KPMG

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

OFFICE OF THE
CITY AUDITOR

333 West Ocean Blvd.
Long Beach, CA 90802

Independent Auditors' Report

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

We have audited the accompanying balance sheets of The Harbor Department of the City of Long Beach (Department) (a nonexpendable trust fund of the City of Long Beach California) as of September 30, 2001 and 2000, and the related statements of revenue, expenses, changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Harbor Department of the City of Long Beach as of September 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Gary L. Burroughs
City Auditor

December 21, 2001

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

BALANCE SHEETS

SEPTEMBER 30, 2001 AND 2000

(amounts expressed in thousands)

Assets	2001	2000
Current assets:		
Pooled cash and cash equivalents (Note 2)	$ 154,749	$ 53,864
Accounts receivable – trade	31,971	35,861
Interest receivable	313	313
Due from City of Long Beach (Note 3)	1,765	-
Inventories of supplies	773	947
Total current assets	189,571	90,985
Harbor Revenue Bond Funds and other funds restricted as to use (Notes 2, 6, and 7):		
Pooled cash and cash equivalents	251,912	118,893
Other investments	12,361	12,361
Total restricted assets	264,273	131,254
Property, plant and equipment (Note 1):		
Land:		
Purchased	462,577	460,713
Constructed	334,935	272,392
Net land	797,512	733,105
Structures and facilities	1,122,667	1,104,191
Less accumulated depreciation	(486,285)	(448,111)
Net structures and facilities	636,382	656,080
Furniture, fixtures and equipment	12,741	12,588
Less accumulated depreciation	(9,678)	(9,263)
Net furniture, fixtures and equipment	3,063	3,325
Construction in progress	360,984	273,753
Right of way (Note 4)	208,055	193,216
Net property, plant, and equipment	2,005,996	1,859,479
Other assets:		
Long -term receivables (Note 3)	40,650	42,915
Oil facilities (net of accumulated depletion of $43,406 and $51,135 respectively)	37,730	30,001
Environmental mitigation costs (Note 14)	34,291	37,367
Investments in joint venture (Note 11)	5,308	3,784
Assets constructed for others (Notes 1 and 8)	1,614	-
Other non-current assets	38,442	36,665
Total other assets	156,421	150,732
Total assets	$ 2,617,875	$ 2,232,450

(Continued)

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

BALANCE SHEETS

SEPTEMBER 30, 2001 AND 2000

(amounts expressed in thousands)

Liabilities and Equity	2001	2000
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	$ 63,308	$ 34,741
Due to City of Long Beach	8,336	6,197
Notes payable (Note 6)	109	123
Deferred credits and unearned revenue	3,852	3,740
Total current liabilities payable from current assets	75,605	44,801
Current liabilities payable from restricted assets:		
Accrued interest – bonds	19,215	14,263
Current portion of bonded indebtedness (Note 7)	17,960	28,290
Total current liabilities payable from restricted assets	37,175	42,553
Long-term obligations net of current portion:		
Bonded indebtedness (Note 7)	909,835	650,645
Commercial paper outstanding (Note 5)	135,150	135,150
Notes payable (Note 6)	248	289
Deferred liability (Notes 1 and 8)	1,614	-
Oil well abandonment (Note 12)	26,400	13,933
Total long-term obligations	1,073,247	800,017
Total liabilities	1,186,027	887,371
Commitments and contingencies (Notes 9 and 12)		
Equity:		
Contributed capital (Note 8)	64,542	71,487
Retained earnings	1,367,306	1,273,592
Total equity	1,431,848	1,345,079
Total liabilities and equity	$ 2,617,875	$ 2,232,450

See accompanying notes to the financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2001 AND 2000

(amounts expressed in thousands)

	2001	2000
Port operating revenues:		
Berths and special facilities (Note 10)	$ 212,320	$ 209,766
Rental properties	12,419	12,032
Miscellaneous	3,340	3,706
Total Port operating revenues	228,079	225,504
Port operating expenses:		
Facility maintenance	10,382	10,535
Infrastructure maintenance	12,487	10,066
Fire and safety	9,893	10,052
Other indirect	5,233	4,065
General and administrative	12,578	10,568
Port operating expenses before depreciation and amortization	50,573	45,286
Depreciation and amortization	54,162	52,677
Total Port operating expenses	104,735	97,963
Income from Port operations	123,344	127,541
Non-operating income (expense):		
Intergovernmental (Note 13)	(8,314)	(2,948)
Interest income, net of capitalized interest	15,251	11,190
Interest expense, net of capitalized interest	(42,341)	(44,885)
Income from equity in joint ventures	4,053	2,146
Loss from Harbor oil operations	(1,032)	(70)
Loss on disposition of assets	(1,105)	(4,927)
Contributed capital (Notes 1 and 8)	50	-
Other expense, net	(3,137)	(4,903)
Total non-operating expense	(36,575)	(44,397)
Net income	86,769	83,144
Depreciation of assets acquired with contributed capital	6,945	7,255
Retained earnings, October 1	1,273,592	1,183,193
Retained earnings, September 30	$ 1,367,306	$ 1,273,592

See accompanying notes to the financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2001 AND 2000

(amounts expressed in thousands)

	2001	2000
Cash flows from operating activities:		
Cash received from customers	$ 229,048	$ 222,814
Cash paid to employees net of capitalized labor of $3.3 and $3.8 million in 2001 and 2000	(16,892)	(17,112)
Cash paid to suppliers	(31,975)	(27,548)
Net cash provided by operating activities	180,181	178,154
Cash flows from non-capital financing activities:		
Repayments under redevelopment agency agreements	500	1,250
Intergovernmental transfers	(7,204)	(2,948)
Net cash (used in) non-capital financing activities	(6,704)	(1,698)
Cash flows from capital and related financing activities:		
Proceeds from the sales of capital assets	940	5,105
Payments for capital acquisitions	(167,665)	(155,657)
Bond debt issuance	277,603	-
Principal payment-bonds	(28,290)	(26,715)
Interest paid, including capitalized interest	(51,096)	(46,559)
Principal payment-notes	(55)	(30,055)
Net cash provided by (used in) capital and related financing activities	31,437	(253,881)
Cash flows from investing activities:		
Interest received, including capitalized interest	21,816	11,914
Return on investment in joint venture	3,500	3,000
Harbor oil operations providing cash	3,674	2,778
Net cash provided by investing activities	28,990	17,692
Net increase (decrease) in cash and cash equivalents	233,904	(59,733)
Cash and cash equivalents, October 1,	172,757	232,490
Cash and cash equivalents, September 30,	$ 406,661	$ 172,757

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2001 AND 2000

(amounts expressed in thousands)

(Continued)

	2001	2000
Reconciliation of income from port operations to net cash provided by operating activities:		
Income from Port operations.	$ 123,344	$ 127,541
Adjustments to reconcile income from port operations to Net cash provided by operating activities:		
Depreciation and amortization	54,162	52,677
Non-operating revenue providing cash	-	7
Increase in accounts receivable	(2,106)	(4,897)
Decrease in due from City of Long Beach	-	2,500
Decrease (Increase) in inventory	172	(6)
Increase other current assets	(2)	-
Decrease in deferred charges	13,368	1,426
Decrease in accounts payable	(8,847)	(1,925)
Increase in deferred revenue	114	1,014
Decrease in due to City of Long Beach	(24)	(183)
Total adjustments	56,837	50,613
Net cash provided by operating activities	$ 180,181	$ 178,154
Schedule of non-cash activities:		
Contributed capital for assets and construction in progress	$ 50	$ (6,674)

See accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies

Basis of Presentation
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 a nonexpendable trust 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.

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 net income and changes in financial position. 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.

The operations of the Harbor Facilities Corporation, a non-profit public benefit corporation, are included in the accompanying financial statements. The Harbor Facilities Corporation has been inactive since 1995 and has incurred no operations for the 2001 and 2000 fiscal years. The Department has entered into two joint ventures with the Harbor Department of the City of Los Angeles, to assist in the financing and construction of the Intermodal Container Transfer Facility (ICTF) and to assist in the financing and construction of the Alameda Corridor Transportation Authority (ACTA), a comprehensive transportation corridor between the ports in San Pedro Bay and the central Los Angeles area. The ICTF venture has been recorded as an investment under the equity method of accounting in the accompanying financial statements (see Note 11).

Pooled Cash, Cash Equivalents, and Other Investments
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. 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 a general investment committee whose membership includes a member of the Department's management group.

Interest income and gains and 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, 2001 and 2000, is stated at fair value (see Note 2).

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

Property, Plant and Equipment
Property, plant, and equipment assets are valued at historical cost. Interest costs incurred on construction of property, plant and equipment for which debt has been issued are capitalized, net of

related interest earnings, during the period of construction.

The constructed land account in the financial statements is presented net of a $23.4 million 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. Depletion is determined using the estimated economic life of the field.

Estimated useful lives used in the computation of depreciation of property, plant and equipment 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 2001 and 2000, 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 and more assets will be transferred after they are upgraded. For depreciation purposes, and previous to the transfer, assets were assigned useful lives of ten years.

Contributed Capital

Effective October 1, 2000, the Department adopted GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*. Previous to fiscal year 2001, contributed capital consisted of the Department's acquisition cost of land, bridges, roads, or other assets that were either constructed or acquired by the Department or by third parties. When the acquisition process of the assets was completed, they were recorded as part of the Department's infrastructure and depreciated using the straight-line-method over their useful lives. The adoption of GASB 33 resulted in the classification of $50,000 in donated assets as non-operating revenue. In accordance with GASB Statement No. 33, the Department has not restated contributed capital for the period ended September 30, 2000.

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 9.

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 2000 were reclassified to conform to the fiscal year 2001 presentation.

(2) Pooled Cash, Cash Equivalents and Other Investments

The Department's cash and investments, including restricted cash and investment, 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, 2001 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, 2001 and 2000.

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, 2001 or 2000. 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, 2001 or 2000.

3) Long -Term Receivables

Long-term receivables at September 30, include the following (amounts expressed in thousands):

	2001	2000
Long Beach Redevelopment Agency/Convention Center	$ 25,670	$ 27,435
Long Beach Redevelopment Agency/Westside Project Area	14,980	15,480
Total long-term Receivables	$ 40,650	$ 42,915

Redevelopment Agency-Convention Center

In 1993, the Department advanced $30 million 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 million 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, 2000, the Agency had an unpaid liability to the Department of $27.4 million. Due to the new terms of the agreement, $1.8 million is payable during fiscal year 2002 and is considered a current asset for financial statement purposes; the remaining $25.7 million balance as of September 30, 2001 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 million subject to a maximum annual reimbursement of $2.5 million. 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 $0.5 million in fiscal year 2001 and additional minimum payments of $1.0 million on November 15, 2002 and 2003.

For fiscal years ending September 30, 2001 and 2000, the Agency had an unpaid liability to the Department of $15.0 million and $15.5 million. The Department has classified the entire balance as long-term receivable.

(4) Alameda Corridor Right-of-Way Purchase

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Corridor), which will 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. Since 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 Corridor, 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 Corridor. As of September 30, 2001 and 2000, total costs to the Department related to the rights-of-way purchase are $ 208.1 and 193.2 million.

Construction of the Corridor began in 1997; its completion is scheduled for 2002. Funds for the construction are provided from federal, state, and local sources, and from issuance of debt. Once the Corridor is completed, 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 12).

Repayment to the Ports for their investments in the right-of-way and for any advances provided to the Corridor will occur after ACTA has generated sufficient revenues sufficient to retire all debt and to provide funds for 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 12).

(5) Commercial Paper Notes

Indebtedness for Department Commercial Paper notes (notes) as of September 30, is comprised of the following (amounts expressed in thousands):

Year	Dates issued	Final maturities	Range of interest rates	Total Outstanding
2001	Series A			
	7/26/2001	10/09/01 - 01/11/02	2.50% - 2.65%	$ 135,150
2000	Series A			

06/09/00 – 09/14/00	10/06/00 - 12/08/00	3.65% - 4.10%	$ 135,150

The Department has authorized the issuance of up to $383.5 million in notes. In 1994, the Department issued $148 million 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 notes are secured with the Department's gross revenues. The obligation to pay the principal portion of outstanding notes is further supported by a revolving line of credit, which is currently $175 million. 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.

(6) Notes Payable

Outstanding Notes Payable at September 30 include the following (amounts expressed in thousands):

	2001	2000
Notes payable	$ 357	$ 413
Less current portion	(109)	(123)
Long-term portion	$ 248	$ 289

(7) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 is as follows (amounts expressed in thousands):

	2001	2000
1991 Harbor Refunding Revenue Bonds		
matured May 2001 at 7.2% interest	$ - 0 -	$ 10,800
Less unamortized discount	- 0 -	(76)
Total 1991 Harbor Refunding Revenue Bonds	- 0 -	10,724
1993 Harbor Revenue Bonds		
maturing 2001 through 2018 at 4.5% to 5.125% interest	138,550	143,735
Less unamortized discount	(1,105)	(1,171)
Total 1993 Harbor Revenue Bonds	137,445	142,564
1995 Harbor Revenue Bonds		
maturing 2001 through 2025 at 5.4% to 9.00% interest	320,205	326,385
Less unamortized discount	(2,679)	(2,792)
Total 1995 Harbor Revenue Bonds	317,526	323,593

1998 Harbor Revenue Bonds		
maturing 2001 through 2019 at 5.0% to 6.0% interest	191,510	197,635
Plus unamortized premium	4,181	4,419
Total 1998 Harbor Revenue Refunding Bonds	195,691	202,054
2000A Harbor Revenue Bonds		
maturing 2003 through 2025 at 5.0% to 5.75% interest	275,000	- 0 -
Plus unamortized premium	2,133	- 0 -
Total 2000 Harbor Revenue Bonds	277,133	- 0 -
Summary		
Principal	925,265	678,555
Net premium (discount)	2,530	380
Less current portion	(17,960)	(28,290)
Net long term bonded indebtedness	$ 909,835	$ 650,645

Aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows (amounts expressed in thousands):

Year ending September 30,	Principal	Interest	Total
2002	17,960	51,240	69,200
2003	24,865	50,124	74,989
2004	26,350	48,685	75,035
2005	28,415	47,113	75,528
2006	30,010	45,515	75,525
Thereafter	797,665	444,809	1,242,474
	925,265	687,486	1,612,751

Details of each outstanding issue are as follows:

1991 Harbor Refunding Revenue Bonds

The Department entered into a Forward Municipal Purchase Obligations Agreement with an Underwriter wherein the Department issued $79.2 million in Harbor Refunding Revenue Bonds, Series 1991 (the 1991 Bonds). Under this agreement, on February 14, 1991, the Department issued the 1991 Bonds at an average interest rate of 6.8% to advance-refund $81.1 million of outstanding 1980 Harbor Revenue Bonds with an average interest rate of 10.0%. The net proceeds of $77.9 million were used to completely defease the 1980 bonds. The final 1991 Bonds matured during fiscal year 2001.

Funds were available in the respective restricted accounts, as of September 30, in conformity with the bond resolution as follows (amounts expressed in thousands):

	2001	2000
Service Account		
(amount reserved to meet current debt service requirements)	$ - 0 -	$ 4,342
Reserve Account		
(amount reserved for maximum annual debt service requirements)	- 0 -	7,882

	$ - 0 -	$ 12,224

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, in the amount of $166.5 million 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 in the amount of $64.3 million are outstanding and will mature on May 15 of each year from 2002 to 2010 in amounts ranging from $5.2 million to $7.9 million 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 $26.2 million and $53.3 million 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 $8.3 million and $8.7 million, respectively. A portion of the May 15, 2018 term bonds shall be called prior to maturity and redeemed at par in amounts from $9.6 million and $11.2 million 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 (amounts expressed in thousands):

	2001	2000
Service Account (amount reserved to meet current debt service requirements)	$ 4,632	$ 4,634
Reserve Account (amount reserved for maximum annual debt service requirements)	12,361	12,361
	$ 16,993	$ 16,995

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, in the amount of $343.3 million 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 in the amount of $141.7 million are outstanding and will mature on May 15 of each year from 2002 to 2015 in amounts ranging from $6.1 million to $13.7 million 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, 2004 to May 14, 2006, at 1% from May 15, 2006 to May 14, 2007, and at par from May 15, 2007 and thereafter.

Term bonds of $80.5 million and of $104.2 million 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 $14.5 million to $17.8 million from 2016 to 2020, respectively, for the term bonds scheduled to mature on May 15, 2020; and in amounts from $18.8 million to $23.0 million, 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 $25.3 million reserve account.

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

	2001	2000
Service Account (amount reserved to meet current debt service requirements)	$ 9,065	$ 9,300

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, in the amount of $206.3 million, 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, 2001.

Serial bonds in the amount of $197.7 million are outstanding and will mature on May 15 of each year from 2002 to 2019 in amounts ranging from $6.1 million to $16.6 million 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 (amounts expressed in thousands):

	2001	2000
Service Account (amount reserved to meet current debt service requirements)	$ 6,596	$ 6,598
Reserve Account (amount reserved for maximum annual debt service requirements)	17,597	17,597
	$ 24,193	$ 24,195

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of $8.7 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized using the straight-line method over the life of the bonds.

2000A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2000A (the 2000A Bonds) are secured by the Department's gross revenues. The 2000A Bonds, dated November 1, 2000, in the amount of $275.0 million 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 in the amount of $275 million will mature on May 15 of each year from 2003 to 2025 in amounts ranging from $6.2 million to $20.2 million with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.25% to 5.75%. The 2000A Bonds maturing on or before May 15, 2010 will not be subject to call and redemption before maturity. Serial bonds maturing on or after May 15, 2011 are subject to call and redemption, prior to maturity, at the option of the Board of Harbor Commissioners, as a whole or in part on any date, on or after May 15, 2010 at premiums of 1%, from May 15, 2010 through May 14, 2011; at 0.5% from May 15, 2011 to May 14, 2012; and at par from May 15, 2012 and thereafter.

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

	2001	2000
Reserve Account (amount reserved for maximum annual debt service requirements)	$ 22,162	$ -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, 2001.

(8) Contributed Capital

Contributed capital at September 30, is composed of the following (amounts expressed in thousands):

	2001	2000
City of Long Beach		
Pier H property	$ 2,970	$ 2,970
Long Beach Redev. Agency-Westside (Note 3)	12,887	14,958
	15,857	17,928
California Department of Transportation	47,672	52,471
Tenant - Pier B wharf structure	1,013	1,088
	$ 64,542	$ 71,487

(9) Retirement Programs

The Department participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California. The Department is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. CalPERS does not calculate a separate pension obligation for the Department, therefore, no separate Department obligation can be presented herein.

The City of Long Beach, together with other California cities (the Cities), entered into negotiations with CalPERS to reduce or to eliminate the retirement contributions paid on behalf of their employees. The central point of the negotiations was that CalPERS held a cash surplus sufficient to satisfy the retirement contributions needed for subsequent years. This surplus was created by the funds provided by the Cities to cover previous periods contributions, plus accumulated earnings.

The result of those negotiations was that the Cities will not make payments to CalPERS until the surplus is exhausted.

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, Department employees who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount equal to 2% of their average salary during the highest paid year of employment for each year of credited service for 1st-tier employees, and 2% of the employee's average salary during the three highest paid years of employment for each year of credited service for 2nd-tier employees. 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, 2001.

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, 2001.

(10) Operating Leases

The major portion of the Department's property is leased to others. Such property includes marine terminal facilities, special purpose facilities, office and commercial space, and land. 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 (amounts expressed in thousands):

	2001	2000
Land	$ 567,685	$ 504,393
Docks and wharves	254,982	260,275
Warehouses and sheds	44,053	48,271
Cranes and shiploaders	166,106	166,106
Buildings and other facilities	214,305	215,432
Infrastructure	403,266	406,800
Historical cost of leased property	1,650,397	1,601,277
Less accumulated depreciation	(392,075)	(375,202)
Book value of leased property	$ 1,258,322	$1,226,075

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

Year ending September 30:		
2002	$	123,081
2003		125,441
2004		128,582
2005		125,146
2006		123,071
Thereafter		1,660,772
Total	$	2,286,093

(11) Investment in Joint Venture

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

The facility has been fully developed by the Tenant who has assumed operational responsibility for the facility. The Venturers' share net income and equity distributions from ICTF equally. Audited balance sheets and statement of income and venturers' equity (in condensed format) for the years ended June 30, 2001 and 2000 are as follows (amounts expressed in thousands):

Condensed Balance Sheets

	2001	2000 (Restated)
Current assets	$ 7,157	$ 5,935
Property and equipment	3,815	3,923
Total assets	$ 10,972	$ 9,858
Current liabilities	$ 11	$ 2
Venturers' equity:		
Harbor Department of the City of Long Beach	5,308	4,749
Harbor Department of the City of Los Angeles	5,653	5,107
Total venturers' equity	10,961	9,856
Total liabilities and venturers' equity	$ 10,972	$ 9,858

Condensed Statement of Income and Venturers' Equity

	2001	2000 (Restated)
Operating revenue	$ 7,916	$ 6,066
Operating expense	(108)	(108)
Operating income	7,808	5,958
Interest income	297	277
Net income	8,105	6,235
Venturers' equity, July 1 2000 and 1999	9,856	9,621

Cash disbursement to venturers	(7,000)	(6,000)
Venturers' equity, June 30, 2001 and 2000	$ 10,961	$ 9,856

Pursuant to an indenture of trust dated November 1, 1984, ICTF issued $53.9 million of 1984 Series A bonds on behalf of the Tenant to construct the Facility. On May 1, 1989, ICTF issued $52.3 million 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 (see Note 15).

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, 2001, can be obtained from the Department.

(12) Commitments and Contingencies

The Department is subject to claims and lawsuits arising from the normal course of business. The claims are routinely evaluated by representatives of the City Attorney's office. 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, 2001 and 2000 aggregated $332.9 million and $106.3 million respectively.

Risk Management

The Department currently carries fire and extended coverage insurance covering loss or damage by fire and other risks (excluding earthquake and flood) with limits in excess of $600 million. The amount of insurance is adjusted annually to full replacement value of the properties insured.

A comprehensive general liability insurance program is carried in the total amount of $150 million excess of $1 million 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, public officials and employees' liability policy.

The Department participates in the City's self-insured workers' compensation program, and, during fiscal year 2001 and 2000 made payments to the City's Insurance Fund totaling approximately $0.8 million in both years 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, 2001 and 2000, the Department has recognized litigation claim liabilities of approximately $1.4 million and $1.3 million 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. The most recent calculation provided by ACTA shows that the maximum amount that the Department could be obligated for is $91.7 million, payable in annual installments, from the year 2003 until 2017. Annual payments vary from $0.7 million to $10.6 million. Repayment with interest is expected to begin in 2018. The Department has established a reserve account with resources sufficient to fund this future obligation.

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 and approximate $26.4 million for the year ending September 30, 2001. Long-term abandonment cost liabilities in the amounts of $26.4 million and $13.9 million have been recorded as of September 30, 2001, and 2000. 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.

Environmental Remediation

The Department purchased 725 acres of property in the Harbor District in March 1994. The property contains soil which will require remediation of environmentally hazardous materials for the portion that the Department chooses to develop. To the extent that such remediation is necessary, the Department's liability is mitigated by provisions of the purchase agreement that call for a portion of the fiscal responsibility for remediation costs to be placed on Union Pacific Resource Company (UPRC), the seller, for a period not to exceed fifteen years and amounts not to exceed $112.5 million according to the following table (amounts expressed in thousands):

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

Maximum Liability	$ 112,500

Currently, the Department has developed 131 acres and has plans to develop an additional 160 acres. Clean-up costs for both these areas are not anticipated to exceed the first $50 million.

In December 1994, the Department purchased the right-of-way over property from Southern Pacific Railroad Company (SPRC). The Department intends to develop this property 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 $7.5 million reimbursement from SPRC. The Department's liability is also mitigated by provisions of the purchase agreement which state 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).

(13) Intergovernmental Expense

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) and with the approval of the Board of Harbor Commissioners, adopted a resolution to transfer 10%, or $8.3 million and $6.15 million of the Department's net income for fiscal year 2000 and 1999, 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 balance sheet.

During fiscal 1993, the Department paid $24.4 million as its share of a railroad mitigation fund, in accordance with an agreement with the City of Los Angeles and the Union Pacific Railroad Company. The purpose of the fund was to construct environmental improvements to mitigate the impact of rail operations in the City caused by additional train traffic within the ports. After construction of the improvements, the remaining balance was returned to the Department and to the City of Los Angeles in proportion to their original contribution amounts. Amounts returned are as follows: $5.5 million in 1996, $3.7 million in 1999, and $3.2 million in 2000. The transfers are summarized as follows (amounts expressed in thousands):

	2001	2000
Transfers under City Charter, Article XII Section 1209 (c) (4)	$ 8,314	$ 6,151
Railroad Mitigation Fund Reimbursement	- 0 -	(3,203)
Total	$ 8,314	$ 2,948

(14) Environmental Mitigation Costs

The Department disbursed approximately $39.4 million 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, 2001, the Department has completed landfills that required the utilization of $5.1 million of the available credits. The balance of environmental mitigation costs will be adjusted as landfill credits are used for port development.

(15) Subsequent Events

On October 8, 2001 the Board of Harbor Commissioners approved the signing of a 25 year lease for its 170-acre facility at Pier A, with SSAT-Long Beach LLC, a 50/50 partnership between Delaware based SSAT Terminals, LLC and United Kingdom based Terminals Investment Limited. The new lease will generate revenues of at least $19.0 million every year. The Pier A facility is currently leased and operated by Hanjin Shipping Co. which plans to move to the 375 acre Pier T facility. Hanjin had previously signed a 25 year lease to move to the Pier T facility when it is completed around June 2002.