

**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED SEPTEMBER 30, 2006**

**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

**Annual Financial Report  
Fiscal Year Ended September 30, 2006**

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## Independent Auditors' Report

The Honorable Mayor and City Council  
The City of Long Beach, California

We have audited the accompanying financial statements of the Southeast Resource Recovery Facility Joint Powers Authority (Authority), a component financial reporting unit of the City of Long Beach, California, as of and for the years ended September 30, 2006 and 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority'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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed more fully in note 1, the accompanying financial statements of the Authority are intended to present the financial position and the changes in financial position and cash flows attributable to the Authority. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the City of Example's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority's management has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America requires to supplement, although not to be part of, the financial statements.

KPMG LLP

March 17, 2005

Laura L Doud, CPA  
City Auditor

**FINANCIAL STATEMENTS**

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**Southeast Resource Recovery Facility**  
**Joint Powers Authority**  
**Statements of Net Assets**  
**September 30, 2006 and 2005**  
(In Thousands)

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Restricted Assets:		
Cash and Investments (Note 3)	\$ 12,369	\$ 12,601
Capital Lease Receivable - Current (Note 4)	6,540	6,355
Accounts Receivable	<u>1,567</u>	<u>1,641</u>
Total Restricted Assets - Current	20,476	20,597
Capital Lease Receivable - Long Term (Note 4)	101,155	107,695
Deferred Charges	<u>973</u>	<u>1,053</u>
Total Assets	<u>122,604</u>	<u>129,345</u>
<b>LIABILITIES</b>		
Current Liabilities Payable from Restricted Assets:		
Interest Payable	1,567	1,641
Bonds Payable - Current (Note 5)	<u>6,540</u>	<u>6,355</u>
Total Current Liabilities Payable from Restricted Assets	<u>8,107</u>	<u>7,996</u>
Long-Term Obligations:		
Bonds Payable - Long Term (Note 5)	101,155	107,695
Plus Unamortized Bond Premium Less Deferred Costs (Notes 2 and 5)	1,866	1,672
Deferred Credits (Note 4)	<u>2,462</u>	<u>3,357</u>
Total Long-Term Obligations	<u>105,483</u>	<u>112,724</u>
Total Liabilities	<u>113,590</u>	<u>120,720</u>
<b>NET ASSETS</b>		
<u>Restricted for Debt Service (Note 3):</u>		
Bond Reserve	11,706	11,442
Bond Interest and Principal	12	3
Bond Project	651	1,156
Unrestricted	<u>(3,355)</u>	<u>(3,976)</u>
Total Net Assets	<u>\$ 9,014</u>	<u>\$ 8,625</u>

See accompanying Notes to Financial Statements.

**Southeast Resource Recovery Facility**  
**Joint Powers Authority**  
Statements of Revenues, Expenses and Changes in Fund Net Assets  
Years Ended September 30, 2006 and 2005  
(In Thousands)

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Income from Capital Lease - Net of excess lease payments of \$285 and \$559 (Note 3) in 2006 and 2005, respectively and amortization of deferred credits of \$895 and \$896 respectively (Note 4) in 2006 and 2005.	<u>\$ 5,353</u>	<u>\$ 5,277</u>
Operating Expenses:		
Amortization of Bond Discount/Deferred Costs (Note 5)	194	193
Amortization of Deferred Charges	80	80
Other Expenses	<u>540</u>	<u>934</u>
Total Operating Expenses	<u>814</u>	<u>1,207</u>
Operating Income	<u>4,539</u>	<u>4,070</u>
Non-Operating Income (Expense):		
Interest from Investments	589	579
Interest Expense	<u>(4,739)</u>	<u>(4,943)</u>
Total Net Non-Operating Expenses	<u>(4,150)</u>	<u>(4,364)</u>
Change in Fund Net Assets	389	(294)
Net Assets - October 1	<u>8,625</u>	<u>8,919</u>
Net Assets - September 30	<u><u>\$ 9,014</u></u>	<u><u>\$ 8,625</u></u>

See accompanying Notes to Financial Statements.

**Southeast Resource Recovery Facility**  
**Joint Powers Authority**  
Statements of Cash Flows  
Years Ended September 30, 2006 and 2005  
(In Thousands)

	2006	2005
Cash Flows from Operating Activities:		
Revenues Received from Capital Lease	\$ 4,817	\$ 4,982
Refund of Excess Lease Payments (Note 4)	(285)	(559)
Other Expenses Paid	(540)	(2,234)
Net Cash Provided by Operating Activities	3,992	2,189
Cash Flows from Capital and Related Financing Activities:		
Payments of Principal on Bonds Payable	(6,355)	(6,185)
Payments of Interest	(4,813)	(4,984)
Net Cash Used for Capital and Related Financing Activities	(11,168)	(11,169)
Cash Flows from Investing Activities:		
Principal Received on Capital Lease	6,355	6,185
Interest Received on Investments	589	579
Net Cash Provided by Investing Activities	6,944	6,764
Net Decrease in Cash and Cash Equivalents	(232)	(2,216)
Cash and Cash Equivalents - October 1	12,601	14,817
Cash and Cash Equivalents - September 30	\$ 12,369	\$ 12,601
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>		
Operating Income	\$ 4,539	\$ 4,070
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Amortization of Deferred Credits	(895)	(896)
Amortization of Bond Discount/Deferred Costs	194	193
Amortization of Deferred Charges	80	80
Decrease in Accounts Receivable	74	42
Decrease in Accounts Payable	-	(1,300)
Total Adjustments	(547)	(1,881)
Net Cash Provided by Operating Activities	\$ 3,992	\$ 2,189

See accompanying Notes to Financial Statements.



Southeast Resource Recovery Facility  
Joint Powers Authority  
Notes to Financial Statements  
September 30, 2006 and 2005

**NOTE 1 – ORGANIZATION, PURPOSE AND ACTIVITIES**

The Southeast Resource Recovery Facility (SERRF) Authority (Authority) was created pursuant to the provisions of the SERRF Joint Powers Agreement dated December 19, 1984, between the City of Long Beach (City) and the County Sanitation District No. 2 of Los Angeles County (District) for the purpose of constructing a facility to dispose of non-hazardous solid waste and to recover energy there from.

The City leases SERRF from the Authority for purposes of operating the facility. The City's lease payments to the Authority are paid in amounts sufficient to meet the Authority's debt service obligations on the bonds during the year, as well as pay the Authority's administrative and other costs. The lease was first amended in October 1995. Under this revised lease the City agreed to annually pay to the Authority a maximum annual rent calculated according to a prescribed formula, not to exceed \$25,361,831. Such annual rental was variable and equaled the sum of scheduled principal, calculated interest, and administrative fees.

The lease was last amended in October 2003. Under the revised lease, the City agrees to annually pay to the Authority amounts sufficient to meet the Authority's debt service obligations on the bonds during the year, and pay the Authority's administrative and other costs. Revenues available in the Authority funds will be credited against the amount to be transferred by the City to the Authority for lease payments. The revised lease is to end at the later of December 1, 2018 or when all bonds of the Authority have been retired or when the energy contract is terminated.

The Authority is a component financial reporting unit of the City of Long Beach, California. In accordance with U.S. generally accepted accounting principles, the Authority's financial statements are included in the City's financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Measurement Focus and Basis of Accounting**

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, are followed by the Authority to the extent that such standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City of Long Beach and, by consequence, the Authority also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City and the Authority have elected not to follow subsequent private-sector guidance.

**Southeast Resource Recovery Facility  
Joint Powers Authority  
Notes to Financial Statements  
September 30, 2006 and 2005**

Investments

Investments are stated at fair value. The value of each investment is based on independent third party pricing provided to the City of Long Beach.

Capital Lease Receivable

Current and long-term portions of the capital lease receivable are equal to the bonds payable for the 2003 Lease Revenue Refunding Bond Issue.

Operating Revenue and Expenses

Operating revenue is lease payments from the City of Long Beach to meet the Authority's operating expenses to cover debt obligations and other administrative costs.

Deferred Charges and Deferred Costs

Deferred charges represent the accounting loss on the lease associated with the 2003 SERRF Lease Revenue Refunding Bonds (Bonds). Such charges are being amortized over the life of the Bonds.

At September 30, 2006 and 2005, the balance of the account entitled "Unamortized Bond Premium Less Deferred Costs" aggregated \$1,866,000 and \$1,672,000, respectively. As of September 30, 2006 and 2005, the unamortized bond premium relating to the 2003 Bonds aggregated \$5,030,000 and \$5,442,000, respectively. The accounting loss and bond issuance costs amounted to \$3,164,000 and \$3,770,000 at September 30, 2006 and 2005, respectively. Such amounts are being amortized over the life of the refunded debt issues (See Note 5).

Cash and Cash Equivalents with Fiscal Agent

Monies held by the Trustee are regarded as demand deposits and include investment securities that can readily be converted into cash. These funds consist primarily of U.S. Government obligations and securities.

In accordance with U.S. generally accepted accounting principles (GAAP), the Authority has defined such investments as cash equivalents for purposes of preparing the Statements of Cash Flows.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

Southeast Resource Recovery Facility  
 Joint Powers Authority  
 Notes to Financial Statements  
 September 30, 2006 and 2005

**NOTE 3 - RESTRICTED CASH AND INVESTMENTS**

The Authority's bond indenture requires the Trustee to set aside bond and operating proceeds in specified restricted-use accounts. A description of these accounts follows:

Revenue Account - is used to account for and hold in trust all revenues. Monies in the revenue account are used for the payment of principal and interest. At September 30, 2006 and 2005, the balance of the Bond Account was zero.

Interest and Principal Accounts – are used to pay interest and principal on the bonds when due. At September 30, 2006 and 2005, the balance in these accounts was \$12,000 and \$3,000 respectively.

Project Account - is used to account for and hold in trust all revenues deposited to the project account used to reimburse city projects per the amended lease agreement for the 2003 bonds. At September 30, 2006 and 2005, the balance in the Project Account was \$651,000 and \$1,156,000, respectively.

Reserve Account - is used to provide for timely payment of bond principal and interest if no other monies are available. Under the terms of the bond indenture, the balance in this account must be maintained at an amount at least equal to the maximum annual debt service or \$11,175,000. At September 30, 2006 and 2005, the balances of the Bond Reserve Account aggregated \$11,706,000 and \$11,442,000, respectively, which is \$531,000 and \$267,000 in excess of the required reserve for the 2003 Bonds at September 30, 2006 and 2005, respectively. In accordance with provisions of the lease agreement, capital lease payments required from the City aggregating \$285,000 and \$559,000 were in excess of the reserve requirements which reduced lease payments made by the City in fiscal years 2006 and 2005 and was refunded to the City for fiscal years 2006 and 2005, respectively.

Restricted cash and investments in the Project, Principal and Bond Reserve Accounts are stated at fair value at September 30, 2006 and 2005.

Currently, funds maintained by the Trustee are invested in Guaranteed Investment Contract and other investments as permitted by the Authority's bond indenture. Investments are held in safekeeping by the Trustee in the Authority's name. Restricted cash and investments stated at fair value, in accordance with GASB Statement No. 31, including accrued interest thereon, and net of premiums and discounts, consisted of the following at September 30 (in thousands):

	<u>2006</u>	<u>2005</u>
Cash in Bank	\$ 543	\$ 270
City of Long Beach Treasurer's Investment Pool	651	1,156
Guaranteed Investment Contract	<u>11,175</u>	<u>11,175</u>
Total Restricted Cash and Investments	<u>\$12,369</u>	<u>\$12,601</u>

**Southeast Resource Recovery Facility  
Joint Powers Authority  
Notes to Financial Statements  
September 30, 2006 and 2005**

At September 30, 2006 and 2005, the bank balance was equal to \$543,000 and \$270,000, respectively.

The SERRF pooled cash and cash equivalents amount as of September 30, 2006 and 2005 was \$651,000 or .0453% of the City of Long Beach (City) pooled cash and investments of \$1,438,524,000, and \$1,156,000 or .087% of the City pooled cash and investments of \$1,330,217,000, respectively. Cash and Investments are classified in the Authority's financial statements as follows as of September 30 (in thousands):

	2006	2005
Statement of net assets:		
Cash and investments in City pool	\$ 651	\$ 1,156
Cash and investments held by bond trustee	11,718	11,445
Total cash and investments	\$ 12,369	\$ 12,601

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 trustees that 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 *	None	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 five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

**Southeast Resource Recovery Facility  
Joint Powers Authority  
Notes to Financial Statements  
September 30, 2006 and 2005**

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that 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 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 maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments which includes the amounts the Authority invests with the City as of September 30 (in thousands):

Investment Type	2006		2005	
		Weighted Average Maturity (in years)		Weighted Average Maturity (in years)
Inter-Department Loan (Health Savrs)	\$3,297	12.600	3,502	13.570
U.S. Treasury Notes	214,467	1.542	275,731	1.990
U.S. Treasury Bonds	-	-	10,513	0.030
Federal agency securities	1,042,876	1.572	858,461	1.310
Medium-Term Notes	33,464	1.609	95,404	0.840
Money Market Funds	-	0.000	34	0.000
Short-term Commercial Paper	132,731	0.013	-	0.000
Local Agency Investment Fund (LAIF)	2,921	0.003	94,981	0.490
Subtotal City Pool	\$1,429,756		\$1,338,626	
Cash on Hand	26,811		11,499	
Outstanding Checks	(18,043)		(19,908)	
Total City Pool	\$1,438,524		\$1,330,217	

The following schedule indicates the interest rate risk of SERRF's non-pooled investments as of September 30 (in thousands):

	2006	2005
Guaranteed Investment Contracts	\$ 11,175	\$ 11,175
Money Market Funds	543	270
	\$ 11,718	\$ 11,445

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as

**Southeast Resource Recovery Facility  
Joint Powers Authority  
Notes to Financial Statements  
September 30, 2006 and 2005**

of September 30, 2006.

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. Presented below 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):

		Rating as of Year End 2006						
City's Pooled Investments		Minimum						
Investment Type		Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Inter-Department Loan (Health Savrs)	\$ 3,297	N/A	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Notes	214,467	N/A	214,467	-	-	-	-	-
Federal agency securities	1,042,876	N/A	-	-	-	1,042,876	-	-
Medium-Term Notes	33,464	A	-	-	-	28,445	5,019	-
Short-term Commercial Paper	132,731	N/A	-	75,773	56,958	-	-	-
Local Agency Investment Fund (LAIF)	2,921	N/A	2,921	-	-	-	-	-
Subtotal City Pool	1,429,756		220,685	75,773	56,958	1,071,321	5,019	-
Cash on Hand	26,811		-	-	-	-	-	26,811
Outstanding Checks	(18,043)		-	-	-	-	-	(18,043)
Total City Pool	<u>\$ 1,438,524</u>		<u>\$ 220,685</u>	<u>\$ 75,773</u>	<u>\$ 56,958</u>	<u>\$ 1,071,321</u>	<u>\$ 5,019</u>	<u>\$ (8,768)</u>

		Rating as of Year End 2006						
SERRF's Non-Pooled Investments		Minimum						
Investment Type		Legal Rating	Not Required To Be Rated	A-1+	A-1	AAA	AA-	Unrated
Guaranteed Investment Contracts	\$ 11,175	N/A	\$ 11,175	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	543	N/A	543	-	-	-	-	-
Total held by Bond Trustees	<u>\$ 11,718</u>		<u>\$ 11,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

		Rating as of Year End 2005						
City's Pooled Investments		Minimum						
Investment Type		Legal Rating	Not Required To Be Rated	AAA	Aa	A	Unrated	
Inter-Department Loan (Health Savrs)	\$ 3,502	N/A	\$ 3,502	\$ -	\$ -	\$ -	\$ -	
U.S. Treasury Notes	275,731	N/A	275,731	-	-	-	-	
U.S. Treasury Bonds	10,513	N/A	10,513	-	-	-	-	
Federal agency securities	858,461	N/A	-	858,461	-	-	-	
Medium-Term Notes	95,404	A	-	71,783	5,018	18,603	-	
Money Market Funds	34	N/A	34	-	-	-	-	
Local Agency Investment Fund (LAIF)	94,981	N/A	-	-	-	-	94,981	
Subtotal City Pool	1,338,626		289,780	930,244	5,018	18,603	94,981	
Cash on Hand	11,499		-	-	-	-	11,499	
Outstanding Checks	(19,908)		-	-	-	-	(19,908)	
Total City Pool	<u>\$ 1,330,217</u>		<u>\$ 289,780</u>	<u>\$ 930,244</u>	<u>\$ 5,018</u>	<u>\$ 18,603</u>	<u>\$ 86,572</u>	

		Rating as of Year End 2005						
SERRF's Non-Pooled Investments		Minimum						
Investment Type		Legal Rating	Not Required To Be Rated	AAA	Aa	A	Unrated	
Guaranteed Investment Contracts	\$ 11,175	N/A	\$ 11,175	\$ -	\$ -	\$ -	\$ -	
Money Market Funds	270	N/A	270	-	-	-	-	
Total held by Bond Trustees	<u>\$ 11,445</u>		<u>\$ 11,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

**Southeast Resource Recovery Facility  
Joint Powers Authority  
Notes to Financial Statements  
September 30, 2006 and 2005**

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 represent 5% or more on total City's pooled investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount	
		2006	2005
FFCB Total	Federal Agency Securities	\$ 181,052	\$ 194,999
FHLB Total	Federal Agency Securities	241,246	204,151
FHLMC Total	Federal Agency Securities	266,937	216,462
FNMA Total	Federal Agency Securities	353,641	237,814
U.S. Treasuries	U.S. Treasury Notes & bonds	214,467	-
Commercial Paper	Unsecured Corporate debt	132,731	-
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	-	94,914

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 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 governmental units by pledging securities in an undivided collateral pool held by a depository regulated under 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 City 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's Local Area Investment Fund.

As of September 30, 2006, the City reports deposits of \$26,811,000 less \$18,043,000 for checks outstanding. As of September 30, 2005 City Deposits were \$11,499,000 less \$19,908,000 for checks outstanding.

**Southeast Resource Recovery Facility  
 Joint Powers Authority  
 Notes to Financial Statements  
 September 30, 2006 and 2005**

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the 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 accompanying 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.

**NOTE 4 - CAPITAL LEASE RECEIVABLE AND DEFERRED CREDITS**

The City leases SERRF from the Authority and the lease terminates at the later of December 1, 2018, when all bonds of the Authority have been retired or when the energy contract is terminated. Upon termination of the lease between the Authority and the City, the ownership of SERRF will revert to the City. Accordingly, the lease has been accounted for as a capital lease. The capital lease receivable in the accompanying financial statements totaled \$107,695,000 and \$114,050,000 as of September 2006 and 2005, respectively and represents the present value of the future lease payments and approximates the principal amount of the bonds payable; therefore, the terms of the capital lease receivable mirror the terms of the bonds payable (see Note 5).

The excess of the lease receivable over the recorded value of the facility and land as of July 1, 1989 has been deferred in the accompanying financial statements creating a deferred credit. This deferred credit is being amortized on the straight-line basis over the life of the original bonds (see Note 5); the balance is scheduled to be fully amortized by September 30, 2009. A summary of amortization of deferred credits is as follows (in thousands):

	2006	2005
Balance, October 1	\$3,357	\$4,253
Amortized to Rental Income	(895)	(896)
Balance September 30	\$2,462	\$3,357

**NOTE 5 - BONDS PAYABLE**

In December 1995, the Authority advance refunded the 1985, 1986 and 1986-2 SERRF Revenue Bonds (original bonds). Proceeds from the issuance of the 1995 SERRF Lease Revenue Refunding Bonds (1995 Bonds), as well as bond reserve and remaining funds from the previous 1985 and 1986 issues, were used to refund, in full, the outstanding principal, interest and premium of all original bonds and to pay costs of issuance incurred in connection with the new issuance. The 1995 advance refunding extended the lease from December 1, 2008 to December 1, 2018. Consequently, the annual rental payment, based



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on the effective fixed interest rate of 6.715%, decreased from \$18,500,000 to approximately \$12,800,000 for the highest annual debt service amount. The effective interest rate of 6.715% for the rental payment received from the City was the "Swap Interest Rate" as determined by the City's agreement with its investment broker. This effective interest rate also considered letter of credit fees and remarketing fees. As of May 31, 2002, the swap agreement terminated.

In October 2003, the Authority issued \$120,235,000 in lease revenue bonds Series A and Series B (2003 Bonds) to current refund the Authority's Lease Revenue Refunding Bonds, Series 1995A and Series 1995B, finance certain public improvement projects in the City, fund a reserve fund for the Series 2003 Bonds and pay certain costs of issuance. As a result of the refunding, there are no amounts outstanding for the 1995 Bonds in the accompanying financial statements. The 2003 Bonds are payable through December 1, 2018 with interest rates ranging from 2% through 5.375%. The refunding issue resulted in an accounting loss of approximately \$2,109,000, which will be recognized over the life of the bonds. Aggregate debt service increased by approximately \$4.9 million over the next fifteen years to level overall debt service requirements thereby resulting in an economic loss of approximately \$6.4 million.

Current and long-term portions of bonded indebtedness at September 30, 2006 and 2005 aggregated \$107,695,000 and \$114,050,000, respectively.

Long-term liability activity for the years ended September 30, 2006 and 2005 was as follows

	Balance at October 1, 2005	Additions	Reductions	Balance at September 30, 2006	Due Within One Year
Bonds Payable					
Revenue Bonds	\$ 114,050	\$ -	\$ (6,355)	\$ 107,695	\$ 6,540
Plus (less) deferred amount					
Premium	5,442	-	(412)	5,030	-
Refunding	(1,335)	-	421	(914)	-
Issuance Cost	(2,435)	-	185	(2,250)	-
Total Bonds Payable	<u>\$ 115,722</u>	<u>\$ -</u>	<u>\$ (6,161)</u>	<u>\$ 109,561</u>	<u>\$ 6,540</u>

	Balance at October 1, 2004	Additions	Reductions	Balance at September 30, 2005	Due Within One Year
Bonds Payable					
Revenue Bonds	\$ 120,235		\$ (6,185)	\$ 114,050	\$ 6,355
Plus (less) deferred amount					
Premium	5,856	-	(414)	5,442	-
Refunding	(1,757)	-	422	(1,335)	-
Issuance Cost	(2,620)	-	185	(2,435)	-
Total Bonds Payable	<u>\$ 121,714</u>	<u>\$ -</u>	<u>\$ (5,992)</u>	<u>\$ 115,722</u>	<u>\$ 6,355</u>

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At September 30, 2006 annual debt service requirements to maturity are as follows (in thousands):

<u>Year-end September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 6,540	\$ 4,635	\$ 11,175
2008	6,690	4,478	11,168
2009	6,860	4,312	11,172
2010	7,050	4,121	11,171
2011	7,305	3,860	11,165
2012-2016	42,230	13,621	55,851
2017-2019	31,020	2,492	33,512
Totals	<u>\$ 107,695</u>	<u>\$ 37,519</u>	<u>\$ 145,214</u>

Redemption

*Extraordinary Redemption.* The series 2003 Bonds are subject to redemption by the Authority on any date prior to their respective stated maturities, upon notice as hereinafter provided, as a whole, or in part by lot within each stated maturity in integral multiples of \$5,000, from prepayments made by the City pursuant to the Lease and deposited by the Trustee in the Principal Account, at a prepayment price equal to the sum of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date. Whenever less than all of the Outstanding Series 2003 Bonds of a series are to be redeemed on any one date, the Trustee shall select the Series 2003 Bonds of such series to be redeemed in part from the Outstanding Series 2003 Bonds of such series on a *pro rata* basis so that the aggregate annual Debt Service on Series 2003 Bonds that shall be payable after such redemption date shall be as nearly proportional as practicable to the aggregate annual Debt Service on Series 2003 Bonds Outstanding prior to such redemption date.

*Mandatory Sinking Account Redemption.* The Series 2003A Bonds (Non-AMT) maturing on December 1, 2016, upon notice as provided in the Indenture, shall also be subject to mandatory sinking account redemption prior to maturity, in part on December 1, 2015, by lot, from and in the amount of the Mandatory Sinking Account Payments set forth below at a redemption price equal to the sum of the principal amount thereof plus accrued interest thereon to the redemption date, without premium:

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<u>Redemption Date</u> <u>(December 1)</u>	<u>Mandatory Sinking</u> <u>Account Payment</u>
2015	\$6,425,000
2016 *	5,290,000

\* Final maturity of Series 2003A Term Bond (Non-AMT)

*Optional Redemption.* The Series 2003 Bonds maturing on and after December 1, 2014 are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from moneys deposited by the Authority or the City in the Principal Account, as a whole or in part (in such order of maturity as designated in writing by the City to the Trustee) on any date on or after December 1, 2013, at a redemption price equal to the sum of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

**SOUTHEAST RESOURCE RECOVERY FACILITY  
JOINT POWERS AUTHORITY**

**Statement of Physical Condition of the Plant  
(Not Covered by Independent Auditors' Report)**

**September 30, 2006**

**Long Beach, California**