THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Basic Financial Statements

September 30, 2003 and 2002

The Harbor Department of the City of Long Beach
Basic Financial Statements

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OFFICE OF THE CITY AUDITOR
333 West Ocean Blvd.
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Independent Auditors' Report

The Honorable Mayor and City Council
The Honorable Members of the Board of Harbor Commissioners
The Citizens of the City of Long Beach:

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, 2003 and 2002, which collectively comprise the Department's basic financial statements, 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 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 of the notes to the basic financial statements, the financial statements of the City of Long Beach Harbor Department are intended to present the financial position, and 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, 2003 and 2002, 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 City of Long Beach Harbor Department as of September 30, 2003 and 2002, and the changes in 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 7 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

City Auditor

December 17, 2003

As management of the Harbor Department of the City of Long Beach, California (the Department), we offer readers of the basic financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2003 and 2002.

Overview of the financial statements

The Department's financial statements include two components: the Department's basic financial statements, and the notes to the basic financial statements. This overview and analysis are intended to serve as an introduction to the Department's basic financial statements.

Condensed financial position information

The statement of net assets presents information concerning the Department's assets, liabilities, and net assets. Net assets is the difference between assets and liabilities. Increases or decreases in net assets may indicate, over time, if either the financial position of the Department is improving or deteriorating.

The following condensed financial information provides an overview of the Department's financial position for the fiscal years ended September 30 of 2003 and 2002.

NET ASSETS
SEPTEMBER 30, 2003 AND 2002

ASSETS	2003	2002
Assets:		
Capital assets, net	$ 2,212,718,620	$ 2,189,881,153
Other assets	741,645,892	747,753,512
TOTAL ASSETS	2,954,364,512	2,937,634,665
Liabilities:		
Long-term liabilities	1,263,229,143	1,275,768,441
Other liabilities	100,203,591	139,442,225
TOTAL LIABILITIES	1,363,432,734	1,415,210,666
Net assets:		
Invested in capital assets, net of related debt	1,056,126,891	1,004,527,968
Restricted	255,560,657	321,226,722
Unrestricted	279,244,230	196,669,309
TOTAL NET ASSETS	$ 1,590,931,778	$ 1,522,423,999

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.

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 eighteen percent 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.

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. Sixteen percent ($255,560,657) of the Department's net assets are 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. They are presented in the Statement of Net Assets as restricted net assets.

Summary of operations and changes in net assets

The statement of revenues, expenses, and changes in 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 2003 and 2002.

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

	2003	2002
Operating revenues:		
Berth and special facilities	$ 237,081,753	$ 210,523,361
Miscellaneous	12,459,682	13,475,243
Total Operating revenues	249,541,435	223,998,604
Operating expenses:		
Facility and infrastructure	(31,613,280)	(28,526,617)
General and administrative	(12,836,768)	(11,556,718)
Depreciation and amortization	(74,433,164)	(53,026,659)
Total operating expenses	(118,883,212)	(93,109,994)
Operating income	130,658,223	130,888,610
Nonoperating income (expense):		
Intergovernmental	(9,057,694)	(8,676,900)
Interest expense net of interest revenue	(37,441,849)	(23,668,397)
Loss from Harbor oil operation	(2,586,886)	(707,171)
Loss on disposition of capital assets	(11,337,368)	(10,426,179)
Income from equity in joint ventures	3,717,188	4,372,849
Other expense, net	(5,943,835)	(1,205,872)
Net nonoperating expenses	(62,650,444)	(40,311,670)
Income before capital grants	68,007,779	90,576,940
Capital grants	500,000	-0-
Change in net assets	68,507,779	90,576,940
Total net assets – beginning	1,522,423,999	1,431,847,059
Total net assets – ending	$ 1,590,931,778	$ 1,522,423,999

Compared to the results of operations for the year ended September 30, 2002, revenues from berths and special facilities increased overall by 12.6%; specifically, containerized cargo revenue along with dry bulk, vehicles, and lumber terminals increased by 14.0%, 28.9%, 1.8%, and 17.7% respectively, liquid-bulk and steel decreased by 3.7% and 9.0%. Revenue from other rental properties decreased by 7.1%; while revenue from miscellaneous sources decreased by 8.6%. Volume-wise (measured in metric revenue tons), containerized cargo and vehicles declined by 9.5% and 8.8%, while lumber, liquid bulk, steel, and dry bulk increased by 16.1%, 0.5%, 2.4%, and 7.4 % respectively.

The positive variations in revenue are related to the higher returns generated by the opening of a new container terminal as well as improvement and expansion of several other facilities. Still, 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 actions of units of government at 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 related costs. Depreciation expense increased because of additional depreciation attributed to new installations placed in service during the current fiscal year, and interest expense increased as a result of servicing higher levels of the long-term debt incurred by the Department to continue its facilities expansion program.

Notes to the Basic Financial Statements

The notes to the Department's basic financial statements can be found on pages 13-27 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

Capital Assets and Debt Administration

Capital assets

The Department's investment in capital assets as of September 30, 2003, amounted to $2,212,718,620 (net of accumulated depreciation). 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 1.1%.

CAPITAL ASSETS, NET
SEPTEMBER 30, 2003 AND 2002

	2003	2002	CHANGE
Land	$ 810,461,299	$ 790,362,777	$ 20,098,522
Structures and Facilities	972,464,299	1,023,721,247	(51,256,948)
Furniture, fixtures, and equipment	3,212,135	2,452,494	759,641
Construction in progress	218,757.623	165,845,108	52,912,515
Rights of way	207,823,264	207,499,527	323,737
	$ 2,212,718,620	$ 2,189,881,153	$ 22,837,467

The increase in land is the result of landfill added to one of the piers; 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.

Debt administration

The total long-term debt of the Department decreased by $30,583,426 (approximately two percent). 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 following is a summary of the Department's long-term debt as of September 30, 2003 and 2002:

SUMMARY OF LONG-TERM DEBT
SEPTEMBER 30, 2003 AND 2002

	2003	2002	CHANGE
Bonded indebtedness	$1,184,875,822	$1,215,404,355	$ (30,528,533)
Commercial paper outstanding	60,150,000	60,150,000	-0-
Notes payable	247,343	302,236	(54,893)
Total long-term debt	$1,245,273,165	$1,275,856,591	$ (30,583,426)

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA-; Moody's Investors Services: Aa3; and Fitch Ratings: AA. 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 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 17-21 of this report.

Economic outlook

The Department's mission is to promote and develop the Port of Long Beach. The basic 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 for services related to general government such as public safety, human resources, civil service, and centralized financial, legal, and audit services.

Fiscal 2003 results were noticeably affected by the departure of one of the Port's major tenants, Maersk-Sealand, at the beginning of the year. In fiscal 2002, this customer represented 23% of container T.E.U.'s (twenty-foot equivalent units) and 12% of operating revenue. The Port made considerable progress in compensating for this loss, as container throughput for 2003 declined by only 6.5%, while operating revenues increased by 11.4%. The opening of the first phase of the Pier T container terminal, expansion of the terminals on Pier J and G into the areas formerly occupied by Maersk-Sealand, and the addition of new shipping lines on Pier A and Pier C, all contributed to the better-than-expected results. However, net income declined by 24% due primarily to higher depreciation and interest expense resulting from the financing and development of new terminal facilities.

An increase of 5% of the Port's Tariff No. 4 was approved by the Board of Harbor Commissioners and will be effective on January 1, 2004. This will increase all tariff items including dockage and wharfage. Additional terminal acreage is being prepared for development. 160 acres on Pier S has been fully remediated and raised to grade and will be offered to potential tenants in future fiscal years.

Petroleum and other liquid bulk cargo rose by 0.5% in fiscal 2003, reaching 31.3 million metric tons. Liquid bulk is the second largest cargo category after containers. Dry bulk rose 7.4% to 6.3 million metric tons. Dry bulk consists mainly of outbound petroleum coke and inbound cement and gypsum. Among the remaining cargo steel, lumber and miscellaneous increased slightly while vehicles decreased by 8.8%.

Port secured Federal funds to complete projects aimed to enhance landside-law enforcement patrols, to launch a video surveillance system to monitor bridges and roadways, and to cover other infrastructure security. These projects are in the process of being completed. Additionally, the Port has provided additional security and police patrols and is working with U.S. Customs and U.S. Coast Guard to safeguard the Harbor district, and has procured additional insurance coverage related to acts of terrorism. The Port continues to actively seek additional funding sources to provide a safer and more secure environment to conduct its activities.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in its finances. 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, 2003 and 2002

Assets	2003	2002
Current assets:		
Pooled cash and cash equivalents (Note 2)	$ 287,958,809	$ 257,682,035
Accounts receivable – trade	43,151,700	27,201,800
Interest receivable	313,145	313,145
Due from other governmental agencies (Note 3)	9,612,164	19,017,284
Inventories of supplies	885,693	767,774
Total current assets	341,921,511	304,982,038
Harbor Revenue Bond Funds and other funds restricted as to use (Notes 2 and 7):		
Pooled cash and cash equivalents	214,010,011	273,828,387
Other investments	12,360,994	12,360,994
Total restricted assets	226,371,005	286,189,381
Capital assets (Notes 1, 5, and 9):		
Land:		
Purchased	438,800,910	438,800,910
Constructed, net of allowance for subsidence	371,660,389	351,561,867
Net land	810,461,299	790,362,777
Structures and facilities	1,554,534,369	1,547,772,483
Less accumulated depreciation	(582,070,070)	(524,051,236)
Net structures and facilities	972,464,299	1,023,721,247
Furniture, fixtures and equipment	14,331,130	12,809,393
Less accumulated depreciation	(11,118,995)	(10,356,899)
Net furniture, fixtures and equipment	3,212,135	2,452,494
Construction in progress	218,757,623	165,845,108
Right of way (Note 4)	207,823,264	207,499,527
Net capital assets	2,212,718,620	2,189,881,153
Other assets:		
Long –term receivables (Note 3)	25,670,000	25,670,000
Oil facilities (net of accumulated depletion of $50,608,459 and $45,513,377 respectively)	30,527,395	35,622,478
Environmental mitigation costs (Note 13)	32,878,068	34,290,525
Investments in joint venture (Note 10)	5,648,201	5,931,013
Assets constructed for others (Note 1)	24,852,745	3,798,742
Other non-current assets	53,776,967	51,269,335
Total other assets	173,353,376	156,582,093
Total assets	$ 2,954,364,512	$ 2,937,634,665

(Continued)

The Harbor Department of the City of Long Beach

Statements of Net Assets

September 30, 2003 and 2002

Liabilities and Net Assets	2003	2002
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	$ 26,878,315	$ 69,649,059
Due to City of Long Beach (Note 12)	9,057,694	8,676,900
Notes payable (Note 6)	54,892	54,892
Deferred credits and unearned revenue	8,043,014	9,081,718
Total current liabilities payable from current assets	44,033,915	87,462,569
Current liabilities payable from restricted assets:		
Accrued interest – bonds	22,677,801	21,834,656
Current portion of bonded indebtedness (Note 7)	33,491,875	30,145,000
Total current liabilities payable from restricted assets	56,169,676	51,979,656
Total current liabilities	100,203,591	139,442,225
Long-term obligations net of current portion:		
Bonded indebtedness (Note 7)	1,151,383,947	1,185,259,355
Commercial paper outstanding (Note 5)	60,150,000	60,150,000
Notes payable (Note 6)	192,451	247,344
Deferred liability (Note 1)	24,852,745	3,798,742
Oil well abandonment (Note 11)	26,650,000	26,313,000
Total long-term obligations	1,263,229,143	1,275,768,441
Total liabilities	1,363,432,734	1,415,210,666
Commitments and contingencies (Notes 5, 8, and 11)		
Net assets:		
Invested in capital assets, net of related debt	1,056,126,891	1,004,527,968
Restricted-Non-related party debt service contingency	69,405,709	63,456,331
Restricted-Capital projects	99,964,375	172,565,967
Restricted-Debt service	86,190,573	85,204,424
Unrestricted	279,244,230	196,669,309
Total net assets	$ 1,590,931,778	$ 1,522,423,999

See accompanying notes to the basic financial statements.

The Harbor Department of the City of Long Beach

Statements of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Years Ended September 30, 2003 and 2002

	2003	2002
Port operating revenues:		
Berths and special facilities (Note 9)	$ 237,081,753	$ 210,523,361
Rental properties	8,861,239	9,538,596
Miscellaneous	3,598,443	3,936,647
Total Port operating revenues	249,541,435	223,998,604
Port operating expenses:		
Facility maintenance	4,132,401	4,877,127
Infrastructure maintenance	9,497,870	8,712,349
Fire and safety	11,648,401	9,499,341
Other indirect	6,334,608	5,437,800
General and administrative	12,836,768	11,556,718
Port operating expenses before depreciation and amortization	44,450,048	40,083,335
Depreciation and amortization	74,433,164	53,026,659
Total Port operating expenses	118,883,212	93,109,994
Operating Income	130,658,223	130,888,610
Non-operating income (expense):		
Intergovernmental (Note 12)	(9,057,694)	(8,676,900)
Interest income, net of capitalized interest	13,626,935	14,351,647
Interest expense, net of capitalized interest	(51,068,784)	(38,020,044)
Loss from Harbor oil operations	(2,586,886)	(707,171)
Loss on disposition of capital assets	(11,337,368)	(10,426,179)
Income from equity in joint ventures (Note 10)	3,717,188	4,372,849
Other expense, net	(5,943,835)	(1,205,872)
Net non-operating expense	(62,650,444)	(40,311,670)
Income before capital grants	68,007,779	90,576,940
Capital grants	500,000	-0-
Increase in net assets	68,507,779	90,576,940
Total net assets, October 1	1,522,423,999	1,431,847,059
Total net assets, September 30	$ 1,590,931,778	$ 1,522,423,999

See accompanying notes to the basic financial statements.

The Harbor Department of the City of Long Beach

Statements of Cash Flows

For the Fiscal Years Ended September 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash received from customers	$ 256,819,702	$ 231,722,541
Cash paid to employees net of capitalized labor of $4,493,037 and $4,466,235 million in 2003 and 2002	(19,002,217)	(16,413,665)
Cash paid to suppliers	(47,582,607)	(55,807,370)
Net cash provided by operating activities	190,234,878	159,501,506
Cash flows from non-capital financing activities:		
Repayments under redevelopment agency agreements	12,170,200	1,083,116
Intergovernmental transfers	(8,676,900)	(8,314,400)
Net cash provided by (used in) non-capital financing activities	3,493,300	(7,231,284)
Cash flows from capital and related financing activities:		
Proceeds from the sales of capital assets	21,159,566	45,562,185
Payments for capital acquisitions	(174,416,549)	(263,405,539)
Capital grants – Maritime Administration	500,000	-0-
Bond debt issuance	-0-	308,778,000
Redemption of commercial paper	-0-	(75,000,000)
Principal repayment-bonds	(30,145,000)	(17,960,000)
Interest paid, including capitalized interest	(62,497,840)	(48,434,510)
Principal payment-notes	(54,892)	(54,893)
Net cash used in capital and related financing activities	(245,454,715)	(50,514,757)
Cash flows from investing activities:		
Interest received, including capitalized interest	16,158,586	16,637,322
Return on investment in joint venture	4,000,000	3,750,000
Harbor oil operations providing cash	2,026,349	2,706,238
Net cash provided by investing activities	22,184,935	23,093,560
Net increase (decrease) in cash and cash equivalents	(29,541,602)	124,849,025
Cash and cash equivalents, October 1,	531,510,422	406,661,397
Cash and cash equivalents, September 30,	$ 501,968,820	$ 531,510,422

Continued

The Harbor Department of the City of Long Beach

Statements of Cash Flows

For the Fiscal Years Ended September 30, 2003 and 2002

	2003	2002
Reconciliation of operating income to		
Net cash provided by operating activities:		
Operating income	$ 130,658,223	$ 130,888,610
Adjustments to reconcile operating income to		
Net cash provided by operating activities:		
Depreciation and amortization	74,433,164	53,026,659
(Increase) Decrease in receivables	(14,145,924)	3,324,718
Decrease (increase) in inventory	(117,918)	5,551
Decrease in other current assets	2,227,576	-0-
Increase in deferred charges	(1,353,682)	(14,469,512)
Decrease in accounts payable	(906,329)	(14,612,657)
Increase (decrease) in deferred revenue	(560,232)	997,896
Increase in due to City of Long Beach	-0-	340,241
Total adjustments	59,576,655	28,612,796
Net cash provided by operating activities	$ 190,234,878	$ 159,501,506
Schedule of non-cash activities:		
Contributed capital for assets and construction in progress	$ -0-	$ 2,184,361
Capitalized interest	10,424,668	16,618,872

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 2003 and 2002 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).

On August 31, 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 on December 18, 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 2002. 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 and nonexpendable trust 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 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).
- Government Accounting Standards Board 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 basic 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 the implementation of GASB 34 and the related statements, the Department's basic 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 basic financial statements

Pooled Cash and Cash Equivalents

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, 2003 and 2002, 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 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 then allocated to the specific capital assets when they are completed. The Department capitalized $10,424,668 and $16,618,872 during fiscal years 2003 and 2002, respectively.

CAPITALIZED INTEREST ROLL FORWARD SCHEDULE

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

DESCRIPTION	BALANCE 9/30/01	ADDITIONS	ALLOCATIONS	BALANCE 9/30/02
2000 A Revenue Bonds	$ 7,302,019	$14,743,340	$ 17,789,202	$ 4,256,157
2002 A & B Revenue Bonds	-0-	2,075,532	-0-	2,075,532
	$ 7,302,019	$16,618,872	$ 17,789,202	$ 6,331,689

The constructed land balances as of September 30, 2003 and 2002 amount to $371,660,389 and $351,561,867 and are presented 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.

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 connection	10 years
Other	5 to 50 years
Furniture, fixtures, and equipment	2 to 30 years

The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision 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 assets. 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, will be classified as Other Non-current Assets/Major Maintenance Projects and will be amortized over the useful life of the assets. In compliance with the agreements described, during fiscal year 2002, the Department transferred certain bridges, freeway ramps, and highway improvements to Caltrans. This transfer process will continue in coming years, and more assets will be transferred as they are upgraded.

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 2002 have been reclassified to conform to the fiscal year 2003 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, 2003 are either federally insured, collateralized, or uncollateralized in accordance with the California Government Code. Cash detail 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, 2003 and 2002.

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, 2003 or 2002.

3) Other Receivables

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

	2003	2002
Due from other governmental agencies:		
Reimbursements due from Caltrans	$ 4,012,164	$ 753,684
Federal grant – Department of Transportation-MARAD	3,835,000	4,335,000
Redevelopment Agency – West Industrial Area	-0-	12,163,600
Redevelopment Agency – Convention Center	1,765,000	1,765,000
Total due from other governmental agencies	9,612,164	19,017,284
Long-term receivables		
Redevelopment Agency - Convention Center	25,670,000	25,670,000
Total other receivables	$ 35,282,164	$ 44,687,284

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 up to $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 new 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 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 2002 and was considered a current asset for financial statement purposes. The Agency did not make the scheduled 2002 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 2003 and 2002.

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 is $30,000,000 subject to a maximum annual reimbursement of $2,500,000. The original agreement was amended on October 1993, October 1997, and November 1998. During fiscal year 2000, the Department received only two of the four scheduled payments; as a result, the Department and the Agency entered into negotiations to modify the repayment terms. A fourth amendment to the agreement was entered into on April 2001. In accordance with the new repayment terms, the Agency was to pay to the Department, on November 15th of each year, a sum equal to the available funds generated in the previous fiscal year until the remaining balance is paid in full. Notwithstanding the payments described, the Agency agreed to make a minimum payment of $500,000 in fiscal year 2001 and additional minimum payments of $1,000,000 on November 15, 2002 and 2003.

During fiscal year 2002, the Agency proposed to make one additional scheduled payment of $2,648,189 in November 2002, and to issue bonds, in December 2002, to pay the discounted present value of the loan. The proposed transaction prompted the Department to reclassify the asset from the long-term to the current assets category and to recognize a loss of $1,733,028 to present the asset at its fair value as of September 30, 2002. The Agency fulfilled its obligation and paid the remaining balance on November 2002.

(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, 2003 and 2002, total costs to the Department related to the rights-of-way purchase are $207,823,264 and $ 207,499,527, respectively.

Construction of the Project began in 1997 and was completed in April 2002. Funding of 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 $463,000,000 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.

On June 19, 2002, the Department issued the 2002A & B Harbor Revenue Bonds (see Note 7) and used $75,000,000 of these proceeds to redeem a portion of the outstanding notes. The total outstanding notes were $60,150,000 as of September 30, 2003 and 2002.

COMMERCIAL PAPER ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 10/01/02	ADDITIONS	REDUCTIONS	BALANCE 9/30/03
Series A; maturity dates 10/06/03 – 12/09/03 Range of interest rates: 0.85% - 0.93%	$ 60,150,000	-0-	$ -0-	$ 60,150,000
	BALANCE 10/01/01			BALANCE 09/30/02
Series A, maturity dates 10/03/02 to 11/16/02 Range of interest rates: 1.20% - 1.30%	$135,150,000	-0-	75,000,000	$ 60,150,000

(6) Notes Payable

Outstanding Notes Payable at September 30 include the following:

	2003	2002
Notes payable	$ 247,343	$ 302,235
Less current portion	(54,892)	(54,892)
Long-term portion	$ 192,451	$ 247,343

(7) Bonded Indebtedness

HARBOR REVENUE BONDS PAYABLE ROLL FORWARD SCHEDULE

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
2002 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

DESCRIPTION	BALANCE 10/01/01	ADDITIONS	REDUCTIONS	BALANCE 9/30/02	AMOUNTS DUE WITHIN ONE YEAR
1993	$ 138,550,000	-0-	$ 5,420,000	$ 133,130,000	$ 5,660,000
1995	320,205,000	-0-	6,110,000	314,095,000	6,235,000
1998	191,510,000	-0-	6,430,000	185,080,000	6,750,000
2000 A	275,000,000	-0-	-0-	275,000,000	6,220,000
2002 A & B	-0-	$ 300,000,000	-0-	300,000,000	5,280,000
	$ 925,265,000	$ 300,000,000	$ 17,960,000	$ 1,207,305,000	$ 30,145,000

Outstanding bonded indebtedness as of September 30 is as follows:

	2003	2002
1993 Harbor Revenue Bonds		
maturing 2004 through 2018 at 4.5% to 5.13% interest	127,470,000	133,130,000
Less unamortized discount	(971,630)	(1,038,066)
Total 1993 Harbor Revenue Bonds	126,498,370	132,091,934
1995 Harbor Revenue Bonds		
maturing 2004 through 2025 at 5.4% to 8.00% interest	307,860,000	314,095,000
Less unamortized discount	(2,452,245)	(2,565,644)
Total 1995 Harbor Revenue Bonds	305,407,755	311,529,356
1998 Harbor Revenue Refunding Bonds		
maturing 2004 through 2019 at 5.0% to 6.0% interest	178,330,000	185,080,000
Plus unamortized premium	3,706,689	3,943,917
Total 1998 Harbor Revenue Refunding Bonds	182,036,689	189,023,917
2000A Harbor Revenue Bonds		
maturing 2004 through 2025 at 5.0% to 5.75% interest	268,780,000	275,000,000
Plus unamortized premium	1,897,287	1,985,023
Total 2000 Harbor Revenue Bonds	270,677,287	276,985,023
2002A & B Harbor Revenue Bonds		
maturing 2004 through 2027 at 4.0% interest (average)	294,720,000	300,000,000
Plus unamortized premium	5,535,721	5,774,125
Total 2002 Harbor Revenue Bonds	300,255,721	305,774,125
Summary:		
Principal	1,177,160,000	1,207,305,000
Net premium	7,715,822	8,099,355
Less current portion	(33,491,875)	(30,145,000)
Net long term bonded indebtedness	$ 1,151,383,947	$ 1,185,259,355

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

Year ending September 30,	Principal	Interest	Total
2004	$ 33,491,875	$ 59,791,021	$ 93,282,896
2005	35,728,125	57,954,628	93,682,753
2006	37,711,250	56,067,400	93,778,650
2007	39,776,875	54,102,286	93,879,161
2008	41,956,250	52,029,960	93,986,210
2009-2013	247,216,250	224,514,888	471,731,138
2014-2018	322,080,625	153,351,312	475,431,937
2019-2023	271,526,250	76,550,354	348,076,604
2024-2027	147,672,500	28,313,291	175,985,791
	$ 1,177,160,000	$ 762,675,140	$1,939,835,140

Details of each outstanding issue are as follows:

<u>1993 Harbor Revenue Bonds</u>

The City of Long Beach Harbor Revenue Bonds, Series 1993 (the 1993 Bonds) are secured by the Department's gross revenues. The 1993 Bonds, dated October 1, 1993, amounting to $166,500,000 were issued to pay for the redesign and expansion of container cargo terminals, the construction of a recycled steel facility, and for the expansion of a bulk handling facility.

Serial bonds aggregating to $47,995,000 are outstanding and will mature on May 15 of each year from 2004 to 2010 in amounts ranging from $5,920,000 to $7,890,000 with interest payable semiannually on May 15 and November 15 at coupon rates from 4.5% to 5%. Serial bonds maturing on or before May 15, 2004 are not subject to call and redemption prior to maturity. Serial bonds maturing on or after May 15, 2005 are subject to call and redemption prior to maturity, at the option of the Board of Harbor Commissioners, on or after May 15, 2004 at premiums of 1% from May 15, 2004 to May 14, 2005, at 0.5% from May 15, 2005 to May 14, 2006, and at par from May 15, 2006 and thereafter.

Term bonds of $26,150,000 and $53,325,000 mature on May 15, 2013 and May 15, 2018, respectively. Both term bonds have 5.125% interest rates and interest is due semiannually on May 15 and November 15. A portion of the May 15, 2013 term bonds shall be called prior to maturity and redeemed May 15, 2011, and May 15, 2012, at par, which is $8,285,000 and $8,710,000, respectively. A portion of the May 15, 2018 term bonds shall be called prior to maturity and redeemed at par in amounts from $9,625,000 to $11,185,000 on May 15, 2014 to May 15, 2017.

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

	2003	2002
Service Account (amount reserved to meet current debt service requirements)	$ 4,633,569	$ 4,633,704
Reserve Account (amount reserved for maximum annual debt service requirements)	12,360,994	12,360,994
	$ 16,994,563	$ 16,994,698

<u>1995 Harbor Revenue Bonds</u>

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.

Serial bonds aggregating to $123,135,000 are outstanding and will mature on May 15 of each year from 2004 to 2015 in amounts ranging from $6,805,000 to $13,710,000 with interest payable semiannually on May 15 and November 15 at coupon rates from 5.4% to 9.0%. Serial bonds maturing on or before May 15, 2004 are not subject to call and redemption prior to maturity. Serial bonds maturing on or after May 15, 2005 are subject to call and redemption prior to maturity, at the option of the Board of Harbor Commissioners, on or after May 15, 2005 at premiums of 2% from May 15, 2005 and prior to May 14, 2006, at 1% from May 15, 2006 and prior to May 14, 2007, and at par from May 15, 2007 and thereafter.

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 $25,300,000 reserve account.

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

	2003	2002
Service Account		
(amount reserved to meet current debt service requirements)	$ 8,922,727	$ 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, 2002.

Serial bonds aggregating to $178,330,000 are outstanding and will mature on May 15 of each year from 2004 to 2019 in amounts ranging from $7,090,000 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 will not be 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:

	2003	2002
Service Account		
(amount reserved to meet current debt service requirements)	$ 6,596,974	$ 6,596,034
Reserve Account		
(amount reserved for maximum annual debt service requirements)	17,596,976	17,596,976
	24,193,950	$ 24,193,010

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 2000 A 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 $268,780,000 will mature on May 15 of each year from 2004 to 2025 in amounts ranging from $6,535,000 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 2000 A 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:

	2003	2002
Service Account		
(amount reserved to meet current debt service requirements)	$ 7,984,982	$ 1,183,502
Reserve Account		
(amount reserved for maximum annual debt service requirements)	21,333,551	22,481,734
	$ 29,318,533	$ 23,665,236

2002A & B Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2002A & B (the 2002 Bonds) are secured by the Department's gross revenues. The 2002 Bonds, dated June 19, 2002, amounting to $300,000,000 were issued 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.

Serial bonds aggregating to $294,720,000 will mature on May 15 of each year from 2004 to 2027. The 2002 bonds will be called before maturity and redeemed at a redemption price equal to the par amount thereof from mandatory sinking account payments deposited in the principal account. Deposits into the principal account will mature on May 15 of each year from 2004 to 2027 in amounts ranging from $6,240,000 to $21,150,000 with interest payable semiannually on May 15 and November 15. The 2002 bonds will initially bear interest at the long-term interest 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 2002 bonds will bear interest at a different long-term interest rate or rates or at a daily/ weekly interest rate, bond interest term rate, fixed interest rate or auction rate.

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

	2003	2002
Service Account		
(amount reserved for maximum annual debt service requirements)	$ 7,184,170	$ 4,420,249

Debt Covenants

The Department's management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2003.

(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 the latest estimate by an actuarial consultant hired by the City, contributions to the CalPERS fund will not be needed until 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 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 will be 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, 2003.

Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which the Department and its employees participate 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, 2002.

(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:

	2003	2002
Land	$ 668,074,587	$ 650,500,441
Docks and wharves	358,536,053	352,932,321
Warehouses and sheds	47,713,589	45,018,553
Cranes and shiploaders	181,202,019	224,375,305
Buildings and other facilities	254,868,850	253,793,968
Infrastructure	578,619,845	541,626,798
Historical cost of leased property	2,089,014,944	2,068,247,386
Less accumulated depreciation	(457,473,348)	(404,767,904)
Book value of leased property	$ 1,631,541,596	$ 1,663,479,483

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:		
2004	$	171,363,000
2005		176,277,000
2006		174,121,000
2007		139,115,000
2008		136,409,000
2009-2013		589,492,000
2014-2018		517,754,000
2019-2023		466,600,000
2024-2028		240,329,000
Total	$	2,611,460,000

(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, 2003 and 2002 are as follows:

Condensed Balance Sheets

	2003	2002
Current assets	$ 8,044,183	$ 8,501,726
Property and equipment	3,599,281	3,707,311
Total assets	11,643,463	12,209,037
Current liabilities	1,941	1,890
Venturers' equity:		
Harbor Department of the City of Long Beach	5,648,201	5,931,013
Harbor Department of the City of Los Angeles	5,993,321	6,276,134
Total venturers' equity	11,641,522	12,207,147
Total liabilities and venturers' equity	$ 11,643,463	$ 12,209,037

Condensed Statement of Income and Venturers' Equity

	2003	2001
Operating revenue	$ 7,337,544	$ 8,673,107
Operating expense	(108,030)	(108,030)
Operating income	7,229,514	8,565,077
Interest income	204,861	180,621
Net income	7,434,375	8,745,698
Venturers' equity, July 1 2002 and 2001	12,207,147	10,961,449
Cash disbursement to venturers	(8,000,000)	(7,500,000)
Venturers' equity, June 30, 2003 and 2002	$ 11,641,522	$ 12,207,147

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. On May 1, 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. 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.

Pursuant to an Indenture of trust dated October 1, 1999, ICTF issued its Intermodal Container Transfer Facility Refunding Revenue Bonds, 1999 Series A. In connection with the issuance of the 1999 Bonds, 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 ICTF financial statements for the year ended June 30, 2003, 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, 2003 and 2002 aggregated $195,109,290 and $114,715,734 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 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 participates in the City's self-insured workers' compensation program, and, during fiscal year 2003 and 2002 made payments to the City's Insurance Fund totaling $989,283 and $908,628, 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, 2003 and 2002, the Department has recognized litigation claim liabilities of $3,670,000 and $1,270,611 respectively.

LIABILITY FOR CLAIMS AND JUDGMENTS ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 9/30/02	ADDITIONS	REDUCTIONS	BALANCE 9/30/03
Accrued claims and Judgments	$ 1,270,611	$ 2,399,389	-0-	$ 3,670,000
	BALANCE 9/30/01			BALANCE 9/30/02
Accrued claims and judgments	$ 1,392,712	1,123	$ 123,224	$ 1,270,611

Potential Obligations to 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 begins after substantial 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 to computations prepared by the Department, the projected shortfall amount that the Department could be obligated for may reach $80,800,000, payable in annual installments, from fiscal year 2005 until 2019. Annual payments could vary from $692,000 to approximately $10,600,000. 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, 2003 and 2002 the Department set aside $69,405,709 and $63,456,331, respectively, to fund potential obligations.

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, 2003 and 2002 are $26,650,000 and $26,313,000. 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 9/30/02	ADDITIONS	REDUCTIONS	BALANCE 9/30/03
Oil abandonment liability	$ 26,313,000	337,000	$ -0-	$ 26,650,000
DESCRIPTION	BALANCE 9/30/01			BALANCE 9/30/02
Oil abandonment liability	$ 26,400,000	-0-	$ 87,000	$ 26,313,000

Environmental Remediation

The Department purchased 725 acres of property in the Harbor District in March 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:

Site Remediation Cost	Allocation: UPRC	Allocation: 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 2002 and 2001 to the City's Tidelands Operating Fund ($9,057,694 and $8,676,900, 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, 2003, the Department has completed landfills that required the utilization of $6,517,557 of the available credits. The balance of environmental mitigation costs will be adjusted in the future as landfill credits are used for port development.