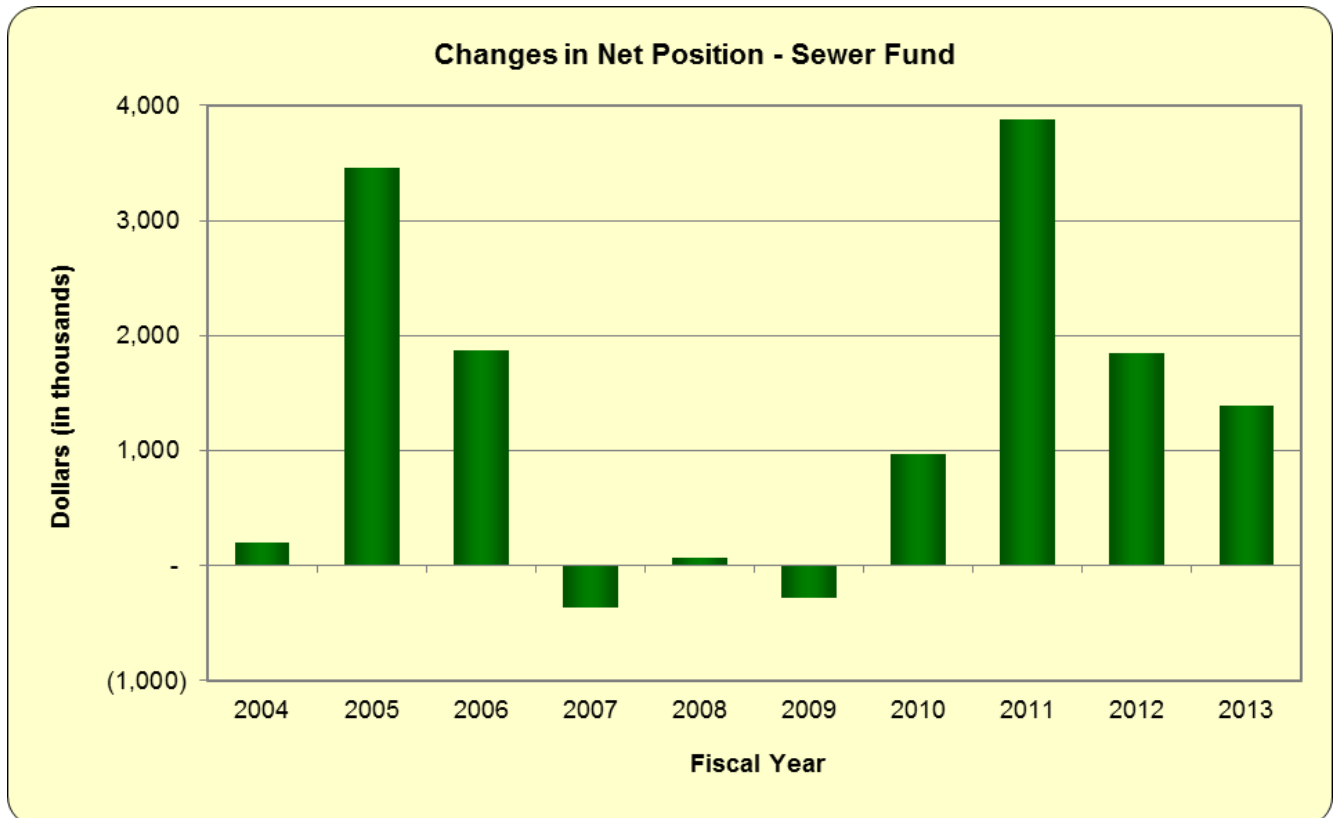
<u>Fiscal Year Ended</u>	<u>Total Operating Revenue ⁽¹⁾</u>	<u>Total Operating Expense</u>	<u>Operating Income (Expenses)</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Changes in Net Position</u>
9/30/2004	\$ 9,267	\$ 7,753	\$ 1,514	\$ (1,695)	\$ 380	\$ 199
9/30/2005	9,708	7,058	2,650	225	585	3,460
9/30/2006	9,237	7,730	1,507	355	-	1,862
9/30/2007	10,796	11,524	(728)	352	-	(376)
9/30/2008	11,759	11,875	(116)	174	-	58
9/30/2009	12,455	13,003	(548)	258	-	(290)
9/30/2010	15,186	14,015	1,171	(517)	310	964
9/30/2011	16,448	14,795	1,653	(650)	2,868	3,871
9/30/2012	17,325	14,411	2,914	(1,260)	185	1,839
9/30/2013	17,311	15,165	2,146	(761)	-	1,385 ⁽²⁾

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

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

Source: Department's annual reports

See accompanying independent auditors' report



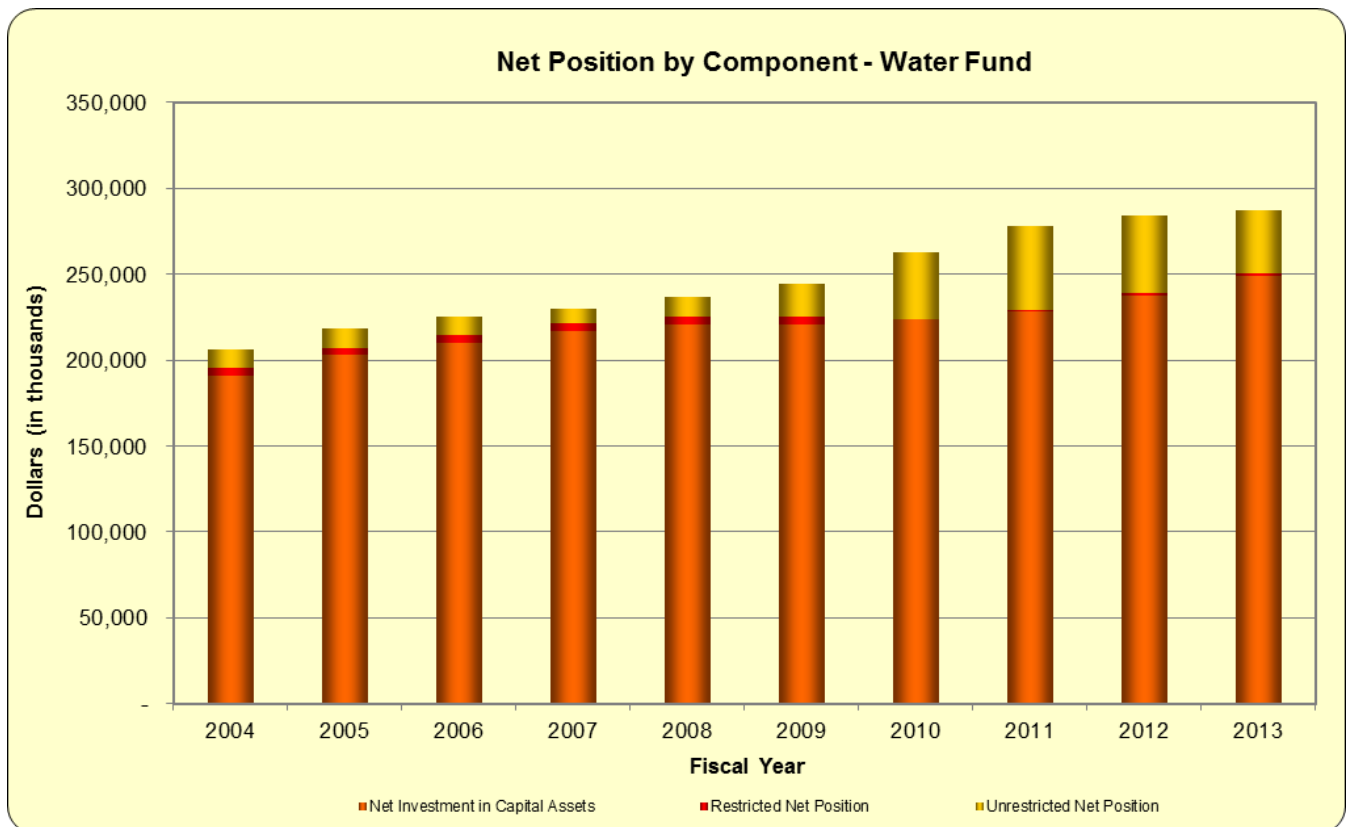
LONG BEACH WATER DEPARTMENT
NET POSITION BY COMPONENT - WATER FUND
LAST TEN FISCAL YEARS
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
9/30/2004	\$ 191,067	\$ 4,298	\$ 11,202	\$ 206,567
9/30/2005	202,959	4,316	11,240	218,515
9/30/2006	210,282	4,355	10,914	225,551
9/30/2007	217,247	4,409	8,366	230,022
9/30/2008	221,225	4,178	11,442	236,845
9/30/2009	220,974	4,240	19,684	244,898
9/30/2010	223,560	153	39,479	263,192
9/30/2011	228,196	736	49,342	278,274
9/30/2012	237,793	1,350	44,978	284,121
9/30/2013	249,256	1,656	36,814	287,726 ⁽¹⁾

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

Source: Department's annual reports

See accompanying independent auditors' report



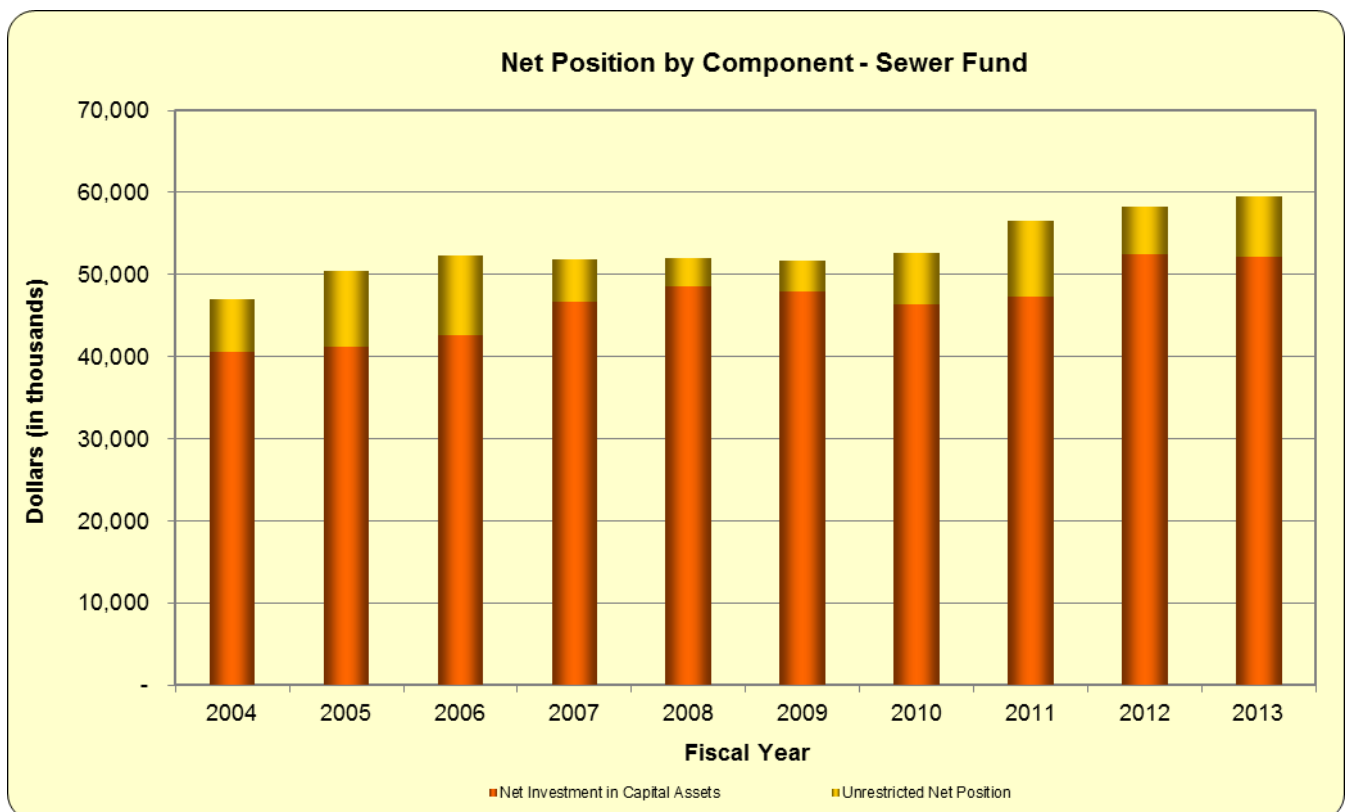
**LONG BEACH WATER DEPARTMENT
NET POSITION BY COMPONENT - SEWER FUND
LAST TEN FISCAL YEARS
(in thousands of dollars)**

<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
9/30/2004	\$ 40,600	\$ -	\$ 6,325	\$ 46,925
9/30/2005	41,206	-	9,179	50,385
9/30/2006	42,619	-	9,628	52,247
9/30/2007	46,637	-	5,235	51,872
9/30/2008	48,541	-	3,389	51,930
9/30/2009	47,891	-	3,749	51,640
9/30/2010	46,383	-	6,221	52,604
9/30/2011	47,378	-	9,097	56,475
9/30/2012	52,465	-	5,849	58,314
9/30/2013	52,151	-	7,412	59,563 ⁽¹⁾

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

Source: Department's annual reports

See accompanying independent auditors' report



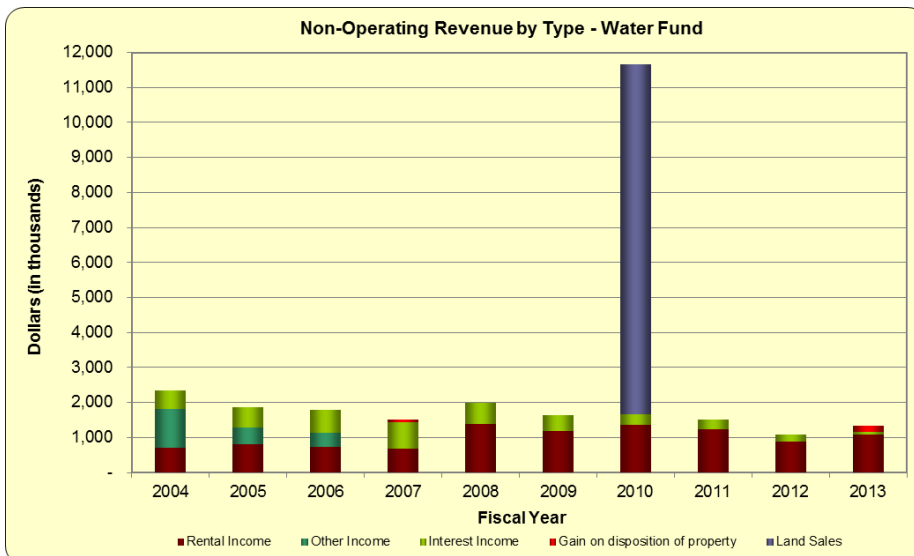
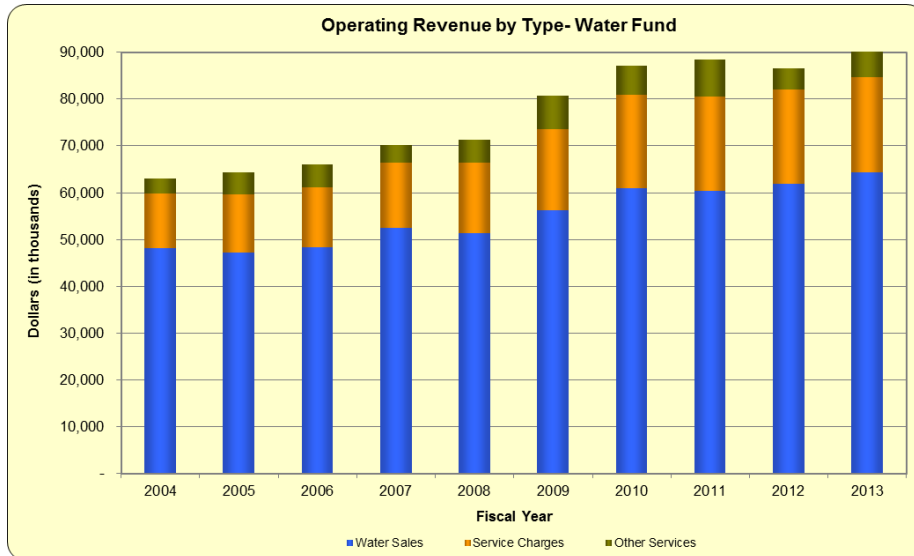
LONG BEACH WATER DEPARTMENT
WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING					
	Water Sales ⁽¹⁾	Service Charges	Other Services	Total Operating Revenue	Interest Income	Rental Income	Land sales	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2004	\$ 48,160	\$ 11,648	\$ 3,317	\$ 63,125	\$ 541	\$ 700	\$ -	\$ 1,099	\$ -	\$ 2,340
9/30/2005	47,296	12,302	4,866	64,464	556	804	-	488	-	1,848
9/30/2006	48,429	12,727	4,870	66,026	653	733	-	391	-	1,777
9/30/2007	52,507	13,959	3,726	70,192	758	682	-	-	66	1,506
9/30/2008	51,389	15,156	4,839	71,384	602	1,382	-	-	-	1,984
9/30/2009	56,256	17,299	7,222	80,777	456	1,181	-	-	-	1,637
9/30/2010	60,975	19,983	6,193	87,151	302	1,345	10,000	-	-	11,647
9/30/2011	60,398	20,251	7,927	88,576	294	1,221	-	-	-	1,515
9/30/2012	61,884	20,223	4,408	86,515	193	885	-	-	-	1,078
9/30/2013	64,347	20,363	7,239	91,949	58	1,087	-	-	196	1,341

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

Source: Department's annual reports

See accompanying independent auditors' report

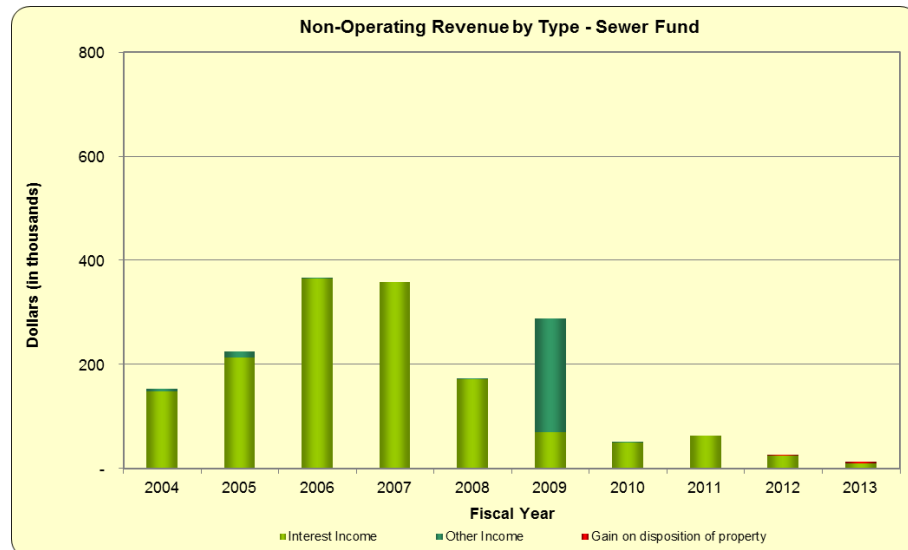
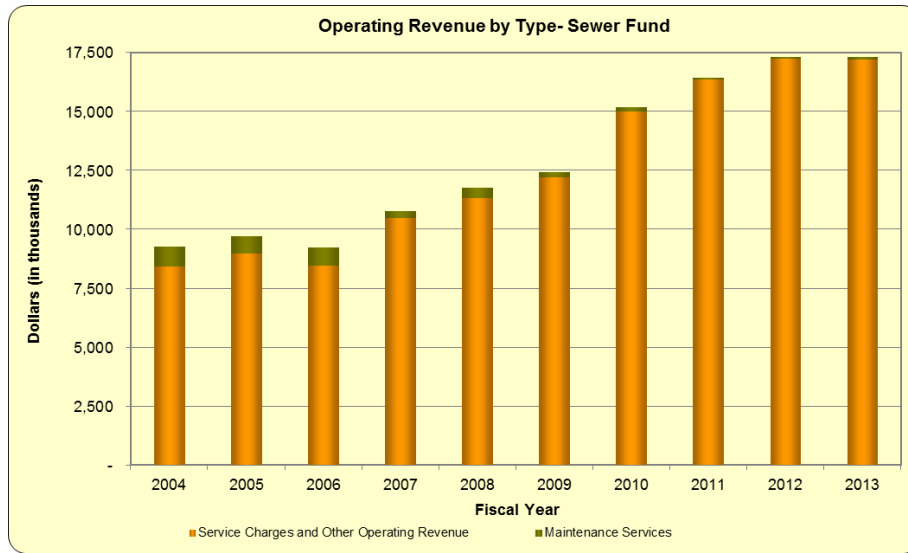


LONG BEACH WATER DEPARTMENT
SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING			
	Service Charges and Other Operating Revenue	Maintenance Services	Total Operating Revenue	Interest Income	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2004	\$ 8,434	\$ 832	\$ 9,266	\$ 149	\$ 5	\$ -	154
9/30/2005	8,976	732	9,708	213	12	-	225
9/30/2006	8,457	780	9,237	366	1	-	367
9/30/2007	10,500	296	10,796	359	-	-	359
9/30/2008	11,317	442	11,759	172	2	-	174
9/30/2009	12,203	252	12,455	70	219	-	289
9/30/2010	15,013	173	15,186	50	0.01	-	50
9/30/2011	16,362	86	16,448	63	-	-	63
9/30/2012	17,239	86	17,325	25	-	2	27
9/30/2013	17,225	86	17,311	11	-	2	13

Source: Department's annual reports

See accompanying independent auditors' report

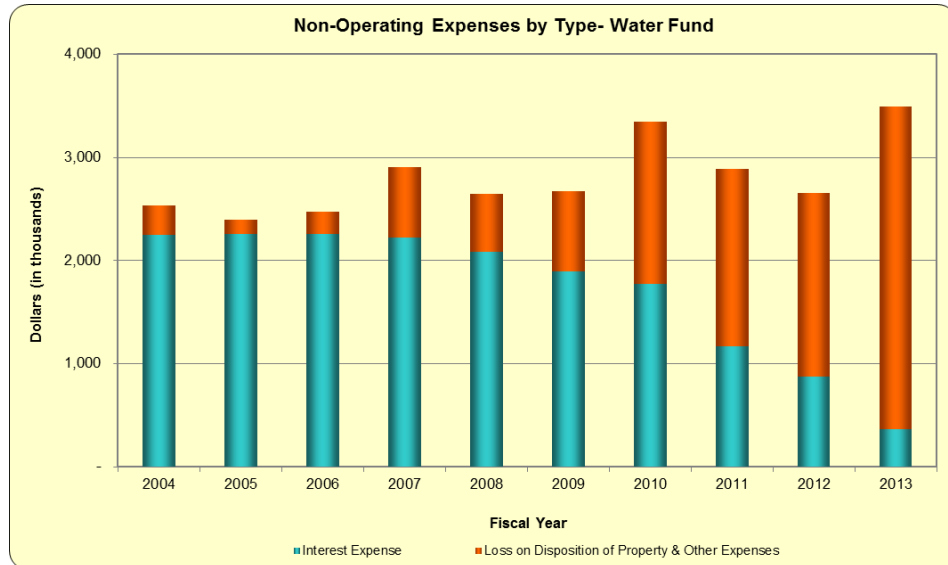
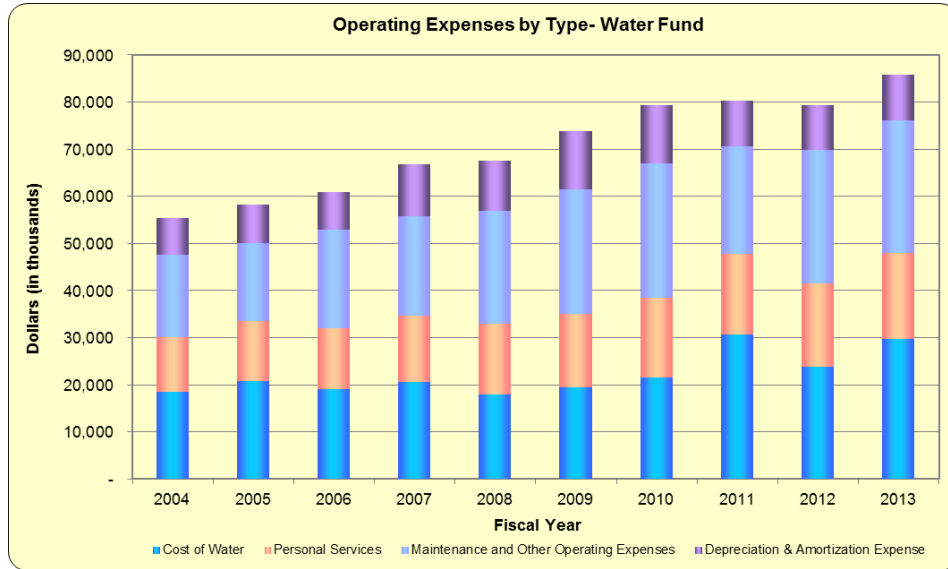


LONG BEACH WATER DEPARTMENT
WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING			
	Cost of Water	Personal Services	Maintenance and Other Operating Expenses	Depreciation & Amortization Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2004	\$ 18,581	\$ 11,572	\$ 17,539	\$ 7,852	\$ 55,544	\$ 2,243	\$ 285	\$ 2,528
9/30/2005	20,936	12,731	16,421	8,174	58,262	2,253	137	2,390
9/30/2006	19,179	12,974	20,895	7,885	60,933	2,255	213	2,468
9/30/2007	20,606	14,069	21,224	10,972	66,871	2,217	683	2,900
9/30/2008	18,036	14,974	24,009	10,628	67,647	2,078	566	2,644
9/30/2009	19,509	15,654	26,319	12,434	73,916	1,891	775	2,666
9/30/2010	21,588	16,855	28,648	12,331	79,422	1,773	1,572	3,345
9/30/2011	30,825	17,095	22,644	9,839	80,403	1,167	1,722	2,889
9/30/2012	23,887	17,594	28,502	9,359	79,342	872	1,779	2,651
9/30/2013	29,753	18,309	28,155	9,566	85,783	363	3,130	3,493

Source: Department's annual reports

See accompanying independent auditors' report

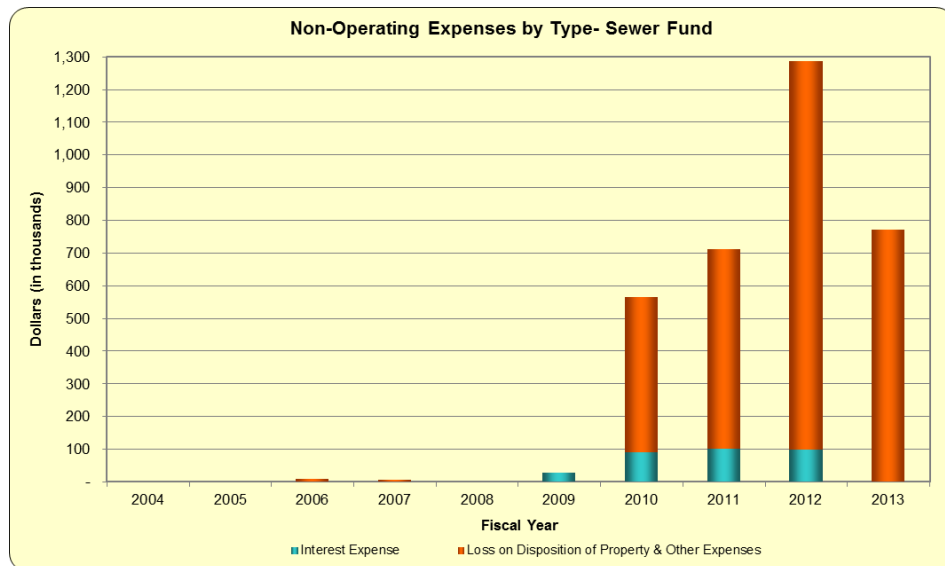
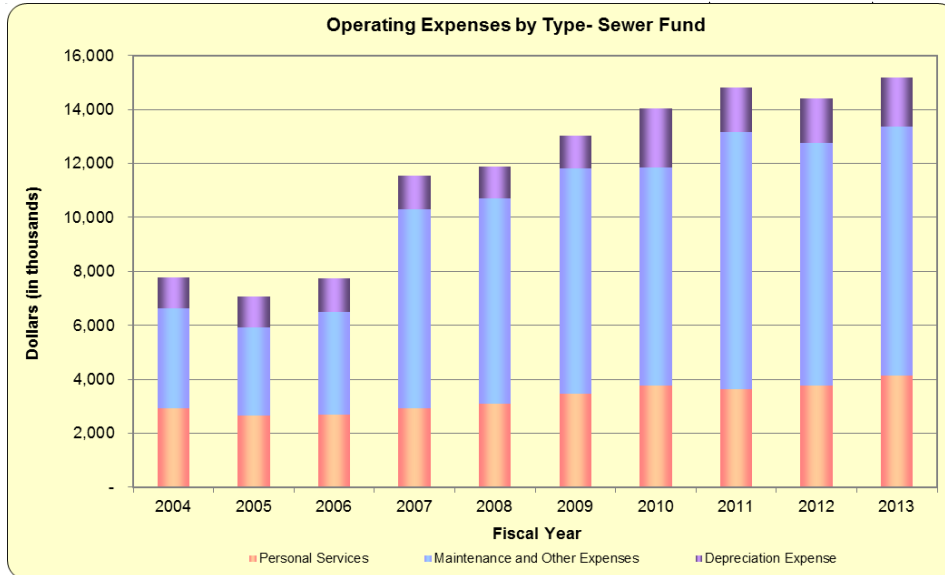


LONG BEACH WATER DEPARTMENT
SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING		
	Personal Services	Maintenance and Other Operating Expenses	Depreciation Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2004	\$ 2,912	\$ 3,693	\$ 1,148	\$ 7,753	\$ -	\$ -	\$ -
9/30/2005	2,648	3,248	1,161	7,057	-	-	-
9/30/2006	2,689	3,808	1,233	7,730	-	12	12
9/30/2007	2,900	7,378	1,246	11,524	-	7	7
9/30/2008	3,067	7,635	1,173	11,875	-	-	-
9/30/2009	3,440	8,363	1,200	13,003	31	-	31
9/30/2010	3,735	8,113	2,167	14,015	91	476	567
9/30/2011	3,607	9,528	1,660	14,795	102	611	713
9/30/2012	3,748	8,988	1,675	14,411	101	1,186	1,287
9/30/2013	4,122	9,246	1,797	15,165	2	772	774

Source: Department's annual reports

See accompanying independent auditors' report



Revenue Capacity

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

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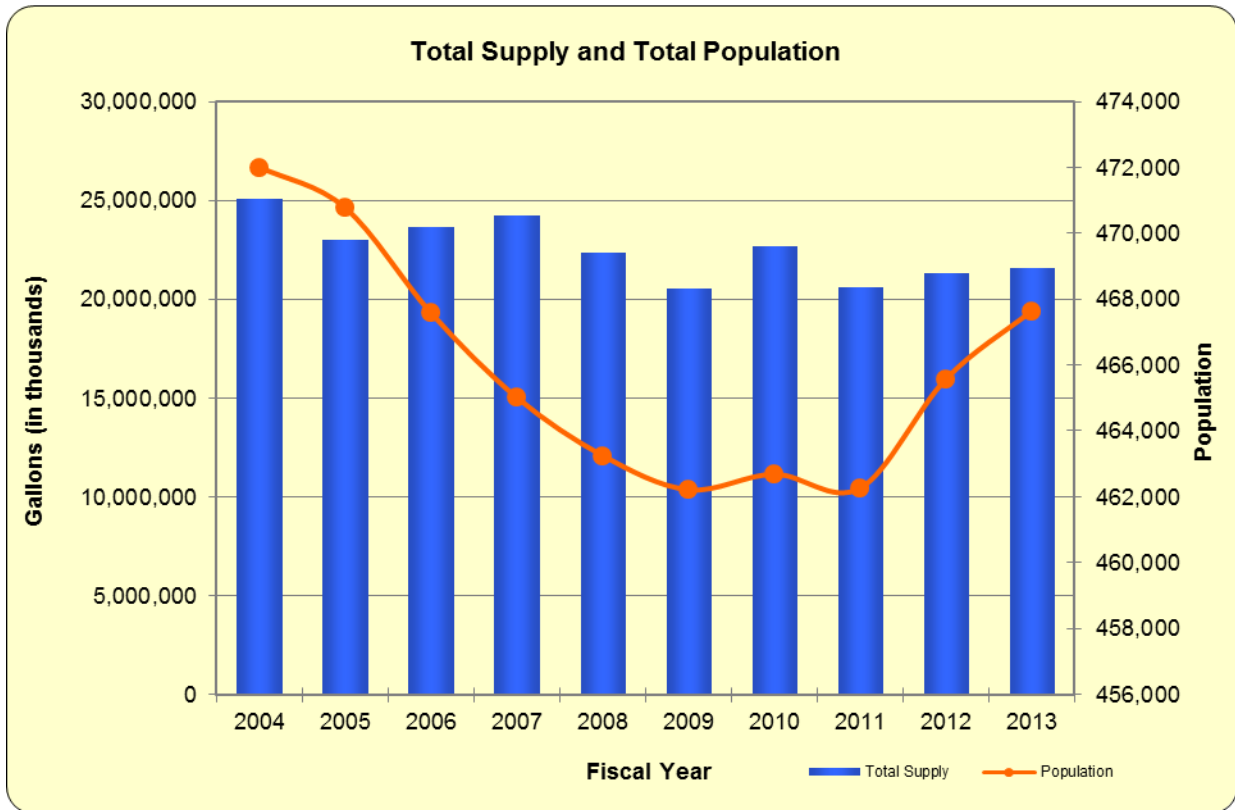
LONG BEACH WATER DEPARTMENT
SOURCE OF WATER (PUMPED, PURCHASED, AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS
 (in thousands of gallons, except population)

Fiscal Year Ended	SOURCE OF SUPPLY				CONSUMPTION			
	Potable Water		Reclaimed Water	Total Supply	Average Daily Demand Potable Water ⁽¹⁾	Peak Day Distribution	Average Daily Sales Per Capita	Population
	Pumped	Purchased						
9/30/2004	8,354,494	14,761,376	1,956,084	25,071,954	63,331	84,310	146	472,013
9/30/2005	7,041,640	14,536,539	1,382,586	22,960,765	59,118	86,570	134	470,781
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	138	467,586
9/30/2007	8,416,014	13,837,621	1,999,911	24,253,546	60,969	80,180	143	465,017
9/30/2008	11,006,041	9,179,092	2,161,793	22,346,926	55,302	82,080	132	463,250
9/30/2009	11,038,496	7,462,640	2,021,971	20,523,107	50,688	72,650	122	462,211
9/30/2010	11,789,387	8,651,083	2,197,803	22,638,273	56,001	71,220	134	462,685
9/30/2011	5,856,585	12,725,394	2,022,264	20,604,243	50,910	72,300	122	462,257
9/30/2012	10,772,406	8,302,455	2,255,671	21,330,532	52,260	74,700	126	465,576
9/30/2013	10,125,461	9,248,531	2,164,954	21,538,946	53,079	68,700	126	467,646

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

Source: Department's annual reports

See accompanying independent auditors' report



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

Effective Date	Potable Water - Monthly Amount per Billing Unit ⁽¹⁾			Reclaimed Water
	TIER I First Five Billing Units	TIER II ⁽²⁾ Next Ten Billing Units	TIER III Over Fifteen Billing Units	Amount Per Cubic Foot
10/1/2003	\$ 1.394	\$ 1.549	\$ 2.323	\$ 1.084
10/1/2004	1.457	1.619	2.428	1.133
10/1/2005	1.515	1.683	2.525	1.178
11/1/2006	1.561	1.734	2.601	1.214
10/1/2007	1.646	1.829	2.744	1.281
10/1/2008	1.893	2.103	3.155	1.472
10/1/2009	2.196	2.439	3.659	1.708
10/1/2010	2.196	2.439	3.659	1.708
10/1/2011	2.196	2.439	3.659	1.708
10/1/2012	2.196	2.439	3.659	1.708

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

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

Source: Department's records

See accompanying independent auditors' report

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

Effective Date	3/4" ⁽¹⁾	1"	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2003	\$ 0.27	\$ 0.40	\$ 0.75	\$ 1.11	\$ 2.29	\$ 3.62	\$ 6.68	\$ 10.48	\$ 17.16	\$ 20.98	\$ 34.72
10/1/2004	0.28	0.42	0.78	1.16	2.39	3.79	6.98	10.95	17.94	21.92	36.28
10/1/2005	0.29	0.44	0.81	1.20	2.49	3.94	7.26	11.39	18.65	22.80	37.73
11/1/2006	0.30	0.45	0.84	1.24	2.56	4.06	7.47	11.73	19.21	23.48	38.87
10/1/2007	0.31	0.47	0.88	1.31	2.70	4.28	7.89	12.38	20.27	24.77	41.00
10/1/2008	0.36	0.54	1.01	1.50	3.11	4.92	9.07	14.23	23.31	28.49	47.15
10/1/2009	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2010	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2011	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2012	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70

Note: (1) Normal residential size (69,542 of the 89,996 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

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2003	\$ 0.55	\$ 0.95	\$ 1.40	\$ 2.38	\$ 3.49	\$ 4.73	\$ 5.96	\$ 8.73
10/1/2004	0.58	0.99	1.46	2.49	3.65	4.94	6.22	9.13
10/1/2005	0.60	1.03	1.52	2.59	3.80	5.14	6.47	9.49
11/1/2006	0.62	1.06	1.57	2.67	3.91	5.29	6.67	9.78
10/1/2007	0.65	1.12	1.65	2.81	4.13	5.58	7.03	10.31
10/1/2008	0.75	1.29	1.90	3.24	4.74	6.42	8.09	11.86
10/1/2009	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2010	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2011	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2012	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, 2013

Water Service Size	Number of Services	Average Consumption per Month (in hundred cubic feet)	Average Monthly Bill
3/4"	69,542	13	\$ 44.29
1"	11,295	20	70.21
1-1/2"	4,301	54	170.16
2"	2,773	86	259.08
3"	604	208	602.50
4"	519	101	343.22
6"	533	171	564.68
8"	342	322	1,029.19
10"	76	1,459	2,949.46
12"	9	2,167	6,012.37
16"	2	7	418.47
Total	89,996		

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 2013				Fiscal Year 2004			
	Ranking	Sales ⁽¹⁾	Acre Feet	Percent of Total	Ranking	Sales ⁽¹⁾	Acre Feet	Percent of Total
City of Long Beach	1	\$ 4,500	4,431	7.67 %	1	\$ 3,031	4,031	5.68 %
Long Beach Unified School District	2	968	702	1.21	2	711	834	1.18
Montenay Pacific Power Corporation	3	765	710	1.23	3	489	717	1.01
California State University Long Beach	4	540	471	0.81	5	319	438	0.62
AES Southland LLC	5	496	456	0.79	4	425	620	0.88
L.A.D.W.P.	6	487	438	0.76	9	206	285	0.40
L.A. County Housing Authority	7	465	317	0.55	-	-	-	-
Veterans Affairs Medical Hospital	8	321	291	0.50	7	212	304	0.43
Memorial Medical Center	9	307	266	0.46	8	211	293	0.41
Carnival Corporation	10	208	190	0.33	10	172	250	0.35
L.A. County Community Development		-	-	-	6	256	285	0.40
Total Ten Largest Users		9,057	8,272	14.31		6,032	8,057	11.36
Total All Other Users		72,612	49,528	85.69		52,089	62,883	88.64
Total City		\$ 81,669	57,800	100.00		\$ 58,121	70,940	100.00

Note: (1) Sales figures are in thousands.

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

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

LONG BEACH WATER DEPARTMENT
SEWER RATES: DAILY SERVICE CHARGES BY SIZE,
VOLUMETRIC RATE, AND CAPACITY CHARGES ⁽¹⁾
Fiscal Year Ended September 30, 2013

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

Note: (1) A one-time capacity charge of \$93.20 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, 2013

<u>Water Service Size</u>	<u>Number of Services</u>	<u>Average Monthly Bill</u>
3/4"	69,630	\$ 10.73
1"	11,005	17.40
1-1/2"	4,060	37.92
2"	2,234	59.49
3"	423	135.63
4"	140	205.18
6"	88	464.84
8"	51	583.74
10"	9	1,901.97
12"	4	642.46
Total	<u>87,644</u>	

Source: Department's records

See accompanying independent auditors' report

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

<u>Customer</u>	<u>Fiscal Year 2013</u>				<u>Fiscal Year 2004</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	\$ 301	1,212	2.89 %	1	\$ 114	898	1.83 %
Long Beach Unified School District	2	175	387	0.92	2	87	473	0.97
California State University Long Beach	3	90	443	1.05	3	38	423	0.86
Memorial Medical Center	4	54	258	0.61	5	25	289	0.6
LA County Housing Authority	5	47	186	0.44				
Parwood Apartments	6	24	108	0.26				
Hyatt Regency Hotel	7	23	57	0.14				
Marina Pacifica Association	8	20	87	0.21				
American Textile Maintenance Company	9	19	110	0.26				
The Boeing Company	10	18	78	0.19	4	26	166	0.34
International Garment Finish		-	-	-	8	16	237	0.48
RMS Foundation Inc.		-	-	-	7	18	130	0.27
California State Department of Transportation		-	-	-	9	13	120	0.24
National Gypsum		-	-	-	10	10	119	0.24
L.A. County Community Development		-	-	-	6	23	172	0.35
Total Ten Largest Users		771	2,926	6.97		370	3,027	6.18
Total All Other Users		16,009	39,076	93.03		7,552	45,979	93.82
Total City		<u>\$ 16,780</u>	<u>42,002</u>	<u>100.00</u>		<u>\$ 7,922</u>	<u>49,006</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, 2013

	Reuse (in acre feet)	
1	Alamitos Barrier	1,847.4
2	El Dorado Park & Golf Course	1,087.3
3	Thums	1,072.6
4	Recreation Park South, etc.	488.4
5	Lakewood Country Golf Course	354.3
6	Skylinks Golf Course	297.0
7	Heartwell Park & Golf Course	296.7
8	California State University, Long Beach	175.5
9	Virginia Country Club Golf Course	156.3
10	All Souls Cemetery	131.2
11	Long Beach Unified School District	120.8
12	Forest Lawn	92.6
13	LBCC and Veterans Stadium	88.6
14	Marina Vista Park, etc.	46.4
15	Cal-Trans Freeway Landscaping	43.6
16	City of Long Beach Public Works/Public Service	43.5
17	City of Long Beach Parks, Recreation & Marine (Others)	41.0
18	Scherer Park	36.3
19	Jauregui Nursery	33.4
20	Vestar Development	31.2
21	El Dorado Lakes Condominium	29.7
22	Stearns Park	27.1
23	Whaley Park	23.9
24	Bluff Park	16.6
25	Cherry Avenue Park	14.7
26	Douglas Park	9.2
27	Signal Hill - Reservoir Park	8.6
28	Bixby Park	8.2
29	City of Lakewood	6.0
30	Rubbercraft	3.6
31	Alamitos Reservoir-Irrigation	3.4
32	LD Products	2.8
33	Water Department Irrigation	2.4
34	Somerset Park	2.0
35	Wal-Mart Corp.	1.2
36	The Boeing Company	0.4
37	Lakewood First Presbyterian Church	0.1
	Totals	<u>6,644.0</u>

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

Source: Department's records

See accompanying independent auditors' report

Debt Capacity Information

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

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

Fiscal Year Ended	Total Operating Revenue ⁽¹⁾	Operating Expenses ⁽²⁾	Net Operating Income	Net Non-Operating Income/ (Expense) ⁽³⁾	Amount Available for Debt Service	Principal	Interest	Total Debt Service ⁽⁴⁾	Times Coverage
9/30/2004	\$ 63,125	\$ 47,692	\$ 15,433	\$ 2,340	\$ 17,773	\$ 1,242	\$ 1,904	\$ 3,146	5.65
9/30/2005	64,464	50,088	14,376	1,848	16,224	1,292	1,851	3,143	5.16
9/30/2006	66,026	53,048	12,978	1,777	14,755	1,353	1,794	3,147	4.69
9/30/2007	70,192	55,898	14,294	757	15,051	1,352	1,947	3,299	4.56
9/30/2008	71,384	57,019	14,365	1,526	15,891	1,330	1,834	3,164	5.02
9/30/2009	80,777	61,482	19,295	904	20,199	1,405	1,657	3,062	6.60
9/30/2010	87,151	67,091	20,060	10,245	30,305	-	855 ⁽⁵⁾	855	35.44
9/30/2011	88,576	70,564	18,012	(152)	17,860	490	1,282	1,772	10.08
9/30/2012	86,515	69,983	16,532	(331)	16,201	2,110	1,502	3,612	4.49
9/30/2013	91,949	76,217	15,732	(1,985)	13,747	2,385	1,502	3,887	3.54

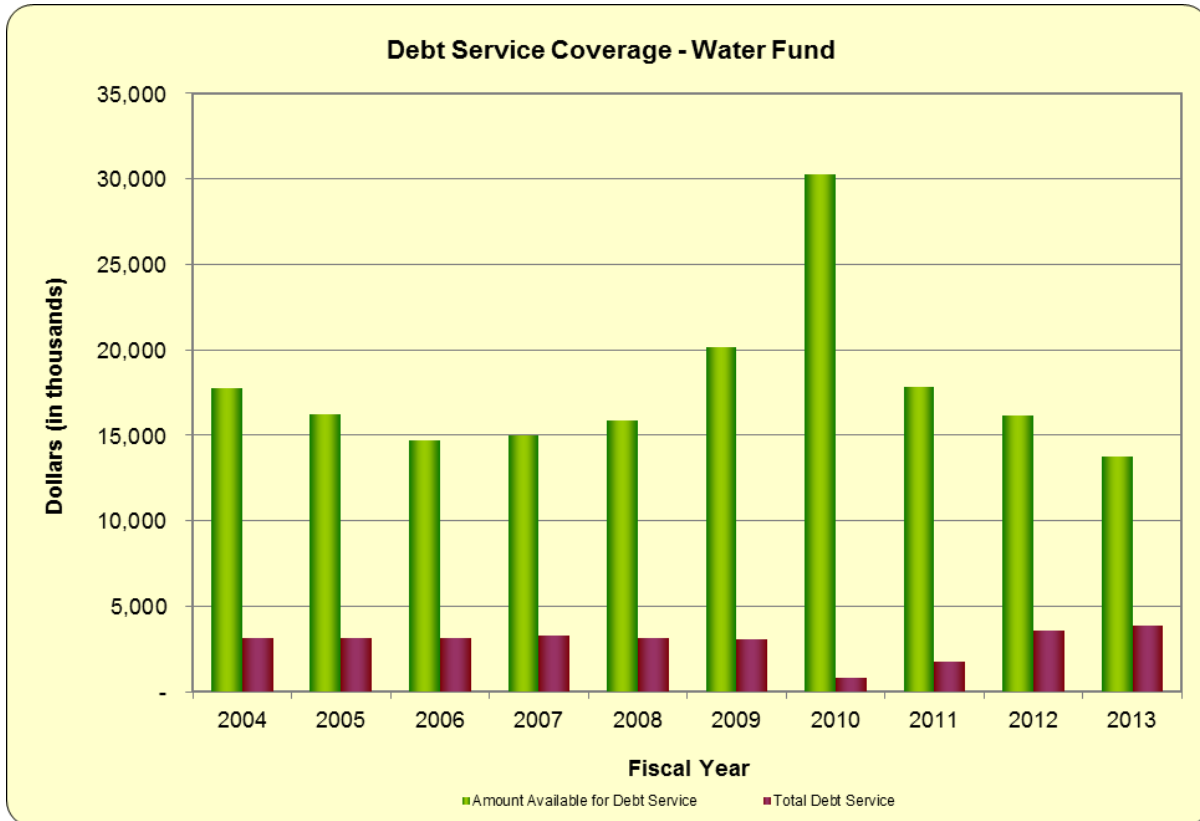
Bond Issues: Water Revenue Refunding Bonds - 1997 Series A, 2010 Series A, & 2012 Series A

Average Coverage, ten years	8.52
Rate Covenant (Series:1997A, 2010A, & 2012A)	1.10

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

Source: Department's annual reports

See accompanying independent auditors' report



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

Fiscal Year Ended	Total Operating Revenue ⁽¹⁾	Operating Expenses ⁽²⁾	Net Operating Income	Net Non-Operating Income (Expense) ⁽³⁾	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Times Coverage
9/30/2004	\$ 9,267	\$ 6,605	\$ 2,662	\$ 154	\$ 2,816	\$ -	\$ -	\$ -	n/a
9/30/2005	9,708	5,896	3,812	225	4,037	-	-	-	n/a
9/30/2006	9,237	6,497	2,740	367	3,107	-	-	-	n/a
9/30/2007	10,796	10,278	518	352	870	-	-	-	n/a
9/30/2008	11,759	10,702	1,057	174	1,231	-	-	-	n/a
9/30/2009	12,455	11,803	652	289	941	-	4	4	235.25
9/30/2010	15,186	11,848	3,338	(426)	2,912	-	10	10	291.20
9/30/2011	16,448	13,135	3,313	(538)	2,775	-	27	27	102.78
9/30/2012	17,325	12,736	4,589	(1,161)	3,428	-	57	57	60.14
9/30/2013	17,311	13,368	3,943	(761)	3,182	-	54	54	58.93

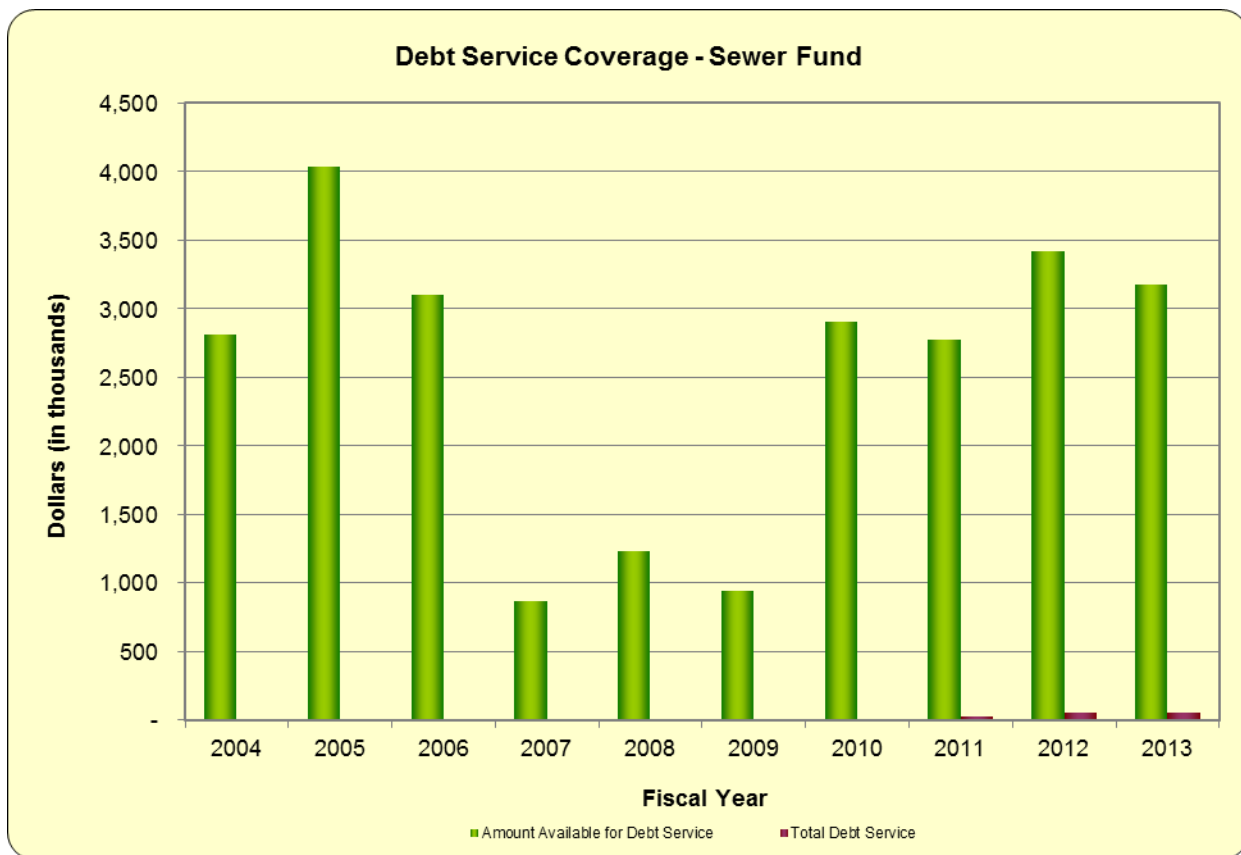
Bond Issues: None

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

Source: Department's annual reports

See accompanying independent auditors' report



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

Fiscal Year Ended	Revenue Refunding Bonds			Subordinate Water Revenue			Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
	Series 1997	Series 2010	Series 2012	Commercial Paper Notes	State Loan	Total		
9/30/2004	\$ 36,940	\$ -	\$ -	\$ 6,000	\$ 500	\$ 43,440	0.38%	\$ 0.092
9/30/2005	35,830	-	-	6,000	368	42,198	0.35%	0.090
9/30/2006	34,675	-	-	6,000	230	40,905	0.32%	0.087
9/30/2007	33,465	-	-	6,000	87	39,552	0.30%	0.085
9/30/2008	32,200	-	-	8,000	-	40,200	0.30%	0.087
9/30/2009	30,870	-	-	11,000	-	41,870	0.33%	0.091
9/30/2010	5,175	22,740	-	11,000	-	38,915	0.30%	0.084
9/30/2011	5,175	22,250	-	11,000	-	38,425	0.30%	0.083
9/30/2012	5,175	22,250	9,850	-	-	37,275	0.28%	0.080
9/30/2013	3,545	22,125	9,495	-	-	35,165	0.25%	0.075

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

Source: Department's annual reports

See accompanying independent auditors' report

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

Fiscal Year Ended	Subordinate Sewer Revenue		Sewer Revolving Line of Credit	Total	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
	Commercial Paper Notes					
9/30/2004	\$ -	\$ -	\$ -	\$ -	-	\$ -
9/30/2005	-	-	-	-	-	-
9/30/2006	-	-	-	-	-	-
9/30/2007	-	-	-	-	-	-
9/30/2008	-	-	-	-	-	-
9/30/2009	4,000	-	-	4,000	0.03%	0.009
9/30/2010	4,000	-	-	4,000	0.03%	0.009
9/30/2011	-	6,000	-	6,000	0.05%	0.013
9/30/2012	-	6,000	-	6,000	0.05%	0.013
9/30/2013	-	9,750	-	9,750	0.07%	0.021

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

Source: Department's annual reports

See accompanying independent auditors' report

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Demographic and Economic Information

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

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

Fiscal Year Ended	Estimated Population ^{(1) (4)}	Personal Income (in millions) ^{(2) (4)}	Per Capita Personal Income ^{(2) (4)}	Unemployment Rate ⁽³⁾
9/30/2004	472,013	\$ 11,290	\$ 23,919	7.2%
9/30/2005	470,781	11,939	25,360	5.9%
9/30/2006	467,586	12,854	27,490	5.3%
9/30/2007	465,017	13,222	28,433	5.6%
9/30/2008	463,250	13,422	28,974	8.2%
9/30/2009	462,211	12,866	27,836	12.8%
9/30/2010	462,685	12,783	27,628	13.9%
9/30/2011	462,257	12,981	28,082	13.4%
9/30/2012	465,576	13,129	28,199	12.2%
9/30/2013	467,646	14,058	30,061	10.3%

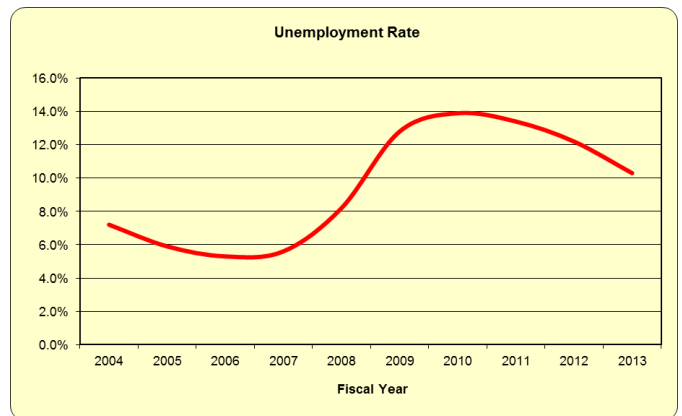
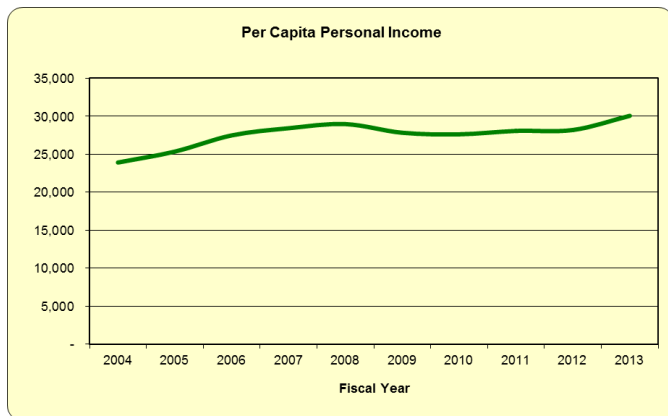
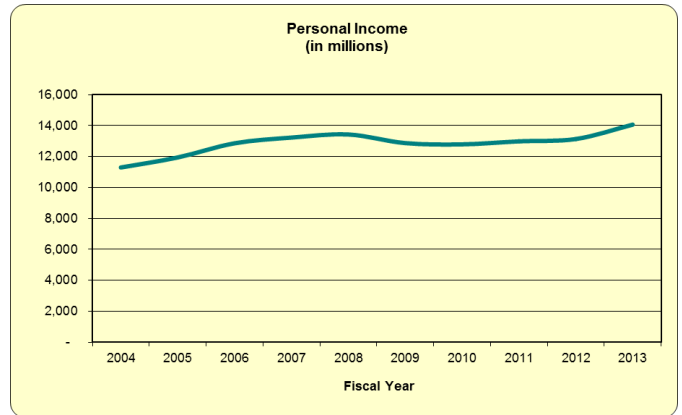
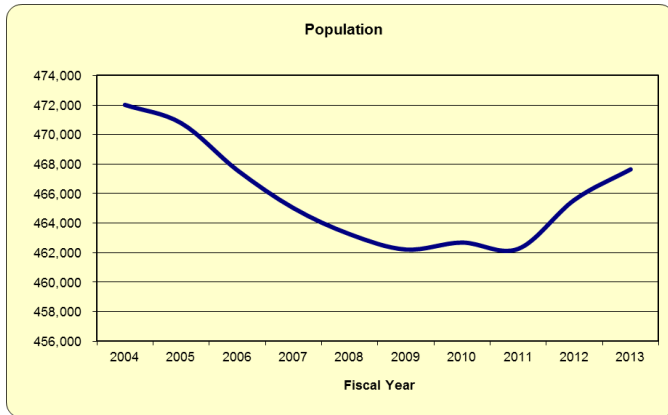
Source: (1) California Department of Finance Demographic Reports

(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 available for 2013, so an average of the last five years was used.

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

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

See accompanying independent auditors' report



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

Employer	Fiscal Year 2013			Fiscal Year 2004		
	Ranking	Number of Employees ⁽¹⁾	Percentage of Total City Employment ⁽²⁾	Ranking	Number of Employees ⁽¹⁾	Percentage of Total City Employment ⁽²⁾
Long Beach Unified School District	1	10,389	4.31%	2	9,064	3.91%
Long Beach Memorial Medical Center	2	5,693	2.45%	5	3,500	1.51%
The Boeing Company	3	5,042	2.09%	1	10,500	4.53%
City of Long Beach	4	5,028	2.09%	3	6,289	2.72%
California State University Long Beach	5	2,679	1.11%	4	6,007	2.59%
Veteran Affairs Medical Center	6	2,413	1.00%	9	1,700	0.73%
Long Beach City College	7	2,137	0.89%	6	2,000	0.86%
California State Univ Long Beach Research Foundation	8	1,464	0.61%	-	-	-
St. Mary Medical Center	9	1,200	0.50%	10	1,634	0.71%
Molina Healthcare Inc	10	841	0.35%	-	-	-
United States Postal Service				8	1,900	0.82%
Verizon				7	2,000	0.86%

Sources: (1) Economic Research Group, Department of Development Services
(2) State of California Employment Development Department Labor Market Info for 2004 and 2013.

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

See accompanying independent auditors' report

(Unaudited)

Exhibit 25

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

Fiscal Year Ended	Water Fund	Sewer Fund	Total
9/30/2004	198	33	231
9/30/2005	192	27	219
9/30/2006	184	30	214
9/30/2007	185	43	228
9/30/2008	169	41	210
9/30/2009	172	37	209
9/30/2010	175	44	219
9/30/2011	174	43	217
9/30/2012	184	48	232
9/30/2013	179	47	226

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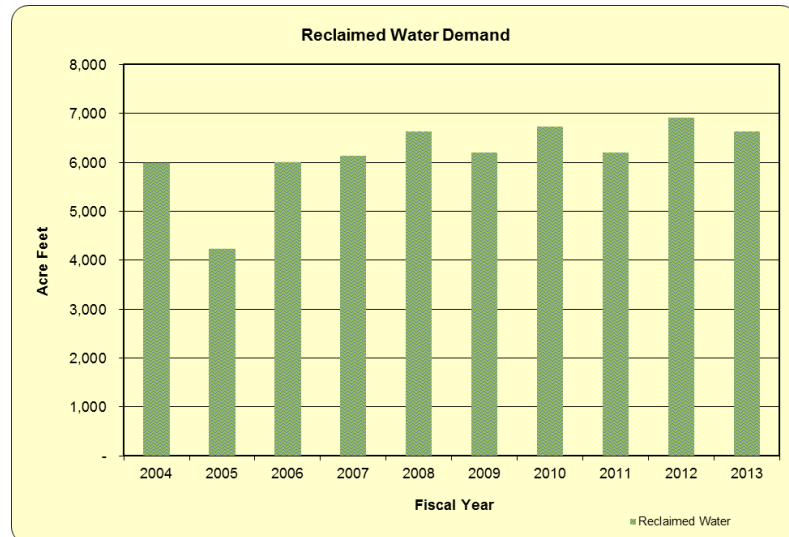
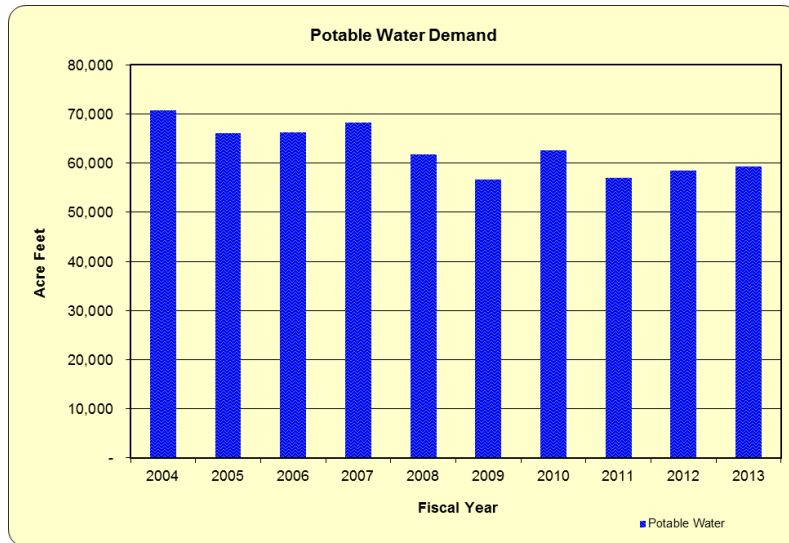
LONG BEACH WATER DEPARTMENT
WATER DEMAND - LAST TEN FISCAL YEARS
(in acre feet)

Fiscal Year Ended	Potable Water		Total Potable Demand	Reclaimed Water	Total Demand
	Pumped	Purchased			
9/30/2004	25,639	45,301	70,940	6,003	76,943
9/30/2005	21,610	44,611	66,221	4,243	70,464
9/30/2006	25,160	41,284	66,444	6,005	72,449
9/30/2007	25,828	42,466	68,294	6,138	74,432
9/30/2008	33,776	28,170	61,946	6,634	68,580
9/30/2009	33,876	22,902	56,778	6,205	62,983
9/30/2010	36,180	26,549	62,729	6,744	69,473
9/30/2011	17,973	39,053	57,026	6,206	63,232
9/30/2012	33,059	25,479	58,538	6,922	65,460
9/30/2013	31,074	28,383	59,457	6,644	66,101

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 ⁽¹⁾</u>
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	-	-
1/1/2009	579	14	-
9/1/2009	701	21	-
1/1/2010	701	-	-
1/1/2011	744	6	-
1/1/2012	794	7	-
1/1/2013	847	7	-

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>
7/1/2004	\$ 128.25	12
7/1/2005	134.66	5
7/1/2006	138.00	2
7/1/2007	149.00	8
7/1/2008	153.00	3
7/1/2009	181.85	19
7/1/2010	205.00	13
7/1/2011	244.00	19
7/1/2012	244.00	-
7/1/2013	268.00	10

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
9/30/2004	29	907	89,273	6,640	16,400	55,000	33
9/30/2005	29	907	89,365	6,501	16,030	48,910	33
9/30/2006	29	907	89,471	6,505	15,676	57,581	33
9/30/2007	31	905	89,535	6,489	16,761	60,235	33
9/30/2008	31	904	89,583	6,507	16,805	81,378	33
9/30/2009	31	908	89,630	6,525	19,238	118,799	33
9/30/2010	31	909	89,706	6,529	17,126	84,923	33
9/30/2011	31	911	89,851	6,603	15,814	71,472	33
9/30/2012	31	911	89,957	6,594	12,292	57,310	33
9/30/2013	31	912	89,996	6,589	14,388	60,819	34

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
9/30/2004	28	712	16,031
9/30/2005	28	712	16,041
9/30/2006	28	712	16,044
9/30/2007	28	711	16,055
9/30/2008	28	711	16,078
9/30/2009	28	712	16,129
9/30/2010	28	712	16,135
9/30/2011	28	712	16,147
9/30/2012	28	712	16,148
9/30/2013	28	714	16,158

Source: Department's records

See accompanying independent auditors' report

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

Fiscal Year Ended	Cast Iron Water Mains Replaced (in feet)	Fire Hydrants Repaired	Water Meters Repaired	Sewer Mains & Laterals Repaired⁽¹⁾	Sewer Mains Cleaned (in miles)	Sewer Manholes Chemically Treated
9/30/2004	63,960	376	7,076	316	437	3,000
9/30/2005	50,601	342	6,889	246	338	3,000
9/30/2006	55,404	259	5,370	296	474	3,000
9/30/2007	54,423	407	7,050	270	364	3,000
9/30/2008	44,332	346	10,637	278	365	3,000
9/30/2009	23,676	485	6,350	215	424	5,000
9/30/2010	21,137	94	8,441	182	547	5,000
9/30/2011	21,294	223	5,428	259	470	5,000
9/30/2012	25,733	269	3,690	261	414	5,000
9/30/2013	24,595	266	3,348	241	535	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