Financial Statements

The Harbor Department of The City of Long Beach, California

For the fiscal years ended
September 30, 2006 and 2005

Richard D. Steinke
Executive Director

Sam A. Joumblat
Chief Financial Officer

THE PORT OF LONG BEACH
Your Environmentally Friendly Port

Financial Statements

The Harbor Department of
The City of Long Beach, California

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THE PORT OF LONG BEACH

Your Environmentally Friendly Port

KPMG LLP
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Independent Auditors' Report

The Honorable Mayor and City Council
The Honorable Members of the Board of Harbor Commissioners
The Citizens of the City of 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, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in note 1 to the financial statements, the financial statements referred to above include only the financial activities of the Harbor Department of the City of Long Beach, California, and are not intended to present fairly the financial position and results of operations of the City of Long Beach in conformity with U.S. generally accepted accounting principles.

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

The management's discussion and analysis on pages 3 to 10 is not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 12, 2006

As management of the Harbor Department of the City of Long Beach, California (the Department), we offer readers of the financial statements this discussion and analysis of the financial activities for the fiscal years ended September 30, 2006 and 2005.

Overview of the financial statements

The Department's financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Fund Net Assets, the Statements of Cash Flows, and the Notes to the Financial Statements. This discussion is intended to serve as an introduction to the Department's financial statements.

Condensed financial position information

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

The following condensed financial information provides an overview of the Department's financial position as of September 30 of 2006, 2005, and 2004.

SUMMARY OF NET ASSETS
SEPTEMBER 30, 2006, 2005, AND 2004

ASSETS	2006	2005	2004
Assets:			
Capital assets, net	$ 2,191,431,430	$ 2,223,194,894	$ 2,240,011,817
Other assets	1,031,344,405	847,125,542	791,361,452
TOTAL ASSETS	3,222,775,835	3,070,320,436	3,031,373,269
Liabilities:			
Long-term obligations, net of current portion	1,096,106,131	1,135,331,023	1,221,787,948
Current liabilities	144,523,850	106,838,907	123,656,653
TOTAL LIABILITIES	1,240,629,981	1,242,169,929	1,345,444,601
Net assets:			
Invested in capital assets, net of related debt	1,079,606,148	1,080,335,939	1,045,167,222
Restricted	317,730,496	306,321,367	285,386,351
Unrestricted	584,809,209	441,493,200	355,375,095
TOTAL NET ASSETS	$ 1,982,145,853	$ 1,828,150,506	$ 1,685,928,668

Analysis fiscal year 2006

The assets of the Department exceeded its liabilities at the close of the 2006 fiscal year by $1,982,145,853 (*net assets).* Total net assets increased by $153,995,347. This change consists mainly of $192,288,132 of operating income, $4,301,663 of income from equity in a joint venture, $6,125,571 of income from oil operations, and $2,298,184 of income derived from grants received from federal and State governments; less $49,626,371 from other non-operating expenses including financing costs, and $1,391,832 in losses resulting from the disposition of capital assets.

Other assets increase from previous year is mostly due to a $169,504,744 increase in pooled cash and cash equivalents; directly related to the increase in operating income, and additional contributions to various reserve accounts held by the Port.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) less any related debt is $1,079,606,148 or 54% of the aggregate net assets. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds $317,730,496 of net assets subject to external restrictions, an increase of $11,409,129 when compared to last year. This increase consists mainly of contributions and interest earnings added to funds restricted for non-related party debt service contingency and matching contribution for future federally funded projects and to funds restricted for capital projects. Restricted net assets are 16% of the Department's total net assets and are presented in the Statement of Net Assets as restricted net assets.

At the end of the current fiscal year, the Department reported unrestricted net assets of $584,809,209 an increase of $143,316,008 when compared to last year. This increase consists mainly of current year net income of $153,995,347, less $3,000,000 used to fund an insurance reserve, and $11,400,000 provided to purchase additional environmental mitigation credits. A set-aside fund of $104,025,687 earmarked to fund environmental protection projects is an integral part of the unrestricted assets. Unrestricted net assets represent 30% of the Department's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Department's continuing obligations.

<u>Analysis fiscal year 2005</u>
The assets of the Department exceeded its liabilities at the close of the 2005 fiscal year by $1,828,150,506 (*net assets).* Total net assets increased by $142,221,838. This change consists mainly of $180,438,209 of operating income, $3,535,373 of income from equity in a joint venture, $13,540,959 of income from Harbor oil operation, and $2,208,461 of grant income received from federal and State governments; less $57,101,426 from non-operating expenses including financing costs, and $399,737 in losses resulting from the disposition of capital assets.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) less any related debt is $1,080,335,939 or 59% of the aggregate net assets.

The Department holds $306,321,367 of net assets subject to external restrictions, an increase of $20,935,016 when compared to last year. This increase consists mainly of $20,152,791 restricted for repayment of long-term debt. Restricted net assets are 17% of the Department's total net assets. They are presented in the Statement of Net Assets as restricted net assets.

At the end of the current fiscal year, the Department reported unrestricted net assets of $441,493,200 an increase of $86,118,105 when compared to last year. This increase consists mainly of current year net income of $142,221,838, less $3,000,000 used to fund an insurance reserve, and additional funds provided to current refund the 1995 Harbor Revenue bonds. A set-aside fund of $100,000,000 needed to fund environmental protection projects is an integral part of the unrestricted assets. Unrestricted net assets represent 24% of the Department's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Department's continuing obligations.

<u>Summary of operations and changes in net assets</u>
The Statements of Revenues, Expenses, and Changes in Fund Net Assets illustrate the Department's change in net assets from prior to current fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect

future period cash flows, e.g.: uncollected receivables and earned, but unused, vacation leave. The table below summarizes the operations for fiscal years 2006, 2005, and 2004.

CHANGES IN FUND NET ASSETS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

	2006	2005	2004
Operating revenues:			
Berth and special facilities	$ 337,675,886	$ 314,563,390	$ 267,455,834
Miscellaneous	15,618,591	14,644,072	13,325,847
Total operating revenues	353,294,477	329,207,462	280,781,681
Operating expenses:			
Facility and infrastructure	(54,341,201)	(42,905,834)	(36,632,411)
General and administrative	(21,199,838)	(19,109,527)	(17,575,004)
Depreciation and amortization	(85,465,306)	(86,753,892)	(82,920,766)
Total operating expenses	(161,006,345)	(148,769,253)	(137,128,181)
Operating income	192,288,132	180,438,209	143,653,500
Nonoperating revenues (expenses):			
Intergovernmental	(14,222,184)	(9,499,689)	(6,850,777)
Interest expense, net of revenues	(25,807,784)	(39,483,440)	(47,094,335)
Income from oil operations	6,125,571	13,540,959	1,806,653
Loss on disposition of capital assets	(1,391,832)	(399,737)	(93,464)
Income from equity in joint venture	4,301,663	3,535,373	2,795,157
Other expense, net	(9,596,403)	(8,118,298)	(4,971,896)
Net non-operating expense	(40,590,969)	(40,424,832)	(54,408,662)
Income before capital grants	151,697,163	140,013,377	89,244,838
Capital grants	2,298,184	2,208,461	5,752,052
Change in net assets	153,995,347	142,221,838	94,996,890
Total net assets – beginning	1,828,150,506	1,685,928,668	1,590,931,778
Total net assets – ending	$ 1,982,145,853	$ 1,828,150,506	$ 1,685,928,668

Analysis fiscal year 2006

Compared to the results of operations for fiscal year 2005, revenues from all berths and special facilities increased 7%; specifically, all lines of business increased: containerized cargo 7%, liquid bulk 1%, dry bulk 21%, steel 14%, vehicles 2%, lumber 16%, other facilities 6%, rentals 5%, and miscellaneous revenues 12%. Gross oil operations revenue increased 41%.

In terms of volume (measured in metric revenue tons), the following lines of business increased: containerized cargo 7%, liquid bulk 1%, dry bulk 29%, and vehicles 23%; while the following lines of business decreased: steel 4%, lumber 12%, and miscellaneous 30%.

Operating expenses increased partly due to the ongoing implementation of the Green Port policy, which provides for higher environmental mitigation expenses. There was also a substantial increase in Port security related costs and closing of capital work orders considered to be operating expenses rather than capital expenditures.

Depreciation expense changes in proportion to the acquisition, completion, or retirement of operating assets; during fiscal year 2006 the Port did not put into service any major facility or major assets, but it retired assets that were still being depreciated. This combination of factors resulted in a slight reduction of the depreciation expense. Interest expense decreased because of the scheduled reduction of bond principal balances and due to the favorable effect of the variable interest rate on the 2002A bonds. Interest income increased due to financial market conditions with prevailing higher interest rates and higher cash balances maintained by the Port.

Analysis fiscal year 2005

Compared to the results of operations for fiscal year 2004, revenues from all berths and special facilities increased 18%; specifically containerized cargo increased 20%, liquid bulk 5%, dry bulk 10%, steel 8%, other facilities 66%, rentals 8%, and miscellaneous revenues 18%; vehicles showed no gain from 2004, while lumber decreased 14%. Oil operations gross revenues increased by 44%.

In terms of volume (measured in metric revenue tons), containerized cargo increased 20%, liquid bulk 3%, steel 11%, vehicles 7%, and dry bulk 5%. Lumber declined by 5% and miscellaneous cargo declined by 10%.

Operating expenses increased due partly to the implementation of the new Green Port policy, which provided for higher environmental mitigation expenses. There was also a substantial increase in Port security related costs, and closure of capital work orders considered to be operating expenses rather than operating assets. Depreciation expense increased because of depreciation attributed to installations placed in service during the current fiscal year. Interest expense decreased due to lower principal balances and due to the current refunding of the 1995 Revenue Bonds. Interest income, on the other hand, increased due to higher interest rates prevailing during the year, and to the increase in the principal balances of some of the reserves.

Notes to the Financial Statements

The notes to the Department's financial statements can be found on pages 16-37 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

Capital Assets and Debt Administration

Capital assets

The Department's investments in capital assets, net of accumulated depreciation, as of September 30, 2006, 2005, and 2004 are as follows:

CAPITAL ASSETS, NET
SEPTEMBER 30, 2006, 2005, AND 2004

	2006	2005	2004
Non-depreciable capital assets			
Land	$ 848,903,831	$ 836,811,556	$ 815,214,993
Construction in progress	145,554,036	130,633,396	168,177,328
Rights of way	207,823,264	207,823,264	207,823,264
Subtotal non-depreciable capital assets	1,202,281,131	1,175,268,216	1,191,215,585
Depreciable capital assets			
Structures and Facilities	985,583,964	1,044,433,538	1,045,143,882
Furniture, fixtures, and equipment	3,566,335	3,493,140	3,652,350
Subtotal depreciable capital assets	989,150,299	1,047,926,678	1,048,796,232
Total capital assets	$ 2,191,431,430	$ 2,223,194,894	$ 2,240,011,817

Analysis fiscal year 2006

The Department's investment in capital assets includes land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. These assets experienced a decrease of 1% when compared to previous year. The decrease is due to the transfer of costs accumulated in the construction in progress account to operating expenses. Additional information regarding the Department's capital assets can be found in Note 5 to the financial statements.

Analysis fiscal year 2005

The Department's investment in capital assets includes land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. These assets experienced a decrease of 1% when compared to previous year. Additional information regarding the Department's capital assets can be found in Note 5 to the financial statements.

Debt administration

The following table summarizes the Department's long-term debt as of September 30, 2006, 2005, and 2004:

LONG-TERM DEBT
SEPTEMBER 30, 2006, 2005, AND 2004

	2006	2005	2004
Bond debt	$1,055,949,798	$1,092,333,356	$1,151,237,594
Commercial paper outstanding	60,150,000	60,150,000	60,150,000
Notes payable	82,667	137,559	192,451
Total long-term debt	$1,116,182,465	$1,152,620,915	$1,211,580,045

Analysis fiscal year 2006

The Department's total long-term debt decreased $36,438,450, or approximately 3%. The decrease was the result of scheduled debt service payments.

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

The debt-service coverage ratios for the fiscal years ending 2006 and 2005 are 3.4 and 3.4, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

Additional information on the Department's long-term debt can be found in notes 6, 7, and 8 on pages 25-30 of this report.

Analysis fiscal year 2005

The Department's total long-term debt decreased $58,959,130, or approximately 5%. The decrease was the result of scheduled debt service payments and the restructuring of some of the bonds issued by the Department. The 1995 Harbor Revenue Bonds were current refunded and defeased with funds from the issuance of the 2005 Harbor Revenue Refunding Bonds.

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA, stable outlook; Moody's Investors Services: Aa3, positive outlook; and Fitch Ratings: AA, stable outlook. The ratings are the result of the Port's significant size, and strength among the competitive West Coast container ports, status as a world-class facility, prime location to capture Pacific Rim trade, links to inter-modal connections, healthy financial margins, high levels of liquidity, and an attainable and environmentally responsible capital program supported by management's commitment to sustainability, environmental protection and preservation and customer service.

The debt-service coverage ratios for the fiscal years ending 2005 and 2004 are 3.1 and 2.5, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

Additional information on the Department's long-term debt can be found in notes 6, 7, and 8 on pages 25-30 of this report.

Economic Outlook

In 1911, the State of California established the Long Beach tidelands area as a State Trust and designated the City of Long Beach as a trustee for the people of the State of California. The Port of Long Beach, located in the Tidelands Trust, has been a successful landlord port providing the region, state, and nation with seaport facilities and serving as an international gateway for trade. In recent years this trade has grown significantly. Trade is expected to continue to grow over the coming years.

In 2006, Port's terminals moved nearly 7.2 million TEU's (twenty-foot equivalent units), an increase of 7.9% from 2005. The Port's overall increases in cargo volumes led to significant growth in operating revenues. The Port's net income, before grants, increased 8.3%.

In addition to the growth in container cargo, other line of businesses also increased. Dry bulk revenue, consisting mainly of outbound petroleum coke and inbound cement and gypsum, increased 21%; steel and other break-bulk grew 14%; petroleum and liquid bulk increased 1%; vehicles increased 2%; and lumber increased 16%. Most of the remaining revenue generators including other facilities, rentals and miscellaneous activities also increased.

Cargo volume through the Port increased to 168 million metric revenue tons in fiscal 2006, up 7% from 2005. Containerized cargo terminals recorded gains of 7% by volume; liquid bulk volume increased 1%, and dry bulk volume increased 29%.

This constant expansion of foreign trade provides a tremendous boost to local, regional and national economies, and affords the Port a number of opportunities for the future. It also presents significant challenges as the Port balances its economic growth with responsible stewardship of the environment.

The Department generates revenues through leases, tariffs and other charges assessed to its tenants. No local, state or federal taxes support Port operations. The Department does not fund general governmental activities but compensates the City of Long Beach for services such as public safety, human resources, civil service, and centralized financial, legal and audit services.

Trade and Commerce

Throughout its history, and being one of the world's busiest ports, the Port has made it a priority to provide state-of-the-art seaport facilities; this is even more important in today's operating environment than ever before. Investing in modern facilities and transportation infrastructure is conducive to significant increases in goods movement efficiency. Increased efficiency leads to greater regional economic benefits as well as a safer and cleaner Port environment.

Trade traffic passing through the Port of Long Beach is expected to increase in the foreseeable future. As a landlord and facilities developer, the Port has the responsibility to maintain much of the infrastructure within the Long Beach Harbor District. Building modern facilities and infrastructure and providing proper maintenance for such assets is essential, not only to the Port's financial success but also a key element in meeting environmental protection needs of the surrounding communities. Port's resources are devoted to facilitate international goods movement, to build state-of-the-art infrastructure and transportation systems, and to reduce traffic congestion and other negative impacts on the community. The largest infrastructure project now underway is the Ocean Boulevard interchange project. This project, when completed, will reduce travel time for trucks and automobiles crossing Terminal Island, thereby improving traffic flow and reducing air pollution.

The Port also provided funding for an Environmental Impact Study that will examine a proposed overhaul of the Long Beach (I-710) Freeway. The study will examine design alternatives and evaluate the benefits and impacts of widening the freeway.

To accommodate the increase in trade volume expected during the next 20 years the Port will continue to seek innovative solutions for developing facilities and related infrastructure while ensuring that air, water and soil quality continue to improve.

Environmental Protection

In June, 2006, the Ports of Long Beach and Los Angeles jointly introduced the San Pedro Bay Port Clean Air Action Plan (CAAP), a sweeping plan aimed at significantly reducing the health risks posed by air pollution from port-related ships, trains, trucks, terminal equipment, and harbor craft. The Port of Long Beach will invest $229 million over the next five years. The Port has established itself as a world leader in sustainable industrial development by adopting the industry-leading Green Port Policy.

Specific environmental accomplishments include:

- Signing two ground breaking "green" leases with SSA Terminal and International Transportation Services at Piers C and G, respectively, which will reduce air pollution significantly over the coming years.
- Implementing the Green Flag Incentive program, a tariff item, which will use up to $2.7 million in annual incentives to stimulate compliance with a voluntary speed reduction program. Lower speed reduces harmful emissions in the Port region.
- Joining forces with Port of Los Angeles and Pacific Harbor Line, a private railroad operator, to fund a clean-diesel locomotive replacement program.
- Continuing the implementation of cold ironing on Pier T as a result of a voluntary agreement with British Petroleum in 2005.

Security

The Port of Long Beach is dedicated to being the safest, most secured Port in the world. To assist in that effort the Port has actively pursued and has been awarded, up to the end of fiscal year 2006, nearly $37 million in Federal Port Security grants. These funds will enhance communications systems and security technology.

The Port continues to develop an Emergency Management system for the entire Port complex and is putting together its business continuity plan to ensure uninterrupted key Port operations in the event of an emergency. The Port is enhancing its security budget to ensure the acquisition of the latest security technology and to provide its officers with the best training available. In the spirit of cooperation, the Port works closely with the Long Beach Police Department, U.S. Customs, and the U.S. Coast Guard to safeguard the Harbor District. To that end, on July 17, 2003 the Port was awarded federal grant money that will partially fund a new $20 million joint use Command and Control Center on Pier F; construction of this facility will begin in 2007. The facility will house the Port's Security Division; Long Beach Police Officers assigned to the Port; representatives from the U.S. Coast Guard, U.S. Customs and Border Protection; and Los Angeles Port Police.

Requests for Information

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

The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Pooled cash and cash equivalents (Note 2)	$ 563,903,516	$ 394,398,772
Trade accounts receivable, net of allowance	41,763,945	41,935,066
Interest receivable	576,406	613,360
Due from other governmental agencies (Note 3)	2,961,260	693,101
Inventories of supplies	928,111	1,007,420
Sub-total	610,133,238	440,412,719
Harbor Revenue Bond Funds and other funds restricted as to use (Notes 2, and 8):		
Pooled cash and cash equivalents (Note 2)	259,112,794	247,691,789
Bond reserves held by Fiscal Agents (Note 8)	54,153,081	54,184,275
Sub-total restricted current assets	313,265,875	301,876,064
Total current assets	923,399,113	742,288,783
Non-current assets:		
Capital assets (Notes 5 and 10):		
Land:		
Purchased	439,812,839	439,492,674
Constructed	409,090,992	397,318,882
Net land	848,903,831	836,811,556
Structures and facilities	1,782,556,550	1,767,711,746
Less accumulated depreciation	(796,972,586)	(723,278,208)
Net structures and facilities	985,583,964	1,044,433,538
Furniture, fixtures and equipment	15,439,437	15,189,557
Less accumulated depreciation	(11,873,102)	(11,696,417)
Net furniture, fixtures and equipment	3,566,335	3,493,140
Construction in progress	145,554,036	130,633,396
Right of way (Note 4)	207,823,264	207,823,264
Net capital assets	2,191,431,430	2,223,194,894
Other assets:		
Long -term receivables (Note 3)	27,435,000	27,435,000
Oil facilities (net of accumulated depletion of $69,192,143 and $68,528,520 respectively) (Note 5)	11,943,712	12,607,334
Environmental mitigation costs (Note 14)	44,278,068	32,878,068
Investments in joint venture (Note 11)	6,787,795	5,986,131
Other non-current assets	17,500,717	27,695,226
Total other assets	107,945,292	104,836,759
Total non-current assets	2,299,376,722	2,328,031,653
Total assets	$ 3,222,775,835	$ 3,070,320,436

(Continued)

The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2006 and 2005

	2006	2005
Liabilities and Net Assets		
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	$ 54,217,748	$ 22,776,621
Due to City of Long Beach (Note 13)	14,571,972	9,499,689
Notes payable (Note 7)	41,334	54,892
Deferred credits and unearned revenue (Note 12)	17,226,740	17,082,670
Total current liabilities payable from current assets	86,057,794	49,413,872
Current liabilities payable from restricted assets:		
Current portion of bonds indebtedness (Note 8)	38,335,000	34,935,000
Accrued interest – bonds	17,746,056	20,105,035
Total current liabilities payable from restricted assets	56,081,056	55,040,035
Commitments and contingencies (Note 12)	2,385,000	2,385,000
Total current liabilities	144,523,850	106,838,906
Long-term obligations net of current portion:		
Bonds indebtedness (Note 8)	1,017,614,798	1,057,398,356
Commercial paper outstanding (Note 6)	60,150,000	60,150,000
Notes payable (Note 7)	41,333	82,667
Oil wells abandonment (Note 12)	18,300,000	17,700,000
Total noncurrent liabilities	1,096,106,131	1,135,331,023
Total liabilities	1,240,629,981	1,242,169,929
Net assets (Note 15):		
Invested in capital assets, net of related debt	1,079,606,148	1,080,335,939
Restricted-non-related party debt service contingency and matching contribution for future federally funded projects (Note 12)	162,602,842	153,416,559
Restricted-Capital projects	51,647,885	47,428,818
Restricted-Debt service	103,479,769	105,475,990
Unrestricted	584,809,209	441,493,200
Total net assets	$ 1,982,145,853	$ 1,828,150,506

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach
Statements of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Years Ended September 30, 2006 and 2005

	2006	2005
Port operating revenues (Note 10):		
Berths and special facilities	$ 337,675,886	$ 314,563,390
Rental properties	11,458,464	10,925,736
Miscellaneous	4,160,127	3,718,336
Total Port operating revenues	353,294,477	329,207,462
Port operating expenses:		
Facility maintenance	5,336,502	5,801,372
Infrastructure maintenance	22,787,336	16,738,700
Fire and safety	17,527,101	14,210,253
Other indirect	8,690,263	6,155,509
General and administrative	21,199,838	19,109,527
Port operating expenses before depreciation and amortization	75,541,039	62,015,361
Depreciation and amortization	85,465,306	86,753,892
Total Port operating expenses	161,006,345	148,769,253
Operating Income	192,288,132	180,438,209
Non-operating income (expense):		
Intergovernmental (Note 13)	(14,222,184)	(9,499,689)
Interest income	28,301,965	17,964,410
Interest expense	(54,109,749)	(57,447,850)
Income from Harbor oil operations	6,125,571	13,540,959
Loss on disposition of capital assets	(1,391,832)	(399,737)
Income from equity in joint ventures (Note 11)	4,301,663	3,535,373
Other expense, net	(9,596,403)	(8,118,298)
Net non-operating expense	(40,590,969)	(40,424,832)
Income before capital grants	151,697,163	140,013,377
Capital grants	2,298,184	2,208,461
Increase in net assets	153,995,347	142,221,838
Total net assets, October 1	1,828,150,506	1,685,928,668
Total net assets, September 30	$ 1,982,145,853	$ 1,828,150,506

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach
Statements of Cash Flows
September 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	$ 354,167,712	$ 322,771,573
Cash paid to employees net of capitalized labor of $4,835,075 and $4,540,977 in 2006 and 2005	(25,771,912)	(24,095,868)
Cash paid to suppliers	(48,091,395)	(28,848,619)
Net cash provided by operating activities	280,304,405	269,827,085
Cash flows from non-capital financing activities:		
Intergovernmental transfers	(9,499,689)	(6,850,777)
Net cash used in non-capital financing activities	(9,499,689)	(6,850,777)
Cash flows from capital and related financing activities:		
Proceeds from the sales of capital assets	78,436	42,388
Payments for capital acquisitions	(59,189,053)	(82,228,647)
Grant proceeds	1,112,876	1,925,423
Bond debt issuance	-	277,682,985
Principal repayment-bonds	(34,935,000)	(327,655,000)
2005 Bonds reserve	-	(20,855,469)
Interest paid	(58,060,860)	(47,481,615)
Principal payment-notes	(54,892)	(54,892)
Net cash used in capital and related financing activities	(151,048,493)	(198,624,826)
Cash flows from investing activities:		
Interest received	28,207,625	18,193,282
Return on investment in joint venture	3,500,000	2,500,000
Harbor oil operations providing cash	29,562,000	11,387,989
Net cash provided by investing activities	61,269,626	32,081,271
Net increase in cash and cash equivalents	181,025,849	96,432,753
Cash and cash equivalents, October 1,	663,912,756	567,481,003
Cash and cash equivalents, September 30,	$ 844,938,605	$ 663,912,756

Continued

The Harbor Department of the City of Long Beach
Statements of Cash Flows
September 30, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 192,288,132	$ 180,438,209
Adjustments to reconcile operating income to		
Net cash provided by operating activities:		
Depreciation and amortization	85,465,306	86,753,892
(Increase) in receivables	(410,703)	(2,938,081)
Decrease (increase) in inventory	58,224	(142,419)
(Increase) in other current assets	-	(72,129)
Decrease in deferred charges	-	2,891,301
(Decrease) increase in vouchers payable	(65,087)	(767,796)
Increase in accounts payable	886,269	5,196,690
Increase in wages payable	448,537	2,722,696
Increase in accrued commitments & contingencies	-	885,000
(Decrease) in deferred revenue	1,071,887	(8,272,098)
Increase in customer deposits	212,051	275,159
Increase in due to other funds	349,789	2,648,912
Increase in other liabilities	-	207,749
Total adjustments	88,016,273	89,388,876
Net cash provided by operating activities	$ 280,304,405	$ 269,827,085

See accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies

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 Department operations are included in the City's reporting entity as an enterprise fund; its activities are conducted in the Tidelands Trust area of the City and are subject to coastal area laws of the State of California and to the terms of the trust agreement between the City and the State of California.

The Harbor Facilities Corporation (the Corporation), a non-profit public benefit corporation, has been inactive since 1995 and did not have any activity during the 2006 and 2005 fiscal years. If the Corporation would have any transactions with financial implications, they would be included in the Department's financial statements.

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

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

Basis of Accounting and Measurement Focus

Disbursement of funds derived from Department 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 the Department tenants. Consistent with generally accepted accounting principles for enterprise funds, the accounting policies of the Department conform to the accrual basis of accounting. The measurement focus of the accompanying financial statements is on the determination of changes in net assets and changes in financial position. Operating revenues and expenses are generated and incurred through the cargo activities performed by the Port tenants; operating expenses include the maintenance of facilities and infrastructure, Harbor patrol security, and reimbursement to the Fire and Police Departments for manning fire boats, land stations, and police patrols. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. The Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and all FASB Statements and Interpretations, including those issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Department's financial statements include two components:

1. Management's discussion and analysis (MD&A)
2. Financial statements including:
    - Statements of net assets
    - Statements of revenues, expenses, and changes in fund net assets
    - Statements of cash flows on the direct method, and

    Notes to the financial statements

New Accounting Pronouncements

Effective October 1, 2005, the Department adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* This statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, and interest rate risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. Implementation of GASB Statement No. 40 did not have a significant impact on the Department's financial statements but required additional footnote disclosures for the year ended September 30, 2006 (see Note 2).

Effective October 1, 2006, the Department adopted GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB No. 44 *Economic Condition Reporting – The Statistical Section,* an amendment of National Council on Government Accounting (NCGA) Statement No. 1. The adoption of both pronouncements, GASB 42 and GASB 44, did not have a material effect on the Department's financial statements.

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, non-pooled investments. Investment decisions are made by the City Treasurer and approved by an investment committee whose membership includes members of the Department's management group.

Interest income and gains/losses arising from such pooled cash and investments are apportioned to each participating fund based on the relationship of the individual fund'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, 2006 and 2005, is stated at fair value (see Note 2).

Inventories

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

Capital Assets

Capital assets are valued at historical costs. The capitalization threshold for capital assets is $5,000. Depreciation is determined using the straight-line method with no allowance for salvage values. 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 to 75 years
Wharves and bulkheads	40 years
Transit sheds and buildings	20 years
State highway connections	10 years
Other	5 to 50 years
Furniture, fixtures, and equipment	2 to 30 years

Oil facilities are valued at historical cost plus estimated future oil well abandonment costs. Oil field depletion is determined using the estimated economic life of the oil field. Donated assets are valued at their estimated fair value on the donation date.

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.

Pension Plan

All full-time Department employees are members of the State of California Public Employees' Retirement System (CalPERS). The Department's policy is to fund all 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. For CalPERS contributions made on behalf of Department employees (see Note 9).

Allowance for doubtful accounts

The allowance for doubtful accounts is maintained at an adequate level to absorb accounts receivable losses. Management continually monitors accounts receivable to identify specific uncollectible accounts to determine the annual provision for uncollectible accounts. The allowance for doubtful accounts is changed with the provision for uncollectible accounts.

Use of Estimates

The preparation of financial statements in conformity with 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.

Reclassifications

Certain amounts reported in fiscal year 2005 have been reclassified to conform to the fiscal year 2006 presentation. Such reclassifications had no effect on the previously reported change in net assets.

(2) Pooled Cash, Cash Equivalents and Other Investments

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 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 certificates 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 which 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 for the City by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather that the general provision of the California Government Code or the City's investment policy.

FISCAL YEAR 2006

Authorized Investment type	Maximum Maturity	Maximum % of portfolio	Maximum Investment in One Issuer
Bonds issued by the city of Long Beach	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	N/A	None	$40 million per account
Asset-backed Securities	5 years	20 %	None
Mortgage-backed Securities	5 years	20 %	None

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

Disclosures Relating to 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 maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedules indicate the interest rate risk of the City's investments as of September 30, 2006 and 2005.

Fiscal Year 2006:

Investment type	Amount (In thousands)	Weighted average maturity (In years)
Inter-Department Loan	$ 3,297	12.60
United States Treasury notes	214,467	1.54
Federal agency securities	1,042,876	1.57
Medium-term notes	33,464	1.61
Short-term commercial paper	132,731	0.01
Local Agency Investment Fund (LAIF)	2,920	0.00
SUBTOTAL CITY POOL	$ 1,429,755	
Cash on hand	26,811	
Outstanding checks	(18,044)	
TOTAL CITY POOL	$ 1,438,522	

Fiscal Year 2005:

Investment type	Amount (In thousands)	Weighted average maturity (In years)
Inter-Department Loan	$ 3,502	13.57
United States Treasury notes, bonds, or bills	286,244	0.84
Federal agency securities	858,473	1.31
Medium-term notes	95,404	-
Money market funds	34	-
Local Agency Investment Fund (LAIF)	94,913	0.46
TOTAL CITY POOL	$ 1,338,570	
Guaranteed investment contracts	$ 32,362	-
Money market funds	21,822	-
TOTAL HELD BY BOND TRUSTEE	$ 54,184	
TOTAL CASH AND INVESTMENTS	$ 1,392,754	

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2006 and 2005.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year end for each investment type as of September 30, 2006 and 2005.

FISCAL YEAR 2006

			RATING AS OF SEPTEMBER 30, 2006					
Investment type	AMOUNT (In 000's)	Minimum Legal Rating	Not Required	A-1+	A-1	AAA	AA	Unrated
Inter-Department Loan	$ 3,297	N/A	$ 3,297	$ -	$ -	$ -	$ -	$ -
U.S. Treasury notes	214,467	N/A	214,467	-	-	-	-	-
Federal Agency Securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-term notes	33,464	N/A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund	2,920	N/A	2,920	-	-	-	-	-
SUBTOTAL CITY POOL	1,429,755		220,684	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811	N/A	-	-	-	-	-	26,811
Outstanding checks	(18,044)	N/A	-	-	-	-	-	(18,044)
TOTAL CITY POOL	$ 1,438,522		$ 220,684	$ 75,773	$ 56,958	$ 1,071,321	$ 5,019	$ 8,767

FISCAL YEAR 2005

			RATING AS OF SEPTEMBER 30, 2005				
Investment type	AMOUNT (In 000's)	Minimum rating	Not Required	Unrated	AAA	AA	A
Inter-Department Loan	$ 3,502	N/A	100%				
U.S. Treasury notes, bonds, or bills	286,244	N/A	100%				
Federal Agency Securities	858,473	N/A			100%		
Medium-term notes	95,404	A			75%	5%	20%
Money Market funds	34	N/A	100%				
Local Agency Investment Fund	94,913	N/A		100%			
TOTAL CITY POOL	$ 1,338,570						
Guaranteed investment contracts	32,362	N/A	100%				
Money market funds	21,822	N/A	100%				
TOTAL HELD BY BOND TRUSTEE	54,184						
TOTAL CASH AND INVESTMENTS	$ 1,392,754						

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's pooled investments and for the fiscal years ended September 30, 2006 and 2005 are as follows (in thousands):

FISCAL YEAR 2006

Issuer	Investment type	Amount
FFCB Total	Federal Agency Securities	$ 181,052
FHLB Total	Federal Agency Securities	241,246
FHLMC Total	Federal Agency Securities	266,937
FNMA Total	Federal Agency Securities	353,641
U.S. Treasuries	U.S. Treasury Notes & Bonds	214,467
Commercial Paper	Unsecured Corporate Debt	132,731
Corporate Debt Securities	Unsecured Corporate Debt	33,464
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund	2,920
		$ 1,426,458

FISCAL YEAR 2005

Issuer	Investment type	Amount
FNMA	Federal Agency Securities	$ 237,814
Federal Farm Credit Agency	Federal Agency Securities	194,999
FHLB	Federal Agency Securities	204,151
FHLMC	Federal Agency Securities	216,462
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	94,914
U.S. Treasury	U.S. Treasury notes, bond, or bills.	286,244
		$ 1,234,584

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

Custodial Credit Risk

Custodial credit risk for deposits with financial institutions is the risk that in the event of failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The custodial risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by

LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

The Department's portion of the total pooled cash and cash equivalents amount as of September 30, 2006 and 2005 is $823,016,310 or 57.6% of the City's pooled cash and cash equivalents and $642,090,561 or 48.0% of the City's pooled cash and cash equivalents.

Reverse Repurchase Agreements

The City did not engage in any transactions involving reverse repurchase agreements during the fiscal years ending September 30, 2006 and 2005.

Securities Lending

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2006 and 2005. However, from time to time, the City engages in limited securities lending activities. These activities are governed by formal agreement with the City's contract bank. The agreements limit the nature and amount of the transactions, and such transactions are subject to full collateralization.

(3) Other Receivables

Other receivables as of September 30 include the following:

	2006	2005
Due from other governmental agencies:		
Current:		
Reimbursements due from Caltrans	$ 2,568,892	$ -0-
State of California	166,754	-0-
Federal grant – Department of Homeland Security	72,431	693,101
Due from other funds – Oil Properties	153,183	-0-
Total current	2,961,260	693,101
Long-term:		
Redevelopment Agency – Convention Center	$ 27,435,000	$ 27,435,000
Total due from other governmental agencies	$ 30,396,260	$ 28,128,101

Redevelopment Agency-Convention Center

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

In August 1995, the Board of Harbor Commissioners amended this agreement and agreed to subordinate the repayment of the entire receivable to a contingent City obligation related to a bond issuance to fund the construction of the Aquarium of the Pacific (the Aquarium), a not-for-profit facility in the Queensway Bay area of the City. Provided the anticipated future revenue sources from the Aquarium would not cover their bond debt service requirements, the Agency agreed to fund the remaining debt service with transient occupancy tax revenues. A subsequent amendment deferred the initial repayment to the first quarter of fiscal year 1999, with the balance of the advance to be repaid in quarterly installments over 16 years.

In a more recent development, the City and the Department amended the agreement to provide for a two-year deferral of the payments scheduled for fiscal years 2000 and 2001. As of September 30, 2001, the Agency had an unpaid liability to the Department of $27,435,000. The Agency has not made the scheduled payment for 2004, 2005, or 2006, as funds in excess of the Aquarium debt service were not sufficient. Based on updated projections from the City, the Department has reclassified the entire debt of $27,435,000 as a long-term receivable.

(4) 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 rail 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, Southern Pacific Railroad Company, and Atchison, Topeka and Santa Fe Railroad Companies. 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 is comprised of 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, 2006 and 2005, total costs to the Department related to the rights-of-way purchase are $207,823,264 for both years.

Construction of the Project began in 1997 and it was completed in April 2002. Funding for the Project came from federal, state, and local sources, and from issuance of debt (see Note 12). Some of the benefits derived from the project are the consolidation of the railroad services onto a single set of rail lines, the improvement of the rail transportation conditions around the Ports, the securing of efficient and competitive service to and from the Ports, and the increase in public safety along the route on which Port related traffic occurs. These benefits will extend to other governmental entities by allowing them to utilize the right-of way.

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

(5) Capital Assets

The constructed land balances as of September 30, 2006 and 2005 are $409,090,992 and $397,318,882, respectively.

CAPITAL ASSETS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	DISPOSALS	BALANCE 9/30/06
Non-depreciable capital assets:				
Purchased land	$ 439,492,674	$ 320,165	$ -	$ 439,812,839
Constructed land	397,318,882	63,759,628	51,987,518	409,090,992
Construction in Progress	130,633,396	95,895,358	80,974,718	145,554,036
Rights of way (Note 4)	207,823,264	-	-	207,823,264
Subtotal	1,175,268,216	159,975,151	132,962,236	1,202,281,131
Depreciable capital assets:				
Structures and facilities	1,767,711,746	29,067,509	14,222,705	1,782,556,550
Furniture, fixtures and eq.	15,189,557	1,037,117	787,237	15,439,437
Subtotal	1,782,901,303	30,104,626	15,069,942	1,797,995,987
Total capital assets	$ 2,958,169,519	$ 190,079,777	$ 148,032,178	$ 3,000,277,118

	BALANCE 10/01/04	ADDITIONS	DISPOSALS	BALANCE 9/30/05
Non-depreciable capital assets:				
Purchased land	$ 439,492,674	$ -	$ -	$ 439,492,674
Constructed land	375,722,319	21,596,563	-	397,318,882
Construction in progress	168,177,328	73,138,795	110,682,727	130,633,396
Rights of way (Note 4)	207,823,264	-	-	207,823,264
Subtotal	1,191,215,585	94,735,358	110,682,727	1,175,268,216
Depreciable capital assets:				
Structures and facilities	1,691,654,582	80,353,589	4,296,425	1,767,711,746
Furniture, fixtures and eq.	15,386,827	751,076	948,346	15,189,557
Subtotal	1,707,041,409	81,104,665	5,184,771	1,782,901,303
Total capital assets	$ 2,898,256,994	$ 175,840,023	$ 115,867,498	$ 2,958,169,519

ACCUMULATED DEPRECIATION ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	DISPOSALS	BALANCE 9/30/06
Structures and facilities	$ 723,278,208	$ 79,792,050	$ 6,097,672	$ 796,972,586
Furniture, fixtures and equipment	11,696,417	885,836	709,151	11,873,102
Total accumulated depreciation	$ 734,974,625	$ 80,677,886	$ 6,806,823	$ 808,845,688

	BALANCE 10/01/04	ADDITIONS	DISPOSALS	BALANCE 9/30/05
Structures and facilities	$ 646,510,700	$ 81,124,466	$ 4,356,958	$ 723,278,208
Furniture, fixtures and equipment	11,734,477	908,306	946,366	11,696,417
Total accumulated depreciation	$ 658,245,177	$ 82,032,772	$ 5,303,324	$ 734,974,625

Interest costs incurred on the construction of property, plant and equipment for which debt has been issued are capitalized, net of related interest earnings, during the period of construction.

Capitalized interest is originally recorded as a non-current asset identifying the allocation to specific capital projects; such allocation is based on the total capitalized interest and the total projects cost incurred during the capitalization of interest period. The non-current asset is transferred to the projects once they are completed, ready for service, and classified as operating assets. During fiscal years 2006 and 2005, the Department allocations to operating assets were $7,073,124 and $2,891,301, respectively.

CAPITALIZED INTEREST ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	ALLOCATIONS	BALANCE 9/30/06
2002A & B Revenue Bonds	$ 7,073,124	-	$ 7,073,124	$ -
	BALANCE 10/01/04	ADDITIONS	ALLOCATIONS	BALANCE 9/30/05
2002A & B Revenue Bonds	$ 9,964,425	-	$ 2,891,301	$ 7,073,124

<u>Assets Constructed for Others</u>

The Department, in agreement with the California Department of Transportation (Caltrans) and other funding agencies, engages in the construction of infrastructure assets such as roads and bridges that, when completed, and in accordance with the agreements, will be turned over to the funding agencies. The Department is reimbursed for all or a portion of the costs incurred to complete the asset.

Since the assets resulting from these agreements are not the Department's property, the reimbursed portion is classified as Assets Constructed for Others, with a corresponding long-term

Deferred Liability. For financial statements presentation, considering that there is no income statement effect resulting from these transactions, and due to the fact that both accounts are offset against each other when the assets are turned over to the funding agency, both, the asset and the liability are omitted from the Statements of Net Assets. The non-reimbursed portion of the cost, upon completion of the transfer process, is classified as Other Non-current Assets/Major Maintenance Projects, and amortized over the useful life of the assets. The Department has not transferred any assets since fiscal year 2002. This process is of a long-term nature and will continue in future years as more assets will be transferred upon their acceptance by the funding agency.

(6) Commercial Paper Notes

In 1994, the Board of Harbor Commissioners authorized the issuance of up to $383,500,000 in commercial paper notes 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 secure the notes. The obligation to pay the principal portion of outstanding notes is further supported by a revolving line of credit, which is currently $175,000,000. The notes are in bearer form, in denominations of $100,000 with integral multiples of $50,000 in excess thereof, and will mature not more than 270 days after date of issuance. The Department has the ability to and intends to keep on extending the notes to periods longer than a year; accordingly, the outstanding amount has been classified as a long-term obligation. The outstanding notes as of September 30, 2006 and 2005 totaled $60,150,000.

COMMERCIAL PAPER ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
Series A; maturity dates 12/06/06				
Range of interest rates:3.52% - 3.55%	$ 60,150,000	$ -0-	$ -0-	$ 60,150,000
	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 09/30/05
Series A: maturity dates 10/07/05-11/08/05				
Range of interest rates: 2.48% - 2.68%	$ 60,150,000	$ -0-	$ -0-	$ 60,150,000

The December 06, 2006 maturity on the Series A, Commercial Paper notes falls after the date of the external auditor's report; the Department continues to exercise its option to extend the notes to periods longer than a year.

(7) Notes Payable

The Notes Payable relate to purchase and sale agreements of the property described; notes are unsecured, and annual principal payments amount to $41,334 in 2007 and $41,333 in 2008. The outstanding balances at September 30 are as follows:

	2006	2005
Notes payable	$ 82,667	$ 137,559
Less current portion	(41,334)	(54,892)
Long-term portion	$ 41,333	$ 82,667

NOTES PAYABLE ROLL FORWARD SCHEDULE

PROPERTY ACQUIRED	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
W. Anaheim Street.: 15 yrs, 10%	$ 13,558	-0-	$ 13,558	$ -0-
W. 9th St.: 14 yrs., 6%	124,001	-0-	41,334	82,667
	$ 137,559	-0-	$ 54,892	$ 82,667

	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
W. Anaheim Street: 15 yrs, 10%	$ 27,117	-0-	$ 13,559	$ 13,558
W. 9th St.: 14 yrs., 6%	165,334	-0-	41,333	124,001
	$ 192,451	-0-	$ 54,892	$ 137,559

(8) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 is as follows:

	2006	2005
1998 Harbor Revenue Refunding Bonds		
maturing 2005 through 2019 at 5.0% to 6.0% interest	155,865,000	163,755,000
Plus unamortized premium	2,051,498	2,213,994
Total 1998 Harbor Revenue Refunding Bonds	157,916,498	165,968,994
2000A Harbor Revenue Bonds		
maturing 2005 through 2025 at 5.0% to 5.75% interest	248,085,000	255,355,000
Plus unamortized premium	1,634,081	1,721,817
Total 2000A Harbor Revenue Bonds	249,719,081	257,076,817
2002A Harbor Revenue Bonds (Variable rate portion)		
maturing 2006 through 2027.		
Average rates: 2.15% and 1.15%, respectively	137,480,000	140,950,000
Plus unamortized premium	2,416,387	2,533,545
Total 2002A Harbor Revenue Bonds	139,896,387	143,483,545
2002B Harbor Revenue Bonds (Fixed rate portion)		
maturing 2006 through 2027 at 3.0 to 5.5% interest	137,085,000	140,725,000
Plus unamortized premium	6,400,718	6,711,056
Total 2002B Harbor Revenue Bonds	143,485,718	147,436,056
2004A & B Harbor Revenue Refunding Bonds		
maturing 2006 through 2018 at 2.5 to 5.0% interest	101,525,000	107,990,000
Plus unamortized premium	4,529,991	4,919,500
Total 2005A & B Harbor Revenue Refunding Bonds	106,054,991	112,909,500
2005A & B Harbor Revenue Refunding Bonds		
maturing 2006 through 2025 at 3.5 to 5.0% interest	251,775,000	257,975,000
Plus unamortized premium	7,102,123	7,483,444
Total 2005A & B Harbor Revenue Refunding Bonds	258,877,123	265,458,444

Summary:

Principal	$ 1,031,815,000	1,066,750,000
Net premium	24,134,798	25,583,356
Less current portion	(38,335,000)	(34,935,000)
Net long term bonded indebtedness	$ 1,017,614,798	$ 1,057,398,356

HARBOR REVENUE BONDS PAYABLE ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06	AMOUNTS DUE WITHIN ONE YEAR
1998	163,755,000	-0-	7,890,000	155,865,000	8,330,000
2000 A	255,355,000	-0-	7,270,000	248,085,000	7,670,000
2002 A	140,950,000	-0-	3,470,000	137,480,000	3,660,000
2002 B	140,725,000	-0-	3,640,000	137,085,000	3,790,000
2004 A & B	107,990,000	-0-	6,465,000	101,525,000	6,625,000
2005 A & B	257,975,000	-0-	6,200,000	251,775,000	8,260,000
	$ 1,066,750,000	$ -0-	$ 34,935,000	$ 1,031,815,000	$ 38,335,000

DESCRIPTION	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05	AMOUNTS DUE WITHIN ONE YEAR
1995	$ 301,055,000	$ -0-	$ 301,055,000	$ -0-	$ -0-
1998	171,240,000	-0-	7,485,000	163,755,000	7,890,000
2000 A	262,245,000	-0-	6,890,000	255,355,000	7,270,000
2002 A	144,240,000	-0-	3,290,000	140,950,000	3,470,000
2002 B	144,240,000	-0-	3,515,000	140,725,000	3,640,000
2004 A & B	113,410,000	-0-	5,420,000	107,990,000	6,465,000
2005 A & B	-0-	257,975,000	-0-	257,975,000	6,200,000
	$ 1,136,430,000	$ 257,975,000	$ 327,655,000	$ 1,066,750,000	$ 34,935,000

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

Year ending September 30,	Principal	Interest	Total
2007	38,335,000	54,043,216	92,378,216
2008	40,170,000	52,290,066	92,460,066
2009	42,215,000	50,303,991	92,518,991
2010	44,410,000	48,149,141	92,559,141
2011	46,750,000	45,843,691	92,593,691
2012-2016	274,805,000	188,447,783	463,252,783
2017-2021	285,805,000	108,771,969	394,576,969
2022-2026	238,395,000	39,335,156	277,730,156
2027	20,930,000	1,067,210	21,997,210
	$ 1,031,815,000	$ 588,252,223	$ 1,620,067,223

Details of each outstanding debt issue are as follows:

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 $206,300,000, were issued to current refund all of the City's Harbor Revenue Bonds Series 1989A. The 1989 Bonds are defeased and the liability for those bonds was removed from the Department's balance sheet. No amounts remain outstanding as of September 30, 2006. Serial bonds aggregating to $155,865,000 are outstanding and will mature on May 15 of each year from 2007 to 2019 in amounts ranging from $8,330,000 to $16,600,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5% to 6%. 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:

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	$ 6,598,632	$ 6,596,363
Reserve Account (Amount reserved for maximum annual debt service requirements)	17,596,976	17,596,976
	$ 24,195,608	$ 24,193,339

The refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of $8,736,386. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized using the straight-line method over the life of the bonds.

2000A Harbor Revenue Bonds

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

Serial bonds aggregating to $248,085,000 will mature on May 15 of each year from 2007 to 2025 in amounts ranging from $7,670,000 to $20,180,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.25% to 5.75%. The 2000A Bonds maturing on or before May 15, 2010 will not be subject to call and redemption before maturity. Serial bonds maturing on or after May 15, 2011 are subject to call and redemption, prior to maturity, at the option of the Board of Harbor Commissioners, as a whole or in part on any date, on or after May 15, 2010 at premiums of 1%, from May 15, 2010 through May 14, 2011; at 0.5% from May 15, 2011 to May 14, 2012; and at par from May 15, 2012 and thereafter.

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

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	$ 7,983,771	$ 5,385,285
Reserve Account (Amount reserved for maximum annual debt service requirements)	21,922,295	21,784,826
	$ 29,906,066	$ 27,170,111

2002A Harbor Revenue Bonds (Variable Rate Portion)

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

Serial bonds aggregating to $137,480,000 will mature on May 15 of each year from 2007 to 2027 in amounts ranging from $3,660,000 to $10,575,000 with interest rates re-set weekly and payable monthly in arrears. The initial variable rate was 1.15%, and the average variable rate from October 1, 2005 to September 30, 2006 was 3.25%.

Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity; bonds maturing on or after May, 2015 will be subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2002A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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

	2006	2005
Service Account (Amount reserved for maximum annual debt service requirements)	$ 1,372,500	$ 1,301,250

2002B Harbor Revenue Bonds (Fixed Rate Portion)

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. The 2002B Bonds are dated with the original date of delivery of the original bonds: June 26, 2002.

Serial bonds aggregating to $98,640,000 will mature on May 15 of each year from 2006 to 2023 in amounts ranging from $3,790,000 to $8,460,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 3.00% to 5.50%. Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity; bonds maturing on or after May, 2015 will be subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2002B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Term bonds of $38,445,000 will mature on May 15, 2027. The term bonds have an interest rate of 5.20%. Term bonds will be subject to call and redemption prior to maturity and redeemed at a redemption price equal to the par amount thereof from Mandatory Sinking Account Payments in amounts from $8,895,000 to $10,335,000, from 2024 to 2027, respectively, for the term bonds scheduled to mature on May 15, 2027.

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

	2006	2005
Service Account (Amount reserved for maximum annual debt service requirements)	$ 3,693,716	$ 4,084,035

2004 A & B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2004A & B (the 2004 Bonds) are secured by the Department's gross revenues. The 2004 Bonds, dated March 10, 2004, amounting to $113,410,000, were issued to current refund and to defease all of the City's Harbor Revenue Bonds Series 1993, to pay the premium for the Bond Insurance Policy, to fund the Series 2004 Reserve Fund, and to finance the costs of issuance of the Series 2004 Bonds. The 1993 Bonds are defeased and the liability for those bonds was removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2006.

Serial bonds aggregating to $101,525,000 are outstanding and will mature on May 15 of each year from 2007 to 2018 in amounts ranging from $6,625,000 to $10,825,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 2.5% to 5%. 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, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2004 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	$ 4,262,812	$ 4,263,422
Reserve Account (Amount reserved for maximum annual debt service requirements)	11,372,550	11,372,752
	$ 15,635,362	$ 15,636,174

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

2005 A & B 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, to pay the premium for the Bond Insurance Policies, to fund a 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, 2006. Serial bonds aggregating to $226,805,000 are outstanding and will mature on May 15 of each year from 2007 to 2025 in amounts ranging from $8,260,000 to $19,785,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 3.5% to 5%. Serial bonds aggregating to $24,970,000 are outstanding and will mature on May 15 of 2017 and 2018 the amounts of $13,430,000 to $11,540,000 with interest payable semiannually on May 15 and November 15 at 5% 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.

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

	2006	2005
Service Account (Amount reserved to meet current debt service requirements)	$ 7,818,281	$ 9,465,953
Reserve Account (Amount reserved for maximum annual debt service requirements)	20,858,236	20,989,327
	$ 28,676,517	$ 30,455,280

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

Debt Covenants

The Department's management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2006.

(9) <u>Retirement Programs</u>

The Department participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California.

The Department is billed by the City for its share of pension costs 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 $3,459,949 and $2,676,098 to the City, which was equal to its annual required contribution for fiscal year 2006 and 2005 respectively. There were no required contributions for fiscal year 2004.

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% annual COLA increase) of their average salary during the highest paid year of employment for each year of credited service. Employees on tier 2 (those hired after October 20, 1989) 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% annual COLA increase) of their average salary computed considering the three highest paid years of employment for each year of credited service.

On September 2004, the basis to compute the retirement benefits was unified under tier 1 with the exception of the COLA adjustment; this will remain the same as stated in the current stipulations. The system also provides death and disability benefits.

Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2006.

<u>Deferred Compensation Plan</u>
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 so deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue financial hardship for the employee. Further information regarding the City's Deferred Compensation plan may be found in the City's Comprehensive Annual Financial Report for the year ended September 30, 2006.

(10) <u>Operating Leases</u>

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, consists of the following:

	2006	2005
Land	$ 740,095,100	$ 716,201,100
Docks and wharves	451,436,211	438,922,381
Warehouses and sheds	47,762,500	47,757,752
Cranes and shiploaders	169,708,290	183,207,838
Buildings and other facilities	267,687,684	267,065,314
Infrastructure	657,778,631	656,877,920
Historical cost of leased property	2,334,468,416	2,310,032,305
Less accumulated depreciation	(571,617,314)	(508,513,461)
Book value of leased property	$ 1,762,851,102	$ 1,801,518,844

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

Year ending September 30:	
2007	203,822,000
2008	200,875,000
2009	194,965,000
2010	184,783,000
2011	182,518,000
2012-2016	851,281,000
2017-2021	801,980,000
2022-2026	590,104,000
2027-2030	72,559,000
Total	$ 3,282,887,000

(11) Investment in Joint Venture

Intermodal Container Transfer Facility Joint Powers Authority (ICTF)

The Department and the Harbor Department of the City of Los Angeles (the Venturers) entered into a joint venture agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purposes of financing and constructing an intermodal facility (the Facility) to transfer containerized cargo between trucks and railroad cars. The Facility has been fully developed by and leased to Southern Pacific Transportation Company, now merged with Union Pacific Railroad (the Tenant); the Tenant has assumed operational responsibility.

The Venturers' share net income and equity distributions from ICTF equally. Audited balance sheets and statement of income and Venturers' equity (in condensed format) for the years ended June 30, 2006 and 2005 are as follows:

Condensed Balance Sheets

	2006	2005
Current assets	$ 14,169,657	$ 8,942,282
Property and equipment	3,275,189	3,383,220
Total assets	17,444,846	12,325,502
Current liabilities	3,524,138	8,121
Venturers' equity:		
Harbor Department of the City of Los Angeles	7,132,913	6,331,250
Harbor Department of the City of Long Beach	6,787,795	5,986,131
Total venturers' equity	13,920,708	12,317,381
Total liabilities and venturers' equity	$ 17,444,846	$ 12,325,502

Condensed Statement of Income and Venturers' Equity

	2006	2005
Operating revenue	$ 8,522,355	$ 7,050,152
Operating expense	(108,030)	(108,030)
Operating income	8,414,325	6,942,122
Interest income	189,002	143,424
Net income	8,603,327	7,085,546
Venturers' equity, July 1, 2005 and 2004	12,317,381	10,231,835
Cash disbursement to venturers	(7,000,000)	(5,000,000)
Venturers' equity, June 30, 2006 and 2005	$ 13,920,708	$ 12,317,381

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

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

The nature of the bonds is such that the long-term indebtedness is that of the Tenant and not of ICTF, the Department, or the Harbor Department of the City of Los Angeles. The ICTF financial statements for the year ended June 30, 2006, can be obtained from the Department.

(12) Commitments and Contingencies

The Department is subject to claims and lawsuits arising from the normal course of business. The City Attorney's office evaluates these claims on a regular basis. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements.

Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Department. Contract commitments and purchase orders for which materials or services were not received at September 30, 2006 and 2005 aggregated $89,320,920 and $149,118,234, respectively.

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 $1,000,000,000. A total of $500,000,000 of terrorism insurance coverage is also purchased from a combination of insurers.

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 a $1,000,000 self-insured retention. The excess liability policy covers the Harbor 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.

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 funds annual contributions to an Insurance Reserve account intended to cover uninsured losses or the payment of deductibles and self-insured minimums. During fiscal year 2006, the Board of Harbor Commissioners approved the addition of $3,000,000 to the reserve. The balances of the reserve for fiscal years 2006 and 2005 are $ 39,813,446 and $35,505,888, respectively. The balances consist of annual contributions plus interest earnings.

The Department participates in the City's self-insured workers' compensation program, and, during fiscal year 2006 and 2005 made payments to the City's Insurance Fund totaling $1,248,759 and $1,141,813, 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. At September 30, 2006 and 2005, the Department has recognized litigation claim liabilities of $2,385,000 for both years.

LIABILITY FOR COMMITMENTS AND CONTINGENCIAS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
Commitments and contingencies	$ 2,385,000	$ -0-	$ -0-	$ 2,385,000

	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
Commitments and contingencies	$ 3,000,000	$ -0-	$ 615,000	$ 2,385,000

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 Alameda Corridor Transportation Authority (ACTA), and the Burlington Northern Santa Fe and Union Pacific 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 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 March 24, 2006. It is anticipated that there will be differences between estimates and actual results; the differences may be material. The projected shortfall based on the Notice submitted by ACTA for the fiscal year ending June 30, 2007 is expected to be approximately $2.1 million, which ACTA indicates will be covered by other available resources. If ACTA is unable to cover the projected shortfall, both the Department and the Port of Los Angeles, could each be obligated to pay half of the shortfall. Any Shortfall Advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA. Although ACTA has not provided an update to its projection of Shortfall Advances beyond the fiscal year ending June 30, 2007, ACTA indicates that it does not anticipate any future Shortfall Advance payments will be required. Estimates included in the Notice are dependent upon the accuracy of the assumptions used by ACTA in its formulation. In accordance with the special initial funding provisions contained in Section 7.4(g) of the Use and Operating Agreement, ACTA and the Ports are required to fund a Reserve Account for these amounts. As such, as of September 30, 2006 and 2005, the Department has funded $82,401,928 and $77,746,613, respectively, of this required reserve and these amounts are included within restricted net assets in the accompanying statement of net assets.

New Gerald Desmond Bridge Matching Contribution

The Department is actively pursuing the replacement of the Gerald Desmond Bridge. The total cost to replace the bridge is estimated at $800,000,000. The Department anticipates that funding of this project will come primarily from federal and State sources, some of which has already been committed. In order to receive this funding, the Department is required to have a matching amount.

In conjunction with the matching requirement, the Department has set aside $54,340,000 and $37,821,000 to provide for the local matching requirement associated with $320,785,000 and $116,100,000 in grants received as of June 30, 2006, and 2005, respectively. Additionally, in anticipation of the matching requirements related to future expected funding to cover the total estimated cost of the bridge, the Department has set aside and earmarked funds totaling $25,860,914 and $37,848,946 as of September 30, 2006 and 2005, respectively to provide the expected 10% local match related to future grants.

Green Port Infrastructure Commitment

In January 2005, 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 Port 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 shore-side electric substations. Although the cost of adding electrical infrastructure is substantial, the Department has successfully negotiated with several tenants to modify their berthing arrangements and has set aside funds to help funding the infrastructural changes. The Green Port Infrastructure Reserve balance, as of September 30, 2006 and 2005, is $104,025,887 and $ 100,331,378, respectively. This balance consists of the $100,000,000 initial contribution plus interest earnings.

Future Oil Well Abandonment Costs

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

The estimates for the years ending September 30, 2006 and 2005 are $18,300,000 and $17,700,000. The amounts related to oil properties acquired in 1994 are presented as long-term abandonment cost liabilities in the financial statements.

FUTURE OIL WELL ABANDONMENT COST LIABILITY ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/05	ADDITIONS	REDUCTIONS	BALANCE 9/30/06
Oil abandonment liability	$ 17,700,000	$ 600,000	$ -0-	$ 18,300,000
	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
Oil abandonment liability	$ 17,000,000	$ 700,000	$ -0-	$ 17,700,000

In a related matter, but separate from the long-term abandonment liability, the Department scheduled the closure of the existing bug farm, a bio-remediation site on Pier A West. This is a short-term project and the Port has recognized its part of the liabilities payable from current assets. The anticipated cost of this project is $17,720,000.

Environmental Remediation

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

	Allocation:	
Site Remediation Cost	APC	Department
First $ 50 million	$ 50,000,000	$ -0-
Second $ 50 million	25,000,000	25,000,000
Third $ 50 million	12,500,000	37,500,000
Fourth $ 50 million	25,000,000	25,000,000
All Additional Costs	-0-	100%
Maximum Liability	$ 112,500,000	

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

(13) Intergovernmental Expense

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) and with the approval of the Board of Harbor Commissioners, adopted a resolution to transfer 10% of the Department's net income for fiscal years 2005 and 2004 to the City's Tidelands Operating Fund ($14,222,184 and $9,499,689, respectively). This amount is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets and as a non-operating expense in the statements of revenues, expenses, and changes in fund net assets.

(14) Environmental Mitigation Costs

The Department disbursed $39,400,000 in fiscal 1997 to secure environmental mitigation credits. An agreement between the Department, the Harbor Department of the City 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 additional $11,400,000 of available environmental mitigation credits.

The cost incurred in the acquisition of the land has been classified as a non-current asset. As of September 30, 2006, the Department has completed landfills that required the utilization of $6,521,932 of the available credits. No environmental mitigation credits were utilized in fiscal year 2006. The balance of environmental mitigation costs will be adjusted in the future as landfill credits are used for port development. The balance of the Environmental Mitigation Credits as of

September 30, 2006 and 2005 is $44,278,068 and $32,878,068, respectively.

(15) Net Assets

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

As of September 30, 2006, 2005, and 2004 the Department holds net assets as follows:

	September 30,		
	2006	2005	2004
Invested in capital assets, net of related debt	$1,079,606,148	$ 1,080,335,939	$1,045,167,222
Restricted for capital projects			
City of Long Beach RDA - Westside	7,369,817	7,477,626	9,926,871
Capitalized interest	-0-	7,073,124	9,964,425
Environmental mitigation credits	44,278,068	32,878,068	32,878,068
Restricted for debt service	103,479,769	105,475,990	85,323,199
Restricted – Third party obligations – Non-related entity debt service contingency and matching contribution	162,602,842	153,416,559	147,293,788
Total restricted	$ 317,730,496	$ 306,321,367	$ 285,386,351
Unrestricted			
Contributed capital – outside sources	30,427,546	30,427,546	42,969,490
Contributed capital – other City funds	13,253,752	13,253,752	14,188,744
Infrastructure	104,025,687	100,331,378	-0-
Other unrestricted	437,102,224	297,480,524	298,216,861
Total unrestricted	584,809,209	441,493,200	355,375,095
Total net assets	$1,982,145,853	$ 1,828,150,506	$ 1,685,928,668