

**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, 2006 and 2005**

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**Prepared by the Finance Division
of the
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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, 2006 and 2005

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

DATE June 12, 2007
TO Board of Water Commissioners
FROM B. Anatole Falagan, Deputy General Manager - Business
SUBJECT Approval of Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006

The Comprehensive Annual Financial Report (CAFR) of the Long Beach Water Department (Department), for the fiscal years ended September 30, 2006 and 2005, is attached. The Department's CAFR was prepared using the financial reporting requirements outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34, which requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). The Department's MD&A can be found immediately following the report of the independent auditors in the accompanying financial section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The CAFR for the Department is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this letter of transmittal, the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement in Financial Reporting for the Fiscal Year Ended September 30, 2005, the Department's organizational chart and a listing of the Board of Water Commissioners (Board) and staff members. The Financial Section presents the Independent Auditors' Report, the management discussion and analysis, the basic financial statements and related footnotes. The Statistical Section includes pertinent financial and operational data as it relates to the Department's operations, covering a ten-year historical trend where applicable. The Department's financial statements are also included in the City's Basic Financial Statements as enterprise funds (Water Fund and Sewer Fund).

Management assumes full responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position, results of operations, and cash flows of the Department; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial affairs of the Department have been included. The accompanying financial statements have been audited by an independent certified public accounting firm. The Department has contracted with the firm of KPMG LLP to provide this audit. In fiscal years 2004-2005 and 2005-2006, the audit was a cooperative effort of the Long Beach City Auditor's Office and KPMG LLP.

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 490,166 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 29 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.

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 15,676 samples and performed 57,581 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 2006, the Groundwater Treatment Plant processed approximately 8.2 billion gallons of drinking water. Overall, 21.7 billion gallons of high-quality water was delivered to the Long Beach community.

The Department also operates the nation's first municipal state-of-the-art water bottling plant which eliminates the need for the City to continue to purchase bottled water for emergencies and for civic, charitable and community events.

The bottling equipment consists of a bottle riser, filler, capper, sealer and labeler. The equipment is able to process one-half liter, one-liter and one and a half liter bottles. The clean room has a sophisticated air-cleaning system consisting of HEPA filters, capable of removing most of the particulates in the air. The California Department of Health Services completed an extensive audit of the plant and certified the facility for operation on July 6, 2000.

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 2000, the Department, in conjunction with the Water Replenishment District (WRD), has received a 25% matching grant from the U.S. Bureau of Reclamation. These grant funds are used for expansion of Long Beach's reclaimed water system and for the Alamitos Seawater Barrier Reclaimed Water Project; the latter includes the construction and operation of 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 2006. 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, has nearly completed construction and begun operation of 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 for later use during dry or drought conditions. 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.

Water Distribution System

The City has an aging infrastructure, which needs to be maintained and in certain parts replaced. At September 30, 2006, the water distribution system totaled 907 miles of water mains with 89,471 active service connections.

During fiscal year 2006, the Department and contractors replaced 55,404 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 City has approximately 175 old control valves 20 inches or more in diameter and 18,815 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 4,806 valves, repaired 43 and replaced 267.

The Department also renewed 1,238 water services utilizing copper pipe, replaced or repaired 259 fire hydrants, responded to 10,670 customer service requests and reviewed 1,833 high bill reports. The Department responds immediately, 24-hours a day, 365 days a year to water emergencies. During the year, the Department repaired 56 water main pipeline breaks citywide and tested, installed, repaired or exchanged 4,525 water meters.

With 29 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 first City-wide Sewer Master Plan, developed by the Department in 1991, provides a prioritization of the sewer deficiencies that must be addressed.

This year we completed 103 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 approximately 16,000 sewer manholes to control vectors (roaches, other insects and rodents), and cleaned 474 of the 712 miles of sewer pipelines throughout the City.

Storm Drain System

Since 1999, the Department has been responsible for the operation and maintenance of the City's storm drain system, consisting of 3,612 catch basins, 180 miles of storm drain pipelines, numerous cross drains, 2,032 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). During the year, the Water Department cleaned 5,110 catch basins, 131 cross drains and 169 grates.

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 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.

All internal control evaluations occur within the above stated framework. We believe that the internal control structure of the Department adequately safeguards assets and provides reasonable assurance that financial transactions are properly recorded.

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

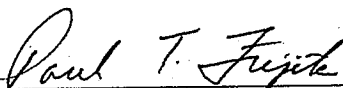
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2005. The Certificate of Achievement is the highest form of recognition 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 Cangco, Accountant II, 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 period ended September 30, 2006.


Prepared by:


Paul T. Fujita, Director of Finance

Submitted and
Recommended by:


B. Anatole Falagan, Deputy General Manager - Business

Approved by:


Kevin L. Wattier, General Manager

Att.
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Certificate of Achievement for Excellence in Financial Reporting

Presented to
Long Beach Water Department
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

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.

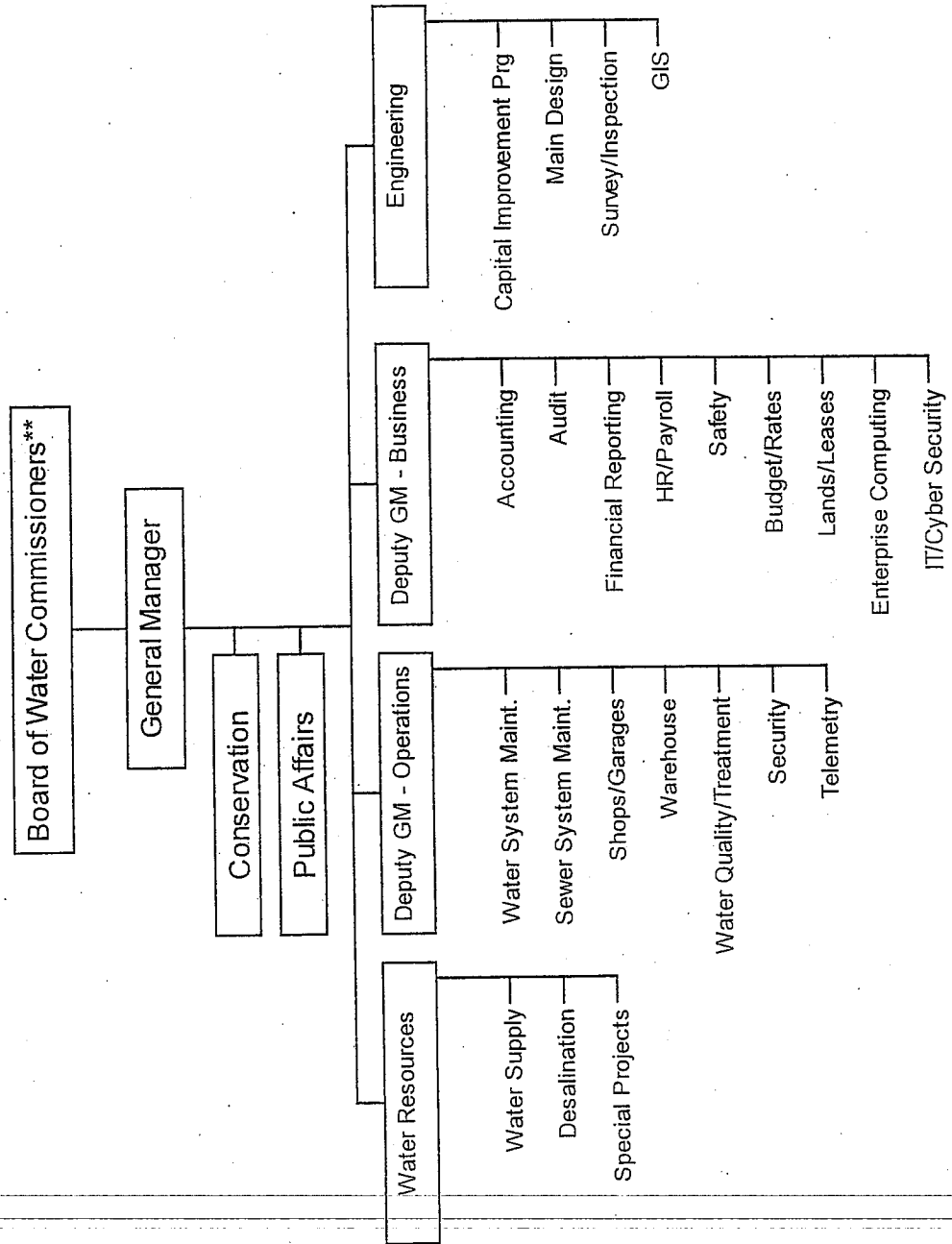


President

Executive Director



Long Beach Water Department Organizational Functions



**Members of the Board of Water Commissioners are appointed by the Mayor, confirmed by the City Council, and serve a maximum two five-year terms.

LONG BEACH WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

FRANK CLARKE	PRESIDENT
WILLIAM B. TOWNSEND	VICE PRESIDENT
STEPHEN T. CONLEY	SECRETARY
HELEN Z. HANSEN	MEMBER
LILLIAN Y. KAWASAKI	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 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, 2006 and 2005, 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 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 in note 1 of the notes to the basic financial statements, the financial statements of the Long Beach Water Department of the City of Long Beach, California, are intended to present the financial position, the changes in financial position, and 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 not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006 and 2005, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Long Beach Water Department of the City of Long Beach, California, as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2007 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performance 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 19 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 section and statistical tables 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

Los Angeles, California
June 12, 2007

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

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 basic financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal years ended September 30, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. The Long Beach Water Department (the Department) is comprised of the City's Water Enterprise Fund and Sewer Enterprise 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 2006 by \$277,798 (*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 2006 by \$225,551. Of this amount, \$10,914 (*unrestricted net assets*) is available to meet the Water Fund's ongoing obligations to creditors and customers. Unrestricted net assets represented 17.9% of the Water Fund's annual operating expenses for 2006 as compared with 19.3% for 2005. Total Water Fund net assets increased by \$7,036 (+3.2%) from the prior fiscal year. This increase is attributable to income of \$4,402 and capital contributions of \$2,634.

Sewer Enterprise Fund. Net assets totaled \$52,247 as of September 30, 2006, an increase of \$1,862 (+3.7%) from the prior fiscal year. The increase was attributable to income of \$1,862, with no capital contributions received for FY 2006. At the end of the current fiscal year, Sewer Fund unrestricted net assets represented 124% of annual operating expenses for 2006 as compared with 130% for 2005.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's basic 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 basic 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, 2006.

The Department's basic financial statements are comprised of two components: 1) basic financial statements and 2) notes to the basic financial statements. Included as part of the

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

basic 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* presents 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 Basic 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 Basic Financial Statements* provide additional information that is essential to the full understanding of the data provided in the basic financial statements and can be found on pages 23-40 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, 2006, Water Fund assets exceeded liabilities by \$225,551 and Sewer Fund assets exceeded liabilities by \$52,247, an increase in net assets over the prior fiscal year for both the Water and Sewer Funds of 3.2% and 3.7%, respectively. Net Assets are further categorized by investments in capital assets, and restricted and unrestricted net assets.

As of September 30, 2006, Investment in capital assets, such as production, transmission, and distribution facilities, less any related debt used to acquire those assets that remains outstanding, represent 93.2% and 81.6% of Water Fund and Sewer Fund net assets, respectively. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt on the Statements of Net Assets must come from other sources such as operations.

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The restricted portion of the Water Fund's net assets (1.9% and 2.0% of total net assets as of September 30, 2006 and 2005, 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 (4.8% and 18.4% for the Water and Sewer Funds, as of September 30, 2006, respectively) may be used to meet the Department's ongoing obligations to creditors and customers.

The Department's Condensed schedule of Net Assets as of September 30, 2006, 2005 and 2004 is as follows (in thousands):

Long Beach Water Department Condensed Statements of Net Assets September 30, 2006, 2005 and 2004 (in thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Assets:							
Current and other assets	\$ 34,282	\$ 33,441	\$ 31,466	\$ 841	2.5%	\$ 1,975	6.3%
Capital assets	291,093	283,421	271,935	7,672	2.7%	11,486	4.2%
Total assets	<u>325,375</u>	<u>316,862</u>	<u>303,401</u>	<u>8,513</u>	<u>2.7%</u>	<u>13,461</u>	<u>4.4%</u>
Liabilities:							
Current liabilities	11,151	10,356	11,185	795	7.7%	(829)	-7.4%
Long-term liabilities	36,426	37,606	38,725	(1,180)	-3.1%	(1,119)	-2.9%
Total liabilities	<u>47,577</u>	<u>47,962</u>	<u>49,910</u>	<u>(385)</u>	<u>-0.8%</u>	<u>(1,948)</u>	<u>-3.9%</u>
Net Assets:							
Invested in capital assets, net of related debt	252,901	244,165	231,667	8,737	3.6%	12,498	5.4%
Restricted	4,355	4,316	4,298	39	0.9%	18	0.4%
Unrestricted	20,542	20,419	17,527	123	0.6%	2,892	16.5%
Total net assets	<u>\$ 277,798</u>	<u>\$ 268,900</u>	<u>\$ 253,492</u>	<u>\$ 8,898</u>	<u>3.3%</u>	<u>\$ 15,408</u>	<u>6.1%</u>

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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, 2006, 2005 and 2004:

Condensed Schedules of Net Assets September 30, 2006, 2005 and 2004 (in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
Water Enterprise Fund				Amount	%	Amount	%
Assets:							
Current and other assets	\$ 23,684	\$ 23,705	\$ 24,163	\$ (21)	-0.1%	\$ (458)	-1.9%
Capital assets	248,474	242,215	231,335	6,259	2.6%	10,880	4.7%
Total assets	272,158	265,920	255,498	6,238	2.3%	10,422	4.1%
Liabilities:							
Current liabilities	10,181	9,799	10,207	382	3.9%	(408)	-4.0%
Long-term liabilities	36,426	37,606	38,725	(1,180)	-3.1%	(1,119)	-2.9%
Total liabilities	46,607	47,405	48,932	(798)	-1.7%	(1,527)	-3.1%
Net Assets:							
Invested in capital assets, net of related debt	210,282	202,958	191,067	7,324	3.6%	11,891	6.2%
Restricted	4,355	4,316	4,298	39	0.9%	18	0.4%
Unrestricted	10,914	11,240	11,202	(326)	-2.9%	38	0.3%
Total net assets	\$ 225,551	\$ 218,514	\$ 206,567	\$ 7,037	3.2%	\$ 11,947	5.8%
Sewer Enterprise Fund							
Assets:							
Current assets	\$ 10,598	\$ 9,736	\$ 7,303	\$ 862	8.9%	2,433	33.3%
Capital assets	42,619	41,206	40,600	1,413	3.4%	606	1.5%
Total assets	53,217	50,942	47,903	2,275	4.5%	3,039	6.3%
Liabilities:							
Current liabilities	970	557	978	413	74.1%	(421)	-43.0%
Net Assets:							
Invested in capital assets, net of related debt	42,619	41,206	40,600	1,413	3.4%	606	1.5%
Unrestricted	9,628	9,179	6,325	449	4.9%	2,854	45.1%
Total net assets	\$ 52,247	\$ 50,385	\$ 46,925	\$ 1,862	3.7%	\$ 3,460	7.4%

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

Fiscal Year Ended September 30, 2006 compared to 2005

Water Enterprise Fund. Net assets increased by \$7,037 (+3.2%) compared to FY 2005, with 63% of the increase attributable to on-going revenues in excess of on-going expenses of \$4,402. The remainder (37% of total increase) is due to contributed capital totaling \$2,634 from the receipt of State and Federal grants for reclaimed water, conjunctive use well and seawater desalination capital projects totaling \$1,922, and contributed capital from developer project water infrastructure improvements totaling \$713. Current and other assets decreased by \$21 (-0.1%) from FY 2005. The decrease is primarily from the net effect of amortization of deferred charges and a decrease in accounts receivable from the prior year, offset by increases in unrestricted cash and amounts due from other funds. The change in accounts receivable is primarily attributable to prior fiscal year end large receivables for potable water sales to WRD for groundwater banking, WRD in-lieu replenishment incentive programs, and grants receivable. Increases in current liabilities of \$382 (+3.9%) over the prior year are primarily attributable to increases in accounts payable, including purchased water accruals at year end.

Sewer Enterprise Fund. Net assets increased by \$1,862 (+3.7%) compared to FY 2005. The increase was attributable to revenues in excess of expenses of \$1,862. For FY 2006, there were no capital contributions related to sewer infrastructure improvements, compared to FY 2005 capital contributions totaling \$585 received from developer sewer infrastructure improvements. Current assets increased by \$862 (+8.9%) compared to the prior year, primarily attributable to increases in unrestricted cash from operations. Current liabilities increased by \$413 (+74.1%) compared to FY 2005 mainly due to increases in accounts payable associated with construction contracts.

Fiscal Year Ended September 30, 2005 compared to 2004

Water Enterprise Fund. Net assets increased by \$11,947 (+5.8%) over FY 2004. Approximately 47% of this increase was attributable to revenues in excess of expenses of \$5,659. The remaining 53% (\$6,289) is due to contributed capital from State and Federal grants totaling \$5,018, and contributed capital from developers totaling \$1,271. FY 2005 current and other assets decreased by \$458 (-1.9%) from FY 2004, reflecting decreases in cash reserves due primarily to payments for capital acquisitions. The decrease in cash reserves was offset by increases in accounts receivable and the recognition of \$1,497 in prepaid replenishment assessments (pump tax) to the Water Replenishment District of Southern California (WRD) on 13,000 acre feet of potable water stored in-lieu in the ground water basin.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

Sewer Enterprise Fund. Net assets increased \$3,460 (+7.4%) over 2004 due to revenues in excess of expenses of \$2,875 and contributed capital from developers totaling \$585. Current assets increased \$2,433 (+33.3%) from FY 2004. The increase was due primarily to increases in cash reserves from revenues in excess of operating expenses.

The Water Department's Condensed Schedule of Revenues, Expenses and Changes in Fund Net Assets provide insight as to the nature and source of changes in net assets and are summarized as follows for the years ended September 30, 2006, 2005, and 2004 (in thousands):

Long Beach Water Department
Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets
Fiscal Years Ended September 30, 2006, 2005 and 2004
(in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
	Amount	%	Amount	%	Amount	%	
Operating Revenues:							
Metered water sales	\$ 49,931		\$ 49,090	\$ 841	1.7%	\$ (669)	-1.3%
Reclaimed water sales	1,600		1,388	212	15.3%	(359)	-20.5%
Service charges	17,317		16,930	387	2.3%	647	4.0%
Maintenance services	780		732	48	6.6%	(101)	-12.1%
Other services	5,690		6,100	(410)	-6.7%	2,257	58.7%
Total operating revenues	75,318		74,240	1,078	1.5%	1,775	2.4%
Operating Expenses:							
Cost of water	19,179		20,936	(1,757)	-8.4%	2,355	12.7%
Personal services	15,663		15,379	284	1.8%	895	6.2%
Maintenance and other	17,044		12,395	4,649	37.5%	(2,213)	-15.1%
Depreciation	9,118		9,335	(217)	-2.3%	335	3.7%
In-lieu taxes and franchise fees	4,570		4,047	523	12.9%	872	27.5%
Other	3,144		3,296	(152)	-4.6%	(226)	-6.4%
Total operating expenses	68,718		65,388	3,330	5.1%	2,018	3.2%
Operating income	6,600		8,852	(2,252)	-25.4%	(243)	-2.7%
Non-Operating Income (Expense):							
Interest income	1,019		769	250	32.5%	79	11.4%
Interest expense	(2,255)		(2,253)	(2)	0.1%	(10)	0.4%
Loss on disposition of property	(225)		(137)	(88)	63.9%	148	-51.9%
Rents	733		804	(71)	-8.8%	104	14.9%
Other income, net	392		499	(107)	-21.5%	(605)	-54.8%
Income before contributed capital	6,264		8,534	(2,270)	-26.6%	(527)	-5.8%
Capital contributions	2,634		6,874	(4,240)	-61.7%	3,845	126.9%
Transfers out	-		(1,849)	-		1,849	-100.0%
Change in net assets	8,898		15,408	(6,510)	-42.3%	5,167	50.5%
Beginning net assets	268,900		243,251	15,408	6.1%	10,241	4.2%
Ending net assets	\$ 277,798		\$ 253,492	\$ 8,898	3.3%	\$ 15,408	6.1%

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

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, 2006, 2005 and 2004:

Water Enterprise Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets Fiscal Years Ended September 30, 2006, 2005 and 2004 (in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 46,877	\$ 45,966	\$ 46,472	\$ 911	2.0%	\$ (506)	-1.1%
Reclaimed water sales	1,600	1,388	1,747	212	15.3%	(359)	-20.5%
Service charges	12,727	12,302	11,648	425	3.5%	654	5.6%
Other services	4,870	4,866	3,318	4	0.1%	1,548	46.7%
Total operating revenues	66,074	64,522	63,185	1,552	2.4%	1,337	2.1%
Operating Expenses:							
Cost of water	19,179	20,936	18,581	(1,757)	-8.4%	2,355	12.7%
Personal services	12,974	12,731	11,572	243	1.9%	1,159	10.0%
Maintenance and other	14,576	10,159	11,941	4,417	43.5%	(1,782)	-14.9%
Depreciation	7,885	8,174	7,852	(289)	-3.5%	322	4.1%
In-lieu taxes and franchise fees	4,570	4,047	3,175	523	12.9%	872	27.5%
Other	1,797	2,273	2,483	(476)	-20.9%	(210)	-8.5%
Total operating expenses	60,981	58,320	55,604	2,661	4.6%	2,716	4.9%
Operating income	5,093	6,202	7,581	(1,109)	-17.9%	(1,379)	-18.2%
Non-Operating Income (Expense):							
Interest income	653	556	541	97	17.5%	15	2.8%
Interest expense	(2,255)	(2,253)	(2,243)	(2)	0.1%	(10)	0.4%
Loss on disposition of property	(213)	(137)	(285)	(76)	55.4%	148	-51.9%
Rents	733	804	700	(71)	-8.8%	104	14.9%
Other income, net	391	487	1,099	(96)	-19.7%	(612)	-55.7%
Income before contributed capital	4,402	5,659	7,393	(1,257)	-22.2%	(1,734)	-23.5%
Capital contributions	2,634	6,289	2,649	(3,655)	-58.1%	3,640	137.4%
Change in net assets	7,036	11,948	10,042	(4,912)	-41.1%	1,906	19.0%
Beginning net assets	218,515	206,567	196,525	11,948	5.8%	10,042	5.1%
Ending net assets	\$ 225,551	\$ 218,515	\$ 206,567	\$ 7,036	3.2%	\$ 11,948	5.8%

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

Sewer Enterprise Fund Condensed Schedules of Revenues, Expenses, and Changes in Fund Net Assets Fiscal Years Ended September 30, 2006, 2005 and 2004 (in thousands)

	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Operating Revenues:							
Metered water sales	\$ 3,054	\$ 3,124	\$ 3,287	(70)	-2.2%	\$ (163)	-5.0%
Service charges	4,590	4,628	4,635	(38)	-0.8%	(7)	-0.2%
Maintenance services	780	732	833	48	6.6%	(101)	-12.1%
Other services	820	1,234	525	(414)	-33.5%	709	135.0%
Total operating revenues	9,244	9,718	9,280	(474)	-4.9%	438	4.7%
Operating Expenses:							
Personal services	2,689	2,648	2,912	41	1.5%	(264)	-9.1%
Maintenance and other	2,468	2,236	2,667	232	10.4%	(431)	-16.2%
Depreciation	1,233	1,161	1,148	72	6.2%	13	1.1%
Other	1,347	1,023	1,039	324	31.7%	(16)	-1.5%
Total operating expenses	7,737	7,068	7,766	669	9.5%	(698)	-9.0%
Operating income	1,507	2,650	1,514	(1,143)	-43.1%	1,136	75.0%
Non-Operating Income (Expense):							
Interest income	366	213	149	153	71.8%	64	43.0%
Loss on disposition of property	(12)	-	-	(12)	-	-	-
Other income, net	1	12	5	(11)	-95.2%	7	140.0%
Income before contributed capital and transfers out	1,862	2,875	1,668	(1,013)	-35.2%	1,207	72.4%
Capital contributions	-	585	380	(585)	-100.0%	205	53.9%
Transfers out	-	-	(1,849)	-	-	1,849	-100.0%
Change in net assets	1,862	3,460	199	(1,598)	-46.2%	3,261	1638.7%
Beginning net assets	50,385	46,925	46,726	3,460	7.4%	199	0.4%
Ending net assets	\$ 52,247	\$ 50,385	\$ 46,925	\$ 1,862	3.7%	\$ 3,460	7.4%

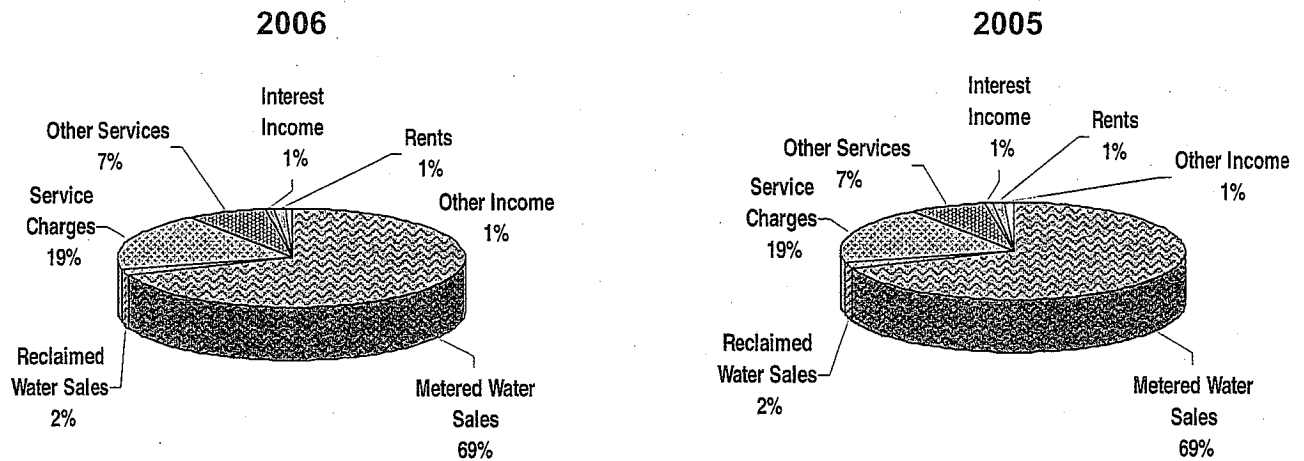
LONG BEACH WATER DEPARTMENT

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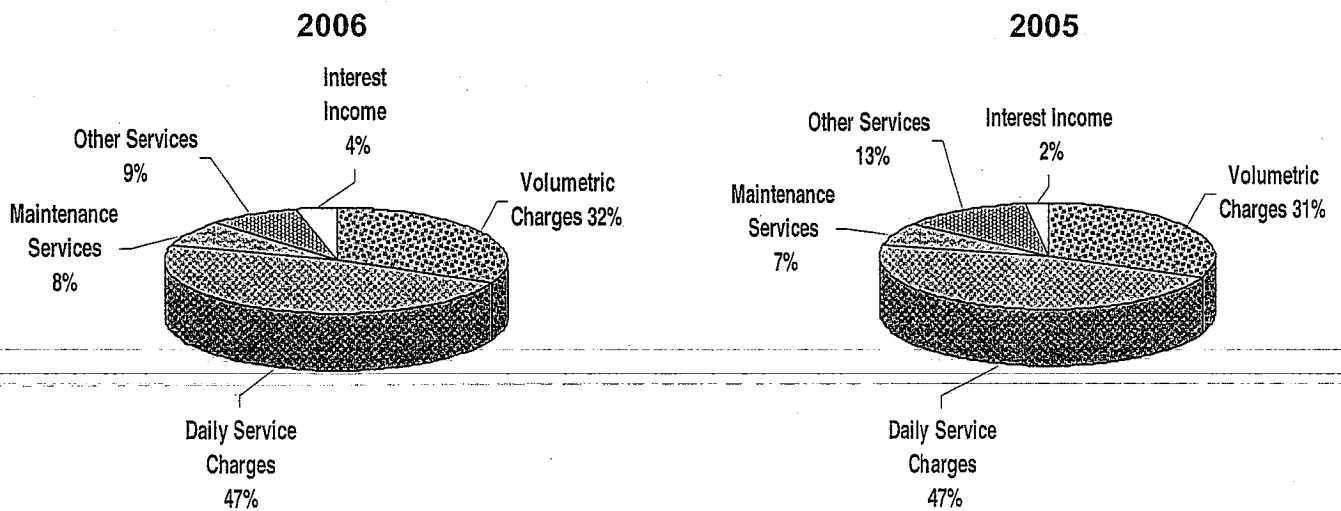
Sources of Revenues

Sources of revenue for fiscal years 2006 and 2005 are shown on the following charts.

Water Enterprise Fund



Sewer Enterprise Fund



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Management Review of the Department's Revenues.

Water Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

Total operating revenues were \$66,074, an increase of \$1,552 (+2.4%) over FY 2005. Metered potable water sales increased \$911 (+2.0%) reflecting a 4% general rate increase effective October 1, 2005, which was offset by a minor decrease in demand compared to the previous year and an adjustment to Harbor Department accounts for a metered billing correction. Reclaimed water sales were up \$212 (+15.3%) over the prior year reflecting both the 4% rate increase and a return to normal irrigation usage patterns compared to the prior year's low demand due to record winter rains. Daily service charges increased \$425 (+3.5%) over FY 2005 as a result of the 4% general rate increase.

Revenue from Other Services totaled \$4,870, which represents a net +0.1% increase over the prior year. The underlying major sources of revenue changed substantially from the prior year. On October 1, 2005, the Department, under contractual agreement with WRD, took over operating and maintenance responsibilities of WRD's Leo J. Vander Lans Water Treatment facility (LJVL facility). Located in east Long Beach next to the Los Angeles County Sanitation District's Long Beach Water Reclamation Plant, the LJVL facility treats recycled water for use in the Alamitos Seawater Intrusion Barrier.

At full capacity, the LJVL facility is expected to supplant up to half of the potable water used for the barrier annually. Revenue from the LJVL facility operating contract totaled \$1,928. Sales of potable water to WRD for the Alamitos Seawater Intrusion Barrier totaled \$622, a decrease of \$1,382 (-222%) from the prior year. The decrease is a result of both LJVL facility reclaimed water production and the shut down of barrier operations for repairs and maintenance for several months during FY 2006.

Fiscal Year Ended September 30, 2005 compared to 2004

Total operating revenues were \$64,522 for FY 2005, an increase of \$1,337 (+2.1%) over FY 2004. Metered potable water sales and reclaimed water sales were down \$506 (-1.1%) and \$359 (-20.5%) respectively from FY 2004, reflecting decreased demand due to record winter rains during the year. The heavy rains had a greater impact on reclaimed water demand as it is primarily used for irrigation. The decreases in demand were offset by a 4.5% rate increase effective at the beginning of the fiscal year. Daily service charges increased \$654 (+5.6%) over FY 2004 as a result of the 4.5% general rate increase.

The majority of Other Services are attributable to sales of potable water to WRD for the Alamitos Seawater Intrusion Barrier. WRD uses potable water for injection into the ground in several strategic locations throughout the central basin at a rate of

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Management's Discussion and Analysis September 30, 2006 and 2005

approximately 6,000 acre feet annually in order to protect the coastal groundwater basins from seawater intrusion. Increases in Other Services of \$1,548 (+46.7%) over FY 2004 reflect increased sales of potable water to the WRD for the seawater intrusion barrier and \$720 in WRD incentive payments for 6,000 acre feet of in-lieu groundwater basin replenishment water. 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 from the Metropolitan Water District of Southern California (MWD).

Sewer Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

Total operating revenues were down \$474 (-4.9%) from FY 2005. Revenue from other services was down \$414 (-33.5%) which is primarily attributable to decreased receipts of sewer capacity charges, which are charges assessed on new building construction in the City. Metered sales and daily service charges were down by \$70 (-2.2%) and \$38 (-0.8%), respectively. The decrease in metered sales is attributable to lower residential usage. Residential customer metered sales volume is based on average potable water usage during the winter months from the previous year, which experienced record levels of rain. Maintenance services increased by \$48 (+6.6%) due to increased reimbursements from the City for operation and maintenance of the City's storm drain system. In FY 2004, ownership of and responsibility for City storm drain system assets totaling \$1,849 (net of accumulated depreciation) was transferred to the City's Public Works Department effective October 1, 2003. Under agreement with the City, the Water Department continues to operate and maintain the storm drain system on a cost reimbursement basis.

Fiscal Year Ended September 30, 2005 compared to 2004

FY 2005 sewer fund daily service charges were relatively flat compared to FY 2004 while metered sales decreased by \$163 (-5.0%). The decrease in sewer metered sales is attributable to the decrease in potable water demand for the year. Revenue from Other Services increased by \$709 (+135%) over FY 2004 due to the receipt of sewer capacity charges from the development of several large multi-family residential and commercial projects.

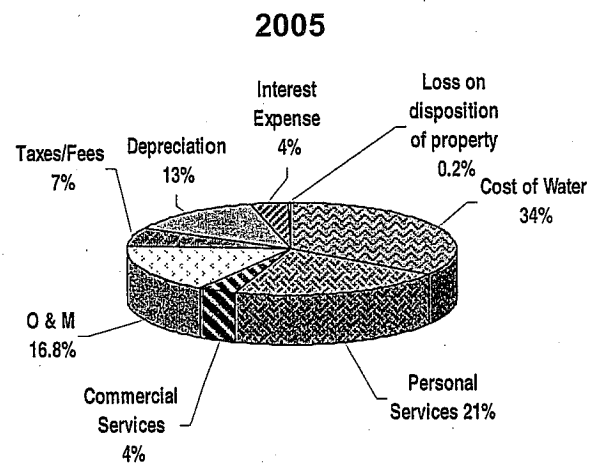
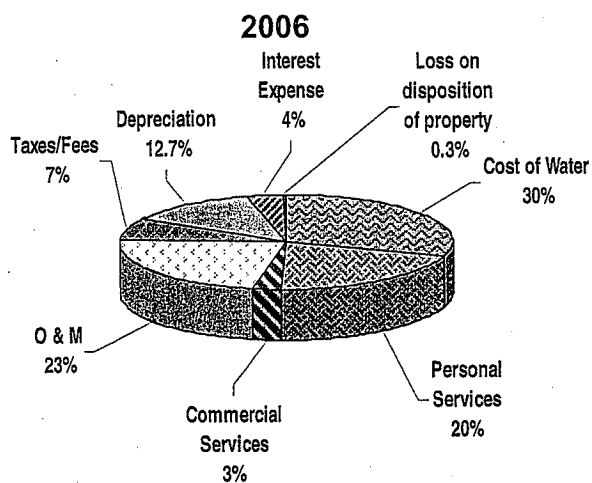
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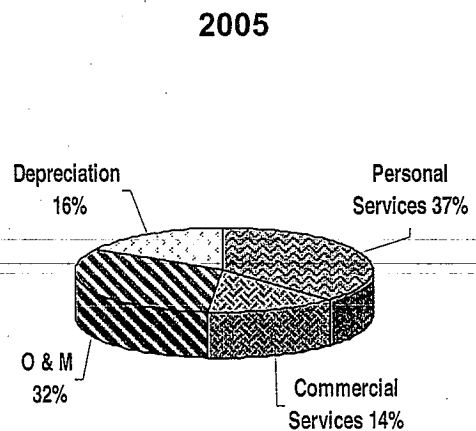
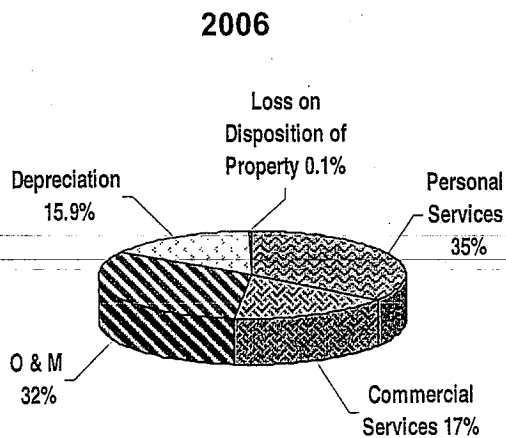
Functional Expenses

Functional expenses for the 2006 and 2005 fiscal years are shown on the following charts.

Water Enterprise Fund



Sewer Enterprise Fund



LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2006 and 2005

Management Review of the Department's Expenses.

Water Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

FY 2006 operating expenses totaled \$60,981, an increase of \$2,661 (+4.6) over FY 2005. Key elements of this increase are as follows:

- Maintenance and other cost increased \$4,417 (+43.5%), which includes operating and maintenance costs totaling \$1,937 associated with the Department taking over operation of WRD's LJV L water treatment facility. The LJV L facility operating costs are offset by revenue from WRD under the operating agreement. Costs associated with pumping and treatment of groundwater also increased due to increased groundwater pumping compared to the prior year, and increases in electricity rates, chemical costs and WRD's replenishment assessment rate.
- Franchise and permit fees increased \$523 (+12.9%) due to completion of a three year phase-in of a City imposed pipeline permit fee assessed on potable water main lines throughout the City. The permit fee is based on pipe diameter and lineal footage, and became effective October 1, 2003, in conjunction with the elimination of City franchise fees imposed on the Department. The FY 2006 increase was partially offset by elimination of a City assessed in-lieu property tax.
- Purchased water costs decreased \$1,757 (-8.4%) from the previous year, reflecting the shifting of potable water supply resources from purchased MWD treated potable water to groundwater pumping.
- Other operating expenses, which decreased \$476 (-20.9%), are primarily for utility commercial services. The City provides billing and collection of water and sewer service and utility customer support. The decrease reflects both cost reductions and a more equitable allocation of costs between the water and sewer funds.

Fiscal Year Ended September 30, 2005 compared to 2004

FY 2005 operating expenses totaled \$58,320, an increase of \$2,716 (+4.9%) over FY 2004. Purchased water costs increased \$2,355 (+12.7%) over the previous year, reflecting the shifting of potable water supply resources from groundwater pumping to purchased MWD treated potable water to take advantage of available MWD seasonal shift incentives and in-lieu groundwater storage programs. Labor costs increased \$1,159 (+10%) over FY 2004, reflecting the requirement of City contributions to its CalPERS retirement plans effective October 1, 2004, following several years in which no contributions were required as the City's retirement plans were overfunded. Franchise and permit fees increased \$872 (+27.5%) due to the second year phase-in of the City imposed pipeline permit fee.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

Sewer Enterprise Fund

Fiscal Year Ended September 30, 2006 compared to 2005

FY 2006 operating expenses totaled \$7,737, an increase of \$669 (+9.5%) over FY 2005. Maintenance and other costs increased \$232 (+10.4%) including increases in contractual services, machinery and equipment repair for storm drain maintenance, departmental overhead, and interdepartment charges for services. Commercial services increased \$324 (+31.7%). The City provides billing and collection of water and sewer service and utility customer support. The increase reflects a more equitable allocation of costs between the water and sewer funds.

Fiscal Year Ended September 30, 2005 compared to 2004

FY 2005 operating expenses totaled \$7,068, a decrease of \$698 (-9.0%) from FY 2004. Labor costs were down 9.1% from FY 2004 reflecting unfilled vacancies. Maintenance and other costs were down 16.2% overall, including reductions in overhead and storm drain maintenance costs.

Capital Assets and Debt Administration

Capital assets. The Department's capital assets (net of accumulated depreciation) as of September 30, 2006 amounted to \$248,474 for the Water Fund and \$42,619 for the Sewer Fund. Capital assets include investments in production, transmission, and distribution related to facilities, as well as general items such as office equipment and furniture. For the 2006 fiscal year, Water Fund net capital assets increased 3% 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 3% over FY 2004 due primarily to ongoing sewer main replacement and improvement programs.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

The Department's Capital Assets are summarized as follows for the years ended September 30, 2006, 2005, and 2004 (in thousands):

Long Beach Water Department Capital Assets September 30, 2006, 2005 and 2004 (in thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Buildings, structures, and facilities	107,876	99,551	96,962	8,325	8%	2,589	3%
Distribution, collection systems	390,906	385,581	378,151	5,325	1%	7,430	2%
Machinery and equipment	15,296	14,947	14,607	349	2%	340	2%
Construction in progress	25,175	23,308	13,108	1,867	8%	10,200	78%
Total capital assets	550,533	534,667	514,108	15,866	3%	20,559	4%
Less: accumulated depreciation	(259,440)	(251,246)	(242,173)	(8,194)	3%	(9,073)	4%
Net capital assets	\$ 291,093	\$ 283,421	\$ 271,935	\$ 7,672	3%	\$ 11,486	4%

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, 2006, 2005, and 2004:

Capital Assets September 30, 2006, 2005 and 2004 (in thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Water Enterprise Fund							
Land	\$ 11,280	\$ 11,280	\$ 11,280	\$ -	0%	\$ -	0%
Buildings, structures, and facilities	102,195	93,870	91,281	8,325	9%	2,589	3%
Distribution, collection systems	222,209	217,758	211,473	4,451	2%	6,285	3%
Machinery and equipment	11,724	11,397	11,097	327	3%	300	3%
Construction in progress	21,550	21,339	11,722	211	1%	9,617	82%
Total capital assets	368,958	355,644	336,853	13,315	4%	18,791	6%
Less: accumulated depreciation	(120,484)	(113,429)	(105,518)	(7,055)	6%	(7,911)	7%
Net capital assets	\$ 248,474	\$ 242,215	\$ 231,335	\$ 6,260	3%	\$ 10,880	5%
Sewer Enterprise Fund							
Buildings, structures, and facilities	\$ 5,681	\$ 5,681	\$ 5,681	\$ -	0%	\$ -	0%
Distribution, collection systems	168,698	167,823	166,678	875	1%	1,145	1%
Machinery and equipment	3,572	3,550	3,510	22	1%	40	1%
Construction in progress	3,624	1,969	1,386	1,655	84%	583	42%
Total capital assets	181,575	179,023	177,255	2,552	1%	1,768	1%
Less: accumulated depreciation	(138,956)	(137,817)	(136,655)	(1,139)	1%	(1,162)	1%
Net capital assets	\$ 42,619	\$ 41,206	\$ 40,600	\$ 1,413	3%	\$ 606	1%

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis September 30, 2006 and 2005

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

Long-term debt. The Water Enterprise Fund had total long-term debt outstanding of \$37,779 as of September 30, 2006 and \$38,898 outstanding as of September 30, 2005. The debt is backed by Water Enterprise Fund revenues. The Water Department's outstanding debt as of September 30, 2006, 2005 and 2004 is summarized as follows:

Long Beach Water Department Summary of Long-Term Debt September 30, 2006, 2005 and 2004 (in thousands)							
	2006	2005	2004	Variance			
				2006/2005		2005/2004	
				Amount	%	Amount	%
Revenue refunding bonds	\$ 34,675	\$ 35,830	\$ 36,940	(1,155)	-3.2%	(1,110)	-3.0%
State loan	230	368	500	(138)	-37.4%	(132)	-26.4%
Commercial paper notes	6,000	6,000	6,000	-	0.0%	-	0.0%
Long term debt outstanding	40,905	42,198	43,440	(1,293)	-3.1%	(1,242)	-2.9%
Less:							
Unamortized bond discount	(239)	(253)	(266)	14	-5.4%	13	-4.9%
Unamortized loss on refunding	(2,887)	(3,047)	(3,207)	160	-5.3%	160	-5.0%
Total long term debt	<u>\$ 37,779</u>	<u>\$ 38,898</u>	<u>\$ 39,967</u>	<u>(1,119)</u>	<u>-2.9%</u>	<u>(1,069)</u>	<u>-2.7%</u>

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, 2007, with budgeted expenditures totaling approximately \$81.97 million and \$14.12 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 November 1, 2007, which combined equate to a 4.7% 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.

LONG BEACH WATER DEPARTMENT

Management's Discussion and Analysis
September 30, 2006 and 2005

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, 2006 and 2005

ASSETS

	2006			2005		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Current Assets:						
Pooled cash and cash equivalents	\$ 8,519,087	10,124,858	18,643,945	\$ 6,889,775	9,274,377	16,164,152
Non-pooled investments	603,467	-	603,467	603,468	-	603,468
Customer accounts receivable	5,319,306	433,561	5,752,867	6,976,914	416,515	7,393,429
Allowance for doubtful accounts	(214,172)	(27,079)	(241,251)	(205,755)	(26,658)	(232,413)
Due from other funds	70,277	-	70,277	-	-	-
Material and supplies inventory	1,973,757	66,587	2,040,344	1,909,131	71,480	1,980,611
Restricted Assets:						
Pooled cash and cash equivalents:						
Funds held in trust	707,710	-	707,710	768,608	-	768,608
1997 bond service fund	1,359,085	-	1,359,085	1,320,732	-	1,320,732
Sub-total pooled cash and cash equivalents	2,066,795	-	2,066,795	2,089,340	-	2,089,340
Non-pooled investments	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Total restricted assets	5,062,378	-	5,062,378	5,084,923	-	5,084,923
Total current assets	21,334,100	10,597,927	31,932,027	21,258,456	9,735,714	30,994,170
Capital assets:						
Land	11,279,519	-	11,279,519	11,279,519	-	11,279,519
Buildings, structures and facilities	102,195,452	5,681,145	107,876,597	93,869,863	5,681,145	99,551,008
Distribution/collection systems	222,208,902	168,697,727	390,906,629	217,758,536	167,823,534	385,582,070
Machinery and equipment	11,723,926	3,571,952	15,295,878	11,396,571	3,549,593	14,946,164
Construction in progress	21,550,312	3,624,896	25,175,208	21,339,569	1,968,665	23,308,234
Total capital assets	368,958,111	181,575,720	550,533,831	355,644,058	179,022,937	534,666,995
Less: Accumulated depreciation	(120,484,088)	(138,956,305)	(259,440,393)	(113,429,351)	(137,816,702)	(251,246,053)
Net capital assets	248,474,023	42,619,415	291,093,438	242,214,707	41,206,235	283,420,942
Deferred Charges, Net of Amortization	853,241	-	853,241	949,612	-	949,612
Prepaid Expense	1,497,054	-	1,497,054	1,497,054	-	1,497,054
Total noncurrent assets	250,824,318	42,619,415	293,443,733	244,661,373	41,206,235	285,867,608
Total Assets	\$ 272,158,418	\$ 53,217,342	\$ 325,375,760	\$ 265,919,829	\$ 50,941,949	\$ 316,861,778

LIABILITIES

Current Liabilities:						
Accounts payable	\$ 6,535,236	790,365	7,325,601	\$ 6,144,466	406,801	6,551,267
Accrued wages payable	567,058	147,346	714,404	539,631	119,143	658,774
Advances from developers	234,330	32,257	266,587	269,495	31,329	300,824
Amounts Payable from Restricted Assets:						
Accrued interest payable	784,599	-	784,599	788,622	-	788,622
Long-term debt due within one year	1,353,038	-	1,353,038	1,292,519	-	1,292,519
Customer deposits	707,196	-	707,196	764,173	-	764,173
Total amounts payable from restricted assets	2,844,833	-	2,844,833	2,845,314	-	2,845,314
Total current liabilities	10,181,457	969,968	11,151,425	9,798,906	557,273	10,356,179
Long-Term Liabilities:						
Long-term debt, net of current portion	36,426,088	-	36,426,088	37,605,879	-	37,605,879
Total Liabilities	46,607,545	969,968	47,577,513	47,404,785	557,273	47,962,058
NET ASSETS						
Invested in capital assets, net of related debt	210,282,289	42,619,415	252,901,704	202,958,548	41,206,235	244,164,783
Restricted net assets for:						
Bond Service	1,359,085	-	1,359,085	1,320,732	-	1,320,732
Bond Reserve	2,995,583	-	2,995,583	2,995,583	-	2,995,583
Unrestricted net assets	10,913,916	9,627,959	20,541,875	11,240,181	9,178,441	20,418,622
Total Net Assets	225,550,873	52,247,374	277,798,247	218,515,044	50,384,676	268,899,720
Total Liabilities and Net Assets	\$ 272,158,418	\$ 53,217,342	\$ 325,375,760	\$ 265,919,829	\$ 50,941,949	\$ 316,861,778

See accompanying notes to basic financial statements

LONG BEACH WATER DEPARTMENT

Statements of Revenues, Expenses, and Changes in Fund Net Assets Years Ended September 30, 2006 and 2005

	2006			2005		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Operating Revenues:						
Metered water sales	\$ 46,876,962	3,053,781	49,930,743	\$ 45,965,699	3,124,161	49,089,860
Reclaimed water sales	1,600,092	-	1,600,092	1,387,679	-	1,387,679
Service charges	12,727,030	4,589,962	17,316,992	12,302,245	4,628,062	16,930,307
Maintenance services	-	780,192	780,192	-	731,618	731,618
Other services	4,869,663	820,543	5,690,206	4,866,148	1,233,738	6,099,886
Total operating revenues	66,073,747	9,244,478	75,318,225	64,521,771	9,717,579	74,239,350
Operating Expenses:						
Cost of water	19,179,233	-	19,179,233	20,935,779	-	20,935,779
Personal services	12,973,923	2,688,832	15,662,755	12,730,638	2,648,161	15,378,799
Commercial services	1,748,996	1,339,481	3,088,477	2,215,610	1,012,629	3,228,239
Maintenance and other	14,576,183	2,467,783	17,043,966	10,159,100	2,235,861	12,394,961
Franchise and permit fees	4,570,053	-	4,570,053	4,047,146	-	4,047,146
Provision for doubtful accounts	47,919	7,715	55,634	57,481	9,525	67,006
Depreciation	7,884,939	1,232,958	9,117,897	8,174,499	1,161,288	9,335,787
Total operating expenses	60,981,246	7,736,769	68,718,015	58,320,253	7,067,464	65,387,717
Operating income	5,092,501	1,507,709	6,600,210	6,201,518	2,650,115	8,851,633
Non-operating Income (Expense):						
Interest income	653,275	365,915	1,019,190	555,849	213,276	769,125
Interest expense	(2,255,178)	-	(2,255,178)	(2,253,081)	-	(2,253,081)
Loss on disposition of property	(212,905)	(11,506)	(224,411)	(136,523)	-	(136,523)
Rental income	733,117	-	733,117	804,264	-	804,264
Other	391,123	580	391,703	487,600	11,614	499,214
Total non-operating income (expense)	(690,568)	354,989	(335,579)	(541,891)	224,890	(317,001)
Income before contributed capital and transfers out	4,401,933	1,862,698	6,264,631	5,659,627	2,875,005	8,534,632
Contributed capital	2,633,896	-	2,633,896	6,288,701	585,134	6,873,835
Changes in net assets	7,035,829	1,862,698	8,898,527	11,948,328	3,460,139	15,408,467
Net assets at beginning of year	218,515,044	50,384,676	268,899,720	206,566,716	46,924,537	253,491,253
Net assets at end of year	\$ 225,550,873	52,247,374	277,798,247	\$ 218,515,044	50,384,676	268,899,720

See accompanying notes to basic financial statements

LONG BEACH WATER DEPARTMENT

Statements of Cash Flows Years Ended September 30, 2006 and 2005

	2006			2005		
	Water Fund	Sewer Fund	Total	Water Fund	Sewer Fund	Total
Cash flows from operating activities:						
Cash received from customers	\$ 67,382,340	9,227,853	76,610,193	\$ 63,149,137	9,756,969	72,906,106
Cash paid to employees	(12,946,496)	(2,660,629)	(15,607,125)	(12,686,186)	(2,659,451)	(15,345,637)
Cash paid for water	(19,491,945)	-	(19,491,945)	(20,771,744)	-	(20,771,744)
Cash paid for goods and services	(14,798,997)	(3,276,136)	(18,075,133)	(13,993,489)	(3,556,912)	(17,550,401)
Cash paid for franchise and permit fees	(4,570,053)	-	(4,570,053)	(4,047,146)	-	(4,047,146)
Other operating cash received	1,141,081	-	1,141,081	1,259,881	-	1,259,881
Net cash provided by operating activities	16,715,930	3,291,088	20,007,018	12,910,453	3,540,606	16,451,059
Cash flows from capital and related financing activities:						
Proceeds from sale of capital assets	64,275	-	64,275	23,244	-	23,244
Contributions in aid of construction	2,670,977	-	2,670,977	5,349,098	-	5,349,098
Payments for capital acquisitions	(15,178,088)	(2,806,522)	(17,984,610)	(19,020,239)	(1,290,827)	(20,311,066)
Principal repayments-bonds	(1,155,000)	-	(1,155,000)	(1,110,000)	-	(1,110,000)
Principal repayments-loans/notes	(137,519)	-	(137,519)	(132,214)	-	(132,214)
Interest payments	(2,027,083)	-	(2,027,083)	(2,033,460)	-	(2,033,460)
Net cash used for capital and related financing activities	(15,762,438)	(2,806,522)	(18,568,960)	(16,923,571)	(1,290,827)	(18,214,398)
Cash flows from investing activities:						
Interest income received	653,275	365,915	1,019,190	555,849	213,276	769,125
Net cash provided by investing activities	653,275	365,915	1,019,190	555,849	213,276	769,125
Net increase (decrease) in cash and cash equivalents	1,606,767	850,481	2,457,248	(3,457,269)	2,463,055	(994,214)
Cash and cash equivalents, October 1	8,979,115	9,274,377	18,253,492	12,436,384	6,811,322	19,247,706
Cash and cash equivalents, September 30	\$ 10,585,882	10,124,858	20,710,740	\$ 8,979,115	9,274,377	18,253,492
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 5,092,501	1,507,709	6,600,210	\$ 6,201,518	2,650,115	8,851,633
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	7,884,939	1,232,958	9,117,897	8,174,499	1,161,288	9,335,787
Provision for doubtful accounts	47,919	7,715	55,634	57,481	9,525	67,006
Amortized expense	37,500	-	37,500	37,500	-	37,500
Interdepartmental transfers	849,826	142,671	992,497	767,685	138,208	905,893
Property rental and other income	1,141,081	-	1,141,081	1,259,881	-	1,259,881
Increase in customer accounts receivable	1,365,570	(16,625)	1,348,945	(1,384,573)	39,390	(1,345,183)
Increase in prepaid expense	-	-	-	(1,497,054)	-	(1,497,054)
Decrease (increase) in material and supplies inventory	(64,626)	4,893	(59,733)	6,480	(9,378)	(2,898)
Increase (decrease) in accounts and retainage payable	390,770	383,564	774,334	(769,355)	(437,252)	(1,206,607)
Increase in accrued wages payable	27,427	28,203	55,630	44,452	(11,290)	33,162
Increase (decrease) in customer deposits	(56,977)	-	(56,977)	11,939	-	11,939
Total adjustments	11,623,429	1,783,379	13,406,808	6,708,935	890,491	7,599,426
Net cash provided by operating activities	\$ 16,715,930	3,291,088	20,007,018	\$ 12,910,453	3,540,606	16,451,059

See accompanying notes to basic financial statements

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

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 (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. Recorded physical plant infrastructure assets with a book value of \$32,838,624, net of accumulated depreciation of \$96,231,701, were transferred from the City to the Sewer Enterprise Fund with a corresponding addition to contributed capital. The Department utilizes water and sewer accounts to track and record its operations.

The Department services the City's sewer system which consists of 712 miles of sewer mains, 16,044 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. Water is stored in two reservoirs with a combined capacity of 117 million gallons. The Department also delivered over 1,383 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, 2006 and 2005, 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 Basic Financial Statements
September 30, 2006 and 2005

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 Governmental Accounting Standards Board Statement

In May 2004, the GASB issued Statement No. 44 *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The Department has implemented a new Statistical Section in this year's CAFR.

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.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

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).

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
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.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

Revenue Recognition

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

Operating Expenses

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

Employee Benefits

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

Pension Plan

All full-time Department employees are members of the State of California Public Employees' Retirement System (CalPERS). 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).

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

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 to meet losses as they arise. The Department contributes to the Insurance Internal 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.

Note 2 - Pooled Cash, Cash Equivalents and Other Investments

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

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

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

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

<u>Water Fund</u>	2006	2005
Equity in the City of Long Beach's Investment Pool	\$ 10,585,882	\$ 8,979,115
Gauranteed Investment Contract	3,599,050	3,599,051
Total cash and investments	<u>\$ 14,184,932</u>	<u>\$ 12,578,166</u>

<u>Sewer Fund</u>	2006	2005
Equity in the City of Long Beach's Investment Pool	<u>\$ 10,124,858</u>	<u>\$ 9,274,377</u>

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:

<u>Water Fund</u>	2006	2005
Unrestricted cash and investments	\$ 9,122,554	\$ 7,493,243
Restricted cash and investments		
Water Trust Fund	707,710	768,608
Bond Service Fund	1,359,085	1,320,732
Bond Reserve	2,995,583	2,995,583
Total restricted cash and investments	<u>5,062,378</u>	<u>5,084,923</u>
Total cash and investments	<u>\$ 14,184,932</u>	<u>\$ 12,578,166</u>

<u>Sewer Fund</u>	2006	2005
Unrestricted cash and investments	<u>\$ 10,124,858</u>	<u>\$ 9,274,377</u>

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 Basic Financial Statements September 30, 2006 and 2005

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local Agency Bonds	5 years *	30%	None
Federal agency securities	5 years *	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years *	30%	10%
Time Certificates of Deposit	5 years *	100%	10%
Repurchase Agreements	90 days	100%	None
Reverse Repurchase Agreements	92 days	20%	None
Securities Lending Program	92 days	20%	None
Medium-Term Notes	5 years *	30%	10%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20%	None
Mortgage-backed Securities	5 years	20%	None

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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are 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.

The City had no investments with values that were highly sensitive to market interest rate changes as of September 30, 2006 and 2005.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

The following schedules indicate the interest rate risk of the City's investments as of September 30, 2006 and 2005 (in thousands):

Interest rate risk as of September 30, 2006

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Inter-Department Loan (Health Savrs)	\$ 3,297	12.600
U.S. Treasury Notes	214,467	1.542
Federal agency securities	1,042,876	1.572
Medium-Term Notes	33,464	1.609
Short-term Commercial Paper	132,731	0.013
Local Agency Investment Fund (LAIF)	2,920	0.003
Subtotal City Pool	1,429,755	
Cash on Hand	26,811	
Outstanding Checks	(18,044)	
Total City Pool	<u>\$ 1,438,522</u>	

Interest rate risk as of September 30, 2005

<u>Investment Type</u>		<u>Weighted Average Maturity (in years)</u>
Bonds issued by the City	\$ 3,502	13.57
U.S. Treasury Notes	275,731	1.99
U.S. Treasury Bonds	10,513	0.03
Federal agency securities	858,461	1.31
Medium-Term Notes	95,404	0.84
Money Market Funds	34	-
Local Agency Investment Fund (LAIF)	94,981	0.46
Subtotal City Pool	1,338,626	
Cash on Hand	11,499	
Outstanding Checks	(19,908)	
Total City Pool	<u>\$ 1,330,217</u>	

At September 30, 2006, the Water Fund and Sewer Fund have equity in the City's pool of \$10,585,882 and \$10,124,858, respectively, which represents approximately 0.74% and 0.70%, respectively, for a total departmental equity of \$20,710,740 or 1.44%.

At September 30, 2005, the Water Fund and Sewer Fund have equity in the City's pool of \$8,979,115 and \$9,274,377, respectively, which represents approximately 0.67% and 0.70%, respectively, for a total departmental equity of \$18,253,492 or 1.37%.

At September 30, 2006 and 2005, the Department's only non-pooled investment is 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.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

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, 2006 and 2005 for each investment type (in thousands):

Rating as of Year End September 30, 2006								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-	-
Federal agency securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,920	N/A	2,920	-	-	-	-	-
Subtotal City Pool	1,429,755		220,684	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811		-	-	-	-	-	26,811
Outstanding Checks	(18,044)		-	-	-	-	-	(18,044)
Total City Pool	\$ 1,438,522		\$ 220,684	\$75,773	\$56,958	\$ 1,071,321	\$5,019	8,767

Rating as of Year Ended September 30, 2005								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	AAA	Aa	A		Unrated
Bonds issued by the City	\$ 3,502	N/A	\$ 3,502	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	275,731	N/A	275,731	-	-	-	-	-
U.S. Treasury Bonds	10,513	N/A	10,513	-	-	-	-	-
Federal agency securities	858,461	N/A	-	858,461	-	-	-	-
Medium-Term Notes	95,404	A	-	71,783	5,018	18,603	-	-
Money Market Funds	34	N/A	34	-	-	-	-	-
Local Agency Investment Fund (LAIF)	94,981	N/A	-	-	-	-	-	94,981
Subtotal City Pool	1,338,626		289,780	930,244	5,018	18,603		94,981
Cash on Hand	11,499		-	-	-	-	-	11,499
Outstanding Checks	(19,908)		-	-	-	-	-	(19,908)
Total City Pool	\$1,330,217		\$ 289,780	\$930,244	\$5,018	\$18,603		\$ 86,572

The following schedules indicate the credit risk of the Water Department's non-pooled investments as of September 30, 2006 and 2005 (in thousands):

Rating as of Year End September 30, 2006								
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 Ended September 30, 2005								
Investment Type		Minimum Legal Rating	Not Required To Be Rated	AAA	Aa	A		Unrated
Guaranteed Investment Contracts	\$ 3,599	N/A	\$ 3,599	\$ -	\$ -	\$ -	\$ -	\$ -

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

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):

Concentration of Credit Risk as of September 30, 2006

Issuer	Investment Type	Reported Amount
FFCB	Federal Agency Securities	\$ 181,052
FHLB	Federal Agency Securities	241,246
FHLMC	Federal Agency Securities	266,937
FNMA	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & bonds	214,467
Commercial Paper	Unsecured Corporate debt	132,731

Concentration of Credit Risk as of September 30, 2005

Issuer	Investment Type	Reported Amount
FNMA	Federal Agency securities	\$ 237,814
Federal Farm Credit Agency	Federal Agency securities	194,999
FHLB	Federal Agency securities	204,151
FHLMC	Federal Agency securities	216,462
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	94,914

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.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

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, 2006 and 2005.

Securities Lending

The City did not engage in limited 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.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Note 3 – Capital Assets

Capital assets at September 30, 2006 and 2005 were as follows:

Water Fund	Balance October 1, 2004	Additions	Transfers, Deletions, And Retirements	Balance October 1, 2005	Additions	Transfers, Deletions, And Retirements	Balance September 30, 2006
Capital assets, not being depreciated:							
Land	\$ 11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	11,721,983	20,339,488	10,721,902	21,339,569	15,057,214	14,846,471	21,550,312
Total capital assets, not being depreciated	23,001,502	20,339,488	10,721,902	32,619,088	15,057,214	14,846,471	32,829,831
Capital assets, being depreciated:							
Buildings, structures and facilities	91,280,969	2,588,894	-	93,869,863	8,494,382	168,793	102,195,452
Distribution/collection systems	211,472,947	6,666,700	381,111	217,758,536	5,138,588	688,222	222,208,902
Machinery and equipment	11,097,507	317,675	18,611	11,396,571	577,723	250,368	11,723,926
Total capital assets, being depreciated	313,851,423	9,573,269	399,722	323,024,970	14,210,693	1,107,383	336,128,280
Less accumulated depreciation for:							
Buildings, structures and facilities	(20,214,432)	(2,661,144)	-	(22,875,576)	(2,638,776)	168,793	(25,345,559)
Distribution/collection systems	(75,546,633)	(4,647,080)	244,589	(79,949,124)	(4,388,515)	411,418	(83,926,221)
Machinery and equipment	(9,756,986)	(866,274)	18,609	(10,604,651)	(857,648)	249,991	(11,212,308)
Total accumulated depreciation	(105,518,051)	(8,174,498)	263,198	(113,429,351)	(7,884,939)	830,202	(120,484,088)
Total capital assets, being depreciated, net	208,333,372	1,398,771	136,524	209,595,619	6,325,754	277,181	215,644,192
Total Water Fund capital assets, net	\$ 231,334,874	21,738,259	10,858,426	242,214,707	21,382,968	15,123,652	248,474,023

Sewer Fund	Balance October 1, 2004	Additions	Deletions And Retirements	Balance October 1, 2005	Additions	Deletions And Retirements	Balance September 30, 2006
Capital assets, not being depreciated:							
Construction in progress	\$ 1,385,344.00	2,509,857	1,926,536	1,968,665	2,762,810	1,106,579	3,624,896
Total capital assets, not being depreciated	1,385,344	2,509,857	1,926,536	1,968,665	2,762,810	1,106,579	3,624,896
Capital assets, being depreciated:							
Buildings, structures and facilities	5,681,145	-	-	5,681,145	-	-	5,681,145
Distribution/collection systems	166,678,231	1,145,303	-	167,823,534	905,667	31,474	168,697,727
Machinery and equipment	3,510,225	39,368	-	3,549,593	107,059	84,700	3,571,952
Total capital assets, being depreciated	175,869,601	1,184,671	-	177,054,272	1,012,726	116,174	177,950,824
Less accumulated depreciation for:							
Buildings, structures and facilities	(446,532)	(116,256)	-	(562,788)	(116,256)	-	(679,044)
Distribution/collection systems	(133,549,359)	(808,576)	-	(134,357,935)	(909,783)	8,655	(135,259,063)
Machinery and equipment	(2,659,523)	(236,456)	-	(2,895,979)	(206,919)	84,700	(3,018,198)
Total accumulated depreciation	(136,655,414)	(1,161,288)	-	(137,816,702)	(1,232,958)	93,355	(138,956,305)
Total capital assets, being depreciated, net	39,214,187	23,383	-	39,237,570	(220,232)	22,819	38,994,519
Total Sewer Fund capital assets, net	\$ 40,599,531	2,533,240	1,926,536	41,206,235	2,542,578	1,316,108	42,619,415

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

Combined Total	Balance October 1, 2004	Additions	Transfers, Deletions, And Retirements	Balance October 1, 2005	Additions	Transfers, Deletions, And Retirements	Balance September 30, 2006
Capital assets, not being depreciated:							
Land	\$ 11,279,519	-	-	11,279,519	-	-	11,279,519
Construction in progress	13,107,327	22,849,345	12,648,438	23,308,234	17,820,024	15,953,050	25,175,208
Total capital assets, not being depreciated	24,386,846	22,849,345	12,648,438	34,587,753	17,820,024	15,953,050	36,454,727
Capital assets, being depreciated:							
Buildings, structures and facilities	96,962,114	2,588,894	-	99,551,008	8,494,382	168,793	107,876,597
Distribution/collection systems	378,151,178	7,812,003	381,111	385,582,070	6,044,255	719,696	390,906,629
Machinery and equipment	14,607,732	357,043	18,611	14,946,164	684,782	335,068	15,295,878
Total capital assets, being depreciated	489,721,024	10,757,940	399,722	500,079,242	15,223,419	1,223,557	514,079,104
Less accumulated depreciation for:							
Buildings, structures and facilities	(20,660,964)	(2,777,400)	-	(23,438,364)	(2,755,032)	168,793	(26,024,603)
Distribution/collection systems	(209,095,992)	(5,455,656)	244,589	(214,307,059)	(5,298,298)	420,073	(219,185,284)
Machinery and equipment	(12,416,509)	(1,102,730)	18,609	(13,500,630)	(1,064,567)	334,691	(14,230,506)
Total accumulated depreciation	(242,173,465)	(9,335,786)	263,198	(251,246,053)	(9,117,897)	923,557	(259,440,393)
Total capital assets, being depreciated, net	247,547,559	1,422,154	136,524	248,833,189	6,105,522	300,000	254,638,711
Total Department capital assets, net	\$ 271,934,405	24,271,499	12,784,962	283,420,942	23,925,546	16,253,050	291,093,438

Construction in Progress

Construction in Progress at September 30, 2006 and 2005, includes the following projects:

Project	2006	2005
Water Main Replacement Program	\$ 6,885,068	3,712,960
Groundwater Storage Program	232,941	5,423,450
Seawater Desalination Project	9,280,471	7,469,259
Reclaimed Water System	687,694	2,883,434
Sewer main Replacement Program	3,504,697	1,848,467
Other Projects	4,584,336	1,970,664
Total Combined Construction in Progress	\$ 25,175,208	23,308,234
Such costs are allocated as follows:		
Water Fund	21,550,312	21,339,569
Sewer Fund	3,624,896	1,968,665
Total	\$ 25,175,208	23,308,234

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, 2006 and 2005, completed projects were transferred from Construction in Progress as follows:

	2006		2005	
	Water Fund	Sewer Fund	Water Fund	Sewer Fund
Transfers to Capital Assets	\$ 14,776,618	1,106,579	10,160,726	1,925,595
Transfers to Expense	69,853	-	561,176	941
Total	\$ 14,846,471	1,106,579	10,721,902	1,926,536

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

Note 4 - Long-term Debt

September 30, 2006	Beginning of year	Water Fund		End of year	Due within one year
		Additions	Retirements		
Water Revenue					
Refunding Bonds	\$ 35,830,000	-	(1,155,000)	34,675,000	1,210,000
Commercial Paper	6,000,000	-	-	6,000,000	-
State Loan	367,859	-	(137,519)	230,340	143,038
	<u>\$ 42,197,859</u>	<u>-</u>	<u>(1,292,519)</u>	<u>40,905,340</u>	<u>1,353,038</u>
Less current portion	(1,292,519)			(1,353,038)	
Less unamortized bond discounts	(252,663)			(239,423)	
Less unamortized loss on refunding	<u>(3,046,798)</u>			<u>(2,886,791)</u>	
Total long-term liabilities	<u>\$ 37,605,879</u>			<u>36,426,088</u>	

September 30, 2005	Beginning of year	Water Fund		End of year	Due within one year
		Additions	Retirements		
Water Revenue					
Refunding Bonds	\$ 36,940,000	-	(1,110,000)	35,830,000	1,155,000
Commercial Paper	6,000,000	-	-	6,000,000	-
State Loan	500,073	-	(132,214)	367,859	137,519
	<u>\$ 43,440,073</u>	<u>-</u>	<u>(1,242,214)</u>	<u>42,197,859</u>	<u>1,292,519</u>
Less current portion	(1,242,214)			(1,292,519)	
Less unamortized bond discounts	(265,903)			(252,663)	
Less unamortized loss on refunding	<u>(3,206,804)</u>			<u>(3,046,798)</u>	
Total long-term liabilities	<u>\$ 38,725,152</u>			<u>37,605,879</u>	

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 with an average interest rate of 5.195%. The Bonds were issued (i) to advance 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.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

The current 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.

The \$36,535,000 amount of defeased debt outstanding and removed from the Department's basic financial statements due to 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 Enterprise 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 January 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%. The Department intends to extend the notes to periods greater than a year; accordingly, the outstanding amount has been classified as a long-term obligation.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

Total Annual Debt Service Requirements to Maturity

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended Sept 30	Series 1997 Bonds		State Loan		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 1,210,000	1,785,033	143,038	9,243	1,353,038	1,794,276	3,147,313
2008	1,265,000	1,730,583	87,302	412	1,352,302	1,730,995	3,083,297
2009	1,330,000	1,661,008			1,330,000	1,661,008	2,991,008
2010	1,405,000	1,587,858			1,405,000	1,587,858	2,992,858
2011	1,480,000	1,510,583			1,480,000	1,510,583	2,990,583
2012-2016	8,655,000	6,296,399			8,655,000	6,296,399	14,951,399
2017-2021	11,185,000	3,768,500			11,185,000	3,768,500	14,953,500
2022-2024	8,145,000	828,000			8,145,000	828,000	8,973,000
Total	<u>\$ 34,675,000</u>	<u>19,167,965</u>	<u>230,340</u>	<u>9,654</u>	<u>34,905,340</u>	<u>19,177,619</u>	<u>54,082,959</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 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 three highest paid years of employment for each year of credited service. In September 2004, the basis to compute retirement benefits was unified under tier 1, with the exception of the COLA adjustment; this will remain the same as stated in the current stipulations. 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.

In November 1998, CalPERS informed the City that all of its retirement plans were overfunded based on the actuarial valuation completed as of June 30, 1997 and the City would not be required to contribute to the CalPERS retirement plan until the existing surplus is exhausted. Accordingly, CalPERS reduced the City's employer contribution rates to zero for all plans effective November 13, 1998. CalPERS notified the City in July 1999 that employee contributions also paid for by the City would no longer be required. The City was overfunded

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements September 30, 2006 and 2005

through September 30, 2004 and was not required to pay CalPERS any employee or employer contributions for any of its plans through fiscal year 2004.

Contribution requirements of plan members and the City are established and may be amended by CalPERS. The City contribution payments to CalPERS were required beginning October 1, 2004 for both Safety and Miscellaneous Plans at 15.100% and 11.325% respectively, plus the employee rate of 9% and 8% for Safety and Miscellaneous respectively. Miscellaneous employees paid 2% to CalPERS, that when added to the 6% paid by the City makes up the 8% employee rate which was effective March 4, 2006. Management employees and certain employee groups who serve in sensitive, confidential capacities pay 1% of the 8% to CalPERS and the City pays 7%. Effective in fiscal year 2007 Safety will pay 2% of the 9% employee rate and all miscellaneous employees in tier one and tier two will pay 2% of the 8%. Miscellaneous employees in tier three will pay 2% of the 7% employee rate. In fiscal years 2006 and 2005, the Department's contributions to CalPERS were \$1,791,010 and \$1,461,238 for Water Fund and \$311,832 and \$243,166 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, 2006.

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 Deferred Compensation may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2006.

LONG BEACH WATER DEPARTMENT

Notes to Basic Financial Statements
September 30, 2006 and 2005

Note 6 - 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:	
2007	\$ 799,188
2008	825,959
2009	854,056
2010	883,556
2011	914,541
2012-2016	5,095,896
2017-2021	6,150,736
2022-2026	7,522,614
Total minimum future rentals	<u>\$ 23,046,545</u>

Note 7 - Commitments and Contingencies

Litigation

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

Commitments

Contract commitments and purchase orders for which materials or services were not received as of September 30, 2006 amount to \$6,167,247 and \$4,019,781 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)

Fiscal Year Ended	Total Operating Revenue	Total Operating Expense	Operating Income	Total Non-Operating Income (Expense)	Change in Net Assets
9/30/1997	60,247	49,605	10,642	1,224	11,866
9/30/1998	56,395	48,554	7,841	344	8,186
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	5,746	11,948
9/30/2006	66,074	60,981	5,093	1,943	7,036

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)

Fiscal Year Ended	Total Operating Revenue	Total Operating Expense	Operating Income	Total Non-Operating Income (Expense)	Change in Net Assets
9/30/1997	7,718	8,253	(535)	757	222
9/30/1998	7,847	8,039	(192)	965	774
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	9,717	7,067	2,650	810	3,460
9/30/2006	9,244	7,736	1,508	355	1,863

Source: Department's annual reports

See accompanying independent auditors' report

(Unaudited)

(Unaudited)

Exhibit 3

LONG BEACH WATER DEPARTMENT

NET ASSETS BY COMPONENT - WATER FUND LAST SIX FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	Invested in Capital Assets (net of related debt)	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
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	202,958	4,316	11,240	218,514
9/30/2006	210,282	4,355	10,914	225,551

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

NET ASSETS BY COMPONENT - SEWER FUND
LAST SIX FISCAL YEARS

Fiscal Year Ended	(in thousands of dollars)			
	Invested in Capital Assets (net of related debt)	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
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

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	Total Non-Operating Income
9/30/1997	47,460	10,486	2,301	60,247	1,488	570	2,882	4,940
9/30/1998	43,776	10,754	1,866	56,396	2,021	487	1,228	3,736
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

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
9/30/1997	7,531	187	7,718	751	21	772
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	0.58	366

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 Expense	Total Operating Expenses	Interest Expense	Loss on Disposition of Property & Other Expenses	Total Non-Operating Expense
9/30/1997	19,334	7,879	17,909	4,483	49,605	1,871	1,845	3,716
9/30/1998	17,856	9,094	15,982	5,622	48,554	2,785	607	3,392
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

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

SEWER FUND EXPENSES BY TYPE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	OPERATING			NON-OPERATING	
	Personal Services	Maintenance and Other Expenses	Depreciation Expense	Total Operating Expenses	Total Non-Operating Expenses
9/30/1997	2,506	2,729	3,018	8,253	15
9/30/1998	1,935	2,961	3,142	8,038	-
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

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		Population (2)
	Pumped	Purchased			Daily Demand Potable Water (1)	Peak Day Distribution	
9/30/1997	7,479,258	15,652,253	1,647,829	24,779,340	63,374	86,590	154
9/30/1998	7,700,837	14,038,964	1,370,203	23,110,004	59,561	85,630	142
9/30/1999	7,703,443	14,421,188	1,494,353	23,618,984	60,615	80,700	144
9/30/2000	8,076,869	15,143,925	1,691,167	24,911,961	63,551	87,210	149
9/30/2001	7,973,795	14,377,730	1,363,566	23,715,091	61,237	86,120	141
9/30/2002	8,479,000	14,246,000	1,790,000	24,515,000	62,260	87,000	142
9/30/2003	7,445,000	14,567,000	1,671,000	23,683,000	60,307	89,000	135
9/30/2004	8,354,494	14,761,376	1,956,084	25,071,953	63,331	84,310	141
9/30/2005	7,041,640	14,536,539	1,382,586	22,960,765	59,118	86,570	128
9/30/2006	8,198,411	13,452,433	1,956,735	23,607,579	59,317	80,770	132

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

(Unaudited)

LONG BEACH WATER DEPARTMENT

WATER RATES: VOLUMETRIC RATE CHARGES
LAST TEN FISCAL YEARS

Effective Date	Potable Water - Monthly Amount per Billing Unit (1)			Reclaimed Water	
	TIER I First Five Billing Units	TIER II (2) Next Ten Billing Units	TIER III Over Fifteen Billing Units	Monthly Amount Per Cubic Foot	Monthly Amount Per Cubic Foot
7/1/1995	0.869	1.610	-	0.835	0.835
10/1/1996	1.002	1.603	1.647	0.882	0.882
10/31/1996	1.079	1.727	1.813	0.950	0.950
1/1/1997	1.088	1.740	1.827	0.957	0.957
10/1/1997	1.097	1.687	1.814	1.012	1.012
10/1/1998	1.129	1.672	1.840	1.087	1.087
10/1/1999	1.188	1.639	1.885	1.147	1.147
10/1/2000	1.256	1.570	1.962	1.099	1.099
10/1/2001	1.305	1.535	2.072	1.075	1.075
10/1/2002	1.356	1.507	2.109	1.055	1.055
10/1/2003	1.394	1.549	2.323	1.084	1.084
10/1/2004	1.457	1.619	2.428	1.133	1.133
10/1/2005	1.515	1.683	2.525	1.178	1.178

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

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

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

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

Effective Date	3/4" (1)	1"	1-1/2"	2"	3"	4"	6"	8"	10"	12"	16"
7/1/1995	0.25	0.37	0.68	1.02	2.11	3.33	6.14	9.64	15.78	19.28	31.91
10/1/1996	0.25	0.38	0.70	1.04	2.15	3.41	6.28	9.87	16.14	19.73	32.65
1/1/1997	0.25	0.38	0.71	1.05	2.17	3.43	6.32	9.94	16.26	19.87	32.89
10/1/1997	0.25	0.38	0.71	1.05	2.18	3.45	6.36	9.98	16.34	19.97	33.05
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

Note: (1) Normal residential size (69,494 of the 89,471 total services).

Source: Department's records

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

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

Effective Date	2"	3"	4"	6"	8"	10"	12"	16"
7/1/1995	0.47	0.81	1.19	2.03	2.98	4.03	5.08	7.45
10/1/1996	0.48	0.83	1.22	2.08	3.05	4.13	5.20	7.62
10/31/1996	0.52	0.89	1.31	2.24	3.28	4.44	5.60	8.21
1/1/1997	0.52	0.90	1.32	2.26	3.31	4.48	5.64	8.27
10/1/1997	0.52	0.90	1.33	2.26	3.32	4.49	5.67	8.31
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

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, 2006

Water Service Size	Number of Services at September 30, 2006	Average Consumption per Month (in hundred cubic feet)	Average Monthly Bill
3/4"	69,494	14	\$ 33.73
1"	11,101	23	55.17
1-1/2"	4,259	61	132.15
2"	2,673	98	199.99
3"	594	221	440.59
4"	459	148	316.03
6"	484	189	420.68
8"	332	343	740.54
10"	64	1,237	1,400.54
12"	9	2,829	5,299.21
16"	2	3	144.05
Total	89,471		

Source: Department's utility billing records

See accompanying independent auditors' report

(Unaudited)

LONG BEACH WATER DEPARTMENT

TEN LARGEST WATER USERS IN CITY OF LONG BEACH

Fiscal Year Ended September 30, 2006

Ranking	Customer	Sales	Gallons (000's)	Cubic Feet (000's)	Acre Feet	Percent of Total
1	City of Long Beach	\$ 2,319,546	1,169,008	\$ 156,274	3,588	5.76 %
2	Long Beach Unified School District	641,175	213,572	28,550	655	1.05
3	Montenay Pacific Power Corporation	439,590	193,127	25,817	593	0.95
4	AES Southland LLC	389,758	170,332	22,770	523	0.84
5	California State University Long Beach	346,040	142,726	19,080	438	0.70
6	L.A.D.W.P.	318,301	135,344	18,093	415	0.67
7	L.A. County Community Development	270,716	89,010	11,899	273	0.44
8	Veterans Affairs Medical Hospital	235,997	101,624	13,585	312	0.50
9	Memorial Medical Center	222,542	93,037	12,437	286	0.46
10	CALTRANS - D07	201,673	77,144	10,313	237	0.38
	Total Ten Largest Users	5,385,338	2,384,922	318,818	7,319	11.76
	Total All Other Users	54,218,654	18,061,018	2,414,410	54,912	88.24
	Total City	\$ 59,603,992	20,445,940	2,733,228	62,231	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

LONG BEACH WATER DEPARTMENT

SEWER RATES: DAILY SERVICE CHARGES BY SIZE, VOLUMETRIC RATE AND CAPACITY CHARGES⁽¹⁾

Fiscal Year Ended September 30, 2006

Water Service Size	Daily Charge	Volumetric Rate per 100 cubic feet
5/8 or 3/4"	\$ 0.111	\$ 0.154
1"	0.176	0.154
1-1/2"	0.320	0.154
2"	0.464	0.154
3"	0.960	0.154
4"	1.521	0.154
6"	2.800	0.154
8"	4.400	0.154
10"	7.198	0.154
12"	8.798	0.154
16"	14.397	0.154

Note: (1) A one-time capacity charge of \$75.02 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, 2006

Water Service Size	Number of Services	Average Monthly Bill
3/4"	69,804	\$ 4.67
1"	10,991	7.92
1-1/2"	4,084	17.43
2"	2,233	28.46
3"	419	62.47
4"	137	99.64
6"	85	218.59
8"	51	259.59
10"	11	742.05
12"	6	521.67
Total	<u>87,821</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, 2006

Ranking	Customer	Sales	Gallons (000's)	Cubic Feet (000's)	Acre Feet	Percent of Total
1	City of Long Beach	\$ 154,724	491,194	65,663	1,507	3.31 %
2	Long Beach Unified School District	76,209	122,361	16,357	376	0.82
3	California State University, Long Beach	38,548	138,692	18,541	426	0.93
4	The Boeing Company	27,666	87,381	11,681	268	0.59
5	Memorial Medical Center	24,199	91,967	12,294	282	0.62
6	L A County Community Development	22,557	65,416	8,745	201	0.44
7	California Department of Transportation	12,955	39,850	5,327	122	0.27
8	National Gypsum	11,995	50,465	6,746	155	0.34
9	American Textile Maint. Company	11,860	52,646	7,038	162	0.35
10	Hyatt Regency Hotel	11,705	47,232	6,314	145	0.32
	Total Ten Largest Users	392,418	1,187,203	158,706	3,644	7.99
	Total All Other Users	7,251,325	13,673,870	1,827,933	41,964	92.01
	Total City	\$ 7,643,743	14,861,073	1,986,639	45,608	100.00

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

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

See accompanying independent auditors' report

(Unaudited)

LONG BEACH WATER DEPARTMENT
WATER REUSE SITES (RECLAIMED WATER USERS)

Fiscal Year Ended September 30, 2006

	Reuse (in acre feet)
1 Thums	1,294
2 Alamitos Barrier	1,170
3 El Dorado Park & Golf Course	942
4 Recreation Park South, Golf Course, Bowling Green, & Joe Rogers Field	419
5 Lakewood County Golf Course	379
6 Virginia Country Club Golf Course	333
7 Heartwell Park and Golf Course	309
8 Skylinks Golf Course	286
9 California State University, Long Beach	127
10 All Souls Cemetery	113
11 Forest Lawn-Sunnyside Memorial Gardens Cemetery	103
12 Long Beach Unified School District	83
13 Jauregui Nursery	75
14 Marina Vista Park, Colorado Lagoon, & Woodlands	53
15 Cal-Trans Freeway Landscaping	48
16 Long Beach City College and Veterans Stadium	40
17 Scherer Park	32
18 El Dorado Lakes Condominiums	28
19 Vestar Development	28
20 Towne Center	21
21 Whaley Park	19
22 City of Long Beach Public Works/Public Service	18
23 Cherry Avenue Park	15
24 Wal-Mart Corporation	14
25 Alamitos Reservoir-Irrigation	9
26 Water Department Irrigation	7
27 Douglas Park	5
28 Reservoir Park	4
29 Lakewood First Presbyterian Church	3
30 Somerset Park	1
Totals	<u>5,978</u>

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

Source: Department's records

See accompanying independent auditors' report

Debt Capacity Information

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

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LONG BEACH WATER DEPARTMENT

WATER FUND DEBT SERVICE COVERAGE - LAST TEN FISCAL YEARS

(in thousands of dollars)

Fiscal Year Ended	Total Operating Revenue	Operating Expenses (1)	Net Operating Income	Net Non-Operating Income (2)	Amount Available for Debt Service	Principal			Total Debt Service	Times Coverage
						Interest				
9/30/1997	60,247	45,122	15,125	4,940	20,065	2,933	2,553		5,486	3.66
9/30/1998	56,395	42,932	13,463	3,736	17,199	1,478	2,709		4,187	4.11
9/30/1999	57,619	43,854	13,765	6,655	20,420	2,396	2,989		5,385	3.79
9/30/2000	60,252	46,509	13,743	2,659	16,402	2,197	1,979		4,176	3.93
9/30/2001	57,773	46,526	11,247	1,476	12,723	2,152	1,587		3,739	3.40
9/30/2002	58,970	48,323	10,647	1,615	12,262	2,049	1,692		3,741	3.28
9/30/2003	58,945	44,654	14,291	1,829	16,120	1,979	1,772		3,751	4.30
9/30/2004	63,185	47,752	15,433	2,340	17,773	1,904	1,242		3,146	5.65
9/30/2005	64,522	50,146	14,376	1,848	16,224	1,851	1,292		3,143	5.16
9/30/2006	66,074	53,096	12,978	1,777	14,755	1,794	1,353		3,147	4.69
Bond Issues:	Water Revenue Refunding Bonds - 1997 Series A					Average Coverage, ten years				4.20
						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)

Fiscal Year Ended	Total Operating Revenue	Operating Expenses (1)	Net Operating Income	Net Non-Operating Income (2)	Amount Available for Debt Service	Times Coverage		
						Principal	Interest	Total Debt Service
9/30/1997	7,718	5,235	2,483	772	3,255	-	-	-
9/30/1998	7,847	4,897	2,950	965	3,915	-	-	-
9/30/1999	7,809	5,406	2,403	1,106	3,509	-	-	-
9/30/2000	7,922	5,900	2,022	1,212	3,234	-	-	-
9/30/2001	8,698	6,535	2,163	858	3,021	-	-	-
9/30/2002	8,050	6,367	1,683	312	1,995	-	-	-
9/30/2003	9,015	7,317	1,698	264	1,962	-	-	-
9/30/2004	9,280	6,618	2,662	154	2,816	-	-	-
9/30/2005	9,718	5,906	3,812	225	4,037	-	-	-
9/30/2006	9,244	6,504	2,740	366	3,106	-	-	-
Bond Issues:	None					Average Coverage, ten years Rate Covenant		
						n/a 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

<u>Fiscal Year Ended</u>	<u>Estimated Population (1)</u>	<u>Per Capita Personal Income (2)</u>	<u>Unemployment Rate (3)</u>
9/30/1997	441,718	25,239	6.6%
9/30/1998	446,227	27,220	6.2%
9/30/1999	452,905	27,973	5.6%
9/30/2000	459,900	29,232	5.5%
9/30/2001	467,300	30,503	5.7%
9/30/2002	473,100	30,828	6.3%
9/30/2003	480,400	31,452	6.4%
9/30/2004	487,100	33,179	5.9%
9/30/2005	491,564	n/a	6.5%
9/30/2006	490,166	n/a	5.3%

Source:

(1) City's Planning & Building Department

(2) U.S. Department of Commerce, Bureau of Economic Analysis: Los Angeles-Long Beach-Glendale.

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 (EDDD).

See accompanying independent auditors' report

(Unaudited)

LONG BEACH WATER DEPARTMENT

MAJOR EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	Fiscal Year 2006		Fiscal Year 1997	
	Number of Employees (1)	Percentage of Total City Employment (2)	Number of Employees (1)	Percentage of Total City Employment (2)
Long Beach Unified School District	9,064	3.90%	11,887	5.67%
The Boeing Company	6,525	2.81%	19,808	9.46%
California State University Long Beach(3)	6,007	2.59%	2,755	1.32%
City of Long Beach	5,854	2.52%	5,605	2.68%
Long Beach Memorial Medical Center	3,500	1.51%	3,876	1.85%
Verizon	2,000	0.86%	n/a	n/a
Long Beach City College	2,000	0.86%	1,518	0.72%
U.S. Postal Service	1,900	0.82%	910	0.43%
Veterans Affairs Medical Center	1,700	0.73%	2,278	1.09%
St. Mary Medical Center	1,634	0.70%	1,779	0.85%

Sources: (1) City of Long Beach Community Development Long Beach Major Employer Directory-current listing

(2) U.S. Census Bureau Labor Force as of 2005

(3) Includes 1,011 part-time employees

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

NUMBER OF EMPLOYEES BY FUND

Fiscal Year Ended	Water Fund	Sewer Fund	Total
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

Sources: Department's Personnel records

See accompanying independent auditors' report

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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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(Unaudited)

Exhibit 24

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			
9/30/1997	22,953	48,035	70,988	5,057	76,045
9/30/1998	23,633	43,084	66,717	4,205	70,922
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

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

Source: Department's annual reports

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

METROPOLITAN WATER DISTRICT'S RATE CHANGES - LAST TEN FISCAL YEARS

(in dollars per acre foot)

Effective Date	Non-Interruptible Treated Water	Percent Change Non-Interruptible Treated Water	Seasonal Treated Water (1)
1/1/1997	431	1	290
7/1/1998	431	0	290
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

Note: (1) New program in fiscal year 1992-93.

Source: Metropolitan Water District of Southern California

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

WATER REPLENISHMENT DISTRICT ASSESSMENT (PUMP TAX) - LAST TEN FISCAL YEARS

Effective Date	Rate per Acre-Foot	Percent Change
7/1/1997	155.00	(4)
7/1/1998	151.00	(3)
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

Source: Water Replenishment District of Southern California (WRD)

See accompanying independent auditors' report

LONG BEACH WATER DEPARTMENT

OPERATING AND CAPITAL ASSETS STATISTICS - WATER FUND
LAST TEN FISCAL YEARS

Fiscal Year Ended	Water System				Water Quality		Reclaimed System	
	Number of Groundwater wells	Miles of water mains	Number of active water service connections	Number of fire hydrants	Number of water samples collected	Number of tests performed	Miles of Pipeline	
9/30/1997	29	917	88,358	6,662	16,402	58,678	25	
9/30/1998	29	909	88,187	6,613	20,200	77,370	25	
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	

Source: Department's records

See accompanying independent auditors' report

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

<u>Fiscal Year Ended</u>	<u>Number of sewer pump stations</u>	<u>Miles of sewer pipelines</u>	<u>Number of sewer manholes</u>
9/30/1997	28	763	15,000
9/30/1998	28	763	15,000
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

Source: Department's records

See accompanying independent auditors' report

(Unaudited)

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	Storm Drain Catch Basins Cleaned (2)
9/30/1997	68,148	1,165	14,238	7,186	453	10,142	4,950
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

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 storm drain system on a cost reimbursement basis.

Source: Department's records

See accompanying independent auditors' report