THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Financial Statements

September 30, 2004 and 2003

The Harbor Department of the City of Long Beach
Financial Statements

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KPMG LLP
355 South Grand Avenue, Suite 2000
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OFFICE OF THE CITY AUDITOR
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, 2004 and 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 of the notes to the financial statements, the financial statements of the Harbor Department of the City of Long Beach are intended to present the financial position, the changes in financial position and cash flows of only that portion of activities of the City of Long Beach that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position, of the City of Long Beach as of September 30, 2004 and 2003 and changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach as of September 30, 2004 and 2003 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

KPMG LLP

Gary L. Burroughs, CPA
City Auditor

December 17, 2004

The Harbor Department of the City of Long Beach
Management's Discussion and Analysis
September 30, 2004 and 2003

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, 2004 and 2003.

Overview of the financial statements

The Department's financial statements include two components: the Department's financial statements, 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 2004, 2003, and 2002.

NET ASSETS
SEPTEMBER 30, 2004, 2003, AND 2002

ASSETS	2004	2003	2002
Assets:			
Capital assets, net	$ 2,240,011,817	$ 2,212,718,620	$ 2,189,881,153
Other assets	791,361,452	741,645,892	747,753,512
TOTAL ASSETS	3,031,373,269	2,954,364,512	2,937,634,665
Liabilities:			
Long-term liabilities	1,221,787,948	1,263,229,143	1,275,768,441
Other liabilities	123,656,653	100,203,591	139,442,225
TOTAL LIABILITIES	1,345,444,601	1,363,432,734	1,415,210,666
Net assets:			
Invested in capital assets, net of related debt	1,088,009,714	1,056,126,891	1,004,527,968
Restricted	299,702,093	255,560,657	321,226,722
Unrestricted	298,216,861	279,244,230	196,669,309
TOTAL NET ASSETS	1,685,928,668	$ 1,590,931,778	$ 1,522,423,999

Analysis fiscal year 2004

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 from operating income, $2,795,157 income from equity in a joint venture, $1,806,653 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 $1,088,009,714 or 65% 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 $299,702,093 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 18% of the Department's 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 $298,216,861, 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 18% 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.

Analysis fiscal year 2003

The assets of the Department exceeded its liabilities at the close of the 2003 fiscal year by $1,590,931,778 *(net assets).* Total net assets increased by $68,507,779. This change consists mainly of $130,658,223 from operating income, $3,717,188 income from equity in a joint venture, and $500,000 in grants received from the federal government; less $52,443,381 from non-operating expenses including financing costs; a $2,586,886 loss from the Department's oil operations; and $11,337,368 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 $1,056,126,891 or sixty-six percent 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 $255,560,657 of net assets subject to external restrictions such as the construction of capital assets, the payment of long-term debt, or the fulfillment of contractual obligations with third parties; such net assets represent 16% of the Department's 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 $279,244,230, an increase of $82,574,921 when compared to the prior fiscal year. The change is attributed to an increase in the volume of business carried out by the Department and to the reimbursement of expenses incurred in capital projects funded with bond proceeds. These projects were identified at the time of the issuance of the bonds. Unrestricted net assets represent 18% 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.

Summary of operations and changes in net assets

The statement of revenues, expenses, and changes in fund net assets shows how the Department's net assets changed during the most recent fiscal year compared to the prior 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 periods cash flows (e.g., uncollected receivables and earned but unused vacation leave).

The table below summarizes the operations for fiscal years 2004, 2003, and 2002.

CHANGES IN FUND NET ASSETS
YEAR ENDED SEPTEMBER 30, 2004, 2003, AND 2002

	2004	2003	2002
Operating revenues:			
Berth and special facilities	$ 268,067,834	$ 237,081,753	$ 210,523,361
Miscellaneous	12,713,847	12,459,682	13,475,243
Total operating revenues	280,781,681	249,541,435	223,998,604
Operating expenses:			
Facility and infrastructure	(36,632,411)	(31,613,280)	(28,526,617)
General and administrative	(17,575,004)	(12,836,768)	(11,556,718)
Depreciation and amortization	(82,920,766)	(74,433,164)	(53,026,659)
Total operating expenses	(137,128,181)	(118,883,212)	(93,109,994)
Operating income	143,653,500	130,658,223	130,888,610
Nonoperating income (expense):			
Intergovernmental	(6,850,777)	(9,057,694)	(8,676,900)
Interest expense net of interest revenue	(47,094,335)	(37,441,849)	(23,668,397)
Income (Loss) from Harbor oil operation	1,806,653	(2,586,886)	(707,171)
Loss on disposition of capital assets	(93,464)	(11,337,368)	(10,426,179)
Income from equity in joint ventures	2,795,157	3,717,188	4,372,849
Other expense, net	(4,971,896)	(5,943,835)	(1,205,872)
Net non-operating expenses	(54,408,662)	(62,650,444)	(40,311,670)
Income before capital grants	89,244,838	68,007,779	90,576,940
Capital grants	5,752,052	500,000	-0-
Change in net assets	94,996,890	68,507,779	90,576,940
Total net assets – beginning	1,590,931,778	1,522,423,999	1,431,847,059
Total net assets – ending	$ 1,685,928,668	$ 1,590,931,778	$ 1,522,423,999

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%, liquid bulk 4%, 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.

Analysis fiscal year 2003

Compared to the results of operations for the year ended September 30, 2002, revenues from berths and special facilities increased by 13%; specifically, containerized cargo increased 14%, vehicles 2%, lumber 18%, and dry bulk 29%; liquid-bulk decreased by 4% and steel decreased 9%. Revenue from other rental properties decreased 7%; while revenue from miscellaneous sources decreased 9%. Positive variations in revenue relate to higher returns generated by the opening of a new container terminal as well as improvement and expansion of several other facilities.

Volumes of lumber increased 16%, liquid bulk 1%, steel 2%, and dry bulk (measured in metric revenue tons) 7%. Containerized cargo declined 10% and vehicles declined 9%. The miscellaneous cargo category increased 50%. Overall, volume decreased due to the loss of a major tenant at the beginning of the fiscal year. The decline in liquid bulk and steel revenue is the result of government actions at the state and federal levels such as the increase in the bunker fuel tax and the imposition of quotas in the importing of foreign steel.

Operating expenses increased mainly because of higher security costs. Depreciation expense increased because of additional depreciation attributed to new installations placed in service during the current fiscal year, and interest expense increased because of higher levels of the long-term debt incurred by the Department to continue its facilities expansion program.

Notes to the Financial Statements

The notes to the Department's financial statements can be found on pages 15-31 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, 2004, 2003, and 2002 amounted to $2,240,011,817, $2,212,718,620, and $2,189,881,153, respectively.

CAPITAL ASSETS, NET
SEPTEMBER 30, 2004, 2003, AND 2002

	2004	2003	2002
Land	$ 815,214,993	$ 810,461,299	$ 790,362,777
Structures and Facilities	1,045,143,882	972,464,299	1,023,721,247
Furniture, fixtures, and equipment	3,652,350	3,212,135	2,452,494
Construction in progress	168,177,328	218,757.623	165,845,108
Rights of way	207,823,264	207,823,264	207,499,527
	$ 2,240,011,817	$ 2,212,718,620	$ 2,189,881,153

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 current fiscal year was 1% (Notes 1 and 4). The increase in land is the result of site preparation disbursements; structures and facilities increased because of the construction of additional fixed assets.

Analysis fiscal year 2003
The total increase in the Department's investment in capital assets for the current fiscal year was 1.1%. The decrease in structures and facilities is the result of the sale of container cranes and the increase in depreciation expense resulting from new assets placed in service; the increase in construction in progress is the result of building, improving, or expanding current installations. The increase in land is the result of landfill added to one of the piers.

Debt administration

The following table summarizes the Department's long-term debt as of September 30, 2004, 2003, and 2002:

LONG-TERM DEBT
SEPTEMBER 30, 2004, 2003, AND 2002

	2004	2003	2002
Bonded indebtedness (Net)	$1,151,237,594	$1,184,875,822	$ 1,215,404,355
Commercial paper outstanding	60,150,000	60,150,000	60,150,000
Notes payable	137,559	192,451	247,343
Total long-term debt	$1,174,265,154	$1,211,726,398	$ 1,275,801,698

Analysis fiscal year 2004
The total long-term debt of the Department decreased by $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.

Additional information on the Department's long-term debt can be found in notes 5, 6, and 7 on pages 20-26 of this report.

Analysis fiscal year 2003
The total long-term debt of the Department decreased by $30,583,426 (approximately 2%). The decrease was the result of the debt service payments made. No additional debt was issued and no debt restructuring occurred during the year.

The debt-service coverage ratios for the fiscal years ending 2003 and 2002 are 2.6 and 3.5. 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 5, 6, and 7 on pages 20-26 of this report.

Economic outlook

The Department was organized to promote and develop the Port of Long Beach (the Port). The financial statements emphasize the Department's intent to recover the costs of its activities through leases, tariffs, and other charges assessed to its tenants. The Department does not carry general governmental activities but receives and compensates the City of Long Beach (the City) for services related to general government such as public safety, human resources, civil service, and centralized financial, legal, and audit services.

A substantial increase in cargo volume, together with a 5% increase in tariff rates effective January 1, 2004, led to significant growth in operating revenues. Net income, before capital grants revenue, increased from previous year 31%; containerized cargo, measured in TEU's (twenty foot equivalent units), increased 22%; all the container terminals recorded gains when compared to prior year. Petroleum and other liquid bulk cargo revenue rose by 7%, while cargo volume rose by 4%, reaching 32.5 million metric revenue tons. Liquid bulk is the second largest cargo category after containers. Dry bulk revenue declined by 12% while volume increased by 7% to 6.7 million metric tons. Dry bulk consists mainly of outbound petroleum coke and inbound cement and gypsum. Among the remaining cargo, steel, lumber and vehicles increased slightly while the miscellaneous category decreased by 12%.

To accommodate future cargo growth the development of Pier T moved into its final phase; completion of the Pier T terminal will provide an additional 30 acres of container handling facilities bringing the total to approximately 380 acres. 160 acres on Pier S have been fully remediated and raised to grade. The Port is conducting an environmental review to determine the potential for development of a shipping terminal. Additional development of Piers G, J, and other facilities is also moving forward.

The Port interacts with U.S. Customs and U.S. Coast Guard to safeguard the Harbor district, and has secured federal grants to substantially fund the construction of projects aimed at enhancing landside law enforcement patrols, providing a video surveillance system to monitor all facilities, and building other security related infrastructure. The Port has committed funds to increase its security force, to contract additional police patrolling, and to enhance its insurance coverage related to acts of terrorism. The Port continues to seek additional funding sources to provide a safer and more secure environment in which to conduct its activities.

Environment Protection and Stewardship

The Port's mission is to provide safe and secure facilities for the efficient movement of all types of cargo, in a manner that affords protection to the local community from harmful side effects and promotes enhancement of the environment. As part of its long-term capital expansion program, the Port has adopted numerous policies to protect the environment and the ecosystem linked to port operations. Tenants are contributing to these efforts by joining Port sponsored programs and activities such as the Diesel Emission Reduction Program, and the installation of exhaust control devices such as diesel oxidation catalysts or diesel particulate filters in their vehicles. Construction project contractors hired by the Port are now required to use low-sulfur diesel fuel on all diesel equipment re-fueled on-site.

Additionally, the Port is studying the feasibility of using "cold ironing" at certain berths. This process substitutes shore-side electricity for the ship's diesel power and reduces significantly air emissions from docked vessels. An agreement has been reached with the operator of a liquid bulk terminal to use this process for certain vessels; the Port will provide the necessary electrical improvements to allow the vessels to cold iron at berth. Cold ironing is also under consideration for other facilities within the Port.

In a joint effort, the Port of Long Beach, the Port of Los Angeles, and the Alameda Corridor Transportation Authority developed a container-hauling truck reduction program on the I-710 freeway which will reduce freeway congestion at peak traffic times and will increase rail traffic. Concurrently, and looking to reduce daytime rush-hour traffic and air pollution, terminal operators adopted the PierPass off-hour program. This program phases in truck gates at night and weekends, and promotes the better utilization of on-dock rail facilities. Both programs are scheduled to begin in the first half of the 2005 fiscal year.

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 Office of the Director of Finance, 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, 2004 and 2003

Assets	2004	2003
Current assets:		
Pooled cash and cash equivalents (Note 2)	$ 304,728,427	$ 287,958,809
Accounts receivable – trade	42,822,187	43,151,700
Interest receivable	199,926	313,145
Due from other governmental agencies (Note 3)	24,985,655	9,612,164
Inventories of supplies	843,916	885,693
Total current assets	373,580,111	341,921,511
Harbor Revenue Bond Funds and other funds restricted as to use (Notes 2 and 7):		
Pooled cash and cash equivalents (Note 11)	262,751,576	214,010,011
Other investments	11,459,920	12,360,994
Total restricted assets	274,211,496	226,371,005
Capital assets (Notes 1 and 9):		
Land:		
Purchased	439,492,674	438,800,910
Constructed, net of allowance for subsidence	375,722,319	371,660,389
Net land	815,214,993	810,461,299
Structures and facilities	1,691,654,582	1,554,534,369
Less accumulated depreciation	(646,510,700)	(582,070,070)
Net structures and facilities	1,045,143,882	972,464,299
Furniture, fixtures and equipment	15,386,827	14,331,130
Less accumulated depreciation	(11,734,477)	(11,118,995)
Net furniture, fixtures and equipment	3,652,350	3,212,135
Construction in progress	168,177,328	218,757,623
Right of way (Note 4)	207,823,264	207,823,264
Net capital assets	2,240,011,817	2,212,718,620
Other assets:		
Long –term receivables (Note 3)	25,670,000	25,670,000
Oil facilities (net of accumulated depletion of $66,399,876 and $50,608,459 respectively)	14,735,978	30,527,395
Environmental mitigation costs (Note 13)	32,878,068	32,878,068
Investments in joint venture (Note 10)	4,943,358	5,648,201
Assets constructed for others (Note 1)	30,522,794	24,852,745
Other non-current assets	34,819,647	53,776,967
Total other assets	143,569,845	173,353,376
Total assets	$ 3,031,373,269	$ 2,954,364,512

(Continued)

The Harbor Department of the City of Long Beach

Statements of Net Assets

September 30, 2004 and 2003

Liabilities and Net Assets	2004	2003
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	$ 20,423,585	$ 26,878,315
Due to City of Long Beach (Note 12)	6,850,777	9,057,694
Notes payable (Note 6)	54,892	54,892
Deferred credits and unearned revenue	38,119,199	8,043,014
Total current liabilities payable from current assets	65,448,453	44,033,915
Current liabilities payable from restricted assets:		
Current portion of bonded indebtedness (Note 7)	37,259,999	33,491,875
Accrued interest – bonds	20,948,201	22,677,801
Total current liabilities payable from restricted assets	58,208,200	56,169,676
Total current liabilities	123,656,653	100,203,591
Long-term obligations net of current portion:		
Bonded indebtedness (Note 7)	1,113,977,595	1,151,383,947
Commercial paper outstanding (Note 5)	60,150,000	60,150,000
Notes payable (Note 6)	137,559	192,451
Deferred liability (Note 1)	30,522,794	24,852,745
Oil well abandonment (Note 11)	17,000,000	26,650,000
Total long-term obligations	1,221,787,948	1,263,229,143
Total liabilities	1,345,444,601	1,363,432,734
Commitments and contingencies (Notes 5, 8, and 11)		
Net assets:		
Invested in capital assets, net of related debt	1,088,009,714	1,056,126,891
Restricted-Non-related party debt service contingency and matching contribution for future federally funded projects (Note 11)	147,293,788	69,405,709
Restricted-Capital projects	67,085,106	99,964,375
Restricted-Debt service	85,323,199	86,190,573
Unrestricted	298,216,861	279,244,230
Total net assets	$ 1,685,928,668	$ 1,590,931,778

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach

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

For the Fiscal Years Ended September 30, 2004 and 2003

	2004	2003
Port operating revenues (Note 9):		
Berths and special facilities	$ 268,067,834	$ 237,081,753
Rental properties	9,551,733	8,861,239
Miscellaneous	3,162,114	3,598,443
Total Port operating revenues	280,781,681	249,541,435
Port operating expenses:		
Facility maintenance	7,139,132	4,132,401
Infrastructure maintenance	11,024,764	9,497,870
Fire and safety	12,928,027	11,648,401
Other indirect	5,540,488	6,334,608
General and administrative	17,575,004	12,836,768
Port operating expenses before depreciation and amortization	54,207,415	44,450,048
Depreciation and amortization	82,920,766	74,433,164
Total Port operating expenses	137,128,181	118,883,212
Operating Income	143,653,500	130,658,223
Non-operating income (expense):		
Intergovernmental (Note 12)	(6,850,777)	(9,057,694)
Interest income, net of capitalized interest	13,450,318	13,626,935
Interest expense, net of capitalized interest	(60,544,653)	(51,068,784)
Income (Loss) from Harbor oil operations	1,806,653	(2,586,886)
Loss on disposition of capital assets	(93,464)	(11,337,368)
Income from equity in joint ventures (Note 10)	2,795,157	3,717,188
Other revenue (expense), net	(4,971,896)	(5,943,835)
Net non-operating expense	(54,408,662)	(62,650,444)
Income before capital grants	89,244,838	68,007,779
Capital grants	5,752,052	500,000
Increase in net assets	94,996,890	68,507,779
Total net assets, October 1	1,590,931,778	1,522,423,999
Total net assets, September 30	$ 1,685,928,668	$ 1,590,931,778

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach

Statements of Cash Flows

For the Fiscal Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from customers	$ 280,074,042	$ 256,819,702
Cash paid to employees net of capitalized labor of $4,408,328 and $4,493,037 in 2004 and 2003	(21,630,946)	(19,002,217)
Cash paid to suppliers	(28,665,515)	(47,582,607)
Net cash provided by operating activities	229,777,581	190,234,878
Cash flows from non-capital financing activities:		
Repayments under redevelopment agency agreements	-0-	12,170,200
Intergovernmental transfers	(9,057,694)	(8,676,900)
Net cash provided by (used in) non-capital financing activities	(9,057,694)	3,493,300
Cash flows from capital and related financing activities:		
Proceeds from the sales of capital assets	12,917,685	21,159,566
Payments for capital acquisitions	(116,684,924)	(175,125,749)
Capital grants	7,116,198	1,209,200
Bond debt issuance	410,472,144	-0-
Principal repayment-bonds	(442,620,000)	(30,145,000)
Interest paid, including capitalized interest	(51,259,856)	(62,497,840)
Principal payment-notes	(54,892)	(54,892)
Net cash used in capital and related financing activities	(180,113,645)	(245,454,715)
Cash flows from investing activities:		
Interest received, including capitalized interest	13,899,318	16,158,586
Return on investment in joint venture	3,500,000	4,000,000
Harbor oil operations providing cash	7,505,623	2,026,349
Net cash provided by investing activities	24,904,941	22,184,935
Net increase (decrease) in cash and cash equivalents	65,511,183	(29,541,602)
Cash and cash equivalents, October 1,	501,968,820	531,510,422
Cash and cash equivalents, September 30,	$ 567,480,003	$ 501,968,820

Continued

The Harbor Department of the City of Long Beach

Statements of Cash Flows

For the Fiscal Years Ended September 30, 2004 and 2003

	2004	2003
Reconciliation of operating income to		
Net cash provided by operating activities:		
Operating income	$ 143,653,500	$ 130,658,223
Adjustments to reconcile operating income to		
Net cash provided by operating activities:		
Depreciation and amortization	82,920,766	74,433,164
(Increase) decrease in receivables	1,970,079	(14,145,924)
Decrease (increase) in inventory	41,777	(117,918)
Decrease in other current assets	843,769	2,227,576
Increase in deferred charges	-0-	(1,353,682)
Decrease (increase) in accounts payable	494,767	(906,329)
Increase in deferred revenue	(147,077)	(560,232)
Total adjustments	86,124,081	59,576,655
Net cash provided by operating activities	$ 229,777,581	$ 190,234,878
Schedule of non-cash activities:		
Capitalized interest	(6,791,932)	10,424,668

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 2004 and 2003 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 10).

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 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 after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

New Accounting Pronouncements

The Department has implemented:

- GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments (GASB 34).* This statement and the related GASB statements affect the manner in which the Department records transactions and presents financial information.
- GASB Statement No. 37 *Basic Financial Statements-and Management's Discussion and Analysis – for State and Local Governments: Omnibus* (GASB 37).
- GASB Statement No. 38. *Certain Financial Statement Note Disclosures.*

The pronouncements listed above establish financial reporting standards for state and local governments and they require, among other things, that the difference between assets and liabilities be reported as net assets, not equity, that a Management's Discussion and Analysis (MD&A) section precedes the financial statements, and that capital assets be capitalized and depreciated over their estimated useful lives. The Department already capitalizes its assets and records their depreciation; therefore, the only significant changes adopted in order to comply with the new reporting requirements are the new MD&A section and the reporting of the details of net assets. The Department implemented the applicable provisions of GASB 34 during fiscal year 2002. As a result of this implementation, 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

<u>Pooled Cash and Cash Equivalents</u>
In order to maximize investment returns, 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 includes a member 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, 2004 and 2003, is stated at fair value (see Note 2).

<u>Inventories</u>
Inventories of supplies are valued at the lower of average cost or market.

<u>Capital Assets</u>
The capitalization threshold for capital assets is $5,000. Capital assets are valued at historical cost. 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. The Department capitalized $10,424,668 during fiscal year 2003. No capitalization of interest occurred during fiscal year 2004.

CAPITALIZED INTEREST ROLL FORWARD SCHEDULE

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

DESCRIPTION	BALANCE 10/01/02	ADDITIONS	ALLOCATIONS	BALANCE 9/30/03
2000A Revenue Bonds	$ 4,256,157	$ 423,370	-0-	$4,679,527
2002A & B Revenue Bonds	2,075,532	10,001,298	-0-	12,076,830
	$ 6,331,689	$10,424,668	$ -0-	$16,756,357

The constructed land balances as of September 30, 2004 and 2003 amount to $375,722,319 and $371,660,389. These values are net of a $23,431,021 allowance for subsidence.

Oil facilities are valued at historical cost plus estimated future oil well abandonment costs. Donated assets are valued at their estimated fair value on the donation date.

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. Oil field depletion is determined using the estimated economic life of the oil field.

CAPITAL ASSETS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/03	ADDITIONS	DISPOSALS	BALANCE 9/30/04
Purchased land	$ 438,800,911	$ 691,763	$ -0-	$ 439,492,674
Constructed land, net	371,660,389	12,599,781	8,537,851	375,722,319
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
Construction in Progress	218,757,623	128,347,374	178,927,670	168,177,327
Rights of way (Note 4)	207,823,264	-0-	-0-	207,823,264
Total capital assets	$ 2,805,907,686	$299,940,828	$207,591,521	$ 2,898,256,993

	BALANCE 10/01/02	ADDITIONS	DISPOSALS	BALANCE 09/30/03
Purchased land	$ 438,800,911	$ -0-	$ -0-	$ 438,800,911
Constructed land, net	351,561,867	20,098,522	-0-	371,660,389
Structures and facilities	1,547,772,483	50,314,871	43,552,985	1,554,534,369
Furniture, fixtures and eq.	12,918,123	1,736,370	323,363	14,331,130
Construction in progress	165,845,108	150,574,139	97,661,624	218,757,623
Rights of way (Note 4)	207,499,527	17,385,524	17,061,787	207,823,264
Total capital assets	$ 2,724,398,019	$240,109,426	$158,599,759	$ 2,805,907,686

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

ACCUMULATED DEPRECIATION ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/03	ADDITIONS	DISPOSALS	BALANCE 9/30/04
Structures and facilities	$ 582,070,070	$ 76,505,010	12,064,380	646,510,700
Furniture, fixtures and eq.	11,118,995	868,349	252,867	11,734,477
Total accum. deprec.	$ 593,189,065	$ 77,373,359	$ 12,317,247	$ 658,248,177

	BALANCE 10/01/02	ADDITIONS	DISPOSALS	BALANCE 09/30/03
Structures and facilities	524,051,236	67,328,209	9,309,375	$ 582,070,070
Furniture, fixtures and eq.	10,356,899	1,066,171	304,075	11,118,995
Total accum. deprec.	$ 534,408,135	$ 68,394,380	$ 9,613,450	$ 593,189,065

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.

Assets Constructed for Others

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 costs, 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. During fiscal year 2002, and in compliance with the agreements described, the Department transferred certain bridges, freeway ramps, and highway improvements to Caltrans. This process will continue in coming years, and more assets will be transferred as they are completed.

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 8.

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 2003 have been reclassified to conform to the fiscal year 2004 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. Individual departmental cash deposits and investments within this pool cannot be specifically identified among the participating units. Interest income and gains and losses earned on pooled cash and investments are allocated monthly to the various pool participants based on their average daily cash balances.

The 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. The City's cash deposits and investments at September 30, 2004 and 2003 are either federally insured, collateralized, or not collateralized in accordance with the California Government Code. Information regarding the carrying amount of cash and investments and corresponding bank balances is included in the City of Long Beach Comprehensive Annual Financial Report.

Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ending September 30, 2004 and 2003.

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, 2004 or 2003.

3) Other Receivables

Other receivables, including long-term, as of September 30, include the following:

	2004	2003
Due from other governmental agencies:		
Current:		
Reimbursements due from Caltrans	$ 1,520,901	$ 4,012,164
Federal grant – Department of Transportation-MARAD	749,008	3,835,000
Federal grant – Department of Homeland Security	20,950,746	-0-
Redevelopment Agency – Convention Center	1,765,000	1,765,000
Total current	24,985,655	9,612,164
Long-term:		
Redevelopment Agency - Convention Center	25,670,000	25,670,000
Total due from other governmental agencies	$ 50,655,655	$ 35,282,164

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

Redevelopment Agency-West Long Beach Industrial Redevelopment Project Area

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) Alameda Corridor Right-of-Way Purchase

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Project), which is a comprehensive transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three railroad companies then serving the Ports: Union Pacific Railroad Company, 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, 2004 and 2003, 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 2003. Funding for the Project came from federal, state, and local sources, and from issuance of debt. (see Note 11). 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 11).

(5) 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, 2004 and 2003 totaled $60,150,000.

COMMERCIAL PAPER ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 9/30/04
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
	BALANCE 10/01/02			BALANCE 09/30/03
Series A, maturity dates 10/06/03 to 12/09/03 Range of interest rates: 0.85% - 0.93%	$ 60,150,000	-0-	-0-	$ 60,150,000

(6) Notes Payable

Outstanding notes payable at September 30 include the following:

	2004	2003
Notes payable	$ 192,451	$ 247,343
Less current portion	(54,892)	(54,892)
Long-term portion	$ 137,559	$ 192,451

NOTES PAYABLE ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 9/30/04
James Donald Locke	40,676	-0-	13,559	27,117
Nicolas Nassir	206,667	-0-	41,333	165,334
	247,343	-0-	54,892	192,451
	BALANCE 10/01/02	ADDITIONS	REDUCTIONS	BALANCE 09/30/03
James Donald Locke	54,235	-0-	13,559	40,676
Nicolas Nassir	248,000	-0-	41,333	206,667
	302,235	-0-	54,892	247,343

(7) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 is as follows:

	2004	2003
1993 Harbor Revenue Bonds (Information presented for comparison purposes only; bonds were current refunded on May 15, 2004)		
maturing 2004 through 2018 at 4.5% to 5.13% interest	-0-	127,470,000
Less unamortized discount	-0-	(971,630)
Total 1993 Harbor Revenue Bonds	-0-	126,498,370
1995 Harbor Revenue Bonds		
maturing 2004 through 2025 at 5.4% to 8.00% interest	301,055,000	307,860,000
Less unamortized discount	(4,345,775)	(2,452,245)
Total 1995 Harbor Revenue Bonds	296,709,225	305,407,755
1998 Harbor Revenue Refunding Bonds		
maturing 2004 through 2019 at 5.0% to 6.0% interest	171,240,000	178,330,000
Plus unamortized premium	2,376,489	3,706,689
Total 1998 Harbor Revenue Refunding Bonds	173,616,489	182,036,689

2000A Harbor Revenue Bonds		
maturing 2004 through 2025 at 5.0% to 5.75% interest	262,245,000	268,780,000
Plus unamortized premium	1,809,552	1,897,287
Total 2000A Harbor Revenue Bonds	264,054,552	270,677,287
2002A & B Harbor Revenue Bonds (Variable rate) (Information presented for comparison purposes only; Bonds were remarketed on May 15, 2004)		
maturing 2004 through 2027. Average rate: 4.0%	-0-	294,720,000
Plus unamortized premium	-0-	5,535,721
Total 2002 Harbor Revenue Bonds	-0-	300,255,721
2002A Harbor Revenue Bonds (Variable rate portion)		
maturing 2005 through 2027. Average rate: 1.15%	144,240,000	-0-
Plus unamortized premium	4,836,048	-0-
Total 2002A Harbor Revenue Bonds	149,076,048	-0-
2002B Harbor Revenue Bonds (Fixed rate portion)		
maturing 2005 through 2027 at 3.0 to 5.5% interest	144,240,000	-0-
Plus unamortized premium	4,836,049	-0-
Total 2002B Harbor Revenue Bonds	149,076,049	-0-
2004A & B Harbor Revenue Refunding Bonds		
maturing 2005 through 2018 at 2.5 to 5.0% interest	113,410,000	-0-
Plus unamortized premium	5,295,230	-0-
Total 2004A & B Harbor Revenue Refunding Bonds	118,705,230	-0-
Summary:		
Principal	1,136,430,000	1,177,160,000
Net premium	14,807,594	7,715,822
Less current portion	(37,259,999)	(33,491,875)
Net long term bonded indebtedness	$ 1,113,977,595	$ 1,151,383,947

HARBOR REVENUE BONDS PAYABLE ROLL FORWARD SCHEDULE

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	-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

DESCRIPTION	BALANCE 10/01/02	ADDITIONS	REDUCTIONS	BALANCE 9/30/03	AMOUNTS DUE WITHIN ONE YEAR
1993	$ 133,130,000	-0-	$ 5,660,000	$ 127,470,000	$ 6,025,000
1995	314,095,000	-0-	6,235,000	307,860,000	7,193,125
1998	185,080,000	-0-	6,430,000	178,330,000	7,238,125
2000 A	275,000,000	-0-	6,220,000	268,780,000	6,668,125
2003 A & B	300,000,000	-0-	5,280,000	294,720,000	6,367,500
	$1,207,305,000	-0-	$ 30,145,000	$ 1,177,160,000	$ 33,491,875

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

Year ending September 30,	Principal	Interest	Total
2005	$ 37,259,999	$ 60,083,903	$ 97,343,902
2006	37,928,125	58,390,430	96,318,555
2007	39,755,000	56,564,212	96,319,212
2008	41,738,125	54,574,042	96,312,167
2009	43,934,375	52,379,524	96,313,899
2010-2014	258,146,250	223,391,830	481,538,080
2015-2019	315,685,625	143,578,126	459,263,751
2020-2024	271,538,750	65,060,881	336,599,631
2025-2027	90,443,751	29,357,195	119,800,946
	$ 1,136,430,000	$ 743,380,143	$1,879,810,143

Details of each outstanding debt issue are as follows:

1995 Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds, Series 1995 (the 1995 Bonds) are secured by the Department's gross revenues. The 1995 Bonds, dated November 1, 1995, amounting to $343,300,000 were issued to pay for construction of a new container terminal on Pier A and expansion and modification of an existing terminal on Pier J.

The Series 1995 Bonds maturing on or after May 15, 2005, shall be subject to call and redemption prior to maturity, at the option of the Board, as a whole on any date or in part on any interest payment date on or after May 15, 2005, at the redemption price for each redeemed Series 1995 Bond. Serial bonds aggregating to $116,330,000 are outstanding and will mature on May 15 of each year from 2005 to 2015 in amounts ranging from $7,840,000 to $13,710,000 with interest payable semiannually on May 15 and November 15 at coupon rates from 5.4% to 9.0%.

Term bonds of $80,500,000 and of $104,225,000 will mature on May 15, 2020 and May 15, 2025, respectively. The term bonds have interest rates of 5.375% and 5.25%, respectively. Term bonds shall be called before maturity and redeemed at par in amounts from $14,465,000 to $17,825,000 from 2016 to 2020, respectively, for the term bonds scheduled to mature on May 15, 2020; and in amounts from $18,780,000 to $22,995,000, from 2021 to 2025, respectively, for the term bonds scheduled to mature on May 15, 2025.

In accordance with the bond resolution, a surety bond was obtained from AMBAC Indemnity Corporation. The purpose of this surety bond is to fund a $25,325,288 reserve account.

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

	2004	2003
Service Account		
(Amount reserved to meet current debt service requirements)	$ 9,106,701	$ 8,907,717

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, 2004.

Serial bonds aggregating to $171,240,000 are outstanding and will mature on May 15 of each year from 2005 to 2019 in amounts ranging from $7,485,000 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:

	2004	2003
Service Account		
(Amount reserved to meet current debt service requirements)	$ 6,598,868	$ 6,598,868
Reserve Account		
(Amount reserved for maximum annual debt service requirements)	17,596,976	17,596,976
	$ 24,195,844	$ 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.

<u>2000A Harbor Revenue Bonds</u>

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 $262,245,000 will mature on May 15 of each year from 2005 to 2025 in amounts ranging from $6,890,000 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:

	2004	2003
Service Account		
(Amount reserved to meet current debt service requirements)	$ 7,983,322	$ 7,561,612
Reserve Account		
(Amount reserved for maximum annual debt service requirements)	21,785,838	21,333,551
	$ 29,769,160	$ 23,665,236

<u>2002A & B Harbor Revenue Bonds</u>

The City of Long Beach Harbor Revenue Bonds Series 2002A & B (the 2002A & B Bonds) dated June 26, 2002, amounting to $300,000,000 were issued in June 19, 2002, as variable rate bonds, to finance certain capital improvements at the Port, to current refund a portion of the Department's Commercial Paper Notes, and to finance the costs of issuance. Based on the issuing document the 2002A & B Bonds bore a coupon rate of 4.0% until the mandatory tender date of May 14, 2004. At the end of the initial long-term interest rate period, and upon satisfaction of certain conditions, the bonds would convert into bonds with different long-term interest rate or rates or at a daily/ weekly interest rate, bond interest term rate, fixed interest rate or auction rate.

At the mandatory conversion date of May 14, 2004, the $144,240,000 of Series 2002A outstanding principal was converted to a weekly variable interest rate mode. The $144,240,000 of Series 2002B outstanding principal was converted to fixed rates to maturity. Additional details for each of the issues are provided below.

<u>2002A Harbor Revenue Bonds</u>

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 $144,240,000 will mature on May 15 of each year from 2005 to 2027 in amounts ranging from $3,515,000 to $10,355.000 with interest rates re-set weekly and payable monthly in arrears. The initial variable rate was 1.15%, and the average variable rate from May, 14, 2004 to September 30, 2004 was 1.76%. 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:

	2004	2003
Service Account (Amount reserved for maximum annual debt service requirements)	$ 1,318,125	$ -0-

<u>2002B Harbor Revenue Bonds</u>

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 $105,795,000 will mature on May 15 of each year from 2005 to 2023 in amounts ranging from $3,515,000 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:

	2004	2003
Service Account (Amount reserved for maximum annual debt service requirements)	$ 4,092,028	$ -0-

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 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, 2004.

Serial bonds aggregating to $113,410,000 are outstanding and will mature on May 15 of each year from 2005 to 2018 in amounts ranging from $5,420,000 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:

	2004	2003
Service Account (amount reserved to meet current debt service requirements)	$ 5,381,414	$ -0-
Reserve Account (amount reserved for maximum annual debt service requirements)	11,459,920	-0-
	$ 16,841,334	$ -0-

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.

Debt Covenants
The Department's management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2004.

(8) 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. No contributions were made during the last three fiscal years and the Department ‘s operating budget for fiscal year 2005 includes the estimated PERS contribution.

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 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 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, 2004.

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, 2004.

(9) 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. All leases have been classified as operating leases for accounting purposes.

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:

	2004	2003
Land	$ 683,944,613	$ 668,074,587
Docks and wharves	419,787,106	358,536,053
Warehouses and sheds	47,757,752	47,713,589
Cranes and shiploaders	170,926,640	181,202,019
Buildings and other facilities	261,317,055	254,868,850
Infrastructure	645,613,569	578,619,846
Historical cost of leased property	2,229,346,735	2,089,014,944
Less accumulated depreciation	(450,561,559)	(416,320,601)
Book value of leased property	$ 1,778,785,176	$ 1,672,694,343

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:	
2005	$ 190,628,000
2006	191,395,000
2007	162,204,000
2008	160,222,000
2009	154,279,000
2010-2014	668,975,000
2015-2019	610,251,000
2020-2024	493,424,000
2025-2028	228,544,000
Total	$ 2,859,922,000

(10) 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, 2004 and 2003 are as follows:

Condensed Balance Sheets

	2004	2003
Current assets	$ 6,740,585	$ 8,044,182
Property and equipment	3,491,250	3,599,281
Total assets	10,231,835	11,643,463
Current liabilities	-0-	1,942
Venturers' equity:		
Harbor Department of the City of Long Beach	4,943,358	5,648,200
Harbor Department of the City of Los Angeles	5,288,477	5,993,321
Total venturers' equity	10,231,835	11,641,521
Total liabilities and venturers' equity	$ 10,231,835	$ 11,641,521

Condensed Statement of Income and Venturers' Equity

	2004	2003
Operating revenue	$ 5,551,596	$ 7,337,545
Operating expense	(108,030)	(108,030)
Operating income	5,443,566	7,229,515
Interest income	146,748	204,861
Net income	5,590,314	7,434,376
Venturers' equity, July 1 2003 and 2002	11,641,521	12,207,145
Cash disbursement to venturers	(7,000,000)	(8,000,000)
Venturers' equity, June 30, 2004 and 2003	$ 10,231,835	$ 11,641,521

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, 2004, can be obtained from the Department.

(11) 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, 2004 and 2003 aggregated $107,929,954 and $195,109,290 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 $750,000,000. A separate policy provides coverage for acts of terrorism up to $100,000,000.

A comprehensive general liability insurance program is carried in the total amount of $100,000,000 excess of a $1,000,000 self-insured retention, covering all of the Harbor Department's operations. The Department also carries specialized policies providing coverage for the loss or damage to the Department's fireboats and other vessels and to provide insurance coverage in the event of losses due to acts of terrorism. 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 2004, the Board of Harbor Commissioners approved the addition of $3,000,000 to the reserve. The balances of the reserve for fiscal years 2004 and 2003 are $ 31,667,638 and $27,968,581, 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 2004 and 2003 made payments to the City's Insurance Fund totaling $1,444,550 and $989,283, 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, 2004 and 2003, the Department has recognized litigation claim liabilities of $3,000,000 and $3,670,000 respectively.

LIABILITY FOR CLAIMS AND JUDGMENTS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 9/30/04
Accrued claims and Judgments	$ 3,670,000	$ -0-	$ 670,000	$ 3,000,000
	BALANCE 10/01/02	**ADDITIONS**	**REDUCTIONS**	**BALANCE 9/30/03**
Accrued claims and judgments	$ 1,270,611	$ 2,399,389	-0-	$ 3,670,000

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 2006 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, there are likely to 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, 2004 and 2003, the Department set aside $74,643,788 and $69,405,709, respectively, to fund shortfall advances as well as other rail and roadway demands. Other roadway projects include the Caltrans supported Terminal Island Freeway/Ocean Boulevard interchange, on which the Department will begin construction in fiscal year 2005.

New Gerald Desmond Bridge Matching Contribution
The Department has begun efforts to replace the Gerald Desmond Bridge. Preliminary planning and development of an environmental impact report is currently underway. The total cost of replacing the bridge is estimated to be $726,500,000. The Department anticipates that the 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 $72,650,000 to provide a 10% local match.

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 Oil Properties 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, 2004 and 2003 are $17,000,000 and $26,650,000. 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 10/01/03	ADDITIONS	REDUCTIONS	BALANCE 9/30/04
Oil abandonment liability	$ 26,650,000	$ -0-	$ 9,650,000	$ 17,000,000

DESCRIPTION	BALANCE 10/01/02	ADDITIONS	REDUCTIONS	BALANCE 9/30/03
Oil abandonment liability	$ 26,313,000	337,000	$ -0-	$ 26,650,000

Environmental Remediation

The Department purchased 725 acres of property in the Harbor District in 1994. The property contains soil requiring the 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'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	UPRC	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.

(12) 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 2003 and 2002 to the City's Tidelands Operating Fund ($6,850,777 and $9,057,694, respectively). This amount is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets.

(13) 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, 2004, 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.