

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE LONG BEACH WATER DEPARTMENT

A Department of the City of Long Beach, California



For The Fiscal Year Ended
September 30, 2015





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

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

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

**For the Fiscal Year Ended
SEPTEMBER 30, 2015**

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

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INTRODUCTORY SECTION

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Comprehensive Annual Financial Report
of the
Long Beach Water Department
(A Department of the City of Long Beach, California)
For the Fiscal Year Ended September 30, 2015

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Long Beach Water Department

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

DATE April 12, 2016
TO Board of Water Commissioners
FROM B. Anatole Falagan, Assistant General Manager
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal years ended
September 30, 2015

Management is pleased to present the Comprehensive Annual Financial Report (CAFR) of the Long Beach Water Department (Department), for the fiscal years ended September 30, 2015. The Department's financial statements are also included in the City of Long Beach (the City) Financial Statements as enterprise funds (Water Fund and Sewer Fund).

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

The accompanying financial statements have been audited by KPMG LLP, an independent certified public accounting firm. KPMG LLP has issued an unmodified ("clean") opinion on the Department's financial statements for the fiscal year ended September 30, 2015. The independent auditors' report is located at the front of the financial section of this report.

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

THE REPORTING ENTITY

During the early years of the 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 473,577 with some customers outside the City limits. The Department is not subject to regulation by the California Public Utilities Commission.

LOCAL ECONOMY

The City has a diverse economic base as both a major industrial center and popular beach resort area. In addition, the Port of Long Beach, along with its related commercial and international trade activities, strengthens the local economy. Further, the City has been successful in building and maintaining a substantial tourist and convention business. This diversification helped the City to weather the effects of the national recession. Continuing positive trends in both the State and local economies indicate slow and steady economic growth for the near future. As an older, established and geographically built-out City, the Department's customer base is relatively stable and is comprised of ninety percent (90%) residential accounts, with the remaining ten percent (10%) comprised of commercial, industrial, irrigation and other accounts. The residential accounts comprise approximately sixty-nine percent (69%) of the Department's total potable water sales. Further information on the local economy is provided in the City of Long Beach CAFR, of which the Department is a component unit.

WATER SUPPLY

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

Drought Related Developments

Since 2007, the Water Department has undertaken a comprehensive public communications strategy to emphasize the need for a comprehensive reduction in water consumption. The Water Department began communicating a regular update on the overall demand in its service area, compared to a historical ten (10) year average period immediately predating the call for conservation. Between 2007 and May 2015, the Water Department's customers lowered their overall demand to just under 15% below a historical ten (10) year benchmark. Between June and September of 2015, Long Beach joined all California communities in responding to the Governor's mandated conservation levels, exceeding the 16% mandate specifically set for Long Beach. Currently, overall water consumption levels are approximately equivalent to those seen in the 1960's. These conservation efforts are the result of an aggressive public outreach effort, coupled with multiple, successful incentive programs including rebates and landscape retrofits. The Water Department will continue these efforts to incorporate the conservation success into a sustained change in consumption behavior.

Reduced water usage due to conservation does result in reduced revenues. At the same time, those reductions are also offset by a reduction in operating expenses as a result of less imported water purchases from Metropolitan Water District (MWD).

Additionally, the Department managed discretionary budget expenses to minimize initial budget and rate impacts from reduced consumption. After an initial reduction in revenues due to effects from conservation, the Water Department's budget and rate structure has been based annually on cost recovery and on State law governing water utility rate setting (Proposition 218).

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

Groundwater

Ownership of water rights allows approximately 60% of Long Beach's water supply needs to be produced from groundwater wells located within the City. Before it reaches our customers' taps, local groundwater must journey many miles from its source high up in the mountains. Rain and snow-melt from the San Gabriel Mountains watershed travel through washes and creeks into the San Gabriel River and the Whittier Narrows Basin. From there it percolates underground through sand and water beds where it begins a lengthy subsurface journey to Long Beach. High-powered pumps then extract it from 31 active groundwater wells and pump it to our groundwater treatment plant.

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

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

Imported Supplies

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

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

Sacramento and San Joaquin Rivers and 440 miles of aqueducts that carry water to several Southern California reservoirs.

Water Recycling

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

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

The Department remains committed to developing alternatives to imported potable (drinking) water supplies to meet the water needs of the City. Reclaimed water will continue to be an integral part in efforts to reduce our need to purchase imported water and to develop new sources of water. In FY 2015, the Department served approximately 1,685 million gallons of reclaimed water to a variety of users throughout the City. Since October 1, 2005, the Water Department, through a contract with the Water Replenishment District (WRD), has operated the Leo J. Vander Lans Advanced Water Treatment Facility, which enables WRD to use recycled water from the Long Beach Reclamation Plant to replace imported MWD water previously supplied to the Alamitos Barrier. In 2015, the Vander Lans facility expansion was completed, providing the operational flexibility to meet the needs of the barrier almost completely with recycled water, and minimize imported water needs.

The Alamitos Barrier is an engineered freshwater pressure ridge and seawater trough constructed to prevent seawater intrusion into the Central Groundwater Basin of Los Angeles County and neighboring Orange County Groundwater Basin.

Conservation

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

Single-family and multi-family customers together are responsible for approximately two-thirds of the City's demand for water. Several of the Department's programs provide rebates to residential customers towards the purchase of water-efficient toilets and washing machines.

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

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

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

WATER QUALITY

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

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

The Department conducts extensive sampling and testing of groundwater wells, water storage reservoirs, the water distribution system and, when appropriate, selected homes, businesses, schools and public facilities. This year, our Water Quality laboratories collected 13,050 samples and performed 57,070 tests while maintaining certification with the California Department of Health Services and

Environmental Protection Agency (EPA).

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

MAJOR INITIATIVES

Seawater Desalination Research

Since 1994, the Department has researched seawater desalination as a potential source of drinking water. In 1996, the Department received authorization for Federal cost-sharing of a seawater desalination demonstration project; and in fiscal year 2001, the Department received an earmark in the Federal fiscal year 2002 budget, making it the only newly funded water project by the Federal government in that budget. Federal funding continued in fiscal years 2003 through 2015. Through an innovative public sector partnership, the Long Beach Water Department along with the Los Angeles Department of Water & Power and the United States Bureau of Reclamation, operated a 300,000 gallon-per-day prototype desalination facility, one of the largest seawater desalination research and development facilities in the United States. The Seawater Desalination study was completed in March 2010 and research gathered from the operation of the prototype plant was published as a report to the U.S. Bureau of Reclamation. Additionally, the Department operates an ongoing research project for an under-ocean intake and discharge system.

Conjunctive Use

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

Water Distribution System

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

During fiscal year 2015, the Department and contractors replaced 16,366 feet of deteriorated cast iron water mains with new ductile iron pipe. This critical replacement program addresses upgrading old pipelines, many of which were installed more than 50 years ago.

The Department maintains 643 large control valves 20 inches or more in diameter and 22,720 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. With 31 active water wells across Long Beach supplying just over half of the City's water, well maintenance is another ongoing project for the Department. Rehabilitation of water wells and storage tanks at Alamitos and J. Will Johnson Reservoirs continues to ensure a reliable supply of water in the future.

Sanitary Sewer Collection System

The Department has made considerable progress since 1988 in addressing the substantial challenges posed by an aging sanitary sewer infrastructure, much of which is between 60 and 80 years old. At September 30, 2015, the sanitary sewer collection system totaled 714 miles of sewer pipelines. The Department developed the first City-wide Sewer Master Plan in 1991, which provided an initial prioritization of sewer deficiencies to be addressed. The Department has since developed a comprehensive program of maintenance, monitoring and repair of sewer lines including:

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

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

RELEVANT FINANCIAL POLICIES

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

Internal Control Structure

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

Budgetary Control

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

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

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2014. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting and its attainment represents a significant accomplishment by a government agency and its management. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR whose contents not only conform to the high program standards of the GFOA, but also satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

It is recommended that the Board of Water Commissioners receive and file the Comprehensive Annual Financial Report for the fiscal years ended September 30, 2015.

Prepared by:



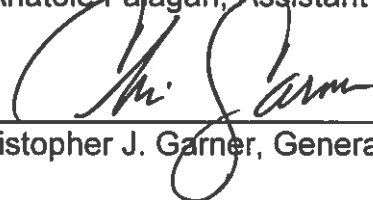
Paul T. Fujita, Director of Finance

Submitted and
Recommended by:



B. Anatole Falagan, Assistant General Manager

Approved by:



Christopher J. Garner, General Manager

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

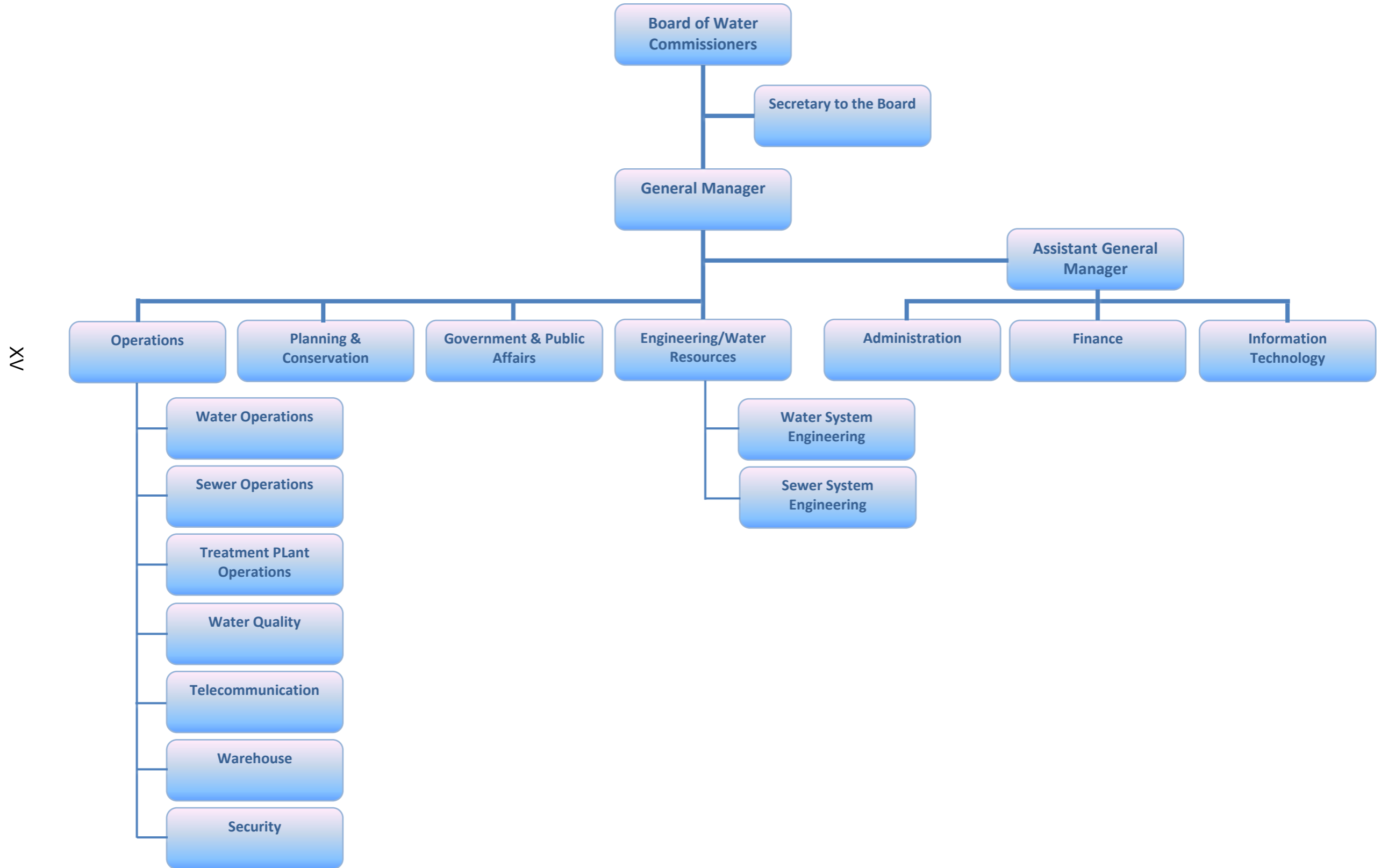
**Long Beach Water Department
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2014

Executive Director/CEO

Long Beach Water Department Organizational Chart



XX

LONG BEACH WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

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

STAFF

CHRISTOPHER J. GARNER
General Manager

B. ANATOLE FALAGAN
Assistant General Manager

FINANCIAL SECTION

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

Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinions

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

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, the changes in the financial position and cash flows of only that portion of the business-type activities and aggregate remaining fund information of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City as of September 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Pronouncement

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

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2016 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over



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

KPMG LLP

Boston, Massachusetts
April 12, 2016

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2015

As the management of the Long Beach Water Department, a department of the City of Long Beach (the City), we offer readers of the Long Beach Water Department's financial statements this narrative overview and analysis of the financial activities of the Long Beach Water Department (the Department) for the fiscal year ended September 30, 2015. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. The Department comprises the City's Water Enterprise Fund (Water Fund) and Sewer Enterprise Fund (Sewer Fund) operations. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

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

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

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2015

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's financial statements. Because the Department is a business-type activity of the City, enterprise funds are used to account for its water and sewer operations. These financial statements include only the activities of the Department and provide comparative information for the last fiscal year. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2015.

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

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2015

The *Notes to Financial Statements* provide additional information that is essential to the full understanding of the data provided in the financial statements and can be found on pages 27-58 of this report.

FINANCIAL ANALYSIS

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

As of September 30, 2015, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represented 99.4% and 92.8% of Water Fund and Sewer Fund net positions, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt on the Statements of Net Position must come from other sources such as operations.

The restricted portion of the Department's net position (0.5% of total net position for both FY2015 and FY2014) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Department's net position (1.2% and 2.8% of total net position as of September 30, 2015 and 2014, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

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

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

The Department's financial position is further broken down as follows between the Department's Water Fund and the Sewer Fund as of September 30, 2015 and 2014:

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

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

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

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

Fiscal Year Ended September 30, 2015 Compared to 2014

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

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

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

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

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

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

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

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

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

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

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

The Water Department's Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Position provide further insight as to the nature and source of changes in net position and are summarized as follows for the years ended September 30, 2015 and 2014 (in thousands):

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

The Department's operations are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2015 and 2014:

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

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

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

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

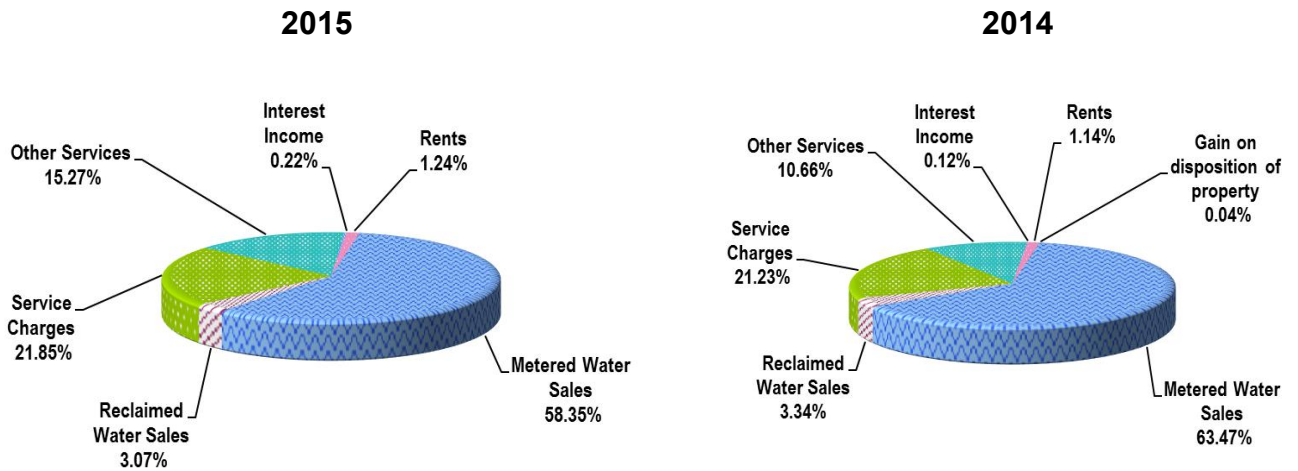
LONG BEACH WATER DEPARTMENT

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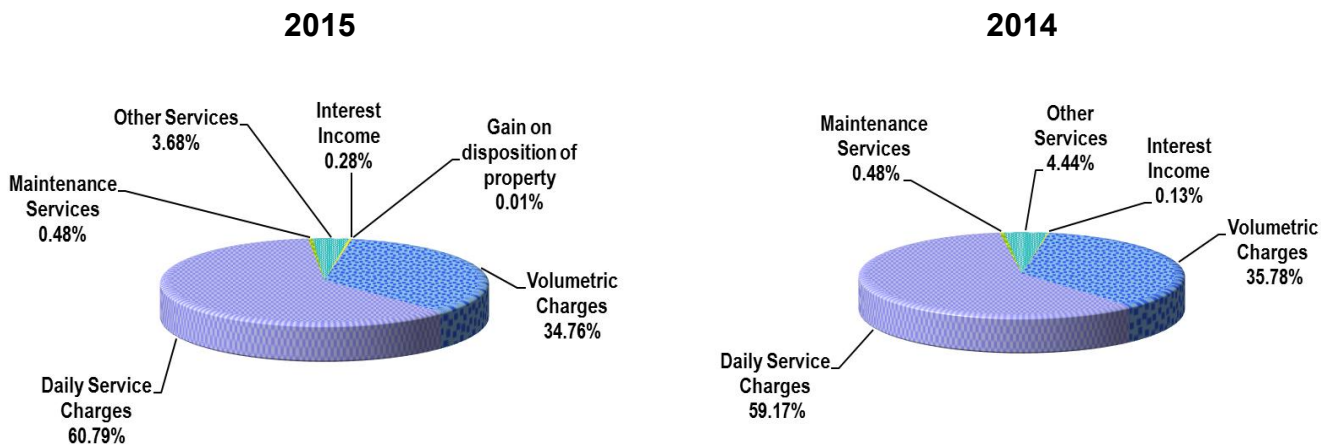
Sources of Revenues

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

Water Fund



Sewer Fund



LONG BEACH WATER DEPARTMENT

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

Water Fund

Fiscal Year Ended September 30, 2015 Compared to 2014

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

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
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Sewer Fund

Fiscal Year Ended September 30, 2015 Compared to 2014

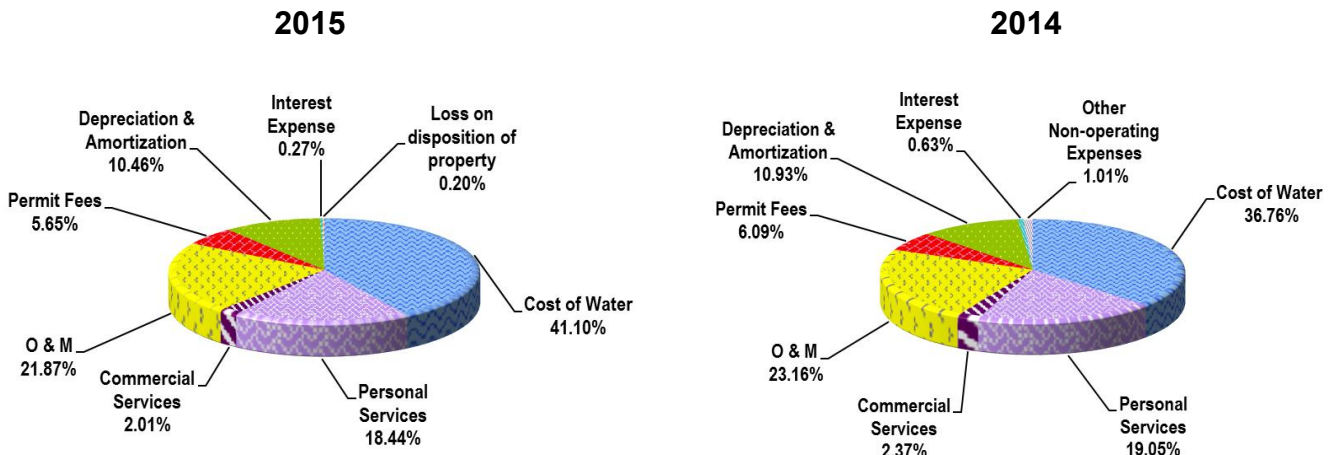
Total operating revenues decreased \$50 (-0.3%) over FY2014. The key elements of this decrease are as follows:

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

Functional Expenses

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

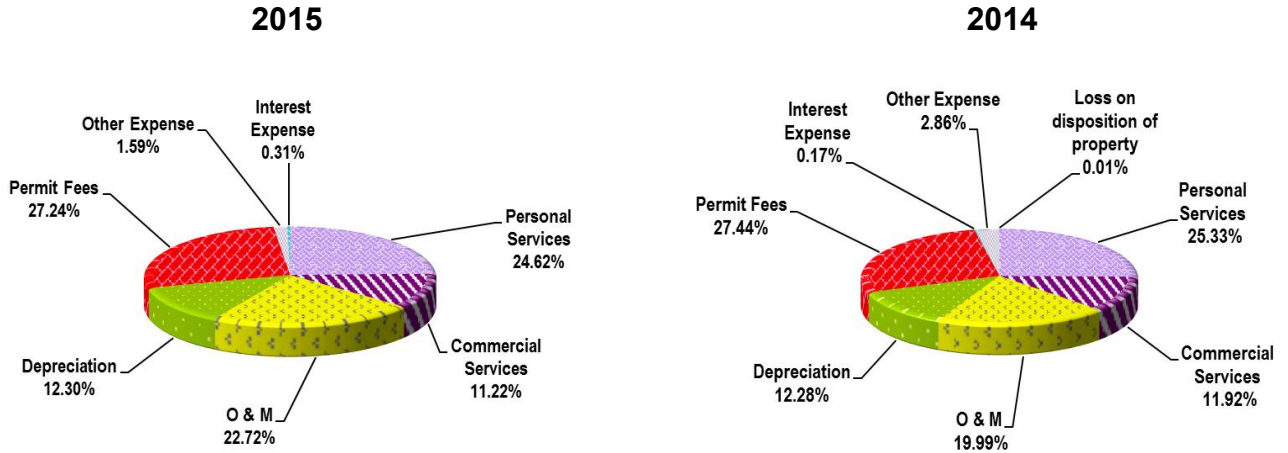
Water Fund



LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
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Sewer Fund



Management Review of the Department's Expenses.

Water Fund

Fiscal Year Ended September 30, 2015 Compared to 2014

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

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

LONG BEACH WATER DEPARTMENT

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

Sewer Fund

Fiscal Year Ended September 30, 2015 Compared to 2014

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

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

Capital Assets and Debt Administration

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

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

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

The Department's capital assets are further broken down as follows between the Department's Water Fund and the Sewer Fund for the years ended September 30, 2015 and 2014:

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2015

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

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

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

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

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

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2015

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

Economic Factors and Next Year's Budget and Rates

The Board of Water Commissioners (Board) approved the budget for the fiscal year-end September 30, 2015, with budgeted expenditures totaling approximately \$106.3 million and \$19.3 million for the Water Fund and Sewer Fund, respectively. In fiscal year 2016 (FY2016), there were 4% rate increases for potable water, reclaimed water and sewer collection services.

Requests for Information

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

LONG BEACH WATER DEPARTMENT

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

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

(Continued)

LONG BEACH WATER DEPARTMENT

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

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

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

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

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

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

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

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

(Continued)

LONG BEACH WATER DEPARTMENT

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

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

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

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

Note 1 - Description of the Department and Summary of Significant Accounting Policies

Description of the Department

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

The Department services the City's sewer system that consists of 714 miles of sewer mains, 15,129 manholes, and 28 sewage pumping stations. This system is capable of transporting for treatment approximately 40 million gallons of raw sewage daily.

The Department obtains potable water for distribution from two sources. Historically, approximately half of the City's water is purchased from the Metropolitan Water District of Southern California; the other half is pumped from the Department's own groundwater wells. Potable water is stored in two reservoirs with a combined capacity of 105.6 million gallons. As of September 30, 2015, the Department also delivered over 1.7 billion gallons of reclaimed water to various users in the City.

Reporting Entity

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

The accompanying Department financial statements include the Water and Sewer Fund operations of the City of Long Beach. The statements of the Department are intended to present the financial position, and changes in financial position, and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City, as of September 30, 2015, and the changes in its financial position, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

LONG BEACH WATER DEPARTMENT

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

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

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

Basis of Accounting

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

The Department applies all Governmental Accounting Standards Board (GASB) Statements and Interpretations.

Implementation of New Accounting Pronouncements

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

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

LONG BEACH WATER DEPARTMENT

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

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

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

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

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

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

LONG BEACH WATER DEPARTMENT

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

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

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

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

Pooled and Non-pooled Cash, Cash Equivalents, and Other Investments

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

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

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

LONG BEACH WATER DEPARTMENT

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

Material and Supplies Inventory

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

Capital Assets

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

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

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

Capitalized Interest

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

Capital Contributions

Advances received for construction of plant assets are recorded as unearned revenue when received. As construction progresses, advanced amounts equivalent to capitalized expenditures are recorded as capital contributions and included as other nonoperating revenue. Assets constructed by developers and contributed to the Department are capitalized at fair market value.

The Department includes capital contributions for construction of plant assets as a nonoperating revenue in the accompanying statements of revenues, expenses, and changes in fund net position.

LONG BEACH WATER DEPARTMENT

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

Revenue Recognition

Operating revenues include revenues derived from the sale of water, from providing sewer service, and from other activities closely related to providing water and sewer service. Principal revenues are derived from volumetric usage and service charges for water and sewer services. Nonoperating revenues and expenses are those not directly associated with the Department's normal business operations of supplying water and sewer service and include interest income and expense, rents received for Department property, and gains and losses on disposition of property. Revenues for water and sewer charges are recorded when billed to customers; billings are based on monthly meter readings.

Operating Expenses

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

Employee Benefits

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

Pension Plan and Postretirement Benefits

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

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

LONG BEACH WATER DEPARTMENT

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

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

The Department also participates in the City's Retired Employee Health Insurance Program. This program is a single-employer defined benefit healthcare plan (see note 6).

Restricted Assets

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

Deferred Outflows/Inflows of Resources

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

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

Risk Management

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

Estimates

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

LONG BEACH WATER DEPARTMENT

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

Net Position

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

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

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

Restricted - Amounts restricted for bond indenture requirements.

Unrestricted - All other categories of net position

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

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

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

LONG BEACH WATER DEPARTMENT

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

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

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

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

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

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

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

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

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

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The City had no investments with values that were highly sensitive to interest rate risk changes as of September 30, 2015. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2015:

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

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

Risks and Uncertainties

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

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

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Disclosures Relating to Credit Risk

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

Presented on following table are the minimum ratings required by the California Government Code, the City's investment policy, and the actual rating as September 30, 2015 for each investment type:

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

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

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Concentration of Credit Risk

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

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

Custodial Credit Risk

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

As of September 30, 2015, the City reported deposits of \$170.0 million, collateralized in compliance with California Government Code, less \$11.0 million for checks outstanding.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro

LONG BEACH WATER DEPARTMENT

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rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized-cost basis. Included in LAIF investments are fixed rate U.S. Treasury and Agency securities, Commercial Paper and Certificate of Deposits with fixed maturities. In addition, LAIF has mortgage-backed securities issued by government sponsored agencies, SBA Loans pools and CMOs' issued by government sponsored agencies. All these securities are fixed rate. The pool is authorized to loan funds to state agencies and the General Fund on a temporary basis.

Note 3 – Capital Assets

Capital assets at September 30, 2015 were as follows:

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

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

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

LONG BEACH WATER DEPARTMENT

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

Construction in Progress

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

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

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal year ended September 30, 2015, completed projects were transferred from Construction in progress as follows:

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

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

Note 4 – Noncurrent Liabilities:

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

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

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

Second Lien Water Revenue Bonds - Series 2012A

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

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

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

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

Water Revenue Refunding Bonds - Series 2010A

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

The remaining Series 1997A Bonds maturing on May 1, 2015 were not subject to redemption prior to maturity, and the \$1,825 outstanding was paid off on May 1, 2015.

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

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

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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.

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

Subordinate Sewer Revolving Line of Credit

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

On May 26, 2011, the Department drew \$6,000 on the LOC to retire \$4,000 of outstanding Sewer Revenue Commercial Paper notes and fund \$2,000 in sewer system improvements. On September 3, 2013, the Department drew \$3,750 to fund sewer system improvements. On August 12, 2015, the Department drew another \$1,500 again to fund sewer system improvements. Interest rates are based on 70% of the London Interbank Offered Rate (LIBOR) plus an applicable margin, and can be designated as fixed or variable for one-month, three-month, or six-month interest periods. Interest rates have ranged from 0.76% to 1.06%.

Senior Sewer Revenue Commercial Paper Notes

On May 7, 2009, the Board approved Resolution WD-1255, which authorized the issuance and sale of up to \$20,000 of City of Long Beach, California Senior Sewer Revenue Commercial Paper Notes (notes), Series A (tax exempt), and Series B (taxable). The City's Sewer Enterprise net revenues (gross revenues less operation and maintenance costs) secure the notes. The notes are further supported by credit enhancement in the form of an Irrevocable Letter of Credit, issued initially by Union Bank, N.A. pursuant to a reimbursement agreement. The City of Long Beach City Council approved the issuance

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and sale on June 2, 2009. Proceeds from the variable debt was used for interim financing of sewer system improvements and sewer pipe rehabilitation and replacement programs. On June 11, 2009, Series A notes in the amount of \$4,000 were issued. The notes were issued in denominations in excess of \$100 thousands and matured not more than 270 days after date of issuance. Interest rates have ranged from 0.20% to 0.30%. The Department retired these notes on May 26, 2011 and suspended the issuance of sewer commercial paper notes under the existing commercial paper program, but reserves the right to issue obligations in the future senior to its obligations created under the LOC.

Accrued Site Restoration Cost

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

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

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Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending Sept 30	Series 2010 Bonds		Series 2012 Bonds		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2016	2,065	925	565	339	2,630	1,264	3,894
2017	2,150	843	580	322	2,730	1,165	3,895
2018	2,210	778	605	299	2,815	1,077	3,892
2019	2,300	690	630	275	2,930	965	3,895
2020	2,395	598	655	250	3,050	848	3,898
2021-2025	10,740	1,321	3,695	827	14,435	2,148	16,583
2026-2027	-	-	1,680	127	1,680	127	1,807
Total	<u>21,860</u>	<u>5,155</u>	<u>8,410</u>	<u>2,439</u>	<u>30,270</u>	<u>7,594</u>	<u>37,864</u>

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

Note 5 - Retirement Programs

Retirement Plan

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

Valuation date (VD) June 30, 2014

Measurement date (MD) June 30, 2015

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

Plan Description – Public Employees’ Retirement System (CalPERS)

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

Benefits Provided

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

LONG BEACH WATER DEPARTMENT

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

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

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

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

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

Allocation Methodology

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

LONG BEACH WATER DEPARTMENT

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

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

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

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

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

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

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

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

LONG BEACH WATER DEPARTMENT

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

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

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

¹ Net of pension Plan Investment and Administrative Expenses; includes inflation

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

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

Discount Rate

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

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

LONG BEACH WATER DEPARTMENT

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

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

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

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

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

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

^a An expected inflation of 2.5% used for this period

^b An expected inflation of 3.0% used for this period

LONG BEACH WATER DEPARTMENT

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

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

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

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

Note 6 – City Post Retirement Health Care Benefits

Plan Description

The City's Retired Employees Health Insurance Program is a single-employer defined benefit healthcare plan. The Department participates in this program and shares in the cost. Information is not available separately for the Water Department as to the cost of benefits funded, the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related OPEB assets. The below disclosures relate to the City of Long Beach. The Water Department contributes pay-as-you-go costs annually to the City through the Employee Benefit Internal Service Fund. Refer to the City's Comprehensive Annual Financial Report as of September 30, 2015 for further information.

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses, and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental, and long-term care insurance premiums. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested.

The City has provided 2 one-time early retirement incentive programs. The first had a maximum value of \$25 thousand for employees, based on age, who retired during calendar year 1996, and the second incentive offered a 16-hour increase in sick leave per year of service to management employees who retired by June 30, 2004. In all cases, once the cash value of the retired employee's unused sick leave is exhausted, the retiree can terminate coverage or elect to continue paying the premiums at the retiree's expense.

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

LONG BEACH WATER DEPARTMENT

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

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

Termination Benefits

As of September 30, 2015, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$138.1 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences* (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996 and 2009 negotiated public safety health benefit supplements as described below:

Fire Retirement Supplement Benefit

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

Police Retirement Supplement Benefit

The Long Beach Police Officers Association agreed to extend a September 30, 2009 midpoint adjustment of 3.2% for sergeants, 14.8% for lieutenants, and 9.3% for corporals and officers, to a 2.0% minimum increase per year. The midpoint adjustment is based on the Strategic Plan Cities Survey of salaries in similar cities. The supplement eligibility is limited to employees retiring on or after September 30, 2009 and before benefits level reaches what it would have been had the September 30, 2009 adjustment been made. The benefit formula is equal to the difference between CalPERS retirement had the September 30, 2009 midpoint adjustment been made and actual retirement benefits received by CalPERS. The supplement is credited annually to retirees Health account and is adjusted by CalPERS cost-of-living adjustment (COLA). Each account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

The actuarial study assumes an investment return of 4.3%; wage increases of 3.3% per year for safety employees. The estimated current portion of such obligation of \$9.1 million has been fully funded and the long-term portion of the liability of \$129.0 million is being funded, over time, through burden rates charged to the various City funds, applied as a percentage of current productive salaries.

LONG BEACH WATER DEPARTMENT

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

Other Postemployment Benefits

As of September 30, 2015, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$72.2 million based on an actuarial study of the "implicit subsidy" as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). While the City does not directly contribute any funding toward the cost of premiums for retirees, the ability to obtain coverage at active employees rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City's healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an "implicit subsidy" under GASB 45.

The ability to participate in the City's plan by self-paying the premiums extends for the lifetime of the retiree. However, upon attaining the age of Medicare eligibility, the retiree may enter a plan coordinated by Medicare. Standard actuarial practice assumes that Medicare supplemental plans do not generally give rise to an implicit subsidy, and while the City has included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both \$0. This plan does not issue a separate financial report.

Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2015, the City has not prefunded the plan.

Annual OPEB Cost and Net OPEB Obligation

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

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

LONG BEACH WATER DEPARTMENT

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

The ARC was determined as part of the September 2015 actuarial valuation. For the year ended September 30, 2015, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2013	\$ 14,437	32.6%	\$ 45,242
9/30/2014	19,161	27.1%	59,207
9/30/2015	19,219	32.4%	72,208

Funded Status and Funding Progress

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumption

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

LONG BEACH WATER DEPARTMENT

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

The September 30, 2015 actuarial valuation used the Entry Age Normal Cost method. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 7.5% for non-Medicare plans and 7.8% for Medicare plans with both decreasing to 5.0% for all plans by September 30, 2021, and an inflation assumption of 3.0 percent. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was \$0. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

Note 7 - Operating Leases

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

Year ending September 30:	
2016	\$ 1,000
2017	816
2018	782
2019	541
2020	510
2021-2025	2,160
2026-2030	1,296
2031-2035	<u>1,296</u>
Total minimum future rentals	<u>\$ 8,401</u>

Note 8 - Commitments and Contingencies

Litigation

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

LONG BEACH WATER DEPARTMENT

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

Commitments

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

STATISTICAL SECTION
(Unaudited)

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Financial Trends

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

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

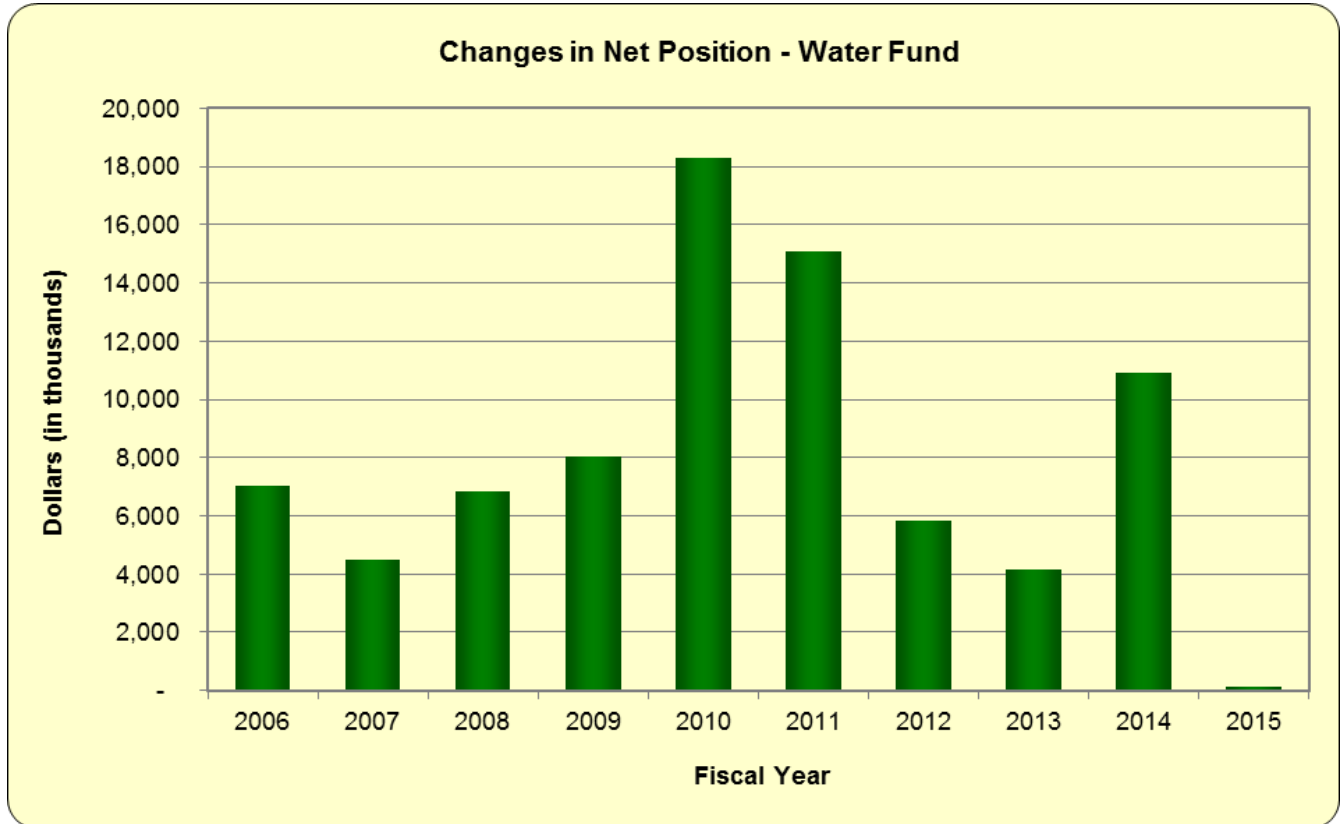
<u>Fiscal Year Ended</u>	<u>Total Operating Revenue ⁽¹⁾</u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Changes in Net Position</u>
9/30/2006	66,026	60,933	5,093	(691)	2,634	7,036
9/30/2007	70,192	66,870	3,322	(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⁾
9/30/2014	100,187	91,992	8,195	(216)	2,924	10,903
9/30/2015	99,475	102,134	(2,659)	1,051	1,726	118

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

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

Source: Department's annual reports

See accompanying independent auditors' report



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

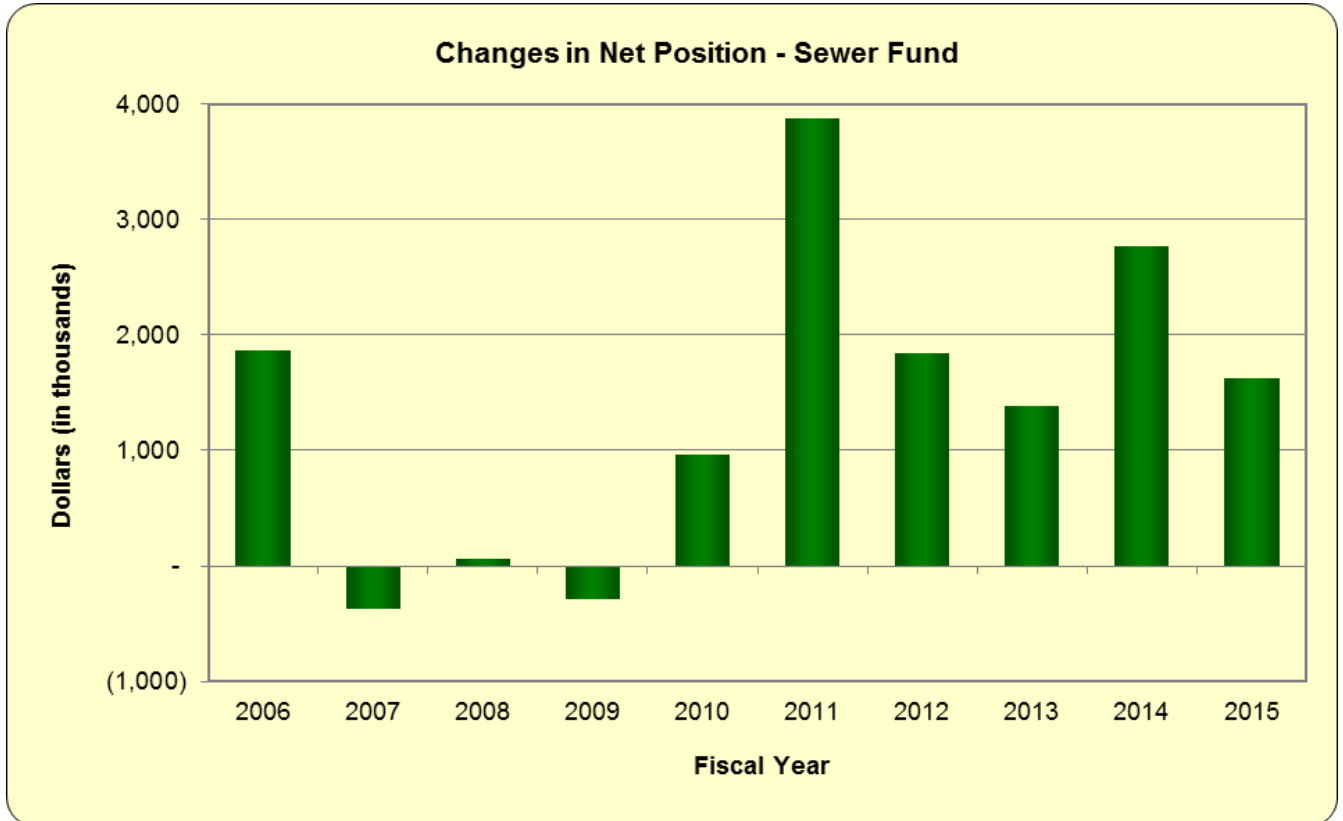
<u>Fiscal Year Ended</u>	<u>Total Operating Revenue ⁽¹⁾</u>	<u>Total Operating Expense</u>	<u>Operating Income (Loss)</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Total Contributed capital</u>	<u>Changes in Net Position</u>
9/30/2006	9,237	7,730	1,507	355	-	1,862
9/30/2007	10,796	11,524	(728)	352	-	(376)
9/30/2008	11,759	11,875	(116)	174	-	58
9/30/2009	12,455	13,003	(548)	258	-	(290)
9/30/2010	15,186	14,015	1,171	(517)	310	964
9/30/2011	16,448	14,795	1,653	(650)	2,868	3,871
9/30/2012	17,325	14,411	2,914	(1,260)	185	1,839
9/30/2013	17,311	15,165	2,146	(761)	-	1,385 ⁽²⁾
9/30/2014	17,953	15,479	2,474	(462)	759	2,771
9/30/2015	17,903	16,024	1,879	(257)	-	1,622

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

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

Source: Department's annual reports

See accompanying independent auditors' report



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

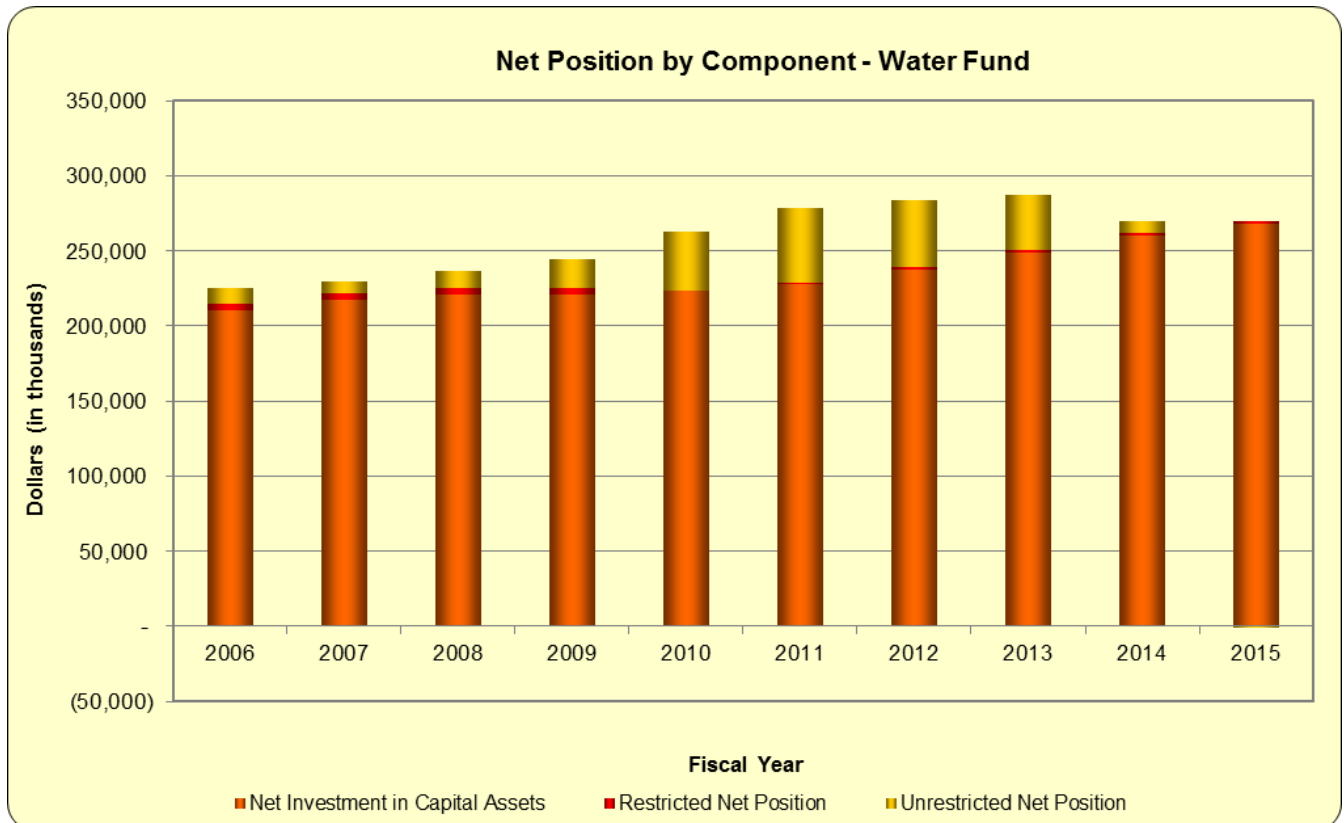
<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
9/30/2006	210,282	4,355	10,914	225,551
9/30/2007	217,247	4,409	8,366	230,022
9/30/2008	221,225	4,178	11,442	236,845
9/30/2009	220,974	4,240	19,684	244,898
9/30/2010	223,560	153	39,479	263,192
9/30/2011	228,196	736	49,342	278,274
9/30/2012	237,793	1,350	44,978	284,121
9/30/2013	249,256	1,656	36,814	287,726 ⁽¹⁾
9/30/2014 ⁽²⁾	260,538	1,673	7,725	269,936
9/30/2015	268,500	1,697	(143)	270,054

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

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

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 4

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

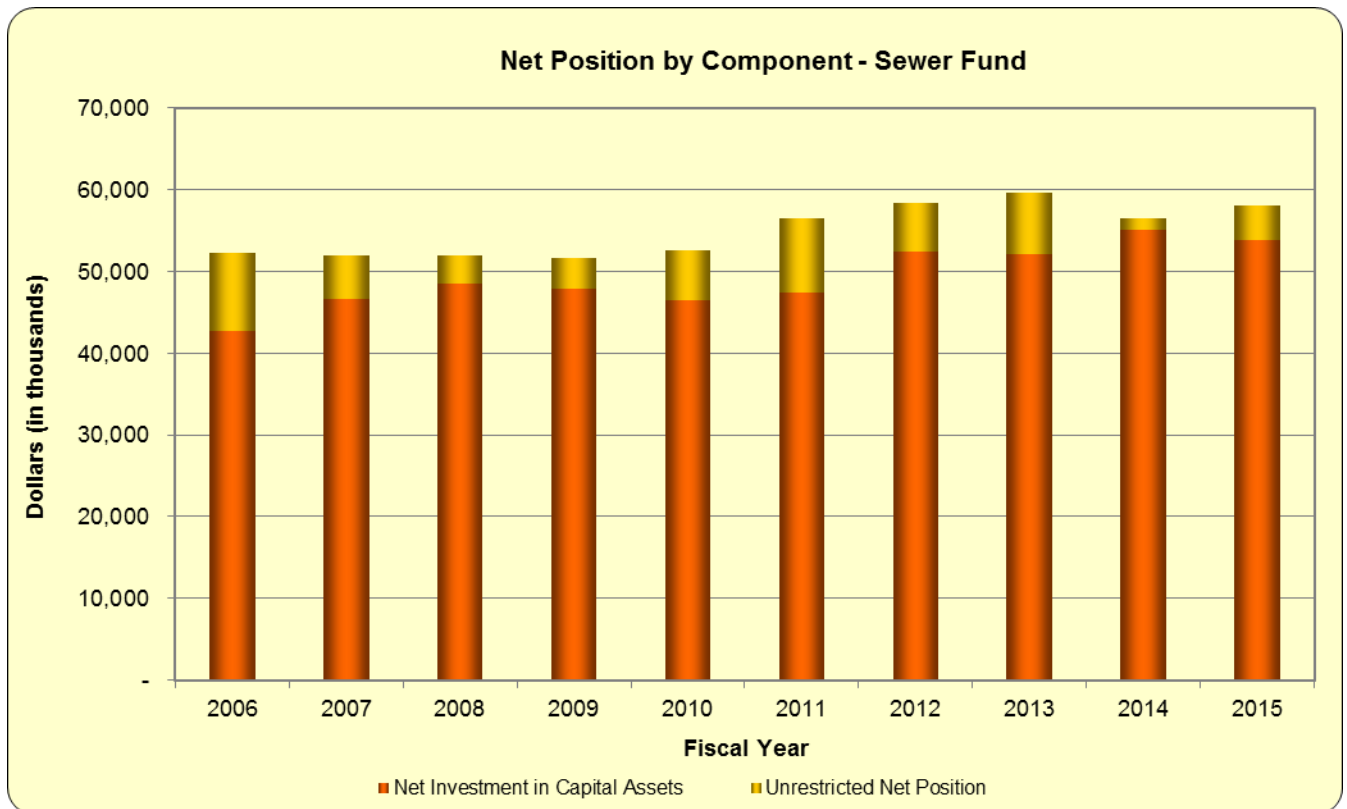
<u>Fiscal Year Ended</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total Net Position</u>
9/30/2006	42,619	-	9,628	52,247
9/30/2007	46,637	-	5,235	51,872
9/30/2008	48,541	-	3,389	51,930
9/30/2009	47,891	-	3,749	51,640
9/30/2010	46,383	-	6,221	52,604
9/30/2011	47,378	-	9,097	56,475
9/30/2012	52,465	-	5,849	58,314
9/30/2013	52,151	-	7,412	59,563 ⁽¹⁾
9/30/2014 ⁽²⁾	55,006	-	1,461	56,467
9/30/2015	53,895	-	4,194	58,089

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

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

Source: Department's annual reports

See accompanying independent auditors' report



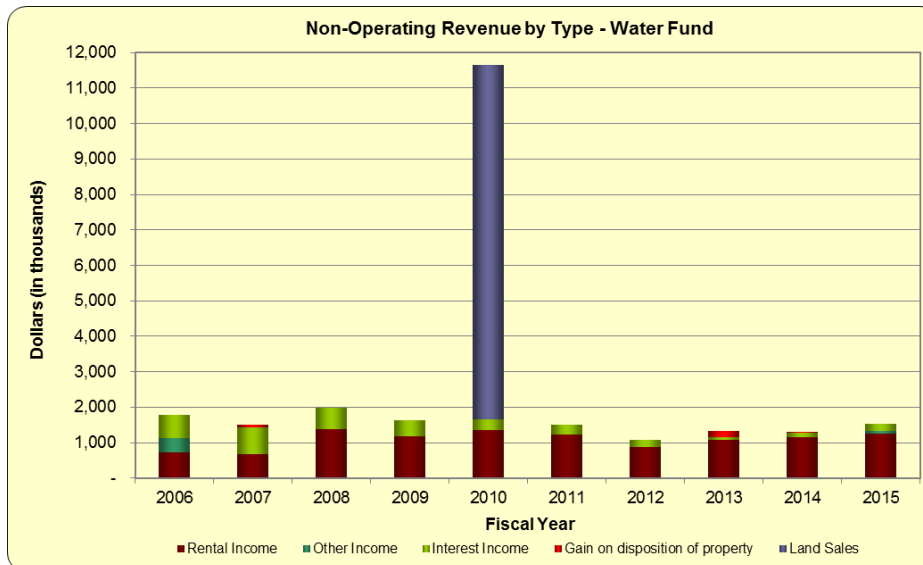
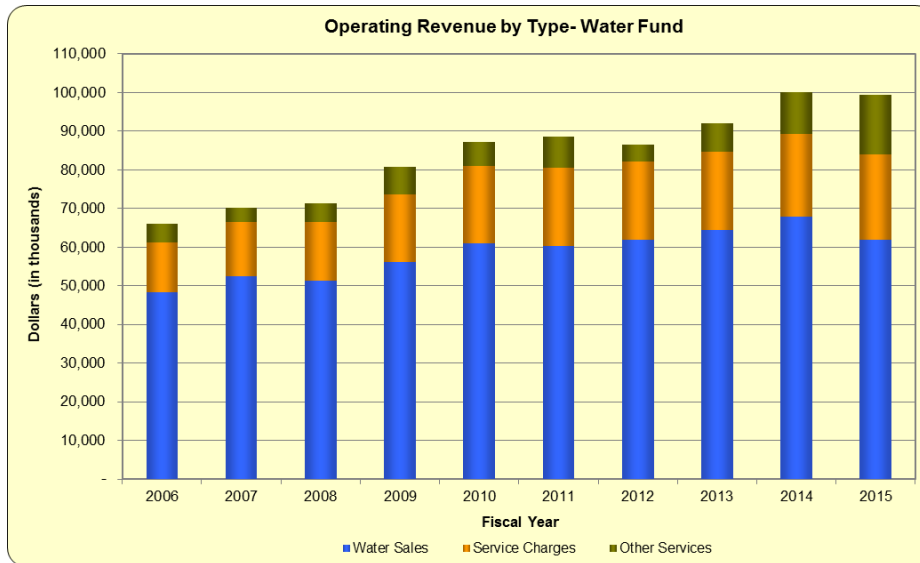
LONG BEACH WATER DEPARTMENT
WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING					
	Water Sales ⁽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
9/30/2006	48,429	12,727	4,870	66,026	653	733	-	391	-	1,777
9/30/2007	52,507	13,959	3,726	70,192	758	682	-	-	66	1,506
9/30/2008	51,389	15,156	4,839	71,384	602	1,382	-	-	-	1,984
9/30/2009	56,256	17,299	7,222	80,777	456	1,181	-	-	-	1,637
9/30/2010	60,975	19,983	6,193	87,151	302	1,345	10,000	-	-	11,647
9/30/2011	60,398	20,251	7,927	88,576	294	1,221	-	-	-	1,515
9/30/2012	61,884	20,223	4,408	86,515	193	885	-	-	-	1,078
9/30/2013	64,347	20,363	7,239	91,949	58	1,087	-	-	196	1,341
9/30/2014	67,818	21,548	10,821	100,187	120	1,158	-	-	36	1,314
9/30/2015	61,995	22,061	15,419	99,475	223	1,256	-	62	-	1,541

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

Source: Department's annual reports

See accompanying independent auditors' report

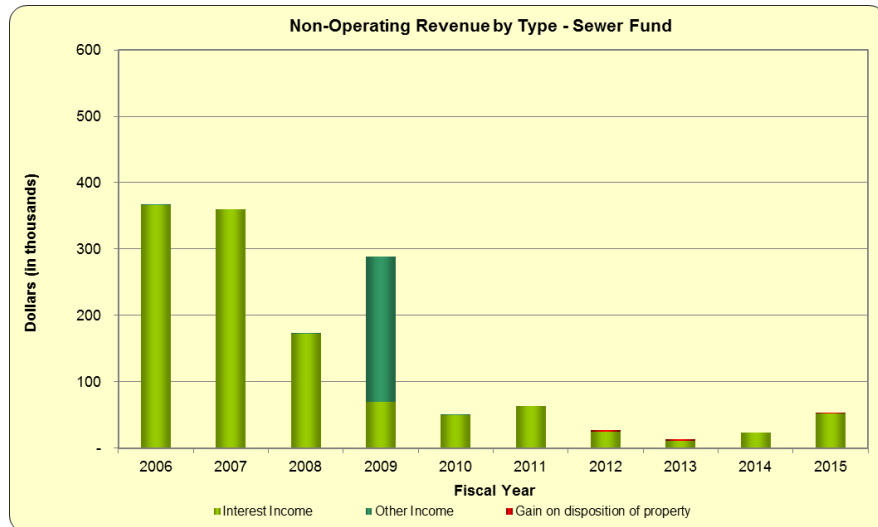
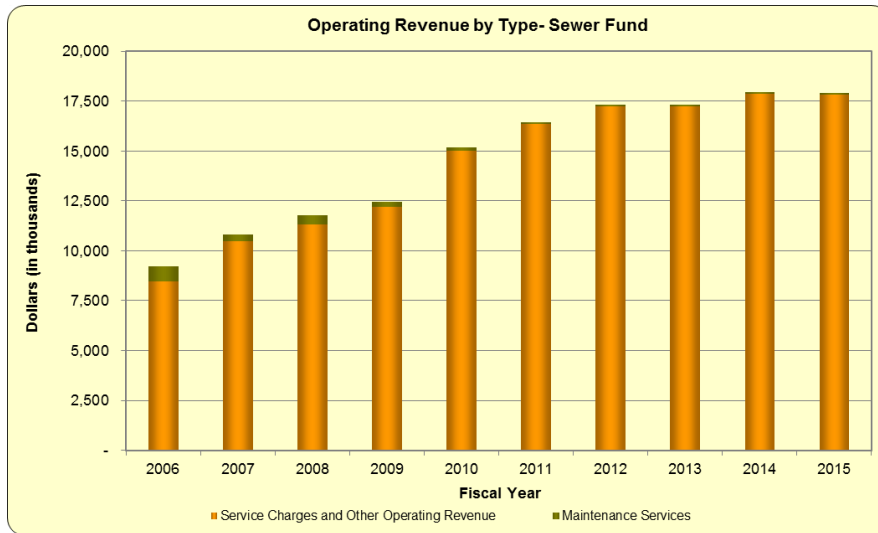


LONG BEACH WATER DEPARTMENT
SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING			
	Service Charges and Other Operating Revenue	Maintenance Services	Total Operating Revenue	Interest Income	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/2006	8,457	780	9,237	366	1	-	367
9/30/2007	10,500	296	10,796	359	-	-	359
9/30/2008	11,317	442	11,759	172	2	-	174
9/30/2009	12,203	252	12,455	70	219	-	289
9/30/2010	15,013	173	15,186	50	0.01	-	50
9/30/2011	16,362	86	16,448	63	-	-	63
9/30/2012	17,239	86	17,325	25	-	2	27
9/30/2013	17,225	86	17,311	11	-	2	13
9/30/2014	17,867	86	17,953	23	-	-	23
9/30/2015	17,817	86	17,903	52	-	2	54

Source: Department's annual reports

See accompanying independent auditors' report

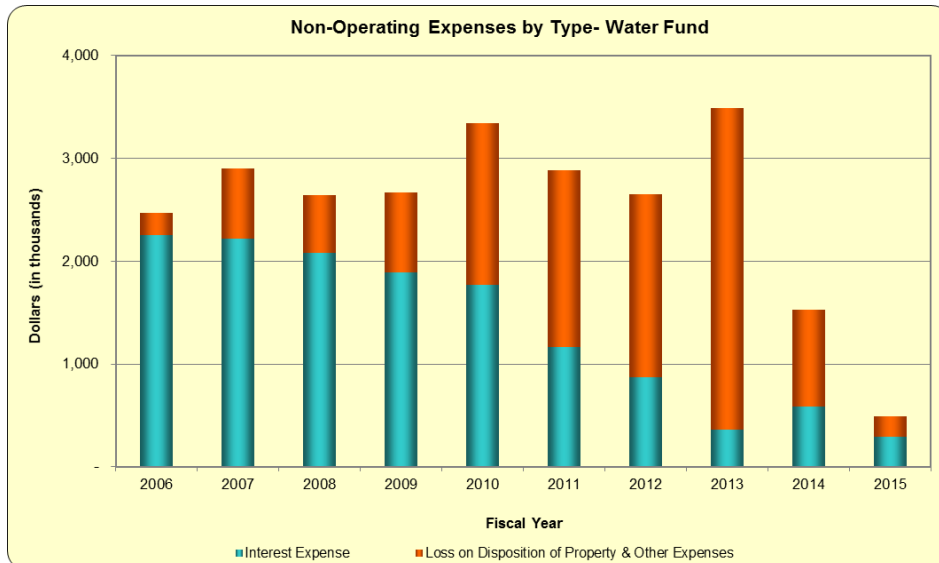
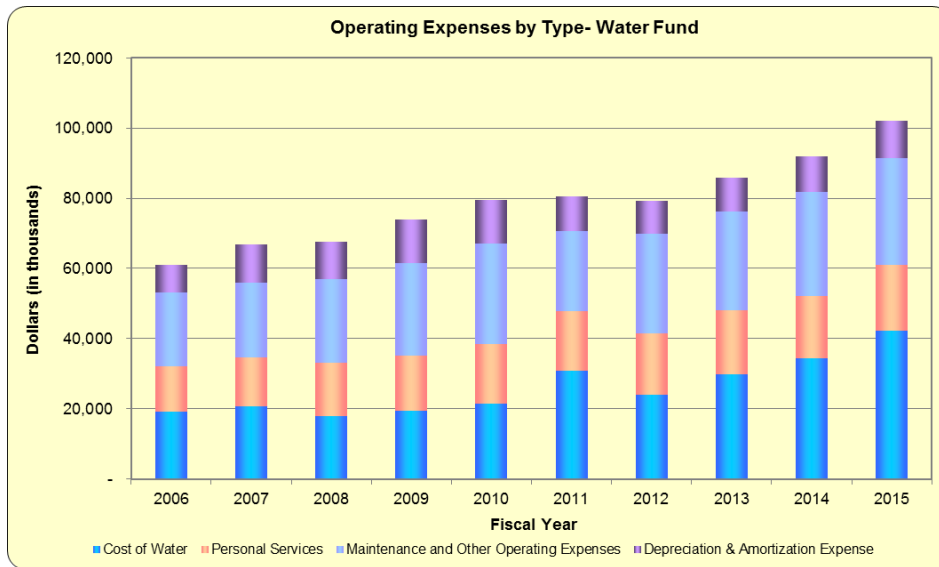


LONG BEACH WATER DEPARTMENT
WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING			
	Cost of Water	Personal Services	Maintenance and Other Operating Expenses	Depreciation & Amortization Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2006	19,179	12,974	20,895	7,885	60,933	2,255	213	2,468
9/30/2007	20,606	14,069	21,224	10,972	66,871	2,217	683	2,900
9/30/2008	18,036	14,974	24,009	10,628	67,647	2,078	566	2,644
9/30/2009	19,509	15,654	26,319	12,434	73,916	1,891	775	2,666
9/30/2010	21,588	16,855	28,648	12,331	79,422	1,773	1,572	3,345
9/30/2011	30,825	17,095	22,644	9,839	80,403	1,167	1,722	2,889
9/30/2012	23,887	17,594	28,502	9,359	79,342	872	1,779	2,651
9/30/2013	29,753	18,309	28,155	9,566	85,783	363	3,130	3,493
9/30/2014	34,378	17,822	29,566	10,226	91,992	587	943	1,530
9/30/2015	42,178	18,923	30,294	10,739	102,134	292	198	490

Source: Department's annual reports

See accompanying independent auditors' report

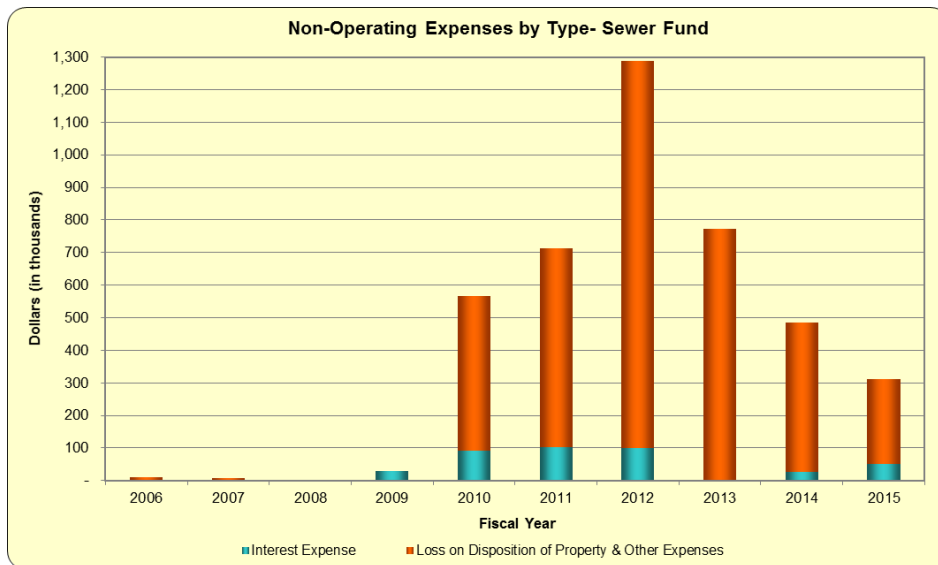
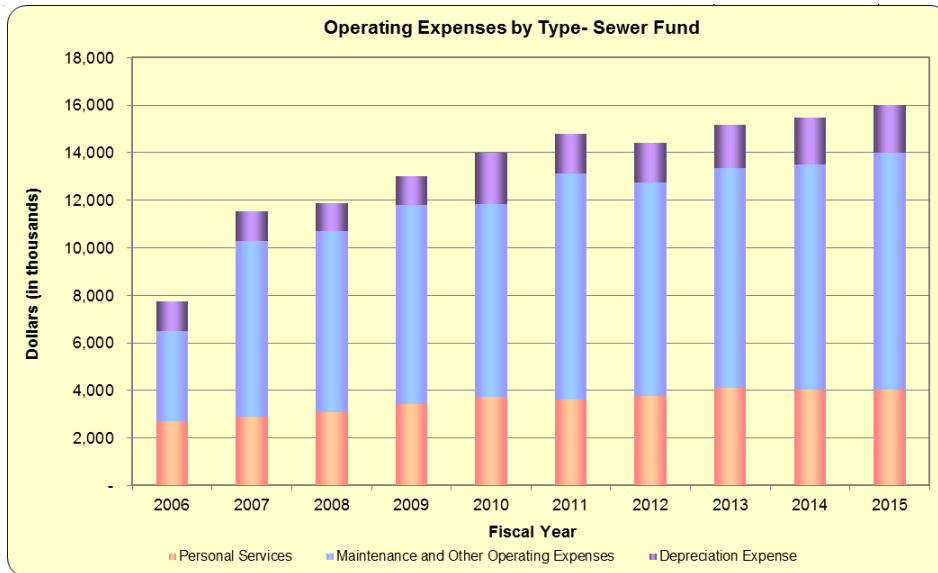


LONG BEACH WATER DEPARTMENT
SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING			
	Personal Services	Maintenance and Other Operating Expenses	Depreciation Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/2006	2,689	3,808	1,233	7,730	-	12	12
9/30/2007	2,900	7,378	1,246	11,524	-	7	7
9/30/2008	3,067	7,635	1,173	11,875	-	-	-
9/30/2009	3,440	8,363	1,200	13,003	31	-	31
9/30/2010	3,735	8,113	2,167	14,015	91	476	567
9/30/2011	3,607	9,528	1,660	14,795	102	611	713
9/30/2012	3,748	8,988	1,675	14,411	101	1,186	1,287
9/30/2013	4,122	9,246	1,797	15,165	2	772	774
9/30/2014	4,043	9,475	1,961	15,479	27	458	485
9/30/2015	4,021	9,993	2,010	16,024	51	260	311

Source: Department's annual reports

See accompanying independent auditors' report



Revenue Capacity

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

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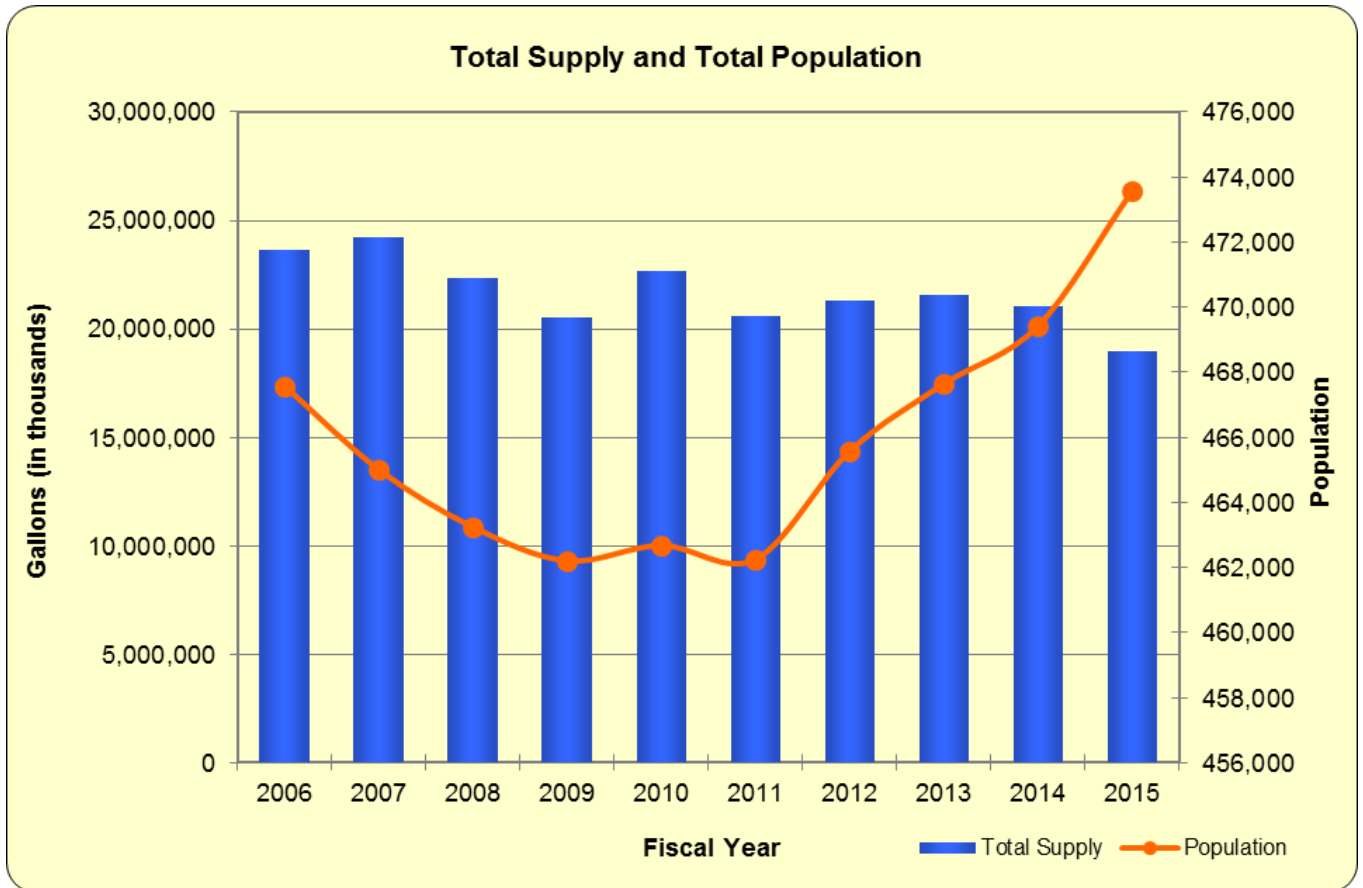
LONG BEACH WATER DEPARTMENT
SOURCE OF WATER (PUMPED, PURCHASED, AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS
 (in thousands of gallons, except population)

Fiscal Year Ended	SOURCE OF SUPPLY				CONSUMPTION			
	Potable Water		Reclaimed Water	Total Supply	Average Daily Demand Potable Water ⁽¹⁾	Peak Day Distribution	Average Daily Sales Per Capita	Population
	Pumped	Purchased						
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	138	467,586
9/30/2007	8,416,014	13,837,621	1,999,911	24,253,546	60,969	80,180	143	465,017
9/30/2008	11,006,041	9,179,092	2,161,793	22,346,926	55,302	82,080	132	463,250
9/30/2009	11,038,496	7,462,640	2,021,971	20,523,107	50,688	72,650	122	462,211
9/30/2010	11,789,387	8,651,083	2,197,803	22,638,273	56,001	71,220	134	462,685
9/30/2011	5,856,585	12,725,394	2,022,264	20,604,243	50,910	72,300	122	462,257
9/30/2012	10,772,406	8,302,455	2,255,671	21,330,532	52,260	74,700	126	465,576
9/30/2013	10,125,461	9,248,531	2,164,954	21,538,946	53,079	68,700	126	467,646
9/30/2014	9,131,485	9,990,526	1,897,724	21,019,735	52,389	72,000	123	469,428
9/30/2015	7,132,976	10,146,544	1,684,650	18,964,170	47,341	68,600	110	473,577

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

Source: Department's annual reports

See accompanying independent auditors' report



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

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

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

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

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

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

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

Source: Department's records

See accompanying independent auditors' report

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

Effective Date	3/4"	1" ⁽¹⁾	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2005	\$ 0.29	\$ 0.44	\$ 0.81	\$ 1.20	\$ 2.49	\$ 3.94	\$ 7.26	\$ 11.39	\$ 18.65	\$ 22.80	\$ 37.73
11/1/2006	0.30	0.45	0.84	1.24	2.56	4.06	7.47	11.73	19.21	23.48	38.87
10/1/2007	0.31	0.47	0.88	1.31	2.70	4.28	7.89	12.38	20.27	24.77	41.00
10/1/2008	0.36	0.54	1.01	1.50	3.11	4.92	9.07	14.23	23.31	28.49	47.15
10/1/2009	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2010	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2011	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2012	0.42	0.63	1.18	1.74	3.61	5.71	10.52	16.51	27.04	33.05	54.70
10/1/2013	0.44	0.66	1.22	1.81	3.75	5.94	10.94	17.17	28.12	34.37	56.88
10/1/2014	0.45	0.68	1.27	1.88	3.90	6.17	11.38	17.86	29.25	35.75	59.16

Note: (1) Normal residential size.

Source: Department's records

See accompanying independent auditors' report

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

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
10/1/2005	\$ 0.60	\$ 1.03	\$ 1.52	\$ 2.59	\$ 3.80	\$ 5.14	\$ 6.47	\$ 9.49
11/1/2006	0.62	1.06	1.57	2.67	3.91	5.29	6.67	9.78
10/1/2007	0.65	1.12	1.65	2.81	4.13	5.58	7.03	10.31
10/1/2008	0.75	1.29	1.90	3.24	4.74	6.42	8.09	11.86
10/1/2009	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2010	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2011	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2012	0.87	1.49	2.20	3.75	5.50	7.44	9.38	13.76
10/1/2013	0.91	1.55	2.29	3.90	5.72	7.74	9.76	14.31
10/1/2014	0.94	1.61	2.38	4.06	5.95	8.05	10.15	14.88

Source: Department's records

See accompanying independent auditors' report

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

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

Source: Department's utility billing records

See accompanying independent auditors' report

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

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

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

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

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

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

(2) A one-time capacity charge per equivalent fixture unit is applied to all new developments in the City.

Source: Department's records

See accompanying independent auditors' report

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

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

Note: (1) Normal residential size

Source: Department's records

See accompanying independent auditors' report

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

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

Source: Department's utility billing records

See accompanying independent auditors' report

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Debt Capacity Information

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

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

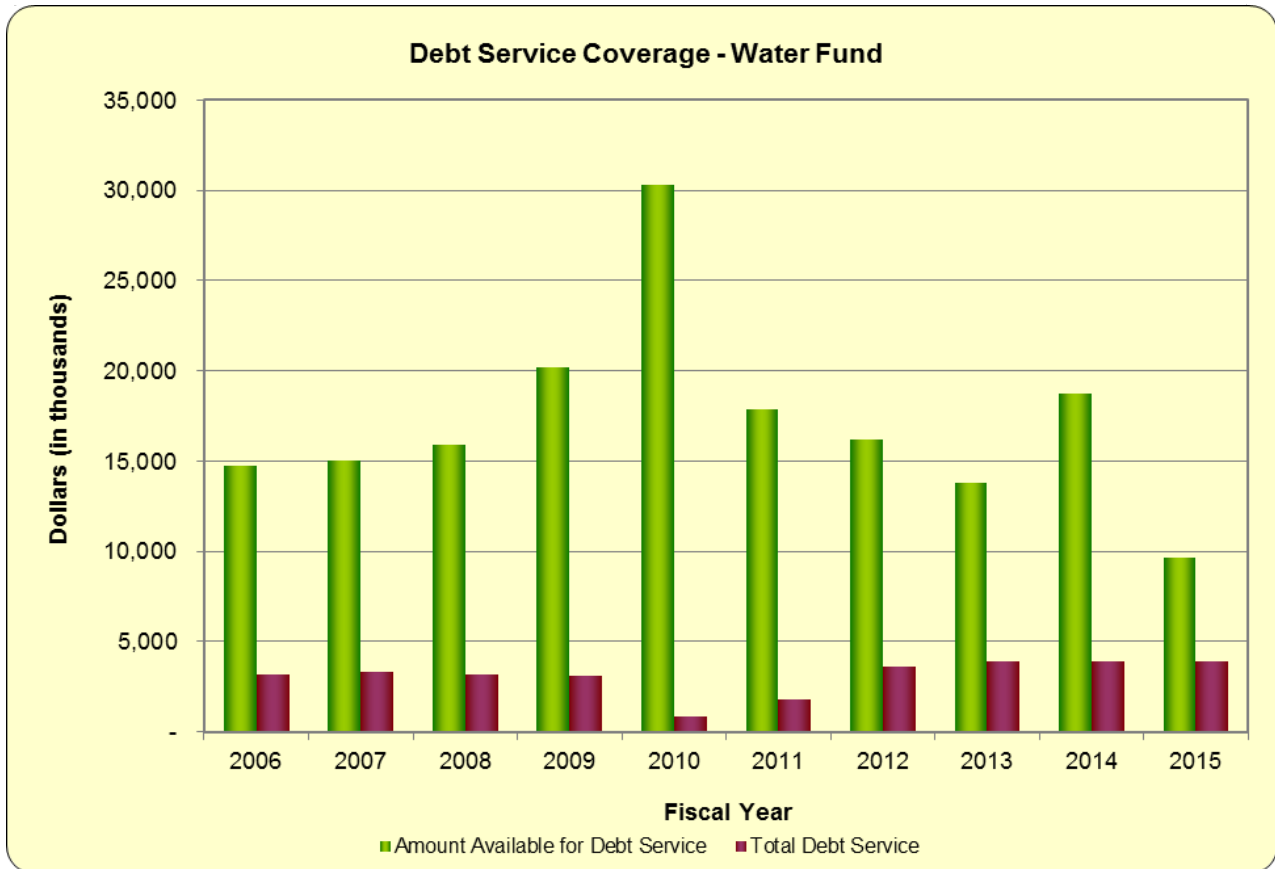
Fiscal Year Ended	Total Operating Revenue ⁽¹⁾	Operating Expenses ⁽²⁾	Net Operating Income	Net Non-Operating Income/ (Expense) ⁽³⁾	Amount Available for Debt Service	Principal	Interest	Total Debt Service ⁽⁴⁾	Times Coverage
9/30/2006	66,026	53,048	12,978	1,777	14,755	1,353	1,794	3,147	4.69
9/30/2007	70,192	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
9/30/2014	100,187	81,766	18,421	335	18,756	2,510	1,390	3,900	4.81
9/30/2015	99,475	91,395	8,080	1,541	9,621	2,630	1,264	3,894	2.47

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

Average Coverage, ten years	8.17
Rate Covenant (Series:1997A, 2010A, & 2012A)	1.10

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

Source: Department's annual reports
See accompanying independent auditors' report



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

Fiscal Year Ended	Total Operating Revenue ⁽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
9/30/2006	9,237	6,497	2,740	367	3,107	-	-	-	n/a
9/30/2007	10,796	10,278	518	352	870	-	-	-	n/a
9/30/2008	11,759	10,702	1,057	174	1,231	-	-	-	n/a
9/30/2009	12,455	11,803	652	289	941	-	4	4	235.25
9/30/2010	15,186	11,848	3,338	(426)	2,912	-	10	10	291.20
9/30/2011	16,448	13,135	3,313	(538)	2,775	-	27	27	102.78
9/30/2012	17,325	12,736	4,589	(1,161)	3,428	-	57	57	60.14
9/30/2013	17,311	13,368	3,943	(761)	3,182	-	54	54	58.93
9/30/2014	17,953	13,518	4,435	(434)	4,001	-	76	76	52.64
9/30/2015	17,903	14,014	3,889	(208)	3,681	-	79	79	46.59

Bond Issues: None

Rate Covenant	1.10
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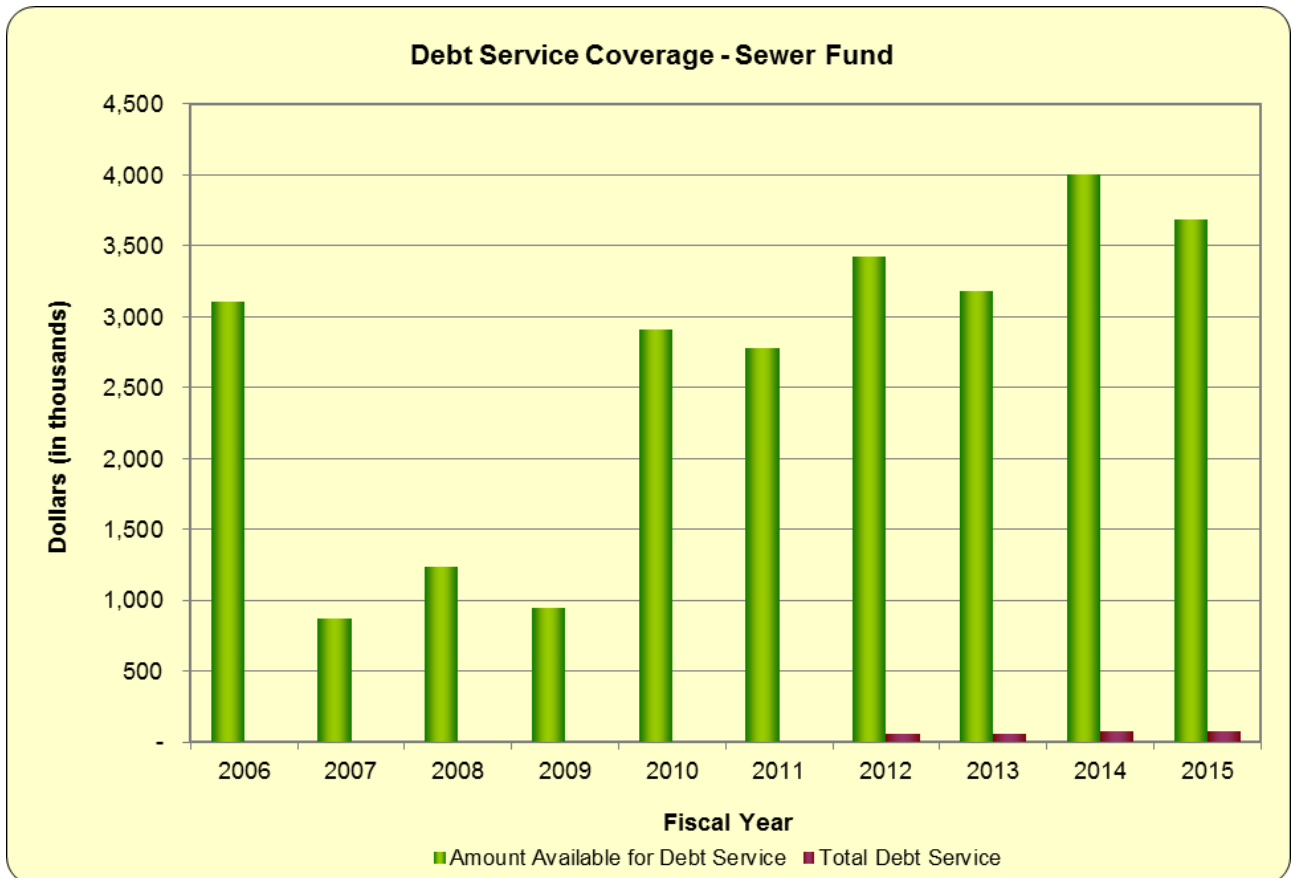
Notes: (1) Total Operating Revenue is net of Provision for doubtful accounts expense.

(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



(Unaudited)

Exhibit 20

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

Fiscal Year Ended	Revenue Refunding Bonds			Subordinate Water Revenue		Total	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
	Series 1997	Series 2010	Series 2012	Commercial Paper Notes	State Loan			
9/30/2006	34,675	-	-	6,000	230	40,905	0.32%	0.087
9/30/2007	33,465	-	-	6,000	87	39,552	0.30%	0.085
9/30/2008	32,200	-	-	8,000	-	40,200	0.30%	0.087
9/30/2009	30,870	-	-	11,000	-	41,870	0.33%	0.091
9/30/2010	5,175	22,740	-	11,000	-	38,915	0.30%	0.084
9/30/2011	5,175	22,250	-	11,000	-	38,425	0.28%	0.083
9/30/2012	5,175	22,250	9,850	-	-	37,275	0.27%	0.080
9/30/2013	3,545	22,125	9,495	-	-	35,165	0.24%	0.075
9/30/2014	1,825	21,995	8,960	-	-	32,780	0.21%	0.070
9/30/2015	-	21,860	8,410	-	-	30,270	0.19%	0.064

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

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

Exhibit 21

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

Fiscal Year Ended	Subordinate Sewer Revenue Commercial Paper Notes	Sewer Revolving Line of Credit	Total	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
9/30/2007	-	-	-	-	-
9/30/2008	-	-	-	-	-
9/30/2009	4,000	-	4,000	0.03%	0.009
9/30/2010	4,000	-	4,000	0.03%	0.009
9/30/2011	-	6,000	6,000	0.04%	0.013
9/30/2012	-	6,000	6,000	0.04%	0.013
9/30/2013	-	9,750	9,750	0.07%	0.021
9/30/2014	-	9,750	9,750	0.06%	0.021
9/30/2015	-	11,250	11,250	0.07%	0.024

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

Source: Department's annual reports

See accompanying independent auditors' report

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Demographic and Economic Information

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

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

<u>Fiscal Year Ended</u>	<u>Estimated Population</u> ^{(1) (4)}	<u>Personal Income (in millions)</u> ^{(2) (4)}	<u>Per Capita Personal Income</u> ^{(2) (4)}	<u>Unemployment Rate</u> ⁽³⁾
9/30/2006	467,586	12,854	27,490	5.3%
9/30/2007	465,017	13,222	28,434	5.6%
9/30/2008	463,250	13,387	28,898	8.2%
9/30/2009	462,211	12,752	27,589	12.8%
9/30/2010	462,685	12,938	27,964	13.9%
9/30/2011	462,257	13,486	29,173	13.4%
9/30/2012	465,576	14,058	30,196	12.2%
9/30/2013	467,646	14,757	31,556	10.3%
9/30/2014	469,428	15,525	33,072	8.6%
9/30/2015	473,577	16,242	34,296	6.8%

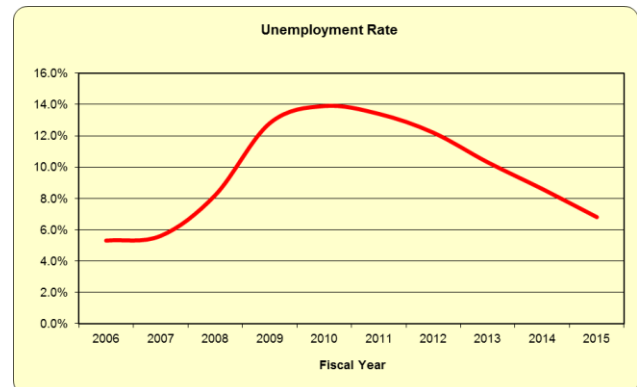
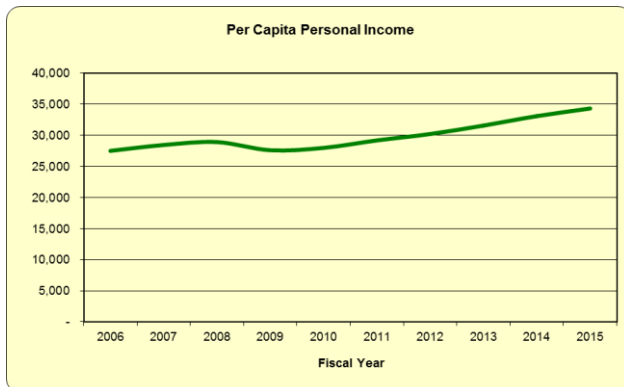
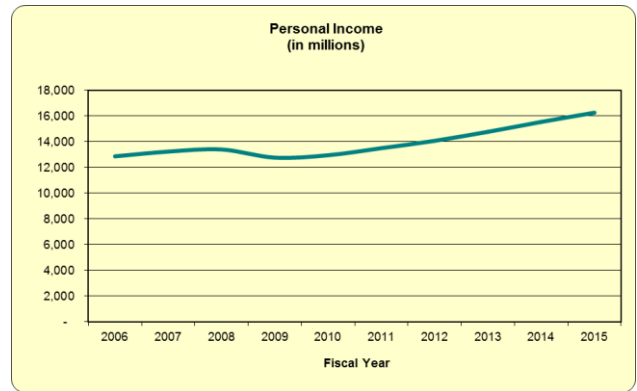
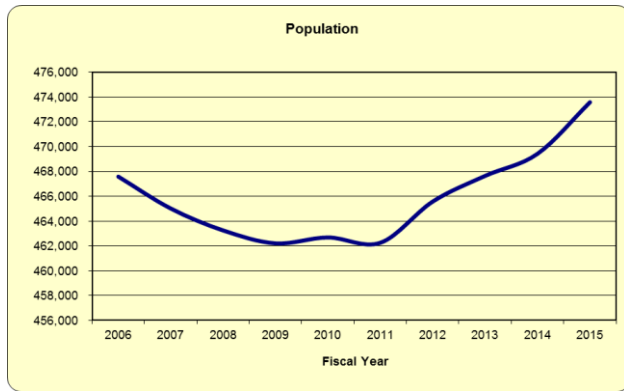
Source: (1) California Department of Finance Demographic Reports

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Personal Income and per capita personal income with exception of 2005 is based on percent change of per capita personal income for Los Angeles-Long Beach Santa Ana, CA. (Metropolitan Statistical Area). The BEA's Report does not have personal income available for 2014, so an average of the last five years was used.

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

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

See accompanying independent auditors' report



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

Employer	Fiscal Year 2015			Fiscal Year 2006		
	Ranking	Number of Employees ⁽¹⁾	Percentage of Total City Employment ⁽²⁾	Ranking	Number of Employees ⁽¹⁾	Percentage of Total City Employment ⁽²⁾
Long Beach Unified School District	1	12,508	5.24%	1	9,064	3.90%
City of Long Beach	2	5,286	2.12%	4	5,854	2.03%
Long Beach Memorial Medical Center	3	5,212	2.18%	5	3,500	2.67%
The Boeing Company	4	3,707	1.55%	2	6,525	3.99%
California State University Long Beach	5	2,961	1.24%	3	6,007	1.76%
Veteran Affairs Medical Center	6	2,665	1.12%	9	1,700	1.02%
Long Beach City College	7	2,637	1.10%	7	2,000	0.79%
California State Univ Long Beach Research Foundation	8	1,523	0.64%	-	-	-
Molina Healthcare Inc	9	1,488	0.62%	-	-	-
St. Mary Medical Center	10	1,458	0.61%	10	1,634	0.70%
Verizon				6	2,000	0.86%
United States Postal Service				8	1,900	0.82%

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

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

See accompanying independent auditors' report

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

Fiscal Year Ended	Water Fund	Sewer Fund	Total
9/30/2006	184	30	214
9/30/2007	185	43	228
9/30/2008	169	41	210
9/30/2009	172	37	209
9/30/2010	175	44	219
9/30/2011	174	43	217
9/30/2012	184	48	232
9/30/2013	179	47	226
9/30/2014	170	49	219
9/30/2015	172	47	219

Sources: Department's Personnel records

See accompanying independent auditors' report

Operating Information

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

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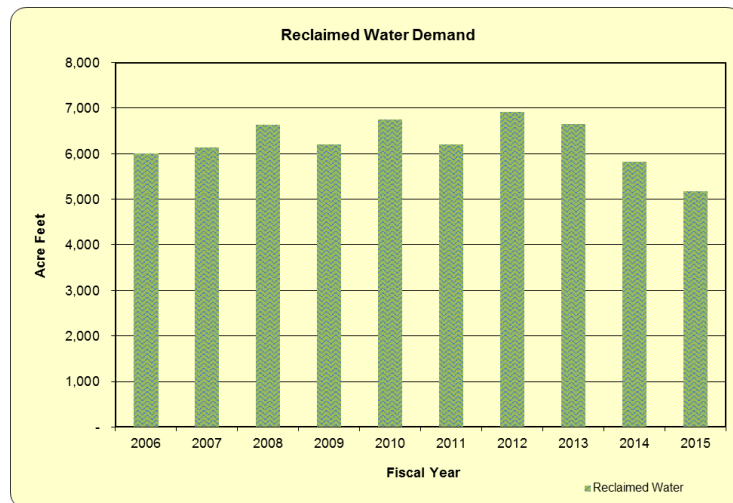
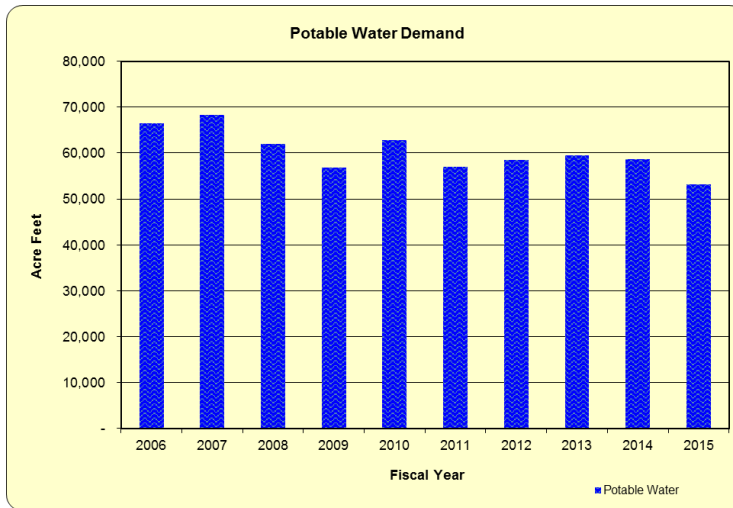
LONG BEACH WATER DEPARTMENT
WATER DEMAND - LAST TEN FISCAL YEARS
(in acre feet)

Fiscal Year Ended	Potable Water				Total Demand
	Pumped	Purchased	Total Potable Demand	Reclaimed Water	
9/30/2006	25,160	41,284	66,444	6,005	72,449
9/30/2007	25,828	42,466	68,294	6,138	74,432
9/30/2008	33,776	28,170	61,946	6,634	68,580
9/30/2009	33,876	22,902	56,778	6,205	62,983
9/30/2010	36,180	26,549	62,729	6,744	69,473
9/30/2011	17,973	39,053	57,026	6,206	63,232
9/30/2012	33,059	25,479	58,538	6,922	65,460
9/30/2013	31,074	28,383	59,457	6,644	66,101
9/30/2014	28,024	30,660	58,683	5,824	64,507
9/30/2015	22,002	31,139	53,141	5,170	58,311

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

Source: Department's annual reports

See accompanying independent auditors' report



(Unaudited)

Exhibit 26

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

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

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

Source: Metropolitan Water District of Southern California

See accompanying independent auditors' report

(Unaudited)

Exhibit 27

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

<u>Effective Date</u>	<u>Rate per Acre-Foot</u>	<u>Percent Change</u>
7/1/2006	138.00	2
7/1/2007	149.00	8
7/1/2008	153.00	3
7/1/2009	181.85	19
7/1/2010	205.00	13
7/1/2011	244.00	19
7/1/2012	244.00	-
7/1/2013	268.00	10
7/1/2014	268.00	-
7/1/2015	283.00	6

Source: Water Replenishment District of Southern California (WRD)

See accompanying independent auditors' report

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

Fiscal Year Ended	Water System				Water Quality		Reclaimed System
	Number of Groundwater wells	Miles of water mains	Number of active water service	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline
9/30/2006	29	907	89,471	6,505	15,676	57,581	33
9/30/2007	31	905	89,535	6,489	16,761	60,235	33
9/30/2008	31	904	89,583	6,507	16,805	81,378	33
9/30/2009	31	908	89,630	6,525	19,238	118,799	33
9/30/2010	31	909	89,706	6,529	17,126	84,923	33
9/30/2011	31	911	89,851	6,603	15,814	71,472	33
9/30/2012	31	911	89,957	6,594	12,292	57,310	33
9/30/2013	31	912	89,996	6,589	14,388	60,819	34
9/30/2014	31	912	89,895	6,604	13,750	58,968	34
9/30/2015	31	912	89,897	6,631	13,050	57,070	34

Source: Department's records

See accompanying independent auditors' report

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

Fiscal Year Ended	Number of sewer pump stations	Miles of sewer pipelines	Number of sewer manholes
9/30/2006	28	712	16,044
9/30/2007	28	711	16,055
9/30/2008	28	711	16,078
9/30/2009	28	712	16,129
9/30/2010	28	712	16,135
9/30/2011	28	712	16,147
9/30/2012	28	712	16,148
9/30/2013	28	714	16,158
9/30/2014	28	714	16,170
9/30/2015	28	714	15,129

Source: Department's records

See accompanying independent auditors' report

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

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
9/30/2006	55,404	259	5,370	296	474	3,000
9/30/2007	54,423	407	7,050	270	364	3,000
9/30/2008	44,332	346	10,637	278	365	3,000
9/30/2009	23,676	485	6,350	215	424	5,000
9/30/2010	21,137	94	8,441	182	547	5,000
9/30/2011	21,294	223	5,428	259	470	5,000
9/30/2012	25,733	269	3,690	261	414	5,000
9/30/2013	24,595	266	3,348	241	535	5,000
9/30/2014	19,475	208	1,835	213	498	5,000
9/30/2015	16,366	544	760	224	492	5,000

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

Source: Department's records

See accompanying independent auditors' report