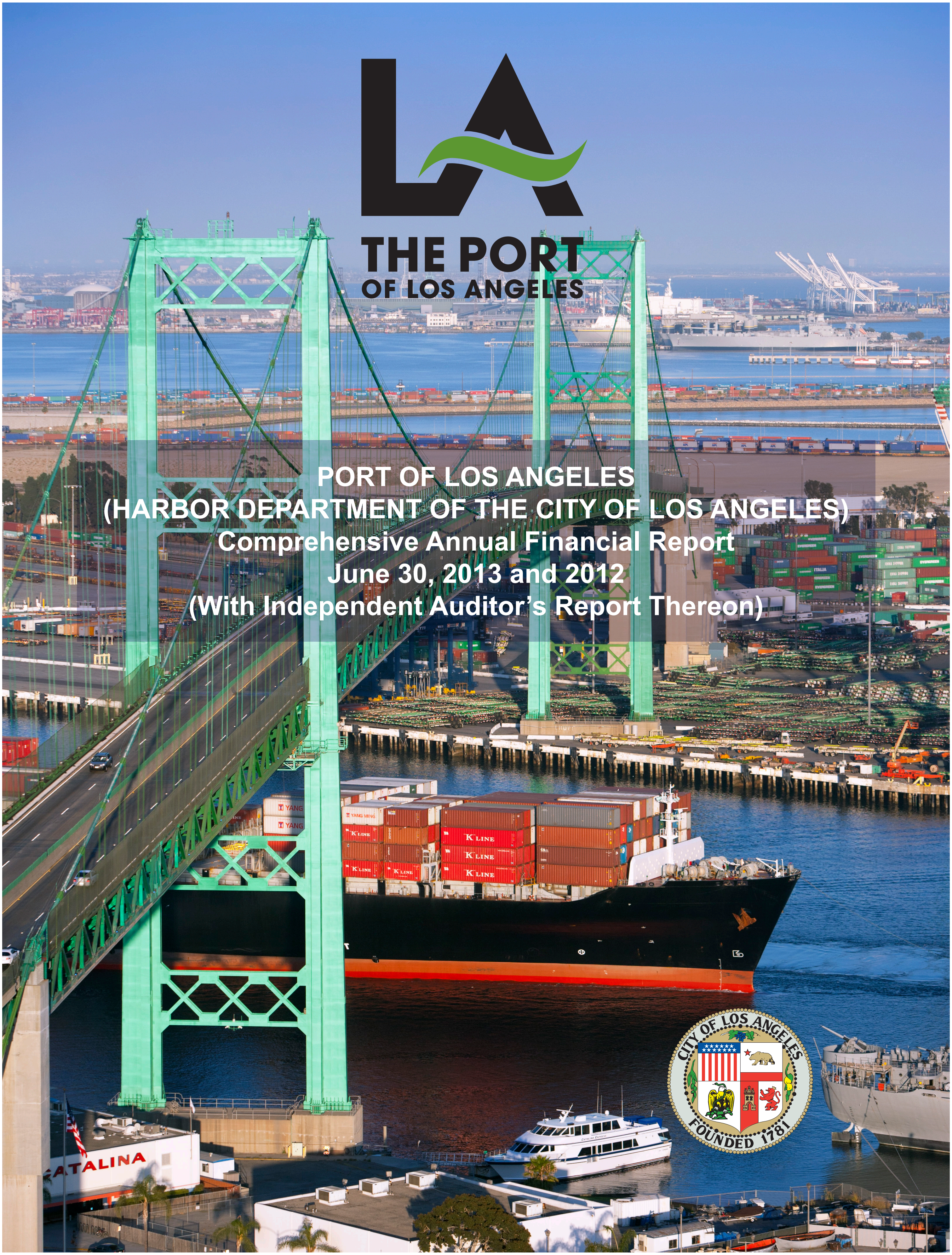
THE PORT OF LOS ANGELES

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Comprehensive Annual Financial Report
June 30, 2013 and 2012
(With Independent Auditor's Report Thereon)



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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

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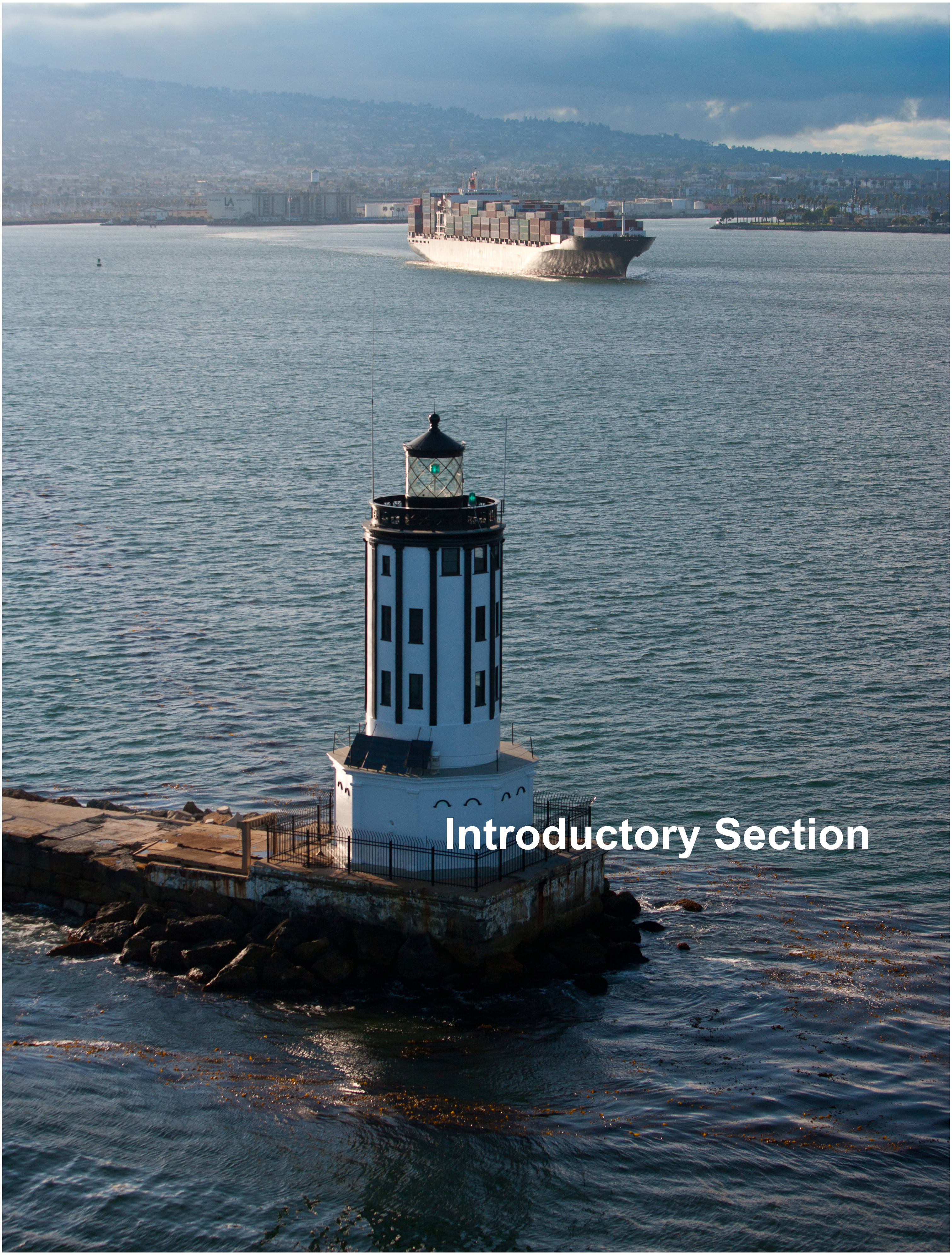

Introductory Section

THE PORT OF LOS ANGELES 425 S. Palos Verdes Street Post Office Box 151 San Pedro, CA 90733-0151 TEL/TDD 310 SEA-PORT www.portoflosangeles.org

Eric Garcetti | Mayor, City of Los Angeles

Gary Lee Moore, P.E. | Interim Executive Director

November 21, 2013

Mr. Gary Lee Moore, P.E.
Interim Executive Director
Port of Los Angeles
San Pedro, California

This Annual Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2013 and 2012, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the fiscal years ended June 30, 2013 and 2012, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The report is presented in five sections: Introductory, Financial, Management's Discussion and Analysis, Financial Statements, and Supplemental Information.

The Introductory Section outlines the relationship of the Port to the City of Los Angeles and describes the organization and reporting entity. It additionally provides an overview of Port properties, operations, and key personnel.

The Financial Section includes the independent auditor's report. The Management's Discussion and Analysis presents a comparative review of financial position and changes in financial position for fiscal years 2013, 2012, and 2011. Also included in this section are a description of current and proposed capital development plans, a discussion of revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial statements are prepared on an accrual basis and use an economic resources measurement focus. The Financial Statements Section comprise statements of net position that present the financial position as of June 30, 2013 and 2012, statements of revenues, expenses, and changes in net position depicting financial performance for fiscal years 2013 and 2012, statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2013 and 2012, and notes to the financial statements. The accompanying notes to the financial statements explain some of the information in the financial statements and provide more detailed information, generally presented on a multiyear basis that further explain and support the information in the statements.

The Port of Los Angeles

The Port is a proprietary department of the City of Los Angeles (the City) and is held in trust by the City for the people of the State of California pursuant to a series of tidelands grants. The Port is operated independently from the City, using its own revenues, and administers and controls its fiscal activities. The Port is governed by a five-member Board of Harbor Commissioners (the Board), subject to the oversight by the City Council, which has the duty to provide for the needs of maritime commerce, navigation, fishing and recreation and environmental activities that are water-related and are intended to be of statewide benefit. In accordance with generally accepted accounting principles (GAAP), the accompanying financial statements are included as an Enterprise Fund of the City, based upon the primary oversight responsibility that the City Council (the Council) and the City have on all matters affecting Port activities.

In addition, based on the foregoing criteria of oversight responsibility and accountability of all Port-related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying financial statements. Two joint ventures with the Port of Long Beach have been recorded as investments of the Port in accordance with the equity method of accounting. Additional information regarding these joint ventures and shareholders agreement may be found in the notes to the financial statements for the Port.

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups. These groups fall under the responsibilities of the Deputy Executive Director of Development, Deputy Executive Director of Finance & Administration, Deputy Executive Director of Operations, Deputy Executive Director of Business Development, and Deputy Executive Director of External Relations.

The Deputy Executive Director of Development is responsible for Environmental Management, Goods Movement, Construction, and Engineering divisions of the Port.

The Deputy Executive Director of Finance & Administration oversees the financial affairs as well as administrative side of the Port. Reporting to this position are the Finance section and four divisions comprised of Contracts and Purchasing, the Commission Office, Human Resources, and Information Technology. The Finance section is headed by the Chief Financial Officer and is comprised of the following divisions: Accounting, Debt and Treasury Management, Financial Management, Management Audit, and Risk Management.

Reporting to the Deputy Executive Director of Operations are the Construction & Maintenance, Los Angeles Pilot Service, Port Police, and Wharfingers divisions of the Port.

The Deputy Executive Director of Business Development directs the divisions of Planning and Economic Development, Business & Trade Development, and Real Estate.

Reporting to the Deputy Executive Director of External Relations are the Senior Director of Communications and the Senior Director of Governmental Affairs. The Senior Director of Communications is responsible for the planning, direction, and management of the Port's public relations divisions. This position leads strategic analyses to develop and implement policies and programs in the areas of public, community, and media relations; and represents the Port before elected and appointed officials, council committees, and news media.

The Senior Director of Governmental Affairs is responsible for coordinating legislative representation for the Port and oversees all in-house and contracted lobbying efforts in Sacramento and Washington D.C. The position helps establish and implement the Port's legislative objectives; reviews legislative bills and serves as the primary contact for the Port with elected officials, Council, state, and federal government.

The Port is located by San Pedro Bay, approximately 20 miles south of downtown Los Angeles. The Port's facilities lie within the shelter of a nine-mile long breakwater constructed by the federal government in several stages, the first of which commenced in 1899. The breakwater encloses the largest man-made harbor in the Western hemisphere.

The Port operates primarily as a landlord, as opposed to an operating port. Its docks, wharves, transit sheds, and terminals are leased to shipping or terminal companies, agents, and to other private firms. Although the Port owns these facilities, it has no direct hand in managing the daily movement of cargoes. The Port is landlord to more than 300 entities, in addition to major terminal operators, other tenants include marinas, fish markets, boat repair yards, railroads, restaurants, and a shipyard.

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, assignment charges, etc.), land rentals, and fees, concessions, and royalties. It currently serves over 80 shipping companies and agents with facilities that include 270 berthing facilities along 43 miles of waterfront.

In terms of its size and volume, the Port is one of the world's largest and busiest ports. The Port encompasses approximately 4,300 acres of land and 3,200 acres of water. The majority of the main channel has at least a minimum depth of 53 feet below the mean low water mark.

Within the Port are 27 terminals. Two major railroads serve the Port, and it lies at the terminus of two major freeways within the Los Angeles freeway system. Subsurface pipelines link the Port to major refineries and petroleum distribution terminals within the Los Angeles Basin.

The Port handles the largest volume of containerized cargo of all U.S. ports, and additionally ranks as number one in cargo value for U.S. waterborne foreign traffic. The Port's major trading partners, concentrated along the Pacific Rim, include China, Japan, Taiwan, Thailand, and South Korea. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port.

The Port is financially self-sufficient through revenues it generates. When appropriate, it seeks to obtain State and Federal funding for defined projects. The Port continues to maintain an AA/Aa2/AA credit ratings with Standard & Poor's, Moody's, and Fitch Investor Services, respectively, with a "stable" outlook. These are the highest credit ratings for any stand-alone U.S. port.

Sincerely,

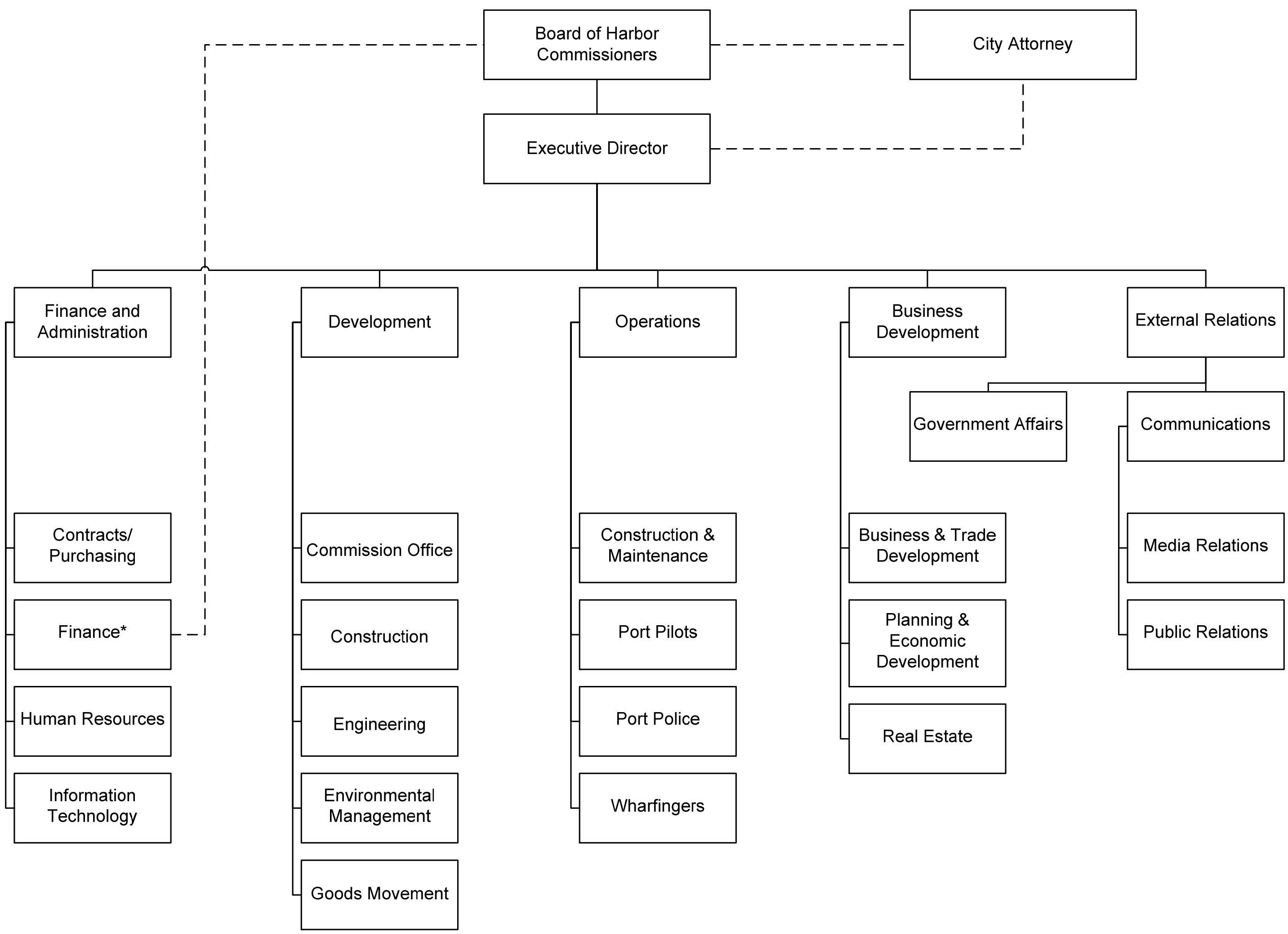
Karl Y. Pan

KARL K.Y. PAN
Chief Financial Officer

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Organizational Chart

Fiscal Year 2012 – 2013



*The Chief Financial Officer and Departmental Audit Manager have additional reporting responsibilities to the Board of Harbor Commissioners.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Board of Harbor Commissioners

David Arian
Patricia Castellanos
Vilma S. Martinez
Anthony Pirozzi Jr.
Edward R. Renwick

Senior Management

Gary Lee Moore, P.E.,
Interim Executive Director

Molly Campbell,
Deputy Executive Director – Finance & Administration

Mike Christensen,
Deputy Executive Director – Development

Kathryn McDermott,
Deputy Executive Director – Business Development

Cynthia Ruiz,
Deputy Executive Director – External Relations

Management Staff

Theresa Adams Lopez,
Director of Public Relations

Arley Baker,
Senior Director of Communications

Diane Boskovich,
Chief Wharfinger

Ronald Boyd,
Chief of Port Police

Christopher Cannon,
Director of Environmental Management

Kerry Cartwright,
Director of Goods Movement

Capt. Bent Christiansen,
Pilot Service

Michael DiBernardo,
Director of Business & Trade Development

Tony Gioiello,
Chief Harbor Engineer of Design

Annie Gregorio,
Director of Accounting

Jack Hedge,
Director of Real Estate

Lance Kaneshiro,
Director of Information Technology

David Libatique,
Senior Director of Governmental Affairs

Tish Lorenzana,
Director of Human Resources

David Mathewson,
Director of Planning & Economic Development

Kathy Merkovsky,
Director of Risk Management

Jim Morgan,
Director of Construction & Maintenance

Jim Olds,
Director of Management Audits

Karl K.Y. Pan,
Chief Financial Officer

Glenn Robison,
Director of Contracts & Purchasing

Capt. Mike Rubino,
Pilot Service

Soheila Sajadian,
Director of Debt & Treasury

Phillip Sanfield,
Director of Media Relations

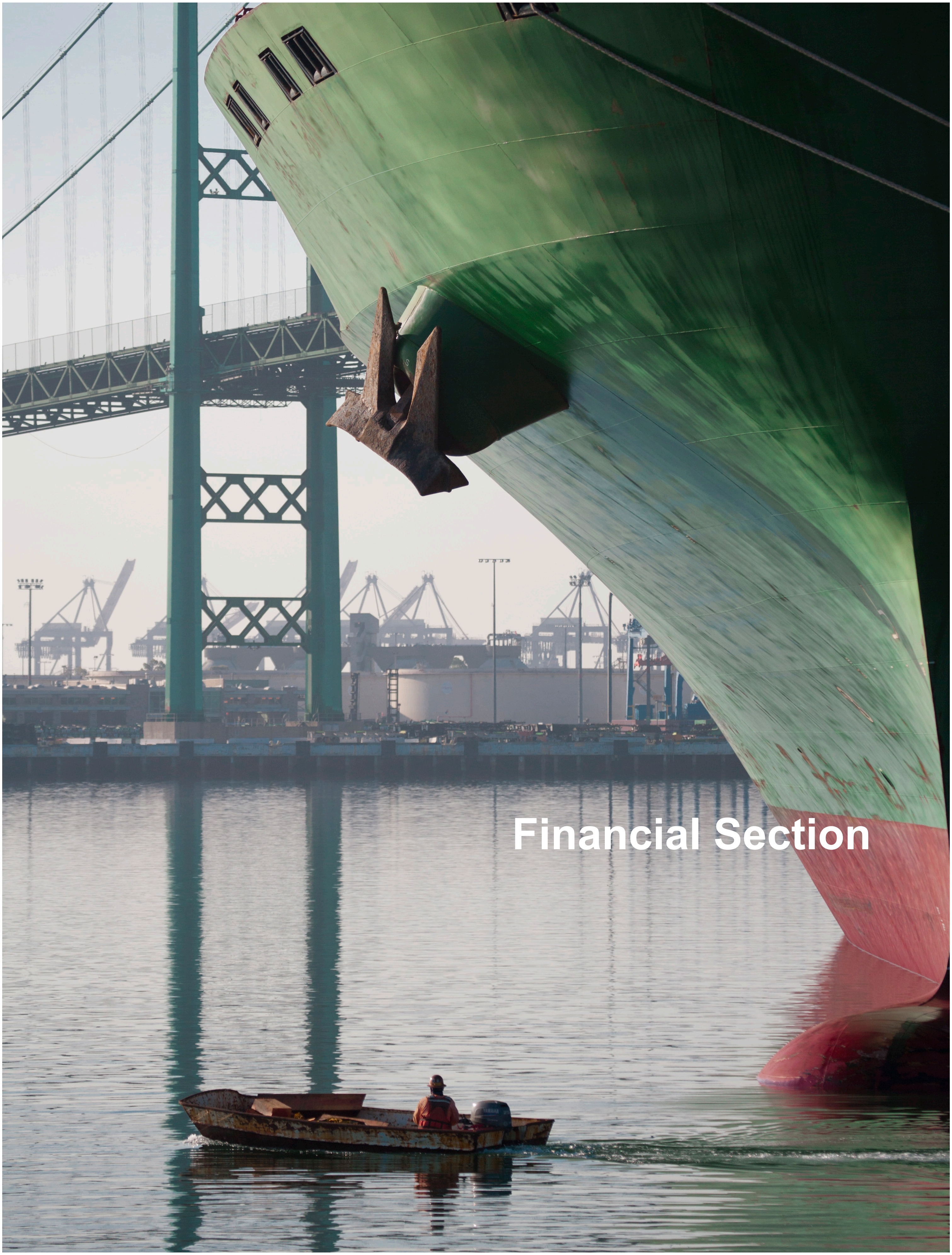
Shaun Shahrestani,
Chief Harbor Engineer of Construction

Julie Wichmann Huerta,
Commission Office

Eileen Yoshimura,
Director of Financial Management

Legal Staff

Janna Sidley,
General Counse


Financial Section

SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

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LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
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Independent Auditor's Report

The Board of Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles):

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents. The financial statements of the Port as of and for the year ended June 30, 2012, were audited by other auditors whose report dated November 14, 2012, expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2013, and respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 1.A in the financial statements, the financial statements of the Port are intended to present the financial position, the changes in financial position and, and, where applicable, cash flows of only that portion of the business-type activities of the City of Los Angeles, California that is attributable to the transactions of the Port. They do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California as of June, 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 in the financial statements, for the year ended June 30, 2013 the Port adopted the following provisions of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;*
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; and
- Statement No. 65, *Items Previously reported as Assets and Liabilities.* The Port restated its beginning net position to reflect an adjustment for the unamortized debt issuance costs.

Our opinion is not modified with respect to the matters mentioned above.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 to 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Port's financial statements. The introduction and supplemental information sections as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2013, on our consideration of the Port's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Simpson & Simpson

Los Angeles, California
November 8, 2013

Management's Discussion and Analysis

Using This Financial Report

The management of the Port of Los Angeles (the Port) presents an overview of the Port's financial performance during the years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with the transmittal letter on pages 1-3 and the Port's financial statements starting from page 34.

The Port's financial report consists of this management's discussion and analysis (MD&A), and the following financial statements:

- *Statements of Net Position* – present information of all of the Port's assets, deferred outflow of resources and liabilities as of June 30, 2013 and 2012. The difference between assets, deferred outflows of resources and liabilities is reported as net position, which over time may increase or decrease and, serves as an indicator of the Port's financial position.

- *Statements of Revenues, Expenses, and Changes in Net Position* – present the results of operations during the current and prior fiscal year. These show how the Port recovered its costs through operating revenues from shipping, rentals, royalties and other fees. Changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

- *Statements of Cash Flows* – present the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. A reconciliation is also provided to assist in understanding the difference between operating income and cash flows from operating activities.

- *Notes to the Financial Statements* – present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of the Port's financial activities.

Continued…..

Overview of the Port's Financial Statements

The Port is a fiscally independent department and an enterprise fund of the City. The Port's financial statements are prepared on an accrual basis using the economic resources measurement focus in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The notes to the financial statements on pages 41 to 97 provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights for Fiscal Year 2013

- Current assets exceeded current liabilities by $265.5 million.
- Capital assets, net of accumulated depreciation of $1.5 billion amounted to $3.6 billion.
- Application development costs of $ 4.2 million, incurred during the fiscal year, for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System (ERP), was capitalized as Intangible Assets. The ERP system went live in fiscal year 2013.
- Total assets and deferred outflows of resources exceeded total liabilities by $2.9 billion.
- Bonded debt net of unamortized discounts/premiums of $30.4 million, totaled $821.1 million.
- Borrowings in the form of commercial paper continue to total $100.0 million.
- Operating revenue amounted to $397.4 million.
- Net operating expenses excluding depreciation of $108.0 million amounted to $205.2 million.
- Capital grants amounted to $17.6 million.

Financial Highlights for Fiscal Year 2012

- Current assets exceeded current liabilities by $381.8 million.
- Capital assets, net of accumulated depreciation of $1.4 billion amounted to $3.4 billion.

Continued…..

- Application development costs of $ 4.1 million, incurred during the fiscal year, for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System (ERP), was capitalized as Intangible Assets. The ERP system will go live in fiscal year 2013.
- Total assets and deferred outflow of resources exceeded total liabilities by $2.8 billion.
- Bonded debt net of unamortized discounts/premiums of $33.4 million, totaled $873.5 million.
- Borrowings in the form of commercial paper totaled $100.0 million.
- Operating revenue amounted to $409.8 million.
- Operating expenses excluding depreciation of $100.5 million amounted to $199.8 million.
- Capital grants amounted to $31.3 million.

Analysis of Net Position

Net position is the difference between the Port's assets, deferred outflows of resources, and liabilities. Over time, increases or decreases in net position may serve as an indicator of whether the Port's financial position is improving or deteriorating. The following is a condensed summary of the Port's net position as of June 30, 2013, 2012, and 2011 (in thousands):

Continued…..

Condensed Net Position

	FY 2013	FY 2012*	FY 2011*	Increase (Decrease) Over Prior Year FY 2013	Increase (Decrease) Over Prior Year FY 2012
Assets					
Current and other assets	$ 536,621	$ 653,844	$ 657,535	$ (117,223)	$ (3,691)
Capital assets, net	3,551,505	3,358,320	3,278,907	193,185	79,413
Total assets	4,088,126	4,012,164	3,936,442	75,962	75,722
Deferred outflows of resources	5,660	6,726	6,470	(1,066)	256
Liabilities					
Current liabilities	188,219	167,256	197,938	20,963	(30,682)
Long term liabilities	1,021,216	1,075,506	1,102,089	(54,290)	(26,583)
Total liabilities	1,209,435	1,242,762	1,300,027	(33,327)	(57,265)
Net position					
Net investment in capital assets	2,634,840	2,397,744	2,286,360	237,096	111,384
Restricted for debt service	57,913	67,796	67,341	(9,883)	455
Unrestricted	191,598	310,588	289,184	(118,990)	21,404
Total net position	$ 2,884,351	$ 2,776,128	$ 2,642,885	$ 108,223	$ 133,243

*Certain information were reclassified to conform to current year's presentation.

Net Position, Fiscal Year 2013

The largest portion of the Port's net position ($2.6 billion or 91.3%) reflects its investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets). These assets are used for the construction, operation and maintenance of Port facilities. An additional portion of the Port's net position ($57.9 million or 2.0%) represents resources that are restricted for debt service. The remaining balance of $191.6 million or 6.7% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Current and other assets decreased by $117.2 million or 17.9% from $653.8 million in fiscal year 2012 to $536.6 million in fiscal year 2013. Fluctuations in current and other assets result from: decrease in cash and investments of $107.6 million, net increase of $2.3 million in accounts and grants receivables, decrease of $0.1 million in inventories and prepaid expenses, and decline of $4.7 million in notes receivable.

Continued…..

Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasurer on behalf of the Port. The decrease of $107.6 million from $565.2 million at June 30, 2012 to $457.6 million at June 30, 2013 resulted as the Port used cash for construction activities, the redemption of bonds, and saw a decline in grant reimbursements. At June 30, 2013, the Port's share in the mark to market valuation of the City's pooled investments totaled $0.9 million, a decrease of $6.3 million from $7.2 million in the prior fiscal year. The Port reported additional investments of $3.9 million from its share in the City's investment purchases on June 30, 2013 and $1.4 million in securities lending transactions.

Capital assets, net of depreciation increased by $193.2 million due to continued commercial and terminal development, various building and facilities improvements, and acquisition of equipment.

Current liabilities increased by $21.0 million or 12.5% mainly due to the increase of $28.8 million in accounts payable resulting from timing differences in payments, $1.4 million obligations under securities lending transactions and an increase of $3.7 million in accrued salaries and benefits, offset by $6.7 million decrease in the current portion of notes, bonds payable and interest payable due to the redemption of bonds and payment of loans, and decrease of $5.8 million in other current liabilities. The net decrease of $5.8 million in other current liabilities mainly resulted from decrease of $1.6 million in China Mitigation liability, $2.5 million lower Community Aesthetic Mitigation liability, decrease in shortfall liability of $3.0 million to the Alameda Corridor Transportation Authority (ACTA), offset by $3.9 million in accrual of investment purchases, increased pollution remediation liability of $6.0 million and $2.9 million additional federal pass through grant liability. Please refer to page 96 of the notes to the financial statements for additional information on the payments from the Community Aesthetic Mitigation Fund, and pages 78-80 for the increase in pollution remediation liability.

Long-term liabilities decreased by $54.3 million mainly due to lower bonds and notes payable of $47.1 million and $6.4 million decrease in other liabilities. The decrease of $6.4 million in other liabilities was mainly due to $1.4 million lower workers' compensation liability, $11.2 million decline in pollution remediation liability, offset by additional liability of $3.2 million for demolition, restoration, and remediation of a property site resulting from a permit termination and mutual release agreement with Del Monte Corporation. Additional information on the $11.2 million decline in pollution remediation liability is found on pages 78-80 of the notes to the financial statements.

Net Position, Fiscal Year 2012

The largest portion of the Port's net position ($2.4 billion or 86.4%) reflects its investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets) less any related outstanding debt used to acquire those assets. These assets are used for operation and maintenance of Port facilities, and construction of various capital projects and improvements. An additional portion of the Port's net position ($67.8 million or 2.4%) represents resources that are restricted for debt service. The remaining balance of $310.6 million or 11.2% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Continued…..

Current and other assets decreased by a marginal $3.7 million or 0.6% from $657.5 million in fiscal year 2011 to $653.8 million in fiscal year 2012. Fluctuations in current and other assets result from: decrease in cash and investments of $4.8 million, increase of $9.1 million in accounts and grants receivables, decrease of $1.5 million in inventories and prepaid expenses, decline of $4.7 million in notes receivable, and $1.9 million lower investments in joint powers authorities and other assets.

Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasurer on behalf of the Port. The decrease of $4.8 million from $569.9 million at June 30, 2011 to $565.2 million at June 30, 2012 was due mainly to the decrease in cash collateral from securities lending transactions due to the suspension of the City's securities lending program (SLP) in fiscal year 2012. This decrease however, was offset by increased cash from operating activities, increase in grant reimbursements, and higher investment income. At June 30, 2012, the Port's share in the mark to market valuation of the City's pooled investments totaled $7.2 million, an increase of $1.4 million from $5.9 million in the prior fiscal year. The Port also reported additional investments of $11.9 million from its share in the City's investment purchases on June 30, 2012.

Capital assets, net of depreciation increased by $79.4 million due to continued commercial and terminal development, various building and facilities improvements, and acquisition of equipment.

Current liabilities decreased by $30.7 million or 15.5% mainly due to timing differences in payments, and decrease of $41.1 million in liabilities under the Securities Lending Program due its suspension in the current fiscal year. A payment of $9.8 million due to the TraPac Mitigation Fund, offset by additional liability of $11.9 million for Port's share in investment purchases at June 30, 2012, accounted for the net increase of $1.8 million in other current liabilities. Please refer to pages 94-95 of the notes to financial statements for additional information on the $9.8 million payment from the TraPac Mitigation Fund.

Long-term liabilities decreased by $26.6 million mainly due to the decrease in bonds payable of $33.1 million. Increase in workers' compensation liability accrual due to higher actuarial valuation accounted for the increase in other long-term liabilities.

Analysis of the Port's Activities

The following table presents condensed information showing how the Port's net position changed during fiscal years 2013, 2012 and 2011 (in thousands):

Continued…..

Condensed Statement of Net Position

	FY 2013	FY 2012	FY 2011	Increase (Decrease) Over Prior Year FY 2013	Increase (Decrease) Over Prior Year FY 2012
Operating revenue	$ 397,368	$ 409,787	$ 400,503	$ (12,419)	$ 9,284
Operating expenses	(205,169)	(199,806)	(209,695)	(5,363)	9,889
Operating income before depreciation and amortization	192,199	209,981	190,808	(17,782)	19,173
Depreciation and amortization	(108,037)	(100,485)	(90,468)	(7,552)	(10,017)
Operating income	84,162	109,496	100,340	(25,334)	9,156
Net nonoperating revenue (expenses)	1,186	(7,560)	(4,268)	8,746	(3,292)
Income before capital contributions	85,348	101,936	96,072	(16,588)	5,864
Capital contributions	17,630	31,307	12,059	(13,677)	19,248
Special Item	13,387	--	--	13,387	--
Changes in net position	116,365	133,243	108,131	(16,878)	25,112
Net position, July 1	2,776,128	2,642,885	2,534,754	133,243	108,131
Net adjustment for write off of bond issue costs	(8,142)	--	--	(8,142)	--
Net position July 1, restated	2,767,986	2,642,885	2,534,754	125,101	108,131
Net position, June 30	$ 2,884,351	$ 2,776,128	$ 2,642,885	$ 108,223	$ 133,243

Fiscal Year 2013

Net position for the Port posted a $108.2 million or 3.9% increase in fiscal year 2013. Approximately $390.8 million or 98.3% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating expenses were higher by $5.4 million or 2.7%.

Depreciation expense increased by $7.6 million to $108.0 million in fiscal year 2013 from $100.5 million in fiscal year 2012, primarily due the net addition of $148.2 million in net depreciable assets in fiscal year 2013.

Nonoperating revenues for fiscal year 2013 totaled $19.6 million, while nonoperating expenses were $18.4 million, thereby resulting in net nonoperating revenues of $1.2 million. Net nonoperating revenues of $1.2 million mainly include $2.0 million income from investments in the Intermodal Container Transfer Facility Joint Powers Authority, $0.8 million from interest and investment income from the Port's cash in the City's pooled investments, $3.7 million from various rebates and reimbursements, and miscellaneous other receipts of $0.4 million, offset by nonoperating expenses of $2.5 million from interest on indebtedness, and $2.3 million miscellaneous capital work order costs closed to expenses.

As a result, income before capital contributions decreased by $16.6 million or 16.3% to $85.3 million in fiscal year 2013 from $101.9 million in fiscal year 2012.

Capital contributions of $17.6 million represented funds for capital grants obtained in fiscal year 2013, or a decrease of $13.7 million compared to the $31.3 million received in fiscal year 2012. Federal capital grants

Continued…..

decreased because the maximum grant awards for various projects have been used as of fiscal year 2013 and most of the American Recovery and Reinvestment Act (ARRA) grants are closing. Decreases in capital grants include $7.5 million for the 2008 Prop B CA Port and Maritime Security Grant and $3.3 million for Round 8 of the PSG Homeland Security Supplemental Projects Grant. Major ARRA grants that have closed or are closing include $5.6 million in Port-wide fiber optic project and the Harry Bridges Boulevard improvement project.

In the fiscal year, the Port implemented GASB 65 which requires the charging to expenses of all debt issuance costs, except any portion related to prepaid insurance costs, in the period incurred. The Port adjusted its beginning net position by $8.1 million to reflect the cumulative effect of applying this change.

An adjustment of $13.4 million for pollution remediation obligations was reflected as Special Item. Additional information on pollution remediation liability adjustment may be found on pages 78-80 and page 97 of the notes to the Financial Statements.

Fiscal Year 2012

Net position for the Port posted a $133.2 million or 5.0% increase in fiscal year 2012. Approximately $400.9 million or 97.8% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expenses were lower by $9.9 million or 4.7%.

Depreciation expense increased by $10.0 million to $100.5 million in fiscal year 2012 from $90.5 million in fiscal year 2011, primarily due to the net addition of $432.2 million in net depreciable assets.

Nonoperating revenue totaled $25.5 million while nonoperating expenses were $33.1 million in fiscal year 2012, thereby resulting in net nonoperating expenses of $7.6 million. The major components of the change were primarily as a result of recognizing an $8.5 million loss on sale of POLA High School (POLAHS), offset by higher nonoperating revenue of $13.4 million. During the fiscal year, the Port's investment income was $3.1 million higher than the prior fiscal year. Credits received from the Department of Water and Power's solar energy program due to the Port's initiatives towards installing solar energy equipment mainly accounted for the $8.1 million increase in other nonoperating revenue. A $2.2 million higher distribution from the ICTF also contributed to nonoperating revenue.

As a result, income before capital contributions increased by $5.9 million to $101.9 million, a 6.1% increase over fiscal year 2011.

Capital contributions of $31.3 million represented funds for capital grants obtained in fiscal year 2012, or an increase of $19.2 million compared to the $12.1 million received in fiscal year 2011. Increases in federal capital grants during the year included $1.8 million for Police patrol and boats, $2.0 million for information technology data storage security project, $7.0 million for Harry Bridges Boulevard improvement, $2.0 million for computer aided dispatch and record management system, $5.6 million for the Port-wide fiber optic continuance project, and $1.6 million for Port security grant's supplemental projects.

Continued…..

Operating Revenue

The Port is the leading seaport in North America in terms of shipping container volume. The following presents a summary of cargo volumes by major classification handled by the Port for the last three fiscal years (in thousands):

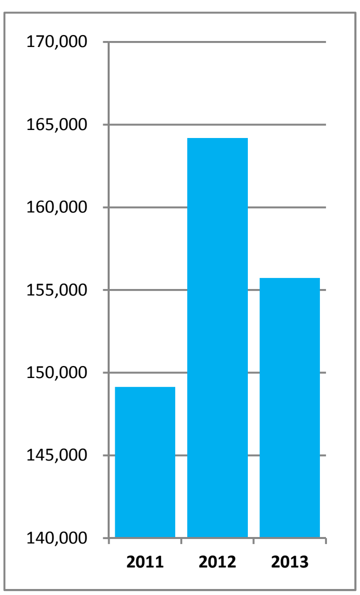
	In Metric Revenue Tons			% Change Over Prior Year	
Cargo Type	FY 2013	FY 2012*	FY 2011	FY 2012	FY 2011
Container/general cargo	156,278	163,906	149,136	-4.7%	9.9%
Dry bulk	989	1,059	1,166	-6.6%	-9.2%
Liquid bulk	7,820	9,906	10,644	-21.1%	-6.9%
Total	165,087	174,871	160,946		

*Certain information were reclassified to conform to current year's presentation.

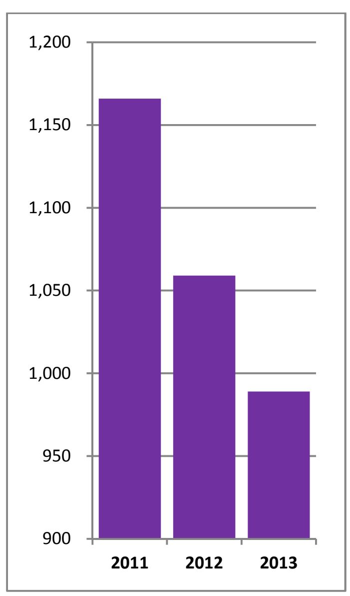
Information for the cargo volume that moved through the Port for the last ten fiscal years is found in the supplemental information on page 100.

Following is the graphical presentation of the Port's cargo volumes for fiscal years 2011 to 2013 in thousand metric tons:

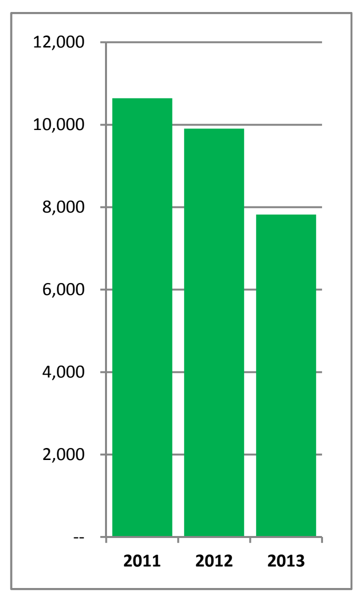
Container/General Cargo



Dry Bulk



Liquid Bulk



In Thousand Metric Tons

Continued…..

The Port is the number one container port by volume in North America. For fiscal years 2011 and 2012, the Port experienced record breaking export container volumes. In fiscal year 2013, container volume dropped primarily due to the loss of the shipping string known as TP8, a series of vessels operated by the Mediterranean Shipping Company and by CMA CGM Shipping Company. The loss was somewhat mitigated by container gains at other terminals.

The Port's biggest volume commodities include miscellaneous metal products comprising of steel, metal ingots, metal scrap, ferrous and pig iron. These types of goods declined in volume given general economic weakness in the U.S. and the Port's trading partner countries, thereby resulting in lower dry bulk volume of exports in fiscal year 2013.

A general decline in liquid bulk volume is tied to a number of factors related to the general economic situation that affects overall fuel consumption in Southern California. The local refining market continued to import and export but at lower overall volumes as producers and sellers seemed to have balanced better the supply chain. Bunker fuel for shipping operations accounted for 25% of the Port's liquid bulk volumes with jet fuel comprising another 25%. Overall, with local gasoline and diesel fuel demand down, local refineries will continue to produce fuels that would otherwise be imported, keeping down overall liquid bulk volume of imports.

Annual container counts for the Port in twenty-foot equivalent units (TEUs) - a standard measurement used in the maritime industry for measuring containers of varying lengths for the last three fiscal years are as follows (in thousands):

	In TEUs			% Change Over Prior Year	
Container Volume	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Import	4,054	4,318	4,186	-6.1%	3.2%
Export	3,723	3,868	3,749	-3.7%	3.2%
Total	7,777	8,186	7,935	-5.0%	3.2%

Continued…..

The Port's major sources of its operating revenue are derived from shipping services, rental fees, royalties and other concession fees. The following table presents a summary of the Port's operating revenues during fiscal years 2013, 2012 and 2011 (in thousands):

Summary of Operating Revenues

				Increase (Decrease) Over Prior Year	
	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Shipping services					
Wharfage	$ 322,821	$ 333,757	$ 317,621	$ (10,936)	$ 16,136
Dockage and demurrage	4,917	5,043	6,086	(126)	(1,043)
Pilotage	6,954	7,131	7,417	(177)	(286)
Assignment and other charges	13,184	11,785	12,374	1,399	(589)
Total shipping services	347,876	357,716	343,498	(9,840)	14,218
Rentals					
Land	38,856	40,127	42,693	(1,271)	(2,566)
Others	4,034	3,016	2,735	1,018	281
Total rentals	42,890	43,143	45,428	(253)	(2,285)
Royalties and other fees					
Fees, concession and royalties	1,744	1,866	2,333	(122)	(467)
Clean truck program fees	1,409	3,250	6,376	(1,841)	(3,126)
Others	3,449	3,812	2,868	(363)	944
Total royalties and other fees	6,602	8,928	11,577	(2,326)	(2,649)
Total operating revenues	$ 397,368	$ 409,787	$ 400,503	$ (12,419)	$ 9,284

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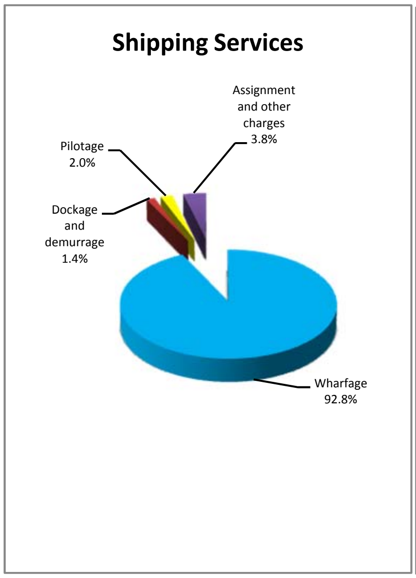
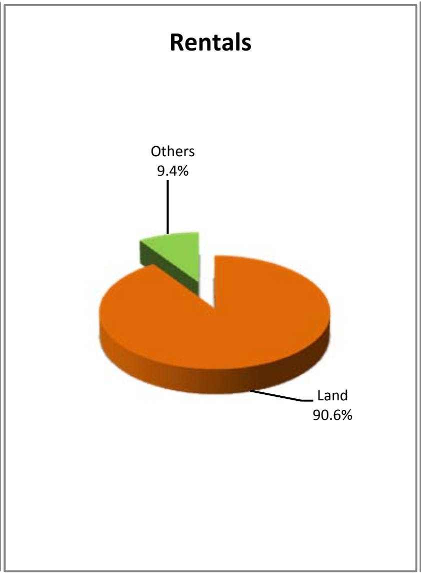
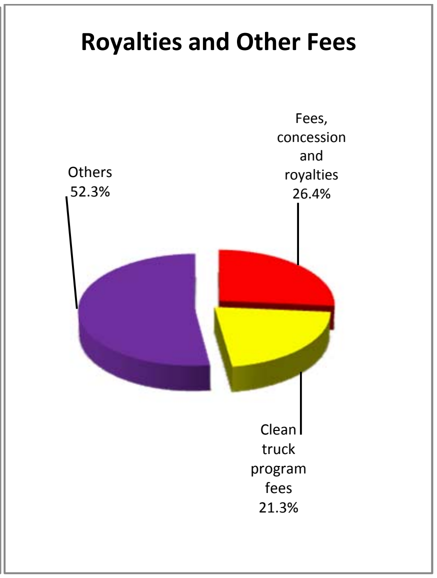
The following charts show the major components of each of the Port's sources of operating revenue for fiscal years 2013 and 2012:

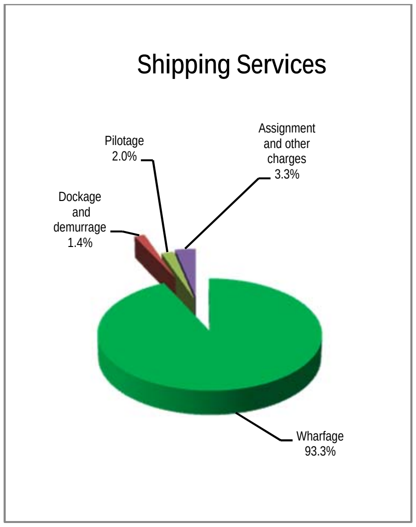
Fiscal Year 2013

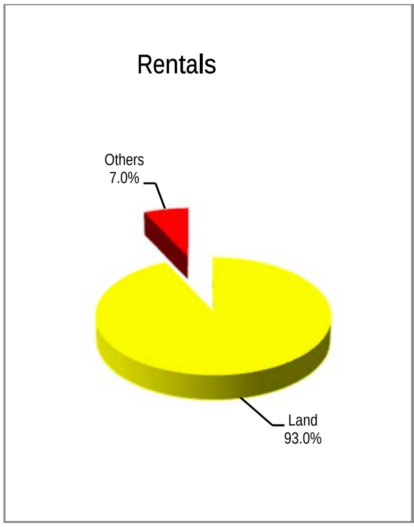


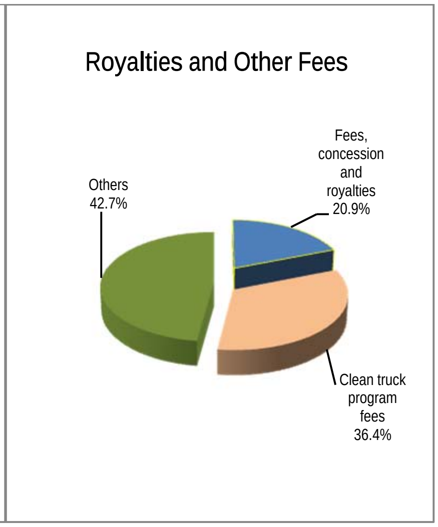




Fiscal year 2012







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Operating Revenue, Fiscal Year 2013

Operating revenue for fiscal year 2013 decreased to $397.4 million, reflecting a 3.0% decrease from the prior year revenue of $409.8 million. As stated earlier, the Port derives its operating revenues primarily from shipping services, rentals, and fees from royalties, concessions and other fees.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 92.8% of the total shipping service revenues in fiscal year 2013. Wharfage is the fee charged against merchandise for passage over wharf premises, from vessels, and barges. Wharfage is $10.9 million lower compared to fiscal year 2012 mainly due to the drop in container cargo volume with the departure of one shipping string. Net other shipping revenues were $1.1 million higher as space assignment revenues increased by $1.4 million but was offset by $0.3 million decreases in dockage, demurrage and pilotage revenues. Increase in space assignment revenues was due to additional areas requested by terminal operators.

Rentals

The Port generates revenues from making available various types of rental properties such as land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set taking into account the condition, location, utility, and other aspects of the property. In all cases, the Port seeks to achieve a 12.0% rate of return on improvements and 10.0% return on land set by the Board of Harbor Commissioners (the Board).

During fiscal year 2013, rental income at the Port which represented 10.8% of fiscal year 2013 total operating revenues decreased by $0.3 million, or 0.6%, over last fiscal year. Land rental was down $1.3 million or 3.2% compared to prior year. The decrease in land rentals was primarily due to the loss of revenues from the termination of permit with Del Monte Corporation and the absence of the Port of Los Angeles High School property offset against scheduled increases in certain other permits.

Royalties, Fees, and Other Operating Revenue

The Port levies fees for a variety of activities conducted on the Port properties. Examples include royalties from the production of oil and natural gas, fees for parking lots, motion picture productions, foreign trade zone operations, miscellaneous concessions, distribution of utilities, and maintenance and repair services conducted by the Port at the request of customers.

Continued…..

Revenues from royalties, fees, and other operating revenues in 2013 was $6.6 million or 1.7% of the total revenue. This represented a 26.1% decline or $2.3 million less in this revenue category compared with fiscal year 2012. The decline was mainly due to a decrease of $1.8 million in fees from noncompliant trucks under the Port's Clean Truck Program (CTP), as the collection of fees for non-compliant trucks ended in December of 2011.

Operating Revenue, Fiscal Year 2012

Operating revenue for fiscal year 2012 increased to $409.8 million, reflecting a 2.3% increase from the prior year revenue of $400.5 million. As stated earlier, the Port derives its operating revenues primarily from shipping services, rentals, and fees from royalties, concessions and other fees.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 93.3% of the total shipping service revenue in fiscal year 2012. Wharfage is the fee charged against merchandise for passage over wharf premises, from vessels, and barges. Wharfage was $16.1 million higher compared to fiscal year 2011 mainly due to a 3.2% increase in container cargo volume. Net other shipping revenues were $0.6 million lower as space assignments were converted to revocable permits moving revenues from assignment charges to wharfage, as well as $1.0 million and $0.3 million decreases in dockage and pilotage revenues, respectively.

Rentals

The Port makes available to customers various types of rental properties on Port-controlled lands. These properties include land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set taking into account the condition, location, utility, and other aspects of the property. In all cases, the Port seeks to achieve a 12.0% rate of return on improvements and 10.0% return on land set by the Board of Harbor Commissioners (the Board).

During fiscal year 2012, rental income at the Port decreased by $2.3 million, or 5.0%, over last fiscal year and represented 10.5% of fiscal year 2012 total operating revenues. Land rental was down $2.6 million or 6.0% compared to prior year. The decrease in land rentals was primarily from a $3.5 million adjustment of an overstatement of a tenant's prior year rental permit.

Royalties, Fees, and Other Operating Revenue

The Port levies fees for a variety of activities conducted on Port properties. Examples include royalties from the production of oil and natural gas, fees for parking lots, motion picture productions, foreign trade zone operations, miscellaneous concessions, distribution of utilities, and maintenance and repair services conducted by the Port at the request of customers.

Continued…..

Revenues from royalties, fees, and other operating revenues in 2012 was $8.9 million or 2.2% of the total revenue. This represented a 22.9% decline or $2.6 million less in this revenue category compared with fiscal year 2011. The decline was mainly due to a decrease of $3.1 million from collection of fees from noncompliant trucks under the Port's Clean Truck Program (CTP), as the collection of fees for non-compliant trucks ended in December of 2011.

Operating Expenses

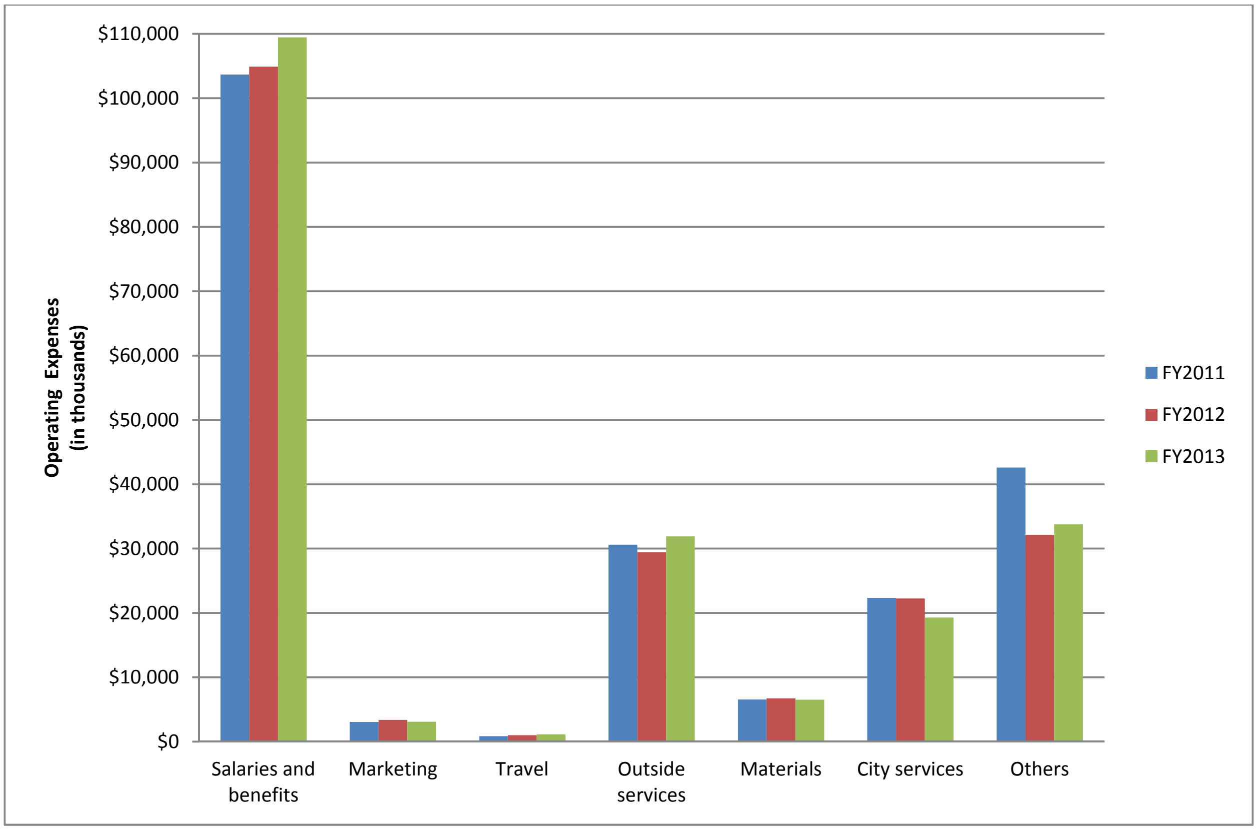
The following table presents a summary of the Port's operating expenses for fiscal years 2013, 2012 and 2011. Included in other operating expenses are expenses for litigation, settlements, clean truck program, pollution remediation, insurance premiums and miscellaneous other items:

Operating Expenses
(amounts in thousands)

				Increase(Decrease) Over Prior Year	
	FY2013	FY2012	FY2011	FY2013	FY2012
Salaries and benefits, net	$ 109,463	$ 104,910	$ 103,693	$ 4,553	$ 1,217
Marketing and publice relations	3,092	3,380	3,055	(288)	325
Travel and entertainment	1,130	991	843	139	148
Outside services	31,905	29,426	30,601	2,479	(1,175)
Materials and supplies	6,531	6,717	6,556	(186)	161
City services	19,284	22,236	22,353	(2,952)	(117)
Other operating expenses	33,764	32,146	42,594	1,618	(10,448)
Total Operating Expenses	$ 205,169	$ 199,806	$ 209,695	$ 5,363	$ (9,889)

Continued…..

The following chart shows the graphical comparison of the Port's operating expenses for fiscal years 2013, 2012 and 2011:



Fiscal Year 2013

In fiscal year 2013, operating expenses increased by $5.4 million to $205.2 million, a 2.7% increase from prior fiscal year expense of $199.8 million. Significant drivers in operating expenses include salaries and benefits, outside services, City services, and pollution remediation obligations.

Salaries and benefits expense increased by $4.6 million to $109.5 million, or 4.3% higher than prior year of $104.9 million. Fluctuations in salaries and benefits were caused primarily by the following: increase of $2.3 million in salaries due to a 2.50% to 3.75% increase in cost of living allowances for Port employees covered by various MOUs effective July 1, 2012, $0.5 million increase in medical and dental insurance costs; and $0.8 million increase in overtime pay due to increased construction and capital projects workload. Allocation of portions of the cost of salaries and benefits to capital projects increased by $0.5 million. Average full time employee headcount decreased by 2 to 952.

Continued…..

As part of its strategic plan to retain and increase market share, the Port spent $3.1 million in domestic trade promotion, business, government and other commercial promotion expenses.

Outside services increased by $2.5 million to $31.9 million or 8.4% from prior year of $29.4 million primarily due to higher professional, consulting and maintenance services for the following: $0.9 million for wharves maintenance, $0.8 million computer software services, $4.0 million architectural and engineering design support services, and $0.5 legal fees. These increases were offset by decreases of $2.7 million in environmental assessment service fees, $1.0 million information systems consulting services and $0.9 million in port security services.

Lower expenditures for maintenance, administrative and operating supplies mainly accounted for the decrease of $0.2 million in materials and supplies expense.

Total payments for City services decreased by $3.0 million. Fluctuations in City services payments were: $4.6 million higher charges from the Department of Water and Power due to the charges for the Alternative Maritime Power project for Berths 136-139, 144 and 145-147, $3.2 million increase in the Recreation and Parks Department charges because of timing difference in payments for services to various facilities, and $0.5 million from the departments of Public Works, General Services and Personnel. These increases were offset by lower net payments of $0.8 million to the City Attorney's Office, $0.3 million to the City's Information Technology Agency, and allocation of $12.0 million to various capital projects.

Litigation and settlement expenses were $0.4 million in fiscal year 2013 due to claims for refunds of overpayment of certain rent and breach of contracts.

The increase of $5.3 million in pollution remediation expenses was mainly due to remediation costs incurred in the current fiscal year as well as estimates for new pollution remediation sites including that of San Pedro Boat Works, Southwest Marine and the Total Maximum Daily Load Monitoring projects. Additional information regarding pollution remediation for these sites are found on pages 78-80 of the notes to the financial statements.

Fiscal Year 2012

In fiscal year 2012, operating expenses decreased by $9.9 million to $199.8 million, a 4.7% decrease from prior fiscal year expense of $209.7 million. Significant drivers in operating and administrative expenses include outside services, allocations to capital overhead, the Clean Truck Program, City services and benefits.

Salaries and benefits expense increased by $1.2 million to $104.9 million, or 1.2% higher than prior year of $103.7 million. Fluctuations in salaries and benefits were caused primarily by the following: $1.5 million increase in salaries due to 0.75% increase in cost of living allowances (COLA) for Port employees covered by various MOUs effective July 1, 2011, and a 3% COLA increase for non-represented employees effective January 1, 2012; $0.2 million increase in pension and retirement contributions; $0.2 million increase in medical and dental insurance costs; and $0.4 million increase in overtime pay. Allocation of portions of the cost of salaries and benefits to capital projects increased by $1.3 million which offset the increases in salaries and benefits account. Average full time employee headcount increased by 4 to 954.

Continued…..

As part of its strategic plan to retain and increase market share, the Port increased its spending for domestic trade promotion, business, government and other commercial promotion, accounting for the $0.3 million increase in marketing and public relations expenses.

Outside services decreased by $1.2 million to $29.4 million or 3.8% from prior year of $30.6 million primarily due to $0.9 million lower maintenance expenses.

Additional maintenance, administrative and operating supplies mainly accounted for the slight increase of $0.2 million in materials and supplies expense.

Total payments for City services slightly decreased by $0.1 million. Fluctuations in City services payments were: $3.2 million higher charges primarily for Fire Department services ($1.4 million), the Recreation and Parks ($1.0 million) Department, the City Attorney's Office ($0.5 million), City Administrative Office and Information Technology Agency ($0.3 million). These increases were offset by lower net payments of $2.8 million mainly to Building and Safety, Public Works and the Los Angeles Police departments.

Provision for workers' compensation was $5.8 million higher mainly due to an increase of $3.7 million in valuation of the medical component of the fiscal year 2012 workers compensation actuarial study, $1.1 million in the permanent disability component, and $1.1 million in temporary disability and other expenses components. As the Port is part of the overall City workers' compensation self-insurance program, the City allocated these costs to the Port on a pro-rata basis.

In prior fiscal year 2011, litigation and settlement expenses were $3.0 million higher than fiscal year 2012 due to a payment of $3.2 million for community aesthetic mitigation, representing the cost of four cranes acquired at $0.8 million each, as stipulated in the environmental impact report for China Shipping.

Lesser administrative expenditures for clean truck monitoring of trucks entering the Port, as well as lower CTP subsidy payments, accounted for $4.7 million reduction in CTP expenses during the fiscal year.

The decrease of $8.6 million in pollution remediation expenses was mainly due to lower remediation costs for the site cleanup of 800 Southerland Ave. and the petroleum carbon remediation of HY"c" Tane tank farm. Major cleanup costs for these projects were incurred in fiscal year 2011.

Continued…..

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses are derived from transactions that do not result from providing services in connection with the Port's ongoing operations. The following table presents a summary of the Port's nonoperating revenue and expenses for fiscal years 2013, 2012 and 2011:

Summary of NonOperating Revenue and Expenses
(amounts in thousands)

				Increase (Decrease) Over Prior Year	
	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Nonoperating revenue					
Income from investments in Joint Powers Authorities	$ 2,049	$ 1,851	$ (333)	$ 198	$ 2,184
Interest and investment income	826	9,486	6,436	(8,660)	3,050
Other nonoperating revenue	16,731	14,167	6,023	2,564	8,144
Total nonoperating revenue	19,606	25,504	12,126	(5,898)	13,378
Nonoperating expenses					
Interest expense	2,473	10,538	3,704	(8,065)	6,834
Other nonoperating expenses	15,947	22,526	12,690	(6,579)	9,836
Total nonoperating expenses	18,420	33,064	16,394	(14,644)	16,670
Net nonoperating revenue (expenses)	$ 1,186	$ (7,560)	$ (4,268)	$ 8,746	$ (3,292)

Fiscal Year 2013

Net nonoperating revenue (expenses) for fiscal year 2013 increased by $8.7 million from $(7.6) million in fiscal year 2012 to $1.2 million in fiscal year 2013.

Interest and investment income decreased by $8.7 million or 91.3% to $0.8 million from the prior fiscal year's $9.5 million due to lower interest earnings on investments and substantial mark to market loss on investments.

Interest expense decreased by $8.1 million to $2.5 million from the prior fiscal year of $10.5 million. The Port redeemed its Series 2002A bonds and fully paid its $1.4 million Boating and Waterways loans thereby decreasing interest expenses. Also, in fiscal year 2013, capitalized interest was $35.7 million compared to $30.6 million in fiscal year 2012, or a $5.1 million higher interest capitalized to the construction in progress account resulting in lower interest charged to expenses.

Other nonoperating expenses decreased by $6.6 million because in the prior fiscal year 2012, the Port recognized a loss on sale of the POLA High School of $8.5 million.

Continued…..

Fiscal Year 2012

Net nonoperating revenue (expenses) for fiscal year 2012 displayed an increase of net expenses by $3.3 million or 77.1% to a net expense of $7.6 million from prior year's net expense of $4.3 million.

In prior fiscal year 2011, the Port wrote down $2.3 million in receivables from the Intermodal Container Transfer Facility Joint Powers Authority (ICTF or JPA). The charge was an accounting adjustment against an overstatement of revenues that resulted from timing differences in the calculation of receipts. This resulted in a negative $0.3 million share in ICTF's operations in the prior year. ICTF reported income of $3.9 million in the fiscal year 2012, thereby resulting in $1.9 million increase in investment revenue from the JPA.

Interest and investment income increased by $3.1 million or 47.4% to $9.5 million from the prior fiscal year's $6.4 million due to higher interest earnings on investments and mark to market gain on investments.

Interest expense increased by $6.8 million or 184.2% to $10.5 million from the prior fiscal year of $3.7 million. The increase resulted primarily from an adjustment to the Port's capitalized interest, reducing interest capitalized to the construction in progress account from $40.1 million in fiscal year 2011 to $30.6 million in fiscal year 2012. In addition, the exclusion of the costs of certain completed projects from the calculation of capitalized interest resulted in an adjustment of $9.5 million in capitalized interest, which was charged to current year's interest expense. The Port also incurred bond interest expense of $3.8 million from the issuance of the 2011 Series A and B Refunding bonds, but the refunding also reduced interest obligations, thereby generating an immediate $6.6 million decrease in interest expenses.

The Port recorded as other nonoperating revenue a $2.5 million solar power incentive received from the Department of Water and Power. Other sources of nonoperating revenues during the year were $0.3 million in delinquency penalties, $0.1 million from sale of equipment and other fixed assets, and $0.6 million credits from rebates and other reimbursements. Included also in nonoperating revenues were noncapital grants received by the Port. During the fiscal year, federal and state grants of $2.1 million as well as $5.9 million of federal and state pass-through grants were received.

During the fiscal year, the Port recorded as nonoperating expense a loss of $8.5 million from the sale of POLA High School, which mainly accounted for the increase of $9.8 million in nonoperating expenses. Please see page 25 for details on the sale of this property.

Long-Term Debt

The Port's long-term debt comprises of senior debt in the form of Harbor Revenue Bonds, commercial paper, and subordinated debt in the form of a loan. As of June 30, 2013 and 2012, the Port's outstanding long-term debt was $921.1 million and $974.9 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA, and AA credit ratings from Moody's, Standard & Poor's, and Fitch Ratings, respectively. For its commercial paper, the ratings are P-1, A-1+, and F-1+, respectively.

Continued…..

Bonded Debt

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). The Port's financial policy requires that a minimum of 2.0x debt service coverage ratio be maintained at all times. At June 30, 2013, the Port's debt service coverage ratio stood at 3.0x according to the additional bond test method.

The Port's long-term debt consisted of the following as of June 30, 2013, 2012, and 2011 (in thousands):

	2013	2012	2011
Revenue bonds payable	$ 821,130	$ 873,488	$ 905,451
Notes payable	--	1,366	1,874
Commercial paper	100,000	100,000	100,000
Total	$ 921,130	$ 974,854	$ 1,007,325

*Certain information were reclassified to conform to current year's presentation.

Capital Assets

The Port's investment in capital assets, net of accumulated depreciation as of June 30, 2013, 2012 and 2011 amounted to $3.6 billion, $3.4 billion and $3.3 billion, respectively. These accounted for 86.9%, 83.7%, and 83.3% of total assets, respectively. The following table presents the Port's capital assets, net of accumulated depreciation for fiscal years 2013, 2012 and 2011 (in thousands):

Summary of Capital Assets

				Increase(Decrease) Over Prior Year	
	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Land	$ 1,133,902	$ 1,072,398	$ 1,058,404	$ 61,504	$ 13,994
Facilities and equipment, net	1,821,353	1,788,966	1,468,867	32,387	320,099
Intangible assets, net	20,942	16,953	12,900	3,989	4,053
Construction in progress	342,279	328,026	524,158	14,253	(196,132)
Preliminary costs-capital projects	233,029	151,977	214,578	81,052	(62,601)
Total	$ 3,551,505	$ 3,358,320	$ 3,278,907	$ 193,185	$ 79,413

Continued…..

Fiscal Year 2013

Major capital assets activities during fiscal year 2013 are as follows:

- $19.0 million - Southwest Marine dry dock demolition.
- $2.0 million - Acre backland development.
- $39.6 million - Harry Bridges Boulevard improvement.
- $16.8 million - construction and improvement of various wharves and terminals including facilities for the San Pedro Waterfront-Downtown water cut.
- $94.3 million - improvement of various warehouses, buildings and facilities including $4.7 million for E. Water St. building interior improvement, $3.6 million for Phase 1A backland improvement, $33.2 million for alternative marine power improvement, $4.6 million for improvement of various administration buildings, $3.7 million for demolition of liquid bulk terminal, $21.7 million for Inner Cabrillo Beach water quality improvement; $12.0 million for So. Pacific slip improvement in the San Pedro Waterfront, and $8.5 million for the Southern California International Gateway project.
- $1.4 million - Maritime Law Enforcement Training Center equipment.
- $4.7 million - fiber optic network programs.
- $3.6 million - Port Police Law Enforcement Resource Tracking system.
- $4.0 million - Port Police headquarters, Port Police integrated command and control system and other security enhancement projects, and passenger complex perimeter security enhancement projects.
- $4.2 million – application and development costs for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System.

Fiscal Year 2012

Major capital assets activities during fiscal year 2012 are as follows:

- $162.6 million - Cabrillo Way Marina Phase II development.
- $113.7 million - various wharves improvement, including $12.3 million for landfill and wharf demolition.
- $77.7 million - Harry Bridges Boulevard improvement.
- $26.7 million - improvement of various terminals including $23.3 million for cruise terminals.
- $22.1 million - improvement of various warehouses, buildings and facilities.

Continued…..

- $9.5 million - improvement of waterfront and other public areas in Wilmington and San Pedro.
- $6.8 million - fiber optic network programs.
- $5.1 million - POLA electric truck program.
- $11.8 million - for Port Police headquarters, Port Police integrated command and control system and other security enhancement projects, and passenger complex perimeter security enhancement projects.
- $1.1 million - acquisition of vehicles, parts and accessories.
- $3.1 million - acquisition of boats, barge, boat hardware and parts.
- $0.8 million - expended for electronic equipment, devices including computer hardware for the Port's new financial accounting system to be implemented in fiscal year 2013.
- $3.2 million - police data center equipment, mobile command center and various computer equipment for the new Port police building and headquarters.
- Sale of POLA High School (POLAHS) costing $14.3 million with accumulated depreciation of $2.7 million on October 14, 2011. The lease permit with POLAHS provided for the sale of this property as prescribed under California Government Code Section 54220, the City Charter, and the Administrative Code. A notice of intent to purchase this property was received from POLAHS on October 8, 2008. Subsequently, on August 13, 2009, the POLA Board declared this property as surplus to the needs of the POLA. POLA received cash of $3.5 million on the sale and credited rental income of $0.4 million resulting in a loss of $8.5 million reflected as a nonoperating expense on the Port's financial statements.

Estimated Capital Improvement Expenditures for Fiscal Year 2014

Estimated expenditures for the Port's fiscal year 2014 capital outlays are $451.9 million. Of this total, $399.9 million has been budgeted for the capital improvement program (CIP). The more significant activities for next fiscal year including expenditures for terminal development, waterfront development, transportation and infrastructure projects, port security and environmental initiatives are as follows:

Terminal Development Projects

- $256.6 million of CIP budget dedicated to development projects at various Port terminals.
- $99.3 million for projects at TraPac terminal, including $28.1 million for a new main gate and administrative buildings, $61.6 million for backland improvements, including the installation of automatic stacking crane infrastructure, $9.1 million for a new Intermodal Container Transfer facility, and $0.5 million of other terminal improvements.
- $41.5 million for the expansion of China Shipping Container Terminal, including $12.4 million for the completion of 375 linear feet of expanded wharf and an AMP installation, $27.9 million for

Continued…..

construction of new backlands, and $0.8 million for the design of marine operations and crane maintenance buildings.

- $95.8 million funding to be provided for AMP installations at the Yang Ming, APL, YTI, Evergreen, and APMT container terminals.
- $8.2 million for the audit, design, and construction of upgrades at liquid bulk oil cargo handling facilities, and $1.8 million for construction of a new system of catwalk structures and concrete mooring point at the Exxon Mobil facility.

Waterfront Development Projects

- $31.1 million for L.A. Waterfront projects.
- $20.1 million for the construction of a new waterfront promenade, plaza, and town square.
- Other waterfront projects include planning and design of the City Dock No. 1 Urban Marine Research Center and the Front Street beautification project.

Transportation and Infrastructure Projects

- $60.2 million for the construction of the Berth 200 Rail Yard project and $33.2 million for the South Wilmington Grade Separation project.
- Other transportation projects are completion of Terminal Island street improvements, Avalon/Fries Street closures environmental assessment, and design and construction of both I-110/SR 47 connector improvements and the John S. Gibson intersection and NB I-110 ramp access improvements.

Port Security Projects

- $5.3 million for the POLA Fiber Optic Phase II project, IT Cyber Security Improvement Phase I, Port Police Tactical Radio Communications Improvements, Port Police Interoperable Communications System, and completion of the Port Police K9, and 705 N. Front Street Inspection facilities.

Environmental Initiatives

- $1.7 million to be spent on the CTP, for concession and grant administration, enforcement, data collection and analysis, outreach, and other support services.
- $1.8 million funding for air quality and climate change measures.
- Environmental project priorities also include $3.6 million for pollution remediation work, $1.2 million for the implementation of the Water Resources Action Plan, $1.9 million to support and implement the Total Daily Maximum Load requirements
- Over $0.9 million for mitigation monitoring and reporting of environmental assessments.

Continued…..

Factors That May Affect the Port's Operations

There is significant competition for container traffic among North American ports. The availability of alternate port facilities at competitive prices affects the use of the Port's facilities and therefore the revenues of the Port. The Port cannot predict the scope of such impact.

All of the ports on the West Coast of the U.S. compete for discretionary intermodal cargo destined for locations across the U.S. and Canada. Discretionary cargo makes up approximately 50% of cargo arriving at the Port. Currently, this discretionary cargo moves eastward primarily by rail. The use of all-water routes to the East and Gulf Coasts of the U.S. is an alternative to Asian intermodal cargo moving through U.S. West Coast ports. All-water service from Asia to the Gulf of Mexico and East Coast ports move primarily through the Panama Canal. The Panama Canal is in the process of expanding its locks such that its capacity will double. Reports indicate that the opening of the new locks will take place in April 2015 as the widening and deepening of the lock chambers will allow ships of greater size to transit the Canal. The expansion creates a potential route to the East and Gulf Coast for ships of greater capacity than the current "Panamax" ships. While the effects of an expanded Canal are unknown, the Port has an existing ability to handle the New Panamax and Super Post Panamax ships and continues to maintain and improve its strong infrastructure and intermodal capabilities.

The Port is subject to legal and regulatory requirements relating to air emissions that may be generated by activities at the Port. Such requirements mandate and offer certain incentives for reductions of air pollution from ships, trains, trucks and other operational activities. Paying for mandated air pollution reduction infrastructure, equipment and other measures may become a significant portion of the Port's capital budget and operating budget. Such expenditures are necessary even if the Port does not undertake any new revenue-generating capital improvements, and the Port cannot provide assurances that the actual cost of the required measures will not exceed the forecasted amount.

Competitive Environment

As of fiscal year ended June 30, 2013, six major container ports controlled 99.2% of the entire U.S. West Coast containerized cargo market: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 71.3% of all U.S. West Coast market share based on a loaded TEU basis.

The industry is capital intensive and requires long lead times to plan and develop new facilities and infrastructure. Resources are typically allocated and facilities developed upon the commitment of customers to long-term permits at the Port that currently range from 13 to 26 years before expiry. Occupancy remains high and West Coast ports have limited land areas for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but is also the most attractive point of origin for trans-shipments to points east as the Port has extensive on-dock rail facilities creating intermodal connections that provide for time to market advantages.

Continued…..

The following table presents a summary of the West Coast container market share* for fiscal years 2011 to 2013:

	Loaded TEUs (in thousands)			Percentage Market Share		
Ports	FY 2013*	FY 2012**	FY 2011	FY 2013	FY 2012	FY 2011
Los Angeles	5,621	6,146	5,764	38.8%	42.3%	40.0%
Long Beach	4,705	4,238	4,595	32.5%	29.2%	31.9%
Oakland	1,569	1,573	1,570	10.8%	10.8%	10.9%
Seattle	1,070	1,399	1,403	7.4%	9.6%	9.7%
Tacoma	1,265	914	848	8.7%	6.3%	5.9%
Portland	139	157	144	1.0%	1.1%	1.0%
All others	114	97	84	0.8%	0.7%	0.6%
	14,483	14,524	14,408	100.0%	100.0%	100.0%

*Source: PIERS ** Source: UBM Global Trade

Request for Information

This financial report is designed to provide a general overview of the Port of Los Angeles' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Karl K.Y. Pan, Chief Financial Officer, Port of Los Angeles (Harbor Department of the City of Los Angeles), 425 S. Palos Verdes St., San Pedro, CA 90731.

Continued…..

Financial Statements

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Statements of Net Position
June 30, 2013 and 2012
(amounts In thousands)

ASSETS	**2013**	**2012**
Current Assets		
Cash and cash equivalents, unrestricted	$ 351,793	$ 444,355
Cash and cash equivalents, restricted	38,066	43,236
Accounts receivable, net of allowance for doubtful accounts:		
2013 - $5,170; 2012 - $5,368	36,200	33,646
Grants receivable	19,161	19,460
Materials and supplies inventories	2,054	2,103
Prepaid expenses	671	724
Accrued interest receivable	934	859
Current portion of notes receivable	4,803	4,663
Total current assets	453,682	549,046
Noncurrent Restricted Assets		
Restricted investments – bond funds	57,913	67,796
Other restricted cash and investments	9,787	9,790
Accrued interest receivable	3	2
Total noncurrent restricted assets	67,703	77,588
Capital assets		
Land	1,133,902	1,072,398
Facilities and equipment net of accumulated depreciation:		
2013 - $1,496,429; 2012 - $1,388,644	1,821,353	1,788,966
Intangible assets, net of amortization: 2013 - $203	20,942	16,953
Construction in progress	342,279	328,026
Preliminary costs – capital projects	233,029	151,977
Total capital assets	3,551,505	3,358,320
Notes receivable	10,150	14,975
Investment in Joint Powers Authorities	5,086	5,037
Other assets	--	7,198
TOTAL ASSETS	4,088,126	4,012,164
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	5,660	6,726

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PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Statements of Net Position
June 30, 2013 and 2012
(amounts In thousands)

	2013	2012
LIABILITIES		
Current Liabilities		
Accounts payable	$ 69,966	$ 41,118
Current maturities of notes payable and bonded debt	26,235	31,816
Accrued interest payable	16,564	17,650
Accrued salaries and employee benefits	14,461	10,786
Obligations under securities lending transactions	1,447	--
Accrued construction cost payable	1,658	2,171
Other current liabilities	57,888	63,715
Total current liabilities	188,219	167,256
Long-term liabilities:		
Long-term liabilities payable from unrestricted assets		
Bonds payable, net of unamortized discount/premium: 2013 - $30,390 ; 2012 - $33,363	794,895	842,203
Notes payable, net of current portion	--	835
Commercial paper	100,000	100,000
Accrued employee benefits	11,559	11,241
Other liabilities	105,201	111,633
Total long-term liabilities payable from unrestricted assets	1,011,655	1,065,912
Long-term liabilities payable from restricted assets	9,561	9,594
Total long-term liabilities	1,021,216	1,075,506
TOTAL LIABILITIES	1,209,435	1,242,762
NET POSITION		
Net investment in capital assets	2,634,840	2,397,744
Restricted for debt service	57,913	67,796
Unrestricted	191,598	310,588
TOTAL NET POSITION	$ 2,884,351	$ 2,776,128

See accompanying notes to financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Statements of Revenues, Expenses, and Changes in Net Position
For the Years ended June 30, 2013 and 2012
(amounts In thousands)

	2013	2012
OPERATING REVENUE		
Shipping services		
Wharfage	$ 322,821	$ 333,757
Dockage	4,689	4,813
Demurrage	228	230
Pilotage	6,954	7,131
Assignment charges	13,184	11,785
Total shipping services	347,876	357,716
Rentals		
Land	38,856	40,127
Buildings	2,103	1,252
Warehouses	1,447	1,437
Wharf and shed	484	327
Total rentals	42,890	43,143
Royalties, fees, and other operating revenues		
Fees, concessions, and royalties	1,744	1,866
Clean truck program fees	1,409	3,250
Oil royalties	567	164
Other	2,882	3,648
Total royalties, fees, and other operating revenues	6,602	8,928
Total operating revenue	397,368	409,787
OPERATING EXPENSES		
Salaries and benefits, net of capitalized amounts: 2013 - $21,080; 2012 $20,563	109,463	104,910
Marketing and public relations	3,092	3,380
Travel and entertainment	1,130	991
Outside services	31,905	29,426
Materials and supplies	6,531	6,717
City services, net of capitalized amounts: 2013 - $30,553; 2012 - $16,211	19,284	22,236
Provision for workers’ compensation claims	3,112	7,507
Litigation, claims, and settlement expenses	438	--
Clean truck program expenses	934	790
Pollution remediaion expenses	11,635	6,341
Other operating expenses	17,645	17,508
Total operating expenses before depreciation	205,169	199,806
Operating Income before depreciation - forwarded	192,199	209,981

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PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Statements of Revenues, Expenses, and Changes in Net Position (Continued)
Years ended June 30, 2013 and 2012
(amounts In thousands)

	2013	2012
Operating Income before depreciation - forwarded	$ 192,199	$ 209,981
Depreciation	108,037	100,485
OPERATING INCOME	84,162	109,496
NONOPERATING REVENUE (EXPENSES)		
Income (expense) from investments in Joint Powers Authorities	2,049	1,851
Interest and investment income	826	9,486
Interest expense	(2,473)	(10,538)
Other nonoperating revenue	16,731	14,167
Othe nonoperating expense	(15,947)	(22,526)
Total nonoperating revenue (expenses)	1,186	(7,560)
INCOME BEFORE CAPITAL CONTRIBUTIONS	85,348	101,936
Capital contributions	17,630	31,307
Special item	13,387	--
CHANGES IN NET POSITION	116,365	133,243
NET POSITION, JULY 1	2,776,128	2,642,885
Net adjustment for write off of prior period bond issue costs	(8,142)	--
Net position July 1, restated	2,767,986	2,642,885
NET POSITION, JUNE 30	$ 2,884,351	$ 2,776,128

See accompanying notes to financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Statements of Cash Flows
Years ended June 30, 2013 and 2012
(amounts In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Shipping service fees collected	$ 345,640	$ 351,629
Rentals collected	42,614	43,090
Royalties, fees, and other operating revenues collected	6,561	8,785
Payments for employee salaries and benefits, net of capitalized amounts: 2013 - $21,080; 2012- $20,563	(105,470)	(106,886)
Payments for goods and services	(55,111)	(79,505)
Net cash provided by operating activities	234,234	217,113
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITY		
Proceeds from noncapital grants	1,029	2,674
Net cash provided by noncapital and related financing activity	1,029	2,674
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for property acquisitions and construction	(268,540)	(160,011)
Proceeds from sale of capital assets	87	3,604
Proceeds from capital grants	17,930	28,444
Net proceeds from issuance of bonds	--	91,750
Principal repayment, redemption, and defeasance – bonds	(49,385)	(131,555)
Principal repayment – notes	(1,366)	(508)
Payments from (to) bond sinking fund	8,661	(455)
Interest paid	(41,186)	(32,339)
Net cash used in capital and related financing activities	(333,799)	(201,070)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	7,020	8,214
Cash collateral received (paid) under the securities lending transactions	1,447	(41,077)
Increase (decrease) in fair value of investments	(6,267)	1,365
Purchase of investments	(8,081)	--
Net payments received on notes receivable	4,685	4,549
Distribution from Joint Powers Authorities	2,000	3,000
Net cash provided by (used in) investing activities	804	(23,949)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(97,732)	(5,232)
CASH AND CASH EQUIVALENTS, JULY 1	487,591	492,823
CASH AND CASH EQUIVALENTS, JUNE 30	$ 389,859	$ 487,591

continued.....

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Statements of Cash Flows (Continued)
Years ended June 30, 2013 and 2012
(amounts In thousands)

	2013	2012
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and cash equivalents, unrestricted	$ 351,793	$ 444,355
Cash and cash equivalents, restricted	38,066	43,236
Total cash and cash equivalents	$ 389,859	$ 487,591
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 84,162	$ 109,496
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	108,037	100,485
Provision for doubtful accounts	(137)	323
Changes in assets and liabilities		
Accounts receivable	(2,417)	(6,606)
Materials and supplies inventories	49	120
Prepaid and other assets	331	2,151
Accounts payable	31,374	8,498
Accrued employee benefits	3,993	(1,976)
Other deferred credits and other liabilities	8,842	4,622
Total adjustments to reconcile operating income to net cash provided by operating activities	150,072	107,617
Net cash provided by operating activities	$ 234,234	217,113
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets with construction payable	$ 1,658	$ 2,171
Acquisition of capital assets with accounts payable	732	2,525
Write-off of discontinued construction projects	2,332	2,319
Capitalized interest expense, net	35,720	30,596

See accompanying notes to financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Notes to the Financial Statements

June 30, 2013 and 2012

The Notes to the Financial Statements include disclosures considered necessary for a better understanding of the accompanying financial statements. An index to the Notes follows:

Continued…..

1. Organization and Summary of Significant Accounting Policies

The financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), hereafter referred to as "Port of Los Angeles" or "Port," have been prepared in conformity with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port's significant accounting policies are described below.

A. Organization and Reporting Entity

The Port of Los Angeles is an independent, self-supporting department of the City of Los Angeles (the City), formed for the purpose of providing shipping, fishing, recreational, and other resources and benefits for the enjoyment of the citizens of California. The Port is under the control of a five-member Board of Harbor Commissioners (BHC), who are appointed by the Mayor and approved by the City Council. The BHC is administered by an Executive Director, subject to the State of California Tidelands Trust Act. The Port is granted control of tidelands, and all monies arising out of the operation of the Port are limited as to use for the operation and maintenance of Port facilities, the acquisition and construction of improvements, and other such trust considerations under the Tidelands Trust and the Charter of the City.

The Port prepares and controls its own financial plan, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port operates as principal landlord for the purpose of assigning or leasing port facilities and land areas. The Port's principal source of revenue is from shipping services under tariffs (dockage and wharfage, etc.), rental of land and facilities, fees (parking and foreign trade zones), and royalties (oil wells). Capital construction is financed by cash from operations, and bonded debt, secured by future revenues and federal grants. Daily operation of the port facilities and regular maintenance are performed by the Port's permanent work force. Generally, large construction projects are assigned to commercial contractors.

Operations of the Port are financed in a manner similar to that of a private business. The Port recovers its costs of providing services and improvements through tariff charges for shipping services and the leasing of facilities to Port customers.

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units by applying the criteria set forth by the GASB. The financial statements present only the financial activities of the Port in conformity with GAAP and are not intended to present the financial position and results of operations of the City.

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port in undertaking financing third party capital expenditures at potentially advantageous terms that the BHC deems necessary for the promotion and accommodation of commerce.

Continued…..

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the BHC. The BHC is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, it is reported as if it were part of the Port, because its sole purpose is to help finance and construct facilities and improvements, related to Port activities.

LAHIC is included in the reporting entity of the Port, and accordingly, the operations of LAHIC are blended in the Port's accompanying financial statements.

B. Summary of Significant Accounting Policies

Method of Accounting – The Port activities are accounted for as an enterprise fund, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when the related liabilities are incurred. The measurement focus is on determination of changes in net position, financial position, and cash flows.

Cash, Cash Equivalents, and Investments – The Port pools its available cash with that of the City. All cash and investments pooled with the City, plus any other cash deposits or investments with initial maturities of three months or less are considered cash and cash equivalents.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating City department fund based on the relationship of such department fund's respective average daily cash balances to aggregate pooled cash and investments. The change in the fair value of pooled investments is allocated to each participating City department fund based on the aggregate respective cash balances at year-end.

The Port's investments, including its share of the City's Investment Pool, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of investments with no regular market is estimated based on similar traded investments. The fair value of mutual funds, government-sponsored investment pools, and other similar investments is stated at share value or an allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year and the current year.

Continued…..

Securities Lending – As a participant in the City's Investment Pool, the Port also participates in the City's securities lending program (SLP). The investment collateral received by the City together with the corresponding liability is allocated among the City's participating funds using the same basis as that of allocating interest income and realized gains or losses.

Materials and Supplies Inventories – Inventories of materials and supplies are stated at lower of average cost or market.

Capital Assets – Capital assets are carried at cost or at appraised fair value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation. The Port has a capitalization threshold of $5,000. Capital assets include intangible assets for the Port's radio frequency and emission mitigation credits, and capitalized costs of the new enterprise resource planning system.

Development costs for proposed capital projects that are incurred prior to the finalization of formal construction contracts are capitalized. Upon completion of capital projects, such preliminary costs are transferred to the appropriate property account. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment. Preliminary costs of capital projects for fiscal years 2013 and 2012 are $233.0 million and $152.0 million, respectively.

The Port capitalizes interest costs incurred on indebtedness issued in connection with the acquisition, construction or improvement of capital assets, net of interest revenue on reinvested debt proceeds. Interest capitalized in fiscal years 2013 and 2012 were $35.7 million and $30.6 million, respectively.

The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects. Indirect project costs allocated to construction projects for fiscal years 2013 and 2012 were $13.9 million and $7.8 million, respectively.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the Port's depreciable assets are as follows:

Wharves and sheds	15 to 30 years
Buildings and facilities	10 to 50 years
Equipment	3 to 18 years
Intangible assets	20 years

Investments in Joint Powers Authorities – Investments in joint power authorities are accounted for by the equity method.

Continued…..

Accrued Salaries and Employee Benefits – Aside from accrued salaries, the Port records as liabilities all accrued employee benefits, including estimated liabilities for certain unused vacation and sick leave in the period the benefits are earned. Port employees accumulate annual vacation and sick leave based on their length of service up to a designated maximum. Upon termination or retirement, employees are paid the cash value of their accumulated leave benefits.

Deferred Outflows and Inflows of Resources – In addition to assets, the Port reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Port classified deferred charges on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price amortized over the shorter of the life of the refunded or refunding debt as deferred outflows of resources.

Operating and Nonoperating Revenues and Expenses – The Port differentiates between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from the Port's primary ongoing operations. All revenues and expenses other than these are reported as nonoperating revenues and expenses.

Revenues from shipping services, rental fees, and royalties are the major sources of the Port's revenues. Shipping services revenues consist of fees assessed for various activities relating to vessel and cargo movement. Twenty-foot equivalent units (TEUs) and metric tons are the measures used to determine cargo volumes that move through the Port. Rental fees are collected from the lease of various types of rental properties in Port-controlled lands. Rental rates are set using various methodologies, and are appraised periodically to evaluate and establish benchmark rates. Rental rates may be adjusted, within reason, to reflect general market conditions. The Port levies fees for various activities such as royalties from oil and natural gas production, fees for parking lots, and miscellaneous concessions.

Operating Leases – The Port leases a substantial portion of lands and facilities to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property to pre-leased conditions at the expiration of the agreement; accordingly, no leases are considered capital leases.

Pension and Other Post Employment Benefits (OPEB) – All full-time civilian Port employees are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a defined benefit single-employer pension plan. Starting fiscal year 2007, all full-time Port police officers are eligible to participate in the Los Angeles Fire and Police Pension system (LAFPP), a defined benefit single-employer pension plan available to all full-time active sworn firefighters and police officers (except Airport Police) of the City. The Port's policy is to fund fully its entire annual share of LACERS and LAFPP pensions and the respective OPEB costs. The funded costs are determined at the start of each fiscal year and are incorporated into the payroll burden rate to reimburse the City for the Port's pro rata contribution share.

Capital Contributions – The Port may receive grants for the purpose of acquisition or construction of property and equipment. These grants are generally structured as

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reimbursements against expenditures. Grants are recorded as capital contributions when the grant is earned. Grants are generally earned upon expenditure of funds.

Net Position – The statements of net position are designed to display the financial position of the Port. The Port's equity is reported as net position, which is classified into the following categories:

- *Net investment in capital assets* – This category consists of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This category consists of restrictions placed on net asset use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments. Constraints may also be imposed by law or constitutional provisions or enabling legislation.
- *Unrestricted* – This category consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, and then unrestricted resources, as they are needed.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to amounts reported in fiscal year 2012 to conform to the fiscal year 2013 presentation.

2. Adoption of New GASB Pronouncements

GASB Statement No. 62*, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*." Issued in December 2010, this statement incorporates into the GASB'S authoritative literature certain accounting and financial reporting guidance and pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board, opinions issued by the Accounting Principles Board as well as accounting research bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures. The Port implemented this statement in fiscal year 2013. This statement has no material impact on the Port's financial statements.

GASB Statement No. 63*, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* Issued in June 2011, this statement provides guidance for reporting deferred outflows and inflows of resources, and net position in a statement of financial position and related disclosures. Transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods are now identified as deferred outflows or inflows of resources respectively, and hence, are distinguished from assets and liabilities. This

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statement requires reporting of net position as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The Port implemented this statement in fiscal year 2013. This statement has no material impact on the Port's financial statements.

GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* Issued in March 2012, this statement aims to properly classify certain items that were previously reported as assets and liabilities as deferred outflows or inflows of resources. Further it provides that for current refunding and advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow or deferred inflow of resources. Also, the use of the term deferred should be limited to items reported as deferred outflows or inflows of resources. Implementation of this statement will be effective beginning fiscal year 2014. The Port early implemented this statement in fiscal year 2013. Additional information on the Port's reporting of deferred outflows of resources is found on page 44 of the notes to the financial Statements.

This statement also establishes standards of accounting and financial reporting for debt issuance costs. Debt issuance costs which include all costs incurred to issue bonds, financing costs, and other related costs, except any portion related to prepaid insurance costs, should now be recognized as expense in the period incurred. The Port adjusted its beginning net position to reflect an adjustment for the unamortized debt issuance costs of $8.1 million as of June 30, 2013.

3. Recent GASB Pronouncements

GASB Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangements."* Issued in November 2010, this statement aims to improve financial reporting of service concession arrangements (SCAs). SCA is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration; the operator then collects and is compensated by fees from third parties. Implementation of this statement is effective fiscal year 2013. The Port does not have activities that qualify as SCAs, hence, this statement has no impact on the Port's financial statements.

GASB Statement No. 61, *"The Financial Reporting Entity: Omnibus."* Issued in November 2010, this statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, as well as disclosure requirements. It applies to financial reporting entity by primary governments and other stand-alone government, and to the separately issued financial statements of governmental component units. Implementation of this statement is effective fiscal year 2013. This statement has no impact on the Port's financial statements.

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GASB Statement No. 66, *"Technical Corrections."* Issued in March 2012, this statement aims to resolve conflicting guidance from the issuance of statements no. 54 on Fund Balance reporting, and no. 62 on codification of accounting and financial reporting guidance contained in the pre-November 30, 1989 FASB and AICPA pronouncements. This statement will be effective beginning fiscal year 2014.

GASB Statement No. 67, *"Financial Reporting for Pension Plans."* Issued in June 2012, this statement establishes financial reporting standards for defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements. It establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This statement will be effective beginning fiscal year 2014.

GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions."* Issued in June 2012, this statement aims (a) to improve the usefulness of information for decisions made by users of financial reports of governments whose employees, both active and inactive, are provided with pensions, and (b) improve information provided about pension-related financial support from certain non employer entities that make contributions to pension plans that are used to provide benefits to employees of other entities. This statement will be effective beginning fiscal year 2015.

GASB Statement No. 69, *"Government Combinations and Disposals for Government Operations."* Issued in January 2013, this statement addresses financial reporting for disposals of government operations. Government combinations are arrangements that meet the definition of a government merger, government acquisition, or transfer of operations. This statement will be effective beginning fiscal year 2015.

GASB Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees."* Issued in April 2012, this statement establishes standards for financial guarantees that are nonexchange transactions extended or received by a state or local government. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. This statement will be effective beginning fiscal year 2014.

4. Cash and Investments

The Port's cash and investments consist of the following (in thousands):

	2013	2012
Cash in bank and certificates of deposit	$ 376	$ 389
Investment in U.S. Treasury money market fund	57,958	67,796
Equity in the City of Los Angeles Investment Pool	399,225	496,992
Total cash and investments	$ 457,559	$ 565,177

Continued…..

Certain of the Port's cash and investments are restricted as to use by reason of bond indenture requirements or similar legal mandate. The Port's unrestricted and restricted cash and investments are as follows (in thousands):

	2013	2012*
Unrestricted cash and cash equivalents	$ 351,793	$ 444,355
Restricted cash and cash equivalents		
Current		
China Shipping Mitigation Fund	34,305	34,041
Community Aesthetics Mitigation Fund for Parks	475	2,572
Community Mitigation Trust Fund – Trapac	108	122
Narcotics/Customs Enforcement Forfeiture Fund	327	445
Clean Truck Program and Fee Fund	521	3,717
Other	2,330	2,339
Subtotal – Current	38,066	43,236
Noncurrent		
Harbor Revenue Bond Funds	57,913	67,796
Commercial Paper Redemption Fund	46	14
Customer Security Deposits	3,183	3,225
Batiquitos Environmental Fund	6,000	5,993
Harbor Restoration Fund	558	558
Subtotal – Noncurrent	67,700	77,586
Total restricted cash and investments	105,766	120,822
Total cash and investments	$ 457,559	$ 565,177

*Certain items were reclassified to conform to current year's presentation.

A. Deposits

The Port had cash deposits and certificates of deposit with several major financial institutions amounting to $0.4 million for both fiscal years ended June 30, 2013 and 2012. The deposits were entirely covered by federal depository insurance or collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

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B. Pooled Investments

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council (City Council) File No. 94-2160, the City Treasury shall render to the City Council a statement of investment policy (the Policy) annually. City Council File No. 11-1740 was adopted on October 23, 2012, as the City's investment policy. This Policy shall remain in effect until the City Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1.

Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, local agency bonds, commercial paper notes, certificates of deposit (CD) placement service, bankers' acceptances, medium term notes, repurchase agreements, mutual funds, money market mutual funds, and the State of California Local Agency Investment Fund.

The Port had $399.2 million and $497.0 million invested in the City's General Pool and three Special Investment Pools, representing approximately 4.7% and 6.2% of the City Treasury's General Pool and Special Investment Pools at June 30, 2013 and 2012, respectively.

The disclosures on "Note 4.B. Pooled Investments" were derived from information prepared by the City and furnished to the Port.

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At June 30, 2013, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

		Investment Maturities				
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury Bills	$ 184,540	$ 20,999	$ --	$ 163,541	$ --	$ --
U.S. Treasury Notes	3,705,030	--	--	--	3,687,736	17,294
U.S. Sponsored Agency Issues	1,980,334	153,076	240,942	512,318	1,060,252	13,746
Medium Term Notes	1,467,556	8,913	32,361	201,292	1,224,990	--
Commercial Paper	1,071,321	962,231	33,999	75,091	--	--
Municipal Bonds	9,774	--	--	--	9,774	--
Certificates of Deposit	7,000	--	--	7,000	--	--
Short Term Investment Funds	22,261	22,261	--	--	--	--
Securities Lending Short-Term Collateral Investment Pool	31,659	31,659	--	--	--	--
Total General and Special Pools	$ 8,479,475	$ 1,199,139	$ 307,302	$ 959,242	$ 5,982,752	$ 31,040

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's $2.0 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - $292.5 million, Federal National Mortgage Association - $880.9 million, Federal Home Loan Mortgage Corporation - $617.1 million, Federal Farm Credit Bank - $121.7 million, Tennessee Valley Authority - $62.0 million and Farmer Mac Discount Note - $6.1 million. Of the City's $2.0 billion investments in U.S. Sponsored Agencies securities, $1,281.6 million were rated "AA+" by S&P and "Aaa" by Moody's; $698.7 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "A-1+" by S&P and "P-1" by Moody's).

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating. The City's $1.5 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, one issuer of $12.0 million medium term notes was downgraded to "BBB" by S&P and Baa1 by Moody's.

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Commercial paper issues must have a minimum of “A-1” or equivalent rating. If the issuer has issued long-term debt, it must be rated “A” without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of $500.0 million. Of the City’s $1.1 billion investments in commercial paper, $971.0 million were rated A-1+/A-1 by S&P and P-1 by Moody’s; $33.0 million were rated P-1 by Moody’s and not rated by S&P; $67.3 million were not rated individually by S&P nor Moody’s. The issuers of the certificates of deposit and municipal bonds were not rated.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers’ acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers’ acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City’s pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City’s total pooled investments as of June 30, 2013, $617.1 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation, and $880.9 million (10%) was invested in securities issued by Federal National Mortgage Association.

At June 30, 2012, the investments held in the City Treasury’s General Pool and Special Investment Pool Programs and their maturities are as follows (in thousands):

		Investment Maturities				
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U. S. Treasury Notes	$ 3,773,466	$ 1,988	$ --	$ 62,617	$ 3,689,504	$ 19,357
U.S. Treasury Bills	37,004	28,035	6,009	2,960	--	--
U.S. Sponsored Agency Issues	2,018,682	164,006	562,587	207,749	1,073,235	11,105
Medium Term Notes	1,318,929	14,500	--	195,072	1,109,357	--
Commercial Paper	829,790	741,152	88,638	--	--	--
Certificates of Deposit	6,000	--	--	6,000	--	--
Short Term Investment Funds	4,447	4,447	--	--	--	--
Total General and Special Pools	$ 7,988,318	$ 954,128	$ 657,234	$ 474,398	$ 5,872,096	$ 30,462

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Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances, and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's $2.0 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - $581.8 million, Federal National Mortgage Association - $602.4 million, Federal Home Loan Mortgage Corporation - $646.1 million, Federal Farm Credit Bank - $124.0 million, and Tennessee Valley Authority - $64.4 million. Of the City's $2.0 billion investments in U.S. Sponsored Agencies securities, $1,253.9 million were rated "AA+" by S&P and "Aaa" by Moody's; $764.8 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "A-1+" by S&P and "P-1" by Moody's).

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating. The City's $1.3 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, two issuers of $27.5 million medium term notes were downgraded to "BBB+" by S&P.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of $500.0 million. Of the City's $829.8 million investments in commercial paper, $709.8 million were rated A-1+/A-1 by S&P and P-1 by Moody's; $120.0 million were not rated individually by S&P nor Moody's. The issuers of the certificates of deposit were not rated.

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Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers' acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2012, $581.8 million (7%) was invested in securities issued by the Federal Home Loan Bank, $646.1 million (8%) was invested in securities issued by Federal Home Loan Mortgage Corporation, and $602.4 million (8%) was invested in securities issued by Federal National Mortgage Association.

C. Special Investment Pools

The Port currently has three funds that are invested in the City's Special Investment Pools. They are Emergency/ACTA Reserve Fund 751, Restoration Fund 70L, and Batiquitos Long-term Investment Fund 72W. Investments in the Special Investment Pool are managed in accordance with the California State Government Code Sections 53600-53635 and the City's Policy. Funds in the three funds were invested in U.S. treasuries and government agency securities with maturities of 180 days or less.

D. Other Investments

In each issuance of a parity obligation, the Port is required to establish a reserve fund with a trustee pursuant to the indenture. All moneys in the reserve funds or accounts shall be invested by the trustee solely in permitted investments. Permitted investments on deposit in the debt service reserve funds should be valued at fair market value and marked to market at least once per half year to meet the specific requirement under the indenture. Investments held in the debt service reserve funds shall mature no later than the final maturity of the bonds.

The Port evaluates the value of the reserve funds on or before August 1 of each year, in accordance with the Indenture of Trust (Indenture). The common reserve was $57.9 million at June 30, 2013 versus $67.8 million at June 30, 2012, as the Port repaid portions of its parity obligations reducing the amount of the reserve. The majority of the reserve funds were invested at Federal Agency Securities rated "Aaa" by Moody's and "AAA" by Standard & Poor's (S&P), and U.S. treasuries.

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Proceeds from any new money bonds should be invested in the “Permitted Investments” specified as follows: (1) direct obligations of the United States of America or obligations of the principal of and interest on which are unconditionally guaranteed by the United States of America; (2) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by the federal or U.S. government agencies identified in the Indenture; (3) money market funds registered under the Federal Securities Act of 1933, and having a rating of AAAm-G, AAA-m, or AA-m by S&P and Aaa, Aa1, or Aa2 by Moody’s; (4) certificates of deposit issued by commercial bank, savings and loan associations, or mutual saving banks and secured at all times by collateral held by a third party; (5) certificates of deposits, savings accounts, deposit accounts, or money market deposits, which are fully insured by the Federal Deposit Insurance Corporation (FDIC), including the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF); (6) investment agreements including guaranteed investment contracts, forward purchase agreements, and reserve fund agreements with a provider whose long-term unsecured debt is rated not lower than the second highest rating category of Moody’s, and S&P; (7) commercial paper rated at the time of purchase, “Prime-1” by Moody’s, and “A-1” or better by S&P; (8) bonds or notes issued by any state or municipality, which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies; (9) federal funds or bankers acceptances with a maximum term of one year of any bank, which has an unsecured, uninsured, and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P; and (10) repurchase agreements between the department and a dealer bank and securities firm. The term of the repurchase agreement may be up to 30 days and the value of the collateral must be equal to 104% of the amount of cash transferred to the dealer bank plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the department, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) then the value of collateral must equal to 105%.

E. City of Los Angeles Securities Lending Program

The Port participates in the City of Los Angeles Securities Lending Program (SLP). The SLP is permitted and limited under provision of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP are safety of loaned securities and prudent investment of cash collateral to enhance revenues from the investment program. The SLP is governed by a separate policy and guidelines.

The City’s custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions that are necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for within two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the replacement period, the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

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Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default.

In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans which either party can terminate a lending contract on demand, term loans shall have a maximum life of 92 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

During fiscal year 2013, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

The Port's share in the assets and liabilities from the reinvested cash collateral amounted to $1.4 million in fiscal year 2013. The City's SLP was suspended in fiscal year 2012 while negotiating for new terms with the Bank of New York.

The above disclosures were derived from information prepared by the City and furnished to the Port.

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5. Capital Assets

The Port's capital assets consist of the following activities for fiscal year ended June 30, 2013 (in thousands):

	Balance July 1, 2012	Additions	Retirements and Disposals	Transfers	Balance June 30, 2013
Capital assets not depreciated					
Land	$ 1,072,398	$ --	$ --	$ 61,504	$ 1,133,902
Construction in progress	328,026	171,159	--	(156,906)	342,279
Preliminary costs – capital projects	151,977	122,063	--	(41,011)	233,029
Intangible assets	16,953	--	--	(4,053)	12,900
Total capital assets not depreciated	1,569,354	293,222	--	(140,466)	1,722,110
Capital assets depreciated/amortized					
Wharves and sheds	856,960	--	--	27,324	884,284
Buildings/facilities	2,205,221	--	--	95,287	2,300,508
Equipment	115,429	3,829	(273)	13,802	132,787
Intangible assets	--	4,192	--	4,053	8,245
Total capital assets depreciated/amortized	3,177,610	8,021	(273)	140,466	3,325,824
Less accumulated depreciation/ amortization					
Wharves and sheds	(361,532)	(23,708)	--	--	(385,240)
Buildings/facilities	(963,908)	(75,396)	--	--	(1,039,304)
Equipment	(63,204)	(8,730)	252	--	(71,682)
Intangible assets	--	(203)	--	--	(203)
Total accumulated depreciation/amortization	(1,388,644)	(108,037)	252	--	(1,496,429)
Total capital assets depreciated/ amortized, net	1,788,966	(100,016)	(21)	140,466	1,829,395
Capital assets, net	$ 3,358,320	$ 193,206	$ (21)	$ --	$ 3,551,505

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The Port's capital assets consist of the following activities for fiscal year ended June 30, 2012 (in thousands):

	Balance July 1, 2011	Additions	Retirements and Disposals	Transfers	Balance June 30, 2012
Capital assets not depreciated					
Land	$ 1,058,404	$ 13,994	$ --	$ --	$ 1,072,398
Construction in progress	524,158	129,338	--	(325,470)	328,026
Preliminary costs – capital projects	214,578	49,199	--	(111,800)	151,977
Intangible assets	12,900	4,053	--	--	16,953
Total capital assets not depreciated	1,810,040	196,584	--	(437,270)	1,569,354
Capital assets depreciated/amortized					
Wharves and sheds	754,511	102,449	--	--	856,960
Buildings/facilities	1,907,863	311,691	(14,333)	--	2,205,221
Equipment	98,679	18,105	(1,355)	--	115,429
Total capital assets depreciated/amortized	2,761,053	432,245	(15,688)	--	3,177,610
Less accumulated depreciation/ amortization					
Wharves and sheds	(339,999)	(21,533)	--	--	(361,532)
Buildings/facilities	(898,739)	(67,916)	2,747	--	(963,908)
Equipment	(53,448)	(11,035)	1,279	--	(63,204)
Total accumulated depreciation/amortization	(1,292,186)	(100,484)	4,026	--	(1,388,644)
Total capital assets depreciated/ amortized, net	1,468,867	331,761	(11,662)	--	1,788,966
Capital assets, net	$ 3,278,907	$ 528,345	$ (11,662)	$ (437,270)	$ 3,358,320

Net interest expense of $35.7 million and $30.6 million was capitalized for fiscal years 2013 and 2012, respectively.

Continued…..

6. Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint exercise of powers agreements as follows:

A. Intermodal Container Transfer Facility Joint Powers Authority

The Port of Los Angeles (the POLA) and the Harbor Department of the City of Long Beach, California (POLB) entered into a joint exercise of powers agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purpose of financing and constructing a facility to transfer cargo containers between trucks and railroad cars. The POLA contributed $2.5 million to the ICTF as part of the agreement. The facility, which began operations in December 1986, was developed by Southern Pacific Transportation Company (SPTC, subsequently a wholly owned subsidiary of Union Pacific Corporation), which operates the facility under a long-term lease agreement. The POLA appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the POLA and POLB share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53.9 million in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52.3 million in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42.9 million of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, nor the POLA, nor POLB.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those actions necessary for the development of the facility, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's net position at June 30, 2013 and 2012 totaled $5.1 million and $5.0 million, respectively. Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

Continued…..

B. Alameda Corridor Transportation Authority

In August 1989, the POLA and the Port of Long Beach (the POLB and, together with the POLA, the Ports) entered into a joint exercise of powers agreement and formed the Alameda Corridor Transportation Authority (ACTA) for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Harbor and Long Beach Freeways and the POLA and POLB in San Pedro Bay linking the two ports to the central Los Angeles area.

The POLA has no share of the ACTA's net assets and income at June 30, 2013 and 2012, and accordingly, they have not been recorded in the accompanying financial statements. If in the future, ACTA become entitled to distribute income or make equity distributions, The Ports shall share such income and equity distributions equally. If ACTA revenues are insufficient to pay ACTA debt obligations, the POLA will severally but not jointly with the POLB pay up to 20% of any shortfall of that obligation on an annual basis. Any payments made to ACTA are in the form of an advance and subordinated to other obligations of the POLA. The POLA paid $3.0 million in shortfall payments each in fiscal years 2013 and 2012. Shortfall payments beyond fiscal year 2013 are not expected to occur until fiscal year 2020, at which time, payments are projected to be made each year over a four-year period. The Port does not expect that the projected future shortfall payments will have a material effect on its financial statements.

Separate financial statements for ACTA may be obtained from the Chief Financial Officer, Alameda Corridor Transportation Authority, One Civic Plaza Drive, Suite 350, Carson, California 90745.

Continued…..

7. Long-Term Liabilities

A. Bonded Debt, Commercial Paper and Other Indebtedness

The Port's activities for bonded debt, commercial paper and other indebtedness for fiscal year 2013 are as follows (in thousands):

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2012	Additions	Deductions	Ending Balance June 30, 2013	Principal Due Within One Year
Issue 2002, Series A	8/1/2012 @ 100%	5/6/2002	5.25% – 5.50%	2016	$ 63,520	$ 24,290	$ --	$ (24,290)	$ --	$ --
Issue 2005, Series A	8/1/2015 @ 102%	10/13/2005	3.25% – 5.00%	2027	29,930	28,370	--	(1,315)	27,055	1,370
Issue 2005, Series B	8/1/2015 @ 102%	10/13/2005	3.00% – 5.00%	2027	30,110	26,720	--	(1,280)	25,440	1,345
Issue 2005, Series C-1	8/1/2015 @ 102%	10/13/2005	4.00% – 5.00%	2018	43,730	7,880	--	--	7,880	--
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2027	200,710	50,130	--	--	50,130	--
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2027	209,815	93,425	--	(3,325)	90,100	6,000
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	14,310	--	(730)	13,580	765
Issue 2006, Series D	8/1/2014 @ 102%	8/31/2006	4.50% – 5.00%	2037	111,300	80,275	--	(2,115)	78,160	2,225
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% – 5.25%	2029	100,000	93,335	--	(3,465)	89,870	3,580
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	--	100,000	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% – 5.25%	2032	230,160	229,640	--	(12,865)	216,775	10,950
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% – 5.00%	2023	58,930	58,930	--	--	58,930	--
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% – 5.00%	2026	32,820	32,820	--	--	32,820	--
Total parity bonds					$ 1,227,570	840,125	--	(49,385)	790,740	26,235
Unamortized bond (discount) premium						33,363	--	(2,973)	30,390	--
Net parity bonds						873,488	--	(52,358)	821,130	26,235
Commercial paper notes						100,000	--	--	100,000	--
Loans - Dept. of Boating and Waterways (DBW)										
C#82-21-148			4.50%	2014	$ 4,000	562	--	(562)	--	--
C#83-21-147			4.50%	2015	4,000	804	--	(804)	--	--
Total loans					$ 8,000	1,366	--	(1,366)	--	--
Less: current maturities of long-term debt						(31,816)	(26,235)	31,816	(26,235)	--
Total long-term debt net of current maturities						$ 943,038	$ (26,235)	$ (21,908)	$ 894,895	$ 26,235

Continued…..

The Port's activities for bonded debt, commercial paper and other indebtedness for fiscal year 2012 are as follows (in thousands):

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2011	Additions	Deductions	Ending Balance June 30, 2012	Principal Due Within One Year
Issue 2001, Series A	8/1/2011 @ 100%	7/11/2001	5.00%	2026	$ 36,180	$ 36,180	$ --	$ (36,180)	$ --	$ --
Issue 2001, Series B	8/1/2011 @ 100%	7/11/2001	5.25% – 5.50%	2023	64,925	64,925	--	(64,925)	--	--
Issue 2002, Series A	8/1/2012 @ 100%	5/6/2002	5.25% – 5.50%	2016	63,520	30,155	--	(5,865)	24,290	6,190
Issue 2005, Series A	8/1/2015 @ 102%	10/13/2005	3.25% – 5.00%	2027	29,930	29,655	--	(1,285)	28,370	1,315
Issue 2005, Series B	8/1/2015 @ 102%	10/13/2005	3.00% – 5.00%	2027	30,110	27,935	--	(1,215)	26,720	1,280
Issue 2005, Series C-1	8/1/2015 @ 102%	10/13/2005	4.00% – 5.00%	2018	43,730	23,170	--	(15,290)	7,880	--
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2027	200,710	50,930	--	(800)	50,130	--
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2027	209,815	93,425	--	--	93,425	3,325
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	15,010	--	(700)	14,310	730
Issue 2006, Series D	8/1/2014 @ 102%	8/31/2006	4.50% – 5.00%	2037	111,300	81,685	--	(1,410)	80,275	2,115
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% – 5.25%	2029	100,000	96,700	--	(3,365)	93,335	3,465
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	--	100,000	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% – 5.25%	2032	230,160	230,160	--	(520)	229,640	12,865
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% – 5.00%	2023	58,930	--	58,930	--	58,930	--
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% – 5.00%	2026	32,820	--	32,820	--	32,820	--
Total parity bonds					$ 1,328,675	879,930	91,750	(131,555)	840,125	31,285
Unamortized bond (discount) premium						25,521	10,222	(2,380)	33,363	--
Net parity bonds						905,451	101,972	(133,935)	873,488	31,285
Commercial paper notes						100,000		--	100,000	--
Loans - Dept. of Boating and Waterways (DBW)										
C#82-21-148			4.50%	2014	$ 4,000	825	--	(263)	562	275
C#83-21-147			4.50%	2015	4,000	1,049	--	(245)	804	256
Total loans					$ 8,000	1,874	--	(508)	1,366	531
Less: current maturities of long-term debt						(30,958)	(31,816)	30,958	(31,816)	--
Total long-term debt net of current maturities						$ 976,367	$ 70,156	$ (103,485)	$ 943,038	$ 31,816

Continued…..

B. Bond Premium and Discount

Original bond discount or premium is amortized over the life of the bonds. At the time of bond refunding, the unamortized discount or premium is amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. The unamortized discount or premium for the outstanding bonds for fiscal years 2013 and 2012 are as follows (in thousands):

Harbor Revenue Bonds	2013 (Discount) Premium	2012 (Discount) Premium
Issue of 2002, Series A	$ --	$ 556
Issue of 2005, Series A	1,260	1,356
Issue of 2005, Series B	1,287	1,385
Issue of 2005 Series C-1	829	1,031
Issue of 2006, Series A	1,865	2,008
Issue of 2006, Series B	2,912	3,135
Issue of 2006,Series C	649	703
Issue of 2006,Series D	2,238	2,335
Issue of 2009, Series A	2,350	2,497
Issue of 2009,Series B	(2,025)	(2,103)
Issue of 2009,Series C	10,447	11,024
Issue of 2011, Series A	5,410	6,006
Issue of 2011,Series B	3,168	3,430
Total	$ 30,390	$ 33,363

Continued…..

C. Principal Maturities and Interest

The Port's scheduled annual debt service payments for bonded debt and other indebtedness are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ 26,235	$ 39,089	$ 65,324
2015	27,270	37,812	65,082
2016	31,505	36,387	67,892
2017	37,970	34,713	72,683
2018	40,300	32,808	73,108
2019 – 2023	232,470	131,232	363,702
2024 – 2028	228,820	66,845	295,665
2029 – 2033	65,180	34,722	99,902
2034 – 2038	76,700	15,897	92,597
2039 – 2040	24,290	1,292	25,582
Subtotal	790,740	430,797	1,221,537
Unamortized bond premium (discount), net	30,390	--	30,390
Current maturities of long-term debt	(26,235)	--	(26,235)
Total	$ 794,895	$ 430,797	$ 1,225,692

The above schedule does not include the debt service requirements for the commercial paper notes in the amount of $100.0 million at June 30, 2013.

D. Summary of the Port's Bonded Indebtedness and Pledged Revenues

2002 Series A Refunding Bonds

The 2002 Series A Refunding Bonds were issued in the aggregate principal amount of $63.5 million on May 6, 2002, on a crossover basis, to advance refund $64.1 million of the outstanding 1995 Series B Bonds. The 2002 Series A Refunding Bonds were redeemed on August 1, 2012.

2005 Series A Refunding Bonds

The 2005 Series A Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $29.9 million to advance refund, on a crossover basis, $30.9 million of the 1996 Series A Bonds on their call date (the Crossover Date) of August 1, 2006.

Interest on the 2005 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006. The 2005 Series A Bonds with maturity dates ranging from August 1, 2010 to 2026 bear coupon interest rates from 3.25% to 5.00%.

The bonds maturing on or after August 1, 2016 are subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

Continued…..

At June 30, 2013 and 2012, the outstanding balances of the 2005 Series A Refunding Bonds, plus the unamortized premium of $1.3 million and $1.4 million, were $28.3 million and $29.7 million, respectively.

Debt service of the Port's 2005 Series A Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ 1,370	$ 1,310	$ 2,680
2015	1,435	1,248	2,683
2016	1,510	1,175	2,685
2017	1,590	1,097	2,687
2018	1,670	1,016	2,686
2019 – 2023	9,730	3,702	13,432
2024 – 2027	9,750	1,006	10,756
Subtotal	27,055	10,554	37,609
Unamortized premium	1,260	--	1,260
Total	$ 28,315	$ 10,554	$ 38,869

2005 Series B Refunding Bonds

The 2005 Series B Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $30.1 million, on a crossover basis, to advance refund $31.7 million of the 1996 Series B Bonds on their call date of November 1, 2006 (the Crossover Date).

Interest on the 2005 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series B Refunding Bonds with maturity dates ranging from August 1, 2008 to 2026 bear coupon interest rates from 3.00% to 5.00%.

The bonds maturing on or after August 1, 2016 are subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

At June 30, 2013 and 2012, the outstanding balances of the 2005 Series B Refunding Bonds, plus the unamortized premium of $1.3 million and $1.4 million, were $26.7 million and $28.1 million, respectively.

Continued…..

Debt service of the Port's 2005 Series B Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ 1,345	$ 1,232	$ 2,577
2015	1,415	1,169	2,584
2016	1,490	1,097	2,587
2017	1,565	1,020	2,585
2018	1,640	940	2,580
2019 – 2023	9,575	3,347	12,922
2024 – 2027	8,410	783	9,193
Subtotal	25,440	9,588	35,028
Unamortized premium	1,287	--	1,287
Total	$ 26,727	$ 9,588	$ 36,315

2005 Series C-1 Refunding Bonds

The 2005 Series C-1 Refunding Bonds, associated with the purchase on the open market of the purchased 1996 Bonds, were issued on October 13, 2005 in the aggregate principal amount of $43.7 million.

Interest on the 2005 Series C-1 Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series C-1 Bonds with maturity dates ranging from August 1, 2006 to August 1, 2017 bear coupon interest rates from 4.00% to 5.00%.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

The 2005 Series C-2 Refunding Bonds were issued for $4.1 million to pay certain issuance costs. The 2005 Series C-2 Bonds Refunding Bonds were sold with a coupon rate of 4.75%.

To take advantage of the American Recovery and Reinvestment Act (ARRA) of 2009, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds in an aggregate amount of $230.2 million on July 9, 2009. A portion of the Refunding bond proceeds was to provide funds to refund $2.7 million of the 2005 Series C-1 AMT Bonds.

The outstanding balances of the 2005 Series C-1 Refunding Bonds, net of unamortized premium of $0.8 million and $1.0 million, were $8.7 million and $8.9 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2005 Series C-1 Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ --	$ 389	$ 389
2015	470	380	850
2016	--	371	371
2017	--	371	371
2018	7,410	185	7,595
Subtotal	7,880	1,696	9,576
Unamortized premium	829	--	829
Total	$ 8,709	$ 1,696	$ 10,405

The 2005 Series A, B, and C refunding transactions resulted in an economic gain of $4.0 million and a cash savings of $6.1 million.

2006 Series A Refunding Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of $200.7 million, on a forward-delivery basis, to currently refund $202.7 million of the 1996A Bonds. The 2006 Series A refunding transactions resulted in an economic gain of $27.7 million and cash savings of $44.8 million.

Interest on the 2006 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year. Principal and interest are payable commencing August 1, 2006. The 2006 Series A Bonds bear a coupon interest rate of 5.00% with maturity dates ranging from August 1, 2006 to August 1, 2026.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund $121.1 million of the 2006 Series A AMT Bonds.

At June 30, 2013 and 2012, the outstanding balances of the 2006 Series A Refunding Bonds, net of unamortized premium of $1.9 million and $2.0 million, were $52.0 million and $52.2 million, respectively.

Continued…..

Debt service of the Port's 2006 Series A Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ --	$ 2,507	$ 2,507
2015	1,370	2,472	3,842
2016	--	2,438	2,438
2017	195	2,433	2,628
2018	8,930	2,205	11,135
2019 – 2023	22,920	6,319	29,239
2024 – 2026	16,715	1,254	17,969
Subtotal	50,130	19,628	69,758
Unamortized premium	1,865	--	1,865
Total	$ 51,995	$ 19,628	$ 71,623

2006 Series B Refunding Bonds

The 2006 Series B Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $209.8 million, on a forward-delivery basis, to currently refund $211.9 million of the 1996 Series B Bonds. The 2006 Series B refunding transactions resulted in an economic gain of $18.9 million and cash savings of $34.7 million.

Interest on the 2006 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series B Bonds bear a coupon interest rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund $94.1 million of the 2006 Series B AMT Bonds.

The outstanding balances of the 2006 Series B Refunding Bonds, net of unamortized premium of $2.9 million and $3.1 million, were $93.0 million and $96.6 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2006 Series B Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ 6,000	$ 4,355	$ 10,355
2015	--	4,205	4,205
2016	11,540	3,917	15,457
2017	12,140	3,325	15,465
2018	3,095	2,944	6,039
2019 – 2023	57,095	6,023	63,118
2024 – 2026	230	29	259
Subtotal	90,100	24,798	114,898
Unamortized premium	2,912	--	2,912
Total	$ 93,012	$ 24,798	$ 117,810

2006 Series C Refunding Bonds

The 2006 Series C Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $16.5 million, on a forward-delivery basis, to currently refund $17.1 million of the 1996 Series C Bonds. The refunding transactions resulted in an economic gain of $1.2 million and cash savings of $1.6 million.

Interest on the 2006 Series C Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series C Refunding Bonds bear coupon interest at a rate of 5.00% with maturity dates ranging from August 1, 2008 to August 1, 2025.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

The outstanding balances of the 2006 Series C Refunding Bonds, net of unamortized premium of $0.6 million and $0.7 million, were $14.2 million and $15.0 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2006 Series C Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ 765	$ 660	$ 1,425
2015	810	621	1,431
2016	850	579	1,429
2017	895	535	1,430
2018	930	490	1,420
2019 – 2023	5,415	1,681	7,096
2024 – 2026	3,915	299	4,214
Subtotal	13,580	4,865	18,445
Unamortized premium	649	--	649
Total	$ 14,229	$ 4,865	$ 19,094

2006 Series D Refunding Bonds

The 2006 Series D Refunding Bonds were issued on August 31, 2006 in the aggregate principal amount of $111.3 million, to refund $113.6 million of Commercial Paper Notes.

Interest on the 2006 Series D Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series D Bonds bear coupon interest at rates ranging from 4.5% to 5.00% with maturity dates from August 1, 2007 to August 1, 2036.

The bonds maturing on or after August 1, 2015 are subject to optional redemption prior to their stated maturities at the redemption price of 101% if they are redeemed during the period from August 1, 2014 to July 31, 2015.

To take advantage of the American Recovery and Reinvestment Act of 2009 (ARRA), the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the Refunding Bonds was to provide funds to refund $22.5 million of the 2006 Series D AMT Bonds.

The outstanding balances of the 2006 Series D Refunding Bonds, plus the unamortized premium of $2.2 million and $2.3 million were $80.4 million and $82.6 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2006 Series D Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ 2,225	$ 3,783	$ 6,008
2015	2,335	3,669	6,004
2016	400	3,601	4,001
2017	1,500	3,553	5,053
2018	2,615	3,451	6,066
2019 – 2023	15,765	15,038	30,803
2024 – 2028	7,615	12,071	19,686
2029 – 2033	19,880	9,016	28,896
2034 – 2037	25,825	2,571	28,396
Subtotal	78,160	56,753	134,913
Unamortized premium	2,238	--	2,238
Total	$ 80,398	$ 56,753	$ 137,151

2009 Series A New Money Bonds

The 2009 Series A New Money Bonds were issued on July 9, 2009 in the aggregate principal amount of $100.0 million, in accordance with ARRA. The Bonds were issued to (i) finance certain Private Activity Projects; (ii) fund a debt service reserve fund with respect to the 2009A Bonds; and (iii) pay the costs incidental to the issuance of the 2009A Bonds.

Interest on the 2009 Series A Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear coupon interest at rates ranging from 2.00% to 5.25% with maturity dates from August 1, 2010 to August 1, 2029.

The Bonds with stated maturities on or after August 1, 2020 shall be subject to optional redemption prior to their maturities on or after August 1, 2019 without early redemption premium. The Bonds are not subject to mandatory sinking fund redemption.

The outstanding balances of the 2009 Series A Bonds, net of unamortized premium of $2.4 million and $2.5 million, were $92.2 million and $95.8 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2009 Series A Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2014	$ 3,580	$ 4,319	$ 7,899
2015	3,720	4,154	7,874
2016	3,905	3,969	7,874
2017	4,095	3,794	7,889
2018	4,255	3,627	7,882
2019 – 2023	24,280	14,963	39,243
2024 – 2028	31,215	7,833	39,048
2029 – 2032	14,820	750	15,570
Subtotal	89,870	43,409	133,279
Unamortized premium	2,350	--	2,350
Total	$ 92,220	$ 43,409	$ 135,629

2009 Series B New Money Bonds

Along with the issuance of the 2009 Series A New Money Bonds, the Port issued its 2009 Series B Bonds in the aggregate principal amount of $100.0 million in accordance with the ARRA of 2009. The Bonds were issued to (i) finance certain Governmental Projects in Fiscal Years 2009 and 2010; (ii) fund a debt service reserve fund with respect to the 2009B Bonds; and (iii) pay the costs incidental to the issuance of the 2009B Bonds.

Interest on the 2009 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear a coupon interest rate at 5.25% with maturity dates from August 1, 2030 to August 1, 2039.

The Bonds with stated maturities on or after August 1, 2020 shall be subject to optional redemption on or after August 1, 2019 without early redemption premium. The Bonds maturing on August 1, 2034 (the 2009B 2034 Term Bonds) and on August 1, 2039 (the 2009B 2039 Term Bonds) are subject to mandatory sinking fund redemption.

The outstanding balance of the 2009 Series B Bonds, net of unamortized discount of $2.0 million and $2.1 million were $98.0 million and $97.9 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2009 Series B Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2014	$ --	$ 5,250	$ 5,250
2015	--	5,250	5,250
2016	--	5,250	5,250
2017	--	5,250	5,250
2018	--	5,250	5,250
2019 – 2023	--	26,250	26,250
2024 – 2028	--	26,250	26,250
2029 – 2033	24,835	24,339	49,174
2034 – 2038	50,875	13,326	64,201
2039 – 2040	24,290	1,292	25,582
Subtotal	100,000	117,707	217,707
Unamortized discount	(2,025)	--	(2,025)
Total	$ 97,975	$ 117,707	$ 215,682

2009 Series C Refunding Bonds

Contemporaneously with the issuance of the 2009 Series A and Series B New Money Bonds, the Port issued the 2009 Series C Refunding Bonds in the aggregate principal amount of $230.2 million. The Bonds were issued to provide funds for the purchase of certain maturities of the Department's outstanding (i) Refunding Revenue Bonds 2005 Series C-1 (AMT) of $2.7 million, (ii) Refunding Revenue Bonds 2006 Series A (AMT) of $121.1 million, (iii) Refunding Revenue Bonds 2006 Series B (AMT) of $94.1 million, and (iv) Revenue Bonds 2006 Series D (AMT) of $22.5 million. The refunding transactions resulted in a reduction of $12.7 million in future debt service payments and the net present value benefit of $8.2 million.

Interest on the 2009 Series C Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear coupon interest rates ranging from 4.00% to 5.25% with maturity dates from August 1, 2011 to August 1, 2031.

The Bond maturing on August 1, 2021, which bears coupon interest at 5.25% per annum, and the Bonds maturing on or after August 1, 2022 are subject to optional redemption prior to their respective stated maturities without early redemption premium. The Bonds maturing on August 1, 2031 (the Term Bonds) are subject to mandatory sinking fund redemption.

The outstanding balances of the 2009 Series C Refunding Bonds, plus the unamortized premium of $10.4 million and $11.0 million, were $227.2 million and $240.7 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2009 Series C Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2014	$ 10,950	$ 10,762	$ 21,712
2015	15,715	10,122	25,837
2016	9,675	9,500	19,175
2017	8,860	9,055	17,915
2018	2,265	8,786	11,051
2019 – 2023	44,295	40,481	84,776
2024 – 2028	119,370	14,925	134,295
2029 – 2032	5,645	617	6,262
Subtotal	216,775	104,248	321,023
Unamortized premium	10,447	--	10,447
Total	$ 227,222	$ 104,248	$ 331,470

2011 Series A Refunding Bonds

The 2011 Series A Refunding Bonds were issued in 2011 in the aggregate principal amount of $58.9 million to refund the outstanding principal of $64.9 million of the 2001 Series B Refunding Bonds. The refunding transaction resulted in cash flow savings of $10.7 million and economic gain of $8.6 million over the life of the bonds.

Interest on the 2011 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from August 1, 2012. The bonds bear interest at coupon rates from 3.00% to 5.00% with maturity dates ranging from August 2015 to 2022.

The 2011 Series A Refunding Bonds are subject to optional redemption on or after August 1, 2021 without early redemption premium. Principal and interests on these bonds are payable solely from Harbor revenues and other amounts pledged under the indenture.

The outstanding balance of the 2011 Series A Refunding Bonds, net of unamortized premium of $5.4 million and $6.0 million, were $64.3 million and $64.9 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2011 Series A Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ --	$ 2,904	$ 2,904
2015	--	2,904	2,904
2016	2,135	2,872	5,007
2017	7,130	2,662	9,792
2018	7,490	2,296	9,786
2019 – 2023	42,175	5,361	47,536
Subtotal	58,930	18,999	77,929
Unamortized premium	5,410	--	5,410
Total	$ 64,340	$ 18,999	$ 83,339

2011 Series B Refunding Bonds

The 2011 Series B Refunding Bonds were issued in 2011 in the aggregate principal amount of $32.8 million to refund the outstanding principal of $36.2 million of the 2001 Series A Refunding Bonds. The refunding transaction resulted in cash flow savings of $5.7 million and economic gain of $4.0 million.

Interest on the 2011 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from February 1, 2012. The bonds bear coupon interest rates from 4.00% to 5.00% with maturity dates ranging from August 2022 to 2025.

The 2011 Series B Refunding Bonds are subject to optional redemption on or after August 1, 2021 without early redemption premium. Principal and interests on these bonds are payable solely from Harbor revenues and other amounts pledged under the indenture.

The outstanding balance of the 2011 Series B Refunding Bonds, net of unamortized premium of $3.2 million and $3.4 million, were $36.0 million and $36.2 million at June 30, 2013 and 2012, respectively.

Continued…..

Debt service of the Port's 2011 Series B Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ --	$ 1,618	$ 1,618
2015	--	1,618	1,618
2016	--	1,618	1,618
2017	--	1,618	1,618
2018	--	1,618	1,618
2019 – 2023	1,220	8,067	9,287
2024 – 2027	31,600	2,395	33,995
Subtotal	32,820	18,552	51,372
Unamortized premium	3,168	--	3,168
Total	$ 35,988	$ 18,552	$ 54,540

E. Commercial Paper

In June 2009, the Port established a Commercial Paper program (Program) to issue commercial paper notes (Notes) to provide interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment needs. The Program was initiated at an aggregate amount of $100.0 million. The Program was amended in June 2010 to increase the credit limit to $200.0 million and extended the term to July 29, 2012. In June 2012, the Port increased the credit limit to $250.0 million, and extended the term to July 2015. As of June 30, 2013 and 2012, the total amount outstanding was $100.0 million. Funds were used to finance the China Shipping and TraPac Container Terminal Projects. The Notes issued are being remarketed upon maturity and will be refunded through the issuance of long term bonds, and are thus classified as long-term liabilities.

Continued…..

F. Loans From California Department of Boating and Waterways

The Port obtained two thirty year loans in the mid-1980s aggregating $8.0 million from the California Department of Boating and Waterways. The notes bear a fixed rate of interest of 4.5%. The Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's parity obligations on the Harbor Revenue Funds. The Port paid both loans in full on October 31, 2012.

G. Current Year and Prior Years' Defeasance of Debt

The Port defeased certain bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Port's financial statements.

The Port has outstanding bonds in the defeasance escrows held by the trustee at June 30, 2013 and 2012 of $54.3 million and $61.3 million, respectively.

Continued…..

8. Changes in Long-Term Liabilities

The changes in the Port's long-term liabilities for the year ended June 30, 2013 are as follows (in thousands):

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due within one year
Revenue bonds	$ 840,125	$ --	$ (49,385)	$ 790,740	$ 26,235
Less unamortized discount/ premium	33,363	--	(2,973)	30,390	--
Net revenue bonds	873,488	--	(52,358)	821,130	26,235
Commercial paper	100,000	--	--	100,000	--
Notes payable	1,366	--	(1,366)	--	--
Accrued salaries	1,862	124,452	(122,040)	4,274	4,274
Compensated absences	8,856	20,733	(20,203)	9,386	9,386
Accrued employee benefits	8,269	122,152	(120,952)	9,469	801
Litigation	465	133	(157)	441	441
Workers compensation	13,639	4,700	(3,164)	15,175	1,939
Pollution remediation	104,599	11,688	(16,926)	99,361	12,520
Deposits	9,596	3,910	(568)	12,938	--
Net pension obligation	3,040	--	(149)	2,891	--
Others	43,702	117,035	(121,607)	39,130	37,383
Total long-term liabilities	$ 1,168,882	$ 404,803	$ (459,490)	$ 1,114,195	$ 92,979

Continued…..

The changes in the Port's long-term liabilities for the year ended June 30, 2012 are as follows (in thousands):

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due within one year
Revenue bonds	$ 879,930	$ 91,750	$ (131,555)	$ 840,125	$ 31,285
Less unamortized discount/ premium	25,521	10,222	(2,380)	33,363	--
Net revenue bonds	905,451	101,972	(133,935)	873,488	31,285
Commercial paper	100,000	--	--	100,000	--
Notes payable	1,874	--	(508)	1,366	531
Accrued salaries	4,548	112,004	(114,690)	1,862	1,862
Compensated absences	8,366	27,490	(27,000)	8,856	8,856
Accrued employee benefits	8,049	110,397	(110,177)	8,269	68
Litigation	475	115	(125)	465	465
Workers compensation	7,858	7,507	(1,726)	13,639	1,807
Pollution remediation	101,922	7,544	(4,867)	104,599	6,513
Deposits	9,606	125	(135)	9,596	--
Net pension obligation	3,040	--	--	3,040	--
Others	55,876	15,740	(27,914)	43,702	41,989
Total long-term liabilities	$ 1,207,065	$ 382,894	$ (421,077)	$ 1,168,882	$ 93,376

9. GASB 49 Pollution Remediation Obligations

The Port's estimated pollution remediation liability as of June 30, 2013 and 2012 totaled $99.4 million and $104.6 million, respectively. These costs relate mostly to soil and ground water contamination on sites within the Port premises. As certain sites were formerly used for a variety of industrial purposes, legacy contamination or environmental impairments exist. As environmental risks may be managed, the Port has adopted the "Managed Environmental Risk" approach in estimating the remediation liability. The Port uses a combination of in-house specialists as well as outside consultants to perform estimates of potential liability. Certain remediation contracts are included in site development plans as final uses for the sites have been identified.

Continued…..

The changes in the Port's pollution remediation obligations for fiscal year 2013 are as follows (in thousands):

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Obligating Event					
Named by regulator as a potential party to remediation	$ 81,297	$ 8,147	$ --	$ 89,444	$ 12,320
Voluntary commencement	23,302	218	(13,603)	9,917	200
Total	$ 104,599	$ 8,365	$ (13,603)	$ 99,361	$ 12,520
Pollution Type					
Soil and or groundwater remediation	$ 104,599	$ 8,365	$ (13,603)	$ 99,361	$ 12,520

The changes in the Port's pollution remediation obligations for fiscal year 2012 are as follows (in thousands):

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Obligating Event					
Named by regulator as a potential party to remediation	$ 77,863	$ 3,434	$ --	$ 81,297	$ 6,151
Voluntary commencement	24,059	351	(1,108)	23,302	362
Total	$ 101,922	$ 3,785	$ (1,108)	$ 104,599	$ 6,513
Pollution Type					
Soil and or groundwater remediation	$ 101,922	$ 3,785	$ (1,108)	$ 104,599	$ 6,513

A Notice of Violation was issued to the former San Pedro Boat Works and the Port by the Los Angeles County Fire Department to remove, dredge and properly dispose of hazardous chemicals found at the location where the company operated. The Port entered into a Voluntary Cleanup Agreement (VCA) with the Department of Toxic Substances Control (DTSC) to oversee this cleanup. The Port has provided the DTSC with testing results as well as maps of the dredging footprints. A majority of the dredging was conducted in conjunction with the Port's main channel deepening, but one area remains to be dredged to comply with the VCA requirements. The Port is currently developing dredging plans for this remaining area. The cleanup work is expected to be completed in fiscal year 2014 at an estimated total cost of $0.8 million.

The Port along with BAE Systems (successor to Southwest Marine) were named by the DTSC as parties responsible for remediation of soil and subsea sediment in a contaminated site. Estimated remediation costs as of June 30, 2013 for excavation and off-site disposal of contaminated soil is $5.0 million.

Continued…..

The Harbor Toxics Total Maximum Daily Load (Toxics TMDL) integrates all of the Clean Water Act-listed impairments in the Los Angeles Harbor. There are approximately 80 pollutant-water body combinations including but not limited to sediment chemistry and toxicity to fish tissue impairments. The Toxics TMDL establishes load allocations for existing sediments and waste load allocations for inputs such as stormwater runoff. The Toxics TMDL has a 20-year compliance timeline, with several intermediate milestones. The Port estimated cost of $2.3 million to be incurred for complying with one of these milestones which involves assessment of sediments, water, fish, and pollutant inputs, as well as establishing an implementation plan for remediation action.

The Port was also named by the Regional Water Quality Control Board (RWQCB) as one of the parties responsible for the remediation of a former marine oil terminal at Berths 171-173. As of June 30, 2012, there was an ongoing litigation between the Port and Kinder Morgan Terminals LLC (Kinder Morgan), the current tenant of the site over its cleanup. At the City Council meeting held on April 9, 2013, the City Council approved the Settlement and Release Agreement (Agreement) with Kinder Morgan. Under this Agreement, Kinder Morgan will undertake a dig-and-haul remediation of the polluted site that meets the City's and RWQCB's standards. Related settlements were also concluded with Texaco and ConocoPhillips which should reimburse 25% and 15%, respectively, of the Port's costs to investigate, monitor, and remediate the terminal. The remediation plan calls for excavation and disposal of roughly 0.3 million tons of soil at a cost of approximately $17.4 million. On June 30, 2013, the estimated remediation cost of $17.4 million was offset by the 100% recoverable cost of the same amount resulting from these litigation settlements.

In fiscal year 2013, the Port adjusted the outstanding pollution remediation liabilities of $13.4 million for the Cabrillo Way Marina and the former Kaiser Bulk Loading and Storage. This was reflected as Special Item in the Port's financial statements. Please refer to page 97 for more information on this adjustment.

10. Employee-Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which Port employees participate, allowing them to defer receipt of income. All amounts deferred by the Port's employees are paid to the City, which in turn pays them to the deferred compensation plan administrator. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such custodial account for the exclusive benefit of the employee participants and their beneficiaries. Information on the Port employees' share of plan assets is not available and is not recorded in the Port's financial statements.

While the City has full power and authority to administer and to adopt rules and regulations for the plan, all investment decisions under the plan are the responsibility of the plan participants. The City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Under certain circumstances, employees may modify their arrangements with the plan to provide for greater or lesser contributions or to terminate their participation. If participants retire under the plan or terminate service with the City, they may be eligible to receive payments under the plan in accordance with the provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the plan by the participants, along with their allocated contributions.

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11. Risk Management

The Port purchases insurance for a variety of exposures associated with property, automobiles, vessels, railroad, employment practices, travel, police, pilotage, and terrorism. The City is self-insured for workers compensation, and the Port participates in the City's self-insurance program. Third party general liability exposures are self-insured by the Port for $1.0 million and the excess liability is maintained over the self-insured retention. There have been no settlements in the past three years that have exceeded the Port's insurance coverage.

The actuarially determined accrued liability for workers compensation includes provision for incurred but not reported claims and loss adjustment expenses. The Port's accrued workers compensation liability at June 30, 2013 and 2012 were $15.2 million and $13.6 million, respectively.

A number of lawsuits were pending against the Port that arose in the normal course of operations. The Port recognizes a liability for claims and 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. The City Attorney provides estimates for the amount of liabilities to be probable of occurring from lawsuits. The Port's liability for litigation and other claims at June 30, 2013 and 2012 were $0.4 million and $0.5 million, respectively.

Continued…..

The changes in the Port's estimated claims payable are as follows (in thousands):

	2013	2012	2011
Unpaid claims, July 1			
Workers compensation	$ 13,639	$ 7,858	$ 7,858
General liability/litigation	465	475	105
Total unpaid claims, July 1	14,104	8,333	7,963
Provision for current year's events and changes in provision for prior year's events			
Workers compensation	4,700	7,507	1,653
General liability/litigation	133	115	395
Total provision	4,833	7,622	2,048
Claims payments			
Workers compensation	(3,164)	(1,726)	(1,653)
General liability/litigation	(157)	(125)	(25)
Total claims payments	(3,321)	(1,851)	(1,678)
Unpaid claims, June 30			
Workers'compensation	15,175	13,639	7,858
General liability/litigation	441	465	475
Total unpaid claims, June 30	$ 15,616	$ 14,104	$ 8,333
Current portion			
Workers compensation	$ 1,939	$ 1,807	$ 1,302
General liability/litigation	441	465	475
Total current portion	$ 2,380	$ 2,272	$ 1,777

12. Leases, Rentals, and Minimum Annual Guarantee (MAG) Agreements

A substantial portion of the Port lands and facilities are leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property at the expiration of the agreement; accordingly, no leases are considered capital leases for purposes of financial reporting.

MAG agreements relate to shipping services and certain concessions provide for the additional payment beyond the fixed portion, based upon tenant usage, revenues, or volumes.

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Agreements relating to terminal operations tend to be long term in nature (as long as 30 years) and are made to provide the Port with a firm tenant commitment. These agreements are subject to periodic review and reset of base amounts. For the years ended June 30, 2013 and 2012, the minimum rental income from such lease agreements was approximately $42.9 million and $43.1 million, respectively. For the years ended June 30, 2013 and 2012, the MAG payments were approximately $236.1 million and $235.1 million, respectively, and were reported under shipping services revenue.

The carrying cost and related accumulated depreciation of property held for operating leases as of June 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
Wharves and sheds	$ 873,719	$ 856,960
Cranes and bulk facilities	52,441	52,441
Municipal warehouses	13,431	11,901
Port pilot facilities and equipment	7,820	7,705
Buildings and other facilities	772,172	775,434
Cabrillo Marina	221,557	210,452
Total	1,941,140	1,914,893
Less accumulated depreciation	(939,462)	(879,479)
Net	$ 1,001,678	$ 1,035,414

Assuming that current agreements are carried to contractual termination, minimum tenant commitments due to the Port over the next five years are as follows (in thousands):

Fiscal Year Ending	Rental income	MAG income
2014	$ 43,319	$ 238,586
2015	43,752	255,679
2016	44,190	255,679
2017	44,631	255,679
2018	45,078	255,679
Total	$ 220,970	$ 1,261,302

Continued…..

13. Los Angeles City Employees Retirement System

A. Retirement Plan Description

All full-time employees of the Port are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a single-employer defined benefit pension plan (the Plan). LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS. The Port makes contributions to LACERS for its pro rata share of retirement costs attributable to its employees. The Port Police joined the Los Angeles Fire and Police Pension system (LAFPP) effective July 1, 2007.

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits, and annual cost-of-living adjustments based on the employees' years of service, age, and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age.

B. Actuarially Determined LACERS Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983.

For those who entered membership on or after January 1, 1983, the contribution is a fixed rate of 6% of salary. In 2011, the City Council adopted new ordinances that require members of LACERS represented by certain bargaining groups to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, LACERS' members' contribution rates at June 30, 2011 are either 6% or 8% of pay. Effective July 1, 2011, contribution rates will be 7%, 9% or 11% of pay, depending upon the terms and conditions of specific Memoranda of Understanding to which the member is subject. Most of the members who contribute 7% or 9% will be required to contribute 11% effective July 1, 2012, and January 1, 2013, respectively.

The City subsidizes member contributions as determined by the actuarial consultant of LACERS. For fiscal year 2013, the contribution rate for LACERS was 24.14% of the City's covered payroll. Based on the Port's reported covered payroll of $73.7 million for fiscal year 2013, the Port's actual contribution to LACERS, including family death benefit, excess benefit, and limited term plans is $17.6 million, 100% of the annual required contribution (ARC), $17.5 million (100% of ARC), and $17.8 million (100% of ARC) for the fiscal years ended June 30, 2013, 2012, and 2011, respectively. The allocation of contributions between the pension and postemployment healthcare benefits are not available.

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The City's annual pension cost, the percentage of annual pension cost contributed to LACERS, and the net pension obligation for fiscal years ended June 30, 2012, 2011 and 2010 are as follows (amounts in thousands):

Year Ended		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
06/30/12	$	304,657	101%	$	(67,990)
06/30/11		300,329	101%		(71,873)
06/30/10		255,999	101%		(75,105)

The City allocated a pro-rata share of its net pension obligation to the Port, and the share of the Port at June 30, 2012 was $2.9 million.

LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. As of the completion date of the Port's financial statements, LACERS' financial statements and the plan's actuarial valuation study for fiscal year 2013 are not yet available. Reports regarding LACERS may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012, (800) 779-8328.

C. Funded Status of LACERS

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Following is the funded status information of the plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands):

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Underfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)]/(c)
06/30/2012	$	9,934,959	$	14,393,959	$	4,459,000	69.0%	$	1,819,270	245.1%
06/30/2011		9,691,011		13,391,704		3,700,693	72.4%		1,833,392	201.9%
06/30/2010		9,554,027		12,595,025		3,040,998	75.9%		1,817,662	167.3%

The most recent actuarial valuation methods and assumptions used for LACERS as of June 30, 2012 were as follows: actuarial cost method used – entry age normal; amortization method - level percent of payroll; remaining amortization period - multiple layers not exceeding 30 years, closed; asset valuation method - 7-year market related; investment rate of return - 7.75%; projected salary increases - 4.65% to 11.25%; inflation rate - 3.50%; and cost-of-living adjustment of 3.00%

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In October 2012, the LACERS Board modified its funding policy to (1) change the actuarial cost method for the existing retirement benefits from the projected unit credit method to the entry age normal method beginning with the June 30, 2012 valuation; and (2) amortize all UAAL layers as of June 30, 2012 over 30 years, except the layers created in 2004 and 2005 for GASB compliance, and the layers created in 2009 as a result of the City's Early Retirement Incentive Plan, which will maintain their original amortization schedules.

As previously mentioned, information related to the funded status of LACERS retirement plan for fiscal year 2013 are not yet available as of the completion date of the Port's financial statements. Separate information for the Port is not available.

D. Other Postemployment Benefits (OPEB)

The Port, as a participant in LACERS, also provides a retiree health insurance premium subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for a health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City approved health carrier. LACERS is advance funding the retiree health benefits on an actuarially determined basis.

During fiscal year 2011, the City adopted an ordinance to freeze the maximum medical subsidy at $1,190 for LACERS members who retire on or after July 1, 2011. However, LACERS members who at any time prior to retirement contribute the additional 2% or 4% of pay are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2012, approximately 76% of non-retired members were making the additional contributions, and therefore are not subject to the medical subsidy freeze.

Projections of benefits include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

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As previously mentioned, the actuarial valuation for OPEB for fiscal year 2013 is not yet available as of the completion date of the Port's financial statements.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2012 and the two preceding years for the plan are as follows (amounts in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/12	$ 115,209	100%	$ --
06/30/11	107,396	100%	--
03/30/10	96,511	100%	--

E. Funded Status of LACERS OPEB

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Following is the funded status information of the plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)]/(c)
06/30/2012	$ 1,642,374	$ 2,292,400	$ 650,026	71.6%	$ 1,819,270	35.7%
06/30/2011	1,546,884	1,968,708	421,824	78.6%	1,833,392	23.0%
06/30/2010	1,425,726	2,233,874	808,148	63.8%	1,817,662	44.5%

The most recent actuarial valuation methods and assumptions used for LACERS OPEB as of June 30, 2012 were as follows: actuarial cost method used – entry age normal; amortization method - level percent of payroll; remaining amortization period - multiple layers, closed not exceeding 30 years; asset valuation method - 7-year market related; investment rate of return - 7.75%; projected salary increases - 4.25%; inflation rate - 3.50%; and healthcare cost trend rates – for medical, 8.25%, decreasing by 0.5% for each year for seven years until it reaches an ultimate rate of 5%, and 5% for dental.

In October 2012, the LACERS Board modified its funding policy to (1) change the actuarial cost method for the existing health benefits from the projected unit credit method to the entry age normal method beginning with the June 30, 2012 valuation; and (2) amortize all UAAL layers as of June 30, 2012 over 30 years, except the layers created in 2004 and 2005 for GASB compliance, and the layers created in 2009 as a result of the City's Early Retirement Incentive Plan, which will maintain their original amortization schedules.

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As previously mentioned, information related to the funded status of LACERS for fiscal year 2013 are not yet available as of the completion date of the Port's financial statements. Separate information for the Port is not available.

Notes 13. A to E on LACERS retirement and OPEB plans were derived from information prepared by LACERS and the City.

14. City of Los Angeles Fire and Police Pension System

A. Retirement Plan Description

The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Department's Port police officers the option to transfer from LACERS to Tier V of LAFPP. The election period was from January 8, 2006 to January 5, 2007 and the decision to transfer is irrevocable.

Only "sworn" service with the Port is transferable to LAFPP. Other "nonsworn" services with other City Departments are not eligible for transfer. All new employees hired by the Harbor Department after the effective date of the Ordinance automatically go into either Tier V or Tier VI of LAFPP.

As part of the change, LACERS transferred $6.1 million of Harbor Port Police assets to LAFPP in October 2007 for fiscal year 2007.

B. Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration/Commissioners of LAFPP establishes and may amend the contribution requirements of members and the City. The City's annual cost for the LAFPP plan is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions.

In fiscal year 2013, the Port's contribution rate for sworn employees that are members of the Harbor Tier V plan, as determined by the actuary is 32.30% of covered payroll. The Harbor Tier VI rate is 29.07% of covered payroll. Based on the Port's reported sworn covered payroll of $9.9 million for Tier V, and $0.4 million for Tier VI, the Port's pro rata share of the combined ARC for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was $3.3 million (100% of ARC), $3.6 million (100% of ARC) and $3.1 million (100% of ARC) for the years ended June 30, 2012, 2011 and 2010, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

Continued…..

The City's annual LAFPP pension cost and the percentage of annual pension cost contributed to the plan for fiscal years ended June 30, 2012, 2011 and 2010 are as follows (amount in thousands):

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net pension Asset (Obligation)
6/30/12	$ 321,593	100%	$ --
6/30/11	277,092	100%	--
6/30/10	250,517	100%	--

C. Funded Status of LAFPP

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to expectations and new estimates are made about the future. Following is the funded status information for the LAFPP plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)]/(c)
06/30/2012	$ 14,251,914	$ 17,030,833	$ 2,778,919	83.7%	$ 1,341,914	207.1%
06/30/2011	14,337,669	16,616,476	2,278,807	86.3%	1,343,963	169.6%
06/30/2010	14,219,581	15,520,625	1,301,044	91.6%	1,356,986	95.9%

The most recent actuarial valuation methods and assumptions used for LAFPP as of June 30, 2012 were as follows: actuarial cost method used - entry age normal; amortization method - level dollar for Tier 1, and level percent of payroll for Tiers 2 to 6; remaining amortization period - multiple layers not exceeding 25 years, closed; asset valuation method – 5-year market related prior to June 30, 2008, and 7-year market related after June 30, 2008; investment rate of return - 7.75%; projected salary increases - 5.25% to 12.25%; inflation rate - 3.50%; and cost-of-living adjustment of 3.50% for Tiers 1 and 2, and 3% for Tiers 3 to 6.

LAFPP issues a publicly available financial report that includes financial statements and required supplementary information for the plan. As of the completion date of the Port's financial statements, the LAFPP's financial statements and the plan's actuarial valuation study for fiscal year 2013 are not yet available. Financial and valuation reports may be obtained by writing or calling: Los Angeles Fire and Police Pension system, 360 E. Second Street, Ste 400, Los Angeles, CA 90012, (213) 978-4545.

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D. Other Postemployment Benefits (OPEB)

The City Charter, the Administrative Code, and related ordinance define the postemployment healthcare benefits. There are no member contributions for healthcare benefits. The Port, as a participant in LAFPP, also provides a retiree health insurance premium subsidy.

The LAFPP OPEB actuarial study for valuation date June 30, 2008 determined the ARC for fiscal year ended June 30, 2012. To reflect the phasing-in of assumption changes, the LAFPP Board adopted a contribution rate that was lower than the actuarially determined rate and resulted in a net OPEB obligation. The annual OPEB cost for fiscal years beginning July 1, 2007, and continuing during the 30-year amortization period, shall include interest on the OPEB obligation and adjustment to the ARC.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the LAFPP plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2012, 2011 and 2010 are as follows (amounts in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/12	$ 159,777	83%	$ (127,024)
06/30/11	173,646	69%	(99,352)
06/30/10	127,604	90%	(45,682)

From the most recent data made available by the City, as of June 30, 2012, Amounts contributed specifically to the retiree health insurance premium subsidy by the Port alone are not available.

Continued…..

E. Funded Status of LAFPP OPEB

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to expectations and new estimates are made about the future. Following is the funded status information for the LAFPP OPEB plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)]/(c)
06/30/2012	$ 927,362	$ 2,499,289	$ 1,571,927	37.1%	$ 1,341,914	117.1%
06/30/2011	882,890	2,557,607	1,674,717	34.5%	1,343,963	124.6%
06/30/2010	817,276	2,537,825	1,720,549	32.2%	1,356,986	126.8%

The most recent actuarial valuation methods and assumptions used for LAFPP OPEB as of June 30, 2012 were as follows: actuarial cost method used - entry age normal; amortization method – closed amortization periods; remaining amortization period – multiple layers, closed, 24 years for prior to June 30, 2012, and 20 years on or after June 30, 2012; asset valuation method – 5-year market related prior to June 30, 2008, and 7-year market related after June 30, 2008; investment rate of return - 7.75%; projected salary increases - 4.25%; inflation rate - 3.50%; medical healthcare cost trend rate of 8.5%, decreasing by 0.5% for seven years until it reaches an ultimate rate of 5%; and dental healthcare cost trend of 5%.

As previously mentioned, the LAFPP's financial statements and actuarial study for fiscal year 2013 are not yet available as of the completion date of the Port's financial statements.

Notes 14. A to E on LAFPP retirement and OPEB plans were derived from information prepared by LAFPP and the City.

15. Notes Receivable

A. Settlement of Dispute on Nexus Study

In 1994, the City undertook a series of studies to determine whether or not the Port received services from the City for which the Port had not been inclusively billed. These studies, collectively referred to as the Nexus Study, were conducted under the auspices of the City Attorney. The studies found that the City could have billed the Port for substantial amounts for services undertaken on behalf of the Port by the City or for City services conducted within the Port's jurisdiction.

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It is and has been the policy of the Port to pay the City all of the amounts to which the City is entitled. In light of these studies, the BHC adopted a resolution providing for the reimbursement to the City of certain expenditures incurred by the City on behalf of the Port, but which the City had never inclusively billed the Port. Under its resolution, the BHC authorized the Port to make, and the Port paid to the City, two annual payments of $20.0 million for the 1994/95 and 1995/96 fiscal years. The BHC further authorized the Executive Director to negotiate additional amounts as may be determined to be due, and accordingly, a memorandum of understanding (MOU) with the City was executed on June 27, 1997 (1997 MOU).

The California State Lands Commission (the Commission) is responsible for oversight of the State's Tideland Trust Lands. This Commission, together with the State Office of the Attorney General, has expressed concerns regarding the methodologies employed in the studies and whether such transfers of monies from the Port to the City comply with the criteria for compliance with applicable California State Tidelands Trust Land laws. Prior to the adoption of the above-referenced resolution, the Commission officials and the Office of the Attorney General requested the BHC to postpone any decision involving these trust funds until the Commission and Office of the Attorney General could complete an inquiry into the studies and transfers. Subsequently, various organizations, including the Steamship Association of Southern California, which represents carriers using the Port, together with the Commission and Office of the Attorney General, brought legal action against the City and Port regarding the BHC's action.

On January 19, 2001, the City, along with the Port and the Commission, entered into a settlement and mutual release agreement to resolve their disputes concerning the City's entitlement to historic and future reimbursements for costs the City incurred or would incur providing services to the Port. The settlement agreement provides that the City, as reimbursement for payments made by the Port to the City for retroactive billings for City services provided during the period July 1, 1977 through June 30, 1994, inclusive, pay the Port $53.4 million in principal plus 3% simple interest over a 15-year period.

The settlement agreement also provides that the City reimburse the Port for the payment differential, that amount representing the difference between the actual payments and the amount to which the City would have been entitled to reimbursement during fiscal year 1994–1995 through fiscal year 2000–2001, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at $8.4 million. Payment for this period is to be reimbursed to the Port over 15 years, including 3% simple interest. The agreement also states that at any time after five years from January 19, 2001, the City, the Port, and the Commission may negotiate to amend this agreement to account for new or changed circumstances.

The State of California (the State), the City, and the Port agreed to mutually release and discharge the other from any and all claims, demands, obligations, and causes of action, of whatever kind or nature pertaining in any way to the use, payment, transfer, or expenditure for any of the services or facilities identified in the Nexus Study or the 1997 MOU and provided for during the period July 1, 1977 through June 30, 2002.

Continued…..

Accordingly, the Port had recorded the notes receivable due from the City. At June 30, 2013 and 2012, long-term notes receivable amounted to $9.9 million and $14.7 million; and current portion of notes receivable amounted to $4.7 million and $4.6 million, respectively.

B. Note Receivable – Yusen

In order to settle the then-outstanding $2.4 million terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of $0.1 million. To record the transaction, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1.5 million, with the balance of $0.9 million recognized as the Port's capital assets in fiscal year 1995. The note matures in October 2015. The long-term note receivable balance outstanding on the Yusen note is $0.2 million and $0.3 million at June 30, 2013 and 2012, respectively; while the current portion is $0.1 million for both fiscal years 2013 and 2012.

16. Commitments, Litigations and Contingencies

A. Commitments

Open purchase orders and uncompleted construction contracts amounted to approximately $183.9 million as of June 30, 2013. Such open commitments do not lapse at the end of the Port's fiscal year and are carried forth to succeeding periods until fulfilled.

In 1985, the Port received a parcel of land, with an estimated value of $14.0 million from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to $14.0 million from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in fiscal years 2013 and 2012.

B. Litigations

The Port is also involved in certain litigation arising in the normal course of business. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect the financial position of the Port.

C. Alameda Corridor Transportation Authority Agreement (ACTA)

In August 1989, the Port and the POLB (the Ports) entered into a joint exercise of powers agreement and formed ACTA for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports in San Pedro Bay, linking the Ports to the central Los Angeles area. The Alameda Corridor began operating on April 15, 2002. ACTA is governed by a seven-member board, which comprises of two members from each Port, one each from the Cities of Los Angeles and Long Beach and one from the Metropolitan Transportation Authority. In 2003, ACTA agreed to an expanded mission to develop and support projects that more effectively move cargo to points around Southern California, ease truck congestion, improve air quality, and make roads safer. If in the future, ACTA become entitled to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally.

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In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the privilege of using the corridor to transport cargo into and out of the Ports. ACTA negotiated with BNSF Railway Company (BNSF) and Union Pacific (UP) regarding certain types of cargo movements (trans load movements) for which BNSF and UP are not paying use fees. In the Settlement and Release Agreement (the Agreement), dated July 5, 2006, ACTA, BNSF, and UP agreed to resolve the "Trans loading Dispute." ACTA, the Ports, the City of Los Angeles, and the City of Long Beach (the ACTA Releasing Parties) each release, acquit, and discharge BNSF and UP of all liability and costs, as stated in the Agreement, arising from or relating to the Trans loading Dispute. BNSF and UP (the Railroad Releasing Parties) each release, acquit, and discharge the ACTA Releasing Parties from any and all liability and costs, as stated in the Agreement, arising from or relating to any claim by the Railroad Releasing Parties. These use fees are used to pay (a) the debt service that ACTA incurs on approximately $1.2 billion of bonds, which ACTA issued in early 1999 and approximately $686.0 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations, the Corridor Agreement obligates each Port to pay up to twenty percent (20%) of the shortfall (Shortfall) on an annual basis. If this event occurs, the Ports' payments to ACTA are intended to provide cash for debt service payments and to assure that the Alameda Corridor is available to maintain continued cargo movement through the Ports. The Ports are required to include expected Shortfall payments in their budgets, but Shortfall payments are subordinate to other obligations of the Port, including the bonds and commercial paper currently outstanding, the Port does not and is not required to take Shortfall payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions.

In 2012, ACTA obtained a Federal Railroad Administration loan for $83.7 million under Railroad Rehabilitation and Improvement Financing (RRIF) Program. The purpose of the loan which was in the form of 2012 Taxable Senior Lien Revenue Refunding Bonds, was to refinance a portion of ACTA's outstanding bonds. Furthermore, in 2013, ACTA refunded $288.0 million of its 1999 Series A Bonds in the form of Tax-Exempt Senior Lien Revenue Refunding Bonds of Series 2013A, generating a present value savings of $35.0 million or 12%. As a result of ACTA's 2012 and 2013 refunding transactions, it is projected that no shortfall advances will be required by the two ports until the year 2019.

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D. TraPac Project and Environmental Impact Report

On December 6, 2007, the Board of Harbor Commissioners (BHC) certified the Final Environmental Impact Report (FEIR) for TraPac, Inc. (TraPac), a terminal operator, and approved the TraPac project. The TraPac project involves the development and improvements to Berths 136-147, currently occupied by TraPac. Subsequent to the project approval, certain entities (Appellants) appealed to the City Council the certification/project approval under the provisions of the California Environmental Quality Act (CEQA).

On April 3, 2008, the BHC approved a MOU between the City and the Appellants. The term of the MOU is five years, and after the first five years, the agreement may be renewed for a successive five-year period by mutual agreement of the Port and a majority of the Appellants. The MOU provides for the revocation of the appeals and the establishment of a Port Community Mitigation Trust Fund (PCMTF) to be operated by a nonprofit entity. The nonprofit created to provide administrative services for this fund is the Harbor Community Benefit Foundation (HCBF). The California Community Foundation (CCF) Community Initiatives Fund (CIF) is a nonprofit entity operated by the CCF to provide fund management services to PCMTF.

The Port had provided the first two years funding of $12.04 million and $4.02 million to the PCMTF for the identified TraPac projects in the MOU. Based on the volume of cargo processed in the third year, no additional funding was necessary.

On November 3, 2011, the BHC approved an agreement with the CCF to provide fund management services in relation to the PCMTF Operating Agreement. According to the PCMTF Operating Agreement, the Port shall transfer funds from its existing PCMTF to the new PCMTF held by the CCF upon execution of the agreement with CCF. In fiscal year 2013, $13.8 million was transferred from the PCMTF to the new PCMTF held by CCF CIF.

As of June 30, 2013, a total of $16.8 million has been disbursed from the PCMTF including the $13.8 million funds transferred to the CCF CIF. Total fund balance, including interest earned of the PCMTF at the end of the fiscal year was $0.1 million.

17. Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate $49.8 million and $38.4 million in fiscal years 2013 and 2012, respectively.

18. Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During the years ended June 30, 2013 and 2012, the Port reported capital contributions of $17.6 million and $31.3 million, respectively, for certain capital construction and grant projects.

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19. Natural Resources Defense Council Settlement Judgment

In March 2003, the Port settled a lawsuit entitled: Natural Resources Defense Council, Inc., et al. v. City of Los Angeles, et al., regarding the environmental review of a Port project at the China Shipping Terminal. The settlement called for a total of $50.0 million in mitigation measures to be undertaken by the Port. This $50.0 million charge was recorded as expense in fiscal year 2003.

The terms of the agreement require that the Port fund various mitigation activities in the amount of $10.0 million per year over a five-year term ending in fiscal year 2007. As of June 30, 2009, a total of $50.0 million were transferred from Harbor Revenue Fund to the restricted mitigation fund.

In June 2004, the Port agreed to amend the original settlement to include, and transferred to the restricted mitigation fund, an additional $3.5 million for the creation of parks and open space in San Pedro.

Pursuant to the settlement agreement, the Port is also obligated to expend up to $5.0 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2009, the Port has spent $5.0 million for this program.

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar years 2008, 2007, 2006, and 2005, and payments of $1.8 million, $6.9 million, $5.8 million, and $3.9 million, respectively, were made for having exceeded the caps. The Port charged to nonoperating expense and deposited in the restricted mitigation fund the said amounts in June 2009, June 2008, May 2007, and April 2006, respectively. Total deposits for the four years were $18.3 million, with the June 2009 deposit for calendar year 2008 being the last payment for excess throughput required under the settlement agreement.

As of June 30, 2013 and 2012, the Port has disbursed a total of $51.3 million and $47.1 million, respectively from the restricted litigation funds, of which $4.2 million and $4.0 million was made in fiscal years 2013 and 2012, respectively, as provided in accordance with the provisions of the settlement.

20. Cash Funding of Reserve Fund

As of June 30, 2013 and 2012, the Port had $790.7 and $840.1 million of outstanding parity bonds. The Port holds cash reserves for each Indenture of the outstanding bonds. The BHC, on September 18, 2008, approved the one-time cash funding of the entire reserve requirement of $61.5 million and transferred from the Harbor Emergency Fund (Fund 751) to the Port’s bond trustee in December 2008.

To be consistent with the bond covenants in the Indenture, the required amount for the individual reserve fund will be reevaluated on a yearly basis. Any excess amounts in the Common Reserve will be transferred to the interest fund and/or redemption fund to be used to pay interest and redeem bonds.

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21. Special Item

In fiscal year 2013, the Port adjusted the outstanding pollution remediation liabilities for the Cabrillo Way Marina and the former Kaiser Bulk Loading and Storage of $7.0 million and $6.4 million, respectively. The adjustment of $13.4 million was presented as Special Item in the Port's financial statements. Remediation of these sites was previously identified as necessary in order to excavate and dispose metal impacted soil and remove contamination caused by pipeline leaks. Upon completion of soil excavation, infiltration galleries and nutrient delivery system to perform enhanced in-situ bioremediation for TPH-impacted groundwater would have been installed.

However, the obligating event to perform cleanup at the sites no longer exists and there is no requirement, directive or order from any regulatory agency to perform site cleanup. Currently, the Port has no plan to remediate these sites in the future.

22. Subsequent Events

Commercial Paper Program

In July 2013, the Port issued an additional $25.0 million commercial paper notes to finance various capital improvement projects.

The Port has evaluated subsequent events through November 8, 2013, the date the financial statements were available to be issued, and has determined that no other significant subsequent events have occurred through that date.

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Supplemental Information

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Summary of Revenues, Expenses, and Changes in Net Position
Last Ten Fiscal Years
(Unaudited)
(amounts In thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues										
Shipping services	$ 293,977	$ 315,615	$ 353,390	$ 369,972	$ 374,878	$ 329,347	$ 327,630	$ 343,498	$ 357,716	$ 347,876
Rentals	33,261	34,630	33,876	40,322	45,524	42,368	43,141	45,428	43,143	42,890
Royalties, fees, and other operating revenues	5,016	5,384	4,893	6,867	5,943	30,509	36,047	11,577	8,928	6,602
Total operating revenues	332,254	355,629	392,159	417,161	426,345	402,224	406,818	400,503	409,787	397,368
Operating expenses										
Salaries and benefits	53,165	58,182	65,705	74,313	95,444	99,350	96,838	103,693	104,910	109,463
Marketing and public relations	3,769	3,455	3,333	4,521	5,274	3,676	2,594	3,055	3,380	3,092
Travel and entertainment	758	743	822	604	1,128	635	569	843	991	1,130
Outside services	32,104	39,672	33,673	33,277	37,937	29,498	24,428	30,601	29,426	31,905
Materials and supplies	4,682	5,320	5,400	5,813	8,950	8,121	6,634	6,556	6,717	6,531
City services and payments	18,729	22,361	20,821	28,640	27,101	28,704	31,142	22,353	22,236	19,284
Other operating expenses	16,967	41,158	54,378	16,607	45,918	84,159	48,030	42,594	32,146	33,764
Total operating expenses before depreciation	130,174	170,891	184,132	163,775	221,752	254,143	210,235	209,695	199,806	205,169
Operating Income before depreciation	202,080	184,738	208,027	253,386	204,593	148,081	196,583	190,808	209,981	192,199
Depreciation	67,934	70,040	98,779	88,106	78,295	83,413	87,255	90,468	100,485	108,037
Operating Income	134,146	114,698	109,248	165,280	126,298	64,668	109,328	100,340	109,496	84,162
Nonoperating revenues (expenses)										
Income from investments in Joint Powers Authorities	2,795	3,543	4,302	4,675	4,440	2,980	5,832	(333)	1,851	2,049
Interest and investment income	2,298	7,266	9,582	23,773	34,863	18,824	11,671	6,436	9,486	826
Interest expense	(43,034)	(42,279)	(37,787)	(50,038)	(38,052)	(36,979)	(35,663)	(3,704)	(10,538)	(2,473)
Other income and expenses, net	(13,724)	11,842	7,222	11,018	(2,536)	(7,625)	(2,951)	(6,667)	(8,359)	784
Net nonoperating revenues (expenses)	(51,665)	(19,628)	(16,681)	(10,572)	(1,285)	(22,800)	(21,111)	(4,268)	(7,560)	1,186
Income before capital contributions	82,481	95,070	92,567	154,708	125,013	41,868	88,217	96,072	101,936	85,348
Capital contributions	867	--	2,044	4,145	14,161	4,103	16,950	12,059	31,307	17,630
Special item	--	--	--	(22,291)	--	--	--	--	--	13,387
Deletions of capital contribution	(2,518)	--	--	--	--	--	--	--	--	--
Changes in net position	80,830	95,070	94,611	136,562	139,174	45,971	105,167	108,131	133,243	116,365
Total net position – beginning of year	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885	2,776,128
Net Adjustment for write off prior period bond issue costs	--	--	--	--	--	--	--	--	--	(8,142)
Net Position July 1, restated	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885	2,767,986
Total net assets – end of year	$ 2,011,626	$ 2,106,696	$ 2,201,307	$ 2,337,869	$ 2,477,043	$ 2,429,587	$ 2,534,754	$ 2,642,885	$ 2,776,128	$ 2,884,351
Net position:										
Net investment in capital assets	1,853,776	1,890,002	1,854,468	1,931,037	1,985,653	2,101,396	2,164,885	2,278,052	2,397,744	2,634,840
Restricted	17	16	63,917	62	9	61,608	67,844	67,341	67,796	57,913
Unrestricted	157,883	216,678	282,922	406,770	491,381	266,583	302,025	297,492	310,588	191,598
Total net position	$ 2,011,676	$ 2,106,696	$ 2,201,307	$ 2,337,869	$ 2,477,043	$ 2,429,587	$ 2,534,754	$ 2,642,885	$ 2,776,128	$ 2,884,351

See accompanying independent auditor's report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Summary of Debt Service Coverage (Pledged Revenue)

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues (including investment/interest income and non-capital grant revenues) (1)	$ 337,347	$ 366,438	$ 406,043	$ 445,609	$ 465,648	$ 424,028	$ 424,306	$ 412,962	$ 435,291	$ 416,974
Operating expenses (2)	130,174	170,891	184,132	163,775	221,752	254,143	210,235	209,695	199,806	205,169
Net available revenue	$ 207,173	$ 195,547	$ 221,911	$ 281,834	$ 243,896	$ 169,885	$ 214,071	$ 203,267	$ 235,485	$ 211,805
Debt service, revenue bonds	$ 57,994	$ 58,515	$ 58,143	$ 58,293	$ 61,318	$ 61,298	$ 66,851	$ 72,736	$ 71,382	$ 72,204
Debt service, commercial papers	1,029	2,021	3,431	792	—	—	—	191	227	194
Total debt service (3)	$ 59,023	$ 60,536	$ 61,574	$ 59,085	$ 61,318	$ 61,298	$ 66,851	$ 72,927	$ 71,609	$ 72,398
Net available revenue coverage	3.5	3.2	3.6	4.8	4.0	2.8	3.2	2.8	3.3	2.9
Net cash flow from operations	$ 208,762	$ 226,037	$ 201,575	$ 246,665	$ 252,898	$ 151,264	$ 185,416	$ 158,228	$ 217,113	$ 234,234
Net operating cash flow Coverage	3.5	3.7	3.3	4.2	4.1	2.5	2.8	2.2	3.0	3.2

(1) Operating revenues include pledged pooled investment/interest income and non-capital grant revenues.

(2) Depreciation and amortization expenses, interest expense, and other nonoperating expenses are not included.

(3) Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are senior debt backed by pledged-revenue. Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged-revenue.

Note: Details regarding the Port of Los Angeles' outstanding debt can be found in the notes to the financial statements.

See accompanying independent auditor's report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Revenue Statistics
Last Ten Fiscal Years

(Unaudited)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenue Information										
Revenue Rates										
General cargo tariff rate	5.95	5.95	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Basic dockage (600’)	2,348	2,348	2,465	2,465	2,465	2,465	2,465	2,465	2,465	2,465
Required rate of return on improvements	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Required rate of return on land	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Containerized cargo volume										
(in millions of TEUs)	7.4	7.3	7.8	8.7	8.1	7.3	7.2	7.9	8.2	7.8
Inbound tonnage (million tons)	104	102	113	118	105	94	88	94	98	93
Outbound tonnage (million tons)	58	60	69	72	65	66	67	68	75	72
Revenue tons (million)										
General cargo	146.3	145.0	155.2	171.9	161.9	144.3	145.8	149.1	163.9	156.3
Liquid bulk	11.9	12.8	22.8	15.4	6.2	11.1	10.7	10.6	9.9	7.8
Dry bulk	3.9	4.3	3.6	2.8	1.9	2.0	1.4	1.2	1.1	1.0
Total revenue tons (million)	162.1	162.1	181.6	190.1	170.0	157.4	157.9	160.9	174.9	165.1

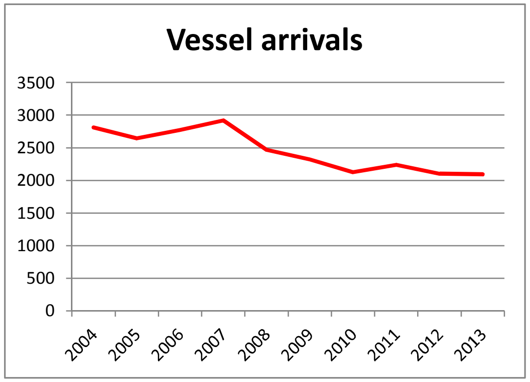
See accompanying independent auditor’s report.

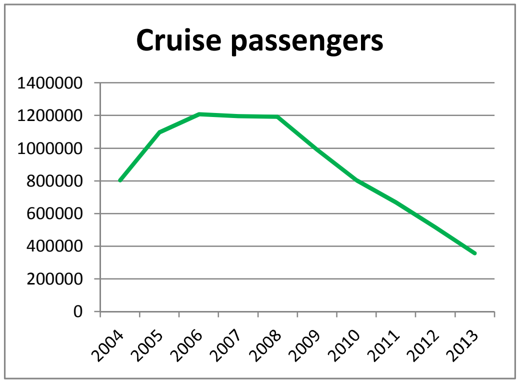
PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

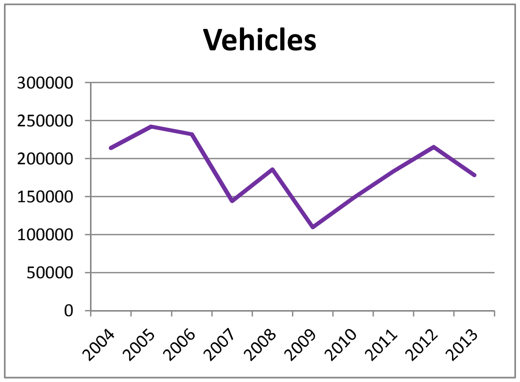
Other Operating Information
Last Ten Fiscal Years

(Unaudited)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Other Operating Information										
Miles of waterfront	43	43	43	43	43	43	43	43	43	43
Number of major container terminals	8	8	8	8	8	8	8	8	8	8
Number of cargo terminals	26	26	27	25	25	25	24	24	24	24
Vessel arrivals	2,812	2,646	2,771	2,920	2,467	2,322	2,124	2,236	2,100	2,089
Cruise passengers	803,308	1,097,204	1,205,947	1,194,984	1,191,449	990,965	802,899	667,434	515,827	355,875
Vehicles	213,933	242,024	232,149	144,068	185,978	109,634	147,935	183,126	215,374	178,252
Full time employees	634	659	717	806	935	971	948	959	958	947







See accompanying independent auditor's report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Capital Development Program Estimated Expenditures

For Fiscal year 2013-2014

(Unaudited)

(amounts in thousands)

Project Description		Estimated Expenditures
Berth 90-93 World Cruise Center	$	285
Berth 100-102 Development - China Shipping Container Terminal		41,493
Berth 118-131 - Yang Ming Container Terminal		10,741
Berth 135-147 Development - TraPac Container Terminal		99,344
Berth 212-221 Development - YTI Container Terminal		14,128
Berth 222-236 Development - Evergreen Container Terminal		11,190
Berth 258 - Al Larson Boat Yard		325
Berth 301-306 Development - APL Container Terminal		31,314
Berth 400-409 Development - APMT Container Terminal		36,149
Motems (Marine Oil Terminal Engineering and Maintenance Standards)		8,217
Pier 500		232
Miscellaneous Terminal Improvements		3,164
Channel Deepening program		339
Transportation Improvement		125,751
Security Projects		8,713
Environmental Enhancements		2,602
Port-wide Public Enhancements - Community		95
Harbor Department Facilities		15,259
Los Angeles Waterfront		28,384
Miscellaneous Projects		4,783
Total	$	442,508

Note: Schedule above excludes capital equipment.

See accompanying independent auditor's report.

Compliance Section

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles):

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents, and have issued our report thereon dated November 8, 2013. The financial statements of the Port as of and for the year ended June 30, 2012, were audited by other auditors whose report dated November 14, 2012, express an unqualified opinion on those financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Simpson & Simpson

Los Angeles, California
November 8, 2013