



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Financial Statements

September 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Harbor Department of the City of Long Beach (the Department), an enterprise fund of the City of Long Beach, California, as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of the Department are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Long Beach, California, that are 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, California, as of September 30, 2011 and 2010, and the changes in its financial position, or where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach, California, as of September 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 11 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

March 26, 2012

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

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(Unaudited)

The management of the Harbor Department of the City of Long Beach, California (the Department), offers readers of the financial statements this discussion and analysis of the financial activities for the fiscal years ended September 30, 2011 and 2010.

Overview of the Financial Statements

The Department's financial statements include the statements of net assets, the statements of revenues, expenses, and changes in fund net assets, the statements of cash flows, and the notes to the financial statements. This discussion is intended to serve as an introduction to the Department's financial statements.

Condensed Financial Position Information

The Statements of Net Assets present information concerning the Department's assets, liabilities, and net assets.

The following condensed financial information provides an overview of the Department's financial position as of September 30, 2011, 2010, and 2009:

Summary of Net Assets

September 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Capital assets, net	\$ 2,498,946,250	2,400,332,581	2,249,767,809
Other assets	993,141,143	1,063,299,555	1,159,161,353
Total assets	<u>3,492,087,393</u>	<u>3,463,632,136</u>	<u>3,408,929,162</u>
Liabilities:			
Long-term obligations, net of current portion	678,427,147	751,112,610	790,507,145
Current liabilities	162,138,602	164,514,493	190,604,744
Total liabilities	<u>840,565,749</u>	<u>915,627,103</u>	<u>981,111,889</u>
Net assets:			
Invested in capital assets, net of related debt	1,929,398,050	1,859,165,959	1,486,879,059
Restricted	177,536,448	207,843,531	196,848,657
Unrestricted	544,587,146	480,995,543	744,089,557
Total net assets	<u>\$ 2,651,521,644</u>	<u>2,548,005,033</u>	<u>2,427,817,273</u>

Analysis of Fiscal Year 2011

At the end of fiscal year 2011, the assets of the Department exceeded its liabilities by \$2,651,521,644 (net assets). Total net assets increased by \$103,516,611. This change consists mainly of \$178,961,744 current year operating income, \$7,443,539 income derived from grants received from federal and state governments, \$1,525,061 profit from oil operations, gains of \$12,468,504 on oil operations assets transferred to the City; less \$96,956,696 from other nonoperating expenses, including financing costs, transfers to the City's Tidelands

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Operating Fund of \$22,847,938 and loss of \$27,000,000 on long-term receivables from the Redevelopment Agency of the City of Long Beach, California a result of Assembly Bill X1 26 which eliminated these receivables.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) less any related debt is \$1,929,398,050 or 73% of the aggregate net assets. This is the result of the increase in Port construction projects during the year. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$177,536,448 of net assets subject to restrictions, a decrease of \$30,307,083 from last year. The decrease consists mostly of recomputing the third-party obligations – nonrelated-entity debt service contingency and matching contribution to agree to current conditions. Restricted net assets are thus identified in the Statements of Net Assets and represent 7% of the Department's total net assets.

At the end of fiscal year 2011, the Department reported unrestricted net assets of \$544,587,146, an increase of \$63,591,603 when compared to 2010. This is primarily the result of \$141,806,683 increase in operating cash offset by a; \$17,370,882 reduction in the U.S. Army Corp of Engineers prepayment, \$12,476,923 reduction in Accounts Receivable, \$4,449,492 reductions in grants receivable, a \$23,554,672 increase in Accounts Payable and loss on receivables of \$27,000,000.

Analysis of Fiscal Year 2010

At the end of fiscal year 2010, the assets of the Department exceeded its liabilities by \$2,548,005,033 (net assets). Total net assets increased by \$120,187,760. This change consists mainly of \$136,993,222 current year operating income, \$2,270,274 income from equity in the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) joint venture, \$18,663,468 income derived from grants received from federal and state governments, and \$19,034,471 profit from oil operations; less \$56,773,675 from other net nonoperating expenses, including financing costs, and transfers to the City's Tidelands Operating Fund, of \$30,451,161.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) less any related debt is \$1,859,165,959 or 73% of the aggregate net assets. This is the result of the increase in Port construction projects during the year. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$207,843,531 of net assets subject to restrictions, a decrease of \$10,994,874 from last year. The decrease is the result of amounts required to service the long-term debt. Restricted net assets are thus identified in the Statements of Net Assets and represent 8% of the Department's total net assets.

At the end of fiscal year 2010, the Department reported unrestricted net assets of \$480,995,543, a decrease of \$263,094,014 when compared to 2009. This decrease is mostly the result of reductions in the operating cash and cash equivalents of \$257,079,886 (including the pay down of the Port's Commercial Paper outstanding of \$31,400,000) primarily to fund capital activities.

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Management's Discussion and Analysis

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Summary of Operations and Changes in Fund Net Assets

The Statements of Revenues, Expenses, and Changes in Fund Net Assets illustrate the Department's change in net assets from prior to current fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows; for example: uncollected receivables and earned, but unused, vacation leave. The table below summarizes the operations for fiscal years 2011, 2010, and 2009.

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(Unaudited)

Changes in Fund Net Assets

Years ended September 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Berth and special facilities	\$ 328,986,839	303,995,596	291,451,794
Miscellaneous	16,402,867	17,643,389	19,899,788
Total operating revenues	<u>345,389,706</u>	<u>321,638,985</u>	<u>311,351,582</u>
Operating expenses:			
Facility and infrastructure	(50,671,577)	(62,044,262)	(58,416,295)
General and administrative	(30,751,029)	(35,982,062)	(39,463,931)
Depreciation and amortization	(85,005,356)	(86,619,439)	(85,857,712)
Total operating expenses	<u>(166,427,962)</u>	<u>(184,645,763)</u>	<u>(183,737,938)</u>
Operating income	<u>178,961,744</u>	<u>136,993,222</u>	<u>127,613,644</u>
Nonoperating revenues (expenses):			
Intergovernmental transfer	(22,847,938)	(30,451,161)	(18,587,376)
Oil operations transfer to City	12,468,504	—	—
Investment expense, net of income	(15,556,686)	(25,121,094)	(22,250,685)
Income from oil operations	1,525,061	19,034,471	923,137
Gain (loss) on sale of capital assets	74,459	(2,033)	8,248
Income from equity in joint venture	—	2,270,274	2,994,375
Income (loss) from Clean Trucks Program	(3,572,859)	3,552,857	13,323,357
Other income, net	(27,979,213)	(4,752,244)	8,772,821
Loss on long-term receivables from the Redevelopment Agency	<u>(27,000,000)</u>	<u>—</u>	<u>—</u>
Net nonoperating expenses	<u>(82,888,672)</u>	<u>(35,468,930)</u>	<u>(14,816,123)</u>
Income before capital grants	96,073,072	101,524,292	112,797,521
Capital grants	<u>7,443,539</u>	<u>18,663,468</u>	<u>11,439,537</u>
Change in net assets	103,516,611	120,187,760	124,237,058
Total net assets – beginning	<u>2,548,005,033</u>	<u>2,427,817,273</u>	<u>2,303,580,215</u>
Total net assets – ending	<u>\$ 2,651,521,644</u>	<u>2,548,005,033</u>	<u>2,427,817,273</u>

Analysis of Fiscal Year 2011

A comparison of the operating revenues for fiscal years 2011 and 2010 shows an overall increase of 7%. The following revenue categories experienced increases: containerized 9%, dry bulk 15%, steel/break-bulk 26%, lumber terminals 51%; the following categories experienced decreases: petroleum and liquid bulk 5%, vehicle 1%, other terminals 4%, and miscellaneous income 33%.

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In terms of volume (measured in metric revenue tons), the following categories experienced increases from last year: containerized 5%, steel/break-bulk 32%, lumber 4%, dry bulk 21%; the following types of cargo decreased during fiscal year 2011: vehicles 21%, liquid bulk 1%.

Operating expenses (excluding depreciation and amortization) decreased \$16,603,718. Cargo facilities expense decreased \$2,339,279 due to major terminal reconfiguration projects are being conducted and consequently less maintenance is required; Infrastructure Maintenance that includes bridges, freeways, streets and utilities maintenance and expenses related to environmental control decreased \$11,825,121; Fire and Safety increased by \$1,951,710 due to higher city allocated charges; and general and administrative expenses decreased by \$5,231,033 primarily a reduction in legal cost.

Depreciation expense is affected by acquisition/retirement of long-term assets, their useful lives, and the dates when such assets are placed in service. Depreciation expense for fiscal year 2011 was \$1,614,083 lower than that of 2010. The reason for this change is the reduction in assets placed into service during 2011.

Intergovernmental transfer decreased by \$7,603,223 in fiscal year 2011. During the current fiscal year, the Department netted a gain of \$12,468,504 on the transfer of assets and liabilities related to the oil operations expenses of \$5,578,453 of Aquarium debt assistance and \$17,269,485 regular operating transfer from the Department to the City of Long Beach.

Investment expense, net of income decreased by \$9,564,408 in fiscal year 2011. Investment income was lower due to lower earning rates resulting from the overall downturn in the economy in addition to lower average investment balance. Interest expense was lower because of the replacement of some of the bonds with debt with more favorable rates; the principal reductions in long-term debt balances due to the annual debt service, and the continuation of the capitalization of interest policy that allocates some of the interest expense to capital projects.

Oil operations net revenues decreased to \$1,525,061 from \$19,034,471. The decrease is due to the measure D ballot initiative approved by voters in November 2010, by which the oil operations, assets, liabilities, revenues, and expenses were transferred from the Harbor Department to the City's Tidelands Fund. The implementation of the Clean Air Action Plan (CAAP) and its related projects experienced a negative change of \$7,125,716 from \$3,552,857 net revenue in 2010 to a net loss of \$3,572,859. The reduction is the result of lower revenue generated by the Clean Truck Program as it winds down into its final stage.

Loss on long-term receivables from the Redevelopment Agency of the City of Long Beach, California (the Agency) increased \$27,000,000, or 100%, due to the passage of Assembly Bill X1 26. The legislation guarantees tax funding for all Agency external debt, but does not provide for the repayment of most loans between the Harbor Department and the Agency.

Other expense, decreased as a result of writing off of expenses incurred in preparation of the potential construction of a new administration building.

Analysis of Fiscal Year 2010

A comparison of the operating revenues for fiscal years 2010 and 2009 shows an overall increase of 3%. The following revenue categories experienced increases: containerized 6% and other terminals 36%; the following

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(Unaudited)

categories experienced decreases: petroleum and liquid bulk 6%, dry bulk 5%, steel 5%, rental 11%, and miscellaneous income 15%.

In terms of volume (measured in metric revenue tons), the following categories experienced increases from last year: containerized 14% and vehicles 12%, the following types of cargo decreased during fiscal year 2010: liquid bulk 2%, dry bulk 2%, steel 17%, and lumber 12%.

Operating expenses (excluding depreciation and amortization) increased \$146,098. Cargo facilities expense decreased \$397,379; Infrastructure Maintenance that includes bridges and freeways maintenance and expenses related to environmental control increased \$2,110,817 as a result of several major projects incurred during the year; Fire and Safety increased by \$1,877,622 due to higher city allocated charges; and general and administrative expenses decreased by \$3,481,868 primarily as a reduction in legal cost.

Depreciation expense is affected by acquisition/retirement of long-term assets, their useful lives, and the dates when such assets are placed in service. Depreciation expense for fiscal year 2010 was \$761,727 higher than that of 2009. The reason for this change is the increase in assets placed into service during 2010.

Intergovernmental transfer increased by \$11,863,785 in fiscal year 2010. The City of Long Beach requested, in addition to the historical 10% net income from the fiscal year 2009 operations, an additional transfer based on 10% net income of the fiscal year 2010 operations.

Investment expense, net of income increased by \$2,870,409 in fiscal year 2010. Investment income was lower due to lower earning rates resulting from the overall downturn in the economy in addition to lower average investment balance. Interest expense was lower because of the replacement of some of the bonds with debt with more favorable rates; the principal reductions in long-term debt balances due to the annual debt service, and the continuation of the capitalization of interest policy that allocates some of the interest expense to capital projects.

Oil operations net revenues increased to \$19,034,471 from \$923,137. The increase is due to the rise in oil prices and lower environmental remediation expenses during the 2010 fiscal year. The implementation of the Clean Air Action Plan (CAAP) and its related projects generated net income of \$3,552,857, which is a reduction from the \$13,323,357 net income generated during fiscal year 2009. The reduction is the result of lower revenue generated by the programs as a result of fewer noncompliant trucks paying fees to call at the Port.

Other income, net decreased as a result of the impact of a onetime settlement of \$6,008,679 received in fiscal year 2009 and the payment during fiscal year 2010 for the Aquarium of the Pacific Debt Service Assistance requested by the City Manager.

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(Unaudited)

Capital Assets and Debt Administration

Capital Assets

The Department's investments in capital assets, net of accumulated depreciation, as of September 30, 2011, 2010, and 2009 are as follows:

Capital Assets, Net

September 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Nondepreciable capital assets:			
Land	\$ 867,894,358	859,887,738	859,833,899
Construction in progress	489,936,597	373,062,744	180,699,622
Rights-of-way	<u>207,823,264</u>	<u>207,823,264</u>	<u>207,823,264</u>
Total nondepreciable capital assets	<u>1,565,654,219</u>	<u>1,440,773,746</u>	<u>1,248,356,785</u>
Depreciable capital assets (net):			
Structures and facilities	921,213,659	947,218,015	990,471,192
Furniture, fixtures, and equipment	<u>12,078,372</u>	<u>12,340,820</u>	<u>10,939,832</u>
Total depreciable capital assets (net)	<u>933,292,031</u>	<u>959,558,835</u>	<u>1,001,411,024</u>
Total capital assets, net	<u>\$ 2,498,946,250</u>	<u>2,400,332,581</u>	<u>2,249,767,809</u>

Analysis of Fiscal Year 2011

The Department's investments in capital assets include land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way. The net effect on the capital asset accounts was an increase of \$98,613,669 from 2010 primarily due to asset acquisitions offset by depreciation. Information regarding the Department's capital assets can be found in note 6 of the financial statements.

Analysis of Fiscal Year 2010

The Department's investments in capital assets include land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way. The net effect on the capital asset accounts was an increase of \$150,564,772 from 2009 primarily due to asset acquisitions offset by depreciation. Information regarding the Department's capital assets can be found in note 6 of the financial statements.

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Debt Administration

The following table summarizes the Department’s debt, originally incurred as long term, as of September 30, 2011, 2010, and 2009. For consistency purposes, this schedule includes the current portion.

Debt Originally Incurred as Long-Term Debt

September 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Bond debt (principal and net premiums)	\$ 723,242,147	768,287,610	802,927,145
Commercial paper outstanding	—	—	31,400,000
Total long-term debt	<u>\$ 723,242,147</u>	<u>768,287,610</u>	<u>834,327,145</u>

Analysis of Fiscal Year 2011

The Department’s total long-term debt decreased by \$45,045,463, or 6.0%. The decrease was primarily the result of scheduled principal reductions on the bond debt.

The underlying ratings assigned to the Department’s bond issues are as follows: Standard & Poor’s: AA, stable outlook; Moody’s Investors Services: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook. In May 2011, Fitch Ratings affirmed the AA with a stable outlook rating on the Port’s outstanding debt. The Fitch report states, “The Port’s terminal facilities are modern and contiguous, and have excellent access to intermodal transportation facilities, including on-dock rail, near-dock rail, and direct connections to the national rail network through the Alameda Corridor, and the Southern California system of freeways. The Port benefits from a strong financial profile, with a healthy liquidity position (fiscal 2010 liquidity of \$407 million, representing 1,518 days cash on hand): strong and stable revenue sources through long-term lease agreements with most tenants (minimum annual lease payments represent approximately 67% of total operation revenues at the port, 2.7 times (x) 2010 debt service obligations); and strong debt service coverage levels over 2.8x. Management at the port is experienced and has been proactive in addressing economic, financial, environmental, and community challenges...”

In July 2011, Standard & Poor’s Ratings Services affirmed it is AA with a stable outlook rating on the Port’s debt. The S&P report states “The long-term ratings reflect our view of the following credit strengths: Strong historical financial performance, with debt service coverage of 2.8x in fiscal 2010 (year ended September 30, 2010); Excellent liquidity of about \$478 million in unrestricted cash, representing 1,779 days’ operation funds on hand, based on fiscal 2010 operation expenses; substantial cargo-handling facilities and surface transportation connections, which support the port’s position as the second-busiest container port in the United States; and an experienced management team that implements conservative financial practices.”

The debt service coverage ratio for both fiscal years ended 2011 and 2010 was 3.4 and 2.8, respectively. The minimum rate required by the Department’s various bond indenture documents is 1.25. Additional information on the Department’s long-term debt can be found in notes 7 and 8, on pages 31 – 40 of this report.

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Analysis of Fiscal Year 2010

The Department's total long-term debt decreased by \$66,039,535, or 7.92%. The decrease was the result of scheduled principal reductions on the bond debt, the payoff of the 2000A revenue bonds; the issuance of the 2010A (new debt), and the issuance of the 2010B issued to partially redeem the 2002B, 2004A, and the 2005A bonds; and the retirement of the outstanding commercial paper.

In March 2010, 2010A Harbor Revenue Bonds were sold in the par amount of \$200,835,000 at a premium of \$17,616,844 for a total sale amount of \$218,451,844. The all-in-true interest cost (TIC) of the new 2010A Bonds was 3.7375%.

In April 2010, 2010B Harbor Revenue Refunding Bonds were sold in the par amount of \$158,085,000 at a premium of \$15,459,114 for a total sale amount of \$173,544,114. The refunding was the result of a tender solicitation of Bond Series 2002B, 2004A, and 2005A that was launched on March 24, 2010. After careful evaluation of the offers received by the April 27, 2010 deadline, and in consultation with the Department's financial advisor and underwriters, the Department accepted \$153,575,000 in par amount, which was about 51% of the bonds targeted for tender. The TIC of the new 2010B Bonds was 3.8939%.

In May 2010, the Department redeemed, with available moneys, the \$214,770,000 outstanding balance of the Series 2000A Bonds after making the scheduled principal payment of \$9,010,000 on that date. These bonds were callable on May 15, 2010, or thereafter and set to mature from May 15, 2011 through and including May 15, 2025. The redemption price was equal to 101% of the principal amount, plus accrued interest as of the date of the redemption.

The above-mentioned bond restructuring resulted in a present value savings of \$24.4 million net of all expense and cost of issuance.

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA, stable outlook; Moody's Investors Services: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook. During 2010, Fitch Ratings affirmed the AA rating on the Port's outstanding debt. The Fitch report states, "'AA' rating reflects the Port's dominant position as the nation's second largest container port; its geographic proximity to a very large population base with 50% of cargo destined for the greater Los Angeles metropolitan area; excellent intermodal access to rail networks and interstate highways; the Port's history of maintaining a healthy balance sheet and liquidity position, with 2,479 days cash on hand for fiscal 2009; prudent management of long-term lease agreements to stabilize operating revenues, mitigate market volatility, and limit downside financial risk; the Port's modern and contiguous facilities; and the presence of diverse terminal operators and shippers in operation at the Port."

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In March 2010, Moody's Investors Service affirmed its Aa2 rating on the Port's debt. The Moody's report states the Port's strengths include: "Strong market position as the second largest port in the U.S. by TEU (twenty-foot equivalent units) count, Port also benefits from a naturally deep harbor, 50-foot channel depth, state-of-the-art facilities, and good road access and intermodal connectivity through the Alameda Corridor and Intermodal Container Transport Facility. A robust local market contributes to the Port's competitive position, giving it a large, relatively stable demand base for imports and by generating 'backhaul' cargo to partially balance the large import operations. Track record of well-maintained and stable finances with debt service coverage averaging 3.1 times in recent years and ample operating cash reserves equivalent to over seven years of operations. Revenue stability is enhanced by long-term contracts with the Port's major tenants (that contribute 95% of revenues) that include minimum annual guarantees (MAGS) amounting to \$223 million in FY 2009. MAGS alone provided 1.5x debt service coverage (net of operating expenditures)."

The debt service coverage ratio for both fiscal years ended 2010 and 2009 was 2.8. The minimum rate required by the Department's various bond indenture documents is 1.25. Additional information on the Department's long-term debt can be found in notes 7 and 8, on pages 31-40 of this report.

Notes to Financial Statements

The notes to the Department's financial statements can be found on pages 16-58 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for people or entities interested in the financial aspects of the Port. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 925 Harbor Plaza, Long Beach, CA 90802.

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Statements of Net Assets

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Assets	2011	2010
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 549,519,996	407,713,313
Trade accounts receivable, net of allowance (note 3)	40,418,940	52,895,863
Interest receivable	201,374	199,926
Nonperforming investments	2,228,927	2,228,927
Due from other governmental agencies (note 3)	5,537,874	9,987,366
Prepaid – dredging services (note 4)	6,122,866	23,493,748
Inventories of supplies	501,906	575,601
Subtotal	604,531,883	497,094,744
Harbor Revenue Bond Funds and other funds restricted as to use (notes 2 and 8):		
Pooled cash and cash equivalents	99,058,000	82,516,235
Total current assets	703,589,883	579,610,979
Noncurrent assets:		
Capital assets (notes 6 and 10):		
Land:		
Purchased	448,936,517	440,929,897
Constructed	418,957,841	418,957,841
Total land	867,894,358	859,887,738
Structures and facilities	2,105,748,451	2,051,109,151
Less accumulated depreciation	(1,184,534,792)	(1,103,891,136)
Net structures and facilities	921,213,659	947,218,015
Furniture, fixtures, and equipment	36,415,502	33,049,108
Less accumulated depreciation	(24,337,130)	(20,708,288)
Net furniture, fixtures, and equipment	12,078,372	12,340,820
Construction in progress	489,936,597	373,062,744
Right-of-way (note 5)	207,823,264	207,823,264
Net capital assets	2,498,946,250	2,400,332,581
Other assets:		
Long-term receivables (note 3)	1,300,000	28,300,000
Oil facilities (net of accumulated depletion of \$0 and \$68,592,461, respectively)	—	12,543,393
Environmental mitigation credits (note 15)	44,278,068	44,278,068
Investment in joint venture (note 11)	6,167,925	9,167,925
Restricted pooled cash and cash equivalents (notes 2 and 8)	170,281,150	324,936,417
Restricted nonpooled cash and cash equivalents (note 2)	208,731	312,100
Restricted nonpooled investments (note 2)	63,449,448	63,328,523
Other noncurrent assets	3,865,938	822,150
Total other assets	289,551,260	483,688,576
Total noncurrent assets	2,788,497,510	2,884,021,157
Total assets	\$ 3,492,087,393	3,463,632,136

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Assets (continued)

September 30, 2011 and 2010

Liabilities	2011	2010
	<u> </u>	<u> </u>
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	\$ 67,165,464	43,610,792
Liability claims (note 12)	5,000,000	11,300,000
Deferred credits and unearned revenue	14,691,278	14,981,339
Due to City of Long Beach (note 14)	17,269,485	25,322,459
Current portion of environmental remediation (note 13)	<u> —</u>	<u>12,500,546</u>
Total current liabilities payable from current assets	<u>104,126,227</u>	<u>107,715,136</u>
Current liabilities payable from restricted assets:		
Current portion of bonds indebtedness (note 8)	44,815,000	42,175,000
Accrued interest – bonds	<u>13,197,375</u>	<u>14,624,357</u>
Total current liabilities payable from restricted assets	<u>58,012,375</u>	<u>56,799,357</u>
Total current liabilities	<u>162,138,602</u>	<u>164,514,493</u>
Long-term obligations net of current portion:		
Bonded indebtedness (note 8)	678,427,147	726,112,610
Oil wells abandonment (note 12)	<u> —</u>	<u>25,000,000</u>
Total noncurrent liabilities	<u>678,427,147</u>	<u>751,112,610</u>
Total liabilities	<u>840,565,749</u>	<u>915,627,103</u>
Net Assets (Note 16)		
Invested in capital assets, net of related debt	1,929,398,050	1,859,165,959
Restricted – nonrelated-party debt service contingency and matching contribution for federally funded projects (note 12)	116,452,755	147,301,520
Restricted – capital projects	44,278,068	44,278,068
Restricted – debt service	16,805,625	16,263,942
Unrestricted	<u>544,587,146</u>	<u>480,995,544</u>
Total net assets	<u>\$ 2,651,521,644</u>	<u>2,548,005,033</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Revenues, Expenses, and Changes in Fund Assets

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Port operating revenues (note 10):		
Berths and special facilities	\$ 328,986,839	303,995,596
Rental properties	14,137,546	14,278,731
Miscellaneous	2,265,321	3,364,658
Total Port operating revenues	<u>345,389,706</u>	<u>321,638,985</u>
Port operating expenses:		
Facility maintenance	2,964,027	5,303,306
Infrastructure maintenance	12,584,887	24,410,008
Fire and safety	27,866,007	25,914,297
Other indirect operating	7,256,656	6,416,651
General and administrative	30,751,029	35,982,062
Total Port operating expenses before depreciation and amortization	<u>81,422,606</u>	<u>98,026,324</u>
Depreciation and amortization	85,005,356	86,619,439
Total Port operating expenses	<u>166,427,962</u>	<u>184,645,763</u>
Income from Port operations	<u>178,961,744</u>	<u>136,993,222</u>
Nonoperating revenues (expenses):		
Investment income, net	4,993,947	7,930,634
Interest expense	(20,550,633)	(33,051,728)
Income from oil operations	1,525,061	19,034,471
Gain (loss) on disposition of capital assets	74,459	(2,033)
Income from equity in joint venture (note 11)	—	2,270,274
Clean Trucks Program (net)	(3,572,859)	3,552,857
Other income (expense)	(27,979,213)	(4,752,244)
Total nonoperating revenues (expenses)	<u>(45,509,238)</u>	<u>(5,017,769)</u>
Income before capital grants and transfers	133,452,506	131,975,453
Capital grants	7,443,539	18,663,468
Operating transfers to City (note 14)	(22,847,938)	(30,451,161)
Oil operations transfer to City (note 1(h))	12,468,504	—
Loss on long-term receivables from the Redevelopment Agency	(27,000,000)	—
Increase in net assets	103,516,611	120,187,760
Total net assets – beginning of year	<u>2,548,005,033</u>	<u>2,427,817,273</u>
Total net assets – end of year	\$ <u><u>2,651,521,644</u></u>	<u><u>2,548,005,033</u></u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Cash Flows

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 352,901,232	311,787,989
Cash paid to employees net of capitalized labor of \$7,691,389 and \$6,045,870 million in 2011 and 2010	(42,119,746)	(40,078,172)
Cash paid to suppliers	<u>(49,836,049)</u>	<u>(61,103,144)</u>
Net cash provided by operating activities	<u>260,945,437</u>	<u>210,606,673</u>
Cash flows from investing activities:		
Harbor oil operations	8,404,083	29,792,303
Interest received	4,982,266	9,286,006
Distribution from joint venture	<u>3,000,000</u>	<u>4,000,000</u>
Net cash provided by investing activities	<u>16,386,349</u>	<u>43,078,309</u>
Cash flows from noncapital/financing activities:		
ACTA shortfall advance	(2,950,000)	—
Clean Air Action Plan	(3,530,628)	139,830
Operating transfers to Tidelands and other funds	<u>(30,900,911)</u>	<u>(22,092,651)</u>
Net cash (used in) noncapital financing activities	<u>(37,381,539)</u>	<u>(21,952,821)</u>
Cash flows from capital and related financing activities:		
Grants (used) provided	390,264	(1,002,177)
Interest paid, net of capitalized interest	(37,885,884)	(41,188,776)
Payments for capital acquisitions	(156,764,274)	(214,875,278)
Principal payment-commercial paper	—	(31,400,000)
Principal payments-bond	(42,175,000)	(408,465,000)
Proceeds from bonds	—	373,825,465
Proceeds from sales of capital assets	<u>74,459</u>	<u>—</u>
Net cash (used) by capital and related financing activities	<u>(236,360,435)</u>	<u>(323,105,766)</u>
Net increase (decrease) in cash and cash equivalents	3,589,812	(91,373,605)
Cash and cash equivalents, October 1	<u>815,478,065</u>	<u>906,851,670</u>
Cash and cash equivalents, September 30	\$ <u>819,067,877</u>	\$ <u>815,478,065</u>
Unrestricted pooled cash and cash equivalents	\$ 549,519,996	407,713,313
Restricted pooled cash and cash equivalents	269,339,150	407,452,652
2000 bond reserve held by the City Treasurer	<u>208,731</u>	<u>312,100</u>
	\$ <u>819,067,877</u>	\$ <u>815,478,065</u>
Reconciliation of income from Port operations to net cash provided by operating activities:		
Income from Port operations	\$ 178,961,744	136,993,222
Adjustments to reconcile income from Port operations to net cash provided by operating activities:		
Depreciation and amortization	85,005,356	86,619,439
Bad debt expense	(2,226,747)	2,421,714
Decrease (Increase) in accounts receivable	7,801,587	(9,860,484)
Decrease in inventory	73,692	51,115
Decrease in accounts payable	(1,434,794)	(2,927,795)
(Decrease) Increase in deferred revenues	(290,061)	4,743,314
(Decrease) Increase in customer deposits	(13,901)	19,591
(Decrease) Increase in environmental remediation	(6,931,439)	(6,573,466)
(Decrease) Increase in due to other funds	—	(879,977)
Total adjustments	<u>81,983,693</u>	<u>73,613,451</u>
Net cash provided by operating activities	\$ <u>260,945,437</u>	\$ <u>210,606,673</u>
Supplemental schedule of noncash transactions:		
Change in accrued capital asset costs (purchased but unpaid at year-end)	\$ 18,060,835	1,980,860
Oil operation transfers to the City	12,468,504	—
Capitalized interest	13,060,601	7,057,873
Capitalized dredging expenses	—	10,727,780
Adjustment for reimbursement from the City	—	(951,491)
Amortization of Bond Premium	2,870,463	1,692,807
Other	—	(828,415)

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) *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 Port). The Department's 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 nonprofit public benefit corporation, has been inactive since 1995 and did not have any activity during the 2011 and 2010 fiscal years. If the Corporation would have any transactions with financial implications, they would be included in the Department's financial statements.

The Department, together with the Harbor Department of the City of Los Angeles, formed a joint venture to finance the construction of the Intermodal Container Transfer Facility (ICTF). The ICTF venture has been recorded as an investment under the equity method of accounting in the accompanying financial statements (see note 11).

In 1989, the cities of Los Angeles and Long Beach entered into a Joint Exercise of Powers Agreement to create the Alameda Corridor Transportation Authority (ACTA). This agreement was amended and restated in 1996. The purpose of ACTA was to acquire, construct, finance, and operate the Alameda Corridor. The Alameda Corridor consists of a 20-mile-long rail cargo expressway connecting the ports in San Pedro Bay to the transcontinental rail yards near downtown Los Angeles and it began operating in April 2004. ACTA prepares its own financial statements, and its transactions are not included as part of the Department's financial statements.

(b) *Basis of Accounting and Measurement Focus*

Disbursement of funds derived from the Department's operations is restricted to Harbor Trust Agreement purposes. The costs of providing port services are recovered entirely through leases, tariffs, and other charges assessed to Department's tenants. Consistent with U.S. generally accepted accounting principles for enterprise funds, the accounting policies of the Department conform to the accrual basis of accounting. The measurement focus of the accompanying financial statements is on the determination of changes in net assets and changes in financial position. Operating revenues and expenses are generated and incurred through cargo activities performed by port tenants; operating expenses include maintenance of facilities and infrastructure, security, and payments to other City departments for services provided to the Port. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as nonoperating income (expense). The Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2011 and 2010

The Department recognizes operating revenues when they are earned. Proceeds from federal or state grants are considered as nonoperating revenues, recognized as such when reimbursable expenses are incurred, and are identified as capital grants in the statements of revenues, expenses, and changes in fund net assets. Operating revenues or capital grant funds that have either been billed or received but not earned are identified as deferred credits and unearned revenue in the statements of net assets.

(c) *Pooled Cash and Cash Equivalents*

In accordance with City Charter requirements, the Department pools its available cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating City organizational units. For purposes of the statements of cash flows, the Department defines cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments and short-term, easily convertible to cash, nonpooled investments. Investment decisions are made by the City Treasurer and approved by an investment committee whose membership includes members of the Department's management ranks.

Investment income and gains/losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of the unit'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, 2011 and 2010, is stated at fair value (see note 2).

(d) *Nonpooled Cash and Cash Equivalents*

The Department considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents.

(e) *Investments*

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statements of revenues, expenses, and changes in fund net assets as investment income, net.

(f) *Inventories*

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

(g) *Capital Assets*

An asset is classified as a capital asset if it is a nonconsumable, tangible item, valued at a single amount greater than \$5,000, and with a useful life of more than one year. Capital assets are valued at historical costs. The historical cost of acquiring an asset includes the cost necessarily incurred to bring it to the condition and location necessary for its intended use. If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures is a part of the historical cost of acquiring the asset. Depreciation is determined using the straight-line method with no allowance for salvage values. Identifiable intangible assets are recognized as such if they are separable or when they arise from contractual or other legal right, regardless of whether those rights are transferable or separable from the entity, or from other rights and obligations. An intangible asset will be capitalized if the asset has a useful life of more than one year and an acquisition cost exceeding the

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2011 and 2010

capitalization threshold of \$100,000. Amortization of intangible assets will follow the policies set for tangible assets with the following additional considerations: there is no mandated maximum amortization period; intangible assets with indefinite useful life should not be amortized; and the carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset. When appropriate, provision for obsolescence is recognized by charging depreciation at an accelerated rate on specific assets. The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision, if appropriate, to assure that the cost of the respective assets will be written off over their economic lives. Estimated useful lives used in the computation of depreciation of capital assets are as follows:

Structures and facilities:	
Bridges and overpasses	50 – 75 years
Wharves and bulkheads	40 years
Transit sheds and buildings	20 – 50 years
State highway connections	10 – 50 years
Others	5 – 50 years
Intangible assets	3 – 30 years
Furniture, fixtures, and equipment	2 – 30 years

The Harbor Department incurred interest cost in fiscal year 2011 of \$33,611,085 of which \$13,060,452 was capitalized. The Harbor Department incurred interest cost in fiscal year 2010 of \$40,109,601 of which \$7,057,873 was capitalized.

(h) Oil Operation

Oil facilities are valued at historical cost plus estimated future oil facilities abandonment costs. Abandonment costs are separately recorded as a liability. Oil field depletion is determined using the number of units produced in the fiscal year divided by future unit production of the oil field. In 2011, as a result of the measure D ballot initiative, the Department transferred all oil assets and liabilities to the City's Tidelands Fund. The transfer resulted in a onetime gain of \$12,468,504, which was reported as nonoperating income.

(i) Investments in Joint Ventures

Investments in joint power authorities are accounted for using the equity method.

(j) 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.

(k) Pension Plan and Postretirement Benefits

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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2011 and 2010

burden rate reimbursable to the City's Employee Benefits Internal Service Fund. The Department participates in the City's Retired Employee Health Insurance Program. This program is a single-employer defined benefit healthcare plan.

(l) Allowance for Doubtful Accounts Receivable

The allowance for doubtful accounts (allowance) is estimated at a level to absorb expected accounts receivable losses. Allowance is established to reflect the amount of the Department's receivables that management estimates will be uncollectible. The allowance is set at the greater of: (1) one half of one percent (0.5%) of estimated annual operating revenues or (2) the sum of 75% of aged receivable amounts over 120 days delinquent, plus 50% of amounts over 90 days delinquent, plus 25% of amounts over 60 days delinquent, plus 10% of amounts over 30 days delinquent. In addition, management reviews the adequacy of the allowance on a monthly basis by reviewing the aging report and assesses whether any further adjustment is necessary.

To determine uncollectibility, the Department's Finance Division reviews all delinquent accounts in August of each year. Amounts deemed uncollectible are proposed to be written off. The balances of the allowance for uncollectible accounts receivable for the fiscal years 2011 and 2010 were \$1,726,948 and \$3,949,707, respectively (see note 3).

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

(n) Reclassifications

Certain amounts reported in fiscal year 2010 have been reclassified to conform to the fiscal year 2011 presentation. Such reclassifications have no effect on the previously reported change in net assets.

(o) Net Assets

The Department has adopted a policy of generally utilizing restricted funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

The Department's net assets are classified into the following net asset categories:

Invested in Capital Assets, Net of Related Debt – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted – Expendable – Net assets subject to externally imposed conditions or constraints that can be fulfilled by the actions of the Department or by the passage of time. The restrictions are externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

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Unrestricted – All other categories of net assets. Additionally, unrestricted net assets may be designated for use by management of the Department. These requirements limit the area of operations for which expenditures of net assets may be made and require that unrestricted net assets be designated to support future operations in these areas. The future funding commitments of the Department related to the Clean Air Action Plan (CAAP) are a primary example of unrestricted net assets with designated uses (see note 12).

(2) Cash, Cash Equivalents, and Other Investments

The Department’s cash and cash equivalents and investments as of September 30, 2011 and 2010 are classified in the accompanying statements of net assets as follows:

	<u>2011</u>	<u>2010</u>
Pooled cash and cash equivalents	\$ 549,519,996	407,713,313
Pooled cash and cash equivalents, restricted	<u>269,339,150</u>	<u>407,452,652</u>
Total pooled cash and cash equivalents	<u>818,859,146</u>	<u>815,165,965</u>
Bond reserves held by fiscal agents:		
Nonpooled cash and cash equivalents	208,731	312,100
Nonpooled investments	<u>63,449,448</u>	<u>63,328,523</u>
Total bond reserves held by fiscal agents	<u>63,658,179</u>	<u>63,640,623</u>
Total pooled cash and cash equivalents and bond reserves held by fiscal agents	<u>\$ 882,517,325</u>	<u>878,806,588</u>

The majority of the Department’s cash and investments, including restricted cash and investments, are pooled with other City funds and maintained by the City Treasurer. The City Charter requires the Department to participate in the City Treasurer’s pool. The Department’s portion of the City’s total pooled cash and cash equivalents amount as of September 30, 2011 and 2010 was \$818,859,146 or 46.67% and \$815,165,965 or 50.21%, respectively. The Department’s bond reserves held by fiscal agents, as of September 30, 2011, were \$63,658,179; for the 2004, 2005, 2010A, and 2010B bonds. As of September 30, 2010 bond reserves were \$63,640,623 and pertained to the 2004, 2005, 2010A and 2010B. 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 certificate of deposits, the State Treasurer’s Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified management companies.

It is the policy of the City Treasurer to invest funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and its Departments and to conform to all state and local statutes governing the investment of public funds, using the “prudent person” standard for managing the overall portfolio. The primary objective of the policy is safety of principal, liquidity, yield, and maintaining the public trust. Individual departmental cash deposits and investments within this pool cannot be specifically identified among the participating units. Interest

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2011 and 2010

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.

(a) Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustee, which are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
Bonds issued by the City	5 years *	30%	None
U.S. Treasury notes, bonds, or bills	5 years *	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years *	30%	None
Local agency bonds	5 years *	30	None
Federal agency securities	5 years *	40	None
Banker's acceptances	180 days	40	30%
Commercial paper	270 days	25	10
Negotiable certificates of deposit	5 years *	30	10
Time certificates of deposit	5 years *	100	10
Repurchase agreements	90 days	100	None
Reverse repurchase agreements	92 days	20	None
Securities lending program	92 days	20	None
Medium-term notes	5 years *	30	10%
Money market funds	N/A	20	10
Local agency investment fund (LAIF)	N/A	None	\$40 million per account
Asset-backed securities	5 years	20%	None
Mortgage-backed securities	5 years	20	None

* Maximum maturity of 5 years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least 3 months prior to purchase.

(b) Investments Authorized by Debt Agreement

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2011 and 2010

interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing evenly over time as necessary to provide cash flow and liquidity need for operations. The following schedule indicates the interest rate risk of the City's investments, which includes the amount the fund has invested with the City as of September 30 (in thousands):

Investment type	2011		2010	
	Fair value	Weighted average maturity (in years)	Fair value	Weighted average maturity (in years)
Cash and investments in City pool:				
Interdepartment loan (Health SAVERS)	\$ 2,111	7.564	\$ 2,383	8.600
U.S. Treasury notes	224,058	1.020	333,400	0.510
Federal agency securities	1,199,476	1.090	1,136,278	1.040
Money Market Accounts	704	0.003	137	0.003
LAIF	150,096	0.003	50,116	0.003
Government managed rate account	—		219	0.003
Subtotal	1,576,445		1,522,533	
Cash and deposits	192,012		113,126	
Outstanding checks	(14,303)		(12,168)	
Total	\$ 1,754,154		\$ 1,623,491	
Nonperforming short-term investment	\$ 3,962		\$ 3,962	

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2011 and 2010

The following schedule indicates the interest rate risk of the Department's cash held by fiscal agent:

	2011		2010	
	Fair value (000's)	Weighted average maturity (in years)	Fair value (000's)	Weighted average maturity (in years)
Nonpooled investments – Fiscal Agent:				
2004 Reserve:				
Federal Agency Securities			—	
AIG Matched Funding	\$ 11,373	6.62	\$ 11,373	7.62
	11,373		11,373	
2005 Reserve:				
Federal Agency Securities	5,184	2.29	3,130	2.00
U.S. Treasury Notes	11,812	1.59	13,826	1.54
	16,996		16,956	
2010A Reserve:				
Federal Agency Securities	19,216	2.68	19,200	2.90
2010B Reserve:				
Federal Agency Securities	15,864	2.68	15,800	2.90
Total	\$ 63,449		\$ 63,329	

(d) Investments with Fair Values Highly Sensitive to Interest Rate Risk

The City had no investments with values that were highly sensitive to interest rate risk as of September 30, 2011 and 2010. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

(e) Risks and Uncertainties

The City may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

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Notes to Financial Statements

September 30, 2011 and 2010

The City invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to change in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

(f) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum rating requirements for commercial paper, asset-backed securities, and medium-term notes is an A rating. Mortgage-backed security issues must have a minimum AAA rating. State warrants, state treasury notes, or bonds of the State are to be rated at a minimum of A1/Sp-1 for short-term investments and Aa/AA for long-term investments.

Presented on the following page is the minimum rating required by the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

City's pooled investments investment type	Minimum legal rating	Rating as of year-end 2011				
		Not required to be rated	AAA	AA+	Unrated	
Cash and investments in city pool:						
Interdepartment loan (Health SAVERS)	N/A	\$ 2,111	2,111	—	—	—
U.S. Treasury notes	N/A	224,058	224,058	—	—	—
Federal agency securities	N/A	1,199,476	—	—	1,199,476	—
Money market account	N/A	704	—	704	—	—
LAIF	N/A	150,096	—	—	—	150,096
Subtotal		1,576,445	226,169	704	1,199,476	150,096
Cash and deposits		192,012	—	—	—	192,012
Outstanding checks		(14,303)	—	—	—	(14,303)
Total		\$ 1,754,154	226,169	704	1,199,476	327,805
Nonperforming short-term investment	N/A	\$ 3,962	—	—	—	3,962

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City's pooled investments investment type	Minimum legal rating	Rating as of year-end 2010						
		Not required to be rated	A-1+	A-1	AAA	AA-	Unrated	
Cash and investments in city pool:								
Interdepartment loan (Health SAVERS)	N/A	\$ 2,383	2,383	—	—	—	—	—
U.S. Treasury notes	N/A	333,400	333,400	—	—	—	—	—
Federal agency securities	N/A	1,136,278	—	—	—	1,136,278	—	—
Money market account	N/A	137	—	—	—	137	—	—
LAIF	N/A	50,116	50,116	—	—	—	—	—
Government-managed rate account	N/A	219	219	—	—	—	—	—
Subtotal		1,522,533	386,118	—	—	1,136,415	—	—
Cash and deposits		113,126	—	—	—	—	—	113,126
Outstanding checks		(12,168)	—	—	—	—	—	(12,168)
Total		\$ 1,623,491	386,118	—	—	1,136,415	—	100,958
Nonperforming short-term investment		\$ 3,962	—	—	—	—	—	3,962

(g) Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represents 5% or more of the City's total pooled investments are as follows (in thousands):

Issuer	Investment type	Reported amount	
		2011	2010
Federal Farm Credit Bank	Federal agency securities	\$ 241,381	195,234
Federal Home Loan Bank	Federal agency securities	365,100	329,561
Federal Home Loan Corporation	Federal agency securities	292,853	318,718
Federal National Mortgage Association	Federal agency securities	300,142	292,765
U.S. Treasury	U.S. Treasury notes and bonds	224,058	333,400
Local Agency Investment Fund	State pool investment	150,096	50,116

(h) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under the state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank except for one City-issued bond and investment in the State of California's Local Agency Investment Fund (LAIF).

As of September 30, 2011, the City reported deposits of \$192,012,000 less \$14,303,000 for checks outstanding. As of September 30, 2010, the City reported deposits of \$113,126,000 less \$12,168,000 for checks outstanding.

(i) *Investment in State Investment Pool*

The City is a voluntary participant in the LAIF that is regulated by California Government Code Section 16429 under the oversight of the treasurer of the State of California. The fair value of the City's investment in this pool is reported in the City's financial statements at amounts based upon the City's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized-cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

(j) *Reverse Repurchase Agreements*

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2011 and 2010.

(k) *Securities Lending*

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2011 and 2010. Accordingly, in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, no assets or liabilities have been recorded in the accompanying financial statements. However, from time to time, the City engages in limited securities lending activities. These activities are governed by formal agreement with the City's contract bank. This agreement limits the nature and amount of the transactions and provides for full collateralization of each transaction.

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(3) Accounts Receivable and Other Receivables

Accounts receivable as of September 30 included the following:

	<u>2011</u>	<u>2010</u>
Trade accounts receivable	\$ 42,145,888	56,845,570
Less allowance for doubtful accounts	(1,726,948)	(3,949,707)
Accounts receivable, net	<u>\$ 40,418,940</u>	<u>52,895,863</u>

Other receivables as of September 30 included the following:

	<u>2011</u>	<u>2010</u>
Due from other governmental agencies:		
Current:		
Federal and state grants	\$ 5,037,874	9,987,366
Federal Grants Port Security – 2002	500,000	—
Total current	<u>5,537,874</u>	<u>9,987,366</u>
Long-term:		
Department of gas and oil	—	1,300,000
Tidelands – Beaches and Waterways	1,300,000	—
Redevelopment Agency – Convention Center	—	27,000,000
Total long-term	<u>1,300,000</u>	<u>28,300,000</u>
Total due from other governmental agencies	<u>\$ 6,837,874</u>	<u>38,287,366</u>

(a) Redevelopment Agency – Convention Center

In 1993, the Department advanced \$30,000,000 to the Long Beach Redevelopment Agency (the Agency) to fund construction costs related to the Long Beach Convention Center expansion project. Such advance was part of an amended agreement with the Agency to fund \$90,000,000 of the Long Beach Convention Center project and was to be repaid from revenue sources arising from future City transient occupancy tax revenues, payable in equal amounts over 17 years beginning October 1, 1997.

The agreement has been amended on several occasions. Most recently, during 2009, the Board of Harbor Commissioners approved to replace the existing \$27,435,000 balance due from the Agency with another loan payable by the Agency. The new loan agreement stipulated that on October 1, 2009, \$435,000 of the Agency's debt, plus any interest owed on the Agency's debt shall be forgiven. The remaining balance of \$27,000,000 was converted to a new (RDA – 2009 West Long Beach Industrial Project Area) loan upon expenditure by the Harbor Department on government-purpose projects. The loan balance of \$27,000,000 has been written off as of September 30, 2011 as the result of Assembly Bill 1X 26 which is discussed below in item (c).

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(b) *Redevelopment Agency – Aquarium*

During 2009, the Board of Harbor Commissioners approved the Long Beach City Manager's request for assistance with \$8.1 million of the Aquarium debt service. An agreement was entered into between the Agency and the Board of Harbor Commissioners whereby repayment of the \$8.1 million will be payable from "Middle Harbor Additional Tax Increment" received by the Agency. The reimbursement from the Redevelopment Agency is contingent upon the Department developing port terminal and related facilities referred to as "the Middle Harbor Project," which incorporates Piers D, E, and F and certain infill areas that reside within the North Long Beach Redevelopment Project Area. \$2 million was recognized and paid as a transfer out to the City in fiscal year 2009. The remaining amount of \$6.1 million was recognized and paid in fiscal year 2010.

During 2010, the Board approved a request from the City Manager for a similar debt service assistance for fiscal year 2011 in the amount of \$5.6 million. This amount will be reimbursed by the RDA in a similar manner as the amounts paid in 2009 and 2010. This brings the total amount that will be due from the RDA North Long Beach project area to \$13.7 million after the Harbor Department incurs expenditures on government-purpose projects in that amount. Eligible expenditures of \$262,058 were incurred in the project area during 2011.

(c) *California Supreme Court Decision on Redevelopment Agencies*

On December 29, 2011, the California Supreme Court (Court) upheld legislation that will result in the termination of redevelopment agencies statewide. Per the Court's decision, the Agency ceased to exist as of February 1, 2012. Consistent with the legislation, the City of Long Beach, California (the City) will become the successor agency for the Agency. The legislation guarantees tax funding for all Agency external debt, but does not provide for the repayment of most loans between the Department and the Agency, as a result, the Department has written off all amounts receivable from the Agency as of September 30, 2011.

(4) Long Beach Harbor Dredging

The Harbor Department is undertaking an approximately \$54 million dredging project to improve navigation in harbor waters. The project began in 2010. Although there are four separate locations involved in the dredging project, the primary focus is deepening the inner turning basin south of the BP oil terminal to 76 feet, the same depth as the main channel. The project will be funded with approximately \$5.9 million of federal stimulus moneys and approximately \$48.1 million of revenues of the Harbor Department. During 2009, the Harbor Department advanced \$43.5 million to the Army Corps of Engineers as prepayment for the dredging costs of which \$3.6 million was subsequently refunded back to the Harbor Department; \$16.4 million of the advanced money was used during fiscal year 2010, \$17.4 was used during fiscal year 2011, thus leaving a remaining balance of \$6.1 million, which is recorded as a prepaid expenses at September 30, 2011.

(5) Alameda Corridor Right-of-Way Purchase

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively, the Ports) executed the purchase of the rights-of-way needed for the development of the Alameda Corridor Project (the Project), which is a comprehensive transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three

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railroad companies then serving the Ports: Union Pacific Railroad Company (Union Pacific), Southern Pacific Railroad Company (Southern Pacific), and Atchison, Topeka and Santa Fe Railroad Companies (Atchison, Topeka and Santa Fe). After the purchase, Southern Pacific merged into Union Pacific and Atchison, Topeka and Santa Fe merged with Burlington Northern to form the Burlington Northern Santa Fe.

The total purchase comprised 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, 2011 and 2010, total costs to the Department related to the rights-of-way purchase amounted to \$207.8 million for both years.

Construction of the Project began in 1997 and it was completed in April 2002. Funding for the Project came from federal, state, and local sources, and from issuance of debt.

Repayment to the Ports for their investments in the right-of-way and for any advances provided to the Project will occur only after the Project has generated revenues sufficient to retire all debt and to fund a maintenance reserve (see note 12).

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Notes to Financial Statements

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(6) Capital Assets

Description	Balance, October 1, 2010	Additions	Disposals	Transfers	Balance, September 30, 2011
Nondepreciable capital assets:					
Purchased land	\$ 440,929,897	8,006,620	—	—	448,936,517
Constructed land	418,957,841	—	—	—	418,957,841
Construction in progress	373,062,744	174,332,922	—	(57,459,069)	489,936,597
Rights-of-way (note 5)	207,823,264	—	—	—	207,823,264
Subtotal	1,440,773,746	182,339,542	—	(57,459,069)	1,565,654,219
Depreciable capital assets:					
Structures and facilities	2,051,109,151	—	(615)	54,639,915	2,105,748,451
Furniture, fixtures, and equipment	33,049,108	1,371,669	(824,429)	2,819,154	36,415,502
Subtotal	2,084,158,259	1,371,669	(825,044)	57,459,069	2,142,163,953
Total capital assets	\$ 3,524,932,005	183,711,211	(825,044)	—	3,707,818,172
Description	Balance, October 1, 2009	Additions	Disposals	Transfers	Balance, September 30, 2010
Nondepreciable capital assets:					
Purchased land	\$ 440,901,947	—	—	27,950	440,929,897
Constructed land	418,931,952	—	—	25,889	418,957,841
Construction in progress	180,699,622	236,567,890	—	(44,204,768)	373,062,744
Rights-of-way (note 5)	207,823,264	—	—	—	207,823,264
Subtotal	1,248,356,785	236,567,890	—	(44,150,929)	1,440,773,746
Depreciable capital assets:					
Structures and facilities	2,011,291,995	—	(2,599)	39,819,755	2,051,109,151
Furniture, fixtures, and equipment	28,193,907	1,029,278	(505,251)	4,331,174	33,049,108
Subtotal	2,039,485,902	1,029,278	(507,850)	44,150,929	2,084,158,259
Total capital assets	\$ 3,287,842,687	237,597,168	(507,850)	—	3,524,932,005

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Notes to Financial Statements

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Description	Balance, October 1, 2010	Additions	Disposals/ Transfers	Balance, September 30, 2011
Structures and facilities	\$ 1,103,891,136	80,643,656	—	1,184,534,792
Furniture, fixtures, and equipment	<u>20,708,288</u>	<u>4,374,198</u>	<u>(745,356)</u>	<u>24,337,130</u>
Total accumulated depreciation	\$ <u>1,124,599,424</u>	<u>85,017,854</u>	<u>(745,356)</u>	<u>1,208,871,922</u>
Net capital assets	\$ <u>2,400,332,581</u>	<u>98,693,357</u>	<u>(79,688)</u>	<u>2,498,946,250</u>
Description	Balance, October 1, 2009	Additions	Disposals/ Transfers	Balance, September 30, 2010
Structures and facilities	\$ 1,020,820,803	83,070,333	—	1,103,891,136
Furniture, fixtures, and equipment	<u>17,254,075</u>	<u>3,549,106</u>	<u>(94,893)</u>	<u>20,708,288</u>
Total accumulated depreciation	\$ <u>1,038,074,878</u>	<u>86,619,439</u>	<u>(94,893)</u>	<u>1,124,599,424</u>
Net capital assets	\$ <u>2,249,767,809</u>	<u>150,977,440</u>	<u>(412,668)</u>	<u>2,400,332,581</u>

(7) Commercial Paper Notes

In 1994, the Board of Harbor Commissioners authorized the issuance of up to \$383,500,000 in commercial paper notes of Series A, B, and C, and the Department issued \$148,000,000 of Series A notes to pay for acquisition costs of property, facilities, and oil rights in the North Harbor District. The notes are designated as follows:

- Series A – Subject to Internal Revenue Service Code Alternative Minimum Tax (AMT)
- Series B – Not subject to AMT
- Series C – Taxable

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The Department's gross revenues secured the notes. The obligation to pay the principal portion of outstanding notes was further supported by a \$175,000,000 revolving line of credit that was terminated by the Department in 2010. The commercial paper and related interest obligations were fully paid during the 2010 fiscal year.

Commercial Paper – Principal Only – Rollforward Schedule

Description	Balance, October 1, 2009	Additions	Reductions	Balance, September 30, 2010
Series A: maturity dates January 10, 2009 interest rate: 1.05	\$ 31,400,000	—	(31,400,000)	—

(8) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 was as follows:

	2011	2010
1998 Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2019 at 6.0% interest	\$ 109,250,000	119,660,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>1,239,025</u>	<u>1,401,520</u>
Total 1998 Harbor Revenue Refunding Bonds	<u>110,489,025</u>	<u>121,061,520</u>
2002B Harbor Revenue Bonds (Fixed rate portion):		
Maturing 2011 through 2024 at 5.1% to 5.5% interest	53,255,000	57,815,000
Plus unamortized premium	<u>2,407,089</u>	<u>2,561,142</u>
Total 2002B Harbor Revenue Bonds	<u>55,662,089</u>	<u>60,376,142</u>
2004A & B Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2018 at 4.0% to 5.0% interest	53,785,000	61,500,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>2,025,902</u>	<u>2,465,520</u>
Total 2004A & B Harbor Revenue Refunding Bonds	<u>55,810,902</u>	<u>63,965,520</u>

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	<u>2011</u>	<u>2010</u>
2005A & B Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2025 at 5.0% interest	\$ 127,730,000	137,765,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>3,515,953</u>	<u>3,855,775</u>
Total 2005A & B Harbor Revenue Refunding Bonds	<u>131,245,953</u>	<u>141,620,775</u>
2010A Harbor Revenue Bonds:		
Maturing 2011 through 2025 at 0.4 to 5.0% interest	191,510,000	200,835,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>14,301,213</u>	<u>15,561,019</u>
Total 2010A Harbor Revenue Refunding Bonds	<u>205,811,213</u>	<u>216,396,019</u>
2010B Harbor Revenue Refunding Bonds:		
Maturing 2011 through 2027 at 3.0% to 5.0% interest	157,955,000	158,085,000
Plus unamortized premium, net of refunding charges and cost of issuance	<u>6,267,965</u>	<u>6,782,634</u>
Total 2010B Harbor Revenue Refunding Bonds	<u>164,222,965</u>	<u>164,867,634</u>
Principal	693,485,000	735,660,000
Net premium	29,757,147	32,627,610
Less current portion	<u>(44,815,000)</u>	<u>(42,175,000)</u>
Net long-term bonded indebtedness	\$ <u><u>678,427,147</u></u>	<u><u>726,112,610</u></u>

<u>Description</u>	<u>Balance, October 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2011</u>	<u>Amounts due within one year</u>
1998	\$ 119,660,000	—	10,410,000	109,250,000	11,035,000
2002 B	57,815,000	—	4,560,000	53,255,000	4,800,000
2004 A & B	61,500,000	—	7,715,000	53,785,000	8,100,000
2005 A & B	137,765,000	—	10,035,000	127,730,000	10,530,000
2010A	200,835,000	—	9,325,000	191,510,000	10,155,000
2010B	<u>158,085,000</u>	<u>—</u>	<u>130,000</u>	<u>157,955,000</u>	<u>195,000</u>
	\$ <u><u>735,660,000</u></u>	<u><u>—</u></u>	<u><u>42,175,000</u></u>	<u><u>693,485,000</u></u>	<u><u>44,815,000</u></u>

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Description	Balance, October 1, 2009	Additions	Reductions	Balance, September 30, 2010	Amounts due within one year
1998	\$ 129,485,000	—	9,825,000	119,660,000	10,410,000
2000 A	223,780,000	—	223,780,000	—	—
2002 B	125,220,000	—	67,405,000	57,815,000	4,560,000
2004 A & B	80,985,000	—	19,485,000	61,500,000	7,715,000
2005 A & B	225,735,000	—	87,970,000	137,765,000	10,035,000
2010 A	—	200,835,000	—	200,835,000	9,325,000
2010 B	—	158,085,000	—	158,085,000	130,000
	<u>\$ 785,205,000</u>	<u>358,920,000</u>	<u>408,465,000</u>	<u>735,660,000</u>	<u>42,175,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending September 30:			
2012	\$ 44,815,000	35,193,002	80,008,002
2013	46,965,000	33,026,202	79,991,202
2014	49,115,000	30,623,278	79,738,278
2015	51,920,000	28,083,402	80,003,402
2016	54,610,000	25,394,302	80,004,302
2017 – 2021	246,300,000	84,366,564	330,666,564
2022 – 2026	188,980,000	27,591,210	216,571,210
2027 – 2028	10,780,000	486,500	11,266,500
	<u>\$ 693,485,000</u>	<u>264,764,460</u>	<u>958,249,460</u>

Details of each outstanding debt issue are as follows:

(a) 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 \$206,330,000 were issued to current refund all of the City's Harbor Revenue Bonds Series 1989A (the 1989 Bonds). The 1989 Bonds were defeased and the liability for those bonds was removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2011 and 2010. Serial bonds aggregating to \$109,250,000 are outstanding and will mature on May 15 of each year from 2012 to 2019 in amounts ranging from \$11,035,000 to \$16,600,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 6.0%. The 1998 Bonds are not subject to optional or mandatory redemption before their respective maturity dates.

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

	<u>2011</u>	<u>2010</u>
Service account (amount reserved to meet current debt service requirements)	\$ 6,596,250	6,596,100
Reserve account (amount reserved for maximum annual debt service requirements)	<u>17,596,976</u>	<u>17,596,976</u>
	<u>\$ 24,193,226</u>	<u>24,193,076</u>

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$8,569,501. 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 new bonds.

(b) 2002B Harbor Revenue Bonds

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

Serial bonds aggregating to \$45,465,000 will mature on May 15 of each year from 2012 to 2023 in amounts ranging from \$3,415,000 to \$8,460,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.10% to 5.50%. Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity; bonds maturing on or after May 2015 will be subject to call and redemption prior to maturity, at the option of the Board of Harbor Commissioners (the Board), as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2002B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Term bonds amounting to \$7,790,000 will mature on May 15, of each year from 2024 to 2027 in amounts ranging from \$1,800,000 to \$2,100,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 5.18%. Term bonds will be subject to call and redemption prior to maturity and redeemed at a redemption price equal to the par amount thereof from Mandatory Sinking Account Payments in amounts from \$1,800,000 to \$2,100,000 from 2024 to 2027, respectively, for the term bonds scheduled to mature on May 15, 2027.

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On May 13, 2010, the Board issued the 2010B Revenue Refunding Bonds and used a portion of the proceeds to redeem \$63,060,000 of the outstanding 2002B bonds. The redeemed bonds due dates and amounts were as follows:

<u>Due date</u>	<u>Amount redeemed</u>
Serial bonds:	
May 15, 2016	\$ 2,500,000
May 15, 2019	6,915,000
May 15, 2020	7,280,000
May 15, 2021	7,660,000
May 15, 2022	<u>8,050,000</u>
	<u>32,405,000</u>
Term bonds:	
May 15, 2024	7,095,000
May 15, 2025	7,460,000
May 15, 2026	7,845,000
May 15, 2027	<u>8,255,000</u>
	<u>30,655,000</u>
Total redemption	\$ <u><u>63,060,000</u></u>

The redemption resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$2,134,526. 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 new bonds.

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

	<u>2011</u>	<u>2010</u>
Service account (amount reserved for maximum annual debt service requirements)	\$ 2,855,682	2,855,457

(c) 2004 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2004A & B (the 2004 Bonds) are secured by the Department's gross revenues. The 2004 Bonds, dated March 10, 2004, amounting to \$113,410,000 were issued to current refund and to defease all of the City's Harbor Revenue Bonds Series 1993, to pay the premium for the Bond Insurance Policy, to fund the Series 2004 Reserve Fund, and to finance the costs of issuance of the Series 2004 Bonds. The 1993 Bonds are defeased and the liability for those bonds has been removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2011 and 2010.

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Serial bonds aggregating to \$53,785,000 are outstanding and set to mature on May 15 of each year from 2012 to 2018 in amounts ranging from \$500,000 to \$10,825,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 4.0% to 5.0%. The Series 2004 Bonds maturing on or before May 15, 2014 are not subject to call and redemption prior to maturity.

The Series 2004 Bonds maturing on or after May 15, 2015 will be subject to call and redemption prior to maturity, at the option of the Board of Harbor Commissioner, as a whole or in part on any date, on or after May 15, 2014, at a redemption price equal to the principal amount of the Series 2004 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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

On May 13, 2010, the Board issued the 2010B Revenue Refunding Bonds and used a portion of the proceeds to redeem \$12,105,000 of the outstanding 2004A bonds. The redeemed bonds due dates and amounts were as follows:

<u>Due date</u>	<u>Amount redeemed</u>
Serial bonds:	
May 15, 2013	\$ 8,005,000
May 15, 2014	2,000,000
May 15, 2015	<u>2,100,000</u>
Total redemption	<u>\$ 12,105,000</u>

The redemption resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$721,753. 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 new bonds.

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

	<u>2011</u>	<u>2010</u>
Service account (amount reserved to meet current debt service requirements)	\$ 4,036,519	4,036,800
Reserve account (amount reserved for maximum annual debt service requirements)	<u>11,372,550</u>	<u>11,372,550</u>
	<u>\$ 15,409,069</u>	<u>15,409,350</u>

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(d) 2005 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2005A & B (the 2005 Bonds) are secured by the Department's gross revenues. The 2005 Bonds, dated March 23, 2005, amounting to \$257,975,000 were issued to current refund and to defease all of the City's Harbor Revenue Bonds Series 1995 (1995 Bonds), to pay the premium for the Bond Insurance Policies, to fund a repayment reserve for the Series 2005 Bonds, and to finance the costs of issuance of the Series 2005 Bonds. The 1995 Bonds are defeased and the liability for those bonds was removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2011 and 2010.

Serial bonds aggregating to \$102,735,000 are outstanding and are set to mature on May 15 of each year from 2012 to 2025 in amounts ranging from \$3,330,000 to \$16,815,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%. Serial bonds aggregating to \$24,995,000 are outstanding and will mature on May 15, 2017 and 2018 with amounts due of \$13,430,000 and \$11,565,000, respectively, with interest payable semiannually on May 15 and November 15 at 5.0% coupon rate.

The Series 2005 Bonds maturing on or before May 15, 2015 are not subject to call and redemption prior to maturity. The Series 2005 Bonds maturing on or after May 15, 2016 are subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2015, at a redemption price equal to 100% of the principal amount of the Series 2005 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

On May 13, 2010, the Board issued the 2010B Revenue Refunding Bonds and used a portion of the proceeds to redeem \$78,410,000 of the outstanding 2005A bonds. The redeemed bonds due dates and amounts were as follows:

<u>Due date</u>	<u>Amount redeemed</u>
Serial bonds:	
May 15, 2013	\$ 11,055,000
May 15, 2016	3,835,000
May 15, 2018	2,535,000
May 15, 2019	8,590,000
May 15, 2020	8,695,000
May 15, 2021	11,480,000
May 15, 2022	2,735,000
May 15, 2023	1,170,000
May 15, 2024	11,860,000
May 15, 2025	16,455,000
Total redemption	\$ <u>78,410,000</u>

The redemption resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$3,962,756. This difference, reported in the accompanying financial statements as a

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deduction from bonds payable, is amortized using the straight-line method over the life of the new bonds.

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

	<u>2011</u>	<u>2010</u>
Service account (amount reserved to meet current debt service requirements)	\$ 6,343,688	6,346,219
Reserve account (amount reserved for maximum annual debt service requirements)	<u>17,165,245</u>	<u>17,106,288</u>
	<u>\$ 23,508,933</u>	<u>23,452,507</u>

(e) 2010A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2010A (the 2010A Bonds) are secured by the Department's gross revenues. The 2010A Bonds, dated March 31, 2010, amounting to \$200,835,000 were issued to finance certain capital improvements at the Port, to fund a reserve fund for the Series 2010A Bonds, and to pay the costs of issuing the Series 2010A Bonds.

Serial bonds aggregating to \$191,510,000 will mature on May 15 of each year from 2012 to 2025 in amounts ranging from \$10,155,000 to \$18,285,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging 1.0% to 5.0%.

The Series 2010A Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The Series 2010A Bonds maturing on or after May 15, 2021 are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2020, at a redemption price equal to 100% of the principal amount of the Series 2010A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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

	<u>2011</u>	<u>2010</u>
Bond construction fund	\$ 59,241,419	165,620,856
Service account (amount reserved to meet current debt service requirements)	7,205,869	8,063,420
Reserve account (amount reserved for maximum annual debt service requirements)	<u>19,246,704</u>	<u>19,267,818</u>
	<u>\$ 85,693,992</u>	<u>192,952,094</u>

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(f) 2010B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2010B (the 2010B Bonds) are secured by the Department's gross revenues. The 2010B Bonds, dated April 29, 2010, amounting to \$158,085,000 were issued to purchase \$63,060,000 aggregate principal amount of the City's Harbor Revenue Bonds, Series 2002B, \$12,105,000 aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2004A, and \$78,410,000 aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2005A, from the holders thereof; to fund a reserve fund for the Series 2010B Bonds; and to pay the costs of issuing the Series 2010B Bonds.

Serial bonds aggregating to \$157,955,000 will mature on May 15 of each year from 2012 to 2027 in amounts ranging from \$195,000 to \$24,000,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging 3.0% to 5%.

The Series 2010B Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The Series 2010B Bonds maturing on or after May 15, 2021 are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2020, at a redemption price equal to 100% of the principal amount of the Series 2010B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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

	<u>2011</u>	<u>2010</u>
Service account (amount reserved to meet current debt service requirements)	\$ 2,964,994	2,990,303
Reserve account (amount reserved for maximum annual debt service requirements)	<u>15,873,680</u>	<u>15,893,967</u>
	<u>\$ 18,838,674</u>	<u>18,884,270</u>

(9) Retirement Programs

(a) Pension Plan

The Department participates on a cost-sharing basis with the City in CalPERS, a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California. The system also provides death and disability benefits.

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 Department paid \$6,074,150, \$5,300,819, and \$5,525,128 to the City, which was equal to its annual required contribution for fiscal years 2011, 2010, and 2009, respectively.

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

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tier 1 (those hired on or before October 20, 1989) and who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 5.0% annual Cost of Living Adjustment (COLA) increase) of their highest paid year of employment for each year of credited service. Employees on tier 2 (those hired after October 20, 1989 but before October 1, 2006) and who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 2.0% annual COLA increase) of their highest paid year of employment for each year of credited service. The City created tier 3 for employees hired after October 1, 2006. Vested tier 3 employees who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount equal to 2.5% (with up to a 2.0% annual COLA increase) of their highest paid year of employment for each year of credited service.

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, 2011.

Plan Description – Public Employees' Retirement System (CalPERS)

The City contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by state statute and city ordinance. A copy of CalPERS' annual financial report may be obtained from its executive office at 400 P. Street, Sacramento, CA 95814. Since CalPERS is on a fiscal year ending June 30, all actuarial calculations for the City's retirement plan are made on a fiscal year ending June 30, which differs from the City's September 30 fiscal year-end.

Under the terms of the contract between CalPERS and the City, all full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple-tier retirement plan with benefits varying by plan.

Safety: Vested tier 1 and tier 2 safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 3% of the employee's highest paid year of employment for each year of credited service. Retirees under tier 1 are eligible to receive a maximum annual five percent cost-of-living increase while those under tier 2 are eligible to receive a maximum annual two percent cost-of-living increase.

Miscellaneous: Vested tier 1 and tier 2 nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service. The City created tier 3 for nonsafety employees hired after October 1, 2006. Vested tier 3 nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service. Retirees under tier 1 are eligible to receive a maximum annual five percent cost-of-living increase while those under the tier 2 and tier 3 are eligible to receive a maximum annual two percent cost-of-living increase. Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

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Funding Policy

For the fiscal year ended September 30, 2011, safety and miscellaneous plan participants were required to contribute nine percent and eight percent of their annual covered salary, respectively. However, as a benefit to employees, the City, in some cases, has elected to pay a portion of the employees' portion of this required contribution. The following table details the contribution rates for the City and its employees as of September 30, 2011.

<u>Bargaining unit</u>	<u>City contributes</u>	<u>Employee contributes</u>	<u>New hires</u>
Unrepresented Management with the City Auditor's office	4.0%	4.0%	8.0%
City Attorney's Association	4.0	4.0	8.0
City Prosecutor's Association	4.0	4.0	8.0
Elected Officials and City Clerk:			
City Attorney	4.2	3.8	8.0
City Prosecutor	4.2	3.8	8.0
City Auditor	4.2	3.8	8.0
City Clerk	4.2	3.8	8.0
Mayor	4.2	3.8	8.0
Council Districts 1 – 7 and 9	4.2	3.8	8.0
Council District 8	6.0	2.0	8.0
Unrepresented Management and nonmanagement	6.0	2.0	8.0
Long Beach Association of Engineering Employees	6.0	2.0	8.0
Long Beach Association of Confidential Employees	6.0	2.0	8.0
Long Beach Management Association	6.0	2.0	8.0
International Association of Machinists	6.0	2.0	N/A
Safety Managers	7.0	2.0	9.0
Long Beach Firefighters' Association	7.0	2.0	N/A
Long Beach Police Officers' Association	7.0	2.0	N/A
Long Beach Lifeguard Association	7.0	2.0	N/A

In addition, the City is required to contribute at an actuarially determined rate applied to annual covered payroll; the current rates are 12.297% for miscellaneous employees and 17.097% for safety employees. For fiscal year 2012, the contribution rates will be 16.072% for miscellaneous employees and 22.687% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

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Annual Pension Cost

For fiscal year 2011, the City’s annual pension cost (APC) of \$75.0 million for CalPERS was equal to the City’s required contributions (ARC) of \$82.1 million less employees’ contributions of \$7.1 million. The ARC was determined as a part of the June 30, 2008 actuarial valuations.

The City’s APC, the percentage of APC contributed to the plans, and the net pension obligation for the miscellaneous and safety plans for the fiscal years ended September 30, 2009, 2010, and 2011 are as follows (dollars in thousands):

<u>Fiscal year</u>	<u>Miscellaneous annual pension cost</u>	<u>Safety annual pension cost</u>	<u>Annual pension costs (APC)</u>	<u>Percentage contribution</u>
2009	\$ 40,503	31,512	72,015	100%
2010	37,546	31,530	69,076	100
2011	41,953	33,087	75,040	100

Actuarial Methods and Assumptions

A summary of principal assumptions and methods used to determine the annual required contribution rate for fiscal year 2011 for miscellaneous and safety employees is shown below:

Methods	Assumptions
Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Amortization Period	Closed
Average Remaining Period	30 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for pension benefits.

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Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, and the funding status for the miscellaneous and safety plans were as follows (dollars in thousands):

<u>Plan</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – entry age (b)</u>	<u>Unfunded AAL (UAAL) (excess of assets over AAL) (b-a)</u>	<u>Funded ratio actuarial value basis (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
Miscellaneous	\$ 1,692,444	1,888,325	195,881	89.6%	\$ 221,420	88.5%
Safety	1,713,418	1,786,693	73,275	95.9%	133,770	54.8%

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information, which shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The initial unfunded actuarial accrued liability (or excess assets) associated with these retirement plans are being amortized as a level percentage of projected payroll on a closed basis.

Plan Description – Public Agency Retirement System – Defined Benefit Plan

In November 1994, the City established Public Agency Retirement System (PARS) Defined Benefit Plans for Special Status Contractors and Seasonal and Temporary Employees (the Plans). During fiscal year 2003, the Plans were reported under a combined plan (the Plan). The Plan is a defined benefit, single-employer retirement plan. The Plan, which took effect on January 1, 1995, is administered for the City through a third-party administrator. The Plan provides for retirement as well as death and disability benefits to eligible individuals and their beneficiaries.

The Plan benefit is a lifetime monthly annuity equal to 1.50% times the final average of the participant’s highest 36 consecutive months’ salary times the years of service. The Plan requires employee contributions of 6.20% of earnings (Contractors Special Status) and 3% of earnings (Seasonal and Temporary Employees). All employees enter the Plan upon hire and all benefits are vested after five years of service (Contractors Special Status) or immediately (Seasonal and Temporary Employees) and employees are always vested in their employee contributions. It is assumed that upon termination, employees will choose to receive an actuarially equivalent lump sum (based on the actuarial assumptions described below). Audited annual financial statements are available from PARS Public Agency Retirement Services, 4350 Von Karman Avenue, Ste. 100, Newport Beach, CA 92660.

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Funding Policy and Annual Pension Cost

The City's funding policy is to make the contribution as determined by the Plan's actuary as of September 30, 2009 valuation date. The following information describes the calculation methodology:

- The Plan's APC for the fiscal year ended September 30, 2011 is based on the period from October 1, 2009 to September 30, 2010. The APC for fiscal year ended 2011 is \$105 thousand, the same amount contributed for this period.
- The actuarial liabilities and assets are valued as of September 30, 2009.
- The actuarial cost method used is the projected-unit-credit method. Under this method, the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year, and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll.

In determining the Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between past years and future years. This allocation is made by multiplying the projected benefit by a fraction, the numerator of which is the participant's total credited years of service on the valuation date, and the denominator is the participant's total credited years of service at anticipated benefit commencement.

The unfunded actuarial liability is the difference between the actuarial accrued liability and Plan assets. This difference is amortized as a level dollar amount (in the 2010 actuarial valuation used to determine 2010/11 Annual Pension Cost, a 7-year amortization is used for the September 30, 2006 unfunded liability and 10-year amortization is used for all other gains and losses) to determine the unfunded actuarial liability rate. The actuarial value of Plan assets is based on a five-year smoothing of gains and losses. The net pension obligation information below is based on periods from October 1 through September 30 (dollars in thousands):

<u>Fiscal year</u>	<u>Annual pension costs</u>	<u>Actual contribution</u>	<u>Percentage contribution</u>	<u>Net pension obligation</u>
2009	\$ 16,352	16,352	100%	\$ —
2010	97,376	97,376	100	—
2011	105,141	105,141	100	—

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Funded Status and Funding Progress

As of the most recent actuarial valuation date, September 30, 2010, the Plan's funding status was (dollars in thousands):

<u>Plan</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – entry age (b)</u>	<u>Unfunded AAL (UAAL) (excess of assets over AAL) (b-a)</u>	<u>Funded ratio actuarial value basis (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
PARS	\$ 966	1,176	210	82.1%	\$ 8,369	2.5%

Actuarial Methods and Assumptions

The following is a summary of September 30, 2010 assumptions:

Interest Rate: 5.25%
 Mortality: 1983 Group Annuity Mortality Table
 Turnover: Sample rates are:

<u>Age</u>	<u>Turnover</u>	<u>Age</u>	<u>Turnover</u>
25	15.00%	45	10%
30	15.00	50	10
35	15.00	55	5
40	15.00	60	5

Seasonal and Temporary Employees' first five years of service assume the following rates:

<u>Years of service</u>	<u>Turnover</u>
0	50%
1	35
2	30
3	25
4	20

Salary Scale:
 Retirement Age: Age 65 or attained age, if older.
 Form of Benefit: Participants are assumed to receive a lump sum upon termination.

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(b) *Postretirement Healthcare Benefits*

General Plan Description

The City's Retired Employees Health Insurance Program is a single-employer defined benefit healthcare plan.

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses, and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental, and long-term care insurance premiums. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested. The City has provided two onetime early retirement incentive programs. The first had a maximum value of \$25,000 for employees, based on age, who retired during calendar year 1996, and the second incentive offered a 16-hour increase in sick leave per year of service to management employees who retired by June 30, 2004. In all cases, once the cash value of the retired employee's unused sick leave is exhausted, the retiree can terminate coverage or elect to continue paying the premiums at the retiree's expense.

At September 30, 2011, there were 557 participants in the City's Retired Employees Health Insurance Program, and the noninterest-bearing cash value equivalent of the remaining unused sick leave totaled \$20.9 million. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2011 were \$9.0 million, and are included in the expenses of the Employee Benefits Internal Service Fund.

Termination Benefits

As of September 30, 2011, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$105.7 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences* (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996 and 2009 negotiated public safety health benefit supplements as described below:

Fire Retirement Supplement Benefit

- The Long Beach Fire Fighter Association agreed to defer an October 1, 2009 general salary adjustment to October 1, 2010 and to extend all other adjustments by one year.
- Supplement eligibility is limited to employees retiring on or before December 31, 2009.
- Benefit formula is equal to the difference between CalPERS retirement had the October 1, 2009 general salary adjustment been made for a full year and actual retirement benefits received by CalPERS.
- Supplement is credited annually to retirees Health account and is adjusted by CalPERS cost of living adjustment (COLA).

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- Account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

Police Retirement Supplement Benefit

- The Long Beach Police Officers Association agreed to extend a September 30, 2009 midpoint adjustment of 3.20% for sergeants, 14.80% for lieutenants, and 9.3% for corporals and officers, to a 2% minimum increase per year. The midpoint adjustment is based on the Strategic Plan Cities Survey of salaries in similar cities.
- Supplement eligibility is limited to employees retiring on or after September 30, 2009 and before benefits level reaches what it would have been had the September 30, 2009 adjustment been made.
- Benefit formula is equal to the difference between CalPERS retirement had the September 30, 2009 midpoint adjustment been made and actual retirement benefits received by CalPERS.
- Supplement is credited annually to retirees Health account and is adjusted by CalPERS cost of living adjustment (COLA).
- Account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

The actuarial study assumes an investment return of 5.0% wage increases of 3.5% per year for miscellaneous and 4.5% per year for safety employees; and insurance premium increases of 4.5%. The estimated current portion of such obligation of \$7.8 million has been fully funded and the long-term portion of the liability of \$97.9 million is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

Other Postemployment Benefits

As of September 30, 2011, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$26.1 million based on an actuarial study of the “implicit subsidy” as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). While the City does not directly contribute any funding towards the cost of premiums for retirees, the ability to obtain coverage at an active employees’ rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City’s healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an “implicit subsidy” under GASB 45.

The ability to participate in the City’s plan by self-paying the premiums extends for the lifetime of the retiree. However, upon attaining the age of Medicare eligibility, the retiree may enter a plan coordinated by Medicare. Standard actuarial practice assumes that Medicare supplemental plans do not generally give rise to an implicit subsidy, and while the City has included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both \$0.

This plan does not issue a separate financial report.

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Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2011, the City has not prefunded the plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the ARC, an amount that is actuarially determined in accordance with the requirements of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

Annual required contribution	\$	12,739
Interest on net OPEB obligation		901
Adjustment to annual required contribution		<u>(1,351)</u>
Annual OPEB cost		12,289
Contribution made		<u>(4,172)</u>
Increase in net OPEB obligation		8,117
Net OPEB obligation – beginning		<u>18,022</u>
Net OPEB obligation – end of year	\$	<u><u>26,139</u></u>

The ARC was determined as part of the September 2010 actuarial valuation. For the year ended September 30, 2011, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Annual obligation</u>
September 30, 2008	\$ 8,102	35.2%	\$ 5,249
September 30, 2009	8,461	39.1	10,404
September 30, 2010	11,472	33.6	18,022
September 30, 2011	12,289	34.0	26,139

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Funded Status and Funding Progress

The funded status of the plan as of September 30, 2011 was as follows (in thousands):

Actuarial accrued liability (AAL)	\$	130,252
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	\$	<u>130,252</u>
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll	\$	328,107
UAAL as a percentage of covered payroll		39.7%
ARC as a percentage of covered payroll		3.9

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The September 30, 2011 actuarial valuation used the entry age normal cost method. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 11.3% for HMO plans and 8.6% for PPO plans that grades down to 4.5% for all plans by September 30, 2021, and an inflation assumption of 3.0%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was \$0. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

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(c) *Deferred Compensation Plan*

The City offers its employees the option to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457 allowing them to defer or postpone receipt of income. Amounts 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 years ended September 30, 2011 and 2010.

(10) Operating Leases

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

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

Property under lease at September 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 759,815,621	759,815,621
Docks and wharves	486,119,890	485,950,418
Warehouses and sheds	46,103,616	46,103,616
Cranes and shiploaders	173,780,673	173,518,328
Buildings and other facilities	322,027,748	299,335,024
Infrastructure	<u>804,243,391</u>	<u>779,841,892</u>
Historical cost of leased property	2,592,090,939	2,544,564,899
Less accumulated depreciation	<u>(898,847,921)</u>	<u>(823,668,263)</u>
Book value of leased property	<u>\$ 1,693,243,018</u>	<u>1,720,896,636</u>

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The future minimum rental income under noncancelable operating leases having an initial term in excess of one year is as follows:

Year(s) ending September 30:	
2012	\$ 234,240,000
2013	235,772,000
2014	246,350,000
2015	244,409,000
2016	239,209,000
2017 – 2021	1,168,883,000
2022 – 2026	855,348,000
2027 – 2031	133,159,000
2032 and thereafter	<u>4,136,000</u>
Total	<u>\$ 3,361,506,000</u>

(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 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, now merged with Union Pacific (the Tenant). The facility was developed by the Tenant who assumed operational responsibility for the facility. The Venturers' share net income and equity distributions from ICTF equally. The ICTF financial statements for the year ended June 30, 2011 can be obtained from the Department.

(12) Commitments and Contingencies

The Department is subject to claims and lawsuits arising from the normal course of business. The City Attorney's office evaluates these claims on a regular basis. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements.

Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Department. Contract commitments and purchase orders for which materials or services were not received at September 30, 2011 and 2010 aggregated \$233,714,377 and \$104,168,355, respectively.

(a) Risk Management

The Department currently carries an all-risk property insurance program covering loss or damage by fire and other risks (excluding earthquake and flood) with a loss limit of \$1,306,000,000. The coverage also includes terrorism exposure.

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To address third-party liability exposure, an excess liability insurance program is carried by the Department with total limits of \$150,000,000 in excess of \$1,000,000 self-insured retention. The excess liability insurance program covers the Department’s operations and includes acts of terrorism within the \$150,000,000 limit. In addition, the Department carries specialized insurance policies providing coverage for damage to owned vessels, damage to other vessels, and pollution liability.

Following is a summary of insurance coverage for the Harbor Department:

	<u>2011</u>	<u>2010</u>
Insurance coverage for fire and other risks	\$ 1,306,000,000	1,281,310,211
Comprehensive general liability	150,000,000	150,000,000
Self-insured retention	1,000,000	1,000,000

Port tenants, contractors, and vendors are required to carry various types and levels of insurance, including general liability insurance on leased premises. The insurance must include coverage for bodily injury and property damage liabilities, and name the City, its Board of Harbor Commissioners, and the Department’s officers and employees as additional insured. The amount of settlements reached by the Department did not exceed the amount of insurance coverage in any of the past three fiscal years.

The Department participates in the City’s self-insured workers’ compensation program. During fiscal years 2011 and 2010, it made payments to the City’s Insurance Fund totaling \$1,513,031 and \$1,249,064, respectively, for permanent and temporary Department employees. 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. Based on an opinion from legal counsel, the Department recognized litigation claim liabilities of \$5,000,000 and \$11,300,000 for fiscal years 2011 and 2010, respectively.

Liability for Claims and Judgments Rollforward Schedule

<u>Description</u>	<u>Balance, October 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2011</u>
Accrued claims and judgments	\$ 11,300,000	5,000,000	11,300,000	5,000,000
<u>Description</u>	<u>Balance, October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2010</u>
Accrued claims and judgments	\$ 5,000,000	6,300,000	—	11,300,000

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(b) Potential Obligations Related to the Alameda Corridor Transportation Authority

The Alameda Corridor Use and Operating Agreement was executed by the Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), the ACTA, and the Burlington Northern Santa Fe and Union Pacific Railroads (the railroads). This agreement provides for a payment of funds, known as a “Shortfall Advance,” to be made, under certain circumstances, to ACTA by the Department and the Port of Los Angeles. 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 bond repayment reserve account, and to pay ACTA’s reasonable expenses relating to administration of the rail corridor.

To the extent that the revenues from use and container charges are not sufficient to meet ACTA’s obligations, the Department and the Port of Los Angeles have agreed to advance the funds necessary to make up the difference. This obligation began after completion of the corridor project and is limited to a total of 40% of the total annual required amount, with the Department and the Port of Los Angeles each responsible for one-half or 20% of the required amount.

ACTA’s latest Notice of Estimated Shortfall Advances and Reserve Accounting Funding (the Notice) was transmitted to the Department on August 8, 2011; estimates included in the Notice are dependent upon the accuracy of the assumptions used in their formulation. It is anticipated that there will be differences between estimates and actual results; the differences may be material. The projected shortfall for ACTA’s fiscal year ended June 30, 2011, based on the Notice submitted by ACTA, is \$2,950,000. Any shortfall advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA. Reimbursement could begin as soon as 2018. The Department is funding a cash reserve to satisfy claims related to the shortfall advance potential obligation. The balances of the reserve as of September 30, 2011 and 2010 were \$46,045,000 each year.

Based on the shortfall advance payment made to ACTA during fiscal year 2011, the balance of the Long-Term receivable is as follows:

Liability for Claims and Judgments Rollforward Schedule				
Description	Balance, October 1, 2010	Additions	Reductions	Balance, September 30, 2011
ACTA Shortfall advance	\$ —	2,950,000	—	2,950,000

(c) New Gerald Desmond Bridge Matching Contribution

The Department is pursuing the replacement of the Gerald Desmond Bridge. The total cost to replace the bridge is estimated at \$950 million. The Department anticipates that funding of this project will come primarily from federal and state sources, but local matching funds will also be required.

In anticipation of this funding requirement, the Department has set aside funds to provide the expected 10% local match. During FY 2011, the Department reassigned certain state grant funds from various rail projects to the Gerald Desmond Bridge project resulting in an increase in the

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amount of reserves set aside for the project. As of September 30, 2011 and 2010, matching funds earmarked for this project were \$69,055,000 and \$51,978,585, respectively.

(d) Trade Corridor Improvement Fund Matching Contribution

The Department has as part of its continuing capital improvement program, rail projects for track re-alignment and rail yard improvements that are being partially funded by grants from the Trade Corridor Improvement Fund (TCIF). These TCIF grants require a matching contribution of 100% from the Department and as a result the Department has set aside reserves in the amount of \$35,750,000 to meet this match requirement.

(e) Clean Air Action Plan (CAAP)

In January 2007, the Department adopted a wide-ranging Green Port Policy that greatly expanded the Department's commitment to sustain the environment by establishing new guidelines for the Port's current operations and future development. Key provisions include protection of the community from the harmful impacts of port operations and employment of state-of-the-art technology to minimize environmental impacts. Air emissions from ships at berth account for over one third of all vessel air emissions. Providing electrification reduces emissions significantly. With electrification, or "cold ironing," vessels can shut down their auxiliary engines, while at berth, and plug into dockside electric substations.

(f) Oil Well Abandonment Costs

The oil operation assets and liabilities were transferred to the Department of Gas and Oil of the City of Long Beach during fiscal year 2011. Prior to 2011, costs related to the abandonment and site clearance of oil properties (abandonment costs) purchased in March 1994 were based on estimates provided by the Department of Gas and Oil of the City of Long Beach. Estimates of abandonment costs were reviewed annually and adjusted to reflect changes in abandonment practices, increased abandonment expenses, number and life of productive wells, general changes in the life of the oil field, and changes in oil price levels. This procedure is no longer needed as the assets and liabilities were transferred as stated above. The oil well abandonment cost liability at September 30 2010 was \$25,000,000. The amounts related to oil properties acquired in 1994 were presented as long-term abandonment cost liabilities in the financial statements.

Future Oil Well Abandonment Cost Liability Rollforward Schedule

Description	Balance, October 1, 2010	Additions	Reductions	Balance, September 30, 2011
Oil abandonment liability	\$ 25,000,000	—	25,000,000	—
	Balance, October 1, 2009	Additions	Reductions	Balance, September 30, 2010
Oil abandonment liability	\$ 26,700,000	—	1,700,000	25,000,000

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(13) Pollution Remediation

The Department purchased 725 acres of property in the Harbor District in 1994. The property contains soil requiring remediation of environmentally hazardous materials. The remediation is required only on the portion of the land that the Department chooses to develop. To the extent that such remediation is necessary, the Department's liability is mitigated by provisions in the purchase agreement that make Union Pacific Resource Company (UPRC), the seller, responsible for a portion of the remediation costs. UPRC was acquired by Anadarko Petroleum Co. (Anadarko) that assumed this liability in accordance with the original purchase agreement. Anadarko's responsibility is limited to a period not to exceed 15 years and a maximum amount of \$112,500,000 according to the following table:

Remediation cost	Allocation	
	Anadarko	Department
First \$50 million	\$ 50,000,000	—
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	—	100%
Maximum liability	<u>\$ 112,500,000</u>	

Additionally, the Department was required to clean up the sediments of an area known as Installation Restoration Site 7 (IR Site 7). The Department completed the necessary work on IR Site 7 during fiscal 2011 and no liability related to this site remains. In 2010, the Department recognized liabilities associated with IR Site 7 in the amounts of \$12,500,456.

Pollution Remediation Obligation – Short-Term Rollforward Schedule

Description	Balance, October 1, 2010			Balance, September 30, 2011
	Balance, October 1, 2010	Additions	Reductions	
IR Site 7	\$ 12,500,546	—	12,500,546	—
	Balance, October 1, 2009	Additions	Reductions	Balance, September 30, 2010
IR Site 7	\$ 19,074,012	—	6,573,466	12,500,546

Pollution Remediation Obligation – Long-Term Rollforward Schedule

Description	Balance, October 1, 2009			Balance, September 30, 2010
	Balance, October 1, 2009	Additions	Reductions	
IR Site 7	\$ 1,000,000	—	1,000,000	—

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(14) Transfers to the City of Long Beach

In November 2010, Ballot Measure D was passed by a simple majority changing the formula for calculation of the transfer to the Tidelands Operating Fund (TOF). Proposition D amended the Long Beach City Charter by changing the formula from 10% of net income to 5% of operating revenue for the transfer of funds from the Harbor Department to the TOF. The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) as amended, and with the approval of the Board of Harbor Commissioners (the Board), adopted a resolution in 2011 to transfer \$17,269,485 – 5% of the Department’s operating revenue for fiscal year 2011. During fiscal year 2010, at the request of the City Council, the Board approved transfers to the TOF of two amounts: \$12,018,776 – 10% of the Department’s net income for fiscal year 2010 and \$12,423,706 – 10% of the Department’s net income for fiscal year 2009. The transfer to the TOF is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets and as a transfer to the City in the statements of revenues, expenses, and changes in fund net assets. The total transfer recognized to the City during fiscal year 2011 was \$22,847,938, which includes the \$17,269,485 discussed above plus \$5,578,453 for Aquarium of the Pacific debt service assistance requested by the City Manager. The total transfer recognized to the City during fiscal year 2010 was \$30,451,161, which includes the \$24,442,482 discussed above plus \$6,008,679 for Aquarium of the Pacific debt service assistance requested by the City Manager. The Aquarium debt assistance and Convention Center debt forgiveness are discussed in note 3.

(15) Environmental Mitigation Credits

The Department disbursed \$39,375,000 in fiscal year 1997 to secure environmental mitigation credits that would allow the Port to complete projects within its complex. These credits are redeemed based on the number of acres of landfill completed by the Port.

An agreement between the Department, the Port 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. During fiscal year 2006, the Department acquired \$11,400,000 of available environmental mitigation credits. No acquisitions or utilization of credits occurred during fiscal years 2011 and 2010.

The cost incurred in the acquisition of the land has been classified as a noncurrent asset. The Department has completed landfills that required the utilization of \$6,492,525 in fiscal year 2007 of the available credits. The balance of environmental mitigation credits will be adjusted in the future as landfill credits are used for Port development. The balance of the Environmental Mitigation Credits was \$44,278,068 as of both September 30, 2011 and 2010, respectively.

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(16) Net Assets

Net assets is the difference between total assets and total liabilities. Increases or decreases in net assets may indicate improvement or deterioration of the Department’s financial condition. The Department does not intend to liquidate capital assets to fund ongoing operations. Restricted assets are subject to external restrictions such as construction of capital assets, matching funding requirements for federally funded projects, repayment of long-term debt, and fulfillment of contractual obligations with third parties. Unrestricted net assets are available to fund the Department’s continuing operations. As of September 30, 2011 and 2010, the Department held net assets as follows:

	<u>2011</u>	<u>2010</u>
Invested in capital assets, net of related debt	\$ 1,929,398,050	1,859,165,959
Restricted for capital projects:		
Environmental mitigation credits (note 15)	44,278,068	44,278,068
Restricted for debt service (note 8)	16,805,625	16,263,942
Restricted – third-party obligations – nonrelated-entity debt service contingency and matching contribution (note 12)	<u>116,452,755</u>	<u>147,301,520</u>
Total restricted	<u>177,536,448</u>	<u>207,843,530</u>
Unrestricted:		
Contributed capital – outside sources	30,427,546	30,427,546
Contributed capital – other City funds	27,749,166	27,749,166
Other unrestricted	<u>486,410,434</u>	<u>422,818,832</u>
Total unrestricted	<u>544,587,146</u>	<u>480,995,544</u>
Total net assets	<u>\$ 2,651,521,644</u>	<u>2,548,005,033</u>