



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH
Financial Statements
September 30, 2007 and 2006

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH
Financial Statements
For the Fiscal Year Ended September 30, 2007

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Independent Auditors' Report

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

We have 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, 2007 and 2006, 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 described more fully in note 1 to the financial statements, the financial statements referred to above include only the financial activities of the Harbor Department of the City of Long Beach, California, and are not intended to present fairly the financial position and results of operations of the City of Long Beach in conformity with U.S. generally accepted accounting principles.

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, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 31, 2008

**The Harbor Department of the City of Long Beach
Management's Discussion and Analysis
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As management of the Harbor Department of the City of Long Beach, California (the Department), we offer readers of the financial statements this discussion and analysis of the financial activities for the fiscal years ended September 30, 2007 and 2006.

Overview of the financial statements

The Department's financial statements include the statement of net assets, the statement of revenues, expenses, and changes in fund net assets, the statement 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 Statement of Net Assets presents 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 of 2007, 2006, and 2005.

| Summary of net assets September 30, 2007, 2006, and 2005 | | | |
|---|------------------|------------------|------------------|
| Assets | 2007 | 2006 | 2005 |
| Assets: | | | |
| Capital assets, net | \$ 2,245,291,679 | \$ 2,191,431,430 | \$ 2,223,194,894 |
| Other assets | 1,142,439,210 | 1,031,344,405 | 847,125,542 |
| Total assets | 3,387,730,889 | 3,222,775,835 | 3,070,320,436 |
| Liabilities: | | | |
| Long-term obligations, net of current portion | 1,032,894,146 | 1,096,106,131 | 1,135,331,023 |
| Current liabilities | 212,096,250 | 144,523,851 | 106,838,907 |
| Total liabilities | 1,244,990,396 | 1,240,629,982 | 1,242,169,930 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 1,162,931,088 | 1,079,606,148 | 1,080,335,939 |
| Restricted | 323,150,418 | 317,730,496 | 306,321,367 |
| Unrestricted | 656,658,987 | 584,809,209 | 441,493,200 |
| Total net assets | \$ 2,142,740,493 | \$ 1,982,145,853 | \$ 1,828,150,506 |

Analysis fiscal year 2007

At the end of fiscal year 2007, the assets of the Department exceeded its liabilities by \$2,142,740,493 (*net assets*). Total net assets increased by \$160,594,640. This change consists mainly of \$190,800,991 current year operating income, \$4,674,546 of income from equity in the ICTF joint venture, \$10,019,920 income derived from grants received from federal and state governments; less \$21,070,305 loss from oil operations, and \$23,830,512 from other net non-operating expenses, including financing costs and the 10% of increase in net assets transfer to the City's Tidelands Operating Fund, which amounts to \$15,399,535.

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 \$1,162,931,088 or

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54% of the aggregate net assets. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$323,150,418 of net assets subject to restrictions, an increase of \$5,419,922 from last year. The increase includes contributions and interest earnings added to funds restricted to service bond debt, to fund non-related party debt-service contingency, and matching contribution for future federally funded projects. Restricted net assets are thus identified in the Statement of Net Assets and represent 15% of the Department's total net assets.

At the end of fiscal year 2007, the Department reported unrestricted net assets of \$656,658,987, an increase of \$71,849,778 when compared to last year. This increase includes an increase in net assets of \$160,594,640, less \$83,324,940 used to finance capital assets, net of related liabilities, an additional \$7,643,041 set aside to fund the ACTA reserve, and an increase in unrestricted net assets as a result of a \$2,551,231 decrease in restricted net assets for qualifying expenses for the RDA Westside project. Unrestricted net assets represent 31% of the Department's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Department's continuing obligations and designated projects.

Analysis fiscal year 2006

The assets of the Department exceeded its liabilities at the close of the 2006 fiscal year by \$1,982,145,853 (*net assets*). Total net assets increased by \$153,995,347. This change consists mainly of \$192,288,131 of operating income, \$4,301,663 of income from equity in a joint venture, \$6,125,571 of income from oil operations, and \$2,298,184 of income derived from grants received from federal and state governments; less \$49,626,371 from other net non-operating expenses, including financing costs and the 8% of increase in net assets transfer to the City's Tideland Operating Fund, which amounts to 14,222,184.

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 \$1,079,606,148 or 54% of the aggregate net assets. Capital assets facilitate tenants' cargo operations and the Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$317,730,496 of net assets subject to external restrictions, an increase of \$11,409,129 when compared to fiscal year 2005. This increase consists mainly of contributions and interest earnings added to funds restricted for non-related party debt-service contingency and matching contribution for future federally funded projects and to funds restricted for capital projects. Restricted net assets are 16% of the Department's total net assets and are presented in the statements of net assets as restricted net assets.

At the end of fiscal year 2006, the Department reported unrestricted net assets of \$584,809,209, an increase of \$143,316,009 when compared to prior year. This increase consists mainly of 2006 fiscal year increase in net assets of \$153,995,347, less \$3,000,000 used to fund an insurance reserve, and \$11,400,000 provided to purchase additional environmental mitigation credits. A set-aside fund of \$104,025,687, earmarked to fund environmental protection projects, is an integral part of the unrestricted assets. Unrestricted net assets represent 30% of the Department's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Department's continuing obligations.

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Summary of operations and changes in net assets

The statement of revenues, expenses, and changes in fund net assets illustrates 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 2007, 2006, and 2005.

| | Changes in fund net assets | | |
|---|--|------------------|------------------|
| | Years ended September 30, 2007, 2006, and 2005 | | |
| | 2007 | 2006 | 2005 |
| Operating revenues: | | | |
| Berth and special facilities | \$ 351,891,119 | \$ 337,675,886 | \$ 314,563,390 |
| Miscellaneous | 18,940,814 | 15,618,591 | 14,644,072 |
| Total operating revenues | 370,831,933 | 353,294,477 | 329,207,462 |
| Operating expenses: | | | |
| Facility and infrastructure | (69,959,326) | (54,341,202) | (42,905,834) |
| General and administrative | (27,004,526) | (21,199,838) | (19,109,527) |
| Depreciation and amortization | (83,067,090) | (85,465,306) | (86,753,892) |
| Total operating expenses | (180,030,942) | (161,006,346) | (148,769,253) |
| Operating income | 190,800,991 | 192,288,131 | 180,438,209 |
| Non-operating revenues (expenses): | | | |
| Intergovernmental | (15,399,535) | (14,222,184) | (9,499,689) |
| Interest expense, net of interest income | (9,698,643) | (25,807,784) | (39,483,440) |
| Income (loss) from oil operations | (21,070,305) | 6,125,571 | 13,540,959 |
| Gain (loss) disposition of capital assets | 179 | (1,391,831) | (399,737) |
| Income from equity in joint venture | 4,674,546 | 4,301,663 | 3,535,373 |
| Other Income (expense), net | 1,267,487 | (9,596,403) | (8,118,298) |
| Net non-operating expense | (40,226,271) | (40,590,968) | (40,424,832) |
| Income before capital grants | 150,574,720 | 151,697,163 | 140,013,377 |
| Capital grants | 10,019,920 | 2,298,184 | 2,208,461 |
| Change in net assets | 160,594,640 | 153,995,347 | 142,221,838 |
| Total net assets – beginning | 1,982,145,853 | 1,828,150,506 | 1,685,928,668 |
| Total net assets – ending | \$ 2,142,740,493 | \$ 1,982,145,853 | \$ 1,828,150,506 |

Analysis fiscal year 2007

A comparison of the results of operations for fiscal years 2007 and 2006 shows an increase in operating revenues of 5%. The following revenue categories increased: containerized cargo 6%, liquid bulk 6%, other facilities 10%, rentals 28%, vehicles 1%, and miscellaneous income 4%; the following revenue categories decreased: dry bulk facilities 11%, steel 3%, and lumber 16%. Gross oil operations revenue decreased 1%.

In terms of volume (measured in metric revenue tons), only containerized cargo increased by 5%, while decreases were experienced by dry bulk 12%, vehicles 16%, steel 6%, lumber 7%, and miscellaneous 25%. Liquid bulk moved up by less than 1%.

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Operating expenses increased due to the ongoing implementation of the Green Port policy, which encompasses programs such as the Clean Air Action Plan. The policy aims to fund efforts geared toward a cleaner environment within and around the Port complex. Another element is the safety and security concerns faced by the trade industry, which has induced the Port to increase its security related expenses. Upgrades and maintenance of access roads, sanitation systems, and revamping of community outreach and involvement were also factors causing the increase in operating expenses.

Depreciation expense decreased during 2007; changes are directly related to the acquisition/retirement of operating assets, date when assets are placed in service, date when assets are recorded in the books, and partial closing of projects. Interest expense was lower because of reduced bonded debt principal balances. Interest income increased due to higher interest rates and higher cash balances maintained by the Port.

Oil operations results decreased \$27 million from previous year due to the recognition of an environmental remediation liability related to cleaning up waste on Pier A West.

Analysis fiscal year 2006

Compared to the results of operations for fiscal year 2005, revenues from all berths and special facilities increased 7%; specifically, all lines of business increased: containerized cargo 7%, liquid bulk 1%, dry bulk 21%, steel 14%, vehicles 2%, lumber 16%, other facilities 6%, rentals 5%, and miscellaneous revenues 12%. Gross oil operations revenue increased 41%.

In terms of volume (measured in metric revenue tons), the following lines of business increased: containerized cargo 7%, liquid bulk 1%, dry bulk 29%, and vehicles 23% while the following lines of business decreased: steel 4%, lumber 12%, and miscellaneous 30%.

Operating expenses increased due partly to the ongoing implementation of the Green Port policy, which provides for higher environmental mitigation expenses and the permanent security awareness environment surrounding the maritime trade activity. Additionally, due to the nature of the expense, some capital work orders, originally tracked as construction in progress, were closed to operating expenses instead of adding them to the Port's operating assets.

Depreciation expense changed in proportion to the acquisition, completion, or retirement of operating assets. During fiscal year 2006, the Port did not put into service any major facility or major assets, for example: cranes, but it retired assets that were still being depreciated and adjusted the fair values on some of its cranes to exclude the litigated value of warranties. This combination of factors resulted in a slight reduction of the depreciation expense. Interest expense decreased because of the scheduled reduction of bond principal balances and due to the favorable effect of the variable interest rate on the 2002A bonds. Interest income increased due to financial market conditions with prevailing higher interest rates and higher cash balances maintained by the Port.

Notes to the Financial Statements

The notes to the Department's financial statements can be found on pages 14-38 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

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Capital Assets and Debt Administration

Capital assets

The Department's investments in capital assets, net of accumulated depreciation, as of September 30, 2007, 2006, and 2005 are as follows:

| | Capital assets, net September 30, 2007, 2006, and 2005 | | |
|---|---|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Non-depreciable capital assets: | | | |
| Land | \$ 850,704,021 | \$ 848,903,831 | \$ 836,811,556 |
| Construction in progress | 225,836,752 | 145,554,036 | 130,633,396 |
| Rights of way | 207,823,264 | 207,823,264 | 207,823,264 |
| Subtotal non-depreciable capital assets | 1,284,364,037 | 1,202,281,131 | 1,175,268,216 |
| Depreciable capital assets (net): | | | |
| Structures and facilities | 956,920,248 | 985,583,964 | 1,044,433,538 |
| Furniture, fixtures, and equipment | 4,007,394 | 3,566,335 | 3,493,140 |
| Subtotal depreciable capital assets | 960,927,642 | 989,150,299 | 1,047,926,678 |
| Total capital assets, net | \$ 2,245,291,679 | \$ 2,191,431,430 | \$ 2,223,194,894 |

Analysis fiscal year 2007

The Department's investments in capital assets includes land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. Capital assets increased 2% when compared to fiscal year 2006. The increase is related to higher activity in the construction in progress accounts, and as a result, more projects started or continued. As more projects were completed, more assets were placed in service and aging carpool and utility vehicles were replaced with ones with more fuel efficient and cleaner emissions. Additionally, the Port is upgrading and modernizing its security equipment. Information regarding the Department's capital assets can be found in note 5 to the financial statements.

Analysis fiscal year 2006

The Department's investment in capital assets includes land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights of way. These assets experienced a decrease of 1% when compared to fiscal year 2005. The decrease is due to the transfer of costs accumulated in the construction in progress account to operating expenses. Additional information regarding the Department's capital assets can be found in note 5 to the financial statements.

Debt administration

The following table summarizes the Department's long-term debt as of September 30, 2007, 2006, and 2005:

| | Long-term debt September 30, 2007, 2006, and 2005 | | |
|------------------------------|--|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Bond debt | \$1,016,164,146 | \$ 1,055,949,798 | \$ 1,092,333,356 |
| Commercial paper outstanding | 60,150,000 | 60,150,000 | 60,150,000 |
| Notes payable | 41,333 | 82,667 | 137,559 |
| Total long-term debt | \$1,076,355,479 | \$ 1,116,182,465 | \$ 1,152,620,915 |

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Analysis fiscal year 2007

The Department's total long-term debt decreased by \$39,826,986, or approximately 4%. The decrease was the result of scheduled bond debt-service payments.

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. The ratings are the result of factors such as: the Port's significant size and strength among the West Coast container ports; its status as a world-class facility; its prime location to attract Pacific Rim trade; convenient links to inter-modal connections; its healthy financial condition and high liquidity; the proactive approach to protect its facilities and to make them as safe and secure as possible; the continued implementation of an environmentally responsible capital program supported by the Board of Harbor Commissioners; and management's commitment to efficiency, sustainability, environmental protection, and customer service.

The debt-service coverage ratios for fiscal years ending 2007 and 2006 are 3.4 and 3.4, 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 6, 7, and 8 on pages 25-31 of this report.

Analysis fiscal year 2006

The Department's total long-term debt decreased by \$36,438,450, or approximately 3%. The decrease was the result of scheduled debt-service payments.

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. The ratings are the result of the following factors: the Port's significant size and strength among the West Coast container ports; its status as a world-class facility; its prime location to attract Pacific Rim trade; convenient links to inter-modal connections; its healthy financial margins and high liquidity; and the implementation of an environmentally responsible capital program supported by the Board of Harbor Commissioners and management's commitment to sustainability, environmental protection, and customer service.

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.

**The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2007 and 2006**

| | 2007 | 2006 |
|---|------------------|------------------|
| Assets | | |
| Current assets: | | |
| Pooled cash and cash equivalents (note 2) | \$ 250,181,666 | \$ 563,903,516 |
| Pooled cash and cash equivalents, designated as to use (note 2) | 357,565,512 | 39,813,446 |
| Trade accounts receivable, net of allowance | 46,928,166 | 41,763,945 |
| Interest receivable | 535,260 | 576,406 |
| Due from other governmental agencies (note 3) | 5,930,537 | 2,961,260 |
| Inventories of supplies | 734,102 | 928,111 |
| Sub-total | 661,875,243 | 649,946,684 |
| Harbor Revenue Bond Funds and other funds restricted as to use (notes 2 and 8): | | |
| Pooled cash and cash equivalents (note 2) | 332,987,847 | 219,299,348 |
| Bond reserves held by fiscal agents | 54,017,356 | 54,153,081 |
| Sub-total restricted current assets | 387,005,203 | 273,452,429 |
| Total current assets | 1,048,880,446 | 923,399,113 |
| Non-current assets: | | |
| Capital assets (notes 5 and 10): | | |
| Land: | | |
| Purchased | 439,913,481 | 439,812,839 |
| Constructed | 410,790,540 | 409,090,992 |
| Net land | 850,704,021 | 848,903,831 |
| Structures and facilities | 1,818,157,460 | 1,782,556,550 |
| Less accumulated depreciation | (861,237,212) | (796,972,586) |
| Net structures and facilities | 956,920,248 | 985,583,964 |
| Furniture, fixtures, and equipment | 16,683,825 | 15,439,437 |
| Less accumulated depreciation | (12,676,431) | (11,873,102) |
| Net furniture, fixtures, and equipment | 4,007,394 | 3,566,335 |
| Construction in progress | 225,836,752 | 145,554,036 |
| Rights of way (note 4) | 207,823,264 | 207,823,264 |
| Net capital assets | 2,245,291,679 | 2,191,431,430 |
| Other assets: | | |
| Long-term receivables (note 3) | 27,435,000 | 27,435,000 |
| Oil facilities (net of accumulated depletion of \$70,052,500 and \$69,192,143 respectively) | 11,083,355 | 11,943,712 |
| Environmental mitigation credits (note 14) | 44,278,068 | 44,278,068 |
| Investments in joint venture (note 11) | 7,462,341 | 6,787,795 |
| Other non-current assets | 3,300,000 | 17,500,717 |
| Total other assets | 93,558,764 | 107,945,292 |
| Total non-current assets | 2,338,850,443 | 2,299,376,722 |
| Total assets | \$ 3,387,730,889 | \$ 3,222,775,835 |

(Continued)

**The Harbor Department of the City of Long Beach
Statements of Net Assets
September 30, 2007 and 2006**

| | 2007 | 2006 |
|--|------------------|------------------|
| Liabilities and Net Assets | | |
| Current liabilities payable from current assets: | | |
| Accounts payable and accrued expenses | \$ 50,810,785 | \$ 54,217,749 |
| Due to City of Long Beach (note 13) | 15,605,875 | 14,571,972 |
| Notes payable (note 7) | 41,333 | 41,334 |
| Commercial paper outstanding (note 6) | 60,150,000 | - |
| Accrued interest – commercial paper | 282,852 | - |
| Deferred credits and unearned revenue | 15,920,605 | 17,226,740 |
| Accrued claims and judgments (note 12) | 2,385,000 | 2,385,000 |
| Total current liabilities payable from current assets | 145,196,450 | 88,442,795 |
| Current liabilities payable from restricted assets: | | |
| Current portion of bonds indebtedness (note 8) | 40,170,000 | 38,335,000 |
| Accrued interest – bonds | 17,129,800 | 17,746,056 |
| Current portion of environmental remediation (note 12) | 9,600,000 | - |
| Total current liabilities payable from restricted assets | 66,899,800 | 56,081,056 |
| Total current liabilities | 212,096,250 | 144,523,851 |
| Long-term obligations net of current portion: | | |
| Bonds indebtedness (note 8) | 975,994,146 | 1,017,614,798 |
| Commercial paper outstanding (note 6) | - | 60,150,000 |
| Environmental remediation (note 12) | 38,100,000 | - |
| Notes payable (note 7) | - | 41,333 |
| Oil wells abandonment (note 12) | 18,800,000 | 18,300,000 |
| Total non-current liabilities | 1,032,894,146 | 1,096,106,131 |
| Total liabilities | 1,244,990,396 | 1,240,629,982 |
| Net assets (note 15): | | |
| Invested in capital assets, net of related debt | 1,162,931,088 | 1,079,606,148 |
| Restricted-non-related party debt service contingency and matching contribution for future federally funded projects (note 12) | 170,245,883 | 162,602,842 |
| Restricted-capital projects | 49,096,654 | 51,647,885 |
| Restricted-debt service | 103,807,881 | 103,479,769 |
| Unrestricted: | | |
| Unrestricted – designated as to use (note 12) | 217,300,000 | - |
| Unrestricted | 439,358,987 | 584,809,209 |
| Total net assets | \$ 2,142,740,493 | \$ 1,982,145,853 |

See accompanying notes to the financial statements.

The Harbor Department of the City of Long Beach
Statements of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Years Ended September 30, 2007 and 2006

| | 2007 | 2006 |
|---|------------------|------------------|
| Port operating revenues (note 10): | | |
| Berths and special facilities | \$ 351,891,119 | \$ 337,675,886 |
| Rental properties | 14,633,060 | 11,458,464 |
| Miscellaneous | 4,307,754 | 4,160,127 |
| Total Port operating revenues | 370,831,933 | 353,294,477 |
| Port operating expenses: | | |
| Facility maintenance | 9,777,839 | 5,336,502 |
| Infrastructure maintenance | 29,916,302 | 22,787,336 |
| Fire and safety | 20,472,349 | 17,527,101 |
| Other indirect | 9,792,836 | 8,690,263 |
| General and administrative | 27,004,526 | 21,199,838 |
| Port operating expenses before depreciation and amortization | 96,963,852 | 75,541,040 |
| Depreciation and amortization | 83,067,090 | 85,465,306 |
| Total Port operating expenses | 180,030,942 | 161,006,346 |
| Operating Income | 190,800,991 | 192,288,131 |
| Non-operating income (expense): | | |
| Interest income | 43,374,260 | 28,301,965 |
| Interest expense | (53,072,903) | (54,109,749) |
| Income (loss) from Harbor oil operations | (21,070,305) | 6,125,571 |
| Gain (loss) on disposition of capital assets | 179 | (1,391,831) |
| Income from equity in joint ventures (Note 11) | 4,674,546 | 4,301,663 |
| Other income (expense), net | 1,267,487 | (9,596,403) |
| Net non-operating expense | (24,826,736) | (26,368,784) |
| Income before capital grants and transfers | 165,974,255 | 165,919,347 |
| Capital grants | 10,019,920 | 2,298,184 |
| Transfers to the City of Long Beach (note 13) | (15,399,535) | (14,222,184) |
| Increase in net assets | 160,594,640 | 153,995,347 |
| Total net assets, October 1 | 1,982,145,853 | 1,828,150,506 |
| Total net assets, September 30 | \$ 2,142,740,493 | \$ 1,982,145,853 |

See accompanying notes to the financial statements.

**The Harbor Department of the City of Long Beach
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2007 and 2006**

| | 2007 | 2006 |
|--|----------------|----------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 366,577,042 | \$ 354,167,712 |
| Cash paid to employees net of capitalized labor of \$6,017,758 and \$4,835,075 in 2007 and 2006 | (27,599,780) | (25,771,912) |
| Cash paid to suppliers | (68,436,839) | (48,091,395) |
| Net cash provided by operating activities | 270,540,423 | 280,304,405 |
| Cash flows from non-capital financing activities: | | |
| Intergovernmental transfers | (14,222,184) | (9,499,689) |
| Net cash used in non-capital financing activities | (14,222,184) | (9,499,689) |
| Cash flows from capital and related financing activities: | | |
| Proceeds from the sales of capital assets | - | 78,436 |
| Payments for capital acquisitions | (104,545,559) | (59,189,052) |
| Grant proceeds | 4,613,447 | 1,112,876 |
| Principal repayment-bonds | (38,335,000) | (34,935,000) |
| Interest paid | (54,964,815) | (58,060,860) |
| Principal payment-notes | (41,333) | (54,892) |
| Net cash used in capital and related financing activities | (193,273,260) | (151,048,492) |
| Cash flows from investing activities: | | |
| Interest received | 43,417,824 | 28,207,625 |
| Return on investment in joint venture | - | 3,500,000 |
| Harbor oil operations providing cash | 11,122,605 | 29,562,000 |
| Net cash provided by investing activities | 54,540,429 | 61,269,625 |
| Net increase in cash and cash equivalents | 117,585,408 | 181,025,849 |
| Cash and cash equivalents, October 1 | 844,938,605 | 663,912,756 |
| Cash and cash equivalents, September 30 | \$ 962,524,013 | \$ 844,938,605 |

(Continued)

**The Harbor Department of the City of Long Beach
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2007 and 2006**

| | <u>2007</u> | <u>2006</u> |
|---|------------------------------|------------------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | <u>\$ 190,800,991</u> | <u>\$ 192,288,131</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 83,067,090 | 85,465,306 |
| Effects of changes in operating assets and liabilities: | | |
| Increase in receivables | (3,002,176) | (410,702) |
| Increase in receivable from other governments | (319,937) | — |
| Increase/decrease in inventory | (194,009) | 58,224 |
| Decrease in vouchers payable | (92,367) | (65,087) |
| Increase in accounts payable | 380,005 | 886,269 |
| Increase in wages payable | 636,646 | 448,537 |
| Decrease/increase in deferred revenue | (53,337) | 1,071,887 |
| Decrease/increase in customer deposits | (539,035) | 212,051 |
| Decrease/increase in due to other funds | (143,448) | 349,789 |
| Total adjustments | <u>79,739,432</u> | <u>88,016,274</u> |
| Net cash provided by operating activities | <u><u>\$ 270,540,423</u></u> | <u><u>\$ 280,304,405</u></u> |

See accompanying notes to the basic financial statements.

The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006

(1) Summary of Significant Accounting Policies

The Reporting Entity

Article XII of the City Charter of the City of Long Beach, California (the City) created the Harbor Department of the City of Long Beach (the Department) to promote and develop the Port of Long Beach (the Port). The Department operations are included in the City's reporting entity as an enterprise fund; its activities are conducted in the Tidelands Trust area of the City and are subject to coastal area laws of the State of California and to the terms of the trust agreement between the City and the State of California.

The Harbor Facilities Corporation (the Corporation), a non-profit public benefit corporation, has been inactive since 1995 and did not have any activity during the 2007 and 2006 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 Project). The Project 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.

Basis of Accounting and Measurement Focus

Disbursement of funds derived from Department 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 tenants. Consistent with 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 non-operating 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 Department's basic financial statements include two components:

1. Management's discussion and analysis (MD&A)
2. Financial statements:
 - Statements of net assets
 - Statements of revenues, expenses, and changes in fund net assets
 - Statements of cash flows on the direct method, and
 - Notes to the financial statements

The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006

The Department recognizes operating revenues when they are earned. Proceeds from federal or state grants are considered as non-operating revenues, recognized as such when reimbursable expenses are incurred, and are identified as capital grants in the statement 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 statement of net assets.

New Accounting Pronouncements

Effective October 1, 2006, the Department adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 44 *Economic Condition Reporting –The Statistical Section*, an amendment of National Council on Government Accounting (NCGA) Statement No. 1. The adoption of both pronouncements, GASB 42 and GASB 44, did not have a material effect on the Department's financial statements.

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, non-pooled 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.

Interest 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, 2007 and 2006, is stated at fair value (see note 2).

Inventories

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

Capital Assets

Capital assets are valued at historical costs. The capitalization threshold for capital assets is \$5,000. Depreciation is determined using the straight-line method with no allowance for salvage values. When appropriate, provision for obsolescence is recognized by charging depreciation at an accelerated rate on specific assets. 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 to 75 years |
| Wharves and bulkheads | 40 years |
| Transit sheds and buildings | 20 years |
| State highway connections | 10 years |
| Other | 5 to 50 years |
| Furniture, fixtures, and equipment | 2 to 30 years |

Oil Operation

Oil facilities are valued at historical cost plus estimated future oil well abandonment costs. Oil field depletion is determined using the estimated economic life of the oil field. Donated assets are valued at their estimated fair value on the donation date.

The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006

Investments in Joint Ventures

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

Compensated Absences

The Department records all accrued employee benefits, including accumulated vacation and sick leave, as a liability in the period when the benefits are earned. Accrued employee benefits are treated as a current liability for financial statement presentation.

Pension Plan

All full-time Department employees are members of the State of California Public Employees' Retirement System (CalPERS). The Department's policy is to fund all accrued pension costs. These costs are determined annually as of October 1 by CalPERS, and are incorporated into the payroll burden rate reimbursable to the City's Employee Benefits Internal Service Fund. For CalPERS contributions made on behalf of Department employees (see note 9).

Allowance for Doubtful Accounts Receivable

The allowance for doubtful accounts is maintained at an adequate level to absorb accounts receivable losses. An Allowance for Doubtful Accounts Receivable (the Allowance) is established to reflect the amount of the Port's receivables that Management estimates will be uncollectible ensuring that Port's receivables will not be overstated for financial reporting purposes. The allowance shall be 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.

To determine uncollectibility, the Department's Finance Division will review all delinquent accounts around August of each year. Amounts deemed uncollectible will be proposed to be written off.

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.

Reclassifications

Certain amounts reported in fiscal year 2006 have been reclassified to conform to the fiscal year 2007 presentation. Such reclassifications had no effect on the previously reported change in net assets.

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 either externally imposed by creditors, grantors, contributors, or laws or regulations of other

**The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006**

governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the Department or have legislative or bond indenture requirements associated with their use. 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 are a primary example of unrestricted net assets with designated uses (see note 12).

(2) Pooled Cash, Cash Equivalents, and Other Investments

The Department's cash and cash equivalents and investments as of September 30, 2007 and 2006 are classified in the accompanying statement of net assets as follows:

| | 2007 | 2006 |
|---|----------------|----------------|
| Pooled cash and cash equivalents | \$ 250,181,666 | \$ 563,903,516 |
| Pooled cash and cash equivalents, designated as to use | 357,565,512 | 39,813,446 |
| Pooled cash and cash equivalents, restricted | 332,987,847 | 219,299,348 |
| Total pooled cash and cash equivalents | 940,735,025 | 823,016,310 |
| Bond reserves held by fiscal agents | 54,017,356 | 54,153,081 |
| Total pooled cash and cash equivalents and bond reserves held by fiscal agents | \$ 994,752,381 | \$ 877,169,391 |

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, 2007 and 2006 is \$940,735,025 or 55.7% and \$823,016,310 or 57.2% of the City's pooled cash and cash equivalents. The Department's bond reserves held by fiscal agents for the 2002, 2004, and 2005 bonds is \$54,017,356 and \$54,153,081 as of September 30, 2007 and 2006, respectively. The City's investment policy authorizes the pool to invest in obligations issued or guaranteed by the federal government and its agencies and instrumentalities as well as in commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, reverse repurchase agreements, bank certificates of deposits, the State Treasurer's Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified management companies.

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 income and gains and losses earned on pooled cash and investments are allocated monthly to the various pool participants based on their average daily cash balances.

**The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006**

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

The table below identifies the investment types that are authorized 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.

Fiscal year 2007

| Authorized investment type | Maximum maturity | Maximum % 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 |
| Bankers 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 | 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.

Disclosures Relating to 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 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 as of September 30, 2007 and 2006 (in thousands):

Fiscal year 2007

| Investment type | Amount (In thousands) | Weighted average maturity (in years) |
|--|--------------------------|---|
| Inter-Departmental Loan (Health Savrs) | \$ 3,098 | 11.60 |
| United States Treasury notes | 145,149 | 0.90 |
| Federal agency securities | 1,190,784 | 2.28 |
| Medium-term notes | 49,881 | 1.83 |
| Short-term commercial paper | 135,874 | 0.02 |
| Local Agency Investment Fund (LAIF) | 139,156 | 0.01 |
| Sub-total city pool | \$ 1,663,942 | |
| Cash on hand | 34,816 | |
| Outstanding checks | (10,379) | |
| Total cash and investments | \$ 1,688,379 | |

The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006

| Fiscal year 2006 | Amount (In thousands) | Weighted average Maturity (in years) |
|---|--------------------------|---|
| Investment type | | |
| Inter-Department Loan (Health Savrs) | \$ 3,297 | 12.60 |
| United States Treasury notes, bonds, or bills | 214,467 | 1.54 |
| Federal Agency Securities | 1,042,876 | 1.57 |
| Medium-term notes | 33,464 | 1.61 |
| Short-term commercial paper | 132,731 | 0.01 |
| Local Agency Investment Fund (LAIF) | 2,920 | 0.00 |
| Sub-total city pool | \$ 1,429,755 | |
| Cash on hand | 26,811 | |
| Outstanding checks | (18,044) | |
| Total cash and investments | \$ 1,438,522 | |

The following schedule indicates the interest rate risk of the Department's investments as of September 30, 2007 and 2006 (in thousands):

Fiscal year 2007

| Investment type | Amount (In thousands) |
|---|--------------------------|
| 2000 Bonds Reserve – First American Treasury Obligation – Held by U.S. Bank | \$ 21,789 |
| 2004 Bonds Reserve – AIG Matched Funding Agreement – Held by U.S. Bank | 11,372 |
| 2005 Bonds Reserve – FSA Capital Management Services – Held by U.S. Bank | 20,856 |
| Total cash held by fiscal agent | \$ 54,017 |

Fiscal year 2006

| Investment type | Amount (In thousands) |
|---|--------------------------|
| 2000 Bonds Reserve – First American Treasury Obligation – Held by U.S. Bank | \$ 21,922 |
| 2004 Bonds Reserve – AIG Matched Funding Agreement – Held by U.S. Bank | 11,373 |
| 2005 Bonds Reserve – FSA Capital Management Services – Held by U.S. Bank | 20,858 |
| Total cash held by fiscal agent | \$ 54,153 |

Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments that were highly sensitive to market interest rate changes as of September 30, 2007 and 2006. 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.

The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 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.

Fiscal year 2007

| Investment type | Amount (in thousands) | Minimum legal requirement | Not required to be rated | Rating as of September 30 | | | | |
|------------------------------|-----------------------------|---------------------------------|--------------------------------|---------------------------|-----------|--------------|----------|-----------|
| | | | | A-1+ | A-1 | AAA | AA | Unrated |
| Inter-department loan | \$ 3,098 | N/A | \$ 3,098 | \$ — | \$ — | \$ — | \$ — | \$ — |
| U.S. Treasury notes | 145,149 | N/A | 145,149 | — | — | — | — | — |
| Federal Agency Securities | 1,190,784 | N/A | — | — | — | 1,190,784 | — | — |
| Medium—term notes | 49,881 | A | — | — | — | 44,861 | 5,020 | — |
| Short—term Commercial Paper | 135,874 | N/A | — | 54,350 | 81,524 | — | — | — |
| Local agency Investment Fund | 139,156 | N/A | 139,156 | — | — | — | — | — |
| Subtotal city pool | \$ 1,663,942 | | 287,403 | 54,350 | 81,524 | 1,235,645 | 5,020 | — |
| Cash on Hand | 34,816 | | — | — | — | — | — | 34,816 |
| Outstanding checks | (10,379) | | — | — | — | — | — | (10,379) |
| Total city pool | \$ 1,688,379 | | \$ 287,403 | \$ 54,350 | \$ 81,524 | \$ 1,235,645 | \$ 5,020 | \$ 24,437 |

Fiscal year 2006

| Investment type | AMOUNT (In 000's) | Minimum Legal Rating | Not Required | Rating as of September 30 | | | | |
|------------------------------|----------------------|----------------------------|-----------------|---------------------------|-----------|--------------|----------|----------|
| | | | | A-1+ | A-1 | AAA | AA | Unrated |
| Inter-department loan | \$ 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 | 2,920 | N/A | 2,920 | — | — | — | — | — |
| Subtotal city pool | 1,429,755 | | 220,684 | 75,773 | 56,958 | 1,071,321 | 5,019 | — |
| Cash on Hand | 26,811 | N/A | — | — | — | — | — | 26,811 |
| Outstanding checks | (18,044) | N/A | — | — | — | — | — | (18,044) |
| Total city pool | \$ 1,438,522 | | \$ 220,684 | 75,773 | \$ 56,958 | \$ 1,071,321 | \$ 5,019 | \$ 8,767 |

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 of total City's pooled investments and for the fiscal years ended September 30, 2007 and 2006 are as follows:

Fiscal year 2007

| Issuer | Investment description | Amount (in thousands) |
|-------------------------------------|-------------------------------------|-----------------------|
| Federal Farm Credit Bureau | Federal Agency Securities | \$ 89,334 |
| Federal Home Loan Bank | Federal Agency Securities | 354,763 |
| Federal Home Loan Mortgage Assoc. | Federal Agency Securities | 307,865 |
| Federal National Mortgage Assoc. | Federal Agency Securities | 438,822 |
| U.S. Treasuries | U.S. Treasury notes and bonds | 145,149 |
| Commercial Paper | Unsecured corporate debt | 135,874 |
| Local Agency investment Fund (LAIF) | Local Agency Investment Fund (LAIF) | 139,156 |

**The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006**

| Fiscal year 2006 | Issuer | Investment description | Amount (in thousands) |
|------------------|-----------------------------------|-------------------------------|-----------------------|
| | Federal Farm Credit Bureau | Federal Agency Securities | \$ 181,052 |
| | Federal Home Loan Bank | Federal Agency Securities | 241,246 |
| | Federal Home Loan Mortgage Assoc. | Federal Agency Securities | 266,937 |
| | Federal National Mortgage Assoc. | Federal Agency Securities | 353,641 |
| | U.S. Treasuries | U.S. Treasury notes and bonds | 214,467 |
| | Commercial paper | Unsecured corporate debt | 132,731 |

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt covenants.

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 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 Agency Investment Fund.

As of September 30, 2007, the City report deposits of \$34,816,000 less \$10,379,000 for checks outstanding. As of September 30, 2006, City deposits were \$26,811,000 less \$18,044,000 for checks outstanding.

Investments 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.

GASB 31

GASB 31 requires that certain investments and external investment pools be reported at fair value. At September 30, 2007 and 2006, the effect of valuating the City's investments at fair value did not have a material impact on its financial position.

**The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006**

Reverse Repurchase Agreements

The City did not engage in any transactions involving reverse repurchase agreements during the fiscal years ending September 30, 2007 and 2006.

Securities Lending

The City did not engage in any securities lending activities during the fiscal years ended September 30, 2007 and 2006. 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. These agreements limit the nature and amount of the transactions, and provide for full collateralization of each transaction.

(3) Other Receivables

Other receivables as of September 30 include the following:

| | 2007 | 2006 |
|---|---------------|---------------|
| Due from other governmental agencies: | | |
| Current: | | |
| Federal grant – Department of Homeland Security | \$ 5,876,433 | \$ 72,431 |
| Reimbursements due from Caltrans | \$ 54,104 | \$ 2,568,892 |
| State of California | - | 166,754 |
| Due from other funds – Oil Properties | - | 153,183 |
| Total current | 5,930,537 | 2,961,260 |
| Long term: | | |
| Redevelopment Agency – Convention Center | \$ 27,435,000 | \$ 27,435,000 |
| Total due from other governmental agencies | \$ 33,365,537 | \$ 30,396,260 |

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.

In August 1995, the Board of Harbor Commissioners amended this agreement and agreed to subordinate the repayment of the entire receivable to a contingent City obligation related to a bond issuance to fund the construction of the Aquarium of the Pacific (the Aquarium), a not-for-profit facility in the Queensway Bay area of the City. Provided the anticipated future revenue sources from the Aquarium would not cover their bond debt service requirements, the Agency agreed to fund the remaining debt service with transient occupancy tax revenues. A subsequent amendment deferred the initial repayment to the first quarter of fiscal year 1999, with the balance of the advance to be repaid in quarterly installments over 16 years.

In a more recent development, the City and the Department amended the agreement to provide for a two-year deferral of the payments scheduled for fiscal years 2000 and 2001. As of September 30, 2001, the Agency had an unpaid liability to the Department of \$27,435,000. Under that agreement, \$1,765,000 was payable during the 2002 fiscal year and was considered a current asset for financial statement purposes. Since 2004, the Agency has not had sufficient funds in excess of the Aquarium debt annual debt service and has not made any of the agreed-upon payments. Since the Department does not expect to receive any payment during the upcoming twelve months, it will maintain the entire debt, \$27,435,000, as a long-term receivable.

The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006

(4) Alameda Corridor Right-of-Way Purchase

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively the Ports) executed the purchase of the rights of way needed for the development of the Alameda Corridor Project (the Project), which is a comprehensive transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three railroad companies then serving the Ports: Union Pacific Railroad Company, Southern Pacific Railroad Company, and Atchison, Topeka and Santa Fe Railroad Companies. After the purchase, Southern Pacific merged into Union Pacific and Atchison, Topeka, and Santa Fe merged with Burlington Northern to form the Burlington Northern Santa Fe.

The total purchase 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, 2007 and 2006, total costs to the Department related to the rights-of-way purchase amounted to \$207,823,264.

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 (see note 12). Some of the benefits derived from the project are the consolidation of the railroad services onto a single set of rail lines, the improvement of the rail transportation conditions around the Ports, the securing of efficient and competitive service to and from the Ports, and the increase in public safety along the route on which Port related traffic occurs. These benefits will extend to other governmental entities by allowing them to utilize the right of way.

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

(5) Capital Assets

Capital assets roll forward schedule

| Description | Balance 10/01/06 | Additions | Disposals | Transfers | Balance 9/30/07 |
|---------------------------------|-------------------------|-----------------------|------------------------|--------------|-------------------------|
| Non-depreciable capital assets: | | | | | |
| Purchased land | \$ 439,812,839 | \$ - | \$ - | \$ 100,642 | \$ 439,913,481 |
| Constructed land | 409,090,992 | 1,839,835 | (140,287) | - | 410,790,540 |
| Construction in progress | 145,554,036 | 164,240,704 | (40,503,519) | (43,454,469) | 225,836,752 |
| Rights of way (note 4) | 207,823,264 | - | - | - | 207,823,264 |
| Subtotal | 1,202,281,131 | 166,080,539 | (40,643,806) | (43,353,827) | 1,284,364,037 |
| Depreciable capital assets: | | | | | |
| Structures and facilities | 1,782,556,550 | 5,557,031 | (12,636,957) | 42,680,836 | 1,818,157,460 |
| Furniture, fixtures and eq. | 15,439,437 | 577,334 | (5,937) | 672,991 | 16,683,825 |
| Subtotal | 1,797,995,987 | 6,134,365 | (12,642,894) | 43,353,827 | 1,834,841,285 |
| Total capital assets | <u>\$ 3,000,277,118</u> | <u>\$ 172,214,904</u> | <u>\$ (53,286,700)</u> | <u>\$ -</u> | <u>\$ 3,119,205,322</u> |

| Description | Balance 10/01/05 | Additions | Disposals | Transfers | Balance 9/30/06 |
|---------------------------------|-------------------------|-----------------------|-------------------------|--------------|-------------------------|
| Non-depreciable capital assets: | | | | | |
| Purchased land | \$ 439,492,674 | \$ - | \$ - | \$ 320,165 | \$ 439,812,839 |
| Constructed land | 397,318,882 | 51,987,518 | (51,987,518) | 11,772,110 | 409,090,992 |
| Construction in progress | 130,633,396 | 95,895,358 | (47,422,584) | (33,552,134) | 145,554,036 |
| Rights of way (note 4) | 207,823,264 | - | - | - | 207,823,264 |
| Subtotal | 1,175,268,216 | 147,882,876 | (99,410,102) | (21,459,859) | 1,202,281,131 |
| Depreciable capital assets: | | | | | |
| Structures and facilities | 1,767,711,746 | 8,327,606 | (14,222,705) | 20,739,903 | 1,782,556,550 |
| Furniture, fixtures, and eq. | 15,189,557 | 317,161 | (787,237) | 719,956 | 15,439,437 |
| Subtotal | 1,782,901,303 | 8,644,767 | (15,009,942) | 21,459,859 | 1,797,995,987 |
| Total capital assets | <u>\$ 2,958,169,519</u> | <u>\$ 156,527,643</u> | <u>\$ (114,420,044)</u> | <u>\$ -</u> | <u>\$ 3,000,277,118</u> |

**The Harbor Department of the City of Long Beach
Notes to Financial Statements
September 30, 2007 and 2006**

| Accumulated depreciation roll forward schedule | | | | |
|--|-----------------------|----------------------|-------------------------|-----------------------|
| Description | Balance 10/01/06 | Additions | Disposals /Transfers | Balance 9/30/07 |
| Structures and facilities | \$ 796,972,586 | \$ 76,529,713 | \$ (12,265,087) | \$ 861,237,212 |
| Furniture, fixtures and equip. | 11,873,102 | 803,329 | - | 12,676,431 |
| Total accumulated depreciation | <u>\$ 808,845,688</u> | <u>\$ 77,333,042</u> | <u>\$ (12,265,087)</u> | <u>\$ 873,913,643</u> |
| | Balance 10/01/05 | Additions | Disposals /Transfers | Balance 9/30/06 |
| Structures and facilities | \$ 723,278,208 | \$ 79,792,050 | \$ (6,097,672) | \$ 796,972,586 |
| Furniture, fixtures and equip. | 11,696,417 | 885,836 | (709,151) | 11,873,102 |
| Total accumulated depreciation | <u>\$ 734,974,625</u> | <u>\$ 80,677,886</u> | <u>\$ (6,806,823)</u> | <u>\$ 808,845,688</u> |

Interest costs, net of related earnings, on debt issued to construct property, plant and equipment are capitalized, as part of the cost of the asset they relate to.

Capitalized interest is first recorded as a non-current asset, allocated to specific capital projects based on projects costs incurred during the capitalization of interest period. Once the project is completed and the asset is placed in service, the portion of capitalized interest allocated to the project is added to the cost of the asset. During fiscal year 2006, the Department allocated \$7,073,124 to assets already placed in service, and accordingly, there was no capitalized interest remaining at the end of fiscal year 2006. Furthermore, there was no capitalized interest during fiscal year 2007.

| Capitalized interest roll forward schedule | | | | |
|--|---------------------|-----------|---------------------|--------------------|
| Description | Balance 10/01/06 | Additions | Allocations | Balance 9/30/05 |
| 2002A & B Revenue Bonds | \$ — | — | \$ — | \$ — |
| | Balance 10/01/05 | Additions | Allocations | Balance 9/30/06 |
| 2002A & B Revenue Bonds | <u>\$ 7,073,124</u> | — | <u>\$ 7,073,124</u> | <u>\$ —</u> |

Assets Constructed for Others

The Department, in agreement with the California Department of Transportation (Caltrans) and other funding agencies, engages in the construction of infrastructure assets such as roads and bridges that, when completed, and in accordance with the agreements, will be turned over to the funding agencies. The Department is reimbursed for all or a portion of the costs incurred to complete the asset.

Since the assets resulting from these agreements are not the Department's property, the reimbursed portion is classified as assets constructed for others, with a matching long-term deferred liability. Both accounts are offset against each other when the assets are turned over to the funding agency. There is no income statement effect resulting from these transactions, and because the liability offsets the asset, for financial statement presentation purposes, both, the asset and the liability are omitted from the statements of net assets. The non-reimbursed portion of the cost, upon completion of the transfer process, is classified as other non-current assets/major maintenance projects, and amortized over the useful life of the assets. The Department has not transferred any assets since fiscal year 2002. This process is of a long-term nature and will continue in future years as more assets will be transferred upon their acceptance by the funding agency.

**The Harbor Department of the City of Long Beach
Notes to Financial Statements
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(6) Commercial Paper Notes

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

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

The Department's gross revenues secure the notes. The obligation to pay the principal portion of outstanding notes is further supported by a revolving line of credit, which is currently \$175,000,000. The notes are in bearer form, in denominations of \$100,000 with integral multiples of \$50,000 in excess thereof, and will mature not more than 270 days after date of issuance. The Department intends to fully repay the remaining notes, plus interest, on August 2008. Accordingly, the \$60,432,852 outstanding balance as of September 30, 2007, which includes \$60,150,000 principal and \$282,852 accrued interest, is classified as a short-term liability. The principal balance on September 30, 2006 was \$60,150,000.

Commercial paper – Principal only – Roll forward schedule

| Description | Balance 10/01/06 | Additions | Reductions | Balance 9/30/07 |
|--|---------------------|-----------|------------|---------------------|
| Series A: maturity dates 11/05/07– 8/06/08 Range of interest rates: 3.48% – 3.74% | \$ 60,150,000 | \$ — | \$ — | \$ 60,150,000 |
| | Balance 10/01/05 | | | Balance 09/30/06 |
| Series A: maturity dates 12/06/06 Range of interest rates: 3.52% – 3.55% | \$ 60,150,000 | \$ — | \$ — | \$ 60,150,000 |

(7) Notes Payable

Notes payable relate to purchase and sale agreements of real estate property described below. The remaining note is unsecured, and the last annual principal payment of \$41,333 will be made in 2008. Outstanding notes payable at September 30, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|----------------------|-----------|-----------|
| Notes payable | \$ 41,333 | \$ 82,667 |
| Less current portion | (41,333) | (41,334) |
| Long-term portion | \$ — | \$ 41,333 |

Notes payable roll forward schedule

| Property acquired | Balance 10/01/06 | Additions | Reductions | Balance 9/30/07 |
|---|---------------------|-----------|------------|--------------------|
| W. 9 th Street, 14 years, 6% | \$ 82,667 | — | (41,334) | \$ 41,333 |
| | \$ 82,667 | — | (41,334) | \$ 41,333 |
| | Balance 10/01/05 | | | Balance 9/30/06 |
| W. Anaheim Street: 15 yrs, 10% | \$ 13,558 | — | (13,558) | \$ — |
| W. 9 th St.: 14 yrs., 6% | 124,001 | — | (41,334) | 82,667 |
| | 137,559 | — | (54,892) | \$ 82,667 |

The Harbor Department of the City of Long Beach
Notes to Financial Statements
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8) Bonded Indebtedness

Outstanding bonded indebtedness as of September 30 is as follows:

| | <u>2007</u> | <u>2006</u> |
|--|--------------------|--------------------|
| 1998 Harbor Revenue Refunding Bonds: | | |
| Maturing 2008 through 2019 at 5.5% to 6.0% interest | \$ 147,535,000 | \$ 155,865,000 |
| Plus unamortized premium | <u>1,889,007</u> | <u>2,051,498</u> |
| Total 1998 Harbor Revenue Refunding Bonds | <u>149,424,007</u> | <u>157,916,498</u> |
| 2000A Harbor Revenue Bonds: | | |
| Maturing 2008 through 2025 at 5.5% to 5.75% interest | 240,415,000 | 248,085,000 |
| Plus unamortized premium | <u>1,546,344</u> | <u>1,634,081</u> |
| Total 2000A Harbor Revenue Bonds | <u>241,961,344</u> | <u>249,719,081</u> |
| 2002A Harbor Revenue Bonds (Variable rate portion): | | |
| Maturing 2008 through 2027 | | |
| Average rates: 3.58% and 3.25%, respectively | 133,820,000 | 137,480,000 |
| Plus unamortized premium | <u>2,299,228</u> | <u>2,416,387</u> |
| Total 2002A Harbor Revenue Bonds | <u>136,119,228</u> | <u>139,896,387</u> |
| 2002B Harbor Revenue Bonds (Fixed rate portion): | | |
| Maturing 2008 through 2027 at 5.0% to 5.5% interest | 133,295,000 | 137,085,000 |
| Plus unamortized premium | <u>6,090,381</u> | <u>6,400,718</u> |
| Total 2002B Harbor Revenue Bonds | <u>139,385,381</u> | <u>143,485,718</u> |
| 2004A & B Harbor Revenue Refunding Bonds: | | |
| Maturing 2008 through 2018 at 4.0% to 5.0% interest | 94,900,000 | 101,525,000 |
| Plus unamortized premium | <u>4,138,384</u> | <u>4,529,991</u> |
| Total 2005A & B Harbor Revenue Refunding Bonds | <u>99,038,384</u> | <u>106,054,991</u> |
| 2005A & B Harbor Revenue Refunding Bonds: | | |
| Maturing 2008 through 2025 at 5.0% interest | 243,515,000 | 251,775,000 |
| Plus unamortized premium | <u>6,720,802</u> | <u>7,102,123</u> |
| Total 2005A & B Harbor Revenue Refunding Bonds | <u>250,235,802</u> | <u>258,877,123</u> |

The Harbor Department of the City of Long Beach
Notes to Financial Statements
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Summary:

| | | |
|-----------------------------------|------------------------------|--------------------------------|
| Principal | \$ 993,480,000 | \$ 1,031,815,000 |
| Net premium | 22,684,146 | 24,134,798 |
| Less current portion | <u>(40,170,000)</u> | <u>(38,335,000)</u> |
| Net long term bonded indebtedness | <u><u>\$ 975,994,146</u></u> | <u><u>\$ 1,017,614,798</u></u> |

Harbor Revenue Bonds payable roll forward schedule

| Description | Balance 10/01/06 | Additions | Reductions | Balance 9/30/06 | Amounts due within one year |
|-------------|-------------------------|-------------|----------------------|-----------------------|--------------------------------|
| 1998 | \$ 155,865,000 | \$ — | \$ 8,330,000 | \$ 147,535,000 | \$ 8,780,000 |
| 2000 A | 248,085,000 | — | 7,670,000 | 240,415,000 | 8,095,000 |
| 2002 A | 137,480,000 | — | 3,660,000 | 133,820,000 | 3,860,000 |
| 2002 B | 137,085,000 | — | 3,790,000 | 133,295,000 | 3,940,000 |
| 2004 A & B | 101,525,000 | — | 6,625,000 | 94,900,000 | 6,820,000 |
| 2005 A & B | 251,775,000 | — | 8,260,000 | 243,515,000 | 8,675,000 |
| | <u>\$ 1,031,815,000</u> | <u>\$ —</u> | <u>\$ 38,335,000</u> | <u>\$ 993,480,000</u> | <u>\$ 40,170,000</u> |

| Description | Balance 10/01/05 | Additions | Reductions | Balance 9/30/06 | Amounts due within one year |
|-------------|-------------------------|-------------|----------------------|-------------------------|--------------------------------|
| 1998 | \$ 163,755,000 | \$ — | \$ 7,890,000 | \$ 155,865,000 | \$ 8,330,000 |
| 2000 A | 255,355,000 | — | 7,270,000 | 248,085,000 | 7,670,000 |
| 2002 A | 140,950,000 | — | 3,470,000 | 137,480,000 | 3,660,000 |
| 2002 B | 140,725,000 | — | 3,640,000 | 137,085,000 | 3,790,000 |
| 2004 A & B | 107,990,000 | — | 6,465,000 | 101,525,000 | 6,625,000 |
| 2005 A & B | 257,975,000 | — | 6,200,000 | 251,775,000 | 8,260,000 |
| | <u>\$ 1,066,750,000</u> | <u>\$ —</u> | <u>\$ 34,935,000</u> | <u>\$ 1,031,815,000</u> | <u>\$ 38,335,000</u> |

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

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|-----------------------|-----------------------|-------------------------|
| 2008 | \$ 40,170,000 | \$ 52,290,066 | \$ 92,460,066 |
| 2009 | 42,215,000 | 50,303,991 | 92,518,991 |
| 2010 | 44,410,000 | 48,149,141 | 92,559,141 |
| 2011 | 46,750,000 | 45,843,691 | 92,593,691 |
| 2012 | 49,285,000 | 43,319,404 | 92,604,404 |
| Five-year period 2013 – 2017 | 289,790,000 | 173,578,894 | 463,368,894 |
| Five-year period 2018 – 2022 | 272,090,000 | 93,664,066 | 365,754,066 |
| Five-year period 2023 – 2027 | <u>208,770,000</u> | <u>27,059,753</u> | <u>235,829,753</u> |
| | <u>\$ 993,480,000</u> | <u>\$ 534,209,006</u> | <u>\$ 1,527,689,006</u> |

Details of each outstanding debt issue are as follows:

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, 2007. Serial bonds aggregating to \$147,535,000 are outstanding and will mature on May 15 of each year from 2008 to 2019 in amounts ranging from \$8,780,000 to \$16,600,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.5% to 6.0%. The 1998 Bonds are not subject to optional or mandatory redemption before their respective maturity dates.

The Harbor Department of the City of Long Beach
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Funds have been allocated at September 30, 2007 to the respective accounts in conformity with the bond resolution as follows:

| | 2007 | 2006 |
|--|---------------|---------------|
| Service account (amount reserved to meet current debt service requirements) | \$ 6,595,575 | \$ 6,598,632 |
| Reserve account (amount reserved for maximum annual debt service requirements) | 17,596,976 | 17,596,976 |
| | \$ 24,192,551 | \$ 24,195,608 |

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$8,736,386. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is amortized using the straight-line method over the life of the bonds.

2000A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2000A (the 2000A Bonds) are secured by the Department's gross revenues. The 2000A Bonds, dated November 1, 2000, amounting to \$275,000,000 were issued to finance certain capital improvements at the Port, to fund capitalized interest on a portion of the debt issuance, to fund a repayment reserve, and to finance the costs of issuance.

Serial bonds aggregating to \$240,415,000 will mature on May 15 of each year from 2008 to 2025 in amounts ranging from \$8,095,000 to \$20,180,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.50% to 5.75%. The 2000A Bonds maturing on or before May 15, 2010 will not be subject to call and redemption before maturity. Serial bonds maturing on or after May 15, 2011 are subject to call and redemption, prior to maturity, at the option of the Board of Harbor Commissioners, as a whole or in part on any date, on or after May 15, 2010 at premiums of 1.0%, from May 15, 2010 through May 14, 2011; at 0.5% from May 15, 2011 to May 14, 2012; and at par from May 15, 2012 and thereafter.

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

| | 2007 | 2006 |
|--|---------------|---------------|
| Service account (amount reserved to meet current debt service requirements) | \$ 7,984,952 | \$ 7,983,771 |
| Reserve account (amount reserved for maximum annual debt service requirements) | 21,788,988 | 21,922,295 |
| | \$ 29,773,940 | \$ 29,906,066 |

2002A Harbor Revenue Bonds

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

Serial bonds aggregating to \$133,820,000 will mature on May 15 of each year from 2008 to 2027 in amounts ranging from \$3,860,000 to \$10,575,000 with interest rates re-set weekly and payable monthly in arrears. The initial variable rate was 1.15%, and the average variable rate from October 1, 2006 to September 30, 2007 was 3.58%.

**The Harbor Department of the City of Long Beach
Notes to Financial Statements
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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 2002A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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

| | 2007 | 2006 |
|--|--------------|--------------|
| Service account (amount reserved for maximum annual debt service requirements) | \$ 1,447,500 | \$ 1,372,500 |

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. The 2002B Bonds are dated June 26, 2002: the date of delivery of the original bonds.

Serial bonds aggregating to \$94,850,000 will mature on May 15 of each year from 2008 to 2023 in amounts ranging from \$3,940,000 to \$8,460,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 5.00% 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, 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 of \$38,445,000 will mature on May 15, 2027. The term bonds have an interest rate of 5.20%. 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 \$8,895,000 to \$10,335,000, from 2024 to 2027, respectively, for the term bonds scheduled to mature on May 15, 2027.

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

| | 2007 | 2006 |
|--|--------------|--------------|
| Service account (amount reserved for maximum annual debt service requirements) | \$ 4,085,085 | \$ 3,693,716 |

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, 2007.

Serial bonds aggregating to \$94,900,000 are outstanding and will mature on May 15 of each year from 2008 to 2018 in amounts ranging from \$6,820,000 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.

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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, 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.

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

| | 2007 | 2006 |
|--|---------------|---------------|
| Service account (amount reserved to meet current debt service requirements) | \$ 4,261,406 | \$ 4,262,812 |
| Reserve account (amount reserved for maximum annual debt service requirements) | 11,372,583 | 11,372,550 |
| | \$ 15,633,989 | \$ 15,635,362 |

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 bonds.

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, 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, 2007. Serial bonds aggregating to \$218,545,000 are outstanding and will mature on May 15 of each year from 2008 to 2025 in amounts ranging from \$8,675,000 to \$19,785,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 5%. Serial bonds aggregating to \$24,970,000 are outstanding and will mature on May 15 of 2017 and 2018 the amounts of \$13,430,000 to \$11,540,000 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.

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

| | 2007 | 2006 |
|--|---------------|---------------|
| Service account (amount reserved to meet current debt service requirements) | \$ 7,819,031 | \$ 7,818,281 |
| Reserve account (amount reserved for maximum annual debt service requirements) | 20,855,785 | 20,858,236 |
| | \$ 28,674,816 | \$ 28,676,517 |

The current refunding resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$4,214,084. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is amortized using the straight-line method over the life of the bonds.

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Debt Covenants

The Department's management believes that it has complied with all the covenants related to the outstanding debt as of September 30, 2007.

(9) Retirement Programs

The Department participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California. The 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 \$3,855,758, \$3,459,949, and \$2,676,098 to the City, which was equal to its annual required contribution for fiscal years 2007, 2006, and 2005, 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 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% annual COLA increase) of their average salary during the highest paid year of employment for each year of credited service. On September 2005, the basis to compute the retirement benefits was unified under tier 1 with the exception of the COLA adjustment: employees on tier 2 (those hired after October 20, 1989) who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 2% annual COLA increase) of their average salary computed considering the three highest paid years 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, 2007.

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 year ended September 30, 2007.

(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.

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Property under lease at September 30 consists of the following:

| | 2007 | 2006 |
|------------------------------------|------------------|------------------|
| Land | \$ 745,054,683 | \$ 740,095,100 |
| Docks and wharves | 453,145,573 | 451,436,211 |
| Warehouses and sheds | 46,103,617 | 47,762,500 |
| Cranes and shiploaders | 164,981,252 | 169,708,290 |
| Buildings and other facilities | 293,371,188 | 267,687,684 |
| Infrastructure | 660,151,429 | 657,778,631 |
| Historical cost of leased property | 2,362,807,742 | 2,334,468,416 |
| Less accumulated depreciation | (610,631,090) | (557,820,003) |
| Book value of leased property | \$ 1,752,176,652 | \$ 1,776,648,413 |

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

| Year ending September 30: | | | |
|---------------------------|----|------------------|--|
| 2008 | \$ | 214,914,000 | |
| 2009 | | 204,800,000 | |
| 2010 | | 192,508,000 | |
| 2011 | | 190,295,000 | |
| 2012 | | 180,226,000 | |
| 2013 – 2017 | | 873,018,000 | |
| 2018 – 2022 | | 815,091,000 | |
| 2023 – 2027 | | 546,028,000 | |
| 2028 and thereafter | | 8,504,000 | |
| Total | | \$ 3,225,384,000 | |

(11) Investment in Joint Venture

Intermodal Container Transfer Facility Joint Powers Authority (ICTF)

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

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The facility has been fully developed by the Tenant who has assumed operational responsibility for the facility. The Venturers' share net income and equity distributions from ICTF equally. Audited balance sheets and statement of income and venturers' equity (in condensed format) for the years ended June 30, 2007 and 2006 are as follows:

Condensed Balance Sheets

| | 2007 | 2006 |
|--|---------------|---------------|
| Current assets | \$ 20,144,858 | \$ 14,364,491 |
| Property and equipment | 3,167,160 | 3,275,190 |
| Total assets | 23,312,018 | 17,639,681 |
| Current liabilities | 8,042,218 | 3,524,138 |
| Venturers' equity: | | |
| Harbor Department of the City of Los Angeles | 7,807,369 | 7,327,748 |
| Harbor Department of the City of Long Beach | 7,462,431 | 6,787,795 |
| Total venturers' equity | 15,269,800 | 14,115,543 |
| Total liabilities and venturers' equity | \$ 23,312,018 | \$ 17,639,681 |

Condensed Statement of Income and Venturers' Equity

| | 2007 | 2006 |
|---|---------------|---------------|
| Operating revenue | \$ 8,894,072 | \$ 8,717,190 |
| Operating expense | (108,030) | (108,030) |
| Operating income | 8,786,042 | 8,609,160 |
| Interest income | 368,215 | 189,002 |
| Net income | 9,154,257 | 8,798,162 |
| Venturers' equity, July 1, 2006 and 2005 | 14,115,543 | 12,317,381 |
| Cash disbursement to venturers | (8,000,000) | (7,000,000) |
| Venturers' equity, June 30, 2007 and 2006 | \$ 15,269,800 | \$ 14,115,543 |

Pursuant to an indenture of trust dated November 1, 1984, ICTF issued \$53,900,000 of 1984 Series A bonds on behalf of the Tenant to construct the Facility. In 1989, ICTF issued \$52,300,000 of 1989 Series A Refunding Revenue Bonds on behalf of the Tenant to advance refund the 1984 Series A Bonds.

In 1999, ICTF issued its Intermodal Container Transfer Facility Refunding Revenue Bonds, 1999 Series A. In connection with the issuance, Union Pacific Railroad Company and ICTF entered into a Second Amended and Restated Installment Sale and Security Agreement dated October 1, 1999. The proceeds of the 1999 Bonds, together with other funds, were used by ICTF to redeem all of the Intermodal Container Transfer Facility Refunding Revenue Bonds, 1989 Series A. The bonds are payable solely from payments by the Tenant under a long-term lease agreement for the use of the Facility.

The nature of the bonds is such that the long-term indebtedness is that of the Tenant and not of ICTF, the Department, or the Harbor Department of the City of Los Angeles. The ICTF financial statements for the year ended June 30, 2007, 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.

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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, 2007 and 2006 aggregated \$130,327,106 and \$89,320,920 respectively.

Risk Management

The Department currently carries an all-risk property insurance program covering loss or damage by fire and other risks (excluding earthquake and flood) with a loss limit of \$1,000,000,000. A total of \$500,000,000 of terrorism insurance coverage is also purchased from a combination of insurers.

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 a \$1,000,000 self-insured retention. The excess liability policy covers the Harbor 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. 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 funds annual contributions to an Insurance Reserve account intended to cover uninsured losses or the payment of deductibles and self-insured minimums. During fiscal year 2007, the Board of Harbor Commissioners approved the addition of \$10,000,000 to the reserve. The balances of the reserve at September 30, 2007 and 2006 are \$ 51,765,512 and \$39,813,446, respectively. The balances consist of annual contributions plus interest earnings.

The Department participates in the City's self-insured workers' compensation program, and, during fiscal year 2007 and 2006 made payments to the City's Insurance Fund totaling \$1,167,894 and \$1,248,759, 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. At September 30, 2007 and 2006, the Department has recognized litigation claim liabilities of \$2,385,000 for both years.

Liability for claims and judgments roll forward schedule

| Description | Balance 10/01/06 | Additions | Reductions | Balance 9/30/07 |
|------------------------------|---------------------|-----------|---------------|--------------------|
| Accrued claims and judgments | \$ 2,385,000 | — | — | \$ 2,385,000 |
| | Balance 10/01/05 | Additions | Reductions | Balance 9/30/06 |
| Accrued claims and judgments | \$ 3,000,000 | — | \$ (615,000) | \$ 2,385,000 |

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 Alameda Corridor Transportation Authority (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

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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 March 27, 2007; 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 fiscal year 2008, based on the Notice submitted by ACTA, is zero. Any shortfall advance made by the Department and the Port of Los Angeles is reimbursable, with interests, 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 balance of the reserve, as of September 30, 2007 and 2006, is \$84,039,840 and \$82,401,928, respectively.

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 \$850,000,000. 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. As of September 30, 2007 and 2006, funds earmarked for this project are \$86,206,043 and \$80,200,914, respectively.

Clean Air Action Plan (CAAP)

In January 2005, 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 Port 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, while at berth, their auxiliary engines, and plug into dockside electric substations.

In November 2006, the governing boards of the ports of Long Beach and Los Angeles approved the landmark San Pedro Bay Ports Clean Air Action Plan. This plan commits the ports to an aggressive plan to reduce pollution by at least 45 percent in the next five years. The \$2-billion plan addresses all port-related emission sources—ships, trains, trucks, terminal equipment, and harbor craft—to significantly reduce health risks posed by air pollution. At the end of the fiscal year, the port of Long Beach has committed \$217,300,000 to fund investments aimed to improve air quality, to foster the use of ship-to-shore electricity at the ports, and, to overall, use pollution-based impact fees to improve air quality and public health.

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Future Oil Well Abandonment Costs

Costs related to the abandonment and site clearance of oil properties (abandonment costs) purchased in March 1994 are based on estimates provided by the Department of Gas and Oil of the City of Long Beach. Estimates of abandonment costs are 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.

The future oil well abandonment cost liability at September 30, 2007 and 2006 are \$18,800,000 and \$18,300,000, respectively. The amounts related to oil properties acquired in 1994 are presented as long-term abandonment cost liabilities in the financial statements.

Future oil well abandonment cost liability roll forward schedule

| Description | Balance 10/01/06 | Additions | Reductions | Balance 9/30/07 |
|---------------------------|---------------------|------------|------------|--------------------|
| Oil abandonment liability | \$ 18,300,000 | \$ 500,000 | — | \$ 18,800,000 |

| Description | Balance 10/01/05 | Additions | Reductions | Balance 9/30/06 |
|---------------------------|---------------------|------------|------------|--------------------|
| Oil abandonment liability | \$ 17,700,000 | \$ 600,000 | — | \$ 18,300,000 |

Environmental 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. (APC) who assumed this liability in accordance with the original purchase agreement. APC'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 | |
|----------------------|-----------------------|------------|
| | APC | 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> | |

Currently, the Department has developed 131 acres and plans to develop 160 additional acres. It is anticipated that remediation costs will exceed the first layer of the allocation, and to recognize its share of the obligation, the Department recognized, at September 30, 2007, an estimated \$47,700,000 environmental remediation expense and corresponding liability.

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(13) Transfers to the City of Long Beach

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) and with the approval of the Board of Harbor Commissioners, adopted a resolution to transfer 10% of the Department's net income for fiscal years 2006 and 2005 to the City's Tidelands Operating Fund: \$15,399,535 and \$14,222,184, respectively. This amount is reported as part of the Due to City of Long Beach account in the accompanying statements of net assets and as a non-operating expense in the statements of revenues, expenses, and changes in fund net assets.

(14) Environmental Mitigation Credits

The Department disbursed \$39,400,000 in fiscal year 1997 to secure environmental mitigation credits. An agreement between the Department, the Harbor Department of the City of Los Angeles, and several federal and state regulatory agencies provided for the Department's purchase of land located within the wetlands restoration project at the Bolsa Chica Wetlands in Orange County, California. The land was transferred to the state in return for environmental mitigation credits to allow for the construction of up to 267 acres of landfill in the outer harbor area. During fiscal year 2006, the Department acquired additional an \$11,400,000 of available environmental mitigation credits.

The cost incurred in the acquisition of the land has been classified as a non-current asset. As of September 30, 2007, the Department has completed landfills that required the utilization of \$6,521,932 of the available credits. The balance of environmental mitigation costs will be adjusted in the future as landfill credits are used for port development. The balance of the Environmental Mitigation Credits is \$44,278,068 at September 30, 2007 and 2006.

(15) 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.

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As of September 30, 2007 and 2006 the Department holds net assets as follows:

| | <u>2007</u> | <u>2006</u> |
|---|-------------------------|-------------------------|
| Invested in capital assets, net of related debt | \$1,162,931,088 | \$ 1,079,606,148 |
| Restricted for capital projects | | |
| City of Long Beach RDA – Westside | 4,818,586 | 7,369,817 |
| Environmental mitigation credits (note 14) | 44,278,068 | 44,278,068 |
| Restricted for debt service | 103,807,881 | 103,479,769 |
| Restricted – third-party obligations – non-related entity debt service contingency and matching contribution (note 12) | 170,245,883 | 162,602,842 |
| Total restricted | <u>\$ 323,150,418</u> | <u>\$ 317,730,496</u> |
| Unrestricted – designated (note 12) | 217,300,000 | — |
| Unrestricted: | | |
| Contributed capital – outside sources | 30,427,546 | 30,427,546 |
| Contributed capital – other City funds | 13,253,752 | 13,253,752 |
| Infrastructure (note 12) | 108,915,347 | 104,025,687 |
| Other unrestricted | <u>286,762,342</u> | <u>437,102,224</u> |
| Total unrestricted | <u>656,658,987</u> | <u>584,809,209</u> |
| Total net assets | <u>\$ 2,142,740,493</u> | <u>\$ 1,982,145,853</u> |