THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH
Financial Statements
September 30, 2005 and 2004

KPMG

OFFICE OF THE
CITY AUDITOR

355 South Grand Avenue, Suite 2000
Los Angeles, CA 90071

333 West Ocean Blvd.
Long Beach, CA 90802

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:

We have jointly 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, 2005 and 2004, 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 opinions.

As discussed in note 1, the financial statements present only the Harbor Department of the City of Long Beach and not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2005 and 2004, and the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach as of September 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

KPMG LLP
Los Angeles, California
December 16, 2005

Gary L. Burroughs, CPA
City Auditor

As management of the Harbor Department of the City of Long Beach, California (the Department), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2005 and 2004.

Overview of the financial statements

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

Condensed financial position information

The Statement of Net Assets presents information concerning the Department's assets, liabilities, and net assets. The difference between assets and liabilities is net assets. Increases or decreases in net assets may indicate improvement or deterioration of the Department's financial condition.

The following condensed financial information provides an overview of the Department's financial position as of September 30 of 2005, 2004, and 2003.

NET ASSETS
SEPTEMBER 30, 2005, 2004, AND 2003

ASSETS	2005	2004	2003
Assets:			
Capital assets, net	$ 2,223,194,894	$ 2,240,011,817	$ 2,212,718,620
Other assets	878,678,023	791,361,452	741,645,892
TOTAL ASSETS	3,101,872,917	3,031,373,269	2,954,364,512
Liabilities:			
Long-term obligations, net of current portion	1,166,883,504	1,221,787,948	1,263,229,143
Current liabilities	106,838,907	123,656,653	100,203,591
TOTAL LIABILITIES	1,273,722,411	1,345,444,601	1,363,432,734
Net assets:			
Invested in capital assets, net of related debt	1,080,335,939	1,045,167,222	1,006,492,465
Restricted	306,321,367	285,386,351	248,036,849
Unrestricted	441,493,200	355,375,095	336,402,464
TOTAL NET ASSETS	$ 1,828,150,506	$ 1,685,928,668	$ 1,590,931,778

Analysis fiscal year 2005

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 of $180,438,209 of operating income, $3,535,373 of income from equity in a joint venture, $13,540,959 of income from oil operations, and $2,208,461 of income derived from grants 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. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate such capital assets to fund ongoing port operations.

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 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>Analysis fiscal year 2004</u>

The assets of the Department exceeded its liabilities at the close of the 2004 fiscal year by $1,685,928,668 (*net assets).* Total net assets increased by $94,996,890. This change consists mainly of $143,653,500 of operating income, $2,795,157 of income from equity in a joint venture, $1,806,653 of income from Harbor oil operation, and $5,752,052 in grants received from federal and state governments; less $56,121,850 from non-operating expenses including financing costs, and $93,464 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 $1,045,167,222 or 62% of the aggregate net assets. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate such capital assets to fund ongoing port operations.

The Department holds $285,386,351 of net assets subject to external restrictions such as the construction of capital assets, the payment of long-term debt, the fulfillment of contractual obligations with third parties, and the matching requirements of federally funded projects. Such net assets represent 17% of the Department's net assets. They are presented in the Statement of Net Assets as restricted net assets.

At the end of the 2004 fiscal year, the Department reported unrestricted net assets of $355,375,095, an increase of $18,972,631 when compared to the prior fiscal year. The positive change is a combination of an increase in the volume of business of approximately $95 million offset by a transfer of $72.6 million to a cash reserve to fund the matching requirements of federally funded projects. Unrestricted net assets represent 21% of the Department's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are wholly available to fund the Department's continuing obligations.

<u>Summary of operations and changes in net assets</u>

The Statement of Revenues, Expenses, and Changes in Fund Net Assets shows how the Department's net assets changed 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, i.e.: uncollected receivables and earned, but unused, vacation leave. The table below summarizes the operations for fiscal years 2005, 2004, and 2003.

CHANGES IN FUND NET ASSETS
YEARS ENDED SEPTEMBER 30, 2005, 2004, AND 2003

	2005	2004	2003
Operating revenues:			
Berth and special facilities	$ 314,563,390	$ 267,455,834	$ 237,081,753
Miscellaneous	14,644,072	13,325,847	12,459,682
Total operating revenues	329,207,462	280,781,681	249,541,435
Operating expenses:			
Facility and infrastructure	(42,905,834)	(36,632,411)	(31,613,280)
General and administrative	(19,109,527)	(17,575,004)	(12,836,768)
Depreciation and amortization	(86,753,892)	(82,920,766)	(74,433,164)
Total operating expenses	(148,769,253)	(137,128,181)	(118,883,212)
Operating income	180,438,209	143,653,500	130,658,223
Nonoperating income (expense):			
Intergovernmental	(9,499,689)	(6,850,777)	(9,057,694)
Interest expense, net of revenues	(39,483,440)	(47,094,335)	(37,441,849)
Income (loss) from oil operations	13,540,959	1,806,653	(2,586,886)
Loss on disposition of capital assets	(399,737)	(93,464)	(11,337,368)
Income from equity in joint venture	3,535,373	2,795,157	3,717,188
Other expense, net	(8,118,298)	(4,971,896)	(5,943,835)
Net non-operating expense	(40,424,832)	(54,408,662)	(62,650,444)
Income before capital grants	140,013,377	89,244,838	68,007,779
Capital grants	2,208,461	5,752,052	500,000
Change in net assets	142,221,838	94,996,890	68,507,779
Total net assets – beginning	1,685,928,668	1,590,931,778	1,522,423,999
Total net assets – ending	$ 1,828,150,506	$ 1,685,928,668	$ 1,590,931,778

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 last year, while lumber decreased 14%. Gross oil operations revenue 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 closing 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.

Analysis fiscal year 2004
Compared to the results of operations for the prior year, revenues from all berths and special facilities increased 13%; specifically containerized cargo increased 16%, liquid bulk 8%, steel 16%, vehicles 5%, and lumber 13%; both dry bulk and miscellaneous revenue decreased by 12%. Other rental properties increased 9%.

Volumes of containerized cargo increased by 22%, liquid bulk 4%, steel 4%, vehicles 11%, lumber 19%, and dry bulk cargo (measured in metric revenue tons) 7%. The miscellaneous cargo category declined by 29%.

Operating expenses increased due to higher security related costs and the closing of capital work orders deemed to be operating expenses rather than operating assets. Depreciation expense increased because of additional depreciation attributed to installations placed in service during the current fiscal year. Interest expense increased because interest on the Series 2002 Harbor Revenue Bonds was expensed in 2004, but was pre-funded in 2003.

Notes to the Financial Statements
The notes to the Department's financial statements can be found on pages 16-38 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 investment in capital assets, net of accumulated depreciation, as of September 30, 2005, 2004, and 2003 is as follows:

CAPITAL ASSETS, NET
SEPTEMBER 30, 2005, 2004, AND 2003

	2005	2004	2003
Non-depreciable capital assets			
Land	$ 836,811,556	$ 815,214,993	$ 810,461,299
Construction in progress	130,633,396	168,177,328	218,757,623
Rights of way	207,823,264	207,823,264	207,823,264
Subtotal non-depreciable capital assets	1,175,268,216	1,191,215,585	1,237,042,186
Depreciable capital assets			
Structures and Facilities	1,044,433,538	1,045,143,882	972,464,299
Furniture, fixtures, and equipment	3,493,140	3,652,350	3,212,135
Subtotal depreciable capital assets	1,047,926,678	1,048,796,232	975,676,434
Total capital assets	$ 2,223,194,894	$ 2,240,011,817	$ 2,212,718,620

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. The decrease is due to the transfer of accumulated costs from the construction in progress account to expense and to fixed assets, net of depreciation. Additional information regarding the Department's capital assets can be found in Note 5 to the financial statements.

Analysis fiscal year 2004

The Department's investment in capital assets includes land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. The total increase in the Department's investment in capital assets for the 2004 fiscal year was 1% (Note 5). The increase in land is the result of site preparation disbursements; structures and facilities increased due to the construction of additional capital assets.

Debt administration

The following table summarizes the Department's long-term debt (net of current portion) as of September 30, 2005, 2004, and 2003:

LONG-TERM DEBT
SEPTEMBER 30, 2005, 2004, AND 2003

	2005	2004	2003
Bond debt (net of current portion)	$1,057,398,356	$1,113,977,595	$ 1,151,383,947
Commercial paper outstanding	60,150,000	60,150,000	60,150,000
Notes payable	82,667	137,559	192,451
Total long-term debt	$1,117,631,023	$1,174,265,154	$ 1,211,726,398

Analysis fiscal year 2005

The Department's total long-term debt decreased $56,634,131, or approximately 5%. The decrease was the result of the regular 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 factors such as significant size and status as a world-class facility, prime location to capture Pacific Rim trade, links to inter-modal transportation, strong financial performance, an attainable and environmentally responsible capital program, and management's commitment to 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 25-31 of this report.

Analysis fiscal year 2004

The total long-term debt of the Department decreased $37,461,244 (approximately 3%). The decrease was the result of the regular debt service payments and the restructuring of some of the bonds issued by the Department. The 1993 Harbor Revenue Bonds were current refunded and defeased with funds from the issuance of the 2004 Harbor Revenue Refunding Bonds. The 2002 Harbor Revenue Bonds issued on June 26, 2002 were remarketed and converted into the 2002A Harbor Revenue Bonds–variable rate and the 2002B Harbor Revenue Bonds-fixed rate.

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA-, positive outlook; Moody's Investors Services: Aa3, stable outlook; and Fitch Ratings: AA, stable outlook. The ratings are the result of factors such as significant size and status as a world-class facility, prime location to capture Pacific Rim trade, links to inter-modal transportation, strong financial performance, an attainable and environmentally responsible capital program, and management's commitment to customer service.

The debt-service coverage ratios for the fiscal years ending 2004 and 2003 are 2.5 and 2.6, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

Economic Outlook

Since 1911, when the State of California granted the Long Beach tidelands area to the City of Long Beach for port operations, the Port of Long Beach has been a successful landlord port, providing the region, state and nation with seaport facilities serving as an international gateway for trade. In recent years this trade has grown exponentially. Trade is expected to double or even triple over the coming 10 to 20 years.

In 2005, vessels with 8,000-TEU (20-foot equivalent unit) capacity made more than 200 calls to the Port's terminals, facilitating the import and export of nearly 6.7 million containers – an increase of 16.1 percent from 2004. The Port's overall increases in cargo volume, supplemented by a 5 percent increase in tariff rates (effective July 1, 2005) led to significant growth in operating revenues. The Port's net income, before capital grants, increased 57 percent.

In addition to the growth in container cargo revenues, petroleum and other liquid bulk cargo revenue (the Port's second largest revenue generator) increased by 5 percent. Dry bulk revenue, consisting mainly of outbound petroleum coke and inbound cement and gypsum, increased by 10 percent. Most of the remaining revenue generators increased, including steel, vehicles, facilities, rentals and miscellaneous activities. The only revenue declines were recorded among lumber terminals.

Measured in metric revenue tons, cargo volume through the Port increased to 158 million metric revenue tons in fiscal 2005, up 15 percent from 2004. Containerized cargo terminals recorded gains of 18 percent by volume; liquid bulk volume increased 3 percent, and dry bulk volume increased 5 percent.

This expansion of trade volume provides a tremendous boost to the 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 recovers its operating cost through leases, tariffs and other charges assessed to its tenants. No local, state or federal taxes support Port operations or activities. 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.

<u>Trade and Commerce</u>
Throughout its history the Port has realized the importance of providing state-of-the-art seaport facilities. As one of the world's busiest seaports, this is more important in today's operating environment than ever. Investing in modern facilities and transportation infrastructure allows for significant increases in goods movement efficiency. Increased efficiency leads to greater economic benefits for the entire region as well as a safer and cleaner Port environment.

Trade and commerce through the Port of Long Beach is expected to increase dramatically in the foreseeable future. As a landlord and land developer, the Port has the responsibility to develop and maintain much of the infrastructure within the Long Beach Harbor District. Ensuring that this infrastructure and its supporting facilities are modern and in good condition is key, not only to financial success but to meeting the needs of the community. In addition to supporting international goods movement, state-of-the-art infrastructure and transportation systems greatly reduce traffic congestion and other negative impacts on the community.

In 2005 the Port made great progress toward improving its critical infrastructure by securing $100 million in state and federal dollars to improve the I-710 freeway and the Gerald Desmond Bridge. Other infrastructure projects now underway include:

- The Ocean Boulevard interchange project, which will reduce travel time for trucks and automobiles crossing Terminal Island, thereby improving traffic flow and reducing air pollution.
- Construction of a new automated 12-lane truck receiving gate, 8-lane delivery gate and other projects at the Pier E terminal are designed to improve traffic flow at Piers D and E.

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 that is 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 2005 the Port established itself as a world leader in sustainable industrial development by adopting our industry-leading Green Port Policy and dedicating an initial $100 million to environmental initiatives for the next five years. The $100 million will be used to develop environmentally-driven infrastructure improvements, such as dockside electrical power at Port terminals that will substantially reduce emissions from vessels calling at the Port.

In other environmental programs, the Port has:

- Successfully implemented (together with the Port of Los Angeles, terminal operators and private businesses in the trucking industry), the innovative PierPass program, which extends gate hours on terminals to cut truck traffic on local streets and freeways during peak traffic times.
- Started the Green Flag Incentive program, which will use up to $2.2 million in incentives every year to increase compliance with a voluntary speed reduction program, which reduces harmful emissions in the Port region.
- Entered a clean-diesel locomotive replacement agreement with Pacific Harbor Line.
- Invested with the Port of Los Angeles in the development of a Virtual Container Yard that will reduce empty container movements to and from the San Pedro Bay.
- Established language and methods for developing and enforcing environmental lease provisions for our tenants.
- Helped finance the remaining restoration and long-term maintenance of the Bolsa Chica Wetlands.

Security

The Port of Long Beach is dedicated to being the safest, most secure Port in the world. To assist in that effort the Port actively sought and was awarded nearly $13 million in Federal grants in 2005 to enhance communications systems and security technology. The Port was also recently selected to participate in the American Association of Port Authorities Security Management System program.

The Port is currently establishing an Emergency Management system for the entire Port complex as well as enhancing its business continuity plan to ensure that key Port operations can continue efficiently in the event of an emergency. The Port is continually seeking funding from Federal and other sources to support these efforts, and has increased its own security budget to finance increased security technology and officer training. In addition, the Port works closely with the Long Beach Police Department ,US. Customs and the U.S. Coast Guard to safeguard the Harbor District.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for people or entities interested in this area. 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, P.O. Box 570, Long Beach, CA, 90801.

The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Pooled cash and cash equivalents (Note 2)	$ 394,398,772	$ 304,728,427
Trade accounts receivable, net of allowance	41,935,066	42,822,187
Interest receivable	613,360	199,926
Due from other governmental agencies (Note 3)	2,458,101	24,985,655
Inventories of supplies	1,007,420	843,916
Sub-total	440,412,719	373,580,111
Harbor Revenue Bond Funds and other funds restricted as to use (Notes 2 and 8):		
Pooled cash and cash equivalents (Note 2)	269,513,984	262,751,576
Other investments	32,362,080	11,459,920
Sub-total restricted current assets	301,876,064	274,211,496
Total current assets	742,288,783	647,791,607
Non-current assets:		
Capital assets (Notes 5 and 10):		
Land:		
Purchased	439,492,674	439,492,674
Constructed	397,318,882	375,722,319
Net land	836,811,556	815,214,993
Structures and facilities	1,767,711,746	1,691,654,582
Less accumulated depreciation	(723,278,208)	(646,510,700)
Net structures and facilities	1,044,433,538	1,045,143,882
Furniture, fixtures, and equipment	15,189,557	15,386,827
Less accumulated depreciation	(11,696,417)	(11,734,477)
Net furniture, fixtures, and equipment	3,493,140	3,652,350
Construction in progress	130,633,396	168,177,328
Right of way (Note 4)	207,823,264	207,823,264
Net capital assets	2,223,194,894	2,240,011,817
Other assets:		
Long –term receivables (Note 3)	25,670,000	25,670,000
Oil facilities (net of accumulated depletion of $68,528,520 and $66,399,876 respectively)	12,607,334	14,735,978
Environmental mitigation costs (Note 14)	32,878,068	32,878,068
Investments in joint venture (Note 11)	5,986,131	4,943,358
Assets constructed for others (Note 5)	31,552,481	30,522,794
Other non-current assets	27,695,226	34,819,647
Total other assets	136,389,240	143,569,845
Total non-current assets	2,359,584,134	2,383,581,662
Total assets	$ 3,101,872,917	$ 3,031,373,269

(Continued)

The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2005 and 2004

Liabilities and Net Assets	2005	2004
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	$ 25,161,621	$ 20,423,585
Due to City of Long Beach (Note 13)	9,499,689	6,850,777
Notes payable (Note 7)	54,892	54,892
Deferred credits and unearned revenue	17,082,670	38,119,199
Total current liabilities payable from current assets	51,798,872	65,448,453
Current liabilities payable from restricted assets:		
Current portion of bonded indebtedness (Note 8)	34,935,000	37,259,999
Accrued interest – bonds	20,105,035	20,948,201
Total current liabilities payable from restricted assets	55,040,035	58,208,200
Total current liabilities	106,838,907	123,656,653
Long-term obligations net of current portion:		
Bonded indebtedness (Note 8)	1,057,398,356	1,113,977,595
Commercial paper outstanding (Note 6)	60,150,000	60,150,000
Notes payable (Note 7)	82,667	137,559
Deferred liability (Note 5)	31,552,481	30,522,794
Oil well abandonment (Note 12)	17,700,000	17,000,000
Total long-term obligations	1,166,883,504	1,221,787,948
Total liabilities	1,273,722,411	1,345,444,601
Commitments and contingencies (Notes 9 and 12)		
Net assets (Note 15):		
Invested in capital assets, net of related debt	1,080,335,939	1,045,167,222
Restricted-Non-related party debt service contingency and matching contribution for future federally Funded projects (Note 12)	153,416,559	147,293,788
Restricted-Capital projects	47,428,818	52,769,364
Restricted-Debt service	105,475,990	85,323,199
Unrestricted	441,493,200	355,375,095
Total net assets	$ 1,828,150,506	$ 1,685,928,668

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

September 30, 2005 and 2004

	2005	2004
Port operating revenues (Note 10):		
Berths and special facilities	$ 314,563,390	$ 267,455,834
Rental properties	10,925,736	10,163,733
Miscellaneous	3,718,336	3,162,114
Total Port operating revenues	329,207,462	280,781,681
Port operating expenses:		
Facility maintenance	5,801,372	7,139,132
Infrastructure maintenance	16,738,700	11,024,764
Fire and safety	14,210,253	12,928,027
Other indirect	6,155,509	5,540,488
General and administrative	19,109,527	17,575,004
Port operating expenses before depreciation and amortization	62,015,361	54,207,415
Depreciation and amortization	86,753,892	82,920,766
Total Port operating expenses	148,769,253	137,128,181
Operating Income	180,438,209	143,653,500
Non-operating income (expense):		
Intergovernmental (Note 13)	(9,499,689)	(6,850,777)
Interest income	17,964,410	13,450,318
Interest expense	(57,447,850)	(60,544,653)
Income from Harbor oil operations	13,540,959	1,806,653
Loss on disposition of capital assets	(399,737)	(93,464)
Income from equity in joint ventures (Note 11)	3,535,373	2,795,157
Other expense, net	(8,118,298)	(4,971,896)
Net non-operating expense	(40,424,832)	(54,408,662)
Income before capital grants	140,013,377	89,244,838
Capital grants	2,208,461	5,752,052
Increase in net assets	142,221,838	94,996,890
Total net assets, October 1	1,685,928,668	1,590,931,778
Total net assets, September 30	$ 1,828,150,506	$ 1,685,928,668

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach
Statements of Cash Flows
September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	$ 322,771,573	$ 280,074,042
Cash paid to employees net of capitalized labor of $4,540,977 and $4,408,328 in 2005 and 2004	(24,095,868)	(21,630,946)
Cash paid to suppliers	(28,848,619)	(28,665,515)
Net cash provided by operating activities	269,827,085	229,777,581
Cash flows from non-capital financing activities:		
Intergovernmental transfers	(6,850,777)	(9,057,694)
Net cash used in non-capital financing activities	(6,850,777)	(9,057,694)
Cash flows from capital and related financing activities:		
Proceeds from the sales of capital assets	42,389	12,917,685
Payments for capital acquisitions	(82,228,647)	(116,684,924)
Capital grants	1,925,423	7,116,198
Bond debt issuance	277,682,985	410,472,144
Principal repayment-bonds	(327,655,000)	(442,620,000)
Establishment of 2005 Bonds reserve	(20,855,469)	-0-
Interest paid	(47,481,615)	(51,259,856)
Principal payment-notes	(54,892)	(54,892)
Net cash used in capital and related financing activities	(198,624,826)	(180,113,645)
Cash flows from investing activities:		
Interest received	18,193,282	13,899,318
Return on investment in joint venture	2,500,000	3,500,000
Harbor oil operations providing cash	11,387,989	7,505,623
Net cash provided by investing activities	32,081,271	24,904,941
Net increase in cash and cash equivalents	96,432,753	65,511,183
Cash and cash equivalents, October 1,	567,480,003	501,968,820
Cash and cash equivalents, September 30,	$ 663,912,756	$ 567,480,003

Continued

The Harbor Department of the City of Long Beach
Statements of Cash Flows
September 30, 2005 and 2004

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 180,438,209	$ 143,653,500
Adjustments to reconcile operating income to		
Net cash provided by operating activities:		
Depreciation and amortization	86,753,892	82,920,766
(Increase) decrease in receivables	(2,938,081)	1,970,079
Decrease (increase) in inventory	(142,419)	41,777
Decrease (increase) in other current assets	(72,129)	843,769
Decrease in deferred charges	2,891,301	-0-
(Decrease) increase in vouchers payable	(767,796)	595,122
Increase in accounts payable	5,196,690	69,645
Increase in wages payable	2,722,696	-0-
(Decrease) increase in accrued claims and judgments	885,000	(170,000)
(Decrease) in deferred revenue	(8,272,098)	(131,767)
(Decrease) increase in customer deposits	275,159	(15,310)
Increase in due to other funds	2,648,912	-0-
Increase in other liabilities	207,749	-0-
Total adjustments	89,388,876	86,124,081
Net cash provided by operating activities	$ 269,827,085	$ 229,777,581

See accompanying notes to the basic 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 2005 and 2004 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 2003. 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, 2004, 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, 2005 (see note 2).

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 has defined 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 include 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, 2005 and 2004, 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

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 losses in the Department's accounts receivable. Management continually monitors the accounts receivable from its customers for any collection issues. The allowance for doubtful accounts is established based on reviews of specific accounts. Accounts deemed uncollectible are charged to the allowance, provisions for bad debts and recoveries on accounts previously charged-off are added to the allowance.

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 2004 have been reclassified to conform to the fiscal year 2005 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.

Deposits with Financial Institutions

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.

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 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.

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.

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 are as follows (in thousands):

Issuer	Investment type	Amount
FNMA	Federal Agency Securities	$ 237,814,059
Federal Farm Credit Agency	Federal Agency Securities	194,998,673
FHLB	Federal Agency Securities	204,151,416
FHLMC	Federal Agency Securities	216,462,079
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	94,913,557
U.S. Treasury	U.S. Treasury notes, bond, or bills.	286,244,058
		$ 1,234,583,842

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

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2005 (in thousands):

Investment type	Amount	Weighted average maturity (In years)
Bonds issued by the City of Long Beach	$ 3,502,,170	13.57
United States Treasury notes, bonds, or bills	286,244,058	0.84
Federal agency securities	858,472,920	1.31
Medium-term notes	95,403,829	-0-
Money market funds	33,838	-0-
Local Agency Investment Fund (LAIF)	94,913,557	0.46
TOTAL CITY POOL	$ 1,338,570,372	
Guaranteed investment contracts	$ 32,362,080	-0-
Money market funds	21,822,195	-0-
TOTAL HELD BY BOND TRUSTEE	$ 54,184,275	
TOTAL CASH AND INVESTMENTS	$ 1,392,754,647	

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.

Investment type	AMOUNT	Minimum rating	Not Required	Unrated	AAA	AA	A
		RATING AS OF SEPTEMBER 30, 2005					
Bonds issued by the city of Long Beach	$ 3,502,170	N/A	100%				
U.S. Treasury notes, bonds, or bills	286,244,058	N/A	100%				
Federal Agency Securities	858,472,920	N/A			100%		
Medium-term notes	95,403,829	A			75%	5%	20%
Money Market funds	33,838	N/A	100%				
Local Agency Investment Fund	94,913,557	N/A		100%			
TOTAL CITY POOL	$ 1,338,570,372						
Guaranteed investment contracts	$ 32,362,080	N/A	100%				
Money market funds	21,822,195	N/A	100%				
TOTAL HELD BY BOND TRUSTEE	$ 54,184,275						
TOTAL CASH AND INVESTMENTS	$ 1,392,754,647						

The Department's portion of the total pooled cash and cash equivalents amount of $642,056,000 is 48.27% 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, 2005 and 2004.

Securities Lending

Securities lending activities are governed by formal agreement with the City's contract bank. The agreement limits the nature and amount of the transactions, and such transactions are subject to full collateralization. The City did not engage in any securities lending activities during the fiscal years ended September 30, 2005 or 2004.

(3) Other Receivables

Other receivables as of September 30, include the following:

	2005	2004
Due from other governmental agencies:		
Current:		
Reimbursements due from Caltrans	$ -0-	$ 1,520,901
Federal grant – Department of Transportation-MARAD	23,814	749,008
Federal grant – Department of Homeland Security	669,287	20,950,746
Redevelopment Agency – Convention Center	1,765,000	1,765,000
Total current	2,458,101	24,985,655
Long-term:		
Redevelopment Agency - Convention Center	$ 25,670,000	$ 25,670,000
Total due from other governmental agencies	$ 28,128,101	$ 50,655,655

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. Under that agreement, $1,765,000 was payable during the following fiscal year and was considered a current asset for financial statement purposes. The Agency has not made the scheduled payment for 2003, 2004, or 2005, as funds in excess of the Aquarium debt service were not sufficient. The Department continues to classify $1,765,000 as a current asset. The remaining $25,670,000 balance has been classified as a long-term receivable for fiscal years 2005 and 2004.

<u>Redevelopment Agency-West Long Beach Industrial Redevelopment Project Area</u>
In 1992, the Department and the Agency entered into an agreement whereby the Agency agreed to reimburse the Department for construction costs related to improvements in the North Harbor District (the District). The District is part of the Agency's Westside Redevelopment Area. Based on the agreement, the maximum amount reimbursable by the Agency was $30,000,000 subject to a maximum annual reimbursement of $2,500,000. The original agreement was amended in 1993, 1997, 1998, and 2001.

During fiscal year 2003, the Agency made a payment of $2,648,189 and issued bonds to pay the discounted present value of the loan. The Department reclassified the asset from long-term to current assets and recognized a loss of $1,733,028 to present the asset at its fair value as of September 30, 2003. The Agency fulfilled its obligation and paid the remaining balance on November 2003.

(4) <u>Alameda Corridor Right-of-Way Purchase</u>

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Project), which is a comprehensive transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three railroad companies then serving the Ports: Union Pacific Railroad Company, 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, 2005 and 2004, 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. Based on current cargo forecasts, it is estimated that $444,600,000 could be returned to the Department through the year 2037 (see Note 12).

(5) Capital Assets

The constructed land balances as of September 30, 2005 and 2004 are $397,318,882 and $375,722,319, respectively. Up to fiscal year 2004, the Department carried an allowance for subsidence in the amount of $23,431,021 to remedy subsidence in the Harbor District. Changes in construction methods, improved oil drilling techniques, and better landscape procedures have outdated the practicality of this allowance. Management believes that this allowance no longer serves a practical purpose and has written it off against the constructed land assets.

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.

CAPITAL ASSETS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/04	ADDITIONS	DISPOSALS /TRANSFERS	BALANCE 9/30/05
Non-depreciable capital assets				
Purchased land	$ 439,492,674	$ -0-	$ -0-	$ 439,492,674
Constructed land	375,722,319	21,596,563	-0-	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	-0-	-0-	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	4,236,425	1,767,771,746
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	1,782,961,303
Total capital assets	$2,898,256,994	$ 175,840,023	$ 115,867,498	$ 2,958,229,519

	BALANCE 10/01/03	ADDITIONS	DISPOSALS /TRANSFERS	BALANCE 09/30/04
Non-depreciable capital assets				
Purchased land	$ 438,800,911	$ 691,763	$ -0-	$ 439,492,674
Constructed land	371,660,389	12,599,781	8,537,851	375,722,319
Construction in progress	218,757,623	128,347,374	178,927,670	168,177,328
Rights of way (Note 4)	207,823,264	-0-	-0-	207,823,264
Subtotal	1,237,042,187	141,638,918	187,465,521	1,191,215,585
Depreciable capital assets				
Structures and facilities	1,554,534,369	156,879,212	19,758,999	1,691,654,582
Furniture, fixtures and eq.	14,331,130	1,422,698	367,001	15,386,827
Subtotal	1,568,865,499	158,301,910	20,126,000	1,707,041,409
Total capital assets	$2,805,907,686	$ 299,940,828	$ 207,591,521	$ 2,898,256,994

ACCUMULATED DEPRECIATION ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/04	ADDITIONS	DISPOSALS /TRANSFERS	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

	BALANCE 10/01/03	ADDITIONS	DISPOSALS /TRANSFERS	BALANCE 09/30/04
Structures and facilities	$ 582,070,070	$ 76,505,010	$ 12,064,380	$ 646,510,700
Furniture, fixtures and equipment	11,118,995	868,349	252,867	11,734,477
Total accumulated depreciation	$ 593,189,065	$ 77,373,359	$12,317,247	$ 658,248,177

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 first recorded as a non-current asset and allocated to the specific capital assets when they are completed. No capitalization of interest occurred during fiscal year 2005 or 2004. Allocations to capital projects were $2,891,301 and $6,791,932 for fiscal years 2005 and 2004, respectively.

CAPITALIZED INTEREST ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/04	ADDITIONS	ALLOCATIONS	BALANCE 9/30/05
2002A & B Revenue Bonds	$ 9,964,425	-0-	$ 2,891,301	$ 7,073,124

DESCRIPTION	BALANCE 10/01/03	ADDITIONS	ALLOCATIONS	BALANCE 9/30/04
2000A Revenue Bonds	$ 4,679,527	$ -0-	$ 4,679,527	$ -0-
2002A & B Revenue Bonds	12,076,830	-0-	2,112,405	9,964,425
	$ 16,756,357	$ -0-	$ 6,791,932	$ 9,964,425

<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 matching long-term Deferred Liability. Both accounts are offset against each other when the assets are turned over to the funding agency. There is no income statement effect resulting from these transactions. The non-reimbursed portion of the cost, upon completion of the transfer process, is classified as Other Non-current Assets/Major Maintenance Projects, and they are 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. More assets will be transferred as they are completed.

(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 intends to extend the notes to periods greater than a year; accordingly, the outstanding amount has been classified as a long-term obligation. The outstanding notes as of September 30, 2005 and 2004 totaled $60,150,000.

COMMERCIAL PAPER ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
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

	BALANCE 10/01/03			BALANCE 09/30/04
Series A: maturity dates 10/04/04-01/14/05				
Range of interest rates: 1.09% - 1.65%	$ 60,150,000	$ -0-	$ -0-	$ 60,150,000

(7) Notes Payable

Outstanding notes payable at September 30 include the following:

	2005	2004
Notes payable	$ 137,559	$ 192,451
Less current portion	(54,892)	(54,892)
Long-term portion	$ 82,667	$ 137,559

NOTES PAYABLE ROLL FORWARD SCHEDULE

PROPERTY ACQUIRED	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

	BALANCE 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 09/30/04
W. Anaheim Street: 15 yrs, 10%	$ 40,676	-0-	$ 13,559	$ 27,117
W. 9th St.: 14 yrs., 6%	206,667	-0-	41,333	165,334
	$ 247,343	-0-	$ 54,892	$ 192,451

(8) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 is as follows:

	2005	2004
1995 Harbor Revenue Bonds		
(Information presented for comparison purposes only; bonds were current refunded on May 15, 2005)		
maturing 2004 through 2025 at 5.4% to 8.00% interest	$ -0-	$ 301,055,000
Less unamortized discount	-0-	(4,345,775)
Total 1995 Harbor Revenue Bonds	-0-	296,709,225
1998 Harbor Revenue Refunding Bonds		
maturing 2004 through 2019 at 5.0% to 6.0% interest	163,755,000	171,240,000
Plus unamortized premium	2,213,994	2,376,489
Total 1998 Harbor Revenue Refunding Bonds	165,968,994	173,616,489
2000A Harbor Revenue Bonds		
maturing 2004 through 2025 at 5.0% to 5.75% interest	255,355,000	262,245,000
Plus unamortized premium	1,721,817	1,809,552
Total 2000A Harbor Revenue Bonds	257,076,817	264,054,552
2002A Harbor Revenue Bonds (Variable rate portion)		
maturing 2005 through 2027. Average rates: 2.15% and 1.15%, respectively	140,950,000	144,240,000
Plus unamortized premium	2,533,545	4,836,048
Total 2002A Harbor Revenue Bonds	143,483,545	149,076,048
2002B Harbor Revenue Bonds (Fixed rate portion)		
maturing 2005 through 2027 at 3.0 to 5.5% interest	140,725,000	144,240,000
Plus unamortized premium	6,711,056	4,836,049
Total 2002B Harbor Revenue Bonds	147,436,056	149,076,049
2004A & B Harbor Revenue Refunding Bonds		
maturing 2005 through 2018 at 2.5 to 5.0% interest	107,990,000	113,410,000
Plus unamortized premium	4,919,500	5,295,230
Total 2004A & B Harbor Revenue Refunding Bonds	112,909,500	118,705,230
2005A & B Harbor Revenue Refunding Bonds		
maturing 2006 through 2025 at 3.5 to 5.0% interest	257,975,000	-0-
Plus unamortized premium	7,483,444	-0-
Total 2005A & B Harbor Revenue Refunding Bonds	265,458,444	-0-
Summary:		
Principal	1,066,750,000	1,136,430,000
Net premium	25,583,356	14,807,594
Less current portion	(34,935,000)	(37,259,999)
Net long term bonded indebtedness	$ 1,057,398,356	$1,113,977,595

HARBOR REVENUE BONDS PAYABLE ROLL FORWARD SCHEDULE

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

DESCRIPTION	BALANCE 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 9/30/04	AMOUNTS DUE WITHIN ONE YEAR
1993	$ 127,470,000	$ -0-	$ 127,470,000	$ -0-	$ -0-
1995	307,860,000	-0-	6,805,000	301,055,000	8,031,250
1998	178,330,000	-0-	7,090,000	171,240,000	7,636,875
2000 A	268,780,000	-0-	6,535,000	262,245,000	7,032,500
2002 A & B	294,720,000	-0-	294,720,000	-0-	-0-
2002 A	-0-	144,240,000	-0-	144,240,000	3,357,500
2002 B	-0-	144,240,000	-0-	144,240,000	3,357,500
2004 A & B	-0-	113,410,000	-0-	113,410,000	7,844,374
	$ 1,177,160,000	$ 401,890,000	$ 442,620,000	$ 1,136,430,000	$ 37,259,999

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

Year ending September 30,	Principal	Interest	Total
2006	$ 34,935,000	$ 57,337,711	$ 92,272,711
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
2011-2015	260,605,000	202,544,757	463,149,757
2016-2020	298,705,000	124,704,469	423,409,469
2021-2025	266,575,000	53,068,982	319,643,982
2026-2027	40,800,000	3,147,600	43,947,600
	$ 1,066,750,000	$ 645,589,933	$ 1,712,339,933

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, 2005. Serial bonds aggregating to $163,755,000 are outstanding and will mature on May 15 of each year from 2006 to 2019 in amounts ranging from $7,890,000 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:

	2005	2004
Service Account (Amount reserved to meet current debt service requirements)	$ 6,596,363	$ 6,598,868
Reserve Account (Amount reserved for maximum annual debt service requirements)	17,596,976	17,596,976
	$ 24,193,339	$ 24,195,844

The current 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 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 $255,355,000 will mature on May 15 of each year from 2006 to 2025 in amounts ranging from $7,270,000 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:

	2005	2004
Service Account (Amount reserved to meet current debt service requirements)	$ 5,385,285	$ 7,983,322
Reserve Account (Amount reserved for maximum annual debt service requirements)	21,784,826	21,785,838
	$ 27,170,111	$ 29,769,160

2002A Harbor Revenue Bonds

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 $140,950,000 will mature on May 15 of each year from 2006 to 2027 in amounts ranging from $3,470,000 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, 2004 to September 30, 2005 was 2.15%.

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:

	2005	2004
Service Account (Amount reserved for maximum annual debt service requirements)	$ 1,301,250	$ 1,318,125

2002B Harbor Revenue Bonds

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

Serial bonds aggregating to $102,280,000 will mature on May 15 of each year from 2006 to 2023 in amounts ranging from $3,640,000 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:

	2005	2004
Service Account (Amount reserved for maximum annual debt service requirements)	$ 4,084,035	$ 4,092,028

2004 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2004A & B (the 2004 Bonds) are secured by the Department's gross revenues. The 2004 Bonds, dated March 10, 2004, amounting to $113,410,000, were issued to current refund and to defease all of the City's Harbor Revenue Bonds Series 1993, to pay the premium for the Bond Insurance Policy, to fund the Series 2004 Reserve Fund, and to finance the costs of issuance of the Series 2004 Bonds. The 1993 Bonds are defeased and the liability for those bonds was removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2005.

Serial bonds aggregating to $107,990,000 are outstanding and will mature on May 15 of each year from 2006 to 2018 in amounts ranging from $6,465,000 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:

	2005	2004
Service Account (Amount reserved to meet current debt service requirements)	$ 4,263,422	$ 5,381,414
Reserve Account (Amount reserved for maximum annual debt service requirements)	11,372,752	11,459,920
	$ 15,636,174	$ 16,841,334

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

<u>2005 Harbor Revenue Refunding Bonds</u>

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, 2005. Serial bonds aggregating to $233,005,000 are outstanding and will mature on May 15 of each year from 2006 to 2025 in amounts ranging from $6,200,000 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:

	2005	2004
Service Account (Amount reserved to meet current debt service requirements)	$ 9,465,953	$ -0-
Reserve Account (Amount reserved for maximum annual debt service requirements)	20,989,327	-0-
	$ 30,455,280	$ -0-

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of $4,214,084. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is amortized using the straight-line method over the life of the 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, 2005.

(9) Retirement Programs

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

The Department is billed by the City for its share of pension costs 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 City of Long Beach, together with other California cities (the Cities), entered into negotiations with CalPERS to temporarily reduce or to eliminate retirement contributions paid on behalf of their employees. The main point of the negotiations was that CalPERS built up a cash surplus sufficient to fund a portion of future retirement contributions. The surplus consisted of contributions made by the Cities to satisfy previous years funding requirements plus the earnings accumulated on those contributions.

The result of the negotiations was that the Cities would not contribute to the CalPERS retirement plan until the existing surplus is exhausted. Based on estimates made by an actuarial consultant hired by the City, contributions to CalPERS fund would not be needed until fiscal year 2005. The Department paid $2,676,098 to the City, which was equal to its annual required contribution for fiscal year 2005.

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, 2005.

Deferred Compensation Plan

The City offers its employees the option to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457 allowing them to defer or postpone receipt of income. Amounts 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, 2005.

(10) Operating Leases

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

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

Property under lease at September 30 consists of the following:

	2005	2004
Land	$ 716,201,100	$ 683,944,613
Docks and wharves	438,922,381	419,787,106
Warehouses and sheds	47,757,752	47,757,752
Cranes and shiploaders	183,207,838	170,926,640
Buildings and other facilities	267,065,314	261,317,055
Infrastructure	656,877,920	645,613,569
Historical cost of leased property	2,310,032,305	2,229,346,735
Less accumulated depreciation	(508,513,461)	(450,561,559)
Book value of leased property	$ 1,801,518,844	$1,778,785,176

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:	
2006	$ 201,848,000
2007	166,280,000
2008	162,607,000
2009	157,507,000
2010	145,821,000
2011-2015	665,585,000
2016-2020	605,643,000
2021-2025	447,742,000
2026-2029	146,661,000
Total	$ 2,699,694,000

(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 container transfer facility (the facility) to transfer cargo containers between trucks and railroad cars. The facility has been leased to Southern Pacific Transportation Company, now merged with Union Pacific Railroad (the Tenant).

The facility has been fully developed by the Tenant who has assumed operational responsibility for the facility. The Venturers' share net income and equity distributions from ICTF equally. Audited balance sheets and statement of income and venturers' equity (in condensed format) for the years ended June 30, 2005 and 2004 are as follows:

Condensed Balance Sheets

	2005	2004
Current assets	$ 8,942,282	$ 6,740,585
Property and equipment	3,383,220	3,491,250
Total assets	12,325,502	10,231,835
Current liabilities	8,121	-0-
Venturers' equity:		
Harbor Department of the City of Los Angeles	6,331,250	5,288,477
Harbor Department of the City of Long Beach	5,986,131	4,943,358
Total venturers' equity	12,317,381	10,231,835
Total liabilities and venturers' equity	$ 12,325,502	$ 10,231,835

Condensed Statement of Income and Venturers' Equity

	2005	2004
Operating revenue	$ 7,050,152	$ 5,551,596
Operating expense	(108,030)	(108,030)
Operating income	6,942,122	5,443,566
Interest income	143,424	146,748
Net income	7,085,546	5,590,314
Venturers' equity, July 1, 2004 and 2003	10,231,835	11,641,521
Cash disbursement to venturers	(5,000,000)	(7,000,000)
Venturers' equity, June 30, 2005 and 2004	$ 12,317,381	$ 10,231,835

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 the 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 the 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, 2005, 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, 2005 and 2004 aggregated $149,118,234 and $107,929,954 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, including $100,000,000 for acts of terrorism. Terrorism limits of $500,000,000 are provided through a combination of the all-risk property insurance policy and excess policies.

A comprehensive general liability insurance program is carried in the total amount of $150,000,000 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. The Department also carries specialized policies providing coverage for damage to owned vessels, damage to other vessels, and automobile 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 2005, the Board of Harbor Commissioners approved the addition of $3,000,000 to the reserve. The balances of the reserve for fiscal years 2005 and 2004 are $ 35,505,888 and $31,667,638, respectively. The balances are made up of annual contributions plus interest earnings.

The Department participates in the City's self-insured workers' compensation program, and, during fiscal year 2005 and 2004 made payments to the City's Insurance Fund totaling $1,141,813 and $1,444,550, respectively, for Department employees, both permanent and temporary. 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, 2005 and 2004, the Department has recognized litigation claim liabilities of $2,385,000 and $3,000,000 respectively.

LIABILITY FOR CLAIMS AND JUDGMENTS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/04	ADDITIONS	REDUCTIONS	BALANCE 9/30/05
Accrued claims and Judgments	$ 3,000,000	$ -0-	$ 615,000	$ 2,385,000
	BALANCE 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 9/30/04
Accrued claims and judgments	$ 3,670,000	$ -0-	$ 670,000	$ 3,000,000

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 to ACTA by the Department and the Port of Los Angeles under certain circumstances. 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.
Any Shortfall Advance made by the Department and the Port of Los Angeles is reimbursable with interest after maturity of the debt. In accordance with computations prepared by ACTA, the projected shortfall amount that the Department could be obligated for may reach $10,250,000, payable in annual installments, from fiscal year 2007 until 2019; ACTA's financial estimates, which were developed in April of 2004, are dependent upon the accuracy of the assumptions used in their formulation. Therefore, it is anticipated the there will be differences between the forecasts and actual results, and those differences may be material. In the event that funds are advanced, repayment by ACTA, with interest, could begin in 2018. The Department is currently funding a cash reserve to satisfy claims related to this potential obligation. As of September 30, 2005 and 2004, the Department set aside $78,587,059 and $74,643,788, respectively, to fund shortfall advances as well as other rail and roadway demands.

New Gerald Desmond Bridge Matching Contribution

The Department has begun the preliminary planning and development and is preparing an environmental impact report to replace the Gerald Desmond bridge. The total cost to replace the bridge is currently estimated at $800,000,000. The Department anticipates that funding of this project will come primarily from federal and State sources, but local matching funds will also be required.

In anticipation of this funding requirement, the Department has set aside a fund to provide the expected 10% local match. As of September 30, 2005 and 2004 this fund is holding approximately $74,800,000 and $72,650,000, respectively.

Green Port Infrastructure Commitment

In January 2005, the Department adopted a wide-ranging Green Port Policy that greatly expanded the Department's commitment to enhancing the environment by establishing new guidelines for Port operations and future development. Key guidelines include protection of the community from the harmful impacts of Port operations and employment of the best technology to avoid and reduce environmental impacts. Air emissions from ships at berth account for over one-third of all vessel air emissions. Providing electrification at appropriate berths can reduce emissions significantly. With electrification, or "cold ironing", vessels can shut down their auxiliary engines and plug into dockside electric substations. Although the cost of adding electrical infrastructure is substantial, the Department has begun negotiations with several tenants to modify their berthing arrangements and has set aside a specific sum to begin the process. A Green Port Infrastructure Reserve fund has been cash funded in the amount of $100,000,000 to demonstrate the Department's commitment to improving air quality.

Future Oil Well Abandonment Costs

Costs related to the abandonment and site clearance of oil properties 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, number and life of productive wells, increased abandonment expenses, general changes in the life of the oil field, and changes in oil price levels.

The estimates for the years ending September 30, 2005 and 2004 are $17,700,000 and $17,000,000. These amounts are presented as long-term abandonment cost liabilities in the financial statements.

FUTURE OIL WELL ABANDONMENT COST LIABILITY ROLL FORWARD SCHEDULE

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

	BALANCE 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 9/30/04
Oil abandonment liability	$ 26,650,000	$ -0-	$ 9,650,000	$ 17,000,000

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. Remediation costs for both areas are not anticipated to exceed the first $50,000,000.

(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 2004 and 2003 to the City's Tidelands Operating Fund ($9,499,689 and $6,850,777, 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.

The cost incurred in the acquisition of the land has been classified as a non-current asset. As of September 30, 2005, the Department has completed landfills that required the utilization of $6,521,932 of the available credits. The balance of environmental mitigation costs will be adjusted in the future as landfill credits are used for port development.

(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, 2005, 2004, and 2003 the Department holds net assets as follows:

	September 30,		
	2005	2004	2003
Invested in capital assets, net of related debt	$ 1,080,335,939	$ 1,045,167,222	$ 1,006,492,465
Restricted for capital projects			
2002A bonds construction fund	$ -0-	$ -0-	$ 33,116,707
City of Long Beach RDA – Westside	7,477,626	9,926,871	9,689,435
Capitalized interest	7,073,124	9,964,425	16,756,357
Environmental mitigation credits	32,878,068	32,878,068	32,878,068
Restricted for debt service	105,475,990	85,323,199	86,190,573
Restricted – Third party obligations			
Non- related entity debt service contingency and matching contribution	153,416,559	147,293,788	69,405.709
Total restricted	$ 306,321,367	$ 285,386,351	$ 248,036,849
Unrestricted			
Contributed capital – outside sources	30,427,546	42,969,490	42,969,490
Contributed capital – other City funds	13,253,752	14,188,744	14,188,744
Infrastructure	100,331,378	-0-	-0-
Other unrestricted	297,480,524	298,216,861	279,244,230
Total Unrestricted	$ 441,493,200	$ 355,375,095	$ 336,402,464
Total Net Assets	$ 1,828,150,506	$ 1,685,928,668	$ 1,590,931,778