



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Financial Statements

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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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, 2010 and 2009, 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, 2010 and 2009, and the changes in its financial position, or where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach, California, as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 18, 2011

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

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(Unaudited)

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, 2010 and 2009.

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, 2010, 2009, and 2008.

Summary of Net Assets			
September 30, 2010, 2009, and 2008			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Capital assets, net	\$ 2,400,332,581	2,249,767,809	2,243,615,808
Other assets	1,063,299,555	1,159,161,353	1,160,749,854
Total assets	<u>3,463,632,136</u>	<u>3,408,929,162</u>	<u>3,404,365,662</u>
Liabilities:			
Long-term obligations, net of current portion	751,112,610	790,507,145	840,616,156
Current liabilities	164,514,493	190,604,744	260,169,291
Total liabilities	<u>915,627,103</u>	<u>981,111,889</u>	<u>1,100,785,447</u>
Net assets:			
Invested in capital assets, net of related debt	1,597,683,147	1,390,175,525	1,320,635,256
Restricted	469,326,343	293,552,191	293,625,620
Unrestricted	480,995,543	744,089,557	689,319,339
Total net assets	<u>\$ 2,548,005,033</u>	<u>2,427,817,273</u>	<u>2,303,580,215</u>

Analysis of Fiscal Year 2010

At the end of fiscal year 2010, the assets of the Department exceeded its liabilities by \$2,548,005,033 (net assets). Total net assets increased by \$120,187,760. This change consists mainly of \$136,993,222 current year operating income, \$2,270,274 income from equity in the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) joint venture, \$18,663,468 income derived from grants received from federal and state governments, and \$19,034,471 profit from oil operations; less \$56,773,675 from other net nonoperating expenses, including financing costs, and transfers to the City's Tidelands Operating Fund, of \$30,451,161.

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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 \$1,597,683,147 or 63% of the aggregate net assets. This is the result of the increase in Port construction projects during the year. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$469,326,343 of net assets subject to restrictions, an increase of \$175,774,152 from last year. The increase is the result of the addition of the construction fund derived by the issuance of the 2010A bonds, the addition to reserves to comply with debt covenants for the 2010A and 2010B bonds. Restricted net assets are thus identified in the Statements of Net Assets and represent 18% of the Department's total net assets.

At the end of fiscal year 2010, the Department reported unrestricted net assets of \$480,995,543, a decrease of \$263,094,014 when compared to 2009. This decrease is mostly the result of reductions in the operating cash and cash equivalents of \$257,079,886 (including the pay down of the Port's Commercial Paper outstanding of \$31,400,000) primarily to fund capital activities.

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 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% increase in net assets transfer to the Tidelands Operating Fund of \$18,587,376.

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 \$1,390,175,525 or 57% 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 \$744,089,557, an increase of \$54,770,218 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 31% 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.

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Summary of Operations and Changes in Fund 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 2010, 2009, and 2008.

	Changes in Fund Net Assets		
	Years ended September 30, 2010, 2009, and 2008		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues:			
Berth and special facilities	\$ 303,995,596	291,451,794	340,524,798
Miscellaneous	17,643,389	19,899,788	18,819,335
Total operating revenues	<u>321,638,985</u>	<u>311,351,582</u>	<u>359,344,133</u>
Operating expenses:			
Facility and infrastructure	(62,044,262)	(58,416,295)	(81,440,115)
General and administrative	(35,982,062)	(39,463,931)	(34,725,802)
Depreciation and amortization	(86,619,439)	(85,857,712)	(79,496,947)
Total operating expenses	<u>(184,645,763)</u>	<u>(183,737,938)</u>	<u>(195,662,864)</u>
Operating income	<u>136,993,222</u>	<u>127,613,644</u>	<u>163,681,269</u>
Nonoperating revenues (expenses):			
Intergovernmental transfer	(30,451,161)	(18,587,376)	(16,059,464)
Investment expense, net of income	(25,121,094)	(22,250,685)	(13,044,028)
Income from oil operations	19,034,471	923,137	31,153,305
Gain (loss) on sale of capital assets	(2,033)	8,248	(254,540)
Income from equity in joint venture	2,270,274	2,994,375	4,440,935
Income (loss) from Clean Air Action Plan	3,552,857	13,323,357	(13,866,798)
Other income, net	(4,752,244)	8,772,821	1,046,803
Net nonoperating expenses	<u>(35,468,930)</u>	<u>(14,816,123)</u>	<u>(6,583,787)</u>
Income before capital grants	101,524,292	112,797,521	157,097,482
Capital grants	18,663,468	11,439,537	3,742,240
Change in net assets	120,187,760	124,237,058	160,839,722
Total net assets – beginning	<u>2,427,817,273</u>	<u>2,303,580,215</u>	<u>2,142,740,493</u>
Total net assets – ending	\$ <u>2,548,005,033</u>	<u>2,427,817,273</u>	<u>2,303,580,215</u>

Analysis of Fiscal Year 2010

A comparison of the operating revenues for fiscal years 2010 and 2009 shows an overall increase of 3%. The following revenue categories experienced increases: containerized 6% and other terminals 36%; the following

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categories experienced decreases: petroleum and liquid bulk 6%, dry bulk 5%, steel 5%, rental 11%, and miscellaneous income 15%.

In terms of volume (measured in metric revenue tons), the following categories experienced increases from last year: containerized 14% and vehicles 12%, the following types of cargo decreased during fiscal year 2010: liquid bulk 2%, dry bulk 2%, steel 17%, and lumber 12%.

Operating expenses (excluding depreciation and amortization) increased \$146,098. Cargo facilities expense decreased \$397,379; Infrastructure Maintenance that includes bridges and freeways maintenance and expenses related to environmental control increased \$2,110,817 as a result of several major projects incurred during the year; Fire and Safety increased by \$1,877,622 due to higher city allocated charges; and general and administrative expenses decreased by \$3,481,868 primarily as a reduction in legal cost.

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 2010 was \$761,727 higher than that of 2009. The reason for this change is the increase in assets placed into service during 2010.

Intergovernmental transfer increased by \$11,863,785 in fiscal year 2010. The City of Long Beach requested, in addition to the historical 10% net income from the fiscal year 2009 operations, an additional transfer based on 10% net income of the fiscal year 2010 operations.

Investment expense, net of income increased by \$2,870,409 in fiscal year 2010. Investment income was lower due to lower earning rates resulting from the overall downturn in the economy in addition to lower average investment balance. Interest expense was lower because of the replacement of some of the bonds with debt with more favorable rates; the principal reductions in long-term debt balances due to the annual debt service, and the continuation of the capitalization of interest policy that allocates some of the interest expense to capital projects.

Oil operations net revenues increased to \$19,034,471 from \$923,137. The increase is due to the rise in oil prices and lower environmental remediation expenses during the 2010 fiscal year. The implementation of the Clean Air Action Plan (CAAP) and its related projects generated net income of \$3,552,857, which is a reduction from the \$13,323,357 net income generated during fiscal year 2009. The reduction is the result of lower revenue generated by the programs as a result of fewer noncompliant trucks paying fees to call at the Port.

Other income, net decreased as a result of the impact of a one-time settlement received in fiscal year 2009 and the payment during fiscal year 2010 for the Aquarium of the Pacific Debt Service Assistance requested by the City Manager.

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%.

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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 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 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.

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Capital Assets and Debt Administration

Capital Assets

The Department's investments in capital assets, net of accumulated depreciation, as of September 30, 2010, 2009, and 2008 are as follows:

Capital Assets, Net			
September 30, 2010, 2009, and 2008			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Nondepreciable capital assets:			
Land	\$ 859,887,738	859,833,899	858,813,707
Construction in progress	373,062,744	180,699,622	164,535,655
Rights-of-way	<u>207,823,264</u>	<u>207,823,264</u>	<u>207,823,264</u>
Total nondepreciable capital assets	<u>1,440,773,746</u>	<u>1,248,356,785</u>	<u>1,231,172,626</u>
Depreciable capital assets (net):			
Structures and facilities	947,218,015	990,471,192	1,008,240,275
Furniture, fixtures, and equipment	<u>12,340,820</u>	<u>10,939,832</u>	<u>4,202,907</u>
Total depreciable capital assets (net)	<u>959,558,835</u>	<u>1,001,411,024</u>	<u>1,012,443,182</u>
Total capital assets, net	<u>\$ 2,400,332,581</u>	<u>2,249,767,809</u>	<u>2,243,615,808</u>

Analysis of Fiscal Year 2010

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 \$150,564,772 from 2009. Information regarding the Department's capital assets can be found in note 6 of the financial statements.

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.

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Debt Administration

The following table summarizes the Department's debt, originally incurred as long term, as of September 30, 2010, 2009, and 2008. For consistency purposes, this schedule includes the current portion.

Debt Originally Incurred as Long-Term Debt

September 30, 2010, 2009, and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Bond debt (principal and net premiums)	\$ 768,287,610	802,927,145	842,403,531
Commercial paper outstanding	—	31,400,000	60,150,000
Total long-term debt	<u>\$ 768,287,610</u>	<u>834,327,145</u>	<u>902,553,531</u>

Analysis of Fiscal Year 2010

The Department's total long-term debt decreased by \$66,039,535, or 7.92%. The decrease was the result of scheduled principal reductions on the bond debt, the payoff of the 2000A revenue bonds; the issuance of the 2010A (new debt), and the issuance of the 2010B issued to partially redeem the 2002B, 2004A, and the 2005A bonds; and the retirement of the outstanding commercial paper.

In March 2010, 2010A Harbor Revenue Bonds were sold in the par amount of \$200,835,000 at a premium of \$17,616,844 for a total sale amount of \$218,451,844. The all-in-true interest cost (TIC) of the new 2010A Bonds was 3.7375%.

In April 2010, 2010B Harbor Revenue Refunding Bonds were sold in the par amount of \$158,085,000 at a premium of \$15,459,114 for a total sale amount of \$173,544,114. The refunding was the result of a tender solicitation of Bond Series 2002B, 2004A, and 2005A that was launched on March 24, 2010. After careful evaluation of the offers received by the April 27, 2010 deadline, and in consultation with the Department's financial advisor and underwriters, the Department accepted \$153,575,000 in par amount, which was about 51% of the bonds targeted for tender. The TIC of the new 2010B Bonds was 3.8939%.

In May 2010, the Department redeemed, with available moneys, the \$214,770,000 outstanding balance of the Series 2000A Bonds after making the scheduled principal payment of \$9,010,000 on that date. These bonds were callable on May 15, 2010, or thereafter and set to mature from May 15, 2011 through and including May 15, 2025. The redemption price was equal to 101% of the principal amount, plus accrued interest as of the date of the redemption.

The above mentioned bond restructuring resulted in a present value savings of \$24.4 million net of all expense and cost of issuance.

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 2010, Fitch Ratings affirmed the AA rating on the Port's outstanding debt. The Fitch report states, "AA' rating reflects the Port's dominant position as the nation's second largest container port; its geographic proximity to a very large population base with 50% of cargo destined for the greater Los Angeles metropolitan area; excellent

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intermodal access to rail networks and interstate highways; the Port's history of maintaining a healthy balance sheet and liquidity position, with 2,479 days cash on hand for fiscal 2009; prudent management of long-term lease agreements to stabilize operating revenues, mitigate market volatility, and limit downside financial risk; the Port's modern and contiguous facilities; and the presence of diverse terminal operators and shippers in operation at the Port."

In March 2010, Moody's Investors Service affirmed its Aa2 rating on the Port's debt. The Moody's report states the Port's strengths include: "Strong market position as the second largest port in the U.S. by TEU (twenty-foot equivalent units) count, Port also benefits from a naturally deep harbor, 50-foot channel depth, state-of-the-art facilities and good road access and intermodal connectivity through the Alameda Corridor and Intermodal Container Transport Facility. A robust local market contributes to the Port's competitive position, giving it a large, relatively stable demand base for imports and by generating 'backhaul' cargo to partially balance the large import operations. Track record of well-maintained and stable finances with debt service coverage averaging 3.1 times in recent years and ample operating cash reserves equivalent to over seven years of operations. Revenue stability is enhanced by long-term contracts with the Port's major tenants (that contribute 95% of revenues) that include minimum annual guarantees (MAGS) amounting to \$223 million in FY2009. MAGS alone provided 1.5x debt service coverage (net of operating expenditures)."

The debt service coverage ratio for both fiscal years ended 2010 and 2009 was 2.8. 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 – 39 of this report.

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'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 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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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 – 39 of this report.

Notes to Financial Statements

The notes to the Department's financial statements can be found on pages 15 – 58 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.

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Statements of Net Assets

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Assets	<u>2010</u>	<u>2009</u>
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 407,713,313	664,793,199
Trade accounts receivable, net of allowance (note 3)	52,895,863	47,491,843
Interest receivable	199,926	199,926
Nonperforming investments	2,228,927	2,228,927
Due from other governmental agencies (note 3)	11,287,366	4,916,764
Prepaid – dredging services (note 4)	23,493,748	43,500,000
Inventories of supplies	575,601	626,716
Other current assets	—	6,022
Subtotal	<u>498,394,744</u>	<u>763,763,397</u>
Harbor Revenue Bond Funds and other funds restricted as to use (notes 2 and 8):		
Pooled cash and cash equivalents	<u>82,516,235</u>	<u>82,380,219</u>
Total current assets	<u>580,910,979</u>	<u>846,143,616</u>
Noncurrent assets:		
Capital assets (notes 6 and 10):		
Land:		
Purchased	440,929,897	440,901,947
Constructed	<u>418,957,841</u>	<u>418,931,952</u>
Total land	<u>859,887,738</u>	<u>859,833,899</u>
Structures and facilities	2,051,109,151	2,011,291,995
Less accumulated depreciation	<u>(1,103,891,136)</u>	<u>(1,020,820,803)</u>
Net structures and facilities	<u>947,218,015</u>	<u>990,471,192</u>
Furniture, fixtures, and equipment	33,049,108	28,193,907
Less accumulated depreciation	<u>(20,708,288)</u>	<u>(17,254,075)</u>
Net furniture, fixtures, and equipment	<u>12,340,820</u>	<u>10,939,832</u>
Construction in progress	373,062,744	180,699,622
Right-of-way (note 5)	<u>207,823,264</u>	<u>207,823,264</u>
Net capital assets	<u>2,400,332,581</u>	<u>2,249,767,809</u>
Other assets:		
Long-term receivables (note 3)	27,000,000	27,000,000
Oil facilities (net of accumulated depletion of \$68,592,461 and \$65,132,743, respectively)	12,543,393	16,003,112
Environmental mitigation credits (note 15)	44,278,068	44,278,068
Investment in joint venture (note 11)	9,167,925	10,897,651
Restricted pooled cash and cash equivalents (notes 2 and 8)	324,936,417	159,315,561
Restricted nonpooled cash and cash equivalents (note 2)	312,100	362,691
Restricted nonpooled investments (note 2)	63,328,523	53,260,654
Other noncurrent assets	<u>822,150</u>	<u>1,900,000</u>
Total other assets	<u>482,388,576</u>	<u>313,017,737</u>
Total noncurrent assets	<u>2,882,721,157</u>	<u>2,562,785,546</u>
Total assets	\$ <u>3,463,632,136</u>	<u>3,408,929,162</u>

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Statements of Net Assets

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Liabilities	<u>2010</u>	<u>2009</u>
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	\$ 43,610,792	48,311,508
Commercial paper outstanding (note 7)	—	31,400,000
Liability claims (note 12)	11,300,000	5,000,000
Deferred credits and unearned revenue	14,981,339	14,911,718
Due to City of Long Beach (note 14)	25,322,459	16,083,972
Current portion of environmental remediation (note 13)	<u>12,500,546</u>	<u>19,074,012</u>
Total current liabilities payable from current assets	<u>107,715,136</u>	<u>134,781,210</u>
Current liabilities payable from restricted assets:		
Current portion of bonds indebtedness (note 8)	42,175,000	40,120,000
Accrued interest – bonds	<u>14,624,357</u>	<u>15,703,534</u>
Total current liabilities payable from restricted assets	<u>56,799,357</u>	<u>55,823,534</u>
Total current liabilities	<u>164,514,493</u>	<u>190,604,744</u>
Long-term obligations net of current portion:		
Bonded indebtedness (note 8)	726,112,610	762,807,145
Environmental remediation (note 13)	—	1,000,000
Oil wells abandonment (note 12)	<u>25,000,000</u>	<u>26,700,000</u>
Total noncurrent liabilities	<u>751,112,610</u>	<u>790,507,145</u>
Total liabilities	<u>915,627,103</u>	<u>981,111,889</u>
Net Assets (Note 16)		
Invested in capital assets, net of related debt	1,597,683,147	1,390,175,525
Restricted – nonrelated-party debt service contingency and matching contribution for federally funded projects (note 12)	147,301,520	147,301,520
Restricted – capital projects	209,898,925	44,278,068
Restricted – debt service	112,125,898	101,972,603
Unrestricted	<u>480,995,543</u>	<u>744,089,557</u>
Total net assets	<u>\$ 2,548,005,033</u>	<u>2,427,817,273</u>

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Port operating revenues (note 10):		
Berths and special facilities	\$ 303,995,596	291,451,794
Rental properties	14,278,731	15,957,437
Miscellaneous	3,364,658	3,942,351
Total Port operating revenues	<u>321,638,985</u>	<u>311,351,582</u>
Port operating expenses:		
Facility maintenance	5,303,306	5,700,685
Infrastructure maintenance	24,410,008	22,299,190
Fire and safety	25,914,297	24,036,675
Other indirect operating	6,416,651	6,379,745
General and administrative	35,982,062	39,463,931
Total Port operating expenses before depreciation and amortization	98,026,324	97,880,226
Depreciation and amortization	86,619,439	85,857,712
Total Port operating expenses	<u>184,645,763</u>	<u>183,737,938</u>
Income from Port operations	<u>136,993,222</u>	<u>127,613,644</u>
Nonoperating revenues (expenses):		
Investment income, net	7,930,634	18,579,306
Interest expense	(33,051,728)	(40,829,991)
Income from oil operations	19,034,471	923,137
Gain (loss) on disposition of capital assets	(2,033)	8,248
Income from equity in joint venture (note 11)	2,270,274	2,994,375
Clean Air Action Plan (net)	3,552,857	13,323,357
Other income (expense)	(4,752,244)	8,772,821
Total nonoperating revenues (expenses)	<u>(5,017,769)</u>	<u>3,771,253</u>
Income before capital grants and transfers	131,975,453	131,384,897
Capital grants	18,663,468	11,439,537
Operating transfers to City (note 14)	(30,451,161)	(18,587,376)
Increase in net assets	120,187,760	124,237,058
Total net assets – beginning of year	<u>2,427,817,273</u>	<u>2,303,580,215</u>
Total net assets – end of year	<u>\$ 2,548,005,033</u>	<u>2,427,817,273</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Cash Flows

Years ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 311,787,989	309,308,092
Cash paid to employees net of capitalized labor of \$6,045,870 and \$4,286,063 in 2010 and 2009, respectively	(40,078,172)	(37,480,770)
Cash paid to suppliers	<u>(61,103,144)</u>	<u>(122,463,488)</u>
Net cash provided by operating activities	<u>210,606,673</u>	<u>149,363,834</u>
Cash flows from investing activities:		
Harbor oil operations	29,792,303	12,842,740
Interest received	9,286,006	18,960,593
Return on investment in joint venture	4,000,000	—
Purchase of investments	<u>—</u>	<u>(20,912,327)</u>
Net cash provided by investing activities	<u>43,078,309</u>	<u>10,891,006</u>
Cash flows from noncapital/financing activities:		
Clean Air Action Plan	139,830	3,987,302
Harbor Cogeneration Payment	—	8,800,400
Operating transfers to Tidelands and other funds	<u>(22,092,651)</u>	<u>(16,274,862)</u>
Net cash used in noncapital financing activities	<u>(21,952,821)</u>	<u>(3,487,160)</u>
Cash flows from capital and related financing activities:		
Grants used	(1,002,177)	(9,991,732)
Interest paid	(41,188,776)	(45,161,004)
Payments for capital acquisitions	(214,875,278)	(67,770,450)
Prepayment for dredging services	—	(43,500,000)
Principal payment – commercial paper	(31,400,000)	(28,750,000)
Principal payments – bond	(408,465,000)	(38,145,000)
Proceeds from issuance of bonds	373,825,465	—
Excess reserve 2005 Bonds	—	3,644,605
Proceeds from sales of capital assets	<u>—</u>	<u>66,027</u>
Net cash used in capital and related financing activities	<u>(323,105,766)</u>	<u>(229,607,554)</u>
Net decrease in cash and cash equivalents	<u>(91,373,605)</u>	<u>(72,839,874)</u>
Cash and cash equivalents, October 1	<u>906,851,670</u>	<u>979,691,544</u>
Cash and cash equivalents, September 30	\$ <u>815,478,065</u>	\$ <u>906,851,670</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from Port operation	\$ 136,993,222	127,613,644
Adjustments to reconcile income from Port operations to net cash provided by operating activities:		
Depreciation and amortization	86,619,439	85,857,712
Bad debt expense	2,421,714	272,068
Increase in accounts receivable	(9,860,484)	(2,277,680)
Increase in other assets	—	(6,022)
Decrease in inventory	51,115	115,506
Decrease in accounts payable	(2,927,795)	(6,642,213)
Increase in deferred revenues	4,743,314	1,164,234
Increase in customer deposits	19,591	62,002
Decrease in environmental remediation	(6,573,466)	(56,795,417)
Increase in due to other funds	<u>(879,977)</u>	<u>—</u>
Net cash provided by operating activities	\$ <u>210,606,673</u>	\$ <u>149,363,834</u>
Reconciliation of cash and cash equivalents:		
Unrestricted pooled cash and cash equivalents	\$ 407,713,313	664,793,199
Restricted pooled cash and cash equivalents	407,452,652	241,695,780
2000 bond reserve held by the City Treasurer	<u>312,100</u>	<u>362,691</u>
	\$ <u>815,478,065</u>	\$ <u>906,851,670</u>
Supplemental schedule of noncash transactions:		
Capitalized interest	7,057,873	2,068,000
Accrued capital asset cost	24,980,860	20,564,717
Accrued litigation cost	2,300,000	5,000,000
Capitalized dredging expense	10,727,780	—
Adjustment for reimbursement from the City	(951,491)	—
Net increase in accounts receivable related to capital projects	—	5,754,442
Amortization of bond premium, net	1,692,807	2,112,366
Other	<u>(828,415)</u>	<u>5,929,078</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2010 and 2009

(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 2010 and 2009 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, 2010 and 2009

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) *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, 2010 and 2009, is stated at fair value (see note 2).

(d) *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.

(e) *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 fund net assets as investment income, net.

(f) *Inventories*

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

(g) *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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2010 and 2009

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 2010 of \$40,109,601 of which \$7,057,873 was capitalized.

(h) 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 value of the oil field divided by future unit production of the oil field.

(i) Investments in Joint Ventures

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

(j) 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.

(k) 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.

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Notes to Financial Statements

September 30, 2010 and 2009

(l) 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. 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 adjustment 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 2010 and 2009 were \$3,949,707 and \$1,556,758, respectively (see note 3).

(m) 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.

(n) Reclassifications

Certain amounts reported in fiscal year 2009 have been reclassified to conform to the fiscal year 2010 presentation. Such reclassifications have no effect on the previously reported change in net assets.

(o) Net Assets

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

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

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

Restricted – 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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2010 and 2009

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, 2010 and 2009 are classified in the accompanying statements of net assets as follows:

	<u>2010</u>	<u>2009</u>
Pooled cash and cash equivalents	\$ 407,713,313	664,793,199
Pooled cash and cash equivalents, restricted	<u>407,452,652</u>	<u>241,695,780</u>
Total pooled cash and cash equivalents	<u>815,165,965</u>	<u>906,488,979</u>
Bond reserves held by fiscal agents:		
Nonpooled cash and cash equivalents	312,100	362,691
Nonpooled investments	<u>63,328,523</u>	<u>53,260,654</u>
Total bond reserves held by fiscal agents	<u>63,640,623</u>	<u>53,623,345</u>
Total pooled cash and cash equivalents and bond reserves held by fiscal agents	<u>\$ 878,806,588</u>	<u>960,112,324</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, 2010 and 2009 was \$815,165,965 or 50.21% and \$906,488,979 or 53.4%, respectively, of the City's pooled cash and cash equivalents. The Department's bond reserves held by fiscal agents, as of September 30, 2010, for the 2004, 2005, 2010A, and 2010B bonds were \$63,640,623; as of September 30, 2009, the bond reserves held by fiscal agent were \$53,623,345 and pertained to the 2000, 2004, and 2005 bonds. 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, 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.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2010 and 2009

(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.

(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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2010 and 2009

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):

<u>Investment type</u>	<u>2010</u>		<u>2009</u>	
	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>
Cash and investments in City pool:				
Interdepartment loan (Health SAVERS)	\$ 2,383	8.600	\$ 2,654	9.600
U.S. Treasury notes	333,400	0.510	930,125	0.500
Federal agency securities	1,136,278	1.040	592,312	0.500
Money Market Accounts	137	0.003	—	—
LAIF	50,116	0.003	—	—
Government managed rate account	219	0.003	104,667	0.003
Subtotal	<u>1,522,533</u>		<u>1,629,758</u>	
Cash and deposits	113,126		80,099	—
Outstanding checks	<u>(12,168)</u>		<u>(13,698)</u>	—
Total	<u>\$ 1,623,491</u>		<u>\$ 1,696,159</u>	
Nonperforming short-term investment	\$ 3,962		\$ 3,962	—

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2010 and 2009

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

	2010		2009	
	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
U.S. Treasury Notes	—		12,421	1.56
	<u>—</u>		<u>20,661</u>	
2004 Reserve:				
Federal Agency Securities	—		12,107	7.80
AIG Matched Funding	11,373	7.62	—	
	<u>11,373</u>		<u>12,107</u>	
2005 Reserve:				
Federal Agency Securities	3,130	2.00	8,235	2.38
U.S. Treasury Notes	13,826	1.54	12,258	1.56
	<u>16,956</u>		<u>20,493</u>	
2010A Reserve:				
Federal Agency Securities	19,200	2.90	—	—
2010B Reserve:				
U.S. Treasury Notes	15,800	2.90	—	—
Total	<u>\$ 63,329</u>		<u>\$ 53,261</u>	

(d) Investments with Fair Values Highly Sensitive to Interest Rate Risk

The City had no investments with values that were highly sensitive to interest rate risk as of September 30, 2010 and 2009. 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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2010 and 2009

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.

(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. The minimum rating requirements for commercial paper, asset-backed securities, and medium-term notes is an A rating. Mortgage-backed security issues must have a minimum AAA rating. State warrants, state treasury notes, or bonds of the State are to be rated at a minimum of A1/Sp-1 for short-term investments and Aa/AA for long-term investments.

Presented on 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 2010					
		Not required to be rated	A-1+	A-1	AAA	AA-	Unrated
Cash and investments in city pool:							
Interdepartment loan (Health SAVERS)	N/A	\$ 2,383	2,383	—	—	—	—
U.S. Treasury notes	N/A	333,400	333,400	—	—	—	—
Federal agency securities	N/A	1,136,278	—	—	—	1,136,278	—
Money market account	N/A	137	—	—	—	137	—
LAIF	N/A	50,116	50,116	—	—	—	—
Government managed rate account	N/A	219	219	—	—	—	—
Subtotal		1,522,533	386,118	—	—	1,136,415	—
Cash and deposits		113,126	—	—	—	—	113,126
Outstanding checks		(12,168)	—	—	—	—	(12,168)
Total		\$ 1,623,491	386,118	—	—	1,136,415	100,958
Nonperforming short-term investment		\$ 3,962	—	—	—	—	3,962

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

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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	—	—
Government managed rate account	N/A	104,667	104,667	—	—	—	—	—
Subtotal		1,629,758	1,037,446	—	—	592,312	—	—
Cash and deposits		80,099	—	—	—	—	—	80,099
Outstanding checks		(13,698)	—	—	—	—	—	(13,698)
Total		\$ 1,696,159	1,037,446	—	—	592,312	—	66,401
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	
		2010	2009
Federal Farm Credit Bank	Federal agency securities	\$ 195,234	28,232
Federal Home Loan Bank	Federal agency securities	329,561	95,440
Federal Home Loan Mortgage Association	Federal agency securities	318,718	91,865
Federal National Mortgage Association	Federal agency securities	292,765	376,776
U.S. Treasury	U.S. Treasury notes and bonds	333,400	930,125

(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 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

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Notes to Financial Statements

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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, 2010, the City reported deposits of \$113,126,000 less \$12,168,000 for checks outstanding. As of September 30, 2009, the City reported deposits of \$80,099,000 less \$13,698,000 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, 2010 and 2009.

(k) *Securities Lending*

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2010 and 2009. 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 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.

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(3) Accounts Receivable and Other Receivables

Accounts receivable as of September 30 included the following:

	<u>2010</u>	<u>2009</u>
Trade accounts receivable	\$ 56,845,570	49,048,601
Less allowance for doubtful accounts	<u>(3,949,707)</u>	<u>(1,556,758)</u>
Accounts receivable, net	<u>\$ 52,895,863</u>	<u>47,491,843</u>

Other receivables as of September 30 included the following:

	<u>2010</u>	<u>2009</u>
Due from other governmental agencies:		
Current:		
Federal and state grants	\$ 9,987,366	4,875,478
Department of gas and oil	<u>1,300,000</u>	<u>41,286</u>
Total current	11,287,366	4,916,764
Long-term:		
Redevelopment Agency – Convention Center	<u>27,000,000</u>	<u>27,000,000</u>
Total due from other governmental agencies	<u>\$ 38,287,366</u>	<u>31,916,764</u>

(a) 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.

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 stipulated 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.

(b) 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

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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 Redevelopment Agency 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. \$2 million was recognized and paid as a transfer out to the City in fiscal year 2009. The remaining amount of \$6.1 million was recognized and paid in fiscal year 2010.

During 2010, the Board approved a request from the City Manager for a similar debt service assistance for fiscal year 2011 in the amount of \$6.0 million. This amount will be reimbursed by the RDA in a similar manner as the amounts paid in 2009 and 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 began 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 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; \$20.0 million of the advanced money was used during fiscal year 2010 leaving a remaining balance of \$23.5 million.

(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.

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, 2010 and 2009, total costs to the Department related to the rights-of-way purchase amounted to \$207,823,264 for both years.

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.

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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Notes to Financial Statements

September 30, 2010 and 2009

(6) Capital Assets

Capital Assets Rollforward Schedule

Description	Balance, October 1, 2009	Additions	Disposals	Transfers	Balance, September 30, 2010
Nondepreciable capital assets:					
Purchased land	\$ 440,901,947	—	—	27,950	440,929,897
Constructed land	418,931,952	—	—	25,889	418,957,841
Construction in progress	180,699,622	236,567,890	—	(44,204,768)	373,062,744
Rights-of-way (note 5)	207,823,264	—	—	—	207,823,264
Subtotal	<u>1,248,356,785</u>	<u>236,567,890</u>	<u>—</u>	<u>(44,150,929)</u>	<u>1,440,773,746</u>
Depreciable capital assets:					
Structures and facilities	2,011,291,995	—	(2,599)	39,819,755	2,051,109,151
Furniture, fixtures, and equipment	28,193,907	1,029,278	(505,251)	4,331,174	33,049,108
Subtotal	<u>2,039,485,902</u>	<u>1,029,278</u>	<u>(507,850)</u>	<u>44,150,929</u>	<u>2,084,158,259</u>
Total capital assets	\$ <u>3,287,842,687</u>	<u>237,597,168</u>	<u>(507,850)</u>	<u>—</u>	<u>3,524,932,005</u>
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 5)	207,823,264	—	—	—	207,823,264
Subtotal	<u>1,231,172,626</u>	<u>90,778,090</u>	<u>—</u>	<u>(73,593,931)</u>	<u>1,248,356,785</u>
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	<u>1,965,475,247</u>	<u>1,421,482</u>	<u>(1,004,758)</u>	<u>73,593,931</u>	<u>2,039,485,902</u>
Total capital assets	\$ <u>3,196,647,873</u>	<u>92,199,572</u>	<u>(1,004,758)</u>	<u>—</u>	<u>3,287,842,687</u>

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Notes to Financial Statements

September 30, 2010 and 2009

Accumulated Depreciation Rollforward Schedule

Description	Balance, October 1, 2009	Additions	Disposals/ Transfers	Balance, September 30, 2010
Structures and facilities	\$ 1,020,820,803	83,070,333	—	1,103,891,136
Furniture, fixtures, and equipment	17,254,075	3,549,106	(94,893)	20,708,288
Total accumulated depreciation	\$ 1,038,074,878	86,619,439	(94,893)	1,124,599,424
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	4,772,545	(814,899)	17,254,075
Total accumulated depreciation	\$ 953,032,065	85,857,712	(814,899)	1,038,074,878

(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 secured the notes. The obligation to pay the principal portion of outstanding notes was further supported by a \$175,000,000 revolving line of credit that was terminated by the Department in 2010. The commercial paper and related interest obligations were fully paid during the 2010 fiscal year.

Commercial Paper – Principal Only – Rollforward Schedule

Description	Balance, October 1, 2009	Additions	Reductions	Balance, September 30, 2010
Series A: maturity dates January 10, 2009 interest rate: 1.05	\$ 31,400,000	—	(31,400,000)	—
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

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Notes to Financial Statements

September 30, 2010 and 2009

(8) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 was as follows:

	<u>2010</u>	<u>2009</u>
1998 Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2019 at 6.0% interest	\$ 119,660,000	129,485,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>1,401,520</u>	<u>1,564,016</u>
Total 1998 Harbor Revenue Refunding Bonds	<u>121,061,520</u>	<u>131,049,016</u>
2000A Harbor Revenue Bonds:		
Bonds were paid during fiscal year 2010	—	223,780,000
Plus unamortized premium	<u>—</u>	<u>1,370,872</u>
Total 2000A Harbor Revenue Bonds	<u>—</u>	<u>225,150,872</u>
2002B Harbor Revenue Bonds (Fixed rate portion):		
Maturing 2011 through 2024 at 5.1% to 5.5% interest	57,815,000	125,220,000
Plus unamortized premium	<u>2,561,142</u>	<u>5,469,705</u>
Total 2002B Harbor Revenue Bonds	<u>60,376,142</u>	<u>130,689,705</u>
2004A & B Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2018 at 4.0% to 5.0% interest	61,500,000	80,985,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>2,465,520</u>	<u>3,359,394</u>
Total 2004A & B Harbor Revenue Refunding Bonds	<u>63,965,520</u>	<u>84,344,394</u>
2005A & B Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2025 at 5.0% interest	137,765,000	225,735,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>3,855,775</u>	<u>5,958,158</u>
Total 2005A & B Harbor Revenue Refunding Bonds	<u>141,620,775</u>	<u>231,693,158</u>
2010A Harbor Revenue Bonds:		
Maturing 2011 through 2025 at 0.4 to 5.0% interest	200,835,000	—
Plus unamortized premium, net of refunding charges and cost of issuance	<u>15,561,019</u>	<u>—</u>
Total 2010A Harbor Revenue Refunding Bonds	<u>216,396,019</u>	<u>—</u>
2010B Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2027 at 3.0% to 5.0% interest	158,085,000	—
Plus unamortized premium, net of refunding charges and cost of issuance	<u>6,782,634</u>	<u>—</u>
Total 2010B Harbor Revenue Refunding Bonds	<u>164,867,634</u>	<u>—</u>

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	<u>2010</u>	<u>2009</u>
Principal	735,660,000	785,205,000
Net premium	32,627,610	17,722,145
Less current portion	<u>(42,175,000)</u>	<u>(40,120,000)</u>
Net long-term bonded indebtedness	\$ <u>726,112,610</u>	<u>762,807,145</u>

Harbor Revenue Bonds Payable Rollforward Schedule

<u>Description</u>	<u>Balance, October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2010</u>	<u>Amounts due within one year</u>
1998	\$ 129,485,000	—	9,825,000	119,660,000	10,410,000
2000 A	223,780,000	—	223,780,000	—	—
2002 B	125,220,000	—	67,405,000	57,815,000	4,560,000
2004 A & B	80,985,000	—	19,485,000	61,500,000	7,715,000
2005 A & B	225,735,000	—	87,970,000	137,765,000	10,035,000
2010A	—	200,835,000	—	200,835,000	9,325,000
2010B	—	158,085,000	—	158,085,000	130,000
	\$ <u>785,205,000</u>	<u>358,920,000</u>	<u>408,465,000</u>	<u>735,660,000</u>	<u>42,175,000</u>

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>

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Notes to Financial Statements

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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:			
2011	\$ 42,175,000	37,840,960	80,015,960
2012	44,815,000	35,193,002	80,008,002
2013	46,965,000	33,026,202	79,991,202
2014	49,115,000	30,623,278	79,738,278
2015	51,920,000	28,083,402	80,003,402
2016 – 2020	261,800,000	97,861,726	359,661,726
2021 – 2025	220,190,000	38,608,850	258,798,850
2026 – 2027	18,680,000	1,368,000	20,048,000
	<u>\$ 735,660,000</u>	<u>302,605,420</u>	<u>1,038,265,420</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 from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2010 and 2009. Serial bonds aggregating to \$119,660,000 are outstanding and will mature on May 15 of each year from 2011 to 2019 in amounts ranging from \$10,410,000 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>2010</u>	<u>2009</u>
Service account (amount reserved to meet current debt service requirements)	\$ 6,596,100	6,597,788
Reserve account (amount reserved for maximum annual debt service requirements)	17,596,976	17,596,976
	<u>\$ 24,193,076</u>	<u>24,194,764</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.

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Notes to Financial Statements

September 30, 2010 and 2009

(b) 2000A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2000A (the 2000A Bonds) were 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.

On May 15, 2010, the Department redeemed, with available moneys, the \$214,770,000 outstanding balance after making the scheduled principal payment of \$9,010,000 on that date. These bonds were set to mature from May 15, 2011 through and including May 15, 2025. The redemption price was equal to 101% of the principal amount, plus accrued interest as of the date of the redemption.

(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 \$41,565,000 will mature on May 15 of each year from 2011 to 2018 in amounts ranging from \$4,560,000 to \$6,570,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 4.0% to 5.0%. 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 of Harbor Commissioners (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 amounting to \$16,250,000 will mature on May 15, of each year from 2023 to 2027 in amounts ranging from \$1,800,000 to \$8,460,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.10% to 5.25%. 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 \$1,800,000 to \$8,460,000 from 2023 to 2027, respectively, for the term bonds scheduled to mature on May 15, 2027.

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On May 13, 2010, the Board issued the 2010B Revenue Refunding Bonds and used a portion of the proceeds to redeem \$63,060,000 of the outstanding 2002B bonds. The redeemed bonds due dates and amounts were as follows:

<u>Due date</u>	<u>Amount redeemed</u>
Serial bonds:	
May 15, 2016	\$ 2,500,000
May 15, 2019	6,915,000
May 15, 2020	7,280,000
May 15, 2021	7,660,000
May 15, 2022	<u>8,050,000</u>
	<u>32,405,000</u>
Term bonds:	
May 15, 2024	7,095,000
May 15, 2025	7,460,000
May 15, 2026	7,845,000
May 15, 2027	<u>8,255,000</u>
	<u>30,655,000</u>
Total redemption	\$ <u><u>63,060,000</u></u>

The redemption resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$2,134,526. 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.

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

	<u>2010</u>	<u>2009</u>
Service account (amount reserved for maximum annual debt service requirements)	\$ 2,855,457	4,089,304

(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 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, 2010 and 2009.

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Serial bonds aggregating to \$61,500,000 are outstanding and set to mature on May 15 of each year from 2011 to 2018 in amounts ranging from \$7,715,000 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.

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.

On May 13, 2010, the Board issued the 2010B Revenue Refunding Bonds and used a portion of the proceeds to redeem \$12,105,000 of the outstanding 2004A bonds. The redeemed bonds due dates and amounts were as follows:

<u>Due date</u>	<u>Amount redeemed</u>
Serial bonds:	
May 15, 2013	\$ 8,005,000
May 15, 2014	2,000,000
May 15, 2015	<u>2,100,000</u>
Total redemption	<u>\$ 12,105,000</u>

The redemption resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$721,753. 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.

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

	<u>2010</u>	<u>2009</u>
Service account (amount reserved to meet current debt service requirements)	\$ 4,036,800	4,262,681
Reserve account (amount reserved for maximum annual debt service requirements)	<u>11,372,550</u>	<u>11,372,561</u>
	<u>\$ 15,409,350</u>	<u>15,635,242</u>

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(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, 2010 and 2009.

Serial bonds aggregating to \$112,770,000 are outstanding and are set to mature on May 15 of each year from 2011 to 2025 in amounts ranging from \$3,330,000 to \$16,815,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%. Serial bonds aggregating to \$24,995,000 are outstanding and will mature on May 15, 2017 and 2018 with amounts due of \$13,430,000 and \$11,565,000, 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, 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.

On May 13, 2010, the Board issued the 2010B Revenue Refunding Bonds and used a portion of the proceeds to redeem \$78,410,000 of the outstanding 2005A bonds. The redeemed bonds due dates and amounts were as follows:

<u>Due date</u>	<u>Amount redeemed</u>
Serial bonds:	
May 15, 2013	\$ 11,055,000
May 15, 2016	3,835,000
May 15, 2018	2,535,000
May 15, 2019	8,590,000
May 15, 2020	8,695,000
May 15, 2021	11,480,000
May 15, 2022	2,735,000
May 15, 2023	1,170,000
May 15, 2024	11,860,000
May 15, 2025	<u>16,455,000</u>
Total redemption	<u>\$ 78,410,000</u>

The redemption resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$3,962,756. This difference, reported in the accompanying financial statements as a

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deduction from bonds payable, is amortized using the straight-line method over the life of the new bonds.

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

	<u>2010</u>	<u>2009</u>
Service account (amount reserved to meet current debt service requirements)	\$ 6,346,219	7,817,531
Reserve account (amount reserved for maximum annual debt service requirements)	<u>17,106,288</u>	<u>20,975,764</u>
	<u>\$ 23,452,507</u>	<u>28,793,295</u>

(f) 2010A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2010A (the 2010A Bonds) are secured by the Department's gross revenues. The 2010A Bonds, dated March 31, 2010, amounting to \$200,835,000 were issued to finance certain capital improvements at the Port, to fund a reserve fund for the Series 2010A Bonds, and to pay the costs of issuing the Series 2010A Bonds.

Serial bonds aggregating to \$200,835,000 will mature on May 15 of each year from 2011 to 2025 in amounts ranging from \$1,460,000 to \$18,285,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging 0.4% to 5.0%.

The Series 2010A Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The Series 2010A Bonds maturing on or after May 15, 2021 are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2020, at a redemption price equal to 100% of the principal amount of the Series 2010A 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>2010</u>	<u>2009</u>
Bond construction fund	\$ 165,620,856	—
Service account (amount reserved to meet current debt service requirements)	8,063,420	—
Reserve account (amount reserved for maximum annual debt service requirements)	<u>19,267,818</u>	<u>—</u>
	<u>\$ 192,952,094</u>	<u>—</u>

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(g) 2010B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2010B (the 2010B Bonds) are secured by the Department's gross revenues. The 2010B Bonds, dated April 29, 2010, amounting to \$158,085,000 were issued to purchase \$63,060,000 aggregate principal amount of the City's Harbor Revenue Bonds, Series 2002B, \$12,105,000 aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2004A, and \$78,410,000 aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2005A, from the holders thereof; to fund a reserve fund for the Series 2010B Bonds; and to pay the costs of issuing the Series 2010B Bonds.

Serial bonds aggregating to \$158,085,000 will mature on May 15 of each year from 2011 to 2027 in amounts ranging from \$130,000 to \$21,500,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging 3.0% to 5%.

The Series 2010B Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The Series 2010B Bonds maturing on or after May 15, 2021 are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2020, at a redemption price equal to 100% of the principal amount of the Series 2010B 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>2010</u>	<u>2009</u>
Service account (amount reserved to meet current debt service requirements)	\$ 2,990,303	—
Reserve account (amount reserved for maximum annual debt service requirements)	<u>15,893,967</u>	<u>—</u>
	<u>\$ 18,884,270</u>	<u>—</u>

(h) Debt Covenants

The Department's management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2010 and 2009.

(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.

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The Department paid \$5,300,819, \$5,525,128, and \$4,213,160 to the City, which was equal to its annual required contribution for fiscal years 2010, 2009, and 2008, 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 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, 2010.

Plan Description – Public Employees' Retirement System (CalPERS)

The City contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by state statute and city ordinance. A copy of CalPERS' annual financial report may be obtained from its executive office at 400 P. Street, Sacramento, CA 95814. Since CalPERS is on a fiscal year ending June 30, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30, which differs from the City's September 30 fiscal year-end.

Under the terms of the contract between CalPERS and the City, all full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple-tier retirement plan with benefits varying by plan.

Safety: Vested first and second tier safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 3% of the employee's highest paid year of employment for each year of credited service. Retirees under the first tier are eligible to receive a maximum annual 5% cost-of-living increase while those under the second tier are eligible to receive a maximum annual 2% cost-of-living increase.

Miscellaneous: Vested first and second tier nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service. The City created tier 3 for nonsafety employees hired after October 1, 2006. Vested tier 3 nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service. Retirees

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under the first tier are eligible to receive a maximum annual 5% cost-of-living increase while those under the second and third tier are eligible to receive a maximum annual 2% cost-of-living increase. Audited annual financial statements and 10-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Funding Policy

For the fiscal year ended September 30, 2010, safety and miscellaneous plan participants were required to contribute 9% and 8% of their annual covered salary, respectively. For miscellaneous employees, the City pays 6% of the participant contributions and the employee pays 2%. For safety employees, the City pays 7% of the participant contributions and the employee pays 2%. In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rates are 11.830% for miscellaneous employees and 16.007% for safety employees. For fiscal year 2011, the contribution rates will be 12.297% for miscellaneous employees and 17.097% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2010, the City's annual pension cost (APC) of \$69,076,000 for CalPERS was equal to the City's required contributions (ARC) of \$76,673,000 less employees contributions of \$7,597,000. The required contribution was determined as a part of the June 30, 2007 actuarial valuations.

The City's annual pension cost, the percentage of annual pension cost contributed to the plans, and the net pension obligation for the miscellaneous and safety plans for the fiscal years ended September 30, 2008, 2009, and 2010 are as follows (dollars in thousands):

<u>Fiscal year</u>	<u>Miscellaneous annual pension cost</u>	<u>Safety annual pension cost</u>	<u>Annual pension costs (APC)</u>	<u>Percentage contribution</u>
2008	\$ N/A	N/A	67,800	100%
2009	40,503	31,512	72,015	100
2010	37,546	31,530	69,076	100

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Actuarial Methods and Assumptions

A summary of principal assumptions and methods used to determine the annual required contribution rate for fiscal year 2010 for miscellaneous and safety employees is shown below:

	Assumptions
Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Amortization Period	Closed
Average Remaining Period	32 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for pension benefits.

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, and the funding status for the miscellaneous and safety plans were as follows (dollars in thousands):

<u>Plan</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – entry age (b)</u>	<u>Unfunded AAL (UAAL) (excess of assets over AAL) (b-a)</u>	<u>Funded ratio actuarial value basis (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
Miscellaneous	\$ 1,630,805	1,846,094	215,289	88.3%	\$ 222,150	96.9%
Safety	1,652,960	1,730,518	77,558	95.5%	137,923	56.2%

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. 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 the past expectations and new estimates are made about the future. The schedule of funding progress, presented as required

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supplementary information following the notes to the financial statements, presents multiyear trend information, which shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The initial unfunded actuarial accrued liability (or excess assets) associated with these retirement plans are being amortized as a level percentage of projected payroll on a closed basis.

Plan Description – Public Agency Retirement System – Defined Benefit Plan

In November 1994, the City established Public Agency Retirement System (PARS) Defined Benefit Plans for Special Status Contractors and Seasonal and Temporary Employees (the Plans). During fiscal year 2003, the Plans were reported under a combined plan (the Plan). The Plan is a defined benefit, single-employer retirement plan. The Plan, which took effect on January 1, 1995, is administered for the City through a third-party administrator. The Plan provides for retirement as well as death and disability benefits to eligible individuals and their beneficiaries.

The Plan benefit is a lifetime monthly annuity equal to 1.50% times the final average of the participant's highest 36 consecutive months' salary times the years of service. The Plan requires employee contributions of 6.20% of earnings (Contractors Special Status) and 3% of earnings (Seasonal and Temporary Employees). All employees enter the Plan upon hire and all benefits are vested after five years of service (Contractors Special Status) or immediately (Seasonal and Temporary Employees) and employees are always vested in their employee contributions. It is assumed that upon termination, employees will choose to receive an actuarially equivalent lump sum (based on the actuarial assumptions described below). Audited annual financial statements are available from PARS Public Agency Retirement Services, 4350 Von Karman Avenue, Ste. 100, Newport Beach, CA 92660

Funding Policy and Annual Pension Cost

The City's funding policy is to make the contribution as determined by the Plan's actuary as of September 30, 2008 valuation date. The following information describes the calculation methodology:

The Plan's APC for the fiscal year ended September 30, 2010 is based on the period from October 1, 2007 to September 30, 2008. The APC for fiscal year ended 2010 is \$97,376,000 the same amount contributed for this period.

The actuarial liabilities and assets are valued as of September 30, 2008.

The actuarial funding method used is the projected-unit-credit method. Under this method, the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year, and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll.

In determining the Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between past years and future years. This allocation is made by multiplying the projected benefit by a fraction, the numerator of which is the participant's total credited years of service on the

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valuation date, and the denominator is the participant's total credited years of service at anticipated benefit commencement.

The unfunded actuarial liability is the difference between the actuarial accrued liability and Plan assets. This difference is amortized as a level dollar amount (in the 2009 actuarial valuation used to determine 2010/11 Annual Pension Cost, a 7-year amortization is used for the September 30, 2006 unfunded liability and 10-year amortization is used for all other gains and losses) to determine the unfunded actuarial liability rate. The actuarial value of Plan assets is based on a five-year smoothing of gains and losses.

The net pension obligation information below is based on periods from October 1 through September 30:

<u>Fiscal year</u>	<u>Annual pension costs</u>	<u>Actual contribution</u>	<u>Percentage contribution</u>	<u>Net pension obligation</u>
2008	\$ 20,546	20,546	100%	\$ —
2009	16,352	16,352	100	—
2010	97,376	97,376	100	—

Funded Status and Funding Progress

As of the most recent actuarial valuation date, September 30, 2009, the Plan's funding status was (dollars in thousands):

<u>Plan</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – entry age (b)</u>	<u>Unfunded AAL (UAAL) (excess of assets over AAL) (b-a)</u>	<u>Funded ratio actuarial value basis (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
PARS	\$ 889	1,123	234	79.2%	\$ 8,376	2.8%

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Actuarial Methods and Assumptions

The following is a summary of September 30, 2009 actuarial assumptions:

Interest

Rate: 5.25%

Mortality: 1983 Group Annuity Mortality Table

Turnover: Sample rates are:

<u>Age</u>	<u>Turnover</u>	<u>Age</u>	<u>Turnover</u>
25	15%	45	10%
30	15	50	10
32	15	55	5
40	15	60	5

Seasonal and Temporary Employees' first five years of service assume the following rates:

<u>Years of service</u>	<u>Turnover</u>
—	50%
1	35
2	30
3	25
4	20

Salary Scale: 5.0%

Retirement Age: Age 65 or attained age, if older.

Form of Benefit: Participants are assumed to receive a lump sum upon termination.

(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.

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At September 30, 2010, there were 561 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 \$19,502,000. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2010 were \$7,805,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

Termination Benefits

As of September 30, 2010, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$101,923,000 based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences* (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996 and 2009 negotiated public safety health benefit supplements as described below:

Fire Retirement Supplement Benefit

The Long Beach Fire Fighter Association agreed to defer an October 1, 2009 general salary adjustment to October 1, 2010 and to extend all other adjustments by one year.

Supplement eligibility is limited to employees retiring on or before December 31, 2009.

Benefit formula is equal to the difference between CalPERS retirement had the October 1, 2009 general salary adjustment been made for a full year and actual retirement benefits received by CalPERS.

Supplement is credited annually to retirees Health account and is adjusted by CalPERS cost of living adjustment (COLA).

Account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

Police Retirement Supplement Benefit

The Long Beach Police Officers Association agreed to extend a September 30, 2009 midpoint adjustment of 3.20% for sergeants, 14.80% for lieutenants, and 9.3% for corporals and officers, to a 2% minimum increase per year. The midpoint adjustment is based on the Strategic Plan Cities Survey of salaries in similar cities.

Supplement eligibility is limited to employees retiring on or after September 30, 2009 and before benefits level reaches what it would have been had the September 30, 2009 adjustment been made.

Benefit formula is equal to the difference between CalPERS retirement had the September 30, 2009 midpoint adjustment been made and actual retirement benefits received by CalPERS.

Supplement is credited annually to retirees Health account and is adjusted by CalPERS cost of living adjustment (COLA).

Account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

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The actuarial study assumes an 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 \$6,760,000 has been fully funded and the long-term portion of the liability of \$95,163,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

Other Postemployment Benefits

As of September, 30, 2010, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$18,022,000 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 an active employees rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City's health care benefit plans increases the overall health plan rates. The economic benefit is defined as an "implicit subsidy" under GASB 45.

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

This plan does not issue a separate financial report.

Funding Policy

The contribution requirements 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, 2010, 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 ARC, an amount that is actuarially determined in accordance with the requirements of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

Annual required contribution	\$	11,734
Interest on net OPEB obligation		520
Adjustment to annual required contribution		<u>(782)</u>
Annual OPEB cost		11,472
Contribution made		<u>(3,854)</u>
Increase in net OPEB obligation		7,618
Net OPEB obligation – beginning		<u>10,404</u>
Net OPEB obligation – end of year	\$	<u><u>18,022</u></u>

The ARC was determined as part of the September 2010 actuarial valuation. For the year ended September 30, 2010, 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>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Annual obligation</u>
September 30, 2008	\$ 8,102	35.2%	\$ 5,249
September 30, 2009	8,461	39.1	10,404
September 30, 2010	11,472	33.6	18,022

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Funded Status and Funding Progress

The funded status of the plan as of September 30, 2010 was as follows (in thousands):

Actuarial accrued liability (AAL)	\$	120,714
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	\$	120,714
Funded ratio (actuarial value of plan assets / AAL)		—
Covered payroll	\$	321,931
UAAL as a percentage of covered payroll		—
ARC as a percentage of covered payroll		—

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

Actuarial Methods and Assumption

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

The September 30, 2010 actuarial valuation used the entry age normal cost method. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 11.3% for HMO plans and 8.6% for PPO plans that grades down to 4.5% for all plans by September 30, 2021, and an inflation assumption of 3.0%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was zero. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

(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 years ended September 30, 2010 and 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>2010</u>	<u>2009</u>
Land	\$ 759,815,621	759,763,424
Docks and wharves	485,950,418	485,934,116
Warehouses and sheds	46,103,616	46,103,617
Cranes and shiploaders	173,518,328	164,981,253
Buildings and other facilities	299,335,024	298,616,223
Infrastructure	<u>779,841,892</u>	<u>756,153,386</u>
Historical cost of leased property	2,544,564,899	2,511,552,019
Less accumulated depreciation	<u>(823,668,263)</u>	<u>(750,859,669)</u>
Book value of leased property	<u>\$ 1,720,896,636</u>	<u>1,760,692,350</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:	
2011	\$ 238,834,000
2012	223,223,000
2013	232,959,000
2014	232,082,000
2015	230,140,000
2016 – 2020	1,106,539,000
2021 – 2025	862,144,000
2026 – 2030	248,780,000
2031 and thereafter	<u>4,136,000</u>
Total	<u>\$ 3,378,837,000</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 statements of income and Venturers' equity (in condensed format) for the years ended June 30, 2010 and 2009 were as follows:

Condensed Balance Sheets

	<u>2010</u>	<u>2009</u>
Current assets	\$ 15,876,850	19,360,869
Property and equipment	2,843,070	2,951,098
Total assets	<u>\$ 18,719,920</u>	<u>22,311,967</u>
Current liabilities	\$ 38,949	171,546
Venturers' equity:		
Harbor Department of the City of Los Angeles	9,519,804	11,249,529
Harbor Department of the City of Long Beach	9,161,167	10,890,892
Total Venturers' equity	<u>18,680,971</u>	<u>22,140,421</u>
Total liabilities and Venturers' equity	<u>\$ 18,719,920</u>	<u>22,311,967</u>

Condensed Statements of Income and Venturers' Equity

	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 4,593,000	5,901,089
Operating expense	(108,030)	(108,030)
Operating income	4,484,970	5,793,059
Interest income	55,578	195,694
Net income	4,540,548	5,988,753
Venturers' equity, July 1, 2009 and 2008	22,140,423	24,151,670
Cash disbursement to Venturers	(8,000,000)	(8,000,000)
Venturers' equity, June 30, 2010 and 2009	<u>\$ 18,680,971</u>	<u>22,140,423</u>

On October 26, 2010, the ICTF Governing Board authorized a \$6,000,000 distribution to be shared equally by the Venturers.

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Pursuant to an indenture of trust dated November 1, 1984, ICTF issued \$53,915,000 of 1984 Series A bonds on behalf of the Tenant to construct the facility. In 1989, ICTF issued \$52,315,000 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, 2010 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, 2010 and 2009 aggregated \$104,168,355 and \$118,090,362, 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 \$1,281,310,211. 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>2010</u>	<u>2009</u>
Insurance coverage for fire and other risks	\$ 1,281,310,211	1,330,000,000
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 2010 and 2009, it made payments to the City's Insurance Fund totaling \$1,249,064 and \$1,220,567, 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 \$11,300,000 and \$5,000,000 for fiscal years 2010 and 2009, respectively.

Liability for Claims and Judgments Rollforward Schedule

<u>Description</u>	<u>Balance, October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2010</u>
Accrued claims and judgments	\$ 5,000,000	6,300,000	—	11,300,000
<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

(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

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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 11, 2010; 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 ACTA's fiscal year ended June 30, 2010, based on the Notice submitted by ACTA, is \$0. Based on the Notice, the total amount of the Shortfall Advance for fiscal year ending June 30, 2011 was estimated to be \$9,250,000. 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, 2010 and 2009 were \$46,045,000 each year.

(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 \$950 million. 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, 2010 and 2009, funds earmarked for this project were \$51,978,585 at year-end for both years.

(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.

(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

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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, 2010 and 2009 was \$25,000,000 and \$26,700,000, 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

<u>Description</u>	<u>Balance, October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2010</u>
Oil abandonment liability	\$ 26,700,000	—	1,700,000	25,000,000

<u>Description</u>	<u>Balance, October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2009</u>
Oil abandonment liability	\$ 19,900,000	6,800,000	—	26,700,000

(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. (Anadarko) that assumed this liability in accordance with the original purchase agreement. Anadarko'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:

<u>Remediation cost</u>	<u>Allocation</u>	
	<u>Anadarko</u>	<u>Department</u>
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>	

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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 2010 and 2009, in the amounts of \$12,500,546 and \$20,074,012, respectively, including long-term and short-term obligations.

Pollution Remediation Obligation – Short-Term Rollforward Schedule

<u>Description</u>	<u>Balance, October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2010</u>
IR Site 7	\$ 19,074,012	—	6,573,466	12,500,546
	<u>Balance, October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2009</u>
Pier A West	\$ 56,581,138	—	56,581,138	—
IR Site 7	3,830,666	15,243,346	—	19,074,012
	\$ 60,411,804	15,243,346	56,581,138	19,074,012

Pollution Remediation Obligation – Long-Term Rollforward Schedule

<u>Description</u>	<u>Balance, October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2010</u>
IR Site 7	\$ 1,000,000	—	1,000,000	—
	<u>Balance, October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2009</u>
Pier A West	\$ 664,944	—	664,944	—
IR Site 7	15,792,681	—	14,792,681	1,000,000
	\$ 16,457,625	—	15,457,625	1,000,000

(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 (the Board), adopted a resolution in 2010 to transfer 10% of the Department's net income for fiscal years 2010 and 2009 to the City's Tidelands Operating Fund (the TOF): \$12,018,776 and \$12,423,706, respectively. In FY2009, the City Council requested and the Board approved a transfer of 10% of the Department's net income for FY2008 in the amount of \$16,083,972. The 10% transfer to the TOF is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets and as a transfer to the City in the statements of revenues, expenses, and changes in fund net assets. The total transfer recognized to the City during fiscal year 2010 was \$30,451,161, which includes the \$24,442,482 discussed above plus \$6,008,679 for Aquarium of the Pacific debt service assistance requested by the City Manager. The total transfer recognized to the City during fiscal year 2009 was \$18,587,376, which includes \$16,083,972 discussed above plus \$2,068,404 for

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Aquarium debt service assistance, plus \$435,000 debt forgiveness related to the Long Beach Convention Center. The Aquarium debt assistance and Convention Center debt forgiveness 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 2006, the Department acquired \$11,400,000 of available environmental mitigation credits. No acquisitions or utilization of credits occurred during fiscal years 2010 and 2009.

The cost incurred in the acquisition of the land has been classified as a noncurrent asset. The Department has completed landfills that required the utilization of \$6,492,525 in fiscal year 2007 of the available credits. The balance of environmental mitigation credits 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 as of both September 30, 2010 and 2009, respectively.

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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, 2010 and 2009, the Department held net assets as follows:

	<u>2010</u>	<u>2009</u>
Invested in capital assets, net of related debt	\$ 1,597,683,147	1,390,175,525
Restricted for capital projects:		
Environmental mitigation credits (note 15)	44,278,068	44,278,068
2010A Construction fund	<u>165,620,857</u>	<u>—</u>
	209,898,925	44,278,068
Restricted for debt service (note 8)	112,125,898	101,972,603
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>469,326,343</u>	<u>293,552,191</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>422,818,831</u>	<u>685,912,845</u>
Total unrestricted	<u>480,995,543</u>	<u>744,089,557</u>
Total net assets	<u>\$ 2,548,005,033</u>	<u>2,427,817,273</u>