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Independent Auditors' Report

The Honorable Members of the Board of Harbor Commissioners
The Harbor Department of the City of Long Beach
Long Beach, California

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach, California as of September 30, 2013 and 2012, and the respective changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City of Long Beach, California that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California as of September 30, 2013 and 2012, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 22–31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California
March 28, 2014

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, 2013 and 2012.

Overview of the Financial Statements

The Department's financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, 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 position present information concerning the Department's assets, liabilities, and net position.

The following condensed financial information provides an overview of the Department's financial position as of September 30, 2013, 2012, and 2011:

Statements of Net Position

September 30, 2013, 2012, and 2011

	2013	2012	2011
Assets:			
Capital assets, net	$ 3,476,794,062	2,699,086,270	2,498,946,250
Other assets	575,983,275	904,491,185	993,141,143
Total assets	4,052,777,337	3,603,577,455	3,492,087,393
Deferred outflows on debt refunding	11,404,155	12,921,455	14,438,755
Total assets and deferred outflows	4,064,181,492	3,616,498,910	3,506,526,148
Liabilities:			
Long-term obligations, net of current portion	671,722,135	641,326,425	692,865,902
Current liabilities	213,773,319	181,853,805	162,138,602
Total liabilities	885,495,454	823,180,230	855,004,504
Net position:			
Invested in capital assets	2,848,455,730	2,104,914,537	1,916,200,675
Restricted	61,654,324	157,537,654	177,536,448
Unrestricted	268,575,984	530,866,489	557,784,521
Total net position	$ 3,178,686,038	2,793,318,680	2,651,521,644

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Analysis of Fiscal Year 2013

At the end of fiscal year 2013, the assets of the Department exceeded its liabilities by $3,178,686,038 (net position). Total net position, including impacts of implementing GASB 65, increased by $385,367,358. This change consists mainly of $157,698,809 current year operating income, $250,542,833 income derived from grants received from federal and state governments, less $18,195,834 from other nonoperating expenses, including financing costs and transfers to the City's Tidelands Operating Fund of $17,312,204.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) is $2,848,455,730 or 89% of the aggregate net position. The increase from fiscal year 2012 is the result of the increase in Port construction projects during the year. Capital assets facilitate tenants' cargo operations. The Department does not intend to liquidate them to fund ongoing port operations.

The Department holds $61,654,324 of net assets subject to restrictions, a decrease of $95,883,330 from last year. The decrease is due to the elimination of the reserves for rail projects; for matching requirements for the construction of the Gerald Desmond Bridge; a federally funded project, and for the reserve for the security projects. Restricted net assets are thus identified in the statements of net position and represent 2% of the Department's total net assets.

At the end of fiscal year 2013, the Department reported unrestricted net assets of $268,575,984, a decrease of $262,290,505 when compared to 2012. This is primarily the result of $282,225,018 decrease in unrestricted balance of pooled cash and cash equivalents; $9,376,366 decrease in accounts receivable, and $22,576,560 increase in accounts payable.

The decrease in the unrestricted balance of pooled cash and cash equivalents of $282,225,018 is primarily attributed to the substantial increase in disbursements related to the capital projects such as the new Gerald Desmond Bridge and the remodeling and upgrading of terminals around the port complex.

The $9,376,366 decrease in accounts receivable is attributed to increased efforts to collect receivables from tenants in order to enhance the Port's cash position, while the $22,576,560 increase in accounts payable is attributed to higher volumes of services and supplies acquired from vendors working in the capital projects that the Port is pushing forward.

Analysis of Fiscal Year 2012

At the end of fiscal year 2012, the assets of the Department exceeded its liabilities by $2,793,318,680 (net position). Total net position increased by $141,797,036. This change consists mainly of $157,727,282 current year operating income, $13,626,625 income derived from grants received from federal and state governments, less $29,556,865 from other nonoperating expenses, including financing costs and transfers to the City's Tidelands Operating Fund of $16,694,347.

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 $2,104,914,537 or 75% of the aggregate net assets. The increase from fiscal year 2011 is the result of the increase in Port construction projects during the

(Continued)

year. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds $157,537,654 of net assets subject to restrictions, a decrease of $19,998,794 from last year. The decrease is primarily due to a $19,908,014 decrease in matching requirements for the construction of the Gerald Desmond Bridge, a federally funded project. Restricted net assets are thus identified in the statements of net position and represent 6% of the Department's total net assets.

At the end of fiscal year 2012, the Department reported unrestricted net assets of $530,866,489, a decrease of $26,918,032 when compared to 2011. This is primarily the result of $27,403,638 decrease in operating cash; $8,212,176 increase in accounts receivable, and an $18,486,952 increase in accounts payable.

The decrease in the unrestricted balance of pooled cash and cash equivalents of $27,403,638 is primarily attributed to the increase in the volume of capital projects that the Port started pushing this fiscal year.

The $27,403,638 increase in accounts receivable is attributed to the collection of the receivables generated by higher levels of revenue during fiscal year 2011, while the $8,212,176 increase in accounts payable is primarily attributed to higher volumes of services and supplies acquired from vendors working in the capital projects that the Port is pushing forward.

Summary of Operations and Changes in Net Position

The statements of revenues, expenses, and changes in net position illustrate the Department's change in net position 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 2013, 2012, and 2011.

Changes in Net Position

Years ended September 30, 2013, 2012, and 2011

	2013	2012	2011
Operating revenues:			
Berth and special facilities	$ 335,869,457	322,425,435	328,986,839
Miscellaneous	10,374,625	11,461,496	16,402,867
Total operating revenues	346,244,082	333,886,931	345,389,706
Operating expenses:			
Facility and infrastructure	(63,922,886)	(57,003,046)	(50,671,577)
General and administrative	(33,772,806)	(30,633,789)	(30,751,029)
Depreciation and amortization	(90,849,581)	(88,522,820)	(85,005,356)
Total operating expenses	(188,545,273)	(176,159,655)	(166,427,962)
Operating income	157,698,809	157,727,276	178,961,744
Nonoperating revenues (expenses):			
Intergovernmental transfer	(17,312,204)	(16,694,347)	(22,847,938)
Gain on transfer of oil operations to City	—	—	12,468,504
Interest income, net of interest expense	2,723,773	(7,039,199)	(15,556,686)
Income from oil operations	—	—	1,525,061
Gain (loss) on sale of capital assets	(6,247)	7,268	74,459
Loss from Clean Trucks Program	(3,419,528)	(3,926,198)	(3,572,859)
Other income (loss), net	(181,628)	(1,904,389)	(27,979,213)
Write-off of long-term receivables from the Redevelopment Agency	—	—	(27,000,000)
Net nonoperating expenses	(18,195,834)	(29,556,865)	(82,888,672)
Income before capital grants	139,502,975	128,170,411	96,073,072
Capital grants	250,542,833	13,626,625	7,443,539
Change in net position	390,045,808	141,797,036	103,516,611
Total net position – beginning of year	2,793,318,680	2,651,521,644	2,548,005,033
Cumulative effect resulting from adoption of GASB 65	(4,678,450)	—	—
Total adjusted net position – beginning of year	2,788,640,230	2,651,521,644	2,548,005,033
Total net position – end of year	$ 3,178,686,038	2,793,318,680	2,651,521,644

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Analysis of Fiscal Year 2013

A comparison of the operating revenues for fiscal years 2013 and 2012 shows an overall increase of 4%. The following revenue categories experienced increases: containerized cargo 5%, dry bulk 11%, and other terminals 1%; the following categories decreased: liquid bulk 3%, steel/break-bulk 5%, vehicle 4%, and lumber 5%.

In terms of volume (measured in metric revenue tons), the following categories experienced increases from last year: containerized 15%, dry bulk 9%, steel-break 51%, vehicles 2%; the following types of cargo decreased during fiscal year 2013: liquid bulk 1%, lumber 5%.

Operating expenses (excluding depreciation and amortization) increased $10,058,857. Cargo facilities maintenance expense decreased $288,622 due to lower maintenance performed at the containerized facilities; infrastructure maintenance, which includes bridges, freeways, streets, and utilities maintenance and expenses related to environmental control, increased $3,108,614. The primary reason for this increase is higher expenses related to the operation of the water systems and higher street maintenance expenses. Fire and safety costs increased by $3,601,337 due to higher costs of the services provided by the police and fire departments and higher training costs incurred by the security division.

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 2013 was $2,326,761 higher than that of 2012. The reason for this change is the increase of assets placed in service during 2013.

Intergovernmental transfer increased by $617,857 in fiscal year 2013. During the current fiscal year, the Department transferred $17,312,204 as a regular operating transfer to the City of Long Beach.

Investment income decreased by $513,325 in fiscal year 2013 due to lower earning rates resulting from the overall downturn in the economy, the holding of lower average investment balance, and the net effect of the mark-to-market computations and adjustment.

Actual interest expense increased due to additional fees and interest on the pending Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and the newly opened lines of credit with Union Bank and Bank of America, which was affected by interest capitalized on eligible capital construction projects and the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

The Clean Air Action Plan (CAAP) continues to wind down and collects less revenue and incurs lower expenses. Overall, this program experienced a decreased loss of $506,670 when compared to that of fiscal year 2012.

Other expense decreased as a result of a reduction on the writing off of expenses related to abandoning planning studies. All of the expenses related to the potential construction of a new administration building were written off during fiscal year 2012.

Analysis of Fiscal Year 2012

A comparison of the operating revenues for fiscal years 2012 and 2011, shows an overall decrease of 3%. The following revenue categories experienced increases: liquid bulk 6%, dry bulk 7%, steel/break-bulk 2%, vehicle

26%, and other terminals 10%; the following categories decreased: containerized 4%, lumber 49%, rental 32%, and miscellaneous income 17%.

In terms of volume (measured in metric revenue tons), the following categories experienced increases from last year: vehicles 70%, lumber 1%; the following types of cargo decreased during fiscal year 2012: containerized 7%, liquid bulk 3%, dry bulk 1%, steel/break-bulk 35%.

Operating expenses (excluding depreciation and amortization) increased $6,214,229. Cargo facilities expense increased $1,787,632 due to higher maintenance required mostly by the vehicle and the rental facilities; infrastructure maintenance, which includes bridges, freeways, streets, and utilities maintenance and expenses related to environmental control, increased $4,655,299. The primary reason for this increase is the one-time write-off during fiscal year 2011 of the remaining liability related to IR Site 7 mitigation that was completed in fiscal year 2011 at a cost that was significantly lower than the original estimate. A reduction in bridge and freeway maintenance in fiscal year 2012 of $1,818,732 helped to offset the increase in infrastructure maintenance expense. Fire and safety costs decreased by $342,702 due to efforts aimed to reduce expenses related to the Port's Security Division.

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 2012 was $3,517,464 higher than that of 2011. The reason for this change is the capitalizing of assets placed in service during 2012.

Intergovernmental transfer decreased by $6,153,591 in fiscal year 2012. During the current fiscal year the Department transferred $16,694,347 as a regular operating transfer to the City of Long Beach.

Interest expense, net of investment income, decreased by $8,517,487 in fiscal year 2012. 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 principal reductions in long-term debt balances due to ongoing annual debt service arrangements, and the continuation of the capitalization of interest policy that allocates some of the interest expense to capital projects.

The Clean Air Action Plan (CAAP), as anticipated, experienced an increased loss of $353,339 when compared to that of fiscal year 2011. The increased loss is the result of lower revenues generated by the program as it winds down into its final stage.

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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, 2013, 2012, and 2011 are as follows:

Capital Assets, Net

September 30, 2013, 2012, and 2011

	2013	2012	2011
Nondepreciable capital assets:			
Land	$ 903,778,818	904,761,885	867,894,358
Construction in progress	1,367,213,130	603,250,900	489,936,597
Rights-of-way	207,823,264	207,823,264	207,823,264
Total nondepreciable capital assets	2,478,815,212	1,715,836,049	1,565,654,219
Depreciable capital assets (net):			
Structures and facilities	984,887,991	971,117,488	921,213,659
Furniture, fixtures, and equipment	13,090,859	12,132,733	12,078,372
Total depreciable capital assets (net)	997,978,850	983,250,221	933,292,031
Total capital assets, net	$ 3,476,794,062	2,699,086,270	2,498,946,250

Analysis of Fiscal Year 2013

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 $777,707,792 from fiscal year 2012 primarily due to the substantial increase in construction in progress related to major infrastructure projects taking place at the Port.

Analysis of Fiscal Year 2012

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 $200,140,020 from fiscal year 2011, primarily due to asset acquisitions offset by depreciation. Information regarding the Department's capital assets can be found in note 6 of 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, 2013, 2012, and 2011.

Debt Originally Incurred as Long-Term Debt

September 30, 2013, 2012, and 2011

		2013	2012	2011
Bond debt (principal and net premiums)	$	640,837,135	688,291,425	723,242,147
Line of credit		80,000,000	—	—
Total	$	720,837,135	688,291,425	723,242,147

Analysis of Fiscal Year 2013

The Department's total long-term debt decreased by $32,545,710, or 5%. The decrease was primarily the result of scheduled principal reductions on the bond debt and the amortization of the premiums, which was offset by a fresh line of credit obtained by the Department in the current year.

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA, stable outlook; Moody's Investors Services: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook.

The debt service coverage ratio for both fiscal years ended 2013 and 2012 was 3.1 and 3.1, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

Analysis of Fiscal Year 2012

The Department's total long-term debt decreased by $34,950,722, or 5%. The decrease was primarily the result of scheduled principal reductions on the bond debt.

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. In May 2012, Fitch Ratings affirmed the AA with a stable outlook rating on the Port's outstanding debt. The Fitch report states, "The Port's terminal facilities are modern and contiguous, and have excellent access to intermodal transportation facilities, including on-dock rail, near-dock rail, and direct connections to the national rail network through the Alameda Corridor, and the Southern California system of freeways. The Port has a healthy balance sheet with a very strong liquidity position, of $550 million, representing 2,463 days cash on hand. In addition, the Port's board has passed an ordinance requiring management to a minimum of 2.0x DSCR and 600 days cash on hand. Port leverage is also currently very low at 0.1x net debt/cash flow available for debt service (CFADS), though this may rise to the 3x-4x range if the full capital plan is executed through 2016. The Port is exposed to fluctuations in international trade as evidenced by shrinking trade volumes through the recent recession due to overall weakness in the global economy, fuel cost volatility and U.S. dollar values. In addition, there are growing competitive pressures from cost-conscious shipping lines exploring services at competitor ports. POLB revenues are insulated from trade-related volatility due to long-term guaranteed contracts with most tenants."

In December 2012, Moody's Investors Service report was released that "maintains the Aa2 rating on Long Beach Port Facility's (CA) Harbor Revenue Bonds, Series 2010A and Harbor Revenue Bonds, Series 2010B. Moody's also affirmed the Aa2 rating on Long Beach's $648.7 million outstanding Harbor Revenue bonds. The outlook is stable." The report pointed to the Port's strengths as:

- "Strong market position as the second largest port in the US, by TEU (twenty-foot equivalent) count. The port also benefits from a naturally deep harbor, a 50-foot channel depth, state-of-the-art facilities, and good road access and intermodal connectivity through the Alameda Corridor and Intermodal 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 the DSCRs averaging 3.2 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 70% of operating revenue in FY2012."

The debt service coverage ratio for both fiscal years ended 2012 and 2011 was 3.1 and 3.4, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

Factors That May Affect the Port's Operations

The availability of alternate ports and competition affects the use of the Port's facilities and, therefore, operating revenues of the Port. There is significant competition for container trade among North American ports. The Port cannot predict the impact of this competition. West Coast ports, in the U.S., Canada, and Mexico, compete for discretionary intermodal cargo headed from the Far East to mid-western and eastern U.S., which is more heavily populated. This discretionary cargo moves eastward primarily by rail. Discretionary cargo makes up more than half of the container cargo arriving at the Port of Long Beach.

The use of all-water routes to the East and Gulf Coasts of the U.S. is an alternative to Asian intermodal cargo moving through West Coast ports. All water services from Asia to the Gulf of Mexico and East Coast ports move primarily through the Panama Canal. The Panama Canal is in the process of expanding its locks. Although recent reports indicate that the opening of the new locks will be delayed to mid-2015 from the original scheduled date in 2014, the widening and deepening of the locks will allow larger vessels to transit the Canal. The expansion creates a potential route to the East Coast and Gulf of Mexico for vessels with larger capacity than the current "Panamax" ships. While the effects of an expanded Canal are unknown, the Port of Long Beach has an existing ability to handle ships that are larger than the expanded-Panamax ships, and continues to maintain and improve its terminals, infrastructure, and intermodal capabilities.

The Port is subject to legal and regulatory requirements relating to air emissions that may be generated by ships, trains, trucks, and other operational activities within the Port. Paying for mandated air pollution reduction, infrastructure and other measures has become a significant portion of the Port's capital and operating budgets. Such expenditures are necessary even if the Port does not undertake any new revenue-generating capital improvements, and the Port cannot provide assurances that the actual cost of the required measures will not exceed the amounts forecasted.

Notes to Financial Statements

The notes to the Department's financial statements can be found on pages 37 – 79 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, 4801 Airport Plaza Drive, Long Beach, CA 90815.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Position

September 30, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Pooled cash and cash equivalents (note 2)	$	239,891,340	522,116,358
Trade accounts receivable, net of allowance (note 3)		39,254,750	48,631,116
Interest receivable		202,823	202,823
Nonperforming investments		241,571	1,229,017
Due from other governmental agencies (note 3)		129,170,528	66,954,612
Prepaid – dredging services (note 4)		1,725,644	2,140,122
Inventories of supplies		519,820	603,497
Subtotal		411,006,476	641,877,545
Harbor Revenue Bond Funds and other funds restricted as to use (notes 2 and 9):			
Pooled cash and cash equivalents		29,901,850	31,066,145
Total current assets		440,908,326	672,943,690
Noncurrent assets:			
Capital assets (notes 6 and 11):			
Land:			
Purchased		448,936,517	448,936,517
Constructed		454,842,301	455,825,368
Total land		903,778,818	904,761,885
Structures and facilities		2,337,755,926	2,240,185,567
Less accumulated depreciation		(1,352,867,935)	(1,269,068,079)
Net structures and facilities		984,887,991	971,117,488
Furniture, fixtures, and equipment		44,893,742	39,997,728
Less accumulated depreciation		(31,802,883)	(27,864,995)
Net furniture, fixtures, and equipment		13,090,859	12,132,733
Construction in progress		1,367,213,130	603,250,900
Right-of-way (note 5)		207,823,264	207,823,264
Net capital assets		3,476,794,062	2,699,086,270
Other assets:			
Long-term receivables (note 3)		1,300,000	1,300,000
Environmental mitigation credits (note 15)		43,236,207	43,236,207
Investment in joint venture (note 12)		3,216,783	3,167,925
Restricted pooled cash and cash equivalents (notes 2 and 9)		17,596,976	113,212,631
Restricted nonpooled cash and cash equivalents (note 2)		259,371	94,610
Restricted nonpooled investments (note 2)		63,238,300	63,511,123
Other noncurrent assets		6,227,312	7,024,999
Total other assets		135,074,949	231,547,495
Total noncurrent assets		3,611,869,011	2,930,633,765
Total assets		4,052,777,337	3,603,577,455
Deferred outflows on debt refunding		11,404,155	12,921,455
Total assets and deferred outflows	$	4,064,181,492	3,616,498,910

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THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Position

September 30, 2013 and 2012

Liabilities		**2013**	**2012**
Current liabilities payable from current assets:			
Accounts payable and accrued expenses	$	108,228,976	85,652,416
Liability claims (note 13)		14,000,000	4,000,000
Tenant credits and unearned revenue		13,633,406	13,821,205
Due to City of Long Beach (note 14)		17,312,204	19,030,359
Total current liabilities payable from current assets		153,174,586	122,503,980
Current liabilities payable from restricted assets:			
Current portion of bonded indebtedness (note 9)		49,115,000	46,965,000
Accrued interest – bonds		11,483,733	12,384,825
Total current liabilities payable from restricted assets		60,598,733	59,349,825
Total current liabilities		213,773,319	181,853,805
Long-term obligations net of current portion:			
Bonded indebtedness (note 9)		591,722,135	641,326,425
Line of credit (note 8)		80,000,000	—
Total noncurrent liabilities		671,722,135	641,326,425
Total liabilities		885,495,454	823,180,230
Net Position (note 16)			
Net investment in capital assets		2,848,455,730	2,104,914,537
Restricted – nonrelated-party debt service contingency and matching contribution for federally funded projects (note 12)		—	95,620,127
Restricted – capital projects		43,236,207	43,236,207
Restricted – debt service		18,418,117	18,681,320
Unrestricted		268,575,984	530,866,489
Total net position		3,178,686,038	2,793,318,680
Total liabilities and net position	$	4,064,181,492	3,616,498,910

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2013 and 2012

	2013	2012
Port operating revenues:		
Berths and special facilities	$ 335,869,457	322,425,435
Rental properties	9,374,145	9,576,890
Miscellaneous	1,000,480	1,884,606
Total Port operating revenues	346,244,082	333,886,931
Port operating expenses:		
Facility maintenance	4,463,037	4,751,659
Infrastructure maintenance	20,348,800	17,240,186
Fire and safety	31,124,642	27,523,305
Other indirect operating	7,986,407	7,487,896
General and administrative	33,772,806	30,633,789
Total Port operating expenses before depreciation and amortization	97,695,692	87,636,835
Depreciation and amortization	90,849,581	88,522,820
Total Port operating expenses	188,545,273	176,159,655
Income from Port operations	157,698,809	157,727,276
Nonoperating revenues (expenses):		
Investment income, net	2,788,773	3,302,098
Interest expense	(65,000)	(10,341,297)
Gain (loss) on disposition of capital assets	(6,247)	7,268
Clean Trucks Program (net)	(3,419,528)	(3,926,198)
Other income (expense)	(181,628)	(1,904,389)
Total nonoperating revenues (expenses)	(883,630)	(12,862,518)
Income before capital grants and transfers	156,815,179	144,864,758
Capital grants	250,542,833	13,626,625
Transfers to the City of Long Beach (note 14)	(17,312,204)	(16,694,347)
Increase in net position	390,045,808	141,797,036
Total net position – beginning of year	2,793,318,680	2,651,521,644
Cumulative effect resulting from adoption of GASB 65 (note 1)	(4,678,450)	—
Total adjusted net position – beginning of year	2,788,640,230	2,651,521,644
Total net position – end of year	$ 3,178,686,038	2,793,318,680

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Cash Flows

Years ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 355,528,275	328,416,552
Cash paid to employees	(44,665,579)	(43,204,866)
Cash paid to suppliers	(41,118,944)	(44,704,887)
Net cash provided by operating activities	269,743,752	240,506,799
Cash flows from investing activities:		
Interest received	2,000,184	4,232,836
Return on investment in joint venture	2,000,000	3,000,000
Net cash provided by investing activities	4,000,184	7,232,836
Cash flows from non capital/financing activities:		
Clean Air Action Plan	(3,419,528)	(3,303,154)
Transfers to City for Tidelands operations	(16,694,347)	(17,269,486)
Cash advances received from / (made to) ACTA	702,063	(3,700,000)
Net cash used in noncapital financing activities	(19,411,812)	(24,272,640)
Cash flows from capital and related financing activities:		
Grant revenues received / (expensed)	188,326,917	(7,629,746)
Interest paid	(33,670,719)	(14,211,024)
Principal payments – bond	(46,965,000)	(44,815,000)
Proceeds from line of credit	80,000,000	—
2010A Bond Construction Funds	—	(59,241,419)
Payments for capital acquisitions	(820,992,501)	(250,178,724)
Proceeds from sales of capital assets	128,972	30,785
Net cash used in capital and related financing activities	(633,172,331)	(376,045,128)
Net decrease in cash and cash equivalents	(378,840,207)	(152,578,133)
Cash and cash equivalents, October 1	666,489,744	819,067,877
Cash and cash equivalents, September 30	$ 287,649,537	666,489,744
Reconciliation of cash and cash equivalents:		
Unrestricted pooled cash and cash equivalents	$ 239,891,340	522,116,358
Restricted pooled cash and cash equivalents	47,498,826	144,278,776
2000 bond reserve held by the City Treasurer	259,371	94,610
	$ 287,649,537	666,489,744

(Continued)

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Cash Flows

Years ended September 30, 2013 and 2012

	2013	2012
Reconciliation of income from Port operations to net cash provided by operating activities:		
Income from Port operations	$ 157,698,808	157,727,280
Adjustments to reconcile income from Port operations to net cash provided by operating activities:		
Depreciation and amortization	90,849,581	88,522,820
Bad debt expense	95,923	17,062
Decrease (increase) in accounts receivable	9,376,070	(7,477,952)
Decrease (increase) in inventory	83,677	(101,588)
(Decrease) increase in accounts payable	4,163,504	(220,287)
(Decrease) increase in deferred revenues	(187,799)	(205,244)
(Decrease) increase in customer deposits	—	(88,029)
(Decrease) increase in due to other funds	(2,336,012)	2,332,737
(Decrease) increase in liability claims	10,000,000	—
Total adjustments	112,044,944	82,779,519
Net cash provided by operating activities	$ 269,743,752	240,506,799
Supplemental disclosure of noncash transactions:		
Change in accrued capital assets costs (purchased but unpaid at year-end)	$ 18,231,428	12,405,578
Amortization of bond premium	3,650,440	3,057,176
Amortization of deferred outflows on debt refunding	1,517,300	1,517,300
Bad debt expense	95,923	17,062

See accompanying notes to financial statements.

(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 financial statements present only the financial activities of the Department and are not intended to present fairly the financial position and results of operations of the City in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

The Harbor Facilities Corporation (the Corporation), a nonprofit public benefit corporation, has been inactive since 1995 and did not have any activity during the 2013 and 2012 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 12).

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 position 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 interpretations.

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 net position. 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 position.

(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, 2013 and 2012, 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 net position 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 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 2013 of $29,119,187; this amount was capitalized almost in its entirety. The Harbor Department incurred interest cost in fiscal year 2012 of $31,357,957 of which $21,016,661 was capitalized.

(h) Investments in Joint Ventures

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

(i) 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.

(j) 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.

(k) 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 Department'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 in 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 2013 and 2012 were $1,748,161 and $1,678,273, respectively (see note 3).

(l) 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.

(m) Reclassifications

Certain amounts reported in fiscal year 2012 have been reclassified to conform to the fiscal year 2013 presentation.

(n) Net Position

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

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

Net investment in capital position – 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 position 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 position. Additionally, unrestricted net position may be designated for use by management of the Department. These requirements limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be designated to support future operations in these areas. The future funding commitments of the Department related to the Clean Air Action Plan (CAAP) are a primary example of unrestricted net position with designated uses (see note 13).

(o) Recent Accounting Pronouncements

New GASB Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Issued in December 2010, this statement incorporates into the FASB'S authoritative literature certain accounting and financial reporting guidance and pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board, opinions issued by the Accounting Principles Board as well as accounting research bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures. The Department implemented this statement in fiscal year 2013. This statement has no material impact on the Department's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Issued in June 2011, this statement provides guidance for reporting deferred outflows and inflows of resources, and net position in a statement of financial position and related disclosures. Transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods are now identified as deferred outflows or inflows of resources, respectively, and hence, are distinguished from assets and liabilities. This statement requires reporting of net position as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The Department implemented this statement in fiscal year 2013. This statement has no material impact on the Department's financial statements.

In March of 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Application of this Statement was effective for the City during the fiscal year ended September 30, 2013. The Department did not consider it practical to restate the financial statements for all periods presented. The implementation of this Statement resulted in cumulative adjustments to the Department's net position as of September 30, 2012 to remove deferred charges related to the issuance of debt totaling $4,678,450.

Further, GASB Statement No. 65 requires separate disclosure in the financial statements as deferred outflows for any unamortized loss incurred on debt refunding. Accordingly, the Department presented deferred outflows on debt refunding as a separate line item in the statement of net position.

(2) Cash, Cash Equivalents, and Other Investments

The Department's cash and cash equivalents and investments as of September 30, 2013 and 2012 are classified in the accompanying statements of net position as follows:

		2013	2012
Pooled cash and cash equivalents	$	239,891,340	522,116,358
Pooled cash and cash equivalents, restricted		47,498,826	144,278,776
Total pooled cash and cash equivalents		287,390,166	666,395,134
Bond reserves held by fiscal agents:			
Nonpooled cash and cash equivalents		259,371	94,610
Nonpooled investments		63,238,300	63,511,123
Total bond reserves held by fiscal agents		63,497,671	63,605,733
Total pooled cash and cash equivalents and bond reserves held by fiscal agents	$	350,887,837	730,000,867

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, 2013 and 2012, was $287,390,166 or 21.7% and $666,395,134 or 39.0%, respectively.

The Department's bond reserves held by fiscal agents, as of September 30, 2013, were $63,497,671 for the 2004, 2005, 2010A, and 2010B bonds. The Department's bond reserves held by fiscal agents, as of September 30, 2012, were $63,605,733; for the 2004, 2005, 2010A, and 2010B 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.

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

The table below identifies the investment types that are authorized by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees, which are governed by the provisions of debt agreements.

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

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

Investments Authorized by Debt Agreements

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing evenly over time as necessary to provide cash flow and liquidity need for operations. The following schedule indicates the interest rate risk of the City's investments as of September 30 (in thousands):

	2013		2012	
Investment type	**Fair value**	**Weighted average maturity (in years)**	**Fair value**	**Weighted average maturity (in years)**
Cash and investments in city pool:				
Interdepartment loan (Health SAVERS)	$ 1,555	5.562	$ 1,833	6.562
U.S. Treasury bills	36,996	0.361	111,962	0.247
U.S. Treasury notes	226,158	0.759	405,979	0.917
Federal agency securities	738,293	1.544	902,310	1.183
Money market account	233	0.003	536	0.003
Local Agency Investment Fund (LAIF)	120,399	0.003	70,163	0.003
Subtotal City Pool	1,123,634		1,492,783	
Cash and deposits	220,376		210,021	
Outstanding checks	(21,507)		(15,527)	
Deposit in transit	—		20,315	
Total City Pool	$ 1,322,503		$ 1,707,592	
Nonperforming short-term investment	$ 429		$ 2,185	

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

	2013		2012	
Investment type	**Fair value (000's)**	**Weighted average maturity (in years)**	**Fair value (000's)**	**Weighted average maturity (in years)**
Nonpooled investments - fiscal agent:				
2004 Reserve:				
AIG Matched Funding	$ 11,373	4.62	$ 11,373	6.62
	11,373		11,373	
2005 Reserve:				
Federal agency securities	1,708	1.05	9,729	1.48
U.S. Treasury notes	14,910	1.83	7,030	2.37
	16,618		16,759	
2010A Reserve:				
Federal agency securities	19,304	3.22	19,376	4.22
	19,304		19,376	
2010B Reserve:				
Federal agency securities	15,943	3.22	16,002	4.22
	15,943		16,002	
Total	$ 63,238		$ 63,510	

Investments with Fair Values Highly Sensitive to Interest Rate Risk

The City had no investments with values that were highly sensitive to interest rate changes risk as of September 30, 2013 and 2012. 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.

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 rate, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

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

Disclosures relating to Credit Risk

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

Presented below 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):

		Rating as of year-end 2013			
City's pooled investments investment type	**Minimum legal rating**	**Total**	**Not required to be rated**	**AA+**	**Unrated**
Cash and investments in City Pool:					
Interdepartment loan (Health SAVERS)	N/A	$ 1,555	1,555	—	—
U.S. Treasury bills	N/A	36,996	36,996	—	—
U.S. Treasury notes	N/A	226,158	226,158	—	—
Federal agency securities	N/A	738,293	—	738,293	—
Money market account	N/A	233	—	233	—
Local Agency Investment Fund (LAIF)	N//A	120,399	—	—	120,399
Subtotal City Pool		1,123,634	264,709	738,526	120,399
Cash and deposits		220,376	—	—	220,376
Outstanding checks		(21,507)	—	—	(21,507)
Deposit in transit		—	—	—	—
Total City Pool		$ 1,322,503	264,709	738,526	319,268
Nonperforming short-term investment	N//A	$ 429	—	—	429

City's pooled investments investment type	Minimum legal rating	Total	Not required to be rated	AA+	Unrated
		Rating as of year-end 2012			
Cash and investments in City pool:					
Interdepartment loan (Health SAVERS)	N/A	$ 1,833	1,833	—	—
U.S. Treasury bills	N/A	111,962	111,962	—	—
U.S. Treasury notes	N/A	405,979	405,979	—	—
Federal agency securities	N/A	902,310	—	—	—
Money market account	N/A	536	—	902,310	—
Local Agency Investment				536	
Fund (LAIF)	N//A	70,163	—	—	70,163
Subtotal City Pool		1,492,783	519,774	902,846	70,163
Cash and deposits		210,021	—	—	210,021
Outstanding checks		(15,527)	—	—	(15,527)
Deposit in transit		20,315	—	—	20,315
Total City Pool		$ 1,707,592	519,774	902,846	284,972
Nonperforming short-term investment	N//A	$ 2,185	—	—	2,185

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 2013	Reported amount 2012
Federal Farm Credit Bank	Federal agency securities	$ 58,349	161,174
Federal Home Loan Bank	Federal agency securities	155,034	245,103
Federal Home Loan Mortgage Corporation	Federal agency securities	276,246	181,000
Federal National Mortgage Association	Federal agency securities	248,664	315,033
U.S. Treasury	U.S. Treasury notes and bills	263,154	517,941
Local Agency Investment Fund	State pool investment	120,399	70,163

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local 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 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, 2013, the City reported deposits of $220,376,000, collateralized in compliance with California Government Code, less $21,507,000 for checks outstanding. As of September 30, 2012, the City's deposits were $210,021,000 less $15,527,000 for checks outstanding.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by 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 a one-for-one basis, and structured basis.

(3) Accounts Receivable and Other Receivables

Accounts receivable as of September 30 included the following:

		2013	2012
Trade accounts receivable	$	41,002,911	50,309,389
Less allowance for doubtful accounts		(1,748,161)	(1,678,273)
Accounts receivable, net	$	39,254,750	48,631,116

Other receivables as of September 30 included the following:

		2013	2012
Due from other governmental agencies:			
Current:			
Federal and state grants	$	129,170,528	66,954,612
Total current		129,170,528	66,954,612
Long term:			
Tidelands – Beaches and Waterways		1,300,000	1,300,000
Total long term		1,300,000	1,300,000
Total due from other governmental agencies	$	130,470,528	68,254,612

Accounts Receivable and Other Receivables

The Harbor Department is the recipient of numerous grants and other funding appropriations associated with the Gerald Desmond Bridge Replacement Project and various Port Security projects, which include, but are not limited to: The Federal Highway Bridge Program (HBP); the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU); the State Highway Operations and Protection Program (SHOPP); the Trade Corridor Improvement Program – Prop 1B (TCIP); the LA Metro Call for Projects (RSTI); the Surface Transportation Program (STP); the Surface Transportation Program Local Regional Funds (STIP-R); The American Recovery and Reinvestment Act (ARRA); the Port Security Grant Program (PSGP); and the Urban Area Security Initiative (USAI).

Funds from these programs are available to the Department on a reimbursement basis. Most, but not all, of these programs require a matching contribution and thus reimbursement is on a percentage basis, different for each program. As eligible expenditures under each program are incurred, the Department submits invoices for reimbursement of the applicable portion of such expenditures.

(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 of which $3.6 million was subsequently refunded back to the Harbor Department; $0.4 million and $3.9 million of the advanced money was used during fiscal years 2013 and 2012, leaving a remaining balance of $1.7 million and $2.1 million, which is recorded as a prepaid expense at September 30, 2013 and 2012, respectively.

(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, 2013 and 2012, total costs to the Department related to the rights-of-way purchase amounted to $207.8 million 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 a maintenance reserve (see note 13).

(6) Capital Assets

2013

Description	Balance, October 1, 2012	Additions	Disposals/ Adjustments	Transfers	Balance, September 30, 2013
Nondepreciable capital assets:					
Purchased land	$ 448,936,517	—	—	—	448,936,517
Constructed land	455,825,368	—	(983,067)	—	454,842,301
Construction in progress	603,250,900	867,673,476	983,067	(104,694,313)	1,367,213,130
Right-of-way (note 5)	207,823,264	—	—	—	207,823,264
Subtotal	1,715,836,049	867,673,476	—	(104,694,313)	2,478,815,212
Depreciable capital assets:					
Structures and facilities	2,240,185,567	—	(2,584,644)	100,155,003	2,337,755,926
Furniture, fixtures, and equipment	39,997,728	1,019,118	(662,414)	4,539,310	44,893,742
Subtotal	2,280,183,295	1,019,118	(3,247,058)	104,694,313	2,382,649,668
Total capital assets	3,996,019,344	868,692,594	(3,247,058)	—	4,861,464,880
Less accumulated depreciation:					
Structures and facilities	1,269,068,079	86,260,360	(2,460,504)	—	1,352,867,935
Furniture, fixtures, and equipment	27,864,995	4,589,221	(651,333)	—	31,802,883
Total accumulated depreciation	1,296,933,074	90,849,581	(3,111,837)	—	1,384,670,818
Net capital assets	$ 2,699,086,270	777,843,013	(135,221)	—	3,476,794,062

2012						
Description		**Balance, October 1, 2011**	**Additions**	**Disposals**	**Transfers**	**Balance, September 30, 2012**
Nondepreciable capital assets:						
Purchased land	$	448,936,517	—	—	—	448,936,517
Constructed land		418,957,841	—	—	36,867,527	455,825,368
Construction in progress		489,936,597	287,960,559	—	(174,646,256)	603,250,900
Rights-of-way (note 5)		207,823,264	—	—	—	207,823,264
Subtotal		1,565,654,219	287,960,559	—	(137,778,729)	1,715,836,049
Depreciable capital assets:						
Structures and facilities		2,105,748,451	—	—	134,437,116	2,240,185,567
Furniture, fixtures, and equipment		36,415,502	725,799	(485,186)	3,341,613	39,997,728
Subtotal		2,142,163,953	725,799	(485,186)	137,778,729	2,280,183,295
Total capital assets		3,707,818,172	288,686,358	(485,186)	—	3,996,019,344
Less accumulated depreciation:						
Structures and facilities		1,184,534,792	84,533,287	—	—	1,269,068,079
Furniture, fixtures, and equipment		24,337,130	3,989,533	(461,668)	—	27,864,995
Total accumulated depreciation		1,208,871,922	88,522,820	(461,668)	—	1,296,933,074
Net capital assets	$	2,498,946,250	200,163,538	(23,518)	—	2,699,086,270

(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

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.

(8) Lines of Credit

In July, 2013, the Board of Harbor Commissioners authorized the issuance of $200,000,000 Subordinate Harbor Revenue Revolving Obligations Series A (Tax-Exempt), Series B (Tax-Exempt), and Series C (Taxable).

The Harbor Department will secure the borrowings under the revolving lines of credit with a subordinate lien on the revenues of the Department.

Bank of America, N.A.-Subordinate Harbor Revenue Revolving Obligations Series A (Tax-Exempt)

Bank of America will provide tax-exempt revolving line of credit that will allow the Harbor Department to borrow up to $78,000,000 at any given point of time. The tax-exempt interest rate to be paid by the Harbor Department for borrowings under the revolving line of credit will be based on a percentage of the daily, one-month, two-month, three-month, or six-month (as selected by the Harbor Department) London Interbank Offered Rate (Libor). Bank of America will make the revolving line of credit available to the Harbor Department for three years (unless the revolving line of credit is terminated earlier or extended pursuant to its terms. Borrowings under the Bank of America revolving line of credit will be incurred by the Harbor Department in the form of City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series A (Tax-Exempt) (Series A Obligations.)

The Harbor Department's obligations to repay any loans made by Bank of America under the Bank of America Credit Agreement will be evidenced by a promissory note (the Bank of America Note) to be issued by the Harbor Department to Bank of America.

Union Bank, N.A.-Subordinate Harbor Revenue Revolving Obligations Series B (Tax-Exempt) and Series C (Taxable)

Union Bank will provide two revolving lines of credit (a tax-exempt revolving line of credit and a taxable revolving line of credit) that will allow the Harbor Department to borrow up to $122,000,000 at any given point of time. The tax-exempt and taxable interest rates to be paid by the Harbor Department for borrowings under the revolving lines of credit to be provided by Union Bank will be based on a percentage of the one-month Libor rate. Union bank will make the revolving lines of credit available to the Harbor Department for three years (unless the revolving line of credit is terminated earlier or extended pursuant to its terms), Borrowings under the union Bank revolving lines of credit will be incurred by the Harbor Department in the form of City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series B (Tax-Exempt) (Series B Obligations), and City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series C (Taxable) (Series C Obligations).

The Harbor Department's obligations to repay any loans made by Union Bank under the Union Bank Credit Agreement will be evidenced by two promissory notes (one for tax-exempt loans and one for taxable loans) (the Union Bank Notes) to be issued by the harbor Department to Union Bank.

Outstanding obligation against line of credit as of September 30 was as follows:

	2013	2012
Long term:		
Line of Credit – Bank of America	$ 40,000,000	—
Line of Credit – Union Bank	40,000,000	—
Total current	$ 80,000,000	—

(9) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 was as follows:

	2013	2012
1998 Harbor Revenue Refunding Bonds:		
Maturing 2012 through 2019 at 6.0% interest	$ 86,515,000	98,215,000
Plus unamortized premium, net of refunding charges	3,598,366	3,742,969
Total 1998 Harbor Revenue Refunding Bonds	90,113,366	101,957,969
2002B Harbor Revenue Bonds (fixed rate portion):		
Maturing 2012 through 2024 at 5.1% to 5.5% interest	43,405,000	48,455,000
Plus unamortized premium	2,515,537	2,253,035
Total 2002B Harbor Revenue Bonds	45,920,537	50,708,035
2004A & B Harbor Revenue Refunding Bonds:		
Maturing 2012 through 2018 at 4.0% to 5.0% interest	45,185,000	45,685,000
Plus unamortized premium, net of refunding charges	1,920,061	2,310,903
Total 2004A & B Harbor Revenue Refunding Bonds	47,105,061	47,995,903
2005A & B Harbor Revenue Refunding Bonds:		
Maturing 2012 through 2025 at 5.0% interest	117,200,000	117,200,000
Plus unamortized premium, net of refunding charges	7,149,913	7,159,345
Total 2005A & B Harbor Revenue Refunding Bonds	124,349,913	124,359,345
2010A Harbor Revenue Bonds:		
Maturing 2012 through 2025 at 0.4 to 5.0% interest	170,900,000	181,355,000
Plus unamortized premium, net of refunding charges	12,541,363	12,897,346
Total 2010A Harbor Revenue Refunding Bonds	183,441,363	194,252,346

	2013	2012
2010B Harbor Revenue Refunding Bonds:		
Maturing 2012 through 2027 at 3.0% to 5.0% interest	138,500,000	157,760,000
Plus unamortized premium, net of refunding charges	11,406,895	11,257,827
Total 2010B Harbor Revenue Refunding Bonds	149,906,895	169,017,827
Principal	601,705,000	648,670,000
Net premium	39,132,135	39,621,425
Less current portion	(49,115,000)	(46,965,000)
Net long-term bonded indebtedness	$ 591,722,135	641,326,425

The Department had the following activity in bonded indebtedness for the fiscal years ended September 30, 2013 and 2012:

Description	Balance, October 1, 2012	Additions	Reductions	Balance, September 30, 2013	Amounts due within one year
1998	$ 98,215,000	—	11,700,000	86,515,000	12,405,000
2002 B	48,455,000	—	5,050,000	43,405,000	5,315,000
2004 A and B	45,685,000	—	500,000	45,185,000	6,930,000
2005 A and B	117,200,000	—	—	117,200,000	11,605,000
2010A	181,355,000	—	10,455,000	170,900,000	10,725,000
2010B	157,760,000	—	19,260,000	138,500,000	2,135,000
	$ 648,670,000	—	46,965,000	601,705,000	49,115,000

Description	Balance, October 1, 2011	Additions	Reductions	Balance, September 30, 2012	Amounts due within one year
1998	$ 109,250,000	—	11,035,000	98,215,000	11,700,000
2002 B	53,255,000	—	4,800,000	48,455,000	5,050,000
2004 A and B	53,785,000	—	8,100,000	45,685,000	500,000
2005 A and B	127,730,000	—	10,530,000	117,200,000	—
2010A	191,510,000	—	10,155,000	181,355,000	10,455,000
2010B	157,955,000	—	195,000	157,760,000	19,260,000
	$ 693,485,000	—	44,815,000	648,670,000	46,965,000

(Continued)

Scheduled annual principal maturities and interest are summarized as follows:

		Principal	Interest	Total
Year(s) ending September 30:				
2014	$	49,115,000	30,623,278	79,738,278
2015		51,920,000	28,083,402	80,003,402
2016		54,610,000	25,394,303	80,004,303
2017		57,360,000	22,638,878	79,998,878
2018		60,355,000	19,629,315	79,984,315
2019 – 2023		212,770,000	59,932,400	272,702,400
2024 – 2028		115,575,000	10,877,300	126,452,300
	$	601,705,000	197,178,876	798,883,876

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, 2013 and 2012. Serial bonds aggregating to $86,515,000 are outstanding and will mature on May 15 of each year from 2014 to 2019 in amounts ranging from $12,405,000 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:

		2013	2012
Service account (amount reserved to meet current debt service requirements)	$	6,598,462	6,594,137
Reserve account (amount reserved for maximum annual debt service requirements)		17,596,976	17,592,504
	$	24,195,438	24,186,641

The refunding of the 1989 Bonds 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 statements of net position as a component of deferred outflow of resources, is amortized using the straight-line method over the life of the new bonds.

(b) 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 $35,615,000 will mature on May 15 of each year from 2014 to 2023 in amounts ranging from $3,415,000 to $8,460,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.10% to 5.50%. Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity; bonds maturing on or after May 2015 will be subject to call and redemption prior to maturity, at the option of the Board 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 $7,790,000 will mature on May 15, of each year from 2024 to 2027 in amounts ranging from $1,800,000 to $2,100,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 5.18%. 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 $2,100,000 from 2024 to 2027, respectively, for the term bonds scheduled to mature on May 15, 2027.

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:

Due date		Amount redeemed
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		8,050,000
		32,405,000
Term bonds:		
May 15, 2024		7,095,000
May 15, 2025		7,460,000
May 15, 2026		7,845,000
May 15, 2027		8,255,000
		30,655,000
Total redemption	$	63,060,000

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 statements of net position as a component of deferred outflow of resources, 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:

		2013	2012
Service account (amount reserved for maximum annual debt service requirements)	$	2,854,881	2,850,532

(c) 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 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 position. No amounts remain outstanding as of September 30, 2013 and 2012.

Serial bonds aggregating to $45,185,000 are outstanding and set to mature on May 15 of each year from 2014 to 2018 in amounts ranging from $6,930,000 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 statements of net position as a component of deferred outflow of resources, 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:

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

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 statements of net position as a component of deferred outflow of resources, 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:

		2013	2012
Service account (amount reserved to meet current debt service requirements)	$	3,436,519	1,552,934
Reserve account (amount reserved for maximum annual debt service requirements)		11,372,550	11,372,550
	$	14,809,069	12,925,484

(d) 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, 2013 and 2012.

Serial bonds aggregating to $92,205,000 are outstanding and are set to mature on May 15 of each year from 2014 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:

Due date		Amount redeemed
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		16,455,000
Total redemption	$	78,410,000

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 statements of net position as a component of deferred outflow of resources, 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:

		2013	2012
Service account (amount reserved to meet current debt service requirements)	$	6,549,375	2,619,431
Reserve account (amount reserved for maximum annual debt service requirements)		16,618,840	16,850,524
	$	23,168,215	19,469,955

(e) 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 $170,900,000 will mature on May 15 of each year from 2013 to 2025 in amounts ranging from $10,725,000 to $18,285,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging 3.0% 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:

		2013	2012
Service account (amount reserved to meet current debt service requirements)	$	7,105,331	7,304,914
Reserve account (amount reserved for maximum annual debt service requirements)		19,304,262	19,377,555
	$	26,409,593	26,682,469

(f) 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 $138,500,000 will mature on May 15 of each year from 2014 to 2027 in amounts ranging from $130,000 to $24,000,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 4.0% to 5.0%.

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:

		2013	2012
Service account (amount reserved to meet current debt service requirements)	$	3,357,281	10,144,195
Reserve account (amount reserved for maximum annual debt service requirements)		15,942,649	16,005,103
	$	19,299,930	26,149,298

(10) Retirement Programs

(a) Pension Plan

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

The Department is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. CalPERS does not calculate a separate pension obligation for the Department; therefore, no separate Department obligation can be presented herein. The Department paid $6,676,859, $7,358,017, and $6,074,150 to the City, which was equal to its annual required contribution for fiscal years 2013, 2012, and 2011, 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.

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, California 95814. Since CalPERS is on a fiscal year ending June 30th, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30th, which differs from the City's September 30th 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.

"Classic" 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 three percent of the employee's highest paid year of employment for each year of credited service. Third tier police and fire employees are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to two percent 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 five percent cost-of-living increase while those under the second tier are eligible to receive a maximum annual two percent cost-of-living increase.

"New" Safety: Effective January 1, 2013, safety employees who are either new to CalPERS or who have had a break in CalPERS service of at least 6 months, and who retire at age 57, are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest average annual pensionable compensation earned during a period of at least 36 consecutive months for each year of credited service. For fiscal year 2013, salaries are capped at $113.7 thousand. The salary cap is permitted to be adjusted based on changes in the CPI for all urban areas.

"Classic" 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 three for nonsafety employees hired after October 1, 2006. Vested tier three 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 under the first tier are eligible to receive a maximum annual five percent cost-of-living increase while those under the second and third tier are eligible to receive a maximum annual two percent cost-of-living increase.

"New" Miscellaneous: Effective January 1, 2013, miscellaneous nonsafety employees who are either new to CalPERS or who have had a break in CalPERS service of at least 6 months, and who retire at age 62, are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their highest average annual pensionable compensation earned during a period of at least 36 consecutive months for each year of credited service. For fiscal year 2013, salaries are capped at $113.7 thousand. The salary cap is permitted to be adjusted based on changes in the CPI for all urban areas.

Audited annual financial statements and ten-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, 2013, Safety and Miscellaneous plan participants were required to contribute 9.0% and 8.0% of their annual covered salary, respectively. However, as a benefit to employees, the City, in some cases, has elected to pay a portion of the employees' portion of this required contribution. The following table details the contribution rates for the City and its employees as of September 30, 2013.

Bargaining unit	City contributes	Employee contributes	New Hires
Unrepresented Management within the City Auditor's office	4.0%	4.0%	8.0%
City Attorney's Association	—	8.0	8.0
City Prosecutor's Association	—	8.0	8.0
Elected Officials and City Clerk:			
City Attorney	2.0	6.0	8.0
City Prosecutor	2.0	6.0	8.0
City Auditor	2.0	6.0	8.0
City Clerk	2.0	6.0	8.0
Mayor	—	8.0	8.0
Council Districts 1 – 7 and 9	—	8.0	8.0
Council District 8	—	8.0	8.0
Unrepresented Management and Nonmanagement	6.0	2.0	8.0
Long Beach Association of Engineering Employees	6.0	2.0	8.0
Long Beach Association of Confidential Employees	6.0	2.0	8.0
Long Beach Management Association	6.0	2.0	8.0
International Association of Machinists	—	8.0	8.0
Safety Managers	7.0	2.0	9.0
Long Beach Firefighters' Association	—	9.0	9.0
Long Beach Police Officers' Association	—	9.0	9.0
Long Beach Lifeguard Association	7.0	2.0	9.0

In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rates are 15.159% for miscellaneous employees and 22.315% for safety employees. For fiscal year 2014, the contribution rates will be 15.324% for miscellaneous employees and 22.623% 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 2013, the City's annual pension cost (APC) of $67.5 million for CalPERS was equal to the City's annual required contribution (ARC) of $89.5 million less employee contributions of $22.0 million. The ARC was determined as a part of the June 30, 2010 actuarial valuations.

The City's APC, the percentage of APC contributed to the plans, and the net pension obligation for the miscellaneous and safety plans for the fiscal years ended September 30, 2011, 2012, and 2013 are as follows (dollars in thousands):

Fiscal year	Miscellaneous annual pension cost	Safety annual pension cost	Annual pension cost (APC)	Percentage contribution
2011	41,953	33,087	75,040	100%
2012	47,436	29,441	76,877	100
2013	38,483	29,014	67,497	100

Actuarial Methods and Assumptions

A summary of principal assumptions and methods used to determine the annual required contribution rate for fiscal year 2013 for miscellaneous and safety employees is shown below:

	Assumptions
Valuation date	June 30, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Amortization period	Closed
Average remaining period	26 Years for miscellaneous and 25 years for safety 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	3.55% 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 basic financial statements, presents multiyear 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, 2012, the most recent actuarial valuation date, the funding status for the miscellaneous and safety plans were as follows (dollars in thousands):

Plan		Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry Age (b)	Unfunded AAL (UAAL) (Excess of assets over AAL) (b-a)	Funded ratio actuarial value basis (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Miscellaneous	$	1,825,592	2,057,068	231,476	88.7%	$	220,939	104.8%
Safety		1,834,547	1,936,904	102,357	94.7		124,868	82.0

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 ARC 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 supplementary information following the notes to the basic 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 is 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 month’s salary times the years of service. The Plan requires employee contributions of 6.20% of earnings (Contractors Special Status) and 3.0% 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 valuation date. The following information describes the calculation methodology:

- The Plan's APC for the fiscal year ended September 30, 2013 is based on the period from October 1, 2011 to September 30, 2012. The APC for fiscal year ended September 30, 2013, is $161 thousand, the same amount contributed for this period.
- The actuarial liabilities and assets are valued as of September 30, 2012.
- The actuarial-cost 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 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 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:

Fiscal year	Annual pension costs	Actual contribution	Percentage contribution	Net pension obligation
2011	$ 105,141	105,141	100%	$ —
2012	113,320	113,320	100	—
2013	161,072	161,072	100	—

Funded Status and Funding Progress

As of the most recent actuarial valuation date, September 30, 2012, the Plan's funding status was (dollars in thousands):

Plan	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry Age (b)	Unfunded AAL (UAAL) (Excess of assets over AAL) (b-a)	Funded ratio actuarial value basis (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
PARS	$ 903	1,489	586	60.6%	$ 8,526	6.9%

Actuarial Methods and Assumptions

The following is a summary of September 30, 2012 actuarial assumptions:

Interest rate:	4.75%
Actuarial cost method:	Entry age normal cost method
Mortality:	1983 Group annuity mortality (GAM83) table.
Turnover:	Sample rates are:

Age	Turnover
30	15%
40	15
50	10
60	5

Seasonal and temporary employees' first five years of service assume the following turnover rates:

Years of Service	Turnover
—	50%
1	35
2	30
3	25
4	20

Salary scale:	5.0%
Inflation:	3.0
Amortization period:	Closed
Average remaining period:	10 years
Retirement age:	Age 65 or attained age, if older.
Form of benefit:	Participants are assumed to receive a lump sum upon termination.

(b) Post Retirement Healthcare Benefits

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

At September 30, 2013, there were 586 participants in the City's Retired Employees Health Insurance Program and their noninterest-bearing cash value equivalent of the remaining unused sick leave totaled $20.6 million. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2013 were $7.4 million and are included as an expense of the Employee Benefits Internal Service Fund.

Termination Benefits

As of September 30, 2013, the City has recorded a liability in the Employee Benefits Internal Service Fund of $123.3 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences* (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996 and 2009 negotiated public safety health benefit supplements as described below:

Fire Retirement Supplement Benefit

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

Police Retirement Supplement Benefit

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

The actuarial study assumes an investment return of 4.3%; wage increases of 3.3% per year for both miscellaneous and safety employees, and insurance premium increases of 4.5%. The estimated current portion of such obligation of $8.1 million has been fully funded and the long-term portion of the liability of $115.2 million 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, 2013, the City has also recorded a liability in the Employee Benefits Internal Fund of $45.2 million based on an actuarial study of the “implicit subsidy” as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45)*. While the City does not directly contribute any funding 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 healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an “implicit subsidy” under GASB 45.

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

Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2013, the City has not prefunded the plan.

Annual OPEB Cost and Net OPEB Obligation

The City’s annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the ARC, an amount that is actuarially determined in accordance with the requirements of GASB 45.

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

Annual required contribution	$	15,405
Interest on net OPEB obligation		1,776
Adjustment to annual required contribution		(2,744)
Annual OPEB cost		14,437
Contribution made		(4,709)
Increase in net OPEB obligation		9,728
Net OPEB obligation – beginning of year		35,514
Net OPEB obligation – end of year	$	45,242

The ARC was determined as part of the September 2012 actuarial valuation. For the year ended September 30, 2013, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal year ended	OPEB Cost annual	Percentage of annual OPEB Cost contributed	Obligation net OPEB
9/30/2011	12,289	34.0%	26,139
9/30/2012	13,486	30.5	35,514
9/30/2013	14,437	32.6	45,242

Funded Status and Funding Progress

The funded status of the plan as of September 30, 2013 as follows (in thousands):

Actuarial accrued liability (AAL)	$	238,683
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	238,683
Funded ratio (actuarial value of plan assets/AAL)		—
Covered payroll	$	331,504
UAAL as a percentage of covered payroll		72.0%

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 basic 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, 2012 actuarial valuation used the Entry Age Normal Cost method. The actuarial assumptions included a 4.3% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 8.5% for non-Medicare plans and 8.9% for Medicare plans with both decreasing to 5.0% 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 $0. The plan’s unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

(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 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, 2013 and 2012.

(11) 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:

	2013	2012
Land	$ 797,233,148	797,233,148
Docks and wharves	501,883,155	486,119,890
Warehouses and sheds	45,614,107	46,103,616
Cranes and shiploaders	173,780,673	173,780,673
Buildings and other facilities	401,017,891	395,675,877
Infrastructure	940,437,591	864,466,067
Historical cost of leased property	2,859,966,565	2,763,379,271
Less accumulated depreciation	(1,062,594,985)	(980,721,453)
Book value of leased property	$ 1,797,371,580	1,782,657,818

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:	
2014	$ 265,274,000
2015	268,791,000
2016	269,372,000
2017	266,986,000
2018	268,556,000
2019 – 2023	1,323,235,000
2024 – 2028	900,602,000
2029 – 2033	276,773,000
2034 and thereafter	973,914,000
Total	$ 4,813,503,000

(12) 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. The ICTF financial statements for the year ended June 30, 2013 can be obtained from the Department.

(13) 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, 2013 and 2012 aggregated $82,582,507 and $233,149,214, 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 $1,415,000,000. The coverage also includes terrorism exposure.

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

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

	2013	2012
Insurance coverage for fire and other risks	$ 1,415,000,000	1,306,000,000
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 2013 and 2012, it made payments to the City's Insurance Fund totaling $1,345,005 and $1,927,601, 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 $14,000,000 and $4,000,000 for fiscal years 2013 and 2012, respectively.

Liability for Claims and Judgments Rollforward Schedule

Description		Balance, October 1, 2012	Additions	Reductions	Balance, September 30, 2013
Accrued claims and judgments	$	4,000,000	10,000,000	—	14,000,000
Description		**Balance, October 1, 2011**	**Additions**	**Reductions**	**Balance, September 30, 2012**
Accrued claims and judgments	$	5,000,000	—	1,000,000	4,000,000

(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 ACTA by the Department and the Port of Los Angeles. Revenues generated by Use Fees and Container Charges, paid by the railroads, will be used to pay debt service on ACTA financing, to establish and maintain a bond repayment reserve account, and to pay ACTA's reasonable expenses relating to administration of the rail corridor.

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

ACTA's latest Notice of Estimated Shortfall Advances and Reserve Accounting Funding (the Notice) was transmitted to the Department on August 6, 2013; 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. There is no projected shortfall for ACTA's fiscal year ended June 30, 2014. Any shortfall advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA.

During 2012, ACTA closed a Railroad Rehabilitation and Improvement Financing (RRIF) Loan of $83.7 million with the Federal Railroad Administration (FRA). This loan along with the planned refunding of ACTA's Series 1999A Tax-Exempt Senior Lien Revenue Bonds helps to reduce ACTA's debt service and is expected to defer the need for any additional shortfall advances into future years. The Department has funded, in prior years, a cash reserve to satisfy claims related to the shortfall advance potential obligation.

The balance of the long-term receivable is as follows:

ACTA Shortfall Advances Rollforward Schedule

Description		Balance, October 1, 2012	Additions	Reductions	Balance, September 30, 2013
ACTA Shortfall advance	$	5,900,000	—	—	5,900,000

(c) *Gerald Desmond Bridge Replacement Project*

The Gerald Desmond Bridge Replacement Project consists of replacing the existing four-lane Gerald Desmond Bridge, which spans the Port's Main Channel, with a new six-lane bridge. Currently, the Gerald Desmond Bridge is only two lanes in each direction with no shoulder and, depending on tide conditions, is too low to accommodate passage of the largest ships. The new bridge is being built with a cable-stayed design under a design-build contract and will feature three lanes in each direction for improved traffic flow, emergency lanes on both the inner and outer shoulders in each direction to reduce traffic delays and safety hazards from accidents and vehicle breakdowns, a 200-foot vertical clearance to accommodate the world's largest vessels, a reduction in the bridge's steep grades, and a bicycle/pedestrian path with scenic overlooks. Additional improvements include reconstruction of the Terminal Island East Interchange and a new interchange with the 710 Freeway. Construction of the new bridge began in 2013 and is expected to be completed by the end of 2016.

The bridge is expected to cost approximately $1.263 billion and is a joint effort between Caltrans and the Harbor Department. The Harbor Department anticipates that funding of the project will come from numerous sources, including, federal and State grants, and state sources, but local matching funds will also be required. Commitments from these funding sources total $846.2 million and are available as reimbursement for expenditures on the bridge project. As these expenditures are incurred, amounts eligible for reimbursement from the funding sources are recognized as revenue in the Port's statement of revenues. As of September 30, 2013, the Harbor Department has incurred approximately $438.7 million in costs to construct the replacement bridge. Of this amount, approximately $230.2 million has been recognized as capital grant revenue, with $121.1 million reported as part of due from other governmental agencies on the statement of net position as of September 30, 2013.

In anticipation of the matching fund requirement, the Department set aside funds to provide the expected 10% local match. During fiscal year 2011, the Department reassigned certain state grant funds from various rail projects to the Gerald Desmond Bridge project resulting in an increase in the amount of reserves set aside for the project. As of September 30, 2012, matching funds earmarked for this project were $49,146,986. In fiscal year 2013 the project is fully underway and the Port considers that a reserve for maintain matching funds is no longer necessary. Hence, as of September 30, 2013, matching funds earmarked for this project were reduced to zero.

Upon completion of the Gerald Desmond Bridge Replacement Project, ownership of the new bridge will be transferred to Caltrans. This transfer will result in a write-off of the total value of the bridge (currently estimated at $1.263 billion), reducing the Port's net position by this amount in the year this transfer occurs. Additionally, the Harbor Department has agreed to pay Caltrans all operation and maintenance costs with respect to the new bridge for a 30-year period commencing on the date ownership of the new bridge is transferred to Caltrans.

(d) Trade Corridor Improvement Fund Matching Contribution

The Department has, as part of its continuing capital improvement program, rail projects for track re-alignment and rail yard improvements that are being partially funded by grants from the Trade Corridor Improvement Fund (TCIF). These TCIF grants require a matching contribution of 100% from the Department and as a result, the Department set aside, for fiscal year 2012, a reserve in the amount of $35,750,000 to meet this match requirement. In fiscal year 2013 the project is fully underway and the Department considers that maintaining such reserve is no longer needed. Hence, the balance of this reserve has been reduced to zero as of September 30, 2013.

(e) 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.

(14) Transfers to the City of Long Beach

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) as amended, and with the approval of the Board of Harbor Commissioners (the Board), adopted a resolution to transfer 5% of the Department's operating revenue for fiscal years 2013 and 2012 to the City's Tidelands Operating Fund: in the amounts of $17,312,204 and $16,694,347, respectively.

(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. The cost incurred in the acquisition of the environmental credits has been classified as a noncurrent asset. The balance of environmental mitigation credits will be adjusted in the future as landfill credits are used for Port development.

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 environmental mitigation credits.

During fiscal year 2007, the Department completed landfills that required the utilization of $6,492,525 of the available credits; no acquisitions or utilization of credits occurred during the three years ended September 30, 2013. The balance of the Environmental Mitigation Credits was $43,236,207 as of September 30, 2013 and 2012.

(16) Net Position

Net position is the difference between total assets and total liabilities. Increases or decreases in net position 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 position is available to fund the Department's continuing operations. As of September 30, 2013 and 2012, the Department's net position was as follows:

		2013	2012
Net investment in capital asset	$	2,848,455,730	2,104,914,537
Restricted – capital projects		43,236,207	43,236,207
Restricted for debt service (note 8)		18,418,117	18,681,320
Restricted – nonrelated-party debt service contingency and matching contribution for federally funded projects (note 12)		—	95,620,127
Total restricted		2,910,110,054	157,537,654
Unrestricted		268,575,984	530,866,489
Total unrestricted		268,575,984	530,866,489
Total net position	$	3,178,686,038	2,793,318,680

(17) Subsequent Events

The Department has evaluated subsequent events through March 28, 2014, the date the financial statements were available to be issued.

In December 2013, the Department purchased an office building near the Long Beach airport for approximately $14.3 million. The move to the new office located at 4801 Airport Plaza Drive, Long Beach, CA 90615 was completed in March 2014.