



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, 2008



Long Beach Water Deptment
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Long Beach, CA 90807

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

**For the Fiscal Years Ended
SEPTEMBER 30, 2008 and 2007**

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of the
Business Bureau**

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INTRODUCTORY SECTION

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Comprehensive Annual Financial Report

of the

Long Beach Water Department

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

For the Fiscal Years Ended September 30, 2008 and 2007

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Long Beach Water Department
The Standard in Water Conservation &
Environmental Stewardship

DATE June 30, 2009
TO Board of Water Commissioners
FROM B. Anatole Falagan, Deputy General Manager - Business
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal years ended
September 30, 2008 and 2007

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, 2008 and 2007. The Department's financial statements are also included in the City's Financial Statements as enterprise funds (Water Fund and Sewer Fund).

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

The accompanying financial statements have been audited by KPMG LLP, an independent certified public accounting firm. KPMG LLP has issued an unqualified ("clean") opinion on the Department's financial statements for the fiscal years ended September 30, 2008 and 2007. The independent auditor's report is located at the front of the financial section of this report.

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

THE REPORTING ENTITY

The Department was established July 1, 1911, by the City Charter to regulate and control the use, sale and distribution of water owned or controlled by the City. 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.

The Board, established in 1931, 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. Also in 1931, the City became a member of the Metropolitan Water District of Southern California (MWD).

The Department's service area encompasses the boundaries of the City, an area of approximately 50 square miles, with a population of 492,642 and some customers outside the City limits. The Department is not subject to regulation by the California Public Utilities Commission.

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.

Groundwater

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

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

Parties to the lawsuit negotiated a settlement which provided the basis of a stipulated judgment (the "Long Beach Judgment") rendered by the Superior Court on October 8, 1965. By separate action, a committee of Central Basin producers reached an agreement for voluntary reduction of pumpage within the basin to restore and protect the water table and to

expedite the above judgment to permanently prevent excessive pumping. The reduction in pumping began October 1, 1962. The two events were of major importance in securing local water supplies for the City. The Department is the largest producer of water in the Central Basin.

Imported Supplies

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

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

Water Recycling

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

The Department has a very successful reclaimed water program, utilizing the water for irrigation and for two very innovative programs: the use of reclaimed water for subsidence mitigation and for seawater barrier injection. We expect to continue to expand our reclaimed water system in order to make reclaimed water available to additional customers.

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.

Conservation

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

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

Most single-family residential water use appears to be for landscape irrigation. For these customers, the Department provides, at no cost to the customer, very well attended and received classroom instruction on the design, installation, and maintenance of California-friendly landscapes. Another innovative program is the Department's direct installation of weather-based irrigation controllers, a program under which we identify landscape accounts, offer free water-use studies and free installation of weather-based irrigation controllers. Recently, the Department developed and implemented a landscape retrofit demonstration project whereby several homeowners, selected by participation in a lottery, worked with landscape consultants to change their current landscape into a water conserving landscape. Information and results from the project will be used to reinforce the need for landscape water conservation throughout the City.

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

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

WATER QUALITY

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

The 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 16,805 samples and performed 81,378 tests for more than 140 drinking water contaminants while maintaining certification with the California Department of Health Services and Environmental Protection Agency (EPA).

Groundwater Treatment Plant and Water Quality Laboratory

On April 14, 1997, a 62.5 million-gallon per day Groundwater Treatment Plant and Water Quality Laboratory completed operational testing and was put into full operation on May 1, 1997. Long Beach has one of the most modern water treatment facilities in the world, coupled with four of the most 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.

During fiscal year 2008, the Groundwater Treatment Plant processed approximately 10.99 billion gallons of drinking water. Overall, 20.17 billion gallons of high-quality water were delivered to the Long Beach community.

MAJOR INITIATIVES

Reclaimed Water System Expansion

The Department remains committed to developing alternatives to imported potable (drinking) water supplies to meet the water needs of the City. In efforts to reduce our need to purchase imported water and to develop new sources of water, the Department has been working on several major projects. First, is the expansion of the City's reclaimed water system. The expansion was redesigned and rephased into five stages and the project includes the construction of 84,000 feet of pipelines in existing City streets, new pump stations and converting three (3) existing domestic water reservoirs to reclaimed water storage. When complete, the expansion program will more than double reclaimed water use in Long Beach from approximately 4,000 acre-feet to 9,000 acre-feet, annually. This project was the recipient of the 1997 California Water Awareness Program. Since October 1, 2005, the Department, on contract with the Water Replenishment District (WRD), has operated a 3.0 million gallons per day reverse osmosis water treatment plant, enabling WRD to use recycled water from the Long Beach Water Reclamation Plant to replace 3,000 acre-feet per year of imported water now being supplied to the Barrier.

In Long Beach, reclaimed water is wastewater that has been fully treated by a three stage (tertiary) process for industrial and irrigation uses. The Long Beach Water Reclamation Plant, operated by the Sanitation Districts of Los Angeles County, treats up to 25 million gallons of wastewater every day into clear, quality water that meets State standards for such reuse and is environmentally safe. Reclaimed water is used for irrigation purposes at the City's parks, golf courses, cemeteries and numerous garden nurseries. Other users include California State University Long Beach, Long Beach City College, the Long Beach Unified School District and Caltrans sites on the 405 and 605 Freeways and THUMS (a collaboration of oil producers operating four (4) off-shore oil islands).

Seawater Desalination Research

Since 1994, the Department has continued to pursue seawater desalination as a potential source of drinking water. In 1996, the Department received authorization for Federal cost-sharing of a seawater desalination demonstration project; and in fiscal year 2001, the Department received an earmark in the Federal fiscal year 2002 budget, making it the only

newly funded water project by the Federal government in that budget. Federal funding continued in fiscal years 2003 through 2008. 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, constructed and is operating a 300,000 gallon-per-day prototype desalination facility, one of the largest seawater desalination research and development facilities in the United States.

Conjunctive Use

The Department has also partnered with the Metropolitan Water District of Southern California, and the California Department of Water Resources on an innovative groundwater storage program. The \$4.5 million project, which is 100% funded by State of California Proposition 13, has stored 4.2 billion gallons of surplus water in the Central Groundwater Basin, and was called upon during the fiscal year to deliver 7.87 million gallons due to drought conditions in southern California. A second, \$3.1 million joint conjunctive use project with the City of Lakewood is nearing completion. As of this report, an additional 586.5 million gallons have been stored as part of this project. The amounts stored in the Lakewood project may also be called upon during the current drought conditions.

Water Distribution System

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2008, the water distribution system totaled 904 miles of water mains with 89,583 active service connections.

During fiscal year 2008, the Department and contractors replaced 44,332 feet of deteriorated cast iron water mains with new ductile iron pipe. This critical replacement program addresses upgrading old pipelines, many of which were installed more than 50 years ago.

The Department maintains approximately 479 old control valves 20 inches or more in diameter and 21,478 smaller control valves. The Department has a maintenance and replacement program to ensure that control valves are operational and that they can be turned off or on promptly during emergencies. During the year, the Department performed maintenance on 3,670 valves, repaired 55 and replaced 208.

The Department also renewed 1,076 water services utilizing copper pipe, replaced or repaired 346 fire hydrants, responded to 11,788 customer service requests and reviewed 88 high bill reports. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. During the year, the Department repaired 29 water main pipeline breaks citywide and tested, installed, repaired or exchanged 3,231 water meters.

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

Sanitary Sewer Collection System

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

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

The Department is also finalizing a comprehensive Sewer Master Plan Update, which will provide the Department with an updated evaluation and prioritization of current deficiencies. The plan includes the use of dynamic hydraulic modeling software to assess existing collection system performance, as well as to evaluate the system for future conditions.

This year the Department completed 278 sewer lateral and sewer main pipeline repair jobs, repaired 193 private sewer lines damaged by the roots from City trees (including sidewalk replacement), chemically treated 3,000 of the 16,078 sewer manholes to control vectors (roaches, other insects and rodents), and cleaned 365 of the 711 miles of sewer pipelines throughout the City.

Storm Drain System

Since 1999, the Department had been responsible for the operation and maintenance of the City's storm drain system, consisting of 3,800 catch basins, 180 miles of storm drain pipelines, numerous cross drains, 2,040 storm drain manholes and 23 pump stations. Effective October 1, 2003, the Department transferred ownership of and responsibility for City storm drain system assets back to the City's Department of Public Works. Under agreement with the City, the Water Department continues to operate and maintain the storm drain system for the City on a cost reimbursement basis. Effective June 1, 2004, the City's Department of Public Works took over responsibility for maintenance and operation of the City's 13 open channels (totaling 3.2 miles). Effective January 23, 2007, the City's Department of Public Works took over the cleaning of the catch basins, cross drains, and grates. Under the current agreement, the Department now only maintains the storm drain pump stations.

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 journal voucher 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 August 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.

Risk Management

The Department 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 to meet losses as they arise. The Department contributes to the Insurance Internal Service Fund based on future projections and past loss experience. In addition, various risk control techniques, including safety training for all employees, regular property appraisals, and the inclusion of appropriate legal provisions in third party contracts, have been implemented to minimize risk losses.

Cash Management

To obtain flexibility in cash management, the City employs a pooled cash system. Under the City's pooling concept, all cash received or collected by the Department is required by City Charter to be deposited with the City Treasurer who administers the cash investment program. This includes cash from operations as well as funds restricted for Bond Service and Reserve accounts. Earnings are allocated monthly to all participating City agencies based on the average daily balance of pooled funds on deposit.

The City maintains a reasonable and safe return on its investments, and at the same time employs prudent investment policies to safeguard the City's cash assets and maintain adequate levels of liquidity. Quarterly reports are presented by the Department of Financial Management to the City Manager and City Council. The City's general investment strategies are stated in a formal Statement of Investment Policy, which is reviewed and approved by the City Council on an annual basis.

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, 2007. 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 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, 2008 and 2007.

Prepared by:




Paul T. Fujita, Director of Finance

Submitted and
Recommended by:



B. Anatole Falagan, Deputy General Manager - Business

Approved by:



Kevin L. Wattier, General Manager

Att.
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intro.doc

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, 2007

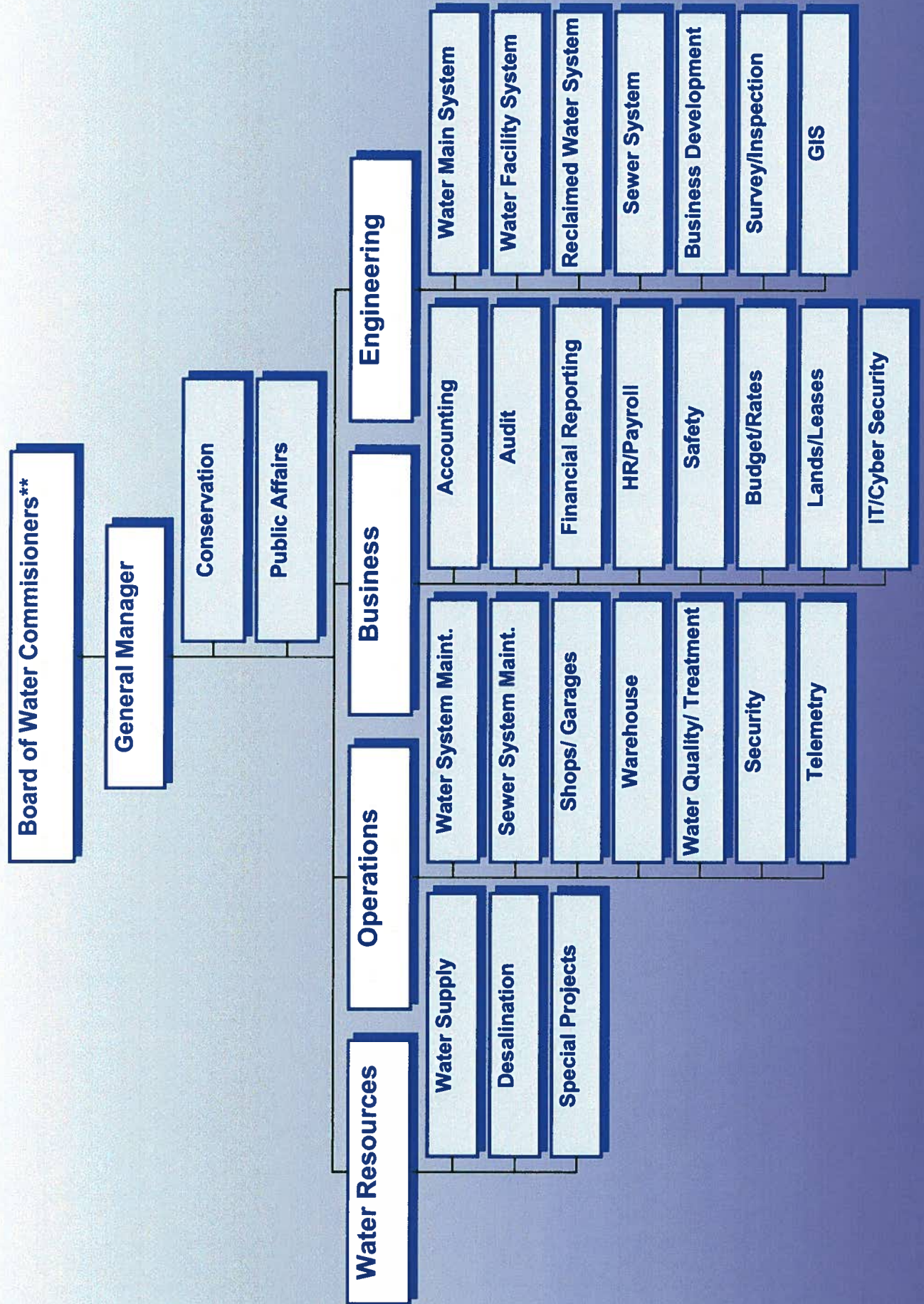
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Long Beach Water Department
 Organization Functions Chart



LONG BEACH WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

JOHN D. ALLEN	PRESIDENT
PAUL BLANCO	VICE PRESIDENT
FRANK CLARKE	SECRETARY
WILLIAM B. TOWNSEND	MEMBER
STEPHEN T. CONLEY	MEMBER

STAFF

KEVIN L. WATTIER
General Manager

B. ANATOLE FALAGAN
Deputy General Manager - Business

ROBERT C. CHENG
Deputy General Manager - Operations

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FINANCIAL SECTION

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

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

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 years ended September 30, 2008 and 2007, which collectively comprise the Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed more fully in note 1 to the basic financial statements, the financial statements of the Department are intended to present the financial position, the changes in financial position, and where applicable cash flows of only that portion of the business-type activities of the City that are attributable to the transactions of the Department. They do no purport to, and do not, present fairly the financial position of the City, as of September 30, 2008 and 2007, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Long Beach Water Department of the City of Long Beach, California as of September 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principle.

As discussed in notes 1 and 6 to the financial statements, effective October 1, 2007, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009 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 or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 21 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

June 30, 2009

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

As the management of the Long Beach Water Department (a department of the City of Long Beach), we offer readers of the Long Beach Water Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal years ended September 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements. The Long Beach Water Department (the Department) is comprised of the City's Water Enterprise Fund (Water Fund) and Sewer Enterprise Fund (Sewer Fund) operations. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The Department's assets exceeded its liabilities at the close of fiscal year 2008 by \$288,775 (*net assets*). The Department's net assets are further broken down between the Water Enterprise Fund and Sewer Enterprise Fund below.

Water Enterprise Fund. Assets exceeded its liabilities at the close of fiscal year 2008 by \$236,845. Of this amount, \$11,442 (*unrestricted net assets*) is available to meet the Water Fund's ongoing obligations to creditors and customers. Unrestricted net assets represented 16.9% of the Water Fund's annual operating expenses for 2008 as compared with 12.5% for 2007. Total Water Fund net assets increased by \$6,823 (+3.0%) from the prior fiscal year. This increase is attributable to income of \$3,077 and capital contributions of \$3,746.

Sewer Enterprise Fund. Net assets totaled \$51,930 as of September 30, 2008, an increase of \$58 (+0.1%) from the prior fiscal year. The increase reflects the income in excess of expenses during the year. At the end of the current fiscal year, Sewer Fund's unrestricted net assets represented 28.5% of annual operating expenses for 2008 as compared with 45.4% for 2007.

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 of Long Beach, enterprise funds are used to account for its water and sewer operations. These financial statements include only the activities of the Department and provide comparative information for the last two fiscal years. Information on Citywide financial operating results is available in the City of Long Beach Comprehensive Annual Financial Report as of September 30, 2008.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

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

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

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

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

The *Notes to Financial Statements* provide additional information that is essential to the full understanding of the data provided in the financial statements and can be found on pages 25-50 of this report.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. A summary of the Department's Statements of Net Assets for the past three years is presented on page 5. As of September 30, 2008, Water Fund assets exceeded liabilities by \$236,845, and Sewer Fund assets exceeded liabilities by \$51,930, representing a 3.0% increase in net assets over the prior fiscal year for the Water Fund and a 0.1% increase in Sewer Fund net assets. Net assets are further categorized by investments in capital assets, and restricted and unrestricted net assets.

As of September 30, 2008, investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represented 93.4% and 93.5% of Water Fund and Sewer Fund net assets, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

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

The restricted portion of the Water Fund's net assets (1.8% and 1.9% of total net assets as of September 30, 2008 and 2007, respectively) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The unrestricted portion of the Department's net assets (5.1% and 4.8% of total net assets as of September 30, 2008 and 2007, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed Schedules of Net Assets as of September 30, 2008, 2007 and 2006 are as follows (in thousands):

Long Beach Water Department Condensed Schedules of Net Assets September 30, 2008, 2007 and 2006 (in thousands)							
	2008	2007	2006	Variance			
				2008/2007		2007/2006	
	Amount	%	Amount	%			
Assets:							
Current and other assets	\$ 26,920	\$ 28,034	\$ 34,282	\$ (1,114)	-4.0%	\$ (6,248)	-18.2%
Capital assets	309,039	300,934	291,093	8,105	2.7%	9,841	3.4%
Total assets	<u>335,959</u>	<u>328,968</u>	<u>325,375</u>	<u>6,991</u>	<u>2.1%</u>	<u>3,593</u>	<u>1.1%</u>
Liabilities:							
Current liabilities	9,694	11,427	11,151	(1,733)	-15.2%	276	2.5%
Noncurrent liabilities	37,490	35,647	36,426	1,843	5.2%	(779)	-2.1%
Total liabilities	<u>47,184</u>	<u>47,074</u>	<u>47,577</u>	<u>110</u>	<u>0.2%</u>	<u>(503)</u>	<u>-1.1%</u>
Net Assets:							
Invested in capital assets, net of related debt	269,766	263,884	252,901	5,882	2.2%	10,983	4.3%
Restricted	4,178	4,409	4,355	(231)	-5.2%	54	1.2%
Unrestricted	14,831	13,601	20,542	1,230	9.0%	(6,941)	-33.8%
Total net assets	<u>\$ 288,775</u>	<u>\$ 281,894</u>	<u>\$ 277,798</u>	<u>\$ 6,881</u>	<u>2.4%</u>	<u>\$ 4,096</u>	<u>1.5%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

The Department's financial position is further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund as of September 30, 2008, 2007 and 2006:

Long Beach Water Department Condensed Schedules of Net Assets September 30, 2008, 2007 and 2006 (in thousands)

Water Enterprise Fund	2008	2007	2006	Variance			
				2008/2007		2007/2006	
				Amount	%	Amount	%
Assets:							
Current and other assets	\$ 23,145	\$ 22,257	\$ 23,684	\$ 888	4.0%	\$ (1,427)	-6.0%
Capital assets	260,498	254,297	248,474	6,201	2.4%	5,823	2.3%
Total assets	<u>283,643</u>	<u>276,554</u>	<u>272,158</u>	<u>7,089</u>	<u>2.6%</u>	<u>4,396</u>	<u>1.6%</u>
Liabilities:							
Current liabilities	9,308	10,885	10,181	(1,577)	-14.5%	704	6.9%
Noncurrent liabilities	37,490	35,647	36,426	1,843	5.2%	(779)	-2.1%
Total liabilities	<u>46,798</u>	<u>46,532</u>	<u>46,607</u>	<u>266</u>	<u>0.6%</u>	<u>(75)</u>	<u>-0.2%</u>
Net Assets:							
Invested in capital assets, net of related debt	221,225	217,247	210,282	3,978	1.8%	6,965	3.3%
Restricted	4,178	4,409	4,355	(231)	-5.2%	54	1.2%
Unrestricted	11,442	8,366	10,914	3,076	36.8%	(2,548)	-23.3%
Total net assets	<u>\$ 236,845</u>	<u>\$ 230,022</u>	<u>\$ 225,551</u>	<u>\$ 6,823</u>	<u>3.0%</u>	<u>\$ 4,471</u>	<u>2.0%</u>
Sewer Enterprise Fund							
Assets:							
Current assets	\$ 3,775	\$ 5,777	\$ 10,598	\$ (2,002)	-34.7%	(4,821)	-45.5%
Capital assets	48,541	46,637	42,619	1,904	4.1%	4,018	9.4%
Total assets	<u>52,316</u>	<u>52,414</u>	<u>53,217</u>	<u>(98)</u>	<u>-0.2%</u>	<u>(803)</u>	<u>-1.5%</u>
Liabilities:							
Current liabilities	386	542	970	(156)	-28.8%	(428)	-44.1%
Net Assets:							
Invested in capital assets, net of related debt	48,541	46,637	42,619	1,904	4.1%	4,018	9.4%
Unrestricted	3,389	5,235	9,628	(1,846)	-35.3%	(4,393)	-45.6%
Total net assets	<u>\$ 51,930</u>	<u>\$ 51,872</u>	<u>\$ 52,247</u>	<u>\$ 58</u>	<u>0.1%</u>	<u>\$ (375)</u>	<u>-0.7%</u>

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Fiscal Year Ended September 30, 2008 compared to 2007

Water Enterprise Fund. Net assets increased by \$6,823 (+3.0%) over FY 2007. Approximately 45.1% (\$3,077) of this increase was attributable to revenues in excess of expenses. The remaining 54.9% (\$3,746) is due to contributed capital from State and Federal grants for conjunctive use well and seawater desalination capital projects totaling \$3,423, and contributed capital from developer project water infrastructure improvements totaling \$323.

Current and other assets increased by \$888 (+4.0%) from FY 2007, is due primarily to an increase in cash reserves from revenues in excess of operating expenses. Capital assets increased by \$6,201 (+2.4%) over the prior year due to continued expenditures on the capital improvement program and capitalization of the prototype of a subsurface seawater intake and discharge facility which was completed in July 2008.

Current liabilities decreased by \$1,577 (-14.5%) over FY 2007, primarily due to the prompt payment of accounts payable and final payment on the State Loan in June 2008. Noncurrent liabilities increased by \$1,843 (+5.2%) from the prior year. The increase is mostly attributable to the issuance of \$2,000 in Subordinate Water Revenue Commercial paper notes and accrued site restoration costs of \$1,000 for a prototype subsurface seawater intake and discharge facility. The accrued site restoration costs are further discussed in the Notes of Financial Statements.

Sewer Enterprise Fund. Net assets increased \$58 (+0.1%) from FY 2007 due to revenues exceeding expenses for the year. Current assets decreased by \$2,002 (-34.7%), reflecting a decrease in cash reserves due primarily to the funding of major sewer capital improvement project and other sewer operations. Capital assets increased \$1,904 (+4.1%) over FY 2007, primarily due to continued expenditures on the capital improvement program and purchase of new machinery and equipment. Current liabilities decreased by \$156 (-28.8%) compared to FY 2007 mainly due to the prompt payment of accounts payable at the end of the fiscal year.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
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Fiscal Year Ended September 30, 2007 compared to 2006

Water Enterprise Fund. Net assets increased by \$4,471 (+2.0%) over FY 2006. Approximately 43% of this increase was attributable to revenues in excess of expenses of \$1,927. The remaining 57% (\$2,544) is due to contributed capital from State and Federal grants for reclaimed water, conjunctive use well and seawater desalination capital projects totaling \$2,098, and contributed capital from developer project water infrastructure improvements totaling \$446.

Current and other assets decreased by \$1,427 (-6.0%) from FY 2006, reflecting decreases in cash reserves due primarily to increased expenditures on capital assets. Capital assets increased by \$5,823 (+2.3%) over the prior year due to continued expenditures on the capital improvement program. The increase in capital assets was partially offset by an increase in depreciation and amortization, primarily due to recognition of depreciation of the capitalized seawater desalination prototype facility, which was completed during the year.

Current liabilities increased by \$704 (+6.9%) over FY 2006, primarily due to an increase in accounts payable on the accrual of 1997 Bond arbitrage for \$265. Noncurrent liabilities decreased by \$779 (-2.1%) from the prior year. The decrease reflects maturities of debt of \$1,179 offset by an increase in other noncurrent liabilities of \$400 for accrued desalination prototype facility site restoration costs. The terms of the land lease agreement for the site where the facility is located require the site to be restored to its original condition at the commencement of the lease agreement.

Sewer Enterprise Fund. Net assets decreased \$375 (-0.7%) from FY 2006 due to expenses exceeding revenues for the year. Current assets decreased by \$4,821 (-45.5%), reflecting a decrease in cash reserves due primarily to the funding of a major sewer capital improvement project. Additionally, the City of Long Beach imposed an annual pipeline permit fee, effective October 1, 2006, that is assessed on sewer main lines throughout the City. Capital assets increased \$4,018 (+9.4%) over FY 2006, primarily due to continued expenditures on the capital improvement program, partially offset by an increase in depreciation. Current liabilities decreased by \$428 (-44.1%) compared to FY 2006 mainly due to decreases in accounts payable associated with construction contracts.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

The Water Department's Condensed Schedules of Revenues, Expenses and Changes in Fund Net Assets provide further insight as to the nature and source of changes in net assets and are summarized as follows for the years ended September 30, 2008, 2007, and 2006 (in thousands):

**Long Beach Water Department
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets
Fiscal Years Ended September 30, 2008, 2007 and 2006
(in thousands)**

	2008	2007	2006	Variance			
				2008/2007		2007/2006	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 53,178	\$ 53,540	\$ 49,931	\$ (362)	-0.7%	\$ 3,609	7.2%
Reclaimed water sales	2,413	2,574	1,600	(161)	-6.2%	974	60.9%
Service charges	21,367	19,188	17,317	2,179	11.4%	1,871	10.8%
Maintenance services	442	296	780	146	49.3%	(484)	-62.1%
Other services	5,987	5,472	5,690	515	9.4%	(218)	-3.8%
Total operating revenues	<u>83,387</u>	<u>81,070</u>	<u>75,318</u>	<u>2,317</u>	<u>2.9%</u>	<u>5,752</u>	<u>7.6%</u>
Operating Expenses:							
Cost of water	18,036	20,605	19,179	(2,569)	-12.5%	1,426	7.4%
Personal services	18,041	16,969	15,663	1,072	6.3%	1,306	8.3%
Maintenance and other	19,568	16,921	17,044	2,648	15.6%	(123)	-0.7%
Depreciation and amortization	11,801	12,218	9,118	(417)	-3.4%	3,100	34.0%
Franchise and permit fees	9,043	8,599	4,570	444	5.2%	4,029	88.2%
Other	3,277	3,164	3,144	113	3.6%	20	0.6%
Total operating expenses	<u>79,766</u>	<u>78,476</u>	<u>68,718</u>	<u>1,291</u>	<u>1.6%</u>	<u>9,758</u>	<u>14.2%</u>
Operating income	3,621	2,594	6,600	1,026	39.6%	(4,006)	-60.7%
Non-Operating Income (Expenses):							
Interest income	774	1,117	1,019	(343)	-30.7%	98	9.6%
Interest expense	(2,078)	(2,218)	(2,255)	140	-6.3%	37	-1.6%
Gain (Loss) on disposition of property	(108)	66	(225)	(174)	-263.6%	291	-129.4%
Rents	1,382	682	733	700	102.6%	(51)	-6.9%
Other income (expenses), net	(456)	(690)	392	234	-33.9%	(1,082)	-276.0%
Income before contributed capital	<u>3,135</u>	<u>1,551</u>	<u>6,264</u>	<u>1,583</u>	<u>102.1%</u>	<u>(4,713)</u>	<u>-75.2%</u>
Capital contributions	3,746	2,544	2,634	1,202	47.2%	(90)	-3.4%
Change in net assets	6,881	4,095	8,898	2,785	68.0%	(4,803)	-54.0%
Beginning net assets	281,894	277,798	268,900	4,096	1.5%	8,898	3.3%
Ending net assets	<u>\$ 288,775</u>	<u>\$ 281,894</u>	<u>\$ 277,798</u>	<u>\$ 6,881</u>	<u>2.4%</u>	<u>\$ 4,096</u>	<u>1.5%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

The Department's operations are further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund for the years ended September 30, 2008, 2007 and 2006:

Water Enterprise Fund
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets
Fiscal Years Ended September 30, 2008, 2007 and 2006
(in thousands)

	2008	2007	2006	Variance			
				2008/2007		2007/2006	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 49,196	\$ 50,001	\$ 46,877	\$ (805)	-1.6%	\$ 3,124	6.7%
Reclaimed water sales	2,413	2,574	1,600	(161)	-6.2%	974	60.9%
Service charges	15,156	13,959	12,727	1,197	8.6%	1,232	9.7%
Other services	4,839	3,725	4,870	1,114	29.9%	(1,145)	-23.5%
Total operating revenues	<u>71,604</u>	<u>70,259</u>	<u>66,074</u>	<u>1,345</u>	<u>1.9%</u>	<u>4,185</u>	<u>6.3%</u>
Operating Expenses:							
Cost of water	18,036	20,605	19,179	(2,569)	-12.5%	1,426	7.4%
Personal services	14,974	14,069	12,974	905	6.4%	1,095	8.4%
Maintenance and other	17,197	14,621	14,576	2,576	17.6%	45	0.3%
Depreciation and amortization	10,628	10,972	7,885	(344)	-3.1%	3,087	39.2%
Franchise and permit fees	5,107	4,846	4,570	261	5.4%	276	6.0%
Other	1,925	1,824	1,797	101	5.5%	27	1.5%
Total operating expenses	<u>67,867</u>	<u>66,937</u>	<u>60,981</u>	<u>930</u>	<u>1.4%</u>	<u>5,956</u>	<u>9.8%</u>
Operating income	3,737	3,322	5,093	415	12.5%	(1,771)	-34.8%
Non-Operating Income (Expenses):							
Interest income	602	758	653	(156)	-20.5%	105	16.1%
Interest expense	(2,078)	(2,218)	(2,255)	140	-6.3%	37	-1.6%
Gain (Loss) on disposition of property	(108)	66	(213)	(174)	-263.6%	279	-131.0%
Rents	1,382	682	733	700	102.6%	(51)	-7.0%
Other income (expenses), net	(458)	(683)	391	225	-32.9%	(1,074)	-274.6%
Income before contributed capital	<u>3,077</u>	<u>1,927</u>	<u>4,402</u>	<u>1,150</u>	<u>59.7%</u>	<u>(2,475)</u>	<u>-56.2%</u>
Capital contributions	3,746	2,544	2,634	1,202	47.2%	(90)	-3.4%
Change in net assets	<u>6,823</u>	<u>4,471</u>	<u>7,036</u>	<u>2,352</u>	<u>52.6%</u>	<u>(2,565)</u>	<u>-36.5%</u>
Beginning net assets	<u>230,022</u>	<u>225,551</u>	<u>218,515</u>	<u>4,471</u>	<u>2.0%</u>	<u>7,036</u>	<u>3.2%</u>
Ending net assets	<u>\$ 236,845</u>	<u>\$ 230,022</u>	<u>\$ 225,551</u>	<u>\$ 6,823</u>	<u>3.0%</u>	<u>\$ 4,471</u>	<u>2.0%</u>

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Management's Discussion and Analysis September 30, 2008 and 2007

Sewer Enterprise Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets Fiscal Years Ended September 30, 2008, 2007 and 2006 (in thousands)

	2008	2007	2006	Variance			
				2008/2007		2007/2006	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 3,982	\$ 3,539	\$ 3,054	443	12.5%	\$ 485	15.9%
Service charges	6,211	5,229	4,590	982	18.8%	639	13.9%
Maintenance services	442	296	780	146	49.3%	(484)	-62.1%
Other services	1,148	1,747	820	(599)	-34.3%	927	113.0%
Total operating revenues	<u>11,783</u>	<u>10,811</u>	<u>9,244</u>	<u>972</u>	<u>9.0%</u>	<u>1,567</u>	<u>17.0%</u>
Operating Expenses:							
Personal services	3,067	2,900	2,689	167	5.8%	211	7.8%
Maintenance and other	2,371	2,300	2,468	71	3.1%	(168)	-6.8%
Franchise and permit fees	3,936	3,753	-	183	4.9%	3,753	100%
Depreciation	1,173	1,246	1,233	(73)	-5.8%	13	1.0%
Other	1,352	1,340	1,347	12	0.9%	(7)	-0.5%
Total operating expenses	<u>11,899</u>	<u>11,539</u>	<u>7,737</u>	<u>360</u>	<u>3.1%</u>	<u>3,802</u>	<u>49.1%</u>
Operating income (expenses)	(116)	(728)	1,507	612	-84.1%	(2,235)	-148.3%
Non-Operating Income (Expenses):							
Interest income	172	359	366	(187)	-52.1%	(7)	-1.9%
Loss on disposition of property	-	-	(12)	-	-	12	100.0%
Other income (expenses), net	2	(7)	1	9	-128.7%	(8)	-800.0%
Income (loss) before contributed capital	58	(376)	1,862	434	-115.4%	(2,238)	-120.2%
Capital contributions	-	-	-	-	-	-	-
Change in net assets	58	(376)	1,862	434	-115.4%	(2,238)	-120.2%
Beginning net assets	51,872	52,247	50,385	(375)	-0.7%	1,862	3.7%
Ending net assets	<u>\$ 51,930</u>	<u>\$ 51,872</u>	<u>\$ 52,247</u>	<u>\$ 58</u>	<u>0.1%</u>	<u>\$ (375)</u>	<u>-0.7%</u>

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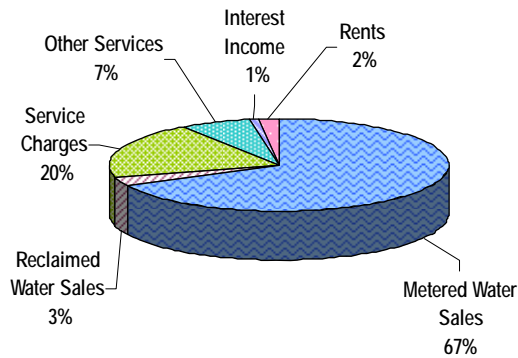
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Sources of Revenues

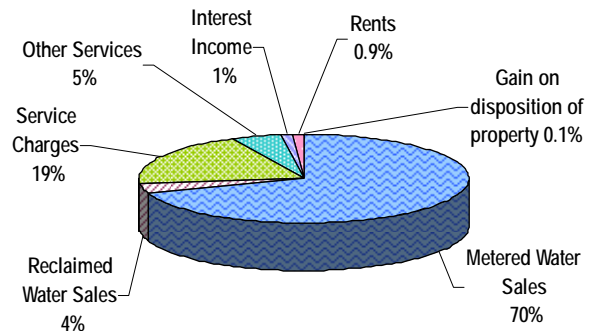
Sources of revenue for fiscal years 2008 and 2007 are shown on the following charts.

Water Enterprise Fund

2008

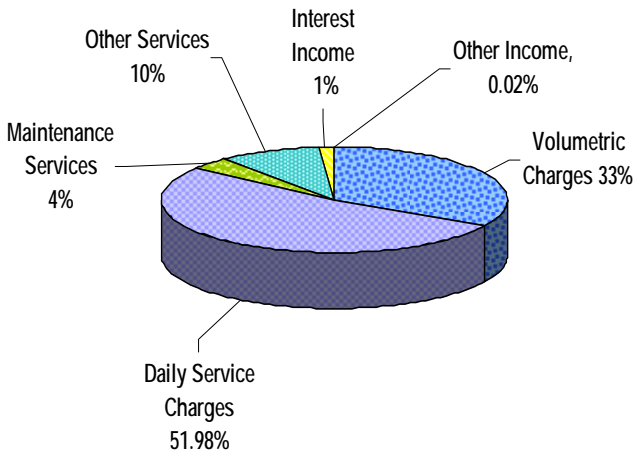


2007

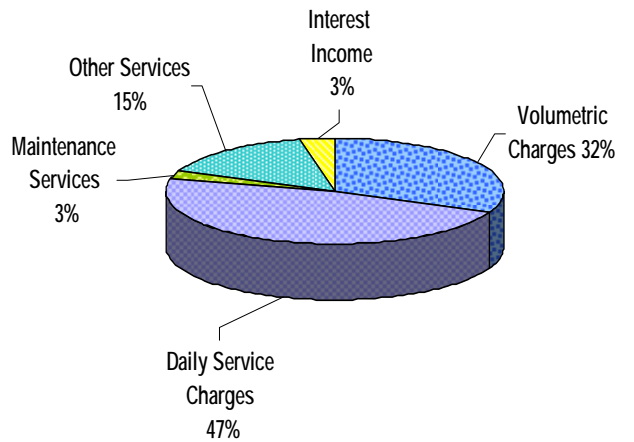


Sewer Enterprise Fund

2008



2007



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Management Review of the Department's Revenues

Water Enterprise Fund

Fiscal Year Ended September 30, 2008 compared to 2007

Total operating revenues were \$71,604, a net increase of \$1,345 (+1.9%) over FY 2007. The major factors to this net increase are as follows:

- Metered potable water sales decreased by \$805 (-1.6%) and reclaimed water sales by \$161 (-6.2%) compared to FY2007, primarily due to decreased domestic demand in potable water by 9.4% and reclaimed water by 11.5%. This is a result of the effective water conservation campaigns and programs being provided by the Department. However, the decreases in sales were offset by a 5.5% increase in potable water and reclaimed water rates effective October 1, 2007.
- Daily service charges increased by \$1,197 (+8.6%) over FY 2007 which reflects the 5.5% rate increase imposed on October 1, 2007.
- Revenue from other services totaled \$4,839, an increase of \$1,114 (+29.9%) from the prior year. The net increase is attributable to the revenue received from sales of potable water to Water Replenishment District of Southern California (WRD) and Orange County Water District (OCWD) for the Alamitos Seawater Intrusion Barrier. In addition, revenue increased by \$354 (+20%) from increased operations and maintenance of WRD's Leo J. Vander Lans Water Treatment facility (LJVL facility) in FY 2008 compared to FY 2007.

Fiscal Year Ended September 30, 2007 compared to 2006

Total operating revenues were \$70,259, an increase of \$4,185 (+6.3%) over FY 2006. Metered potable water sales increased \$3,124 (+6.7%), reclaimed water sales increased \$974 (+60.9%) and daily service charges increased \$1,232 (+9.7%) over FY 2006. The increases reflect both a 3% general rate increase effective November 1, 2006, and the termination, effective October 1, 2006, of a long standing Memorandum of Understanding (MOU) between the Department and the City of Long Beach in which the City was not charged for municipal use of potable and reclaimed water. Potable water demand also increased over the previous year by 2.8% while reclaimed water demand was relatively flat compared to last year. The large increase in reclaimed water sales revenue was due to the substantial number of municipal metered accounts that had previously used reclaimed water at no charge.

Revenue from other services totaled \$3,725, a net decrease of \$1,145 (-23.5%) from the prior year. The majority of other services revenue is attributable to revenue from a contractual agreement with Water Replenishment District of Southern California (WRD) for the operation and maintenance of WRD's Leo J. Vander Lans Water Treatment

LONG BEACH WATER DEPARTMENT

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facility (LJVL facility); sales of potable water to WRD for the Alamitos Seawater Intrusion Barrier; and WRD incentive payments for in-lieu groundwater basin replenishment. In-lieu replenishment of the groundwater basin is achieved by shifting the supply of potable water for domestic demand from groundwater pumping to purchased treated potable water from the Metropolitan Water District of Southern California (MWD). The net decrease in revenue from other services is mostly attributable to decreased potable water sales for the Alamitos Barrier due to WRD's drawdown of potable water previously banked under an in-lieu groundwater storage agreement between the Department and WRD.

Sewer Enterprise Fund

Fiscal Year Ended September 30, 2008 compared to 2007

Total operating revenues increased \$972 (+9.0%) over FY 2007. The key elements of this increase are as follows:

- Metered water sales and service charges revenue increased by \$443 (+12.5%) and \$982 (+18.8%) over FY 2007 respectively, as a result of a 16% rate increase imposed on October 1, 2007.
- Maintenance services revenue comes from providing the City telemetry services and maintenance services for the storm drain channel pump stations and for sewer pump stations located in the Tidelands area. In FY 2008, maintenance services revenue increased by \$146 (+49.3%) over FY 2007 primarily due to the reimbursements from the City for major emergency repairs on the storm drain pump stations. This increase was offset by a decrease in other services revenue in FY 2008 by \$599 (-34.3%) compared to FY 2007. This decrease is attributable to the following major components as follows:
 - Capacity charges decreased by \$226 (-26.1%) in FY 2008 compared to FY 2007. This is a result of less new construction development in the city of Long Beach in FY 2008.
 - Sewer Tree Root Revenue decreased by \$325 (-39.3%) in FY 2008 compared to FY 2007. This revenue is derived from a Memorandum of Understanding (MOU) between the City and the Department for City reimbursement of Department costs incurred to repair sewer pipe damage caused by tree root intrusion from City owned trees. This MOU ended May 1, 2007, which accounts for the decrease in revenue.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2008 and 2007

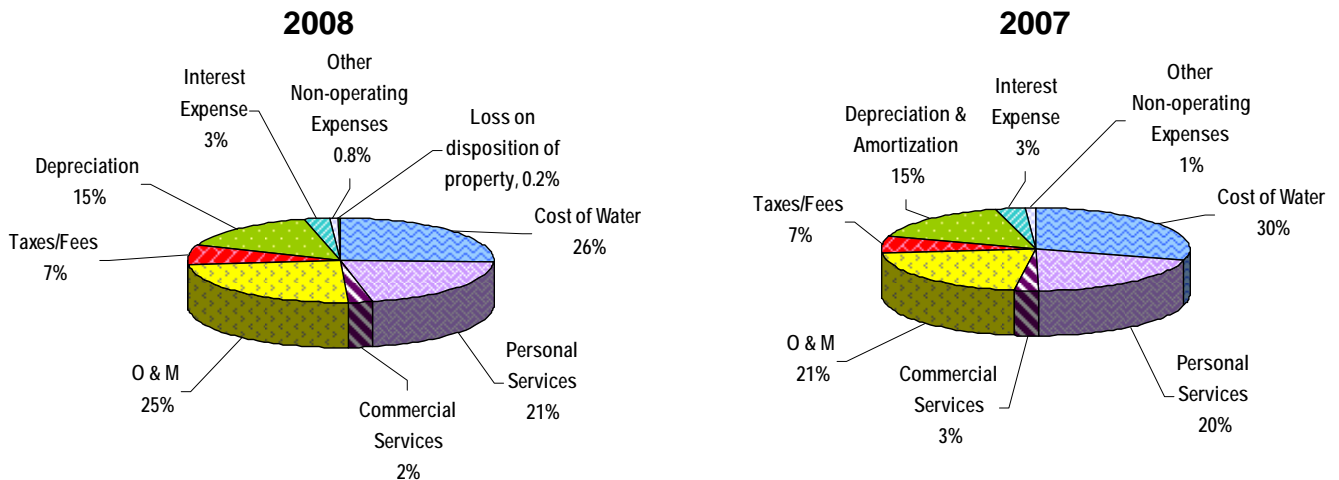
Fiscal Year Ended September 30, 2007 compared to 2006

Total operating revenues increased \$1,567 (+17.0%) over FY 2006. The increase is primarily attributable to a 16% rate increase on sewer metered sales and daily service charges effective November 1, 2006. In addition, other services revenue increased by \$927 (+113.0%) over FY 2006. The increases is primarily due to a new MOU between the City and the Department effective October 1, 2006, in which the City is to reimburse the Department for costs incurred to repair sewer pipe damage caused by tree root intrusion from City owned trees. City reimbursements paid to the Department for such sewer repair costs totaled \$828. Maintenance services decreased by \$484 (-62.1%) due to a reduction in City storm drain maintenance service charges when the City took over maintenance and cleaning of the open storm channels and catch basins.

Functional Expenses

Functional expenses for the 2008 and 2007 fiscal years are shown on the following charts.

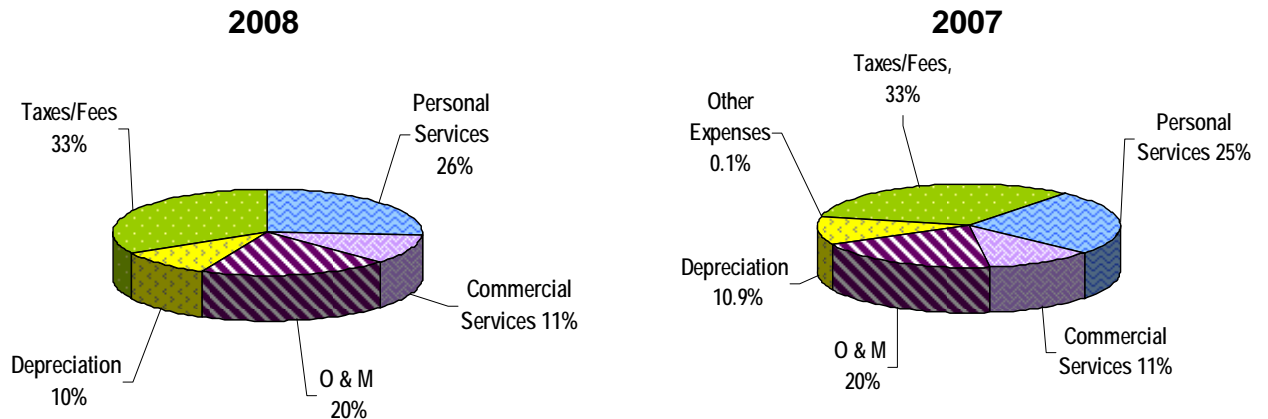
Water Enterprise Fund



LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
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Sewer Enterprise Fund



Management Review of the Department's Expenses.

Water Enterprise Fund

Fiscal Year Ended September 30, 2008 compared to 2007

FY 2008 operating expenses totaled \$67,867, an increase of \$930 (+1.4%) over FY 2007. Key elements of this increase are as follows:

- Labor costs increased by \$905 (+6.4%) over FY 2007, as a result of increases in negotiated Cost of Living Allowance (COLA), fringe benefits, workers' compensation benefits and number of personnel filling budgeted vacant positions.
- Franchise and permit fees increased \$261 (+5.4%) reflecting an increase in the pipeline permit fee assessed by the City. The fee is subject to adjustment annually by a Consumer Price Index inflation factor.
- Maintenance and other expenses increased by \$2,576 (+17.6%) in FY08. These increases are attributable to the following major factors:
 - Replenishment Assessment (pump tax) costs increased by \$838 (+22.2%) in FY 2008 due to the increase in groundwater pumping in relation to the conjunctive use program and rate increases of 8.0% for the first three quarters and 2.7% for the last quarter of FY 2008.
 - Utilities, primarily electric power costs, increased by \$769 (+27.3%) due to increased operations of Leo J. Vander Lans Water Treatment facility (LJVL facility) and increased groundwater pumping in FY 2008.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

- Laboratory and chemical supplies increased by \$360 (+37.8%) due to the increase in prices of supplies and due to the full operation of Leo J. Vander Lans Water Treatment facility (LJVL facility).
- Other taxes increased by \$151 (+119.4%) in FY 2008 primarily due to the increase in surcharges paid to the Sanitation Districts of Los Angeles County.
- Advertising expenses increased by \$136 (+354.1%) in FY 2008 due to payments made to promote water conservation by means of newspapers, cable stations, billboards, signs on bus shelters, and internet websites.
- Machinery and equipment repairs increased by \$112 (+60.4%) in FY 2008 primarily due to major repairs done on pump stations and maintenance services for laboratory equipment.
- Motor fuel costs increased by \$92 (+27.2%), reflecting the increased price of diesel and gasoline fuel in FY 2008.

These major increases were offset by the following decreases in operating expenses in FY 2008:

- Purchased water costs decreased by \$2,569 (-12.5%) due to the decrease in potable water demand as a result of successful water conservation campaigns and programs provided by the Department.
- Depreciation and amortization expense decreased \$344 (-3.1%) in FY 2008 compared to FY 2007.

FY 2008 net non-operating expense totaled \$660, a decrease of \$735 (-52.7%) over FY 2007. This decrease is primarily due to an increase in rent income by \$700 (+102.6%) and a decrease in interest expense by \$140 (-6.3%).

Fiscal Year Ended September 30, 2007 compared to 2006

FY 2007 operating expenses totaled \$66,937, an increase of \$5,956 (+9.8%) over FY 2006. Key elements of this increase are as follows:

- Purchased water costs increased \$1,426 (+7.4%) due to increased demand and a 5.5% increase in MWD's rate for treated potable water effective January 1, 2007.
- Labor costs increased by \$1,095 (+8.4%) over FY 2006, as a result of an increase in personnel filling budgeted but previously vacant positions, negotiated COLA increases, and increased overtime pay.
- Franchise and permit fees increased \$276 (+6.0%) reflecting an increase in the pipeline permit fee assessed by the City. The fee is subject to adjustment annually by a Consumer Price Index inflation factor.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

- Depreciation and amortization expense increased \$3,087 (+39.2 %) primarily due to recognition of \$2,326 in depreciation of the capitalized seawater desalination prototype facility.

FY 2007 other net non-operating expense totaled \$683, an increase of \$1,074 (+274.6%) over FY 2006 as a result of expenses incurred on the seawater desalination research and development project.

Sewer Enterprise Fund

Fiscal Year Ended September 30, 2008 compared to 2007

FY 2008 operating expenses totaled \$11,899, an increase of \$360 (+3.1%) over FY 2007. Key elements of this increase are as follows:

- Labor costs increased by \$167 (+5.8%) over FY 2007 due to the negotiated Cost of Living Allowance (COLA) increases and increased overtime pay.
- Franchise and permit fees increased \$183 (+4.9%) reflecting an increase in the pipeline permit fee assessed by the City. The fee is subject to adjustment annually by a Consumer Price Index inflation factor and is calculated based on pipe diameter and lineal footage.
- Maintenance and other expenses increased by \$71 (+3.1%) over FY 2007. This increase is attributable to the following major factors:
 - Machinery and equipment repairs increased by \$130 (+251.3%) due to the major emergency repairs done on Storm Drain Pump Stations during FY 2008.
 - Disposal services increased by \$43 (+56.0%) due to several sewage spill clean outs during FY 2008 as part of sewer operations.
 - Refuse costs decreased by \$109 (-85.0%) due to the termination of the Memorandum of Understanding (MOU) between the City and the Department on the Tree Root Intrusion Program on May 1, 2007.

FY 2008 net non-operating income totaled \$174, a decrease of \$178 (-50.6%) over FY 2007 which was mostly due to a decrease in interest income.

Fiscal Year Ended September 30, 2007 compared to 2006

FY 2007 operating expenses totaled \$11,539, an increase of \$3,802 (+49.1%) over FY 2006. This increase is due primarily to the City imposing an annual pipeline permit fee, effective October 1, 2006, that is assessed on sewer main lines throughout the City. The FY 2007 pipeline permit fee totaled \$3,753 and is calculated based on pipe diameter and lineal footage. The fee per lineal foot is subject to adjustment annually by a Consumer Price Index inflation factor. Imposition of the permit fee was partially offset by the

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2008 and 2007

elimination of Department support of City programs for vector control and storm water management totaling \$338, and City reimbursements totaling \$828 paid to the Department for costs incurred to repair sewer pipe damage caused by tree root intrusion from City owned trees. In addition, labor costs increased by \$211 (+7.8%) over FY 2006, primarily as a result of negotiated COLA increases and increased overtime pay.

Capital Assets and Debt Administration

Capital assets. The Department's capital assets (net of accumulated depreciation and amortization) as of September 30, 2008 amounted to \$260,498 for the Water Fund and \$48,541 for the Sewer Fund. Capital assets include investments in production, transmission, patent, seawater desalination projects and distribution related facilities, as well as general items such as office equipment and furniture. For the 2008 fiscal year, Water Fund net capital assets increased 2% due to ongoing improvements in the Department's transmission, distribution and storage capabilities, including projects for reclaimed water system expansion, conjunctive use wells, and seawater desalination. Sewer Fund net capital assets increased 4% over FY 2007 due primarily to ongoing sewer main replacement and improvement programs.

The Department's capital assets are summarized as follows for the years ended September 30, 2008, 2007, and 2006 (in thousands):

Long Beach Water Department Capital Assets September 30, 2008, 2007, and 2006 (in thousands)							
	2008	2007	2006	Variance			
				2008/2007		2007/2006	
				Amount	%	Amount	%
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Patent - Desalination	815	815	-	-	0%	815	100%
Seawater Desalination Project	12,486	7,871	-	4,615	59%	7,871	100%
Buildings, structures, and facilities	107,775	107,775	107,876	-	0%	(101)	0%
Distribution, collection systems	400,370	397,500	390,907	2,870	1%	6,593	2%
Machinery and equipment	16,525	15,743	15,296	782	5%	447	3%
Construction in progress	42,048	31,002	25,175	11,046	36%	5,827	23%
Total capital assets	591,299	571,986	550,533	19,313	3%	21,453	4%
Less: accumulated depreciation & amortization	(282,260)	(271,052)	(259,440)	(11,208)	4%	(11,612)	4%
Net capital assets	<u>\$ 309,039</u>	<u>\$ 300,934</u>	<u>\$ 291,093</u>	<u>\$ 8,105</u>	<u>3%</u>	<u>\$ 9,841</u>	<u>3%</u>

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

The Department's capital assets are further broken down as follows between the Department's Water Enterprise Fund and the Sewer Enterprise Fund for the years ended September 30, 2008, 2007, and 2006:

Long Beach Water Department Capital Assets September 30, 2008, 2007, and 2006 (in thousands)							
	2008	2007	2006	Variance			
				2008/2007		2007/2006	
Water Enterprise Fund				Amount	%	Amount	%
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Patent - Desalination	815	815	-	-	0%	815	100%
Seawater Desalination Project	12,486	7,871	-	4,615	59%	7,871	100%
Buildings, structures, and facilities	102,094	102,094	102,195	-	0%	(101)	0%
Distribution, collection systems	231,672	228,802	222,209	2,870	1%	6,593	3%
Machinery and equipment	12,732	12,047	11,724	685	6%	323	3%
Construction in progress	30,396	22,283	21,550	8,113	36%	733	3%
Total capital assets	<u>401,475</u>	<u>385,192</u>	<u>368,958</u>	16,283	4%	16,234	4%
Less: accumulated depreciation & amortization	<u>(140,977)</u>	<u>(130,895)</u>	<u>(120,484)</u>	<u>(10,082)</u>	8%	<u>(10,410)</u>	9%
Net capital assets	<u>\$ 260,498</u>	<u>\$ 254,297</u>	<u>\$ 248,474</u>	<u>\$ 6,201</u>	2%	<u>\$ 5,824</u>	2%
Sewer Enterprise Fund							
Buildings, structures, and facilities	\$ 5,681	\$ 5,681	\$ 5,681	\$ -	0%	\$ -	0%
Distribution, collection systems	168,698	168,698	168,698	-	0%	-	0%
Machinery and equipment	3,793	3,696	3,572	97	3%	124	3%
Construction in progress	11,652	8,719	3,624	2,933	34%	5,095	141%
Total capital assets	<u>189,824</u>	<u>186,794</u>	<u>181,575</u>	3,030	2%	5,219	3%
Less: accumulated depreciation	<u>(141,283)</u>	<u>(140,157)</u>	<u>(138,956)</u>	<u>(1,126)</u>	1%	<u>(1,201)</u>	1%
Net capital assets	<u>\$ 48,541</u>	<u>\$ 46,637</u>	<u>\$ 42,619</u>	<u>\$ 1,904</u>	4%	<u>\$ 4,018</u>	9%

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

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2008 and 2007

Long-term debt. The Water Enterprise Fund had total long-term debt outstanding of \$37,420 as of September 30, 2008 and \$36,599 outstanding as of September 30, 2007. The debt is backed by Water Enterprise Fund revenues. The Water Department's outstanding debt as of September 30, 2008, 2007 and 2006 is summarized as follows:

**Long Beach Water Department
Summary of Long-Term Debt
September 30, 2008, 2007 and 2006
(in thousands)**

	2008	2007	2006	Variance			
				2008/2007		2007/2006	
				Amount	%	Amount	%
Revenue refunding bonds	\$ 32,200	\$ 33,465	\$ 34,675	(1,265)	-3.8%	(1,210)	-3.5%
State loan	-	87	230	(87)	-100.0%	(143)	-62.1%
Commercial paper notes	8,000	6,000	6,000	2,000	33.3%	-	0.0%
Long term debt outstanding	40,200	39,552	40,905	648	1.6%	(1,353)	-3.3%
Less:							
Unamortized bond discount	(213)	(226)	(239)	13	-5.9%	13	-5.5%
Unamortized loss on refunding	(2,567)	(2,727)	(2,887)	160	-5.9%	160	-5.5%
Total long term debt	\$ 37,420	\$ 36,599	\$ 37,779	821	2.2%	(1,180)	-3.1%

The Water Department maintains an AA credit rating from Standard & Poors. 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 approved the budget for the fiscal year end September 30, 2009, with budgeted expenditures totaling approximately \$83.6 million and \$13.7 million for the Water fund and Sewer fund, respectively. Budgeted expenditures include capital improvement program expenditures and Water fund debt service. The Board also approved water and sewer rate increases effective October 1, 2007, which combined equate to a 7.0% increase in the average household monthly bill. The increases were necessary to cover escalating core costs of providing service, including imported water, groundwater water treatment chemicals, electrical power, replenishment assessments (pump tax), construction costs, and the imposition of the City pipeline permit fee on the sewer system.

Requests for Information

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

LONG BEACH WATER DEPARTMENT

**Statements of Net Assets
September 30, 2008 and 2007**

ASSETS	2008			2007		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Current Assets:						
Pooled cash and cash equivalents	\$ 8,687,844	3,215,585	11,903,429	\$ 6,486,590	5,287,401	11,773,991
Non-pooled investments	603,467	-	603,467	603,467	-	603,467
Customer accounts receivable	5,247,918	529,590	5,777,508	5,771,944	459,601	6,231,545
Allowance for doubtful accounts	(244,281)	(36,632)	(280,913)	(229,879)	(30,727)	(260,606)
Nonperforming investments	21,996	6,708	28,704	-	-	-
Material and supplies inventory	2,129,426	59,633	2,189,059	2,255,877	60,602	2,316,479
Restricted Assets:						
Pooled cash and cash equivalents:						
Funds held in trust	692,306	-	692,306	706,004	-	706,004
1997 bond service fund	1,182,813	-	1,182,813	1,413,156	-	1,413,156
Sub-total pooled cash and cash equivalents	1,875,119	-	1,875,119	2,119,160	-	2,119,160
Non-pooled investments	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Total restricted assets	4,870,702	-	4,870,702	5,114,743	-	5,114,743
Total current assets	21,317,072	3,774,884	25,091,956	20,002,742	5,776,877	25,779,619
Capital assets:						
Land	11,279,519	-	11,279,519	11,279,519	-	11,279,519
Patent desalination	815,058	-	815,058	815,058	-	815,058
Seawater desalination project	12,485,790	-	12,485,790	7,871,476	-	7,871,476
Buildings, structures and facilities	102,093,776	5,681,145	107,774,921	102,093,776	5,681,145	107,774,921
Distribution/collection systems	231,671,969	168,697,727	400,369,696	228,801,560	168,697,727	397,499,287
Machinery and equipment	12,732,986	3,792,882	16,525,868	12,047,156	3,696,478	15,743,634
Construction in progress	30,396,394	11,652,279	42,048,673	22,283,470	8,718,595	31,002,065
Total capital assets	401,475,492	189,824,033	591,299,525	385,192,015	186,793,945	571,985,960
Less: Accumulated depreciation and amortization	(140,977,241)	(141,283,320)	(282,260,561)	(130,894,571)	(140,156,833)	(271,051,404)
Net capital assets	260,498,251	48,540,713	309,038,964	254,297,444	46,637,112	300,934,556
Deferred Charges, Net of Amortization	691,323	-	691,323	756,870	-	756,870
Prepaid Expense	1,137,100	-	1,137,100	1,497,054	-	1,497,054
Total noncurrent assets	262,326,674	48,540,713	310,867,387	256,551,368	46,637,112	303,188,480
Total assets	\$ 283,643,746	52,315,597	335,959,343	\$ 276,554,110	52,413,989	328,968,099
LIABILITIES						
Current Liabilities:						
Accounts payable	\$ 5,511,613	134,257	5,645,870	\$ 7,194,885	335,558	7,530,443
Accrued wages payable	774,935	196,123	971,058	647,379	168,782	816,161
Advances from developers	260,954	55,456	316,410	220,166	37,958	258,124
Amounts Payable from Restricted Assets:						
Accrued interest payable	738,612	-	738,612	764,408	-	764,408
Long-term debt due within one year	1,330,000	-	1,330,000	1,352,302	-	1,352,302
Customer deposits	692,318	-	692,318	706,016	-	706,016
Total amounts payable from restricted assets	2,760,930	-	2,760,930	2,822,726	-	2,822,726
Total current liabilities	9,308,432	385,836	9,694,268	10,885,156	542,298	11,427,454
Noncurrent Liabilities:						
Long-term debt, net of current portion	36,090,280	-	36,090,280	35,247,033	-	35,247,033
Accrued site restoration cost	1,400,000	-	1,400,000	400,000	-	400,000
Total noncurrent liabilities	37,490,280	-	37,490,280	35,647,033	-	35,647,033
Total Liabilities	46,798,712	385,836	47,184,548	46,532,189	542,298	47,074,487
NET ASSETS						
Invested in capital assets, net of related debt	221,224,431	48,540,713	269,765,144	217,246,821	46,637,112	263,883,933
Restricted net assets for:						
Bond Service	1,182,813	-	1,182,813	1,413,156	-	1,413,156
Bond Reserve	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Unrestricted net assets	11,442,207	3,389,048	14,831,255	8,366,361	5,234,579	13,600,940
Total Net Assets	\$ 236,845,034	51,929,761	288,774,795	\$ 230,021,921	51,871,691	281,893,612

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

**Statements of Revenues, Expenses,
and Changes in Fund Net Assets
Years Ended September 30, 2008 and 2007**

	2008			2007		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Operating Revenues:						
Metered water sales	\$ 49,196,077	3,982,376	53,178,453	\$ 50,000,683	3,539,555	53,540,238
Reclaimed water sales	2,413,476	-	2,413,476	2,573,527	-	2,573,527
Service charges	15,155,922	6,211,476	21,367,398	13,958,901	5,229,338	19,188,239
Maintenance services	-	442,012	442,012	-	295,939	295,939
Other services	4,838,932	1,147,403	5,986,335	3,725,517	1,746,743	5,472,260
Total operating revenues	<u>71,604,407</u>	<u>11,783,267</u>	<u>83,387,674</u>	<u>70,258,628</u>	<u>10,811,575</u>	<u>81,070,203</u>
Operating Expenses:						
Cost of water	18,035,518	-	18,035,518	20,605,592	-	20,605,592
Personal services	14,974,306	3,066,655	18,040,961	14,069,396	2,899,640	16,969,036
Commercial services	1,704,594	1,328,537	3,033,131	1,757,394	1,325,265	3,082,659
Maintenance and other	17,197,050	2,370,646	19,567,696	14,620,723	2,299,809	16,920,532
Franchise and permit fees	5,107,321	3,935,814	9,043,135	4,845,778	3,753,595	8,599,373
Provision for doubtful accounts	220,045	24,080	244,125	66,188	14,987	81,175
Depreciation and amortization	10,628,148	1,173,321	11,801,469	10,972,001	1,245,848	12,217,849
Total operating expenses	<u>67,866,982</u>	<u>11,899,053</u>	<u>79,766,035</u>	<u>66,937,072</u>	<u>11,539,144</u>	<u>78,476,216</u>
Operating income (loss)	<u>3,737,425</u>	<u>(115,786)</u>	<u>3,621,639</u>	<u>3,321,556</u>	<u>(727,569)</u>	<u>2,593,987</u>
Non-operating Income (Expense):						
Interest income	601,632	171,726	773,358	758,031	359,312	1,117,343
Interest expense	(2,077,720)	-	(2,077,720)	(2,217,879)	-	(2,217,879)
Gain (Loss) on disposition of property	(107,602)	-	(107,602)	66,008	-	66,008
Rental income	1,381,905	-	1,381,905	682,421	-	682,421
Other	(458,558)	2,130	(456,428)	(683,060)	(7,426)	(690,486)
Total non-operating income (expense)	<u>(660,343)</u>	<u>173,856</u>	<u>(486,487)</u>	<u>(1,394,479)</u>	<u>351,886</u>	<u>(1,042,593)</u>
Income (loss) before contributed capital	<u>3,077,082</u>	<u>58,070</u>	<u>3,135,152</u>	<u>1,927,077</u>	<u>(375,683)</u>	<u>1,551,394</u>
Contributed capital	<u>3,746,031</u>	<u>-</u>	<u>3,746,031</u>	<u>2,543,971</u>	<u>-</u>	<u>2,543,971</u>
Changes in net assets	<u>6,823,113</u>	<u>58,070</u>	<u>6,881,183</u>	<u>4,471,048</u>	<u>(375,683)</u>	<u>4,095,365</u>
Net assets at beginning of year	<u>230,021,921</u>	<u>51,871,691</u>	<u>281,893,612</u>	<u>225,550,873</u>	<u>52,247,374</u>	<u>277,798,247</u>
Net assets at end of year	<u>\$ 236,845,034</u>	<u>51,929,761</u>	<u>288,774,795</u>	<u>\$ 230,021,921</u>	<u>51,871,691</u>	<u>281,893,612</u>

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

**Statements of Cash Flows
Years Ended September 30, 2008 and 2007**

	2008			2007		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Cash flows from operating activities:						
Cash received from customers	\$ 71,548,555	11,719,183	83,267,738	\$ 70,529,346	10,789,183	81,318,529
Cash paid to employees	(14,846,750)	(3,039,314)	(17,886,064)	(13,989,075)	(2,878,204)	(16,867,279)
Cash paid for water	(17,939,753)	-	(17,939,753)	(20,463,361)	-	(20,463,361)
Cash paid for goods and services	(19,612,084)	(3,722,811)	(23,334,895)	(15,179,757)	(3,907,312)	(19,087,069)
Cash paid for franchise and permit fees	(5,107,321)	(3,935,814)	(9,043,135)	(4,845,778)	(3,753,595)	(8,599,373)
Other operating cash received	878,228	-	878,228	20,158	-	20,158
Net cash provided by operating activities	<u>14,920,875</u>	<u>1,021,244</u>	<u>15,942,119</u>	<u>16,071,534</u>	<u>250,072</u>	<u>16,321,606</u>
Cash flows from capital and related financing activities:						
Proceeds from commercial paper issuance	2,000,000	-	2,000,000	-	-	-
Proceeds from sale of capital assets	115,638	-	115,638	119,960	-	119,960
Contributions in aid of construction	4,326,413	-	4,326,413	1,768,151	-	1,768,151
Payments for capital acquisitions	(16,733,158)	(3,258,078)	(19,991,236)	(17,338,817)	(5,446,841)	(22,785,658)
Principal repayments-bonds	(1,265,000)	-	(1,265,000)	(1,210,000)	-	(1,210,000)
Principal repayments-loans/notes	(84,969)	-	(84,969)	(143,038)	-	(143,038)
Interest payments	(1,902,221)	-	(1,902,221)	(2,005,952)	-	(2,005,952)
Net cash used for capital and related financing activities	<u>(13,543,298)</u>	<u>(3,258,078)</u>	<u>(16,801,376)</u>	<u>(18,809,696)</u>	<u>(5,446,841)</u>	<u>(24,256,537)</u>
Cash flows from investing activities:						
Interest income received	601,632	171,726	773,358	758,031	359,312	1,117,343
Net cash provided by investing activities	<u>601,632</u>	<u>171,726</u>	<u>773,358</u>	<u>758,031</u>	<u>359,312</u>	<u>1,117,343</u>
Net increase (decrease) in cash and cash equivalents	1,979,209	(2,065,108)	(85,899)	(1,980,132)	(4,837,457)	(6,817,589)
Cash and cash equivalents, October 1	<u>8,605,750</u>	<u>5,287,401</u>	<u>13,893,151</u>	<u>10,585,882</u>	<u>10,124,858</u>	<u>20,710,740</u>
Cash and cash equivalents, September 30	<u>\$ 10,584,959</u>	<u>3,222,293</u>	<u>13,807,252</u>	<u>\$ 8,605,750</u>	<u>5,287,401</u>	<u>13,893,151</u>
Reconciliation of operating income (expense) to net cash provided by operating activities:						
Operating income (expense)	\$ 3,737,425	(115,786)	3,621,639	\$ 3,321,556	(727,569)	2,593,987
Adjustments to reconcile operating income (expense) to net cash provided by operating activities:						
Depreciation expense and amortization	10,628,148	1,173,321	11,801,469	10,972,001	1,245,848	12,217,849
Provision for doubtful accounts	220,045	24,080	244,125	66,188	14,987	81,175
Amortized expense	37,500	-	37,500	37,500	-	37,500
Interdepartmental transfers	904,646	176,704	1,081,350	925,562	166,584	1,092,146
Property rental and other income	878,228	-	878,228	20,158	-	20,158
Decrease (increase) in customer accounts receivable	(42,154)	(64,084)	(106,238)	271,899	(22,392)	249,507
Decrease (increase) in material and supplies inventory	126,451	969	127,420	(282,120)	5,985	(276,135)
Increase (decrease) in accounts and retainage payable	(1,683,272)	(201,301)	(1,884,573)	659,649	(454,807)	204,842
Increase in accrued wages payable	127,556	27,341	154,897	80,321	21,436	101,757
Increase in customer deposits	(13,698)	-	(13,698)	(1,180)	-	(1,180)
Total adjustments	<u>11,183,450</u>	<u>1,137,030</u>	<u>12,320,480</u>	<u>12,749,978</u>	<u>977,641</u>	<u>13,727,619</u>
Net cash provided by operating activities	<u>\$ 14,920,875</u>	<u>1,021,244</u>	<u>15,942,119</u>	<u>\$ 16,071,534</u>	<u>250,072</u>	<u>16,321,606</u>

See accompanying notes to financial statements

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

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 which consists of 711 miles of sewer mains, 16,055 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 108.9 million gallons. The Department also delivered over 1,930 million 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. Each Commissioner is appointed by the Mayor, confirmed by the City Council, and may serve two five-year terms.

The accompanying Water Department financial statements include the Water and Sewer Fund operations of the City of Long Beach. The statements of the Long Beach Water Department of the City of Long Beach, California, 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 of Long Beach, California, as of September 30, 2008 and 2007, and the changes in its financial position and, where applicable, its cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

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 Government Accounting Standard Board (GASB) Statements and Interpretations. Additionally, as permitted by U.S. generally accepted accounting principles, the City has elected to apply those Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989 that may apply to the City's unique accounting and reporting practices for its proprietary and nonexpendable operations, except those that conflict with a GASB pronouncement.

Implementation of New Accounting Pronouncements

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

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement is effective for the fiscal year ended September 30, 2008 and the additional disclosure required by GASB 48 can be found in note 6.

LONG BEACH WATER DEPARTMENT

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In September 2007, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments will use to determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded as a liability. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the financial statements for periods beginning after December 15, 2006. Application of this statement is effective for the City's fiscal year ended September 30, 2008. For the fiscal year ended September 30, 2008, the provisions of GASB 48 have been determined to be nonapplicable to the Water Department.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. The statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform to requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Application of this statement is effective for the City's fiscal year ended September 30, 2008. No additional disclosure for GASB 50 was required for the Water Department.

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

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and reporting standards for pollution remediation obligation, including contamination. The statement focuses on current and potential detrimental effects of existing pollution through participation in pollution remediation activities, such as site assessment and clean-up, but excludes pollution prevention and control obligation with respect to current operation and future remediation activities that may be required with asset retirements such as landfill closures or "nuclear power plant" decommissioning. The requirements of this statement are effective for financial statements periods beginning after December 15, 2007 and include measurement of pollution remediation liabilities at the beginning of the fiscal period as to restate beginning net asset. Governments with sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all periods presented. The Department plans on implementing GASB No. 49 for the fiscal year ended September 30, 2009.

LONG BEACH WATER DEPARTMENT

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

In November of 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users' ability to meaningfully evaluate an entity's investment decisions and performance. Application of this statement is effective for the City's fiscal year ending September 30, 2009.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this statement is effective for the City's fiscal year ending September 30, 2010.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

Pooled Cash, Cash Equivalents and Other Investments

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

The Department has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and cash equivalents.

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

Material and Supplies Inventory

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

Capital Assets

Capital assets, which include property, plant, equipment, and transmission and distribution infrastructure, are composed of assets with an initial, individual cost of more than \$5,000 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 operations (see note 3).

The Department was successful in obtaining a patent on an internally developed dual-stage nano-filtration desalination process the plant utilizes. Costs totaling \$815,058 associated with obtaining the patent for the dual-stage nano-filtration desalination process were capitalized and amortized beginning in FY 2007 over a life of twenty years.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

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

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

Capital Contributions

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

In accordance with GASB Statement 33, "Accounting and Financial Reporting for Non-Exchange Transactions", the Department includes capital contributions for construction of plant assets as a non-operating revenue in the accompanying statements of revenues, expenses and changes in fund net assets.

Revenue Recognition

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

Operating Expenses

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

Employee Benefits

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

Pension Plan and Postretirement Benefits

All full-time Department employees are members of the State of California Public Employees' Retirement System (CalPERS), a statewide plan available to most municipalities in the state. The Department's policy is to fund all CalPERS pension costs accrued. The costs to be funded are determined annually as of October 1 by CalPERS, and are incorporated into the payroll burden rate to reimburse the Employee Benefits Internal Service Fund for CalPERS contributions made on behalf of Department employees (see note 5). The Department also participates in the City's Retired Employee Health Insurance Program. This program is a single-employer defined benefit healthcare plan (see note 6).

Restricted Assets

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

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, regular property appraisals, and the inclusion of appropriate legal provisions in third party contracts, have been implemented to minimize risk losses.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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Estimates

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

Net Assets

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

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

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

Restricted - Amounts designated for bond indenture requirements and refunding customer deposits. Related liabilities of the Department are identified as amounts payable from restricted assets when such obligations are incurred.

Unrestricted - All other categories of net assets

Reclassifications

Certain reclassifications have been made to the amounts reported in the fiscal year 2006-2007 in order to conform to fiscal year 2007-2008 financial statement presentation. Such reclassifications had no effect on previously reported changes in net assets.

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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quality commercial paper and medium term corporate notes rated by Standard and Poor's Corporation or Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposit, the State Treasurer's Local Agency Investment Fund and shares of beneficial interest (mutual funds) issued by diversified investment management companies.

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

Water Fund	2008	2007
Equity in the City of Long Beach's investment pool	\$ 10,562,963	\$ 8,605,750
Guaranteed investment contract	3,599,050	3,599,050
Total cash and investments	\$ 14,162,013	\$ 12,204,800
Sewer Fund		
Equity in the City of Long Beach's investment pool	\$ 3,215,585	\$ 5,287,401

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	2008	2007
Unrestricted cash and investments	\$ 9,313,307	\$ 7,090,057
Restricted cash and investments		
Water Trust Fund	692,306	706,004
Bond Service Fund	1,182,813	1,413,156
Bond Reserve	2,995,583	2,995,583
Total restricted cash and investments	4,870,702	5,114,743
Total cash and investments	\$ 14,184,009	\$ 12,204,800
Sewer Fund		
Unrestricted cash and investments	\$ 3,222,293	\$ 5,287,401

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.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

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

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

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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The City had no investments with values that were highly sensitive to investment risk as of September 30, 2008 and 2007. 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 schedules indicate the interest rate risk of the City's investments as of September 30, 2008 and 2007 (in thousands):

<u>Investment Type</u>	<u>2008</u>		<u>2007</u>	
		Weighted Average Maturity (in years)		Weighted Average Maturity (in years)
Cash and Investments in City Pool				
Interdepartment Loan				
(Health SAVRS)	\$ 2,892	10.60	\$ 3,098	11.60
U.S. Treasury Notes	55,817	0.41	145,149	0.90
Federal Agency Securities	1,289,370	1.96	1,190,784	2.28
Medium-term Notes	84,148	0.99	49,881	1.83
Short-term Commercial Paper	—	—	135,874	0.02
LAIF	160,849	0.09	139,156	0.01
Government Managed Rate Account	69,931	—	—	—
Subtotal City Pool	1,663,007		1,663,942	
Cash and Deposits	60,313		32,878	
Outstanding Checks	(19,752)		(10,379)	
Total City Pool	<u>\$ 1,703,568</u>		<u>\$ 1,686,441</u>	
Non Performing Short Term Investment	<u>\$ 3,963</u>	—	<u>\$ —</u>	—

At September 30, 2008, the Water Fund and Sewer Fund had equity in the City's pool of \$10,562,963 and \$3,215,585, respectively, which represents approximately 0.62% and 0.19%, respectively, for a total departmental equity of \$13,778,548 or 0.81%.

At September 30, 2007, the Water Fund and Sewer Fund had equity in the City's pool of \$8,605,750 and \$5,287,401, respectively, which represents approximately 0.51% and 0.31%, respectively, for a total departmental equity of \$13,893,151 or 0.82%.

At September 30, 2008 and 2007, the Department had a non-pooled investment in a guaranteed investment contract (GIC) of \$3,599,050 in the Water Fund, established pursuant to the 1997 bond reserve requirements, with a maturity date of May 1, 2024. The City's investment pool held Lehman Commercial Paper with a par value of \$20 million, which was not paid when it matured on September 30, 2008. The loss on this non-performing investment was distributed to

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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all funds in proportion to their equity in the pool. The Water Fund's and Sewer Fund's share of this loss was \$21,996 and \$6,708, respectively.

Risks and Uncertainties

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

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

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of years ended September 30, 2008 and 2007 for each investment type (in thousands):

Investment Type	Minimum legal rating	Rating as of year-end 2008					
		Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Cash and Investments in City Pool							
Interdepartment Loan (Health SAVRS)	N/A	\$ 2,892	2,892	—	—	—	—
U.S. Treasury Notes	N/A	55,817	55,817	—	—	—	—
Federal Agency Securities	N/A	1,289,370	—	—	—	1,289,370	—
Medium-term Notes	A	84,148	—	—	—	84,148	—
Short-term Commercial Paper	N/A	—	—	—	—	—	—
LAIF	N/A	160,849	160,849	—	—	—	—
Government Managed Rate Account	N/A	69,931	69,931	—	—	—	—
Subtotal City Pool		<u>1,663,007</u>	<u>289,489</u>	<u>—</u>	<u>—</u>	<u>1,373,518</u>	<u>—</u>
Cash and Deposits		60,313	—	—	—	—	60,313
Outstanding Checks		<u>(19,752)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(19,752)</u>
Total City Pool		<u>\$ 1,703,568</u>	<u>289,489</u>	<u>—</u>	<u>—</u>	<u>1,373,518</u>	<u>40,561</u>
Non Performing Short Term Investment	N/A	<u>\$ 3,963</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,963</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2008 and 2007

Rating as of Year End September 30, 2007								
Investment Type		Minimum legal rating	Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Inter-department loan (Health Savrs)	\$ 3,098	N/A	\$ 3,098	—	—	—	—	—
U.S. treasury notes	145,149	N/A	145,149	—	—	—	—	—
Federal agency securities	1,190,784	N/A	—	—	—	1,190,784	—	—
Medium-term notes	49,881	A	—	—	—	44,861	5,020	—
Short-term commercial paper	135,874	N/A	—	54,350	81,524	—	—	—
Local Agency Investment Fund (LAIF)	139,156	N/A	139,156	—	—	—	—	—
Subtotal City pool	1,663,942		287,403	54,350	81,524	1,235,645	5,020	—
Cash on hand	32,878		—	—	—	—	—	32,878
Outstanding checks	(10,379)		—	—	—	—	—	(10,379)
Total City pool	<u>\$ 1,686,441</u>		<u>\$ 287,403</u>	<u>\$54,350</u>	<u>\$81,524</u>	<u>\$ 1,235,645</u>	<u>\$5,020</u>	<u>22,499</u>

The following schedules indicate the credit risk of the Water Department's non-pooled investments as of September 30, 2008 and 2007 (in thousands):

Rating as of Year End September 30, 2008								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Guaranteed Investment Contracts	\$ 3,599	N/A	\$ 3,599	\$ -	\$ -	\$ -	\$ -	\$ -

Rating as of Year End September 30, 2007								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Guaranteed Investment Contracts	\$ 3,599	N/A	\$ 3,599	\$ -	\$ -	\$ -	\$ -	\$ -

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 (in thousands):

Issuer	Investment type	Reported amount	
		2008	2007
Federal Farm Credit Bank	Federal agency securities	\$ 93,000	89,334
Federal Home Loan Bank	Federal agency securities	477,696	354,763
Federal Home Loan Mortgage Association	Federal agency securities	359,571	307,865
Federal National Mortgage Association	Federal agency securities	359,103	438,822
U.S. Treasury	U.S. Treasury notes and bonds	55,817	145,149
Commercial paper	Unsecured corporate debt	—	135,874
LAIF	State pool investment	160,849	139,156

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

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 except for one City issued bond and investment in the State's Local Area Investment Fund.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2008 and 2007.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2008 and 2007

Securities Lending

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

Note 3 – Capital Assets

Capital assets at September 30, 2008 and 2007 were as follows:

Water Fund	Balance September 30, 2006	Additions	Deletions And Retirements	Balance September 30, 2007	Additions	Deletions And Retirements	Balance September 30, 2008
Capital assets, not being depreciated:							
Land	11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	21,550,312	18,312,349	(17,579,191)	22,283,470	18,768,999	(10,656,074)	30,396,394
Total capital assets, not being depreciated	32,829,831	18,312,349	(17,579,191)	33,562,989	18,768,999	(10,656,074)	41,675,913
Capital assets, being depreciated:							
Buildings, structures and facilities	102,195,452	7,871,476	(101,676)	109,965,252	4,614,315	-	114,579,566
Patent Desalination	-	815,058	-	815,058	-	-	815,058
Distribution/collection systems	222,208,902	6,794,021	(201,363)	228,801,560	3,510,657	(640,248)	231,671,969
Machinery and equipment	11,723,926	635,660	(312,430)	12,047,156	859,421	(173,590)	12,732,986
Total capital assets, being depreciated	336,128,280	16,116,215	(615,470)	351,629,026	8,984,393	(813,839)	359,799,579
Less accumulated depreciation for:							
Buildings, structures and facilities	(25,345,559)	(5,530,822)	99,726	(30,776,656)	(5,322,173)	-	(36,098,829)
Patent Desalination	-	(44,149)	-	(44,149)	(37,357)	-	(81,506)
Distribution/collection systems	(83,926,221)	(4,527,261)	149,362	(88,304,120)	(4,439,066)	371,889	(92,371,297)
Machinery and equipment	(11,212,308)	(869,769)	312,430	(11,769,647)	(829,553)	173,590	(12,425,609)
Total accumulated depreciation	(120,484,088)	(10,972,001)	561,518	(130,894,571)	(10,628,149)	545,480	(140,977,241)
Total capital assets, being depreciated, net	215,644,192	5,144,214	(53,952)	220,734,455	(1,643,756)	(268,359)	218,822,338
Total Water Fund capital assets, net	248,474,023	23,456,563	(17,633,142)	254,297,444	17,125,243	(10,924,433)	260,498,251

Sewer Fund	Balance September 30, 2006	Additions	Deletions And Retirements	Balance September 30, 2007	Additions	Deletions And Retirements	Balance September 30, 2008
Capital assets, not being depreciated:							
Construction in progress	3,624,896	5,225,826	(132,127)	8,718,595	3,096,947	(163,263)	11,652,279
Total capital assets, not being depreciated	3,624,896	5,225,826	(132,127)	8,718,595	3,096,947	(163,263)	11,652,279
Capital assets, being depreciated:							
Buildings, structures and facilities	5,681,145	-	-	5,681,145	-	-	5,681,145
Distribution/collection systems	168,697,727	-	-	168,697,727	-	-	168,697,727
Machinery and equipment	3,571,952	169,845	(45,320)	3,696,478	143,239	(46,834)	3,792,882
Total capital assets, being depreciated	177,950,824	169,845	(45,320)	178,075,350	143,239	(46,834)	178,171,755
Less accumulated depreciation for:							
Buildings, structures and facilities	(679,044)	(116,256)	-	(795,300)	(116,257)	-	(911,557)
Distribution/collection systems	(135,259,063)	(934,403)	-	(136,193,466)	(933,944)	-	(137,127,409)
Machinery and equipment	(3,018,198)	(195,189)	45,320	(3,168,067)	(123,121)	46,834	(3,244,354)
Total accumulated depreciation	(138,956,305)	(1,245,848)	45,320	(140,156,833)	(1,173,322)	46,834	(141,283,320)
Total capital assets, being depreciated, net	38,994,519	(1,076,003)	-	37,918,517	(1,030,082)	-	36,888,435
Total Sewer Fund capital assets, net	42,619,415	4,149,823	(132,127)	46,637,112	2,066,864	(163,263)	48,540,713

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2008 and 2007

Combined Total	Balance September 30, 2006	Additions	Deletions And Retirements	Balance September 30, 2007	Additions	Deletions And Retirements	Balance September 30, 2008
Capital assets, not being depreciated:							
Land	11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	25,175,208	23,538,174	(17,711,318)	31,002,065	21,865,946	(10,819,337)	42,048,673
Total capital assets, not being depreciated	36,454,727	23,538,174	(17,711,318)	42,281,584	21,865,946	(10,819,337)	53,328,192
Capital assets, being depreciated:							
Buildings, structures and facilities	107,876,597	7,871,476	(101,676)	115,646,397	4,614,315	-	120,260,711
Patent Desalination	-	815,058	-	815,058	-	-	815,058
Distribution/collection systems	390,906,629	6,794,021	(201,363)	397,499,287	3,510,657	(640,248)	400,369,696
Machinery and equipment	15,295,878	805,505	(357,750)	15,743,634	1,002,660	(220,425)	16,525,868
Total capital assets, being depreciated	514,079,104	16,286,060	(660,789)	529,704,376	9,127,632	(860,673)	537,971,334
Less accumulated depreciation for:							
Buildings, structures and facilities	(26,024,603)	(5,647,079)	99,726	(31,571,956)	(5,438,431)	-	(37,010,387)
Patent Desalination	-	(44,149)	-	(44,149)	(37,357)	-	(81,506)
Distribution/collection systems	(219,185,284)	(5,461,663)	149,362	(224,497,586)	(5,373,010)	371,889	(229,498,706)
Machinery and equipment	(14,230,506)	(1,064,958)	357,750	(14,937,714)	(952,673)	220,425	(15,669,962)
Total accumulated depreciation	(259,440,393)	(12,217,849)	606,838	(271,051,404)	(11,801,471)	592,314	(282,260,561)
Total capital assets, being depreciated, net	254,638,711	4,068,211	(53,952)	258,652,972	(2,673,838)	(268,359)	255,710,773
Total Department capital assets, net	291,093,438	27,606,386	(17,765,270)	300,934,556	19,192,108	(11,087,696)	309,038,964

In FY2008, the Department completed construction and began fully operating a demonstration scale prototype of a subsurface seawater intake and discharge facility located at Cherry Beach along the coast of the City of Long Beach. This facility is intended to determine the feasibility of utilizing a subsurface intake and discharge system for seawater desalination as an alternative to open ocean intakes and provide data for full-scale design. Facility construction costs totaling \$4,614,315 have been capitalized and will be depreciated over a period of two years. A Coastal Development Permit granted by the California Coastal Commission in September of 2007, required the Department to restore the project site to its pre-existing condition no later than May 21, 2010. Estimated site restoration costs of \$1,000,000 have been accrued as a long-term liability and recorded to non-operating expenses. Operating costs of the facility are expensed as incurred.

In FY2007, the Department completed construction and began fully operating a 300,000 gallon-per-day prototype desalination research and development facility. The facility is located on land leased from the Los Angeles Department of Water and Power. Facility construction costs totaling \$7,871,476 have been capitalized and will be depreciated over the remaining term of the land lease, which terminates in the year 2010. The terms of the lease require the facility site to be restored to its original condition at the commencement of the lease agreement. Consequently in FY 2007, estimated site restoration costs of \$400,000 have been accrued as a long-term liability and recorded to non-operating expense. The operating and other associated costs of the facility are expensed as incurred.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

Construction in Progress

Construction in Progress at September 30, 2008 and 2007 includes the following projects:

<u>Project</u>	<u>2008</u>	<u>2007</u>
Water Main Replacement Program	\$ 17,645,845	\$ 11,869,540
Groundwater Storage Program	638,113	300,537
Seawater Desalination Project	1,490,854	1,606,814
Reclaimed Water System	1,731,526	1,697,998
Sewer main Replacement Program	11,532,079	8,598,395
Other Projects	9,010,256	6,928,781
Total Combined Construction in Progress	<u>\$ 42,048,673</u>	<u>\$ 31,002,065</u>

Such costs are allocated as follows:

Water Enterprise Fund	30,396,394	22,283,470
Sewer Enterprise Fund	11,652,279	8,718,595
Total Water Department	<u>\$ 42,048,673</u>	<u>\$ 31,002,065</u>

It is the Department's policy to transfer the costs of projects after their completion to other capital asset classifications or to expense. For the fiscal years ended September 30, 2008 and 2007, completed projects were transferred from Construction in Progress as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Transfers to Capital Assets	\$ 8,727,974	163,263	\$ 16,274,143	132,127
Transfers to Expense	1,928,101	-	1,305,048	-
Total	<u>\$ 10,656,074</u>	<u>163,263</u>	<u>\$ 17,579,191</u>	<u>132,127</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements September 30, 2008 and 2007

Note 4 – Noncurrent Liabilities

September 30, 2008	Water Fund			End of year	Due within one year
<hr/>	Beginning of year	Additions	Reductions	<hr/>	<hr/>
Water Revenue Refunding Bonds	\$ 33,465,000	-	(1,265,000)	32,200,000	1,330,000
Subordinate Water Revenue Commercial Paper Notes	6,000,000	2,000,000	-	8,000,000	-
State Loan	87,302	-	(87,302)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	39,552,302	2,000,000	(1,352,302)	40,200,000	1,330,000
Less current portion	(1,352,302)	(1,330,000)	1,352,302	(1,330,000)	-
Less unamortized bond discounts	(226,183)	-	13,240	(212,943)	-
Less unamortized loss on refunding	(2,726,784)	-	160,007	(2,566,777)	-
Total long-term debt	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 35,247,033	670,000	173,247	36,090,280	1,330,000
Accrued site restoration cost	400,000	1,000,000	-	1,400,000	-
Total noncurrent liabilities	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 35,647,033	1,670,000	173,247	37,490,280	1,330,000

September 30, 2007	Water Fund			End of year	Due within one year
<hr/>	Beginning of year	Additions	Reductions	<hr/>	<hr/>
Water Revenue Refunding Bonds	\$ 34,675,000	-	(1,210,000)	33,465,000	1,265,000
Subordinate Water Revenue Commercial Paper Notes	6,000,000	-	-	6,000,000	-
State Loan	230,340	-	(143,038)	87,302	87,302
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	40,905,340	-	(1,353,038)	39,552,302	1,352,302
Less current portion	(1,353,038)	(1,352,302)	1,353,038	(1,352,302)	-
Less unamortized bond discounts	(239,423)	-	13,240	(226,183)	-
Less unamortized loss on refunding	(2,886,791)	-	160,007	(2,726,784)	-
Total long-term debt	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 36,426,088	(1,352,302)	173,247	35,247,033	1,352,302
Accrued site restoration cost	-	400,000	-	400,000	-
Total noncurrent liabilities	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 36,426,088	(952,302)	173,247	35,647,033	1,352,302

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

Water Revenue Refunding Bonds - Series 1997

On October 15, 1997, the Water Fund issued \$46,945,000 in Water Revenue Refunding Bonds (Bonds) with an average interest rate of 5.195%. The Bonds were issued (i) to refund \$43,980,000 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 \$4,320,185. This difference, reported in the accompanying basic financial statements as a deduction from bonds payable, is being amortized using the straight line method over the life of the bonds. The Department in effect reduced its aggregate debt service payments by \$2,493,439 over the remaining 27 years thereby resulting in an economic gain of \$1,303,450.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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The \$36,535,000 amount of defeased debt outstanding was removed from the Department's financial statements as the advanced refunding was redeemed on May 1, 2004.

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 of Water Commissioners 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.

State Loan

In January 1987, the Department entered into a low-interest loan contract for \$2,000,000 with the State Water Resources Control Board for the purpose of funding the Reclaimed Water System Extension Project. The loan was funded in fiscal year 1988 and is payable in annual installments ranging from \$70,450 to \$143,040, at an interest rate of 4.0128% per year through June 2008. Final principal and interest were paid in June 2008.

Subordinate Water Revenue Commercial Paper Notes

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

On January 8, 2003, notes in the amount of \$6,000,000 were issued. The notes are issued in denominations of \$100,000 and integral multiples of \$1,000 in excess of \$100,000 and will mature not more than 270 days after date of issuance. Interest rates have ranged from 0.95% to 3.40%. On March 19, 2008, additional notes in the amount of \$2,000,000 were issued. The Department intends to continue to extend the notes to periods greater than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

Accrued Site Restoration Cost

In FY2008, the Department completed construction of a subsurface seawater intake and discharge facility. Facility construction costs totaling \$4,614,315 have been capitalized and will be depreciated over a period of two years. A Coastal Development Permit granted by the California Coastal Commission in September of 2007, required the Department to restore the

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

project site to its pre-existing condition no later than May 21, 2010. Estimated site restoration costs of \$1,000,000 have been accrued as a long-term liability and recorded as non-operating expenses. Operating costs of the facility are expensed as incurred.

In FY2007, the Department completed construction of the prototype desalination facility. The facility is located on land leased from the Los Angeles Department of Water and Power which terminates in 2010. The terms of the lease require the facility site to be restored to its original condition at the commencement of the lease agreement. Estimated site restoration costs of \$400,000 have been accrued as a long-term liability as of September 30, 2007.

Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended Sept 30	Series 1997 Bonds	
	Principal	Interest
2009	\$ 1,330,000	1,661,008
2010	1,405,000	1,587,858
2011	1,480,000	1,510,583
2012	1,550,000	1,438,063
2013	1,630,000	1,360,563
2014-2018	9,625,000	5,329,524
2019-2023	12,330,000	2,622,250
2024	2,850,000	142,500
Total	<u>\$ 32,200,000</u>	<u>15,652,349</u>

Note 5 - Retirement Programs

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

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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
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20, 1989) who retire at age 55 are entitled to receive 2.7% (with a 2% annual COLA increase) of the employee's average salary during the highest paid year of employment for each year of credited service. A third tier was set up effective October 1, 2006. New employees hired on or after October 1, 2006 will be under a new tier benefit of 2.5% at 55. The system also provides death and disability benefits.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. For the fiscal year ended September 30, 2008, Safety and Miscellaneous plan participants were required to contribute 9.0% and 8.0% of their annual covered salary, respectively. For miscellaneous employees the City pays 6% of the participant contributions and the employee pays 2%. For safety employees the City pays 7% of the participant contributions and the employee pays 2%. In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rates are 11.886% for miscellaneous employees and 15.686% for safety employees. For fiscal year 2009, the contribution rates will be 12.198% for miscellaneous employees and 15.850% for safety employees. In fiscal years 2008, 2007 and 2006, the Department's contributions to CalPERS were \$2,119,372, \$1,940,549, and \$1,791,010 for Water Fund and \$348,594, \$339,981 and \$311,832 for Sewer Fund, respectively, which represented 100% of the Department's required contributions.

Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2008.

Deferred Compensation Plan

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

Further information regarding the City's participation in the deferred compensation plan may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2008.

Note 6 – Post Retirement Health Care Benefits

Plan Description

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

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value at retirement of the retiring

LONG BEACH WATER DEPARTMENT

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

At September 30, 2008, there were 635 participants in the City's Retired Employees Health Insurance Program, and the non-interest bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled \$16,369,000. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2008, were \$6,212,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

Termination Benefits

As of September, 30, 2008, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$72,751,000 based on an actuarial study of current and future retiree accumulated sick leave in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, Accounting for Compensated Absences, (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.0 percent; wage increases of 3.5 percent per year for miscellaneous and 4.5 percent per year for safety employees and insurance premium increases of 4.5 percent. The estimated current portion of such obligation of \$5,850,000 has been fully funded and the long-term portion of the liability of \$66,901,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

Other Postemployment Benefits

As of September, 30, 2008, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$5,249,000 based on an actuarial study of the "implicit subsidy" as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (GASB 45). While the City does not directly contribute any funding towards the cost of premiums for retirees, the ability to obtain coverage at any active employees' rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City's health care benefit plans increases the overall health plan rates. The economic benefit is defined as an "implicit subsidy" under GASB 45.

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

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 we have included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both zero.

This plan does not issue a separate financial report.

Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2008, the City has not prefunded this plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

Annual required contribution	\$ 8,102
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	8,102
Contribution made	<u>(2,853)</u>
Increase in net OPEB obligation	5,249
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	<u>\$ 5,249</u>

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

The ARC was determined as part of the January 2006 actuarial valuation. For the year ended September 30, 2008, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2008	\$ 8,102	35.2%	\$ 5,249

Funded Status and Funding Progress

The funded status of the plan as of September 30, 2008 was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 86,868
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 86,868</u>
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll	\$ 284,484
UAAL as a percentage of covered payroll	30.5%
ARC as a percentage of covered payroll	2.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions 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, 2008 and 2007

In the January 1, 2006 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 12 percent for HMO plans and nine percent for PPO plans that grades down to four and one half percent for all plans by September 30, 2017, and an inflation assumption of three 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 zero. The plans unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

Note 7 - Operating Leases

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

Year ended, September 30:	
2009	\$ 1,082,695
2010	1,117,814
2011	1,154,469
2012	1,192,740
2013	1,232,714
2014-2018	6,829,412
2019-2023	8,143,341
2024-2028	9,804,543
Total minimum future rentals	<u><u>\$30,557,728</u></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

LONG BEACH WATER DEPARTMENT

Notes to Financial Statements
September 30, 2008 and 2007

that any liability for unreserved claims and lawsuits will not have a material impact on the basic financial statements of the Department.

Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2008 amount to \$2,215,112 and \$202,508 for the Water Fund and Sewer Fund respectively.

STATISTICAL SECTION
(Not Covered by Independent Auditors' Report)

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Financial Trends

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

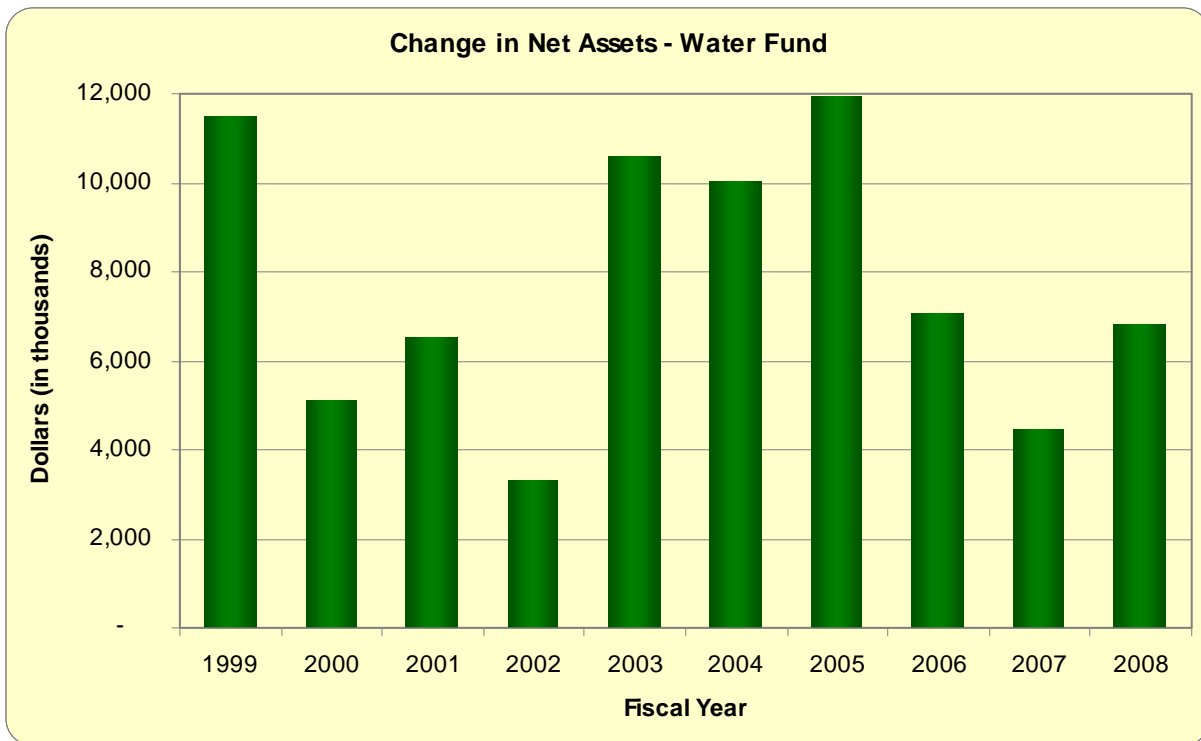
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LONG BEACH WATER DEPARTMENT
CHANGES IN NET ASSETS - WATER FUND
LAST TEN FISCAL YEARS
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Total Operating Expense</u>	<u>Operating Income</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Change in Net Assets</u>
9/30/1999	57,619	49,644	7,974	3,510	11,484
9/30/2000	60,252	53,836	6,416	(1,291)	5,125
9/30/2001	57,773	53,482	4,291	2,211	6,502
9/30/2002	58,970	56,071	2,899	421	3,320
9/30/2003	58,945	52,295	6,650	3,936	10,586
9/30/2004	63,185	55,604	7,581	2,461	10,042
9/30/2005	64,522	58,320	6,202	5,747	11,948
9/30/2006	66,074	60,981	5,093	1,943	7,036
9/30/2007	70,259	66,937	3,322	1,149	4,471
9/30/2008	71,604	67,867	3,737	3,086	6,823

Source: Department's annual reports

See accompanying independent auditors' report

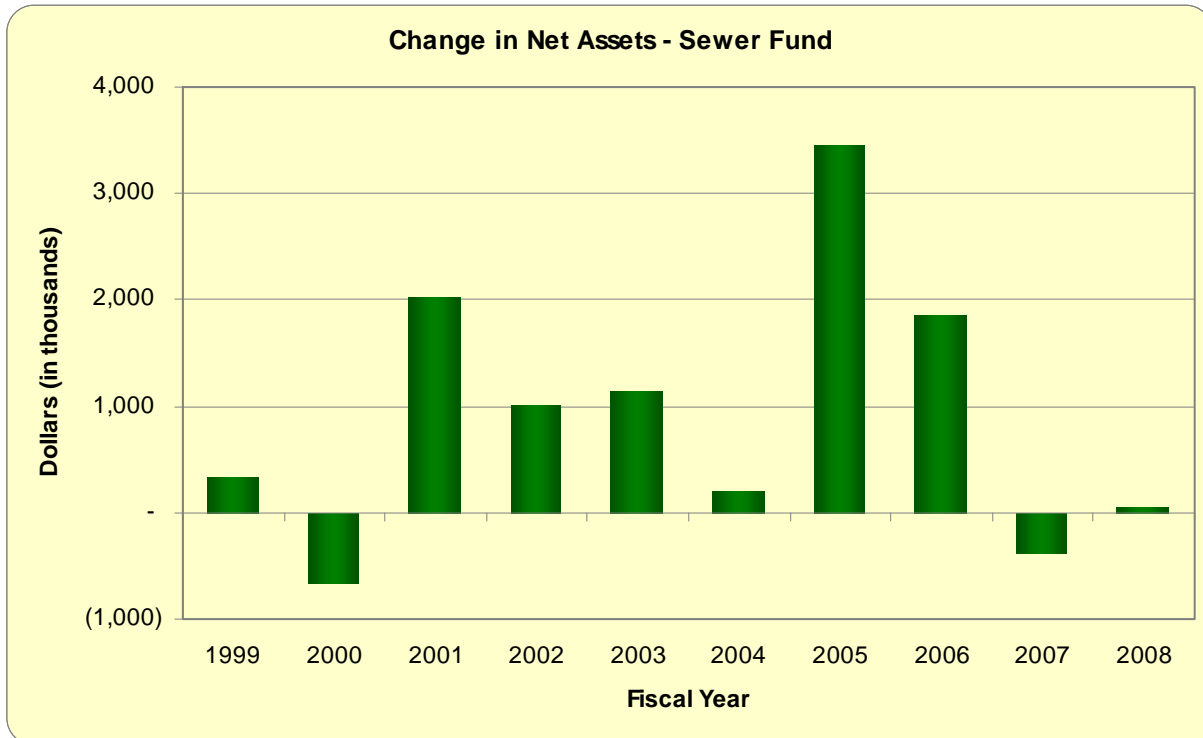


LONG BEACH WATER DEPARTMENT
CHANGES IN NET ASSETS - SEWER FUND
LAST TEN FISCAL YEARS
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Total Operating Expense</u>	<u>Operating Income (Expenses)</u>	<u>Total Non-Operating Income (Expense)</u>	<u>Change in Net Assets</u>
9/30/1999	7,809	8,574	(765)	1,106	341
9/30/2000	7,922	9,705	(1,782)	1,119	(664)
9/30/2001	8,699	8,869	(170)	2,200	2,030
9/30/2002	8,050	7,538	512	495	1,007
9/30/2003	9,015	8,420	595	541	1,136
9/30/2004	9,280	7,766	1,514	(1,315)	199
9/30/2005	9,718	7,068	2,650	810	3,460
9/30/2006	9,244	7,737	1,507	355	1,862
9/30/2007	10,811	11,539	(728)	352	(376)
9/30/2008	11,783	11,899	(116)	174	58

Source: Department's annual reports

See accompanying independent auditors' report

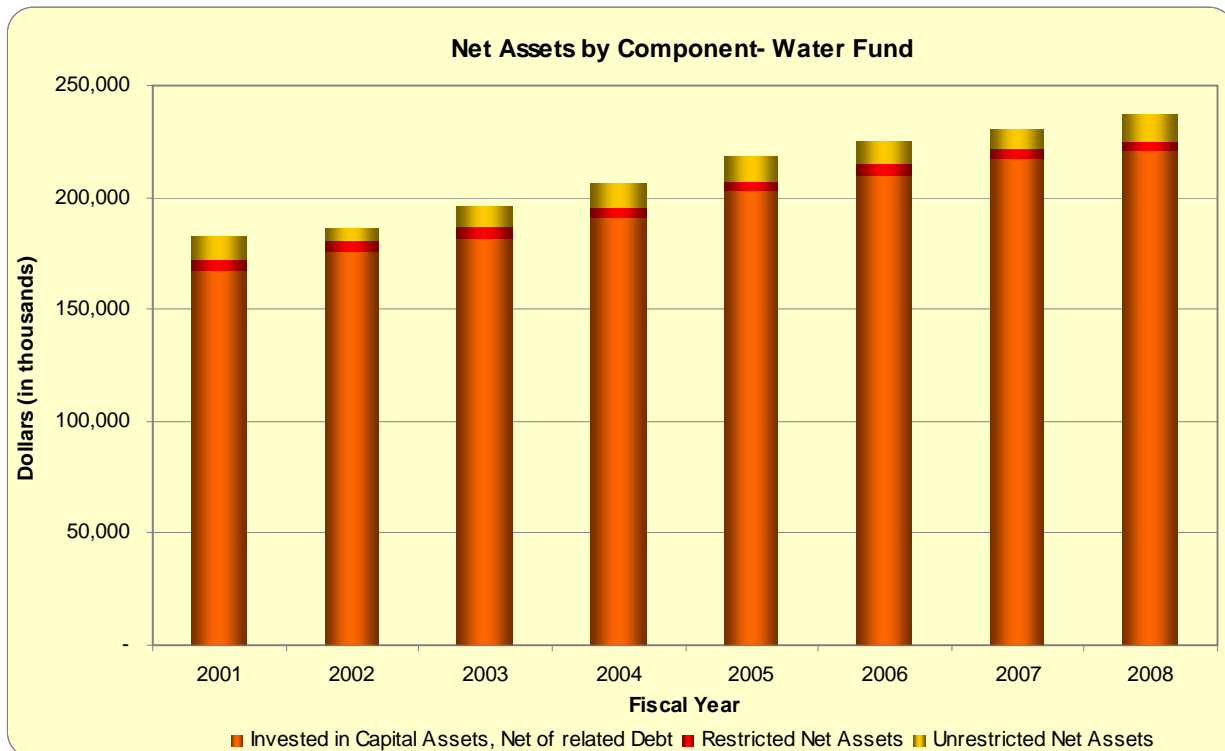


**LONG BEACH WATER DEPARTMENT
NET ASSETS BY COMPONENT - WATER FUND
LAST EIGHT FISCAL YEARS**
(in thousands of dollars)

<u>Fiscal Year Ended</u>	<u>Invested in Capital Assets (net of related debt)</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
9/30/2001	167,394	5,095	10,131	182,620
9/30/2002	175,501	5,098	5,341	185,939
9/30/2003	181,535	5,116	9,874	196,525
9/30/2004	191,067	4,298	11,202	206,567
9/30/2005	202,959	4,316	11,240	218,515
9/30/2006	210,282	4,355	10,914	225,551
9/30/2007	217,247	4,409	8,366	230,022
9/30/2008	221,225	4,178	11,442	236,845

Source: Department's annual reports

See accompanying independent auditors' report



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

<u>Fiscal Year Ended</u>	<u>Invested in Capital Assets (net of related debt)</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
9/30/2001	31,922	-	12,660	44,582
9/30/2002	36,848	-	8,742	45,590
9/30/2003	42,095	-	4,631	46,725
9/30/2004	40,600	-	6,325	46,925
9/30/2005	41,206	-	9,179	50,385
9/30/2006	42,619	-	9,628	52,247
9/30/2007	46,637	-	5,235	51,872
9/30/2008	48,541	-	3,389	51,930

Source: Department's annual reports

See accompanying independent auditors' report

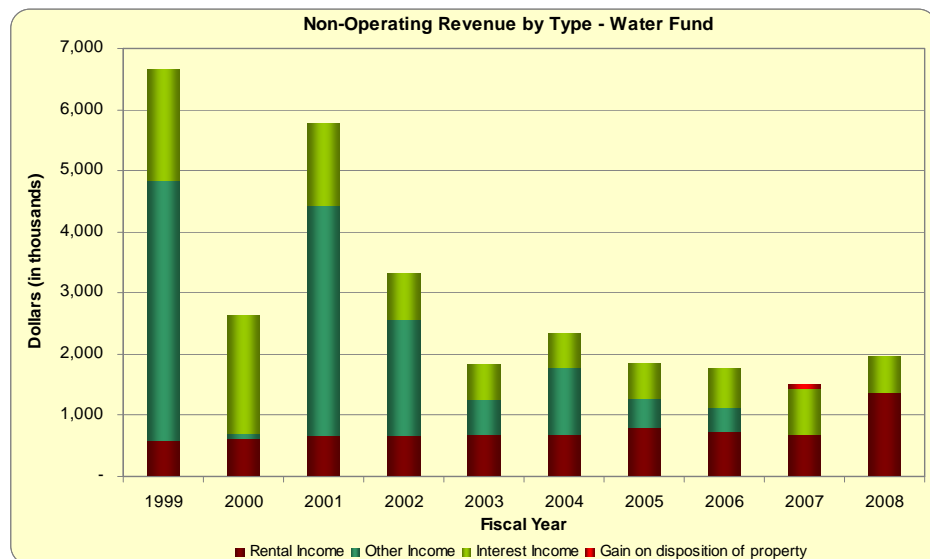
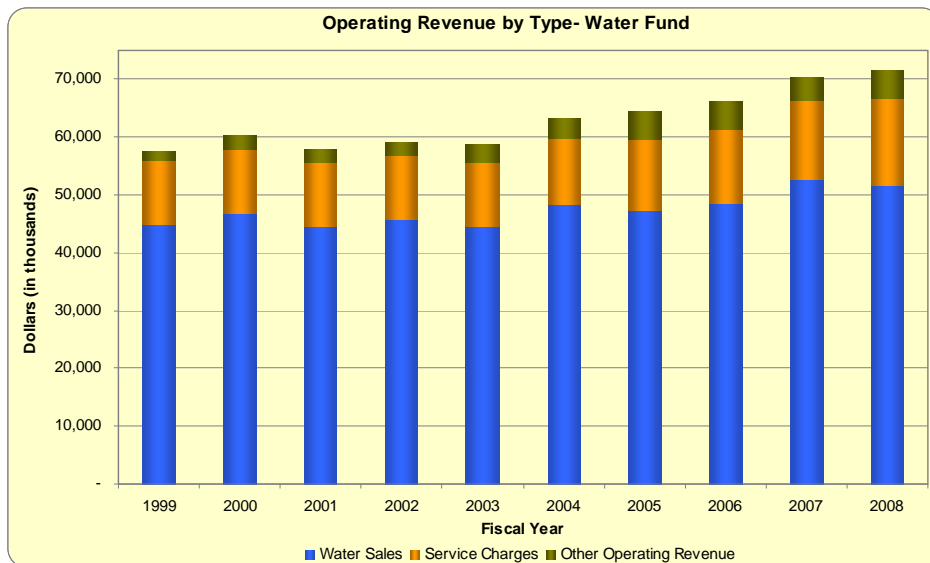


LONG BEACH WATER DEPARTMENT
WATER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
 (in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING				
	Water Sales	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Rental Income	Other Income	Gain on disposition of property	Total Non-Operating Income
9/30/1999	44,967	10,880	1,772	57,619	1,803	608	4,244	-	6,655
9/30/2000	46,790	10,986	2,476	60,252	1,921	627	87	-	2,635
9/30/2001	44,663	11,003	2,107	57,773	1,351	657	3,768	-	5,776
9/30/2002	45,917	10,987	2,066	58,970	751	660	1,910	-	3,321
9/30/2003	44,547	11,175	3,223	58,945	576	699	554	-	1,829
9/30/2004	48,219	11,648	3,317	63,185	541	700	1,099	-	2,340
9/30/2005	47,354	12,302	4,866	64,522	556	804	488	-	1,848
9/30/2006	48,477	12,727	4,870	66,074	653	733	391	-	1,777
9/30/2007	52,574	13,959	3,726	70,259	758	682	-	66	1,506
9/30/2008	51,610	15,156	4,839	71,604	602	1,382	-	-	1,984

Source: Department's annual reports

See accompanying independent auditors' report

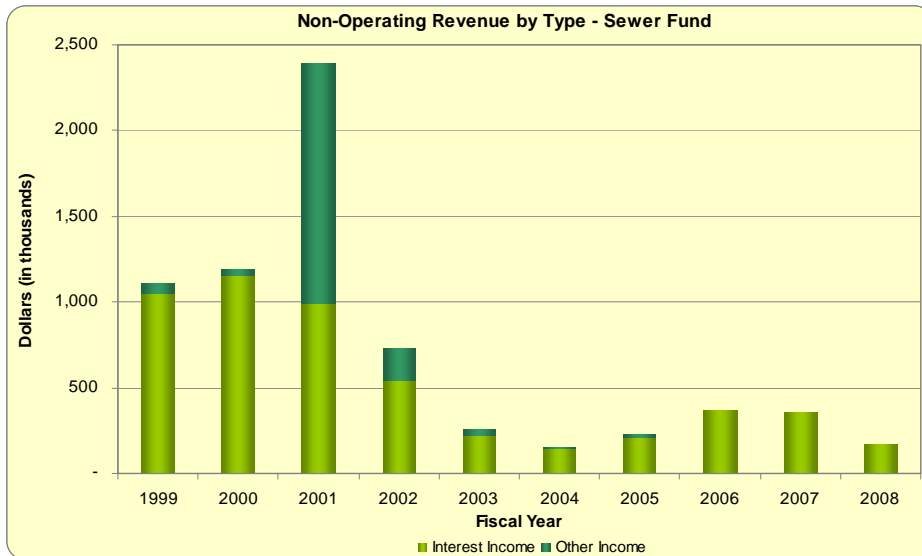
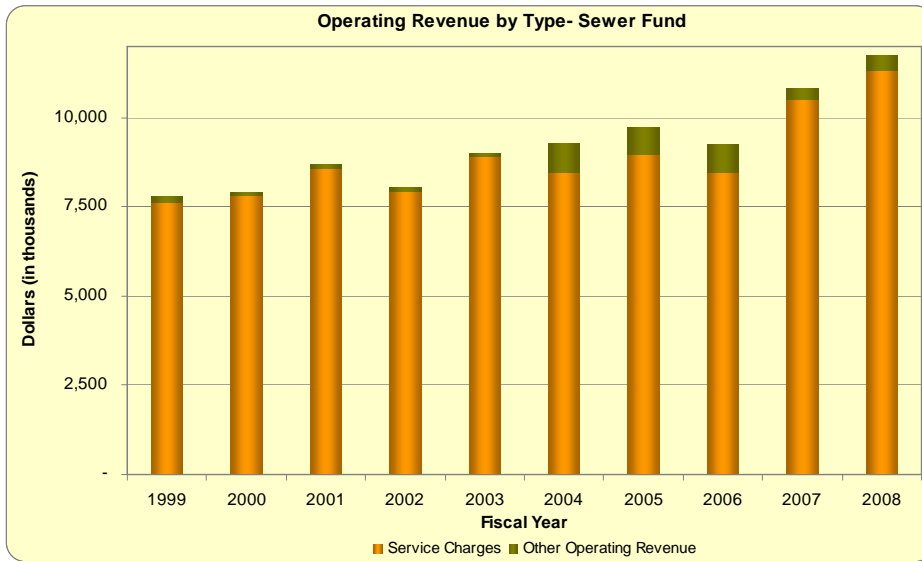


LONG BEACH WATER DEPARTMENT
SEWER FUND REVENUE BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING		
	Service Charges	Other Operating Revenue	Total Operating Revenue	Interest Income	Other Income	Total Non-Operating Income
9/30/1998	7,646	201	7,847	915	50	965
9/30/1999	7,644	165	7,809	1,053	53	1,106
9/30/2000	7,816	106	7,922	1,154	31	1,185
9/30/2001	8,592	106	8,698	997	1,395	2,392
9/30/2002	7,964	86	8,050	547	184	731
9/30/2003	8,929	86	9,015	223	41	264
9/30/2004	8,447	832	9,280	149	5	154
9/30/2005	8,986	732	9,718	213	12	225
9/30/2006	8,464	780	9,244	366	1	367
9/30/2007	10,516	296	10,812	359	-	359
9/30/2008	11,341	442	11,783	172	2	174

Source: Department's annual reports

See accompanying independent auditors' report

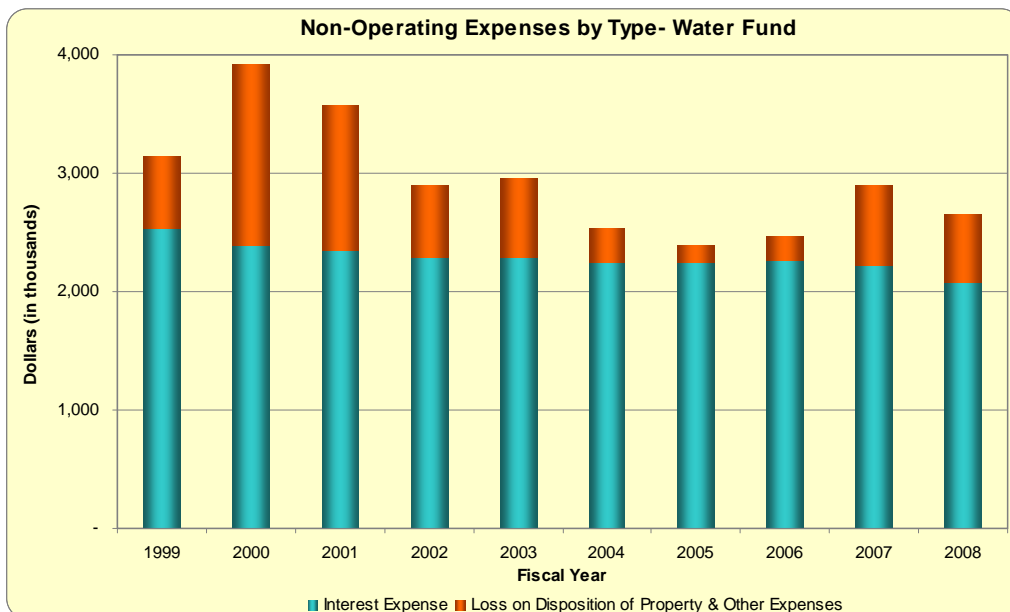
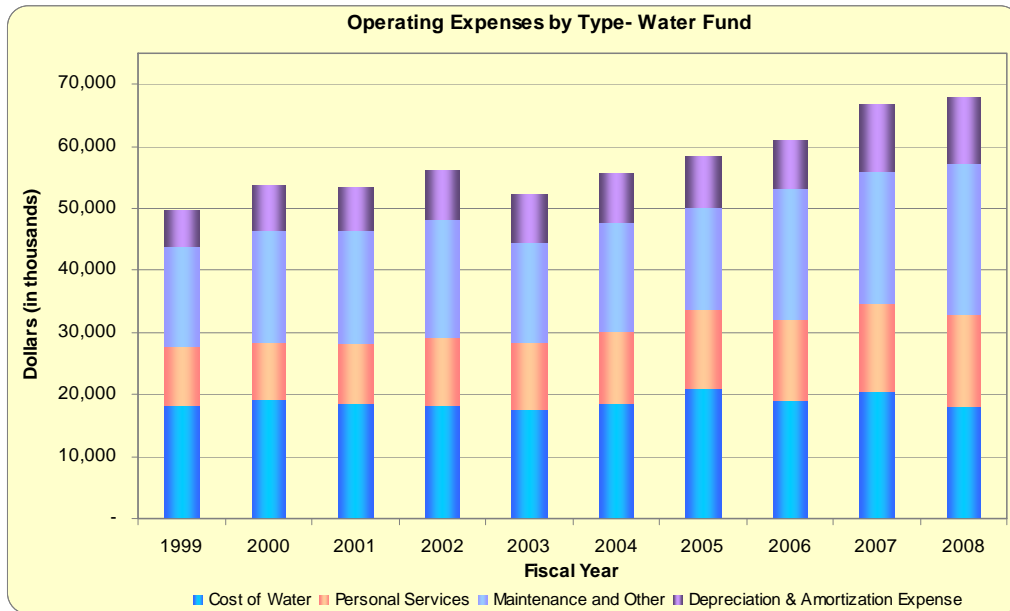


LONG BEACH WATER DEPARTMENT
WATER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING				NON-OPERATING			
	Cost of Water	Personal Services	Maintenance and Other	Depreciation & Amortization Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/1999	18,299	9,407	16,148	5,790	49,644	2,534	612	3,146
9/30/2000	19,343	9,058	18,108	7,327	53,836	2,389	1,537	3,926
9/30/2001	18,508	9,821	18,197	6,956	53,482	2,344	1,222	3,566
9/30/2002	18,384	10,781	19,158	7,748	56,071	2,280	619	2,899
9/30/2003	17,490	10,978	16,186	7,641	52,295	2,289	667	2,956
9/30/2004	18,581	11,572	17,598	7,852	55,604	2,243	285	2,528
9/30/2005	20,936	12,731	16,479	8,174	58,320	2,253	137	2,390
9/30/2006	19,179	12,974	20,943	7,885	60,981	2,255	213	2,468
9/30/2007	20,606	14,069	21,290	10,972	66,937	2,218	683	2,901
9/30/2008	18,036	14,974	24,229	10,628	67,867	2,078	566	2,644

Source: Department's annual reports

See accompanying independent auditors' report

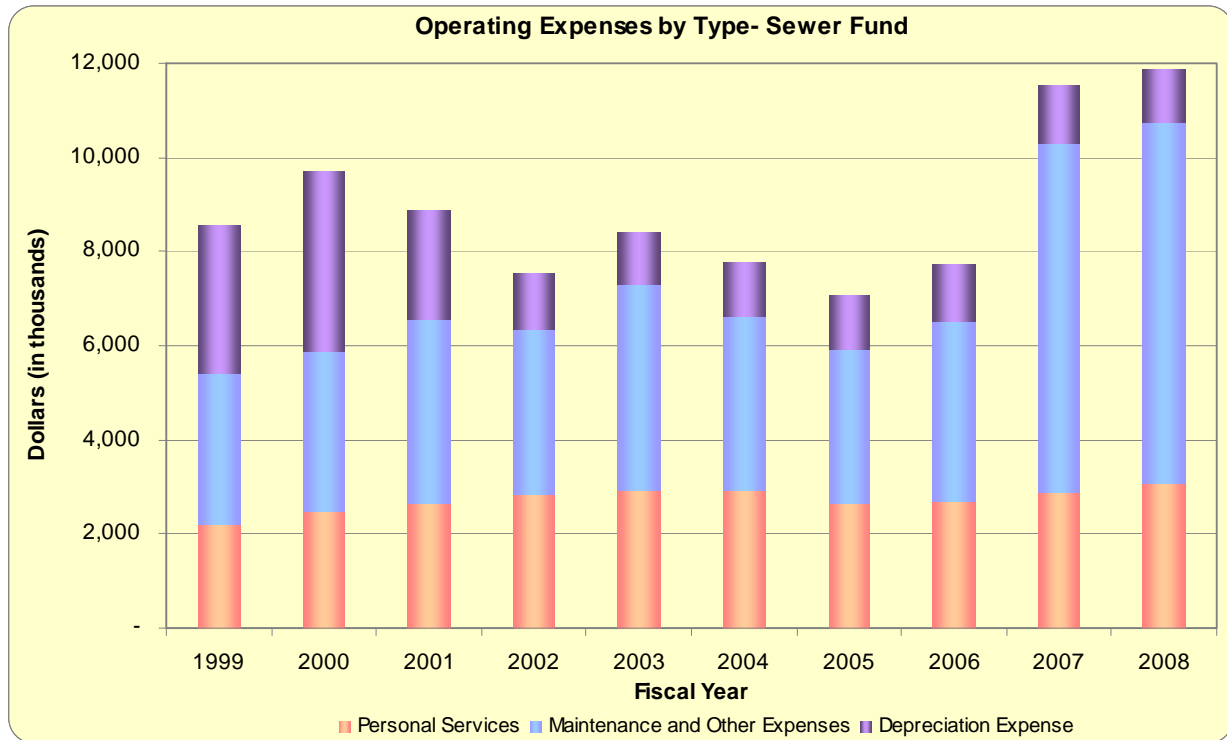


LONG BEACH WATER DEPARTMENT
SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS
(in thousands of dollars)

Fiscal Year Ended	OPERATING			Total Operating Expenses	NON-OPERATING
	Personal Services	Maintenance and Other Expenses	Depreciation Expense		Total Non-Operating Expenses
9/30/1999	2,213	3,193	3,168	8,574	-
9/30/2000	2,483	3,417	3,805	9,705	66
9/30/2001	2,627	3,908	2,333	8,868	191
9/30/2002	2,829	3,538	1,171	7,538	234
9/30/2003	2,938	4,379	1,103	8,420	-
9/30/2004	2,912	3,706	1,148	7,766	-
9/30/2005	2,648	3,258	1,161	7,067	-
9/30/2006	2,689	3,815	1,233	7,737	12
9/30/2007	2,900	7,394	1,246	11,539	7
9/30/2008	3,067	7,659	1,173	11,899	-

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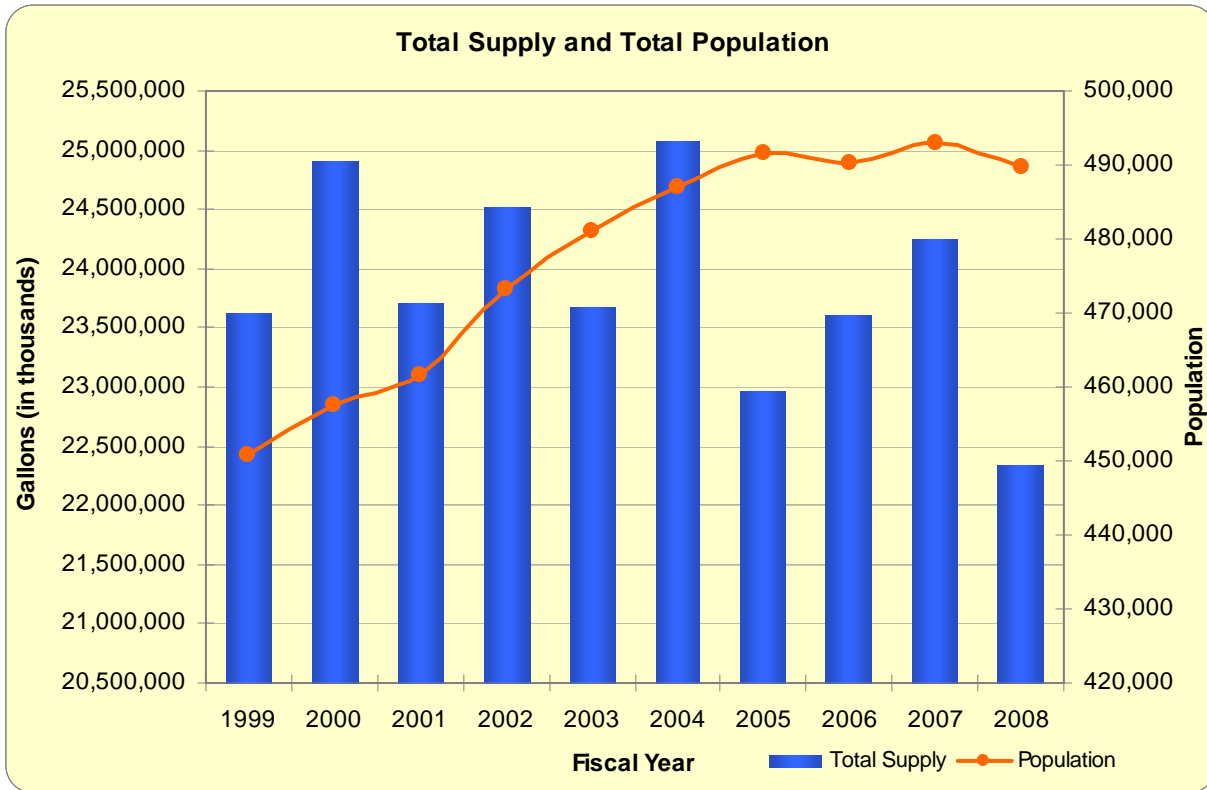
LONG BEACH WATER DEPARTMENT
SOURCE OF WATER (PUMPED, PURCHASED AND RECLAIMED) AND CONSUMPTION - LAST TEN FISCAL YEARS
 (in thousands of gallons, except population)

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 (2)
	Pumped	Purchased						
9/30/1999	7,703,443	14,421,188	1,494,353	23,618,984	60,615	80,700	144	450,822
9/30/2000	8,076,869	15,143,925	1,691,167	24,911,961	63,551	87,210	149	457,608
9/30/2001	7,973,795	14,377,730	1,363,566	23,715,091	61,237	86,120	141	461,522
9/30/2002	8,479,000	14,246,000	1,790,000	24,515,000	62,260	87,000	142	473,131
9/30/2003	7,445,000	14,567,000	1,671,000	23,683,000	60,307	89,000	135	480,973
9/30/2004	8,354,494	14,761,376	1,956,084	25,071,953	63,331	84,310	141	487,112
9/30/2005	7,041,640	14,536,539	1,382,586	22,960,765	59,118	86,570	128	491,564
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	132	490,166
9/30/2007	8,416,014	13,837,621	1,999,911	24,253,546	60,969	80,180	135	492,912
9/30/2008	11,006,041	9,179,092	2,161,793	22,346,927	55,302	82,080	125	489,864

Note: (1) Does not include reclaimed water which is used for irrigation only.
 (2) City's Planning & Building Department

Source: Department's annual reports

See accompanying independent auditors' report



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

<u>Effective Date</u>	<u>Potable Water - Monthly Amount per Billing Unit (1)</u>			<u>Reclaimed Water</u>
	<u>TIER I First Five Billing Units</u>	<u>TIER II (2) Next Ten Billing Units</u>	<u>TIER III Over Fifteen Billing Units</u>	<u>Monthly Amount Per Cubic Foot</u>
10/1/1998	1.129	1.672	1.840	1.087
10/1/1999	1.188	1.639	1.885	1.147
10/1/2000	1.256	1.570	1.962	1.099
10/1/2001	1.305	1.535	2.072	1.075
10/1/2002	1.356	1.507	2.109	1.055
10/1/2003	1.394	1.549	2.323	1.084
10/1/2004	1.457	1.619	2.428	1.133
10/1/2005	1.515	1.683	2.525	1.178
11/1/2006	1.561	1.734	2.601	1.214
10/1/2007	1.646	1.829	2.744	1.281

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

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

Source: Department's records

See accompanying independent auditors' report

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

<u>Effective Date</u>	<u>3/4" (1)</u>	<u>1"</u>	<u>1-1/2"</u>	<u>2"</u>	<u>3"</u>	<u>4"</u>	<u>6"</u>	<u>8"</u>	<u>10"</u>	<u>12"</u>	<u>16"</u>
10/1/1998	0.25	0.38	0.71	1.06	2.19	3.47	6.39	10.03	16.42	20.07	33.22
10/1/1999	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2000	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2001	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2002	0.26	0.39	0.72	1.06	2.20	3.48	6.42	10.08	16.50	20.17	33.38
10/1/2003	0.27	0.40	0.75	1.11	2.29	3.62	6.68	10.48	17.16	20.98	34.72
10/1/2004	0.28	0.42	0.78	1.16	2.39	3.79	6.98	10.95	17.94	21.92	36.28
10/1/2005	0.29	0.44	0.81	1.20	2.49	3.94	7.26	11.39	18.65	22.80	37.73
11/1/2006	0.30	0.45	0.84	1.24	2.56	4.06	7.47	11.73	19.21	23.48	38.87
10/1/2007	0.31	0.47	0.88	1.31	2.70	4.28	7.89	12.38	20.27	24.77	41.00

Note: (1) Normal residential size (69,459 of the 89,583 total services).

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 12

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

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
10/1/1998	0.53	0.91	1.34	2.28	3.34	4.52	5.70	8.36
10/1/1999	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2000	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2001	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2002	0.53	0.91	1.34	2.29	3.36	4.54	5.73	8.40
10/1/2003	0.55	0.95	1.40	2.38	3.49	4.73	5.96	8.73
10/1/2004	0.58	0.99	1.46	2.49	3.65	4.94	6.22	9.13
10/1/2005	0.60	1.03	1.52	2.59	3.80	5.14	6.47	9.49
11/1/2006	0.62	1.06	1.57	2.67	3.91	5.29	6.67	9.78
10/1/2007	0.65	1.12	1.65	2.81	4.13	5.58	7.03	10.31

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 13

LONG BEACH WATER DEPARTMENT
NUMBER OF WATER SERVICES, AVERAGE MONTHLY WATER CONSUMPTION &
AVERAGE MONTHLY WATER BILL BY SERVICE SIZE
Fiscal Year Ended September 30, 2008

Water Service Size	Number of Services at September 30, 2008	Average Consumption per Month (in hundred cubic feet)	Average Monthly Bill
3/4"	69,459	14	\$ 35.36
1"	11,159	22	57.19
1-1/2"	4,272	58	137.22
2"	2,703	95	211.85
3"	599	222	479.87
4"	482	128	306.61
6"	499	184	447.49
8"	334	319	762.66
10"	65	1,193	2,158.58
12"	9	2,343	4,857.04
16"	2	13	313.50
Total	<u>89,583</u>		

Source: Department's utility billing records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
TEN LARGEST WATER USERS IN CITY OF LONG BEACH
 Fiscal Year Ended September 30, 2008

Ranking	Customer	Sales	Gallons (000's)	Cubic Feet (000's)	Acre Feet	Percent of Total
1	City of Long Beach	\$ 2,519,678	983,934	131,533	3,020	5.00 %
2	Long Beach Unified School District	770,006	244,178	32,642	749	1.24
3	Montenay Pacific Power Corporation	398,037	160,434	21,447	492	0.82
4	L.A.D.W.P.	394,170	155,250	20,754	476	0.79
5	California State University Long Beach	376,796	143,251	19,150	440	0.73
6	AES Southland LLC	341,765	136,796	18,287	420	0.70
7	L.A. County Community Development	283,211	86,078	11,507	264	0.44
8	Veterans Affairs Medical Hospital	238,218	94,329	12,610	289	0.48
9	Memorial Medical Center	228,775	88,292	11,803	271	0.45
10	Carnival Corporation	178,229	71,229	9,522	219	0.36
	Total Ten Largest Users	5,728,885	2,163,770	289,255	6,640	11.00
	Total All Other Users	58,623,114	17,509,001	2,340,616	53,733	89.00
	Total City	\$ 64,351,999	19,672,771	2,629,870	60,374	100.00

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

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

See accompanying independent auditors' report

(Unaudited)

Exhibit 15

LONG BEACH WATER DEPARTMENT
SEWER RATES: DAILY SERVICE CHARGES BY SIZE,
VOLUMETRIC RATE AND CAPACITY CHARGES(1)
 Fiscal Year Ended September 30, 2008

Water Service Size	Daily Charge	Volumetric Rate per 100 cubic feet
5/8 or 3/4"	\$ 0.149	\$ 0.207
1"	0.237	0.207
1-1/2"	0.430	0.207
2"	0.624	0.207
3"	1.292	0.207
4"	2.046	0.207
6"	3.768	0.207
8"	5.921	0.207
10"	9.686	0.207
12"	11.839	0.207
16"	19.373	0.207

Note: (1) A one-time capacity charge of \$80.37 per equivalent fixture unit is applied to all new developments in the City.

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
NUMBER OF SEWER SERVICES AND
AVERAGE MONTHLY SEWER BILL BY SERVICE SIZE
Fiscal Year Ended September 30, 2008

<u>Water Service Size</u>	<u>Number of Services</u>	<u>Average Monthly Bill</u>
3/4"	69,877	\$ 6.42
1"	11,042	10.53
1-1/2"	4,101	22.96
2"	2,254	36.43
3"	436	80.26
4"	139	126.52
6"	85	260.46
8"	52	335.17
10"	11	1,175.25
12"	5	596.99
Total	<u>88,002</u>	

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
TEN LARGEST SEWER USERS IN CITY OF LONG BEACH
Fiscal Year Ended September 30, 2008

<u>Ranking</u>	<u>Customer</u>	<u>Sales</u>	<u>Gallons (000's)</u>	<u>Cubic Feet (000's)</u>	<u>Acre Feet</u>	<u>Percent of Total</u>
1	City of Long Beach	\$ 216,360	522,046	69,788	1,602	3.59 %
2	Long Beach Unified School District	106,314	133,250	17,813	409	0.92
3	California State University Long Beach	50,959	138,120	18,464	424	0.95
4	L A County Housing Authority	26,353	50,717	6,780	156	0.35
5	Hyatt Regency Hotel	15,376	25,426	3,399	78	0.17
6	Memorial Medical Center	15,123	34,627	4,629	106	0.24
7	Boeing Company	14,142	37,320	4,989	115	0.26
8	National Gypsum Division	13,330	41,023	5,484	126	0.28
9	Marina Pacifica Association	12,432	29,764	3,979	91	0.20
10	American Textile Maint. Company	12,214	39,527	5,284	121	0.27
	Total Ten Largest Users	482,603	1,051,820	140,609	3,228	7.23
	Total All Other Users	9,711,249	13,485,199	1,802,710	41,385	92.77
	Total City	<u>\$10,193,852</u>	<u>14,537,019</u>	<u>1,943,319</u>	<u>44,613</u>	<u>100</u>

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

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

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT
WATER REUSE SITES (RECLAIMED WATER USERS)
Fiscal Year Ended September 30, 2008

		Reuse (in acre feet)
1	Alamitos Barrier	1,735
2	Thums	1,209
3	El Dorado Park & Golf Course	931
4	Recreation Park South, Golf course, Bowling Green, & Joe Rogers Field	408
5	Lakewood County Golf Course	396
6	Virginia Country Club Golf Course	376
7	Skylinks Golf Course	345
8	Heartwell Park & Golf Course	309
9	All Souls Cemetery	131
10	California State University, Long Beach	130
11	Forest Lawn	95
12	Long Beach Unified School District	92
13	Jauregui Nursery	68
14	Cal-Trans Freeway Landscaping	47
15	Long Beach City College and Veterans Stadium	46
16	Marina Vista Park, Colorado Lagoon, & Woodlands	43
17	Scherer Park	33
18	Vestar Development	30
19	El Dorado Lakes Condominiums	28
20	City of Long Beach Public Works/Public Service	26
21	Wal-Mart Corporation	26
22	Whaley Park	22
23	Douglas Park	21
24	Stearns Park	19
25	Bixby Park	15
26	Bluff Park	14
27	Cherry Avenue Park	13
28	Water Department Irrigation	10
29	Signal Hill-Reservoir Park	9
30	Alamitos Reservoir -Irrigation	3
31	Lakewood First Presbyterian Church	3
32	Somerset Park	1
Totals		6,634

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

Source: Department's records

See accompanying independent auditors' report

Debt Capacity Information

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

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

Fiscal Year Ended	Total Operating Revenue	Operating Expenses (1)	Net Operating Income	Net Non-Operating Income/ (Expense) (2)	Amount Available for Debt Service	Principal	Interest	Total Debt Service	Times Coverage
9/30/1999	57,619	43,854	13,765	6,655	20,420	2,989	2,396	5,385	3.79
9/30/2000	60,252	46,509	13,743	2,659	16,402	1,979	2,197	4,176	3.93
9/30/2001	57,773	46,526	11,247	1,476	12,723	1,587	2,152	3,739	3.40
9/30/2002	58,970	48,323	10,647	1,615	12,262	1,692	2,049	3,741	3.28
9/30/2003	58,945	44,654	14,291	1,829	16,120	1,772	1,979	3,751	4.30
9/30/2004	63,185	47,752	15,433	2,340	17,773	1,242	1,904	3,146	5.65
9/30/2005	64,522	50,146	14,376	1,848	16,224	1,292	1,851	3,143	5.16
9/30/2006	66,074	53,096	12,978	1,777	14,755	1,353	1,794	3,147	4.69
9/30/2007	70,259	55,965	14,294	757	15,051	1,352	1,947	3,299	4.56
9/30/2008	71,604	57,239	14,365	1,525	15,890	1,330	1,834	3,164	5.02

Bond Issues: Water Revenue Refunding Bonds - 1997 Series A

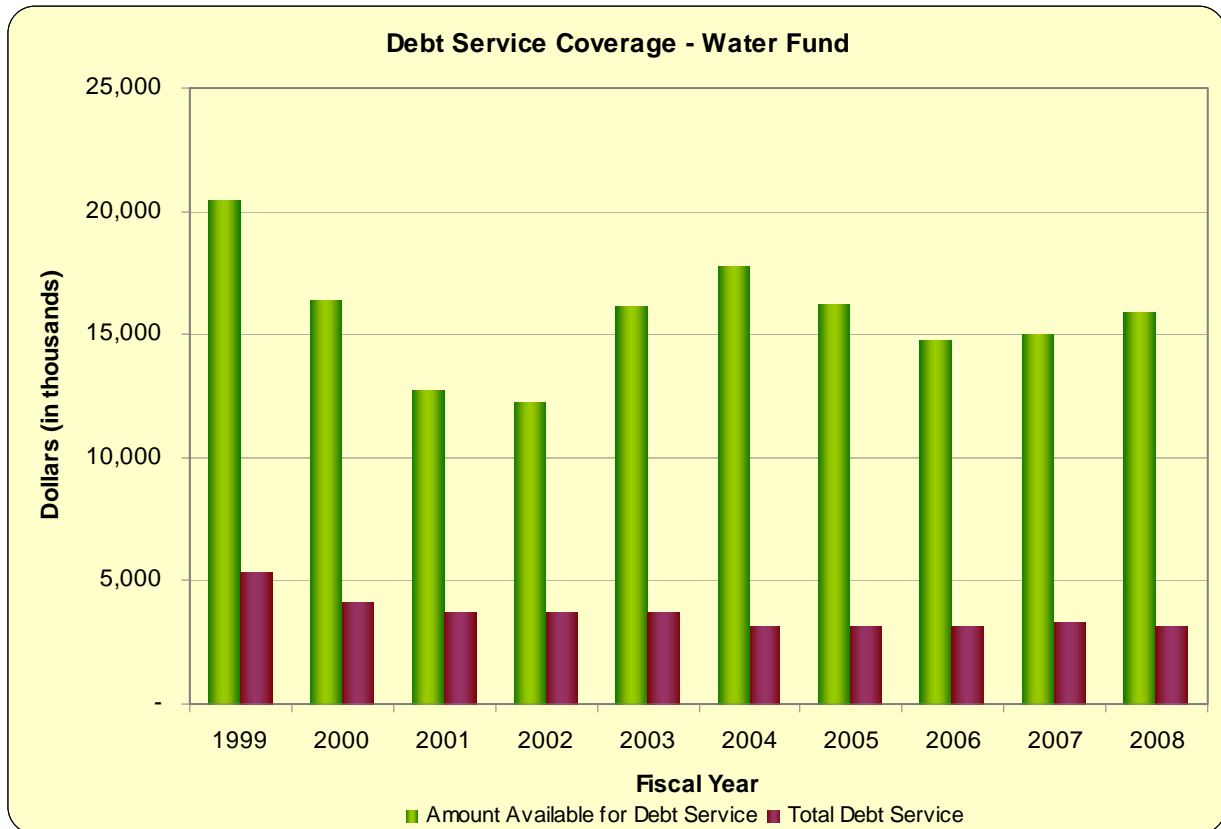
Average Coverage, ten years	4.38
Rate Covenant (1997 Issue)	1.10

Notes: (1) Operating Expenses are exclusive of depreciation expense.

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

Source: Department's annual reports

See accompanying independent auditors' report



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

<u>Fiscal Year Ended</u>	<u>Total Operating Revenue</u>	<u>Operating Expenses (1)</u>	<u>Net Operating Income</u>	<u>Net Non-Operating Income (2)</u>	<u>Amount Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Times Coverage</u>
9/30/1999	7,809	5,406	2,403	1,106	3,509	-	-	-	n/a
9/30/2000	7,922	5,900	2,022	1,212	3,234	-	-	-	n/a
9/30/2001	8,698	6,535	2,163	858	3,021	-	-	-	n/a
9/30/2002	8,050	6,367	1,683	312	1,995	-	-	-	n/a
9/30/2003	9,015	7,317	1,698	264	1,962	-	-	-	n/a
9/30/2004	9,280	6,618	2,662	154	2,816	-	-	-	n/a
9/30/2005	9,718	5,906	3,812	225	4,037	-	-	-	n/a
9/30/2006	9,244	6,504	2,740	366	3,106	-	-	-	n/a
9/30/2007	10,811	10,293	518	352	870	-	-	-	n/a
9/30/2008	11,783	10,726	1,058	174	1,231	-	-	-	n/a

Bond Issues: None

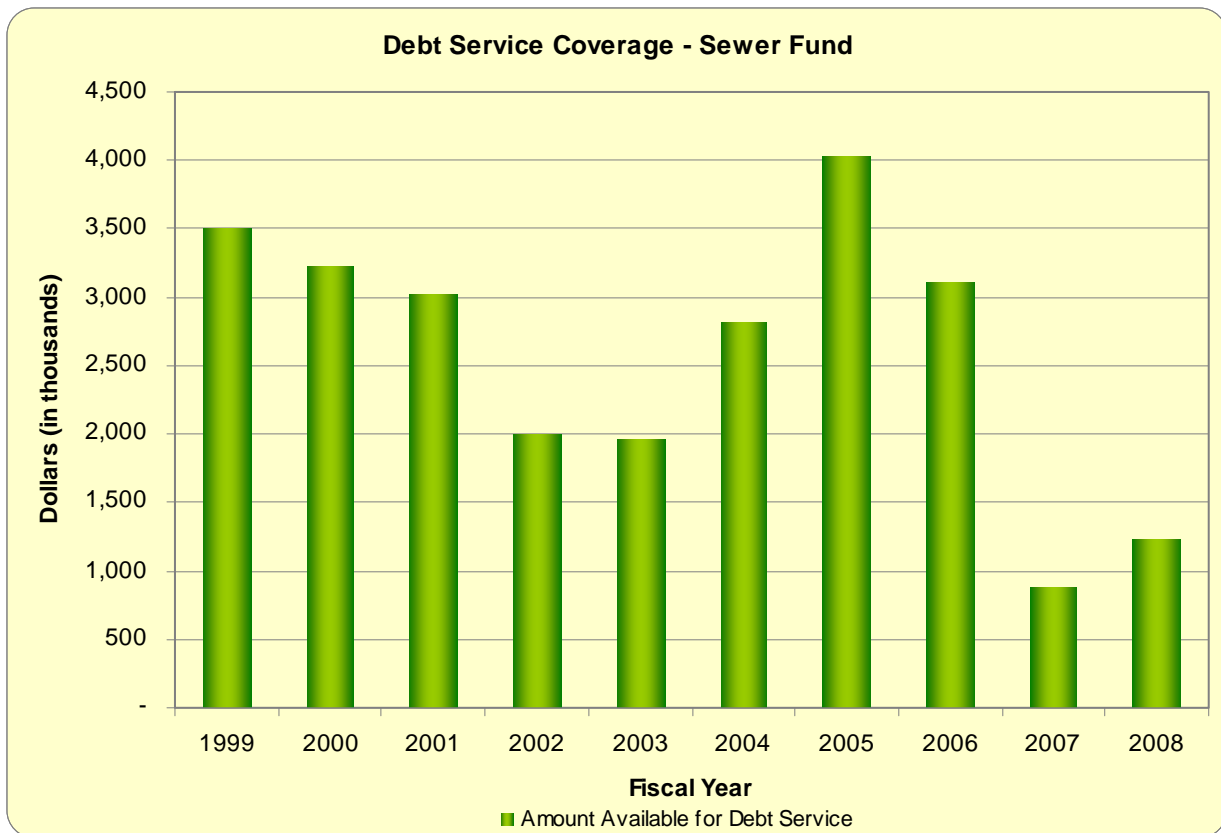
Average Coverage, ten years	n/a
Rate Covenant	n/a

Notes: (1) Operating Expenses are exclusive of depreciation expense.

(2) Net Non-Operating Income is exclusive of contributed capital and loss on disposition of property.

Source: Department's annual reports

See accompanying independent auditors' report



Demographic and Economic Information

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

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

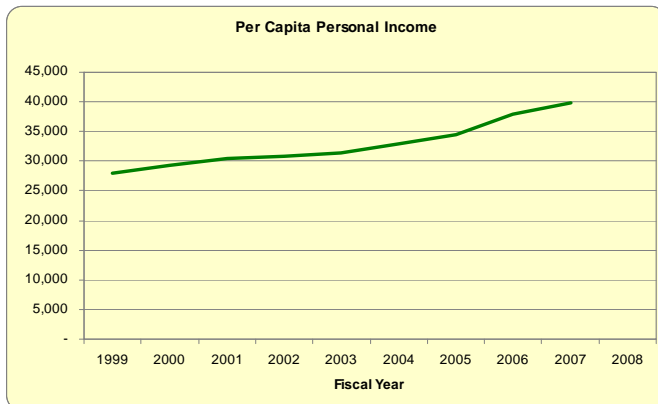
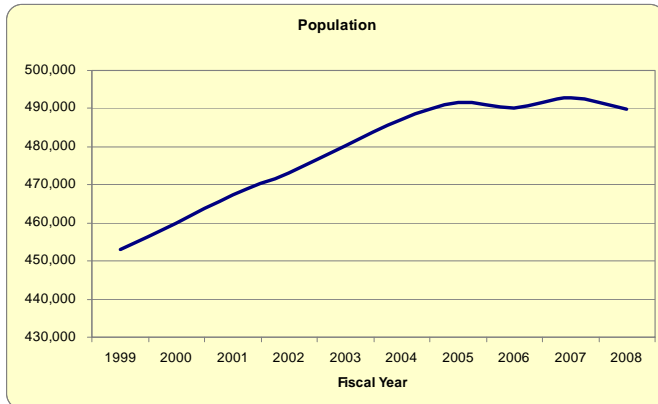
Fiscal Year Ended	Estimated Population (1)	Personal Income (in millions) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
9/30/1999	452,905	\$ 8,651	27,973	5.6%
9/30/2000	459,900	9,337	29,226	6.0%
9/30/2001	467,300	9,787	30,478	6.3%
9/30/2002	473,100	10,027	30,789	7.5%
9/30/2003	480,400	10,463	31,416	7.7%
9/30/2004	487,100	11,137	33,008	7.2%
9/30/2005	491,564	11,370	34,426	5.9%
9/30/2006	490,166	12,712	37,991	5.3%
9/30/2007	492,912	13,505	39,794	5.6%
9/30/2008	489,864	n/a	n/a	8.3%

Source: (1) City's Planning & Building Department

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Los Angeles-Long Beach-Glendale Metro Division. The Bureau reports information for the previous year after 16 months of the calendar year end.

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

See accompanying independent auditors' report



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

<u>Employer</u>	<u>Fiscal Year 2008</u>		<u>Fiscal Year 1999</u>	
	<u>Number of Employees (1)</u>	<u>Percentage of Total City Employment (2)</u>	<u>Number of Employees (1)</u>	<u>Percentage of Total City Employment (2)</u>
Long Beach Unified School District	8,335	3.59%	11,400	5.44%
The Boeing Company	8,200	3.53%	13,781	6.58%
California State University Long Beach	6,367	2.74%	2,755	1.32%
City of Long Beach	5,812	2.50%	5,814	2.86%
Long Beach Memorial Medical Center	5,800	2.50%	3,928	1.88%
Veterans Affairs Medical Center	2,500	1.08%	2,278	1.09%
Verizon	2,500	1.08%	n/a	n/a
Long Beach City College	2,300	0.99%	1,518	0.72%
U.S. Postal Service	1,700	0.73%	n/a	n/a
St. Mary Medical Center	1,480	0.64%	1,779	0.85%

Sources: (1) Economic Research Group, Department of Community Development
(2) U.S. Census Bureau Labor Force as of 2005

See accompanying independent auditors' report

(Unaudited)

Exhibit 23

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

<u>Fiscal Year Ended</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
9/30/1999	181	27	208
9/30/2000	185	29	214
9/30/2001	195	28	223
9/30/2002	199	36	235
9/30/2003	196	41	237
9/30/2004	198	33	231
9/30/2005	192	27	219
9/30/2006	184	30	214
9/30/2007	185	43	228
9/30/2008	169	41	210

Sources: Department's Personnel records

See accompanying independent auditors' report

Operating Information

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

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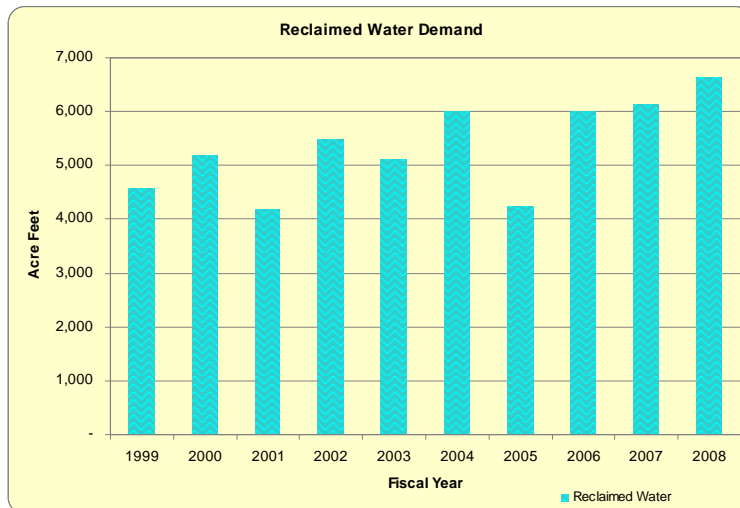
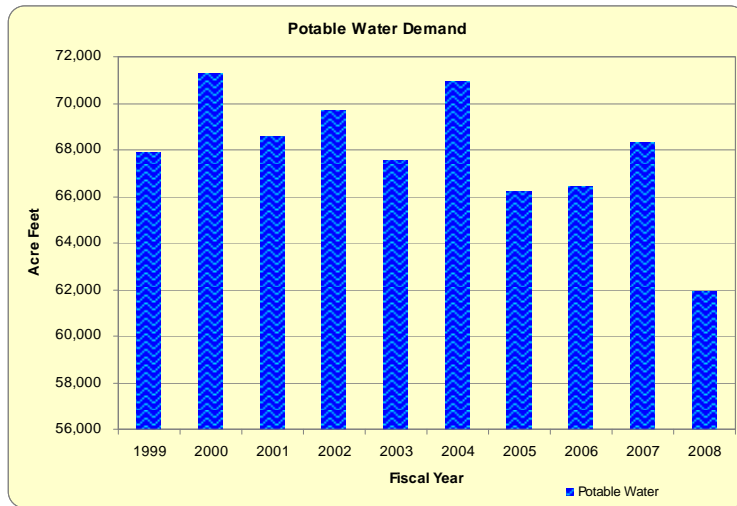
LONG BEACH WATER DEPARTMENT
WATER DEMAND - LAST TEN FISCAL YEARS
(in acre feet)

Fiscal Year Ended	Potable Water		Total Potable Demand	Reclaimed Water	Total Demand
	Pumped	Purchased			
9/30/1999	23,641	44,257	67,898	4,586	72,484
9/30/2000	24,787	46,475	71,262	5,190	76,452
9/30/2001	24,465	44,117	68,582	4,184	72,766
9/30/2002	25,993	43,718	69,711	5,493	75,204
9/30/2003	22,849	44,705	67,554	5,127	72,681
9/30/2004	25,639	45,301	70,940	6,003	76,943
9/30/2005	21,610	44,611	66,221	4,243	70,464
9/30/2006	25,160	41,284	66,444	6,005	72,449
9/30/2007	25,828	42,466	68,294	6,138	74,432
9/30/2008	33,776	28,170	61,946	6,634	68,580

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 25

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>
7/1/1999	431	0	290
7/1/2000	431	0	290
7/1/2001	431	0	290
7/1/2002	431	0	290
1/1/2003	408	-5	267
1/1/2004	418	2	277
1/1/2005	443	6	302
1/1/2006	453	2	312
1/1/2007	478	6	337
1/1/2008	508	6	367
5/1/2008	508	6	-

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 26

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>
7/1/1999	139.00	(8)
7/1/2000	112.00	(19)
7/1/2001	112.00	0
7/1/2002	117.60	5
7/1/2003	115.00	(2)
7/1/2004	128.25	12
7/1/2005	134.66	5
7/1/2006	138.00	2
7/1/2007	149.00	8
7/1/2008	153.00	3

Source: Water Replenishment District of Southern California (WRD)

See accompanying independent auditors' report

(Unaudited)

Exhibit 27

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

Fiscal Year Ended	Water System			Water Quality		Reclaimed System	
	Number of Groundwater wells	Miles of water mains	Number of active water service connections	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline
9/30/1999	29	910	88,395	6,717	12,560	41,370	30
9/30/2000	29	913	88,636	6,767	13,429	47,558	30
9/30/2001	29	911	88,754	6,600	13,797	45,609	30
9/30/2002	29	911	88,912	6,500	14,083	49,306	30
9/30/2003	29	911	89,139	6,442	14,000	54,000	33
9/30/2004	29	907	89,273	6,640	16,400	55,000	33
9/30/2005	29	907	89,365	6,501	16,030	48,910	33
9/30/2006	29	907	89,471	6,505	15,676	57,581	33
9/30/2007	31	905	89,535	6,489	16,761	60,235	33
9/30/2008	31	904	89,583	6,507	16,805	81,378	33

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

Exhibit 28

**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
9/30/1999	28	704	15,000
9/30/2000	28	704	15,593
9/30/2001	28	712	15,595
9/30/2002	28	712	15,595
9/30/2003	28	712	15,924
9/30/2004	28	712	16,031
9/30/2005	28	712	16,041
9/30/2006	28	712	16,044
9/30/2007	28	711	16,055
9/30/2008	28	711	16,078

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	Number of times Storm Drain Catch Basins Cleaned (2)
9/30/1998	70,583	185	12,200	1,600	405	7,959	4,990
9/30/1999	75,244	475	18,674	2,232	318	7,184	6,436
9/30/2000	75,005	183	17,561	4,524	257	4,843	5,070
9/30/2001	61,765	358	10,713	384	291	3,501	6,865
9/30/2002	85,297	732	2,960	147	396	5,000	6,269
9/30/2003	71,000	395	2,900	97	341	3,000	8,614
9/30/2004	63,960	376	7,076	316	437	3,000	10,202
9/30/2005	50,601	342	6,889	246	338	3,000	3,911
9/30/2006	55,404	259	5,370	296	474	3,000	5,110
9/30/2007	54,423	407	7,050	270	364	3,000	848
9/30/2008	44,332	346	10,637	278	365	3,000	-

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

(2) Effective October 1, 2003, the Water Department transferred ownership and responsibility for City Storm drain system assets back to the City's Department of Public Works. However, the Water Department continues to operate and maintain the part of the storm drain system on a cost reimbursement basis. Cleaning of storm drain catch basins was taken over by City's Department of Public Works as of January 23, 2007.

Source: Department's records

See accompanying independent auditors' report