THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Basic Financial Statements

September 30, 2002 and 2001

The Harbor Department of the City of Long Beach

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KPMG

OFFICE OF THE CITY AUDITOR

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Independent Auditors' Report

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

We have jointly audited the accompanying basic 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, 2002 and 2001, 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 opinion.

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, 2002 and 2001, 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, 2002 and 2001, 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.

As discussed in note 1 of the notes to the basic financial statements, the City of Long Beach Harbor Department adopted Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's discussion and Analysis – for State and Local Governments,* No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus,* and No. 38, *Certain Financial Statement Note Disclosures*, effective October 1, 2001.

Management's discussion and analysis on pages 3 through 6 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

Gary L. Burroughs
City Auditor

January 31, 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 year ended September 30, 2002.

Overview of the Financial Statements

The Department's financial statements comprise two components: the Department's basic financial statements, and the notes to the basic financial statements. The 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 on **all** of the Department's assets and liabilities, with the difference between the two reported as net assets*.* Over time, increases or decreases in net assets may serve as a useful indicator of whether 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 2002 and 2001.

SUMMARY OF NET ASSETS
SEPTEMBER 30, 2002 AND 2001

ASSETS	2002	2001
Assets:		
Capital assets, net	$2,189,881,153	$2,005,994,639
Other assets	747,753,512	611,879,591
TOTAL ASSETS	2,937,634,665	2,617,874,230
Liabilities:		
Long-term liabilities	1,275,768,441	1,073,247,317
Other liabilities	139,442,225	112,779,854
TOTAL LIABILITIES	1,415,210,666	1,186,027,171
Net assets:		
Invested in capital assets, net of related debt	1,004,527,968	1,000,007,015
Restricted	321,226,722	308,507,765
Unrestricted	196,669,309	123,332,279
TOTAL NET ASSETS	$1,522,423,999	$1,431,847,059

The assets of the Department exceeded its liabilities at the close of the 2002 fiscal year by $1,522,423,999 *(net assets).* Total net assets increased by $90,576,940. This change consists of $135,261,459 from operating income and income from equity in a joint venture; less; $34,258,340 from non-operating expenses; including financing costs and the loss in the Port's oil operation, and $10,426,179 in losses resulting from the disposition of capital assets.

At the end of the current fiscal year, the Department reported unrestricted net assets of $196,669,309 (wholly available to fund the Department's continuing obligations); an increase of $73,337,030 when compared to the prior fiscal year. The increase is mainly due to the reimbursement received from bond proceeds for expenses previously incurred in capital projects identified at the time of the issuance of the bonds.

Sixty-six percent ($1,004,527,968) of the Department's net assets are invested in capital assets (e.g., land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way), less any related debt used to acquire those assets that is still outstanding. The Department uses these assets to provide facilities to its tenants; consequently, they are not available for future spending. Twenty one percent ($321,226,722) of the Department's net assets are subject to external restrictions on how they may be used;

and thirteen percent ($196,669,309) may be used to meet the Department's ongoing 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. 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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables and earned but unused vacation leave).

The table below summarizes the operations for fiscal years 2002 and 2001.

SUMMARY OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2002 AND 2001

	2002	2001
Operating revenues:		
Berth and special facilities	$ 210,523,361	$ 212,320,190
Miscellaneous	13,475,243	15,758,525
Total operating revenues	223,998,604	228,078,715
Nonoperating revenues and capital contributions:		
Income from equity in joint ventures	4,372,849	4,052,775
Total revenues	228,371,453	232,131,490
Operating expenses:		
Facility and infrastructure	(28,526,617)	(37,994,111)
General and administrative	(11,556,718)	(12,578,366)
Depreciation and amortization	(53,026,659)	(54,162,146)
Total operating expenses	(93,109,994)	(104,734,623)
Nonoperating expenses:		
Intergovernmental	(8,676,900)	(8,314,400)
Interest expense (net)	(23,668,397)	(27,089,248)
Loss on disposition of assets	(10,426,179)	(1,104,891)
Other expense (net)	(1,913,043)	(4,169,020)
Total expenses	(137,794,515)	(145,412,182)
Income before capital contributions	90,576,940	86,719,308
Capital contributions	-0-	50,000
Change in net assets	90,576,940	86,769,308
Total net assets – beginning	1,431,847,059	1,345,077,751
Total net assets – ending	$ 1,522,423,999	$ 1,431,847,059

Revenues generated by tenants for berths and special facilities decreased by 0.85%. Containerized cargo along with liquid-bulk, vehicles, and lumber terminals posted increases while dry-bulk experienced a decline due to a 5-year shortfall revenue posted in the previous fiscal year. The 14.49% decrease in Miscellaneous revenues is the result of the termination of certain rental agreements and limiting the recognition of rental revenue to that earned rather than received.

Operating expenses declined from those in the previous year because of several one-time expenses incurred in fiscal year 2001. Those expenses were related to the write-off of portions of capital projects that were closed to operations as expense.

Interest expense (net) is the result of the capitalization of interest incurred during the construction period, on the revenue bonds issued to fund certain capital projects. Some of these bond-funded projects will be completed during the 2003 fiscal year.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 12-26 of this report.

Capital Assets and Debt Administration

Capital assets.

The Department's investment in capital assets for its business type activities as of September 30, 2002, amounts to $2,189,881,153 (net of accumulated depreciation). This 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 9.1%.

CAPITAL ASSETS, NET
SEPTEMBER 30, 2002 AND 2001

	2002	2001
Land	$ 790,362,777	$ 797,511,946
Structures and Facilities	1,023,721,247	636,381,758
Furniture, fixtures, and equipment	2,452,494	3,062,890
Construction in progress	165,845,108	360,983,299
Rights of way	207,499,527	208,054,746
	$ 2,189,881,153	$ 2,005,994,639

The changes in Structures and Facilities and Construction in Progress, are the result of the latest additions to the marine terminal improvement program, which has been underway for several years. The most important of these was the completion of the 287-acre Phase I of the Pier T Container Terminal. Other improvements in progress include the slip-fill at Pier E, soil remediation and landfill at Pier S, a new deep-draft berth at Pier G, and improvements to bridges and roadways.

Debt administration

The total debt of the Department increased by a net $217,325,981 (20%) during the current fiscal year. This increase was the net result of the issuance of $300,000,000 in Series 2002 revenue bonds and the redemption of $75,000,000 of commercial paper.

The following is a summary of the Department's long-term debt as of September 30, 2002 and 2001:

SUMMARY OF LONG-TERM DEBT
SEPTEMBER 30, 2002 AND 2001

	2002	2001
Bonded indebtedness	$1,215,404,355	$ 927,794,936
Commercial paper outstanding	60,150,000	135,150,000
Notes payable	302,236	357,128
Total long-term debt	$1,275,856,591	$ 1,063,302,064

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. These ratings are based on various factors such as the Port's significant size and status as a world class facility, prime location to capture Pacific Rim trade, excellent intermodal transportation links to regional and inland markets, firm commitment to a manageable capital program to sustain or increase its share of the West Coast shipping activity, and a strong financial performance.

The debt-service coverage ratios for the fiscal years ending 2002 and 2001 are 3.25 and 2.72. The minimum rate required in the 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 Port). 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.

During fiscal year 2002, most cargo categories managed increases over the prior year. Containerized cargoes are the most significant, as they represent approximately two-thirds of the Port's tonnage and revenues. Container count, in twenty-foot equivalent units (T.E.U.'s) rose 4.5% to 4,694,432 units, a new all-time record for the Port. The previous record of 4,564,529 T.E.U.'s was set in fiscal year 2000. Inbound loaded containers increased 5% but outbound loads decreased 4.4%. The Port has always had a dominance of imports in container cargo, and this trend shows no sign of changing. The container total includes 1.2 million T.E.U's of empty containers, most of which are outbound. Excluding the empties, the ratio of loaded inbound to loaded outbound containers in 2002 was 2.7 to 1, versus 2.5 to 1 in 2002

Petroleum and other liquid bulk cargo rose a slight 0.2% in fiscal 2002, reaching 31.2 million metric tons. Liquid bulk is the second largest cargo category after containers. Dry bulk rose 2.9% to 5.8 million metric tons. Dry bulk consists mainly of outbound petroleum coke and inbound cement and gypsum. Among the remaining cargo types, vehicles increased 15%, while steel, lumber, and miscellaneous posted small declines.

Operations in fiscal 2003 will be affected negatively by the departure in late 2002 of one of the Port's largest container terminal operators. This move has been anticipated for several years, and, although not a positive development in itself, the terminal space vacated by the move is being assigned to two adjacent container terminals for their expanded use. In addition, the completion of the Pier T container terminal has added 287 acres of a final 375-acre configuration to the Port's roster of facilities. The additional space will enable two new cargo lines to move into the Port, partially offsetting the original loss. The two new lines are expected to be operating at the Port early in fiscal 2003.

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, 2002 and 2001

Assets	2002	2001
Current assets:		
Pooled cash and cash equivalents (Note 2)	$ 257,682,035	$ 154,748,906
Accounts receivable – trade	27,201,800	31,970,804
Interest receivable	313,145	313,145
Due from other governmental agencies (Note 3)	19,017,284	1,765,000
Inventories of supplies	767,774	773,326
Total current assets	304,982,038	189,571,181
Harbor Revenue Bond Funds and other funds restricted as to use (Notes 2, 6, and 7):		
Pooled cash and cash equivalents	273,828,387	251,912,490
Other investments	12,360,994	12,360,994
Total restricted assets	286,189,381	264,273,484
Capital assets (Notes 1 and 5):		
Land:		
Purchased	438,800,910	462,576,730
Constructed	351,561,867	334,935,216
Net land	790,362,777	797,511,946
Structures and facilities	1,547,772,483	1,122,666,932
Less accumulated depreciation	(524,051,236)	(486,285,174)
Net structures and facilities	1,023,721,247	636,381,758
Furniture, fixtures and equipment	12,809,393	12,740,893
Less accumulated depreciation	(10,356,899)	(9,678,003)
Net furniture, fixtures and equipment	2,452,494	3,062,890
Construction in progress	165,845,108	360,983,299
Right of way (Note 4)	207,499,527	208,054,746
Net capital assets	2,189,881,153	2,005,994,639
Other assets:		
Long –term receivables (Note 3)	25,670,000	40,649,744
Oil facilities (net of accumulated depletion of $45,513,377 and $43,405,656 respectively)	35,622,478	37,730,199
Environmental mitigation costs (Note 13)	34,290,525	34,290,525
Investments in joint venture (Note 10)	5,931,013	5,308,165
Assets constructed for others (Note 1)	3,798,742	1,614,381
Other non-current assets	51,269,335	38,441,912
Total other assets	156,582,093	158,034,926
Total assets	$ 2,937,634,665	$ 2,617,874,230

(Continued)

The Harbor Department of the City of Long Beach

Statements of Net Assets

September 30, 2002 and 2001

Liabilities and Net assets	2002	2001
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	$ 69,649,059	$ 63,307,353
Due to City of Long Beach (Note 12)	8,676,900	8,336,659
Notes payable (Note 6)	54,892	109,128
Deferred credits and unearned revenue	9,081,718	3,851,915
Total current liabilities payable from current assets	87,462,569	75,605,055
Current liabilities payable from restricted assets:		
Accrued interest – bonds	21,834,656	19,214,799
Current portion of bonded indebtedness (Note 7)	30,145,000	17,960,000
Total current liabilities payable from restricted assets	51,979,656	37,174,799
Total current liabilities	139,442,225	112,779,854
Long-term obligations net of current portion:		
Bonded indebtedness (Note 7)	1,185,259,355	909,834,936
Commercial paper outstanding (Note 5)	60,150,000	135,150,000
Notes payable (Note 6)	247,344	248,000
Deferred liability (Note 1)	3,798,742	1,614,381
Oil well abandonment (Note 11)	26,313,000	26,400,000
Total long-term obligations	1,275,768,441	1,073,247,317
Total liabilities	1,415,210,666	1,186,027,171
Commitments and contingencies (Notes 8 and 11)		
Net assets:		
Invested in capital assets, net of related debt	1,004,527,968	1,000,007,015
Restricted for ACTA commitment (Note 11)	63,456,331	64,483,196
Restricted for capital projects	172,565,967	149,851,535
Restricted for debt service	85,204,424	94,173,034
Unrestricted	196,669,309	123,332,279
Total net assets	$ 1,522,423,999	$ 1,431,847,059

See accompanying notes to the basic financial statements.

The Harbor Department of the City of Long Beach

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

September 30, 2002 and 2001

	2002	2001
Port operating revenues:		
Berths and special facilities (Note 9)	$210,523,361	$212,320,190
Rental properties	9,538,596	12,419,168
Miscellaneous	3,936,647	3,339,357
Total Port operating revenues	223,998,604	228,078,715
Port operating expenses:		
Facility maintenance	4,877,127	10,381,476
Infrastructure maintenance	8,712,349	12,487,059
Fire and safety	9,499,341	9,892,540
Other indirect	5,437,800	5,233,036
General and administrative	11,556,718	12,578,366
Port operating expenses before depreciation and amortization	40,083,335	50,572,477
Depreciation and amortization	53,026,659	54,162,146
Total Port operating expenses	93,109,994	104,734,623
Operating Income	130,888,610	123,344,092
Non-operating income (expense):		
Intergovernmental (Note 12)	(8,676,900)	(8,314,400)
Interest income, net of capitalized interest	14,351,647	15,251,399
Interest expense, net of capitalized interest	(38,020,044)	(42,340,647)
Income from equity in joint ventures (Note 10)	4,372,849	4,052,775
Other expenses, net	(1,205,872)	(3,137,432)
Total non-operating expense	(29,178,320)	(34,488,305)
Income before other revenues and losses	101,710,290	88,855,787
Loss from Harbor oil operations	(707,171)	(1,031,588)
Loss on disposition of assets	(10,426,179)	(1,104,891)
Contributed capital (Note 1)	-0-	50,000
Increase in net assets	90,576,940	86,769,308
Total net assets, October 1	1,431,847,059	1,345,077,751
Total net assets, September 30	$ 1,522,423,999	$ 1,431,847,059

See accompanying notes to the basic financial statements.

The Harbor Department of the City of Long Beach

Statements of Cash Flow

September 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Cash received from customers	$ 231,722,541	$ 229,048,694
Cash paid to employees net of capitalized labor of $4,466,235 and $3,315,643 million in 2002 and 2001	(16,413,665)	(16,891,681)
Cash paid to suppliers	(55,807,370)	(31,975,458)
Net cash provided by operating activities	159,501,506	180,181,555
Cash flows from non-capital financing activities:		
Repayments under redevelopment agency agreements	1,083,116	500,000
Intergovernmental transfers	(8,314,400)	(7,204,295)
Net cash used in non-capital financing activities	(7,231,284)	(6,704,295)
Cash flows from capital and related financing activities:		
Proceeds from the sales of capital assets	45,562,185	939,692
Payments for capital acquisitions	(263,405,539)	(173,133,884)
Bond debt issuance	308,778,000	277,603,184
Commercial paper redeemed	(75,000,000)	-0-
Principal payment-bonds	(17,960,000)	(28,290,000)
Interest paid, including capitalized interest	(48,434,510)	(51,096,068)
Principal payment-notes	(54,893)	(54,892)
Net cash provided by (used in) capital and related financing activities	(50,514,757)	25,968,032
Cash flows from investing activities:		
Interest received, including capitalized interest	16,637,322	27,285,072
Return on investment in joint venture	3,750,000	3,500,000
Harbor oil operations providing cash	2,706,238	3,674,033
Net cash provided by investing activities	23,093,560	34,459,105
Net increase in cash and cash equivalents	124,849,025	233,904,397
Cash and cash equivalents, October 1,	406,661,397	172,757,000
Cash and cash equivalents, September 30,	$ 531,510,422	$ 406,661,397

Continued

The Harbor Department of the City of Long Beach

Statements of Cash Flow

September 30, 2002 and 2001

	2002	2001
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 130,888,610	$ 123,344,092
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	53,026,659	54,162,146
Decrease (increase) in accounts receivable	3,324,718	(2,105,815)
Decrease in inventory	5,551	172,097
Increase other current assets	-0-	(1,990)
Decrease (increase) in deferred charges	(14,469,512)	13,368,288
Decrease in accounts payable	(14,612,657)	(8,847,631)
Increase in deferred revenue	997,896	114,421
Increase (decrease) in due to City of Long Beach	340,241	(24,053)
Total adjustments	28,612,896	56,837,463
Net cash provided by operating activities	$ 159,501,506	$180,181,555
Schedule of non-cash activities:		
Contributed capital for assets and construction in progress	$ 2,184,361	$ 1,664,381

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 2002 and 2001 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 Inter-modal 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, California and Long Beach, California, 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 Port's tenants; operating expenses include the maintenance of facilities, infrastructure, fire stations and security and safety related expenses. Administration and depreciation are also considered as 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

Effective October 1, 2001, the Department implemented the following GASB statements:

- GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments (GASB 34).* This statement affects 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). This statement amends GASB 34 to either 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances.
- Government Accounting Standards Board Statement No. 38. *Certain Financial Statement Note Disclosures.* This statement establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balance and transfers.

GASB 34 establishes financial reporting standards for state and local governments, and it requires, 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 precede 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 and modified the presentation of the financial information for fiscal year 2001 in order to facilitate the comparison of both fiscal periods. As a result of the implementation of GASB 34, the Department's basic financial statements include two components:

1. Management's discussion and analysis (MD&A)
   Statements of net assets
   Statements of revenues, expenses, and changes in fund net assets
   Statements of cash flows on the direct method
2. Notes to the basic 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 statement 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, highly-liquid, 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, 2002 and 2001, 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>
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 projects when they are completed. The Department capitalized $16,914,085 and $7,206,806 during fiscal years 2002 and 2001, respectively.

CAPITALIZED INTEREST ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 9/30/01	ADDITIONS	REDUCTIONS	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	$16,818,872	$ 17,789,202	$6,331,689

The constructed land account in the financial statements is 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 date donated.

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 asset.

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. During fiscal year 2002 and 2001, the Department transferred certain bridges, freeway ramps, and highway improvements, after they were upgraded, to the California Department of Transportation (Caltrans). This transfer process will continue in coming years, and more assets will be transferred after they are upgraded.

Assets Constructed for Others

The Department, in agreement with 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 will be 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.

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. These estimates and assumptions also affect the reported amount of changes in equity during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts reported in fiscal year 2001 were reclassified to conform to the fiscal year 2002 presentation. Such reclassification 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, 2002 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, 2002 and 2001.

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, 2002 or 2001. In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, neither asset nor liabilities were recorded in the accompanying financial statements for fiscal years ended September 30, 2002 or 2001.

3) Long -Term Receivables

Long-term receivables at September 30, include the following:

	2002	2001
Long Beach Redevelopment Agency/Convention Center	25,670,000	25,670,000
Long Beach Redevelopment Agency/Westside Project Area	-0-	14,979,744
Total Long-Term Receivables	25,670,000	40,649,744

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 have further 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 payments scheduled for 2002, and is currently negotiating a new agreement to modify the terms. The Department considers that, for financial statement presentation, the $1,765,000 is still considered as a current asset. The remaining $25,670,000 balance as of September 30, 2002 has been recorded as a long-term receivable.

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 change the repayment terms. The fourth amendment to the agreement was entered into on April 2001. In accordance with the new repayment terms, the Agency shall 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 payment of the note following the proposed transaction fulfills the Agency's obligation with respect to the Westside Redevelopment loan. As of September 30, 2001, the Agency had a $14,979,744 liability with the Department.

(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 would be 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. With the development of the Project, the Ports will consolidate the rail services of Union Pacific and Burlington Northern Santa Fe onto a single set of rail lines thus improving rail transportation conditions, securing efficient and competitive service to and from the Ports, and increasing public safety and convenience along the route on which Port related traffic occurs.

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, 2002 and 2001, total costs to the Department related to the rights-of-way purchase are $207,499,527 and $ 208,054,746.

Construction of the Project began in 1997; and it was completed on April 2002. Funding of the Project came from federal, state, and local sources, and from issuance of debt. Upon completion of the Project, the right-of-way costs will be accounted for on the Department's financial records, but its benefits will extend to other governmental entities by allowing them to utilize the right-of-way (see Note 11).

Repayment to the Ports for their investments in the right-of-way and for any advances provided to the Project will occur after ACTA has generated revenues sufficient to retire all debt and to fund a maintenance reserve. Based on current cargo forecasts, it is estimated that $463 million could be returned to the Department through the year 2037 (see Note 11).

(5) Commercial Paper Notes

Indebtedness for Commercial Paper notes (notes) as of September 30, is comprised of the following:

Year	Dates issued	Current maturities	Range of interest rates	Total Outstanding
2002	Series A			
	07/11/02 – 09/09/02	10/03/02 – 11/16/02	1.20% - 1.30%	$ 60,150,000
2001	Series A			
	07/26/01	10/09/01 – 01/11/02	2.50% - 2.65%	$ 135,150,000

The Department authorized the issuance of up to $383,500,000 in notes. In 1994, 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 18, 2001, the Board of Harbor Commissioners agreed to modify the terms of the original line of credit document by substituting the former provider, Canadian Imperial Bank of Commerce, with Dexia Credit Local. The transition took place on July 26, 2001 when notes under the new line of credit were issued.

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 as of September 30, 2002 and 2001 were $60,150,000 and $135,150,000, respectively.

COMMERCIAL PAPER ROLL FORWARD SCHEDULE

DESCRIPTION DATES ISSUED	BALANCE 9/30/01	ADDITIONS	REDUCTIONS	BALANCE 9/30/02
Series A; maturity dates 10/03/02 to 11/16/02	$135,150,000	-0-	$ 75,000,000	$ 60,150,000
	BALANCE 9/30/00	ADDITIONS	REDUCTIONS	BALANCE 09/30/01
Series A, maturity dates 10/09/01 to 1/11/02	$135,150,000	-0-	-0-	$ 135,150,000

(6) Notes Payable

Outstanding Notes Payable at September 30 include the following:

	2002	2001
Notes payable	$ 302,236	$ 357,128
Less current portion	(54,892)	(109,128)
Long-term portion	$ 247,344	$ 248,000

(7) Bonded Indebtedness

HARBOR REVENUE BONDS PAYABLE ROLL FORWARD SCHEDULE

DESCRIPTION	BALANCE 9/30/01	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

DESCRIPTION	BALANCE 9/30/00	ADDITIONS	REDUCTIONS	BALANCE 9/30/01	AMOUNTS DUE WITHIN ONE YEAR
1991	$ 10,800,000	-0-	$ 10,800.000	$ -0-	$ -0-
1993	143,735,000	-0-	5,185,000	138,550,000	5,420,000
1995	326,385,000	-0-	6,180,000	320,205,000	6,110,000
1998	197,635,000	-0-	6,125,000	191,510,000	6,430,000
2000 A	-0-	$ 275,000,000	-0-	275,000,000	-0-
	$ 678,555,000	$ 275,000,000	$ 28,290,000	$ 925,265,000	$ 17,960,000

Outstanding bonded indebtedness as of September 30 is as follows:

	2002	2001
1993 Harbor Revenue Bonds		
maturing 2002 through 2018 at 4.5% to 5.13% interest	133,130,000	138,550,000
Less unamortized discount	(1,038,066)	(1,104,503)
Total 1993 Harbor Revenue Bonds	132,091,934	137,445,497
1995 Harbor Revenue Bonds		
maturing 2002 through 2025 at 5.4% to 9.00% interest	314,095,000	320,205,000
Less unamortized discount	(2,565,644)	(2,679,042)
Total 1995 Harbor Revenue Bonds	311,529,356	317,525,958
1998 Harbor Revenue Bonds		
maturing 2002 through 2019 at 5.0% to 6.0% interest	185,080,000	191,510,000
Plus unamortized premium	3,943,917	4,181,145
Total 1998 Harbor Revenue Refunding Bonds	189,023,917	195,691,145
2000A Harbor Revenue Bonds		
maturing 2003 through 2025 at 5.0% to 5.75% interest	275,000,000	275,000,000
Plus unamortized premium	1,985,023	2,132,336
Total 2000 Harbor Revenue Bonds	276,985,023	277,132,336

2002A & B Harbor Revenue Bonds		
maturing 2003 through 2027 at 4.0% interest (average)	300,000,000	-0-
Plus unamortized premium	5,774,125	-0-
Total 2002 Harbor Revenue Bonds	305,774,125	-0-
Summary		
Principal	1,207,305,000	925,265,000
Net premium (discount)	8,099,355	2,529,936
Less current portion	(30,145,000)	(17,960,000)
Net long term bonded indebtedness	$ 1,185,259,355	$ 909,834,936

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

Year ending September 30,	Principal	Interest	Total
2003	$ 30,145,000	$ 60,757,496	$ 90,902,496
2004	32,590,000	60,474,127	93,064,127
2005	34,995,000	58,652,512	93,647,512
2006	36,950,000	56,791,488	93,741,488
2007	38,980,000	54,860,588	93,840,588
2008-2012	229,455,000	241,422,885	470,877,885
2013-2017	301,045,000	173,265,084	474,310,084
2018-2022	284,565,000	92,003,531	376,568,531
2023-2027	218,580,000	25,204,925	243,784,925
	$ 1,207,305,000	$ 823,432,636	$ 2,030,737,636

Details of each outstanding issue are as follows:

1993 Harbor Revenue Bonds

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 amounting to $53,655,000 are outstanding and will mature on May 15 of each year from 2003 to 2010 in amounts ranging from $5,660,000 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, 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 and $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:

	2002	2001
Service Account (amount reserved to meet current debt service requirements)	$ 4,633,704	$ 4,632,406
Reserve Account (amount reserved for maximum annual debt service requirements)	12,360,994	12,360,994
	$ 16,994,698	$ 16,993,400

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.

Serial bonds amounting to $129,370,000 are outstanding and will mature on May 15 of each year from 2003 to 2015 in amounts ranging from $6,235,000 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:

	2002	2001
Service Account (amount reserved to meet current debt service requirements)	$ 8,907,717	$ 9,064,700

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 in the amount of $185,080,000 are outstanding and will mature on May 15 of each year from 2003 to 2019 in amounts ranging from $6,750,000 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 prior to their respective maturity dates.

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

	2002	2001
Service Account (amount reserved to meet current debt service requirements)	$ 6,596,034	$ 6,596,438
Reserve Account (amount reserved for maximum annual debt service requirements)	17,596,976	17,596,976
	24,193,010	$ 24,193,414

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 2000 A (the 2000 A 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 amounting to $275,000,000 will mature on May 15 of each year from 2003 to 2025 in amounts ranging from $6,220,000 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:

	2002	2001
Service Account (amount reserved to meet current debt service requirements)	$ 1,183,502	$ -0-
Reserve Account (amount reserved for maximum annual debt service requirements)	22,481,734	22,162,106
	$ 23,665,236	$ 22,162,106

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

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 2003 to 2027 in amounts ranging from $5,280,000 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:

	2002	2001
Service Account (amount reserved for maximum annual debt service requirements)	$ 4,420,249	$ -0-

Debt Covenants

The Department’s management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2002.

(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, 2002.

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 on lease at September 30 consists of the following:

	2002	2001
Land	$ 650,500,441	$ 567,684,906
Docks and wharves	352,932,321	254,982,208
Warehouses and sheds	45,018,553	44,053,073
Cranes and shiploaders	224,375,305	166,105,738
Buildings and other facilities	253,793,968	214,305,905
Infrastructure	541,626,798	403,266,023
Historical cost of leased property	2,068,247,386	1,650,397,853
Less accumulated depreciation	(386,006,401)	(392,075,270)
Book value of leased property	$1,682,240,985	$1,258,322,583

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:	
2003	$ 172,897,000
2004	165,654,000
2005	163,566,000
2006	143,469,000
2007	135,948,000
2008-2012	602,618,000
2013-2017	513,457,000
2018-2022	470,707,000
2023-2027	309,464,000
Total	$ 2,677,780,000

(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, 2002 and 2001 are as follows:

Condensed Balance Sheets

	2002	2001
Current assets	$ 8,501,726	$ 7,157,372
Property and equipment	3,707,311	3,815,342
Total assets	$ 12,209,037	$ 10,972,714
Current liabilities	$ 1,890	$ 11,265
Venturers' equity:		
Harbor Department of the City of Long Beach	5,931,013	5,308,165
Harbor Department of the City of Los Angeles	6,276,134	5,653,284
Total venturers' equity	12,207,147	10,961,449
Total liabilities and venturers' equity	$ 12,209,037	$ 10,972,714

Condensed Statement of Income and Venturers' Equity

	2002	2001
Operating revenue	$ 8,673,107	$ 7,915,891
Operating expense	(108,030)	(108,030)
Operating income	8,565,077	7,807,861
Interest income	180,621	297,589
Net income	8,745,698	8,105,450
Venturers' equity, July 1 2001 and 2000	10,961,449	9,855,999
Cash disbursement to venturers	(7,500,000)	(7,000,000)
Venturers' equity, June 30, 2002 and 2001	$ 12,207,147	$ 10,961,449

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, 2002, 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, 2002 and 2001 aggregated $114,713,773 and $332,908,449 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 $300,000,000.

A comprehensive general liability insurance program is carried in the total amount of $100,000,000 excess of $1,000,000 self-insured retention, covering all of the Harbor Department's operations. Specialized policies for loss or damage are in force covering the Department's fireboats and other vessels used for daily operations; the City of Long Beach; its Board of Harbor Commissioners, individually and collectively; and their officers and employees.

The Department participates in the City's self-insured workers' compensation program, and, during fiscal year 2002 and 2001 made payments to the City's Insurance Fund totaling $908,628 and $784,510 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, 2002 and 2001, the Department has recognized litigation claim liabilities of $1,270,611 and $1,392,712 respectively.

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 the Use Fees and Container Charges are not sufficient to meet these obligations, the Department and the Port of Los Angeles will 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%. 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 maximum amount that the Department could be obligated for is $88,089,935, payable in annual installments, from the year 2004 until 2019. Annual payments could vary from $692,117 to $10,614,466. Repayment by ACTA, with interest, is expected to begin in 2018. The Department is funding a cash reserve to satisfy claims related to this potential obligation. The balances of this reserve as of September 30, 2002 and 2001 are $63,456,331 and $64,483,196.

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, 2002 and 2001 are $26,313,000 and $26,400,000. 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 9/30/01	ADDITIONS	REDUCTIONS	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, the seller, (UPRC) 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	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. Clean-up costs for both areas are not anticipated to exceed the first $50,000,000.

In December 1994, the Department purchased the right-of-way over property from Southern Pacific Railroad Company (SPRC) and developed it as part of the Alameda Corridor Project (see Note 5).

Based on preliminary assessments, the property may contain hazardous substances requiring remediation or abatement due to pre-existing environmental conditions. The Department's liability is mitigated by a $7,500,000 reimbursement received from SPRC and by provisions of the purchase agreement stating
that a portion of the fiscal responsibility for remediation costs should be absorbed by SPRC (i.e., fifty-percent of environmental losses in excess of $25 million, on a cumulative basis for all pre-existing environmental conditions).

(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%, or $8,676,000 and $8,314,400 of the Department's net income for fiscal year 2001 and 2000, respectively, to the City's Tidelands Operating Fund. This amount is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets. The transfers are summarized as follows:

	2002	2001
Transfers under City Charter, Article XII 1209 (c) (4)	$ 8,676,900	$ 8,314,400

(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 costs incurred in the acquisition of the land were classified as non-current assets. As of September 30, 2002, the Department has completed landfills that required the utilization of $5,100,000 of the available credits. The balance of environmental mitigation costs will be adjusted as landfill credits are used for port development.