



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Harbor Department of the City of Long Beach (the Department), an enterprise fund of the City of Long Beach, California, as of and for the years ended September 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Long Beach, California, 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, 2009 and 2008, and the changes in its financial position, or where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach, California, as of September 30, 2009 and 2008, 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.



Management's discussion and analysis on pages 3 through 9 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.

KPMG LLP

March 24, 2010

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis (Unaudited)

September 30, 2009 and 2008

The management of the Harbor Department of the City of Long Beach, California, (the Department) offers readers of the financial statements this discussion and analysis of the financial activities for the fiscal years ended September 30, 2009 and 2008.

Overview of the Financial Statements

The Department's financial statements include the statements of net assets, the statements of revenues, expenses, and changes in fund net assets, the statements of cash flows, and the notes to the financial statements. This discussion is intended to serve as an introduction to the Department's financial statements.

Condensed Financial Position Information

The Statements of Net Assets present information concerning the Department's assets, liabilities, and net assets.

The following condensed financial information provides an overview of the Department's financial position as of September 30 of 2009, 2008, and 2007.

Summary of Net Assets

September 30, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Capital assets, net	\$ 2,249,767,809	2,243,615,808	2,245,291,679
Other assets	1,159,161,353	1,160,749,854	1,142,439,210
Total assets	<u>3,408,929,162</u>	<u>3,404,365,662</u>	<u>3,387,730,889</u>
Liabilities:			
Long-term obligations, net of current portion	790,507,145	840,616,156	1,032,894,146
Current liabilities	190,604,744	260,169,291	212,096,250
Total liabilities	<u>981,111,889</u>	<u>1,100,785,447</u>	<u>1,244,990,396</u>
Net assets:			
Invested in capital assets, net of related debt	1,410,740,241	1,335,522,370	1,162,931,088
Restricted	293,552,191	293,625,620	212,735,625
Unrestricted	723,524,841	674,432,225	767,073,780
Total net assets	<u>\$ 2,427,817,273</u>	<u>2,303,580,215</u>	<u>2,142,740,493</u>

Analysis of Fiscal Year 2009

At the end of fiscal year 2009, the assets of the Department exceeded its liabilities by \$2,427,817,273 (net assets). Total net assets increased by \$124,237,058. This change consists mainly of \$127,613,644 current year operating income, \$2,994,375 income from equity in the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) joint venture, \$11,439,537 income derived from grants received from federal and state governments, and \$923,137 profit from oil operations; less \$18,733,635 from other net nonoperating expenses, including financing costs, and transfers to the City, which includes the 10% of increase in net assets transfer to the Tidelands Operating Fund, totaling to \$18,587,376.

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Management's Discussion and Analysis (Unaudited)

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The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way) less any related debt is \$1,410,740,241 or 58% of the aggregate net assets. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$293,552,191 of net assets subject to restrictions, an increase of \$73,429 from last year. The increase is the result of interest earnings related to funds restricted for federally funded projects. Restricted net assets are thus identified in the Statements of Net Assets and represent 12% of the Department's total net assets.

At the end of fiscal year 2009, the Department reported unrestricted net assets of \$723,524,841, an increase of \$49,092,616 when compared to 2008. This change is mainly the result of \$43,059,351 increase in current assets, plus \$2,994,375 increase in the ICTF joint venture plus increase in oil facilities of \$5,100,097 and \$500,000 decrease in other noncurrent assets, plus reductions of \$712,369 in current liabilities, plus reductions of \$56,795,417 in environmental remediation liabilities; minus \$6,800,000 increase in the Oil Wells Abandonment Liability and \$60,896,105 reduction in operating pooled cash and cash equivalents. Unrestricted net assets represented 30% of the Department's aggregate net assets and were not subject to external restrictions. Unrestricted net assets were available to fund the Department's continuing operations.

Analysis of Fiscal Year 2008

At the end of fiscal year 2008, the assets of the Department exceeded its liabilities by \$2,303,580,215 (net assets). Total net assets increased by \$160,839,722. This change consists mainly of \$163,681,269 operating income, \$4,440,935 income from equity in the ICTF joint venture, \$3,742,240 income derived from grants received from federal and state governments, \$31,153,305 profit from oil operations; less \$42,178,027 from other net nonoperating expenses, including financing costs and 10% of increase in net assets transfer to the City's Tidelands Operating Fund, which amounts to \$16,059,464.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way) less any related debt is \$1,335,522,370 or 58% of the aggregate net assets. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$293,625,620 of net assets subject to restrictions, an increase of \$80,889,995 from last year. The increase consists of matching contribution for future federal and state grants for projects such as bridges, rail, roadway, and port security paired with reductions on the bonded debt service requirements, rail and roadway fund, and full utilization of the Long Beach Redevelopment Agency (RDA) Westside restricted funds. Restricted net assets are thus identified in the Statements of Net Assets and represent 13% of the Department's total net assets.

At the end of fiscal year 2008, the Department reported unrestricted net assets of \$674,432,225, a decrease of \$92,641,555 when compared to 2007. This change included an increase in net assets of \$160,839,722, less \$172,591,282 used to finance capital assets, net of related liabilities, and the net effect of setting reserves for the Gerald Desmond Bridge, the rail and roadway fund, rail projects, and security projects (a net reduction of \$80.88 million). Unrestricted net assets represented 29% of the Department's aggregate net assets and were not subject to external restrictions. Unrestricted net assets were available to fund the Department's continuing obligations and designated projects.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis (Unaudited)

September 30, 2009 and 2008

Summary of Operations and Changes in Net Assets

The Statements of Revenues, Expenses, and Changes in Fund Net Assets illustrate the Department's change in net assets from prior to current fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows; for example: uncollected receivables and earned, but unused, vacation leave.

The table below summarizes the operations for fiscal years 2009, 2008, and 2007.

Changes in Fund Net Assets

Years ended September 30, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues:			
Berth and special facilities	\$ 291,451,794	340,524,798	351,891,119
Miscellaneous	19,899,788	18,819,335	18,940,814
Total operating revenues	<u>311,351,582</u>	<u>359,344,133</u>	<u>370,831,933</u>
Operating expenses:			
Facility and infrastructure	(58,416,295)	(81,440,115)	(69,959,326)
General and administrative	(39,463,931)	(34,725,802)	(27,004,526)
Depreciation and amortization	(85,857,712)	(79,496,947)	(83,067,090)
Total operating expenses	<u>(183,737,938)</u>	<u>(195,662,864)</u>	<u>(180,030,942)</u>
Operating income	<u>127,613,644</u>	<u>163,681,269</u>	<u>190,800,991</u>
Nonoperating revenues (expenses):			
Intergovernmental expense	(18,587,376)	(16,059,464)	(15,399,535)
Investment expense, net of income	(22,250,685)	(13,044,028)	(9,698,643)
Income (loss) from oil operations	923,137	31,153,305	(21,070,305)
Gain (loss) on sale of capital assets	8,248	(254,540)	179
Income from equity in joint venture	2,994,375	4,440,935	4,674,546
Income (loss) from Clean Air Action Plan	13,323,357	(13,866,798)	—
Other income, net	8,772,821	1,046,803	1,267,487
Net nonoperating expenses	<u>(14,816,123)</u>	<u>(6,583,787)</u>	<u>(40,226,271)</u>
Income before capital grants	112,797,521	157,097,482	150,574,720
Capital grants	11,439,537	3,742,240	10,019,920
Change in net assets	124,237,058	160,839,722	160,594,640
Total net assets – beginning	<u>2,303,580,215</u>	<u>2,142,740,493</u>	<u>1,982,145,853</u>
Total net assets – ending	<u>\$ 2,427,817,273</u>	<u>2,303,580,215</u>	<u>2,142,740,493</u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis (Unaudited)

September 30, 2009 and 2008

Analysis of Fiscal Year 2009

A comparison of the operating revenues for fiscal years 2009 and 2008 shows a decrease of 13%. All the revenue categories, except dry bulk, liquid bulk, and rentals (11%, 2%, and 10% increases, respectively), decreased: containerized cargo 17%, steel 22%, vehicles 2%, lumber 32%, other terminals 39%, and miscellaneous income 9%.

In terms of volume (measured in metric revenue tons) liquid bulk is the only category showing an increase of 4%; the following types of cargo decreased during fiscal year 2009: containerized cargo 23%, dry bulk 10%, vehicles 50%, steel 26%, and lumber 30%.

Operating expenses (excluding depreciation and amortization) decreased \$18,285,691. Cargo facilities incurred lower maintenance expenses to the tune of \$2,169,706; Infrastructure Maintenance that includes bridges and freeways maintenance and expenses related to environmental control decreased \$23,257,222; Fire and Safety increased by \$2,683,629; and general and administrative expenses increased by \$4,738,128.

Depreciation expense is affected by acquisition/retirement of long-term assets, their useful lives, and the dates when such assets are placed in service. Depreciation expense for fiscal year 2009 was higher than that of 2008. The reason for this change is the increase in assets placed into service during 2009. Investment income was lower due to lower earning rates resulting from the overall downturn in the economy. Interest expense was lower because of reduced bond and commercial paper principal balances, and the implementation of the capitalization of interest policy that entails the allocation of interest expense to capital projects.

Oil operations net revenues decreased to \$923,137 from \$31,153,305 in the previous year due to lower crude oil prices prevailing during the fiscal year. The implementation of the Clean Air Action Plan (CAAP) and its related projects generated a net revenue of \$13,323,357, which is a reversal of a \$13,866,798 net expense during fiscal year 2008. The change in direction is attributed to the container fees collected from trucks operating in the Port of Long Beach (the Port) that are not complying with the Clean Truck Program guidelines to clean up air pollution at the Port; the portion of the capital grant project expenses subsidized with grant revenues increased from \$3,742,240 in fiscal year 2008 to \$11,439,537 million in fiscal year 2009; the increase was attributed to the faster pace of spending on projects funded by grants.

Analysis of Fiscal Year 2008

A comparison of the operating revenues for fiscal years 2008 and 2007 shows a decrease of 3%. All the revenue categories, except dry bulk (2% increase), decreased: containerized cargo 3%, liquid bulk 6%, steel 1%, vehicles 1%, lumber 4%, other terminals 20%, and rentals 1%.

In terms of volume (measured in metric revenue tons), all types of cargo decreased during fiscal year 2008: containerized cargo 5%, dry bulk 7%, vehicles 19%, steel 13%, lumber 17%, and liquid bulk 8%.

Operating expenses increased due to higher maintenance costs on the Gerald Desmond Bridge, increased levels of service provided by the Long Beach Police and Fire Departments; revamping and modernization of the Port's Security Division; and additional costs incurred to patrol and secure water areas around the Port complex. Upgrades and maintenance of access roads, sanitation systems, and far reaching efforts to promote community awareness were also factors causing the increase in operating expenses.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis (Unaudited)

September 30, 2009 and 2008

Depreciation expense is affected by acquisition/retirement of operating assets, their useful lives, and the dates when such assets are placed in service. Depreciation expense for fiscal year 2008 was lower than that of 2007 because many of the capital assets owned by the Port have maximized their allowable depreciation. Investment income was lower due to the recording of the loss on Lehman Brothers commercial paper investment. Interest expense was lower because of the full payment of the 2002A bonds and the reduction, due to regular debt servicing, on the principal balances of the other debt carried by the Department.

Oil operations net revenues increased to \$31.2 million from a \$21.1 million loss in previous year due to favorable crude oil prices prevailing during the fiscal year. Fiscal year 2008 is the first year in which expenses were incurred on the Clean Trucks Program, which is an important component of the CAAP; net expenses for the year were \$13.9 million; the portion of the capital grant project expenses subsidized with grant revenues decreased from \$10 million in fiscal year 2007 to \$3.7 million in fiscal year 2008 because these projects were delayed.

Capital Assets and Debt Administration

Capital Assets

The Department's investments in capital assets, net of accumulated depreciation, as of September 30, 2009, 2008, and 2007 are as follows:

Capital Assets, Net			
September 30, 2009, 2008, and 2007			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Nondepreciable capital assets:			
Land	\$ 859,833,899	858,813,707	850,704,021
Construction in progress	180,699,622	164,535,655	225,836,752
Rights of way	<u>207,823,264</u>	<u>207,823,264</u>	<u>207,823,264</u>
Total nondepreciable capital assets	<u>1,248,356,785</u>	<u>1,231,172,626</u>	<u>1,284,364,037</u>
Depreciable capital assets (net):			
Structures and facilities	990,471,192	1,008,240,275	956,920,248
Furniture, fixtures, and equipment	<u>10,939,832</u>	<u>4,202,907</u>	<u>4,007,394</u>
Total depreciable capital assets	<u>1,001,411,024</u>	<u>1,012,443,182</u>	<u>960,927,642</u>
Total capital assets, net	<u>\$ 2,249,767,809</u>	<u>2,243,615,808</u>	<u>2,245,291,679</u>

Analysis of Fiscal Year 2009

The Department's investments in capital assets include land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. The net effect on the capital asset accounts was an increase of \$6,152,001 from 2008. In order to accomplish a more efficient use of their space, many divisions continued to remodel their areas. Information regarding the Department's capital assets can be found in note 6 to the financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management’s Discussion and Analysis (Unaudited)

September 30, 2009 and 2008

Analysis of Fiscal Year 2008

The Department’s investments in capital assets include land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. Capital assets decreased by less than 1% when compared to fiscal year 2007. Additions/transfer to capital asset accounts were offset by reductions, either by transfers to capital asset accounts or by closing projects to operating expenses, in construction in progress. Information regarding the Department’s capital assets can be found in note 6 to the financial statements.

Debt Administration

The following table summarizes the Department’s debt, originally incurred as long-term, as of September 30, 2009, 2008, and 2007. For consistency purposes, this schedule includes the current portion.

Debt Originally Incurred as Long-Term Debt

September 30, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Bond debt (principal and net premiums)	\$ 802,927,145	842,403,531	1,016,164,146
Commercial paper outstanding	31,400,000	60,150,000	60,150,000
Notes payable	—	—	41,333
Total long-term debt	<u>\$ 834,327,145</u>	<u>902,553,531</u>	<u>1,076,355,479</u>

Analysis of Fiscal Year 2009

The Department’s total long-term debt decreased by \$68,226,386, or 8%. The decrease was the result of scheduled principal reductions on the bond debt and the retirement of \$28,750,000 of the outstanding commercial paper.

The underlying ratings assigned to the Department’s bond issues are as follows: Standard & Poor’s: AA, stable outlook; Moody’s Investors Services: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook. During 2009, Fitch Ratings affirmed the AA rating on the \$803 million Port debt. The Fitch report states, “‘AA’ rating reflects the Port’s geographic advantage, proximity to a very large population base, and excellent intermodal access to large rail networks and highways that result in the Port’s dominant position as the nation’s second largest container port. The Port has a very healthy balance sheet with a superior liquidity position, very stable revenue sources through long-term lease agreements that ensure solid operating margins and largely mitigate downside financial risk, modern and contiguous facilities, and a good diversity of terminal operators and shippers.”

In December 2009, Moody’s Investors Service affirmed its Aa2 rating on the Port’s debt. The Moody’s report states, “The Port of Long Beach’s strategic advantages include a deep harbor, advantageous location for capturing Pacific Rim trade, large local service area, and excellent intermodal transportation links to regional and inland markets. The outlook for the Port of Long Beach is stable despite the current economic downturn, based on Moody’s expectation that the port’s competitive market position will continue to support operations, that the strong financial position will provide healthy margins against decreasing cargo levels, and future borrowing plans will maintain the targeted 2.0x debt service coverage and one-year’s cash on hand.”

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Management's Discussion and Analysis (Unaudited)

September 30, 2009 and 2008

The debt service coverage ratios for fiscal years ended 2009 and 2008 are 2.8 and 3.1, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25. Additional information on the Department's long-term debt can be found in notes 7 and 8, on pages 29 – 36 of this report.

Analysis of Fiscal Year 2008

The Department's total long-term debt decreased by \$173,801,948, or 16%. The decrease was the result of scheduled bond debt service payments and the retirement of the 2002A variable rate debt obligation (VRDO) bonds (\$133.8 million).

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA, stable outlook; Moody's Investors Services: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook. The ratings are the result of factors such as: the Port's significant size and strength among the West Coast container ports; its status as a world-class facility; its prime location to attract Pacific Rim trade; convenient links to intermodal connections; its healthy financial condition and high liquidity; the proactive approach to secure and protect its facilities and to make them as safe as possible; the continued implementation of an environmentally responsible capital program supported by the Board of Harbor Commissioners; and management's commitment to efficiency, sustainability, environmental protection, and customer service.

The debt service coverage ratios for fiscal years ended 2008 and 2007 are 3.1 and 3.5, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25. Additional information on the Department's long-term debt can be found in notes 7 and 8, on pages 29 – 36 of this report.

Notes to Financial Statements

The notes to the Department's financial statements can be found on pages 14 – 50 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for people or entities interested in the financial aspects of the Port. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 925 Harbor Plaza, Long Beach, CA 90802.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Assets

September 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 664,793,199	725,689,304
Trade accounts receivable, net of allowance (note 3)	47,491,843	50,090,855
Interest receivable	199,926	581,213
Nonperforming investments (note 3)	2,228,927	2,228,927
Due from other governmental agencies (note 3)	4,916,764	2,267,630
Prepaid – dredging services (note 4)	43,500,000	—
Inventories of supplies	626,716	742,222
Other current assets	6,022	—
Subtotal	763,763,397	781,600,151
Harbor Revenue Bond Funds and other funds restricted as to use (notes 2 and 8):		
Pooled cash and cash equivalents (note 2)	241,695,780	232,528,585
Total current assets	1,005,459,177	1,014,128,736
Noncurrent assets:		
Capital assets (notes 6 and 10):		
Land:		
Purchased	440,901,947	439,913,481
Constructed	418,931,952	418,900,226
Net land	859,833,899	858,813,707
Structures and facilities	2,011,291,995	1,947,975,911
Less accumulated depreciation	(1,020,820,803)	(939,735,636)
Net structures and facilities	990,471,192	1,008,240,275
Furniture, fixtures, and equipment	28,193,907	17,499,336
Less accumulated depreciation	(17,254,075)	(13,296,429)
Net furniture, fixtures, and equipment	10,939,832	4,202,907
Construction in progress	180,699,622	164,535,655
Right of way (note 5)	207,823,264	207,823,264
Net capital assets	2,249,767,809	2,243,615,808
Other assets:		
Long-term receivables (note 3)	27,000,000	27,435,000
Oil facilities (net of accumulated depletion of \$65,132,743 and \$70,232,840, respectively)	16,003,112	10,903,015
Environmental mitigation credits (note 15)	44,278,068	44,278,068
Investment in joint venture (note 11)	10,897,651	7,903,276
Restricted nonpooled cash and cash equivalents (note 2)	362,691	21,473,654
Restricted nonpooled investments (note 2)	53,260,654	32,228,105
Other noncurrent assets	1,900,000	2,400,000
Total other assets	153,702,176	146,621,118
Total noncurrent assets	2,403,469,985	2,390,236,926
Total assets	\$ 3,408,929,162	3,404,365,662

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Assets

September 30, 2009 and 2008

Liabilities	2009	2008
	<hr/>	<hr/>
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	\$ 48,311,508	53,972,310
Accrued interest – commercial paper (note 7)	—	185,725
Commercial paper outstanding (note 7)	31,400,000	60,150,000
Liability claims (note 12)	5,000,000	—
Deferred credits and unearned revenue	14,911,718	14,586,669
Due to City of Long Beach (note 14)	16,083,972	16,274,861
Current portion of environmental remediation (note 13)	19,074,012	60,411,804
	<hr/>	<hr/>
Total current liabilities payable from current assets	134,781,210	205,581,369
Current liabilities payable from restricted assets:		
Current portion of bonds indebtedness (note 8)	40,120,000	38,145,000
Accrued interest – bonds	15,703,534	16,442,922
	<hr/>	<hr/>
Total current liabilities payable from restricted assets	55,823,534	54,587,922
Total current liabilities	<hr/>	<hr/>
	190,604,744	260,169,291
Long-term obligations net of current portion:		
Bonded indebtedness (note 8)	762,807,145	804,258,531
Environmental remediation (note 13)	1,000,000	16,457,625
Oil wells abandonment (note 12)	26,700,000	19,900,000
	<hr/>	<hr/>
Total noncurrent liabilities	790,507,145	840,616,156
Total liabilities	<hr/>	<hr/>
	981,111,889	1,100,785,447
	<hr/>	<hr/>
Net Assets (Note 16)		
Invested in capital assets, net of related debt	1,410,740,241	1,335,522,370
Restricted – nonrelated-party debt service contingency and matching contribution for federally funded projects (note 12)	147,301,520	147,301,520
Restricted – capital projects	44,278,068	44,278,068
Restricted – debt service	101,972,603	102,046,032
Unrestricted	723,524,841	674,432,225
	<hr/>	<hr/>
Total net assets	\$ 2,427,817,273	2,303,580,215
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See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Port operating revenues (note 10):		
Berths and special facilities	\$ 291,451,794	340,524,798
Rental properties	15,957,437	14,495,795
Miscellaneous	3,942,351	4,323,540
Total Port operating revenues	<u>311,351,582</u>	<u>359,344,133</u>
Port operating expenses:		
Facility maintenance	5,700,685	7,870,391
Infrastructure maintenance	22,299,190	45,556,412
Fire and safety	24,036,675	21,353,046
Other indirect operating	6,379,745	6,660,266
General and administrative	39,463,931	34,725,802
Total Port operating expenses before depreciation and amortization	<u>97,880,226</u>	<u>116,165,917</u>
Depreciation and amortization	85,857,712	79,496,947
Total Port operating expenses	<u>183,737,938</u>	<u>195,662,864</u>
Income from Port operations	<u>127,613,644</u>	<u>163,681,269</u>
Nonoperating revenues (expenses):		
Investment income, net	18,579,306	33,346,928
Interest expense	(40,829,991)	(46,390,956)
Income from oil operations	923,137	31,153,305
Gain (loss) on disposition of capital assets	8,248	(254,540)
Income from equity in joint ventures	2,994,375	4,440,935
Clean Air Action Plan (net)	13,323,357	(13,866,798)
Other income	8,772,821	1,046,803
Total nonoperating revenues	<u>3,771,253</u>	<u>9,475,677</u>
Income before capital grants and transfers	<u>131,384,897</u>	<u>173,156,946</u>
Capital grants	11,439,537	3,742,240
Operating transfers to City (note 14)	(18,587,376)	(16,059,464)
Increase in net assets	124,237,058	160,839,722
Total net assets – beginning of year	<u>2,303,580,215</u>	<u>2,142,740,493</u>
Total net assets – end of year	<u>\$ 2,427,817,273</u>	<u>2,303,580,215</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Cash Flows

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from customers	\$ 309,308,092	359,339,856
Cash paid to employees net of capitalized labor of \$4,286,063 and \$4,786,307 in 2009 and 2008, respectively	(37,480,770)	(32,679,627)
Cash paid to suppliers	(122,463,488)	(51,260,792)
Net cash provided by operating activities	<u>149,363,834</u>	<u>275,399,437</u>
Cash flows from investing activities:		
Harbor oil operations	12,842,740	29,727,236
Interest received	18,960,593	31,072,311
Return on investment in joint venture	—	8,000,000
Purchase of investments	(20,912,327)	—
Net cash provided by investing activities	<u>10,891,006</u>	<u>68,799,547</u>
Cash flows from noncapital/financing activities:		
Clean Air Action Plan	3,987,302	(1,147,823)
Harbor Cogeneration Payment	8,800,400	—
Operating transfers to Tidelands and other funds	(16,274,862)	(15,399,535)
Net cash used in noncapital financing activities	<u>(3,487,160)</u>	<u>(16,547,358)</u>
Cash flows from capital and related financing activities:		
Grants provided (used)	(9,991,732)	7,046,639
Interest paid, net of capitalized interest	(45,161,004)	(50,787,577)
Payments for capital acquisitions	(67,770,450)	(97,517,285)
Prepayment for dredging services	(43,500,000)	—
Principal payment – commercial paper	(28,750,000)	—
Principal payment – notes	—	(41,333)
Principal payments – bond	(38,145,000)	(170,130,000)
Excess reserve 2005 Bonds	3,644,605	—
Proceeds from sales of capital assets	66,027	945,460
Net cash used in capital and related financing activities	<u>(229,607,554)</u>	<u>(310,484,096)</u>
Net increase (decrease) in cash and cash equivalents	<u>(72,839,874)</u>	<u>17,167,530</u>
Cash and cash equivalents, October 1	<u>979,691,544</u>	<u>962,524,013</u>
Cash and cash equivalents, September 30	\$ <u>906,851,670</u>	\$ <u>979,691,543</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 127,613,644	163,681,269
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	85,857,712	79,496,947
Bad debt expense	272,068	26,954
Decrease (increase) in accounts receivable	(2,277,680)	587,025
Decrease (increase) in other assets	(6,022)	—
Decrease (increase) in inventory	115,506	(8,120)
Increase (decrease) in accounts payable	(6,642,213)	7,939,727
Increase (decrease) in deferred revenue:	1,164,234	(814,410)
Increase in customer deposits	62,002	21,333
Increase (decrease) in environmental remediation	(56,795,417)	24,459,654
Increase in due to other funds	—	9,058
Net cash provided by operating activities	\$ <u>149,363,834</u>	\$ <u>275,399,437</u>
Reconciliation of cash and cash equivalents:		
Unrestricted pooled cash and cash equivalents	\$ 664,793,199	725,689,304
Restricted pooled cash and cash equivalents	241,695,780	232,528,585
2000 bond reserve held by the City Treasurer	362,691	21,473,654
	\$ <u>906,851,670</u>	\$ <u>979,691,543</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) *The Reporting Entity*

Article XII of the City Charter of the City of Long Beach, California (the City) created the Harbor Department of the City of Long Beach (the Department) to promote and develop the Port of Long Beach (the Port). The Department's operations are included in the City's reporting entity as an enterprise fund; its activities are conducted in the Tidelands Trust area of the City and are subject to coastal area laws of the State of California and to the terms of the trust agreement between the City and the State of California.

The Harbor Facilities Corporation (the Corporation), a nonprofit public benefit corporation, has been inactive since 1995 and did not have any activity during the 2009 and 2008 fiscal years. If the Corporation would have any transactions with financial implications, they would be included in the Department's financial statements.

The Department, together with the Harbor Department of the City of Los Angeles, formed a joint venture to finance the construction of the Intermodal Container Transfer Facility (ICTF). The ICTF venture has been recorded as an investment under the equity method of accounting in the accompanying financial statements (see note 11).

In 1989, the cities of Los Angeles and Long Beach entered into a Joint Exercise of Powers Agreement to create the Alameda Corridor Transportation Authority (ACTA). This agreement was amended and restated in 1996. The purpose of ACTA was to acquire, construct, finance, and operate the Alameda Corridor. The Alameda Corridor consists of a 20-mile-long rail cargo expressway connecting the ports in San Pedro Bay to the transcontinental rail yards near downtown Los Angeles and it began operating in April 2004. ACTA prepares its own financial statements, and its transactions are not included as part of the Department's financial statements.

(b) *Basis of Accounting and Measurement Focus*

Disbursement of funds derived from the Department's operations is restricted to Harbor Trust Agreement purposes. The costs of providing port services are recovered entirely through leases, tariffs, and other charges assessed to Department's tenants. Consistent with U.S. generally accepted accounting principles for enterprise funds, the accounting policies of the Department conform to the accrual basis of accounting. The measurement focus of the accompanying financial statements is on the determination of changes in net assets and changes in financial position. Operating revenues and expenses are generated and incurred through cargo activities performed by port tenants; operating expenses include maintenance of facilities and infrastructure, security, and payments to other City departments for services provided to the Port. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as nonoperating income (expense). The Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

The Department recognizes operating revenues when they are earned. Proceeds from federal or state grants are considered as nonoperating revenues, recognized as such when reimbursable expenses are incurred, and are identified as capital grants in the statements of revenues, expenses, and changes in fund net assets. Operating revenues or capital grant funds that have either been billed or received but not earned are identified as deferred credits and unearned revenue in the statements of net assets.

(c) *New Accounting Pronouncements*

Effective October 1, 2008, the Department adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The statement provides governments with better accounting guidance and consistency, and it identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The adoption of the statement did not have a material impact on the Department's financial statements. Disclosures related to the adoption of GASB Statement No. 49 are presented in note 13.

(d) *Pooled Cash and Cash Equivalents*

In accordance with City Charter requirements, the Department pools its available cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating City organizational units. For purposes of the statements of cash flows, the Department defines cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments and short-term, easily convertible to cash, nonpooled investments. Investment decisions are made by the City Treasurer and approved by an investment committee whose membership includes members of the Department's management ranks.

Investment income and gains/losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of the unit's average daily cash balances to the aggregate pooled cash and investments. The Department's share of pooled cash and investments, as of September 30, 2009 and 2008, is stated at fair value (see note 2).

(e) *Nonpooled Cash and Cash Equivalents*

The Department considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents.

(f) *Investments*

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statements of revenues, expenses, and changes in net assets as investment income, net.

(g) *Inventories*

Inventories of supplies are valued at the lower of average cost or market.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

(h) Capital Assets

An asset is classified as a capital asset if it is a nonconsumable, tangible item, valued at a single amount greater than \$5,000, and with a useful life of more than one year. Capital assets are valued at historical costs. The historical cost of acquiring an asset includes the cost necessarily incurred to bring it to the condition and location necessary for its intended use. If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures is a part of the historical cost of acquiring the asset. Depreciation is determined using the straight-line method with no allowance for salvage values. Identifiable intangible assets are recognized as such if they are separable or when they arise from contractual or other legal right, regardless of whether those rights are transferable or separable from the entity, or from other rights and obligations. An intangible asset will be capitalized if the asset has a useful life of more than one year and an acquisition cost exceeding the capitalization threshold of \$100,000. Amortization of intangible assets will follow the policies set for tangible assets with the following additional considerations: there is no mandated maximum amortization period; intangible assets with indefinite useful life should not be amortized; and the carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset. When appropriate, provision for obsolescence is recognized by charging depreciation at an accelerated rate on specific assets. The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision, if appropriate, to assure that the cost of the respective assets will be written off over their economic lives. Estimated useful lives used in the computation of depreciation of capital assets are as follows:

Structures and facilities:	
Bridges and overpasses	50 – 75 years
Wharves and bulkheads	40 years
Transit sheds and buildings	20 – 50 years
State highway connections	10 – 50 years
Others	5 – 50 years
Intangible assets	3 – 30 years
Furniture, fixtures, and equipment	2 – 30 years

The Harbor Department incurred interest cost in fiscal year 2009 of \$42,898,000 of which \$2,068,000 was capitalized.

(i) Oil Operation

Oil facilities are valued at historical cost plus estimated future oil well abandonment costs. Abandonment costs are separately recorded as a liability. Oil field depletion is determined using the estimated economic life of the oil field divided by future unit production of the oil field. Donated assets are valued at their estimated fair value on the donation date.

(j) Investments in Joint Ventures

Investments in joint power authorities are accounted for by the equity method.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

(k) *Compensated Absences*

The Department records all accrued employee benefits, including accumulated vacation and sick leave, as a liability in the period when the benefits are earned. Accrued employee benefits are treated as a current liability for financial statement presentation.

(l) *Pension Plan and Postretirement Benefits*

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 accrued pension costs. These costs are determined annually as of October 1 by CalPERS and are incorporated into the payroll burden rate reimbursable to the City's Employee Benefits Internal Service Fund. The Department participates in the City's Retired Employee Health Insurance Program. This program is a single-employer defined benefit healthcare plan.

(m) *Allowance for Doubtful Accounts Receivable*

The allowance for doubtful accounts (allowance) is estimated at a level to absorb expected accounts receivable losses. Allowance is established to reflect the amount of the Port's receivables that Management estimates will be uncollectible ensuring that Port's receivables will not be overstated for financial reporting purposes. The allowance is set at the greater of: (1) one half of one percent (0.5%) of estimated annual operating revenues or (2) the sum of 75% of aged receivable amounts over 120 days delinquent, plus 50% of amounts over 90 days delinquent, plus 25% of amounts over 60 days delinquent, plus 10% of amounts over 30 days delinquent. In addition, Management reviews the adequacy of the allowance on a monthly basis by reviewing the aging report and assesses whether any further action is necessary.

To determine uncollectibility, the Department's Finance Division reviews all delinquent accounts around August of each year. Amounts deemed uncollectible are proposed to be written off. The balances of the allowance for uncollectible Accounts Receivable for the fiscal years 2009 and 2008 were \$1,556,758 and \$1,796,604, respectively (see note 3).

(n) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

(o) *Reclassifications*

Certain amounts reported in fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation. Such reclassifications have no effect on the previously reported change in net assets.

(p) *Net Assets*

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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

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

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

Restricted – Expendable – Net assets subject to externally imposed conditions or constraints that can be fulfilled by the actions of the Department or by the passage of time. The restrictions are externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted – All other categories of net assets. Additionally, unrestricted net assets may be designated for use by management of the Department. These requirements limit the area of operations for which expenditures of net assets may be made and require that unrestricted net assets be designated to support future operations in these areas. The future funding commitments of the Department related to the Clean Air Action Plan (CAAP) are a primary example of unrestricted net assets with designated uses (see note 12).

(2) Cash, Cash Equivalents, and Other Investments

The Department’s cash and cash equivalents and investments as of September 30, 2009 and 2008 are classified in the accompanying statements of net assets as follows:

	<u>2009</u>	<u>2008</u>
Pooled cash and cash equivalents	\$ 664,793,199	725,689,304
Pooled cash and cash equivalents, restricted	241,695,780	232,528,585
Total pooled cash and cash equivalents	<u>906,488,979</u>	<u>958,217,889</u>
Bond reserves held by fiscal agents:		
Nonpooled cash and cash equivalents	362,691	21,473,654
Nonpooled investments	53,260,654	32,228,105
Total bond reserves held by fiscal agents	<u>53,623,345</u>	<u>53,701,759</u>
Total pooled cash and cash equivalents and bond reserves held by fiscal agents	\$ <u>960,112,324</u>	<u>1,011,919,648</u>

The majority of the Department’s cash and investments, including restricted cash and investments, are pooled with other City funds and maintained by the City Treasurer. The City Charter requires the Department to participate in the City Treasurer’s pool. The Department’s portion of the City’s total pooled cash and cash equivalents amount as of September 30, 2009 and 2008 was \$906,488,979 or 56.2% and \$958,217,889 or 56.2%, respectively, of the City’s pooled cash and cash equivalents. The Department’s bond reserves held by fiscal agents for the 2002, 2004, and 2005 bonds were \$53,623,345 and \$53,701,759 as of September 30, 2009 and 2008, respectively. The City’s investment policy authorizes the pool to invest in obligations issued or guaranteed by the federal government and its agencies and instrumentalities as well as in commercial paper rated A-1 by Standard & Poor’s Corporation or P-1 by Moody’s Commercial Paper Record, bankers’ acceptances, repurchase agreements, reverse repurchase agreements,

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

bank certificate of deposits, the State Treasurer’s Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified management companies.

It is the policy of the City Treasurer to invest funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and its Departments and to conform to all state and local statutes governing the investment of public funds, using the “prudent person” standard for managing the overall portfolio. The primary objective of the policy is safety of principal, liquidity, yield, and maintaining the public trust. Individual departmental cash deposits and investments within this pool cannot be specifically identified among the participating units. Interest income and gains and losses earned on pooled cash and investments are allocated monthly to the various pool participants based on their average daily cash balances.

(a) Investments Authorized by the California Government Code and the City’s Investment Policy

The table below 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 trustee, which 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.

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

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

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Notes to Financial Statements

September 30, 2009 and 2008

(b) Investments Authorized by Debt Agreement

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

(c) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates 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 maturing evenly over time as necessary to provide cash flow and liquidity need for operations. The following schedule indicates the interest rate risk of the City's investments, which includes the amount the fund has invested with the City as of September 30 (in thousands):

Investment type	2009		2008	
	Fair value	Weighted average maturity (in years)	Fair value	Weighted average maturity (in years)
Cash and investments in city pool:				
Interdepartment loan (Health SAVERS)	\$ 2,654	9.60	\$ 2,892	10.60
U.S. Treasury notes	930,125	0.50	55,816	0.41
Federal agency securities	592,312	0.50	1,289,369	1.96
Medium-term notes	—	—	84,148	0.99
LAIF	—	—	160,848	0.09
Government managed rate account	104,667	—	69,931	—
Subtotal city pool	1,629,758		1,663,004	
Cash and deposits	80,099	—	60,313	—
Outstanding checks	(13,698)	—	(19,752)	—
Total city pool	\$ 1,696,159		\$ 1,703,565	
Nonperforming short-term investment	\$ 3,962	—	\$ 3,962	—

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

The following schedule indicates the interest rate risk of the Department's cash held by fiscal agent:

	2009		2008	
	Fair value (000's)	Weighted average maturity (in years)	Fair value (000's)	Weighted average maturity (in years)
Nonpooled investments – Fiscal Agent:				
2002A Reserve:				
Federal Agency Securities	\$ 8,240	2.39		
Treasury Notes	<u>12,421</u>	1.56		
	20,661			
2004 Reserve:				
Federal Agency Securities	12,107	7.80		
AIG Matched Funding Corporation Guaranteed Investment Contracts (GIC)			\$ 11,373	8.62
2005 Reserve:				
Federal Agency Securities	8,235	2.38		
Treasury Notes	<u>12,258</u>	1.56		
	20,493			
FSA Capital Management Services GIC			<u>20,855</u>	15.39
Total	\$ <u><u>53,261</u></u>		\$ <u><u>32,228</u></u>	

(d) Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2009 and 2008. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

(e) Risks and Uncertainties

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

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

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Notes to Financial Statements

September 30, 2009 and 2008

(f) 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 on the following page is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

City's pooled investments investment type	Minimum legal rating	Rating as of year-end 2009						
		Not required to be rated	A-1+	A-1	AAA	AA-	Unrated	
Cash and investments in city pool:								
Interdepartment loan (Health SAVERS)	N/A	\$ 2,654	2,654	—	—	—	—	—
U.S. Treasury notes	N/A	930,125	930,125	—	—	—	—	—
Federal agency securities	N/A	592,312	—	—	—	592,312	—	—
Medium-term notes	A	—	—	—	—	—	—	—
LAIF	N/A	—	—	—	—	—	—	—
Government managed rate account	N/A	104,667	104,667	—	—	—	—	—
Subtotal city pool		1,629,758	1,037,446	—	—	592,312	—	—
Cash and deposits		80,099	—	—	—	—	—	80,099
Outstanding checks		(13,698)	—	—	—	—	—	(13,698)
Total city pool		\$ 1,696,159	1,037,446	—	—	592,312	—	66,401
Nonperforming short-term investment	N/A	\$ 3,962	—	—	—	—	—	3,962

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2009 and 2008

City's pooled investments investment type	Minimum legal rating	Rating as of year-end 2008						
		Not required to be rated	A-1+	A-1	AAA	AA-	Unrated	
In terdepartment loan (Health SAVERS)	N/A	\$ 2,892	2,892	—	—	—	—	—
U.S. Treasury notes	N/A	55,816	55,816	—	—	—	—	—
Federal agency securities	N/A	1,289,369	—	—	—	1,289,369	—	—
Medium-term notes	A	84,148	—	—	—	84,148	—	—
LAIF	N/A	160,848	160,848	—	—	—	—	—
Government managed rate account	N/A	69,931	69,931	—	—	—	—	—
Subtotal city pool		1,663,004	289,487	—	—	1,373,517	—	—
Cash and deposits		60,313	—	—	—	—	—	60,313
Outstanding checks		(19,752)	—	—	—	—	—	(19,752)
Total city pool		\$ 1,703,565	289,487	—	—	1,373,517	—	40,561
Nonperforming short-term investment	N/A	\$ 3,962	—	—	—	—	—	3,962

(g) 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 represents 5% or more of the City's total pooled investments are as follows (in thousands):

Issuer	Investment type	Reported amount	
		2009	2008
Federal Farm Credit Bank	Federal agency securities	\$ 28,232	93,000
Federal Home Loan Bank	Federal agency securities	95,440	477,695
Federal Home Loan Mortgage Association	Federal agency securities	91,865	359,571
Federal National Mortgage Association	Federal agency securities	376,776	359,103
U.S. Treasury	U.S. Treasury notes and bonds	930,125	55,816
LAIF	State pool investment	—	160,848

(h) 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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

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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 government units by pledging securities in an undivided collateral pool held by a depository regulated under the 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 the City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City-issued bond and investment in the State of California's Local Agency Investment Fund (LAIF).

As of September 30, 2009, the City reported deposits of \$80,099,000 less \$13,698,000 for checks outstanding. As of September 30, 2008, the City's deposits were \$60,313,000 less \$19,752,000 for checks outstanding.

(i) *Investment in State Investment Pool*

The City is a voluntary participant in the LAIF that is regulated by 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 City's 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 an one-for-one basis, and structured basis.

(j) *Reverse Repurchase Agreements*

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2009 and 2008.

(k) *GASB Statement No. 31*

GASB Statement No. 31, *Certain Investments and External Investment – Pools*, requires that certain investments and external investment pools be reported at fair value. At September 30, 2009 and 2008, the effect of valuating the City's investments at fair value did not have a material impact on the City's financial position.

(l) *Securities Lending*

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2009 and 2008. Accordingly, in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, no assets or liabilities have been recorded in the accompanying financial statements. However, from time to time, the City engages in limited

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securities lending activities. These activities are governed by formal agreement with the City's contract bank. This agreement limits the nature and amount of the transactions and provides for full collateralization of each transaction.

(3) Accounts Receivable and Other Receivables

Accounts receivable as of September 30 included the following:

	<u>2009</u>	<u>2008</u>
Trade accounts receivable	\$ 49,048,601	46,271,949
Less allowance for doubtful accounts	(1,556,758)	(1,796,604)
	<u>47,491,843</u>	<u>44,475,345</u>
Pier A West receivable	—	5,615,510
Accounts receivable, net	<u>\$ 47,491,843</u>	<u>50,090,855</u>

Other receivables as of September 30 included the following:

	<u>2009</u>	<u>2008</u>
Due from other governmental agencies:		
Current:		
Federal grant – Department of Homeland Security	\$ 4,875,478	1,429,165
Department of Gas and Oil	41,286	—
Reimbursements due from Caltrans	—	311,831
State of California	—	526,634
	<u>4,916,764</u>	<u>2,267,630</u>
Nonperforming investments – Lehman Brothers	<u>2,228,927</u>	<u>2,228,927</u>
Total current	7,145,691	4,496,557
Long-term:		
Redevelopment Agency – Convention Center	<u>27,000,000</u>	<u>27,435,000</u>
Total due from other governmental agencies	<u>\$ 34,145,691</u>	<u>31,931,557</u>

The receivable related to nonperforming investments – Lehman Brothers pertains to the portion of the value of the commercial paper investment held with Lehman Brothers.

Redevelopment Agency – Convention Center

In 1993, the Department advanced \$30,000,000 to the Long Beach Redevelopment Agency (the Agency) to fund construction costs related to the Long Beach Convention Center expansion project. Such advance was part of an amended agreement with the Agency to fund \$90,000,000 of the Long Beach Convention Center project and was to be repaid from revenue sources arising from future City transient occupancy tax revenues, payable in equal amounts over 17 years beginning October 1, 1997.

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The agreement has been amended on several occasions. Most recently, during 2009, the Board of Harbor Commissioners approved to replace the existing \$27,435,000 balance due from the Agency with another loan payable by the Agency. The new loan agreement stipulates that on October 1, 2009, \$435,000 of the Agency's debt, plus any interest owed on the Agency's debt shall be forgiven. The remaining balance of \$27,000,000 will be paid by the Agency from "additional tax increment" received by the Agency from planned improvements associated with the construction of Pier S. The Port is planning to construct a new terminal project, Pier S, in the next five years and the project resides within the West Long Beach Industrial Redevelopment Project Area.

Redevelopment Agency – Aquarium

During 2009, the Board of Harbor Commissioners approved the Long Beach City Manager's request for assistance with \$8.1 million of the Aquarium debt service. An agreement was entered into between the Agency and the Board of Harbor Commissioners whereby repayment of the \$8.1 million will be payable from "Middle Harbor Additional Tax Increment" received by the Agency. The reimbursement from the RDA is contingent upon the Port developing port terminal and related facilities referred to as "the Middle Harbor Project," which incorporates Piers D, E, and F and certain infill areas that reside within the North Long Beach Redevelopment Project Area. Accordingly, no receivable has been recorded in the accompanying financial statements. Only \$2 million is recognized as a transfer out to the City and has been paid in fiscal year 2009. The remaining amount of \$6 million will be recognized and paid when it becomes due in fiscal year 2010.

(4) Long Beach Harbor Dredging

The Harbor Department is undertaking an approximately \$54 million dredging project to improve navigation in harbor waters. The project is scheduled to begin in 2010. Although there are four separate locations involved in the dredging project, the primary focus is deepening the inner turning basin south of the BP oil terminal to 76 feet, the same depth as the main channel. The deeper inner basin means large tankers will no longer need to unload part of their oil outside the breakwater to safely reach berth. The new depth also will allow ships to turn more easily in the inner basin. The dredge materials will be used to fill about 12 acres at Pier G. The project will be funded with approximately \$5.9 million of federal stimulus moneys and approximately \$48.1 million of revenues of the Harbor Department. During 2009, the Harbor Department advanced \$43.5 million to the Army Corps of Engineers as prepayment for the dredging costs.

(5) Alameda Corridor Right-of-Way Purchase

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively, the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Project), which is a comprehensive transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three railroad companies then serving the Ports: Union Pacific Railroad Company (Union Pacific), Southern Pacific Railroad Company (Southern Pacific), and Atchison, Topeka and Santa Fe Railroad Companies (Atchison, Topeka and Santa Fe). After the purchase, Southern Pacific merged into Union Pacific and Atchison, Topeka and Santa Fe merged with Burlington Northern to form the Burlington Northern Santa Fe.

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The total purchase comprised the right-of-way property from the three former railroad companies and a drill track from Southern Pacific to provide an additional right-of-way to access local businesses along the Project. As of September 30, 2009 and 2008, total costs to the Department related to the rights-of-way purchase amounted to \$207,823,264.

Construction of the Project began in 1997 and it was completed in April 2002. Funding for the Project came from federal, state, and local sources, and from issuance of debt. Some of the benefits derived from the Project are the consolidation of the railroad services onto a single set of rail lines, the improvement of the rail transportation conditions around the Ports, the securing of efficient and competitive service to and from the Ports, and the increase in public safety along the route on which Port-related traffic occurs. These benefits will extend to other governmental entities by allowing them to utilize the right-of-way.

Repayment to the Ports for their investments in the right-of-way and for any advances provided to the Project will occur only after the Project has generated revenues sufficient to retire all debt and to fund maintenance reserve (see note 12).

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(6) Capital Assets

Capital Assets Rollforward Schedule

Description	Balance, October 1, 2008	Additions	Disposals	Transfers	Balance, September 30, 2009
Nondepreciable capital assets:					
Purchased land	\$ 439,913,481	—	—	988,466	440,901,947
Constructed land	418,900,226	—	—	31,726	418,931,952
Construction in progress	164,535,655	90,778,090	—	(74,614,123)	180,699,622
Rights-of-way (note 4)	207,823,264	—	—	—	207,823,264
Subtotal	1,231,172,626	90,778,090	—	(73,593,931)	1,248,356,785
Depreciable capital assets:					
Structures and facilities	1,947,975,911	—	(110,735)	63,426,819	2,011,291,995
Furniture, fixtures, and equipment	17,499,336	1,421,482	(894,023)	10,167,112	28,193,907
Subtotal	1,965,475,247	1,421,482	(1,004,758)	73,593,931	2,039,485,902
Total capital assets	\$ 3,196,647,873	92,199,572	(1,004,758)	—	3,287,842,687

Description	Balance, October 1, 2007	Additions	Disposals	Transfers	Balance, September 30, 2008
Nondepreciable capital assets:					
Purchased land	\$ 439,913,481	—	—	—	439,913,481
Constructed land	410,790,540	—	—	8,109,686	418,900,226
Construction in progress	225,836,752	76,778,067	—	(138,079,164)	164,535,655
Rights-of-way (note 4)	207,823,264	—	—	—	207,823,264
Subtotal	1,284,364,037	76,778,067	—	(129,969,478)	1,231,172,626
Depreciable capital assets:					
Structures and facilities	1,818,157,460	6,597	(4)	129,811,858	1,947,975,911
Furniture, fixtures, and equipment	16,683,825	1,036,417	(378,526)	157,620	17,499,336
Subtotal	1,834,841,285	1,043,014	(378,530)	129,969,478	1,965,475,247
Total capital assets	\$ 3,119,205,322	77,821,081	(378,530)	—	3,196,647,873

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Accumulated Depreciation Rollforward Schedule

Description	Balance, October 1, 2008	Additions	Disposals/ Transfers	Balance, September 30, 2009
Structures and facilities	\$ 939,735,636	81,085,167	—	1,020,820,803
Furniture, fixtures, and equipment	13,296,429	4,760,470	(808,824)	17,248,075
Total accumulated depreciation	\$ 953,032,065	85,845,637	(808,824)	1,038,068,878
Description	Balance, October 1, 2007	Additions	Disposals/ Transfers	Balance, September 30, 2008
Structures and facilities	\$ 861,237,212	78,558,860	(60,436)	939,735,636
Furniture, fixtures, and equipment	12,676,431	998,524	(378,526)	13,296,429
Total accumulated depreciation	\$ 873,913,643	79,557,384	(438,962)	953,032,065

(7) Commercial Paper Notes

In 1994, the Board of Harbor Commissioners authorized the issuance of up to \$383,500,000 in commercial paper notes of Series A, B, and C and the Department issued \$148,000,000 of Series A notes to pay for acquisition costs of property, facilities, and oil rights in the North Harbor District. The notes are designated as follows:

- Series A – Subject to Internal Revenue Service Code Alternative Minimum Tax (AMT)
- Series B – Not subject to AMT
- Series C – Taxable

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The Department's gross revenues secure the notes. The obligation to pay the principal portion of outstanding notes is further supported by a revolving line of credit, which is currently \$175,000,000. The notes are in bearer form, in denominations of \$100,000 with integral multiples of \$50,000 in excess thereof, and will mature not more than 270 days after date of issuance. Management may consider paying the commercial paper and related interest obligations and satisfy this obligation within the 2010 fiscal year. The remaining principal balance outstanding at September 30, 2009 was \$31,400,000, and was classified as current liabilities. If paid in full or in part, the Department intends to leave open the option to reissue any amount of the commercial paper. The principal balance and accrued interest outstanding at September 30, 2008 were \$60,150,000 and \$185,725, respectively, and were classified as current liabilities.

Commercial Paper – Principal Only – Rollforward Schedule

Description	Balance, October 1, 2008	Additions	Reductions	Balance, September 30, 2009
Series A: maturity dates January 10, 2009 interest rate: 1.05	\$ 60,150,000	—	(28,750,000)	31,400,000
Description	Balance, October 1, 2007	Additions	Reductions	Balance, September 30, 2008
Series A: maturity dates May 11, 2008 – June 11, 2008 range of interest rates: 1.23% – 3.69%	\$ 60,150,000	—	—	60,150,000

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(8) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 was as follows:

	<u>2009</u>	<u>2008</u>
1998 Harbor Revenue Refunding Bonds:		
Maturing 2010 through 2019 at 6.0% interest	\$ 129,485,000	138,755,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>1,564,016</u>	<u>1,726,511</u>
Total 1998 Harbor Revenue Refunding Bonds	<u>\$ 131,049,016</u>	<u>140,481,511</u>
2000A Harbor Revenue Bonds :		
Maturing 2010 through 2025 at 5.25% to 5.75% interest	\$ 223,780,000	232,320,000
Plus unamortized premium	<u>1,370,872</u>	<u>1,458,608</u>
Total 2000A Harbor Revenue Bonds	<u>\$ 225,150,872</u>	<u>233,778,608</u>
2002B Harbor Revenue Bonds (Fixed rate portion):		
Maturing 2010 through 2027 at 5.0% to 5.5% interest	\$ 125,220,000	129,355,000
Plus unamortized premium	<u>5,469,705</u>	<u>5,780,043</u>
Total 2002B Harbor Revenue Bonds	<u>\$ 130,689,705</u>	<u>135,135,043</u>
2004A & B Harbor Revenue Refunding Bonds:		
Maturing 2010 through 2018 at 4.0% to 5.0% interest	\$ 80,985,000	88,080,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>3,359,394</u>	<u>3,748,890</u>
Total 2004A & B Harbor Revenue Refunding Bonds	<u>\$ 84,344,394</u>	<u>91,828,890</u>
2005A & B Harbor Revenue Refunding Bonds:		
Maturing 2010 through 2025 at 5.0% interest	\$ 225,735,000	234,840,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>5,958,158</u>	<u>6,339,479</u>
Total 2005A & B Harbor Revenue Refunding Bonds	<u>\$ 231,693,158</u>	<u>241,179,479</u>
Summary:		
Principal	\$ 785,205,000	823,350,000
Net premium	17,722,145	19,053,531
Less current portion	<u>(40,120,000)</u>	<u>(38,145,000)</u>
Net long-term bonded indebtedness	<u>\$ 762,807,145</u>	<u>804,258,531</u>

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Harbor Revenue Bonds Payable Rollforward Schedule

<u>Description</u>	<u>Balance, October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2009</u>	<u>Amounts due within one year</u>
1998	\$ 138,755,000	—	9,270,000	129,485,000	9,825,000
2000 A	232,320,000	—	8,540,000	223,780,000	9,010,000
2002 B	129,355,000	—	4,135,000	125,220,000	4,345,000
2004 A & B	88,080,000	—	7,095,000	80,985,000	7,380,000
2005 A & B	234,840,000	—	9,105,000	225,735,000	9,560,000
	<u>\$ 823,350,000</u>	<u>—</u>	<u>38,145,000</u>	<u>785,205,000</u>	<u>40,120,000</u>

<u>Description</u>	<u>Balance, October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2008</u>	<u>Amounts due within one year</u>
1998	\$ 147,535,000	—	8,780,000	138,755,000	9,270,000
2000 A	240,415,000	—	8,095,000	232,320,000	8,540,000
2002 A	133,820,000	—	133,820,000	—	—
2002 B	133,295,000	—	3,940,000	129,355,000	4,135,000
2004 A & B	94,900,000	—	6,820,000	88,080,000	7,095,000
2005 A & B	243,515,000	—	8,675,000	234,840,000	9,105,000
	<u>\$ 993,480,000</u>	<u>—</u>	<u>170,130,000</u>	<u>823,350,000</u>	<u>38,145,000</u>

Aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending September 30:			
2010	\$ 40,120,000	41,876,091	81,996,091
2011	42,225,000	39,763,691	81,988,691
2012	44,515,000	37,465,654	81,980,654
2013	46,940,000	35,042,179	81,982,179
2014	49,495,000	32,485,830	81,980,830
2015 – 2019	279,625,000	118,884,782	398,509,782
2020 – 2024	212,770,000	52,239,323	265,009,323
2025 – 2027	69,515,000	5,224,350	74,739,350
	<u>\$ 785,205,000</u>	<u>362,981,900</u>	<u>1,148,186,900</u>

Details of each outstanding debt issue are as follows:

(a) 1998 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 1998A (the 1998 Bonds) are secured by the Department's gross revenues. The 1998 Bonds, dated February 1, 1998, amounting to \$206,330,000 were issued to current refund all of the City's Harbor Revenue Bonds Series 1989A (the 1989 Bonds). The 1989 Bonds were defeased and the liability for those bonds was removed

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from the Department’s statements of net assets. No amounts remain outstanding as of September 30, 2009. Serial bonds aggregating to \$129,485,000 are outstanding and will mature on May 15 of each year from 2010 to 2019 in amounts ranging from \$9,825,000 to \$16,600,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 6.0%. The 1998 Bonds are not subject to optional or mandatory redemption before their respective maturity dates.

Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2009</u>	<u>2008</u>
Service account (amount reserved to meet current debt service requirements)	\$ 6,597,788	6,598,238
Reserve account (amount reserved for maximum annual debt service requirements)	<u>17,596,976</u>	<u>17,596,976</u>
	<u>\$ 24,194,764</u>	<u>24,195,214</u>

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$8,569,501. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is amortized using the straight-line method over the life of the new bonds.

(b) 2000A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2000A (the 2000A Bonds) are secured by the Department’s gross revenues. The 2000A Bonds, dated November 1, 2000, amounting to \$275,000,000 were issued to finance certain capital improvements at the Port, to fund capitalized interest on a portion of the debt issuance, to fund a repayment reserve, and to finance the costs of issuance.

Serial bonds aggregating to \$223,780,000 will mature on May 15 of each year from 2010 to 2025 in amounts ranging from \$9,010,000 to \$20,180,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.25% to 5.75%. The 2000A Bonds maturing on or before May 15, 2010 will not be subject to call and redemption before maturity. Serial bonds maturing on or after May 15, 2011 are subject to call and redemption, prior to maturity, at the option of the Board of Harbor Commissioners, as a whole or in part on any date, on or after May 15, 2010 at premiums of 1.0%, from May 15, 2010 through May 14, 2011; at 0.5% from May 15, 2011 to May 14, 2012; and at par from May 15, 2012 and thereafter.

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Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2009</u>	<u>2008</u>
Service account (amount reserved to meet current debt service requirements)	\$ 7,984,981	7,984,868
Reserve account (amount reserved for maximum annual debt service requirements)	<u>21,275,017</u>	<u>21,473,654</u>
	<u>\$ 29,259,998</u>	<u>29,458,522</u>

(c) 2002B Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2002B (the 2002B Bonds) are secured by the Department's gross revenues. The 2002B Bonds were remarketed in the principal amount of \$144,240,000 and are dated June 26, 2002, the date of delivery of the original bonds.

Serial bonds aggregating to \$86,775,000 will mature on May 15 of each year from 2010 to 2023 in amounts ranging from \$4,345,000 to \$8,460,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.00% to 5.50%. Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity; bonds maturing on or after May 2015 will be subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2002B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Term bonds of \$38,445,000 will mature on May 15, 2027. The term bonds have an interest rate of 5.2%. Term bonds will be subject to call and redemption prior to maturity and redeemed at a redemption price equal to the par amount thereof from Mandatory Sinking Account Payments in amounts from \$8,895,000 to \$10,335,000 from 2024 to 2027, respectively, for the term bonds scheduled to mature on May 15, 2027.

Funds have been allocated at September 30 in conformity with the bond resolution as follows:

	<u>2008</u>	<u>2008</u>
Service account (amount reserved for maximum annual debt service requirements)	\$ 4,089,304	4,084,335

(d) 2004 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2004A & B (the 2004 Bonds) are secured by the Department's gross revenues. The 2004 Bonds, dated March 10, 2004, amounting to \$113,410,000 were issued to current refund and to defease all of the City's Harbor Revenue Bonds Series 1993, to pay the premium for the Bond Insurance Policy, to fund the Series 2004 Reserve Fund, and to finance the costs of issuance of the Series 2004 Bonds. The 1993 Bonds are defeased

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and the liability for those bonds has been removed from the Department’s statements of net assets. No amounts remain outstanding as of September 30, 2009.

Serial bonds aggregating to \$80,985,000 are outstanding and will mature on May 15 of each year from 2010 to 2018 in amounts ranging from \$7,380,000 to \$10,825,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 4.0% to 5.0%. The Series 2004 Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity.

The Series 2004 Bonds maturing on or after May 15, 2015 will be subject to call and redemption prior to maturity, at the option of the Board of Harbor Commissioner, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2004 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2008</u>	<u>2008</u>
Service account (amount reserved to meet current debt service requirements)	\$ 4,262,681	4,262,231
Reserve account (amount reserved for maximum annual debt service requirements)	<u>11,372,561</u>	<u>11,372,561</u>
	<u>\$ 15,635,242</u>	<u>15,634,792</u>

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$1,445,775. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is amortized using the straight-line method over the life of the new bonds.

(e) 2005 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2005A & B (the 2005 Bonds) are secured by the Department’s gross revenues. The 2005 Bonds, dated March 23, 2005, amounting to \$257,975,000 were issued to current refund and to defease all of the City’s Harbor Revenue Bonds Series 1995 (1995 Bonds), to pay the premium for the Bond Insurance Policies, to fund a repayment reserve for the Series 2005 Bonds, and to finance the costs of issuance of the Series 2005 Bonds.

The 1995 Bonds are defeased and the liability for those bonds was removed from the Department’s statements of net assets. No amounts remain outstanding as of September 30, 2009. Serial bonds aggregating to \$200,765,000 are outstanding and will mature on May 15 of each year from 2010 to 2025 in amounts ranging from \$9,560,000 to \$19,785,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%. Serial bonds aggregating to \$24,970,000 are outstanding and will mature on May 15 of 2017 and 2018 with amounts due of \$11,540,000 and

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\$13,430,000, respectively, with interest payable semiannually on May 15 and November 15 at 5.0% coupon rate.

The Series 2005 Bonds maturing on or before May 15, 2015 are not subject to call and redemption prior to maturity. The Series 2005 Bonds maturing on or after May 15, 2016 are subject to call and redemption prior to maturity, at the option of the Board of Harbor Commissioners, as a whole or in part on any date, on or after May 15, 2015, at a redemption price equal to 100% of the principal amount of the Series 2005 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2009</u>	<u>2008</u>
Service account (amount reserved to meet current debt service requirements)	\$ 7,817,531	7,817,625
Reserve account (amount reserved for maximum annual debt service requirements)	<u>20,975,764</u>	<u>20,855,544</u>
	<u>\$ 28,793,295</u>	<u>28,673,169</u>

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$4,214,084. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is amortized using the straight-line method over the life of the new bonds.

(f) Debt Covenants

The Department's management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2009 and 2008.

(9) Retirement Programs

(a) Pension Plan

The Department participates on a cost-sharing basis with the City in CalPERS, a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California. The system also provides death and disability benefits.

The Department is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. CalPERS does not calculate a separate pension obligation for the Department; therefore, no separate Department obligation can be presented herein. The Department paid \$5,525,128, \$4,213,160, and \$3,855,758 to the City, which was equal to its annual required contribution for fiscal years 2009, 2008, and 2007, respectively.

As employees of the City, the Department's full-time employees are eligible to participate in CalPERS, becoming vested in the system after five years of service. Upon vesting, employees on

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tier 1 (those hired on or before October 20, 1989) and who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 5.0% annual Cost of Living Adjustment (COLA) increase) of their highest paid year of employment for each year of credited service. Employees on tier 2 (those hired after October 20, 1989 but before October 1, 2006) and who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 2.0% annual COLA increase) of their highest paid year of employment for each year of credited service. The City created tier 3 for employees hired after October 1, 2006. Vested tier 3 employees who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount equal to 2.5% (with up to a 2.0% annual COLA increase) of their highest paid year of employment for each year of credited service.

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, 2009.

(b) *Postretirement Healthcare Benefits*

Plan Description

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

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

At September 30, 2009, there were 580 participants in the City's Retired Employees Health Insurance Program, and the noninterest bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled \$17,517,000. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2009 were \$7,250,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

Termination Benefits

As of September 30, 2009, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$82,895,000 based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an

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investment return of 5.0%; wage increases of 3.5% per year for miscellaneous and 4.5% per year for safety employees; and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$6,250,000 has been fully funded and the long-term portion of the liability of \$76,645,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percentage of current productive salaries.

Other Postemployment Benefits

As of September 30, 2009, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$10,404,000 based on an actuarial study of the “implicit subsidy” as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (GASB 45). While the City does not directly contribute any funding towards the cost of premiums for retirees, the ability to obtain coverage at any active employee’s rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City’s healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an “implicit subsidy” under GASB 45.

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

This plan does not issue a separate financial report.

Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2009, the City has not prefunded the plan.

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Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	8,418
Interest on net OPEB obligation		262
Adjustment to ARC		<u>(219)</u>
Annual OPEB cost		8,461
Contribution made		<u>(3,306)</u>
Increase in net OPEB obligation		5,155
Net OPEB obligation – beginning of year		<u>5,249</u>
Net OPEB obligation – end of year	\$	<u><u>10,404</u></u>

The ARC was determined as part of the September 2008 actuarial valuation. For the year ended September 30, 2009, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended:			
September 30, 2008	\$ 8,102	35.2%	\$ 5,249
September 30, 2009	\$ 8,418	39.1%	\$ 10,404

The OPEB liability is not recorded in the Department's financial statements.

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Funded Status and Funding Progress

The funded status of the plan as of September 30, 2009 was as follows (in thousands):

Actuarial accrued liability (AAL)	\$	110,324
Actuarial value of plan assets		—
Unfunded AAL (UAAL)	\$	<u>110,324</u>
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll	\$	295,450
UAAL as a percentage of covered payroll		37.3%
ARC as a percentage of covered payroll		2.8%

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

Actuarial Methods and Assumption

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

In the September 30, 2008 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 11.2% for HMO plans and 8.5% for PPO plans that grades down to 4.5% for all plans by September 30, 2017, and an inflation assumption of 3%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was zero. The plans unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

(c) Deferred Compensation Plan

The City offers its employees the option to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457 allowing them to defer or postpone receipt of income. Amounts deferred may not be paid to the employee during employment with the City except

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for a catastrophic circumstance creating an undue financial hardship for the employee. Further information regarding the City's deferred compensation plan may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2009.

(10) Operating Leases

The major portion of the Department's property is leased to others. Such property includes marine terminal facilities, special-purpose facilities, office and commercial space, and land.

Some marine terminal facilities are leased under agreements that provide the tenants with preferential but not exclusive use of the facilities. Some leases provide for rentals based on gross revenues or, in the case of marine terminal facilities, on annual usage of the facilities. The leases and the preferential assignments generally provide for minimum rentals.

Property under lease at September 30 consisted of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 759,763,424	758,853,968
Docks and wharves	485,934,116	485,934,116
Warehouses and sheds	46,103,617	46,103,617
Cranes and shiploaders	164,981,253	164,981,252
Buildings and other facilities	298,616,223	298,616,223
Infrastructure	<u>756,153,386</u>	<u>714,287,139</u>
Historical cost of leased property	2,511,552,019	2,468,776,315
Less accumulated depreciation	<u>(750,859,669)</u>	<u>(679,698,718)</u>
Book value of leased property	<u>\$ 1,760,692,350</u>	<u>1,789,077,597</u>

The future minimum rental income under noncancelable operating leases having an initial term in excess of one year is as follows:

Year(s) ending September 30:	
2010	\$ 225,262,000
2011	243,021,000
2012	234,163,000
2013	232,709,000
2014	231,835,000
2015 – 2019	1,117,140,000
2020 – 2024	930,784,000
2025 – 2029	354,371,000
2030 and thereafter	<u>4,877,000</u>
Total	<u>\$ 3,574,162,000</u>

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(11) Investment in Joint Venture

Intermodal Container Transfer Facility Joint Powers Authority (ICTF)

The Department and the Harbor Department of the City of Los Angeles (the Venturers) entered into a joint venture agreement to form ICTF for the purposes of financing and constructing an intermodal container transfer facility (the facility) to transfer cargo containers between trucks and railroad cars. The facility has been leased to Southern Pacific, now merged with Union Pacific (the Tenant). The facility was developed by the Tenant who assumed operational responsibility for the facility. The Venturers' share net income and equity distributions from ICTF equally. Audited balance sheets and statement of income and Venturers' equity (in condensed format) for the years ended June 30, 2009 and 2008 were as follows:

Condensed Balance Sheets

	2009	2008
Current assets	\$ 19,360,869	21,117,285
Property and equipment	2,951,098	3,059,129
Total assets	\$ 22,311,967	24,176,414
Current liabilities	\$ 171,546	24,744
Venturers' equity:		
Harbor Department of the City of Los Angeles	11,249,529	12,255,153
Harbor Department of the City of Long Beach	10,890,892	11,896,517
Total Venturers' equity	22,140,421	24,151,670
Total liabilities and Venturers' equity	\$ 22,311,967	24,176,414

Condensed Statement of Income and Venturers' Equity

	2009	2008
Operating revenue	\$ 5,901,089	8,339,855
Operating expense	(160,667)	(108,030)
Operating income	5,740,422	8,231,825
Interest income	248,329	650,045
Net income	5,988,751	8,881,870
Venturers' equity, July 1, 2008 and 2007	24,151,670	15,269,800
Cash disbursement to Venturers	(8,000,000)	—
Venturers' equity, June 30, 2009 and 2008	\$ 22,140,421	24,151,670

On October 21, 2009, the ICTF Board authorized a cash distribution of \$8,000,000 to be shared equally by the Venturers.

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Pursuant to an indenture of trust dated November 1, 1984, ICTF issued \$53,900,000 of 1984 Series A bonds on behalf of the Tenant to construct the facility. In 1989, ICTF issued \$52,300,000 of 1989 Series A Refunding Revenue Bonds on behalf of the Tenant to advance refund the 1984 Series A Bonds.

In 1999, ICTF issued its Intermodal Container Transfer Facility Refunding Revenue Bonds, 1999 Series A. In connection with the issuance, Union Pacific and ICTF entered into a Second Amended and Restated Installment Sale and Security Agreement dated October 1, 1999. The proceeds of the 1999 Bonds, together with other funds, were used by ICTF to redeem all of the Intermodal Container Transfer Facility Refunding Revenue Bonds, 1989 Series A. The bonds are payable solely from payments by the Tenant under a long-term lease agreement for the use of the facility.

The nature of the bonds is such that the long-term indebtedness is that of the Tenant and not of ICTF, the Department, or the Harbor Department of the City of Los Angeles. The ICTF financial statements for the year ended June 30, 2009 can be obtained from the Department.

(12) Commitments and Contingencies

The Department is subject to claims and lawsuits arising from the normal course of business. The City Attorney's office evaluates these claims on a regular basis. 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 financial statements.

Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Department. Contract commitments and purchase orders for which materials or services were not received at September 30, 2009 and 2008 aggregated \$118,090,362 and \$60,114,329, respectively.

(a) Risk Management

The Department currently carries an all-risk property insurance program covering loss or damage by fire and other risks (excluding earthquake and flood) with a loss limit of \$1,336,000,000. The coverage also includes terrorism exposure.

To address third-party liability exposure, an excess liability insurance program is carried by the Department with total limits of \$150,000,000 in excess of \$1,000,000 self-insured retention. The excess liability insurance program covers the Department's operations and includes acts of terrorism within the \$150,000,000 limit. In addition, the Department carries specialized insurance policies providing coverage for damage to owned vessels, damage to other vessels, and pollution liability.

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Following is a summary of insurance coverage for the Harbor Department:

	<u>2009</u>	<u>2008</u>
Insurance coverage for fire and other risks	\$ 1,000,000,000	1,000,000,000
Comprehensive general liability	150,000,000	150,000,000
Self-insured retention	1,000,000	1,000,000

Port tenants, contractors, and vendors are required to carry various types and levels of insurance, including general liability insurance on leased premises. The insurance must include coverage for bodily injury and property damage liabilities, and name the City, its Board of Harbor Commissioners, and the Department's officers and employees as additional insured. The amount of settlements reached by the Department did not exceed the amount of insurance coverage in any of the past three fiscal years.

The Department participates in the City's self-insured workers' compensation program. During fiscal years 2009 and 2008, it made payments to the City's Insurance Fund totaling \$1,220,567 and \$1,173,934, respectively, for permanent and temporary Department employees. Amounts in the City's Insurance Fund are accumulated to meet losses as they arise.

Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. Based on an opinion from legal counsel, the Department recognized litigation claim liabilities of \$5,000,000 for fiscal year 2009. The Department did not recognize any litigation claim or judgment for fiscal year 2008.

Liability for Claims and Judgments Rollforward Schedule

<u>Description</u>	<u>Balance, October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2009</u>
Accrued claims and judgments	\$ —	5,000,000	—	5,000,000

<u>Description</u>	<u>Balance, October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2008</u>
Accrued claims and judgments	\$ 2,385,000	—	2,385,000	—

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(b) *Potential Obligations Related to the Alameda Corridor Transportation Authority*

The Alameda Corridor Use and Operating Agreement was executed by the Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), the ACTA, and the Burlington Northern Santa Fe and Union Pacific Railroads (the railroads). This agreement provides for a payment of funds, known as a "Shortfall Advance," to be made, under certain circumstances, to ACTA by the Department and the Port of Los Angeles. Revenues generated by Use Fees and Container Charges, paid by the railroads, will be used to pay debt service on ACTA financing, to establish and maintain a bond repayment reserve account, and to pay ACTA's reasonable expenses relating to administration of the rail corridor.

To the extent that the revenues from use and container charges are not sufficient to meet ACTA's obligations, the Department and the Port of Los Angeles have agreed to advance the funds necessary to make up the difference. This obligation began after completion of the corridor project and is limited to a total of 40% of the total annual required amount, with the Department and the Port of Los Angeles each responsible for one half or 20% of the required amount.

ACTA's latest Notice of Estimated Shortfall Advances and Reserve Accounting Funding (the Notice) was transmitted to the Department on August 6, 2009; estimates included in the Notice are dependent upon the accuracy of the assumptions used in their formulation. It is anticipated that there will be differences between estimates and actual results; the differences may be material. The projected shortfall for fiscal year 2010, based on the Notice submitted by ACTA, is \$0. Any shortfall advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA. Reimbursement could begin as soon as 2018. The Department is funding a cash reserve to satisfy claims related to the shortfall advance potential obligation. The balances of the reserve as of September 30, 2009 and 2008 were \$46,045,000 and \$36,882,792, respectively.

(c) *New Gerald Desmond Bridge Matching Contribution*

The Department is pursuing the replacement of the Gerald Desmond Bridge. The total cost to replace the bridge is estimated at \$1.1 billion. The Department anticipates that funding of this project will come primarily from federal and state sources, but local matching funds will also be required.

In anticipation of this funding requirement, the Department has set aside funds to provide the expected 10% local match. As of September 30, 2009 and 2008, funds earmarked for this project were \$51,978,585 at each year-end.

(d) *Clean Air Action Plan (CAAP)*

In January 2007, the Department adopted a wide-ranging Green Port Policy that greatly expanded the Department's commitment to sustain the environment by establishing new guidelines for the Port's current operations and future development. Key provisions include protection of the community from the harmful impacts of port operations and employment of state-of-the-art technology to minimize environmental impacts. Air emissions from ships at berth account for over one third of all vessel air emissions. Providing electrification reduces emissions significantly. With electrification, or "cold ironing," vessels can shut down their auxiliary engines, while at berth, and plug into dockside electric substations.

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In November 2007, the governing boards of the ports of Long Beach and Los Angeles approved the landmark San Pedro Bay Ports CAAP. This plan commits the ports to an aggressive plan to reduce pollution by at least 45% in the next five years. The plan addresses all port-related emission sources – ships, trains, trucks, terminal equipment, and harbor craft – to significantly reduce health risks posed by air pollution.

The Clean Trucks Program (CTP) is a key element of CAAP. Beginning October 1, 2009, CTP banned pre-1989 trucks from entering the Port’s shipping terminals. By January 1, 2010, only trucks built after 1993 will be allowed into the Port’s shipping terminals, and by January 1, 2012, all trucks must meet 2008 federal Environmental Protection Agency emission standards that make new trucks more than 80% less polluting than older trucks. In order to assist with the replacement of trucks, the Port offers three options: lease to own; grants for an engine retrofit; and loan subsidy for the purchase of clean trucks. While the Port does not own or operate the more than 16,000 drayage trucks that serve port terminals, CTP will greatly accelerate the reduction of air pollution and public health risks posed by dirty diesel trucks that would otherwise remain on the roadways for many years if not decades.

Projects funded must improve air quality, foster the use of ship-to-shore electricity at the ports, and enhance use of pollution-based impact fees to improve air quality and public health.

(e) Future Oil Well Abandonment Costs

Costs related to the abandonment and site clearance of oil properties (abandonment costs) purchased in March 1994 are based on estimates provided by the Department of Gas and Oil of the City of Long Beach. Estimates of abandonment costs are reviewed annually and adjusted to reflect changes in abandonment practices, increased abandonment expenses, number and life of productive wells, general changes in the life of the oil field, and changes in oil price levels.

The future oil well abandonment cost liability at September 30, 2009 and 2008 was \$26,700,000 and \$19,900,000, respectively. The amounts related to oil properties acquired in 1994 are presented as long-term abandonment cost liabilities in the financial statements.

Future Oil Well Abandonment Cost Liability Rollforward Schedule

Description	Balance, October 1, 2008	Additions	Reductions	Balance, September 30, 2009
Oil abandonment liability	\$ 19,900,000	6,800,000	—	26,700,000
Description	Balance, October 1, 2007	Additions	Reductions	Balance, September 30, 2008
Oil abandonment liability	\$ 18,800,000	1,100,000	—	19,900,000

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(13) Pollution Remediation

The Department purchased 725 acres of property in the Harbor District in 1994. The property contains soil requiring remediation of environmentally hazardous materials. The remediation is required only on the portion of the land that the Department chooses to develop. To the extent that such remediation is necessary, the Department's liability is mitigated by provisions in the purchase agreement that make Union Pacific Resource Company (UPRC), the seller, responsible for a portion of the remediation costs. UPRC was acquired by Anadarko Petroleum Co. (APC) that assumed this liability in accordance with the original purchase agreement. APC's responsibility is limited to a period not to exceed 15 years and a maximum amount of \$112,500,000 according to the following table:

Remediation cost	Allocation	
	APC	Department
First \$50 million	\$ 50,000,000	—
Second \$50 million	25,000,000	25,000,000
Third \$50 million	12,500,000	37,500,000
Fourth \$50 million	25,000,000	25,000,000
All additional costs	—	100%
Maximum liability	<u>\$ 112,500,000</u>	

Currently, the Department has developed 131 acres and plans to develop 160 additional acres.

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Additionally, the Department is required to clean up the sediments of an area known as Installation Restoration Site 7 (IR Site 7). The Department has recognized liabilities associated with IR Site 7 for fiscal years 2009 and 2008, in the amounts of \$20,074,012 and \$19,623,347, respectively, including long-term and short-term obligations. The liability for fiscal year 2008 includes amounts for remediation liability associated with IR Site 7 (\$19,623,347) and Pier A West (\$57,246,082). Work on Pier A West was completed in fiscal year 2009; except as stated above, management has no knowledge of any other liabilities at the end of fiscal year 2009.

Pollution Remediation Obligation – Short-Term Roll Forward Schedule

Description	Balance, October 1, 2008	Additions	Reductions	Balance, September 30, 2009
Pier A West	\$ 56,581,138	—	56,581,138	—
IR Site 7	3,830,666	15,243,346	—	19,074,012
	<u>\$ 60,411,804</u>	<u>15,243,346</u>	<u>56,581,138</u>	<u>19,074,012</u>
	Balance, October 1, 2007	Additions	Reductions	Balance, September 30, 2008
Pier A West	\$ 9,600,000	56,581,138	9,600,000	56,581,138
IR Site 7	—	3,830,666	—	3,830,666
	<u>\$ 9,600,000</u>	<u>60,411,804</u>	<u>9,600,000</u>	<u>60,411,804</u>

Pollution Remediation Obligation – Long-Term Roll Forward Schedule

Description	Balance, October 1, 2008	Additions	Reductions	Balance, September 30, 2009
Pier A West	\$ 664,944	—	664,944	—
IR Site 7	15,792,681	—	14,792,681	1,000,000
	<u>\$ 16,457,625</u>	<u>—</u>	<u>15,457,625</u>	<u>1,000,000</u>
	Balance, October 1, 2007	Additions	Reductions	Balance, September 30, 2008
Pier A West	\$ 38,100,000	664,944	38,100,000	664,944
IR Site 7	—	15,792,681	—	15,792,681
	<u>\$ 38,100,000</u>	<u>16,457,625</u>	<u>38,100,000</u>	<u>16,457,625</u>

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(14) Transfers to the City of Long Beach

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4), and with the approval of the Board of Harbor Commissioners, adopted a resolution to transfer 10% of the Department's net income for fiscal years 2009 and 2008 to the City's Tidelands Operating Fund: \$16,083,972 and \$16,059,464, respectively. The 10% transfer to the Tidelands Operating Fund is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets and as a nonoperating expense in the statements of revenues, expenses, and changes in fund net assets. The total transferred to the City during fiscal year 2009 was \$18,587,376, which includes the \$16,083,972 discussed above plus \$2,068,404 for Aquarium of the Pacific debt service assistance requested by the City Manager, plus \$435,000 debt forgiveness related to the Long Beach Convention Center. The latter two items are discussed in note 3.

(15) Environmental Mitigation Credits

The Department disbursed \$39,375,000 in fiscal year 1997 to secure environmental mitigation credits that would allow the Port to complete projects within its complex. These credits are redeemed based on the number of acres of landfill completed by the Port.

An agreement between the Department, the Port of Los Angeles, and several federal and state regulatory agencies provided for the Department's purchase of land located within the wetlands restoration project at the Bolsa Chica Wetlands in Orange County, California. The land was transferred to the state in return for environmental mitigation credits to allow for the construction of up to 267 acres of landfill in the outer harbor area. During fiscal year 2007, the Department acquired \$11,400,000 of available environmental mitigation credits. No acquisitions or utilization of credits occurred during fiscal years 2009 and 2008.

The cost incurred in the acquisition of the land has been classified as a noncurrent asset. As of September 30, 2009, the Department has completed landfills that required the utilization of \$6,492,525 of the available credits. The balance of environmental mitigation costs will be adjusted in the future as landfill credits are used for port development. The balance of the Environmental Mitigation Credits was \$44,278,068 at September 30, 2009 and 2008.

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(16) Net Assets

Net Assets is the difference between total assets and total liabilities. Increases or decreases in net assets may indicate improvement or deterioration of the Department’s financial condition. The Department does not intend to liquidate capital assets to fund ongoing operations. Restricted assets are subject to external restrictions such as construction of capital assets, matching funding requirements for federally funded projects, repayment of long-term debt, and fulfillment of contractual obligations with third parties. Unrestricted net assets are available to fund the Department’s continuing operations. As of September 30, 2009 and 2008, the Department held net assets as follows:

	<u>2009</u>	<u>2008</u>
Invested in capital assets, net of related debt	\$ 1,410,740,241	1,335,522,370
Restricted for capital projects:		
Environmental mitigation credits (note 15)	44,278,068	44,278,068
Restricted for debt service (note 8)	101,972,603	102,046,032
Restricted – third-party obligations – nonrelated-entity debt service contingency and matching contribution (note 12)	<u>147,301,520</u>	<u>147,301,520</u>
Total restricted	<u>293,552,191</u>	<u>293,625,620</u>
Unrestricted:		
Contributed capital – outside sources	30,427,546	30,427,546
Contributed capital – other City funds	27,749,166	27,749,166
Other unrestricted	<u>665,348,129</u>	<u>616,255,513</u>
Total unrestricted	<u>723,524,841</u>	<u>674,432,225</u>
Total net assets	\$ <u><u>2,427,817,273</u></u>	<u><u>2,303,580,215</u></u>

(17) Subsequent Events

The Board of Harbor Commissioners and the City Council have approved on March 15, 2010 and March 23, 2010, respectively, the restructuring of certain Port debt. The proposed debt restructuring will consist of cash defeasance of the existing Series 2000A AMT-bonds in the amount of approximately \$215 million, issuance of Series 2010 non-AMT bonds in an approximate amount of \$230 million, and tendering certain AMT-bonds from Series 2002B, 2004A, and 2005A and issuing equivalent non-AMT refunding bonds. Pricing of the new money bonds and the tender launch is anticipated at the end of March 2010 while notice of redemption of the Series 2000A bond is anticipated in early April 2010.