PORT OF LOS ANGELES

Annual Financial Statement

2003

Fiscal Year Ending
June 30, 2003

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Fiscal Year Ending June 30, 2003

Los Angeles Board of Harbor Commissioners

Nicholas G. Tonsich, President

Elwood Lui, Vice President

James E. Acevedo

Camilla T. Kocol

Thomas H. Warren

Larry A. Keller, Executive Director

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August 30, 2003

Mr. Larry A. Keller, Executive Director
Port of Los Angeles
San Pedro, California

This Component Unit Financial Report of the Harbor Department of the City of Los Angeles, California for the fiscal year ended June 30, 2003, 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 the 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 results of operations 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 basic financial statements of the Port for the years ended June 30, 2003 and 2002, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The report is presented in four sections: introduction, management's discussion and analysis, the basic financial statements, and required supplementary 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 statistical data.

The management's discussion and analysis presents a comparative review of results of operations and changes in financial position for fiscal years 2003 and 2002. Also included in this section are a description of current and proposed capital development plans, a discussion of prospective revenue growth and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the basic financial statements prepared on an accrual basis and using an economic resources focus. These are accompanied by notes and the auditor's report on the basic financial statements. The basic financial statements are comprised of Statements of Net Assets that present the financial position of the Port as of June 30, 2003 and 2002; Statements of Revenues, Expenses and Changes in Net Assets depicting financial performance for Fiscal Years 2003 and 2002; and Statements of Cash Flows that present the source and application of funds from operations, financing and investment activities for Fiscal Years 2003 and 2002. The accompanying Notes to Basic Financial Statements explain some of the information in the basic financial statements and provide more detailed data.

The statistical section includes selected unaudited financial and statistical information, generally presented on a multi-year basis that further explain and support the information in the basic financial statements.

The Port of Los Angeles

The Port is an Enterprise Fund of the City of Los Angeles (the City) and was created by the City Charter to promote and develop a deep-water port facility. It is governed by a five-member Board of Harbor Commissioners (the Board), which has the duty to provide for the needs of commerce, navigation, and fishery for the citizens of

California. It operates similar to a private business and is substantially autonomous from the City of Los Angeles. In accordance with Generally Accepted Accounting Principles (GAAP), the accompanying basic financial statements are included as a component unit of the City of Los Angeles, based upon the primary oversight responsibility that the City Council (the Council) and the City of Los Angeles have on all matters affecting Port activities.

Also, based on the foregoing criteria of oversight responsibility and accountability of all Harbor related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying basic 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. The Port also participates in a shareholder agreement that was created to form the Los Angeles Export Terminal (LAXT). Additional information regarding these joint ventures and shareholders agreement may be found in the Notes to the Basic 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 through the Chief Operating Officer. These groups fall under the responsibilities of the Director of Engineering Development, the Director of Planning & Environmental Affairs, the Director of Business Development, the Director of Maritime Services, the Director of Operations & Emergency Management, the Director of Public Affairs and the Chief Financial Officer.

The Director of Engineering Development is responsible for the Construction Management, Engineering and Contracts/Purchasing activities of the Port.

The Director of Planning and Environmental Affairs is responsible for Environment Management, Mitigation Coordinator and Planning divisions.

The Director of Business Development directs the Property Management and Marketing divisions of the Port.

Reporting to the Director of Maritime Services are the Construction and Maintenance, Wharfinger and Information Systems divisions of the Port.

The Director of Operations & Emergency Management oversees the Port Police, Port Pilots and Homeland Security functions of the Port.

The Director of Public Affairs is charged with the dissemination of information to the public, news media liaison, advertising, and community involvement activities. This position is also responsible for the Communications Services unit which provides multimedia and graphic arts services to the Department.

The Chief Financial Officer oversees the financial affairs of the Port. Reporting to this position are the Accounting, Financial Management, Treasury Management and Risk Management divisions.

The Port is located in 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 cargo. The Port is also landlord to various fish markets, boat repair yards, railroads, restaurants, a shipyard, and other similar activities.

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, etc.), land rentals, and warehouse revenues. It currently serves over 80 shipping companies and agents with facilities that include approximately 200 berthing facilities along 43 miles of waterfront.

In terms of its size, the Port is one of the largest West Coast ports. Within its boundaries lie approximately 4,200 acres of land and 3,300 acres of water.

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 many major refineries and petroleum distribution terminals within the Los Angeles Basin.

The Port provides leases to more than 250 tenants, ranging from individual stalls at the fish market to a 484-acre container terminal. The Port encompasses container and automobile terminals, dry bulk, liquid bulk and breakbulk facilities and omni terminals. The Intermodal Container Transfer Facility (ICTF) and other intermodal facilities are also on Port property. The Port also provides slips for pleasure craft, sport fishing boats and charter vessels.

The Port has a main channel with a minimum depth of 45 feet below the mean low water mark. The Port's channels are essentially maintenance free because there is no source of sand or silt coming into the harbor.

The economic impact of the Port touches not only the City and County of Los Angeles, but also the surrounding four counties: Orange, Ventura, Riverside, and San Bernardino. The Port directly and indirectly generates employment for approximately 260,000 people in Southern California and accounts for $1 out of every $23 in local income.

The Port of Los Angeles currently handles the largest volume of containerized cargo of all U. S. ports, setting records in 2002 and 2003, and additionally ranks as number one in cargo value for U. S. waterborne foreign traffic.

The Port's major trading partners are concentrated along the Pacific Rim and 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 continues to maintain a double "A" credit rating with Standard and Poor, Moody's and Fitch Investors Services. This is an excellent credit rating for any U.S. port and reflects the confidence of the financial community in the strength, continuing financial performance and competitive position of the Port of Los Angeles.

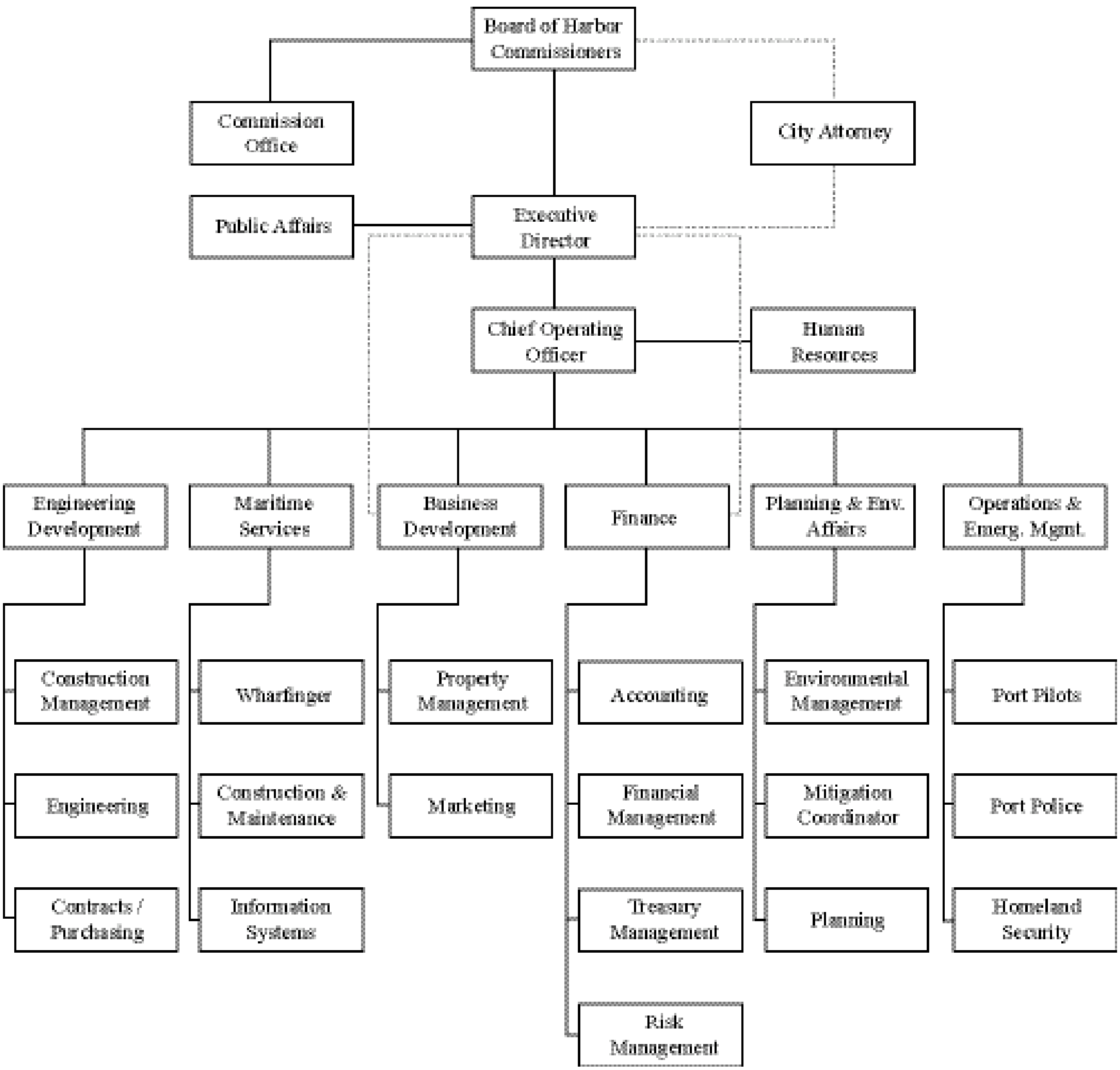
The Port is not subsidized by tax dollars and has maintained its financial strength through generated revenues. The Port of Los Angeles is one of the few U.S. ports that remain self-sufficient.

Sincerely,

Jim Garrott
Controller

LOS ANGELES HARBOR DEPARTMENT
Organization Chart

2002 – 2003



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

BOARD OF HARBOR COMMISSIONERS
Nicholas G. Tonsich, President
Elwood Lui, Vice-President
James E. Acevedo, Commissioner
Camilla T. Kocol, Commissioner
Thomas H. Warren, Commissioner

ADMINISTRATIVE STAFF

SENIOR MANAGEMENT
Larry A. Keller, Executive Director
Bruce Seaton, Chief Operating Officer
Stacey Jones, Director of Engineering Development
Al Fierstine, Director of Business Development
Lonnie Tang, Director of Maritime Services
Molly Campbell, Chief Financial Officer
Julia Nagano, Director of Public Affairs

MANAGEMENT STAFF
Ralph Appy, Director of Environmental Management
Angela Birkenbach, Chief Wharfinger
Lou Colletta, Director of Finance
Noel Cunningham, Director of Operations
Jim Garrott, Controller
Tony Gioiello, Director of Engineering
Bill Gonzales, Treasurer
Margaret Hernandez, Director of Contracts/Purchasing
Jim MacLellan, Director of Marketing
David Mathewson, Director of Planning and Research
Kathy Merkovsky, Director of Risk Management
Capt. Jim Morgan, Pilot Service Manager
Joannie Mukai, Director of Construction and Maintenance
Sid Robinson, Director of Property Management
Shaun Shahrestani, Director of Construction Management
Rocki Walker, Director of Human Resources

LEGAL STAFF
Thomas Russell, Senior Assistant City Attorney

Management's Discussion and Analysis

Years ended June 30, 2003 and 2002

This section of the Port of Los Angeles' annual financial report presents a discussion and analysis of the Port's financial performance during the fiscal year that ended June 30, 2003. Please read it in conjunction with the transmittal letter at the front of this report and the Port's basic financial statements, which follow this section.

The Port is an enterprise fund and the basic financial statements are prepared on an accrual basis using the economic measurement focus in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. Revenues are recognized when earned, not when received, and expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated over their useful lives (except land). See the notes to the basic financial statements for a description of the Port's significant accounting policies.

The following is a summary of the Port's net assets as of June 30, 2003 and 2002:

Net Assets
(in thousands)

	June 30, 2003	Change	June 30, 2002
Current and other assets	$289,370	-31%	$420,636
Capital assets	2,634,172	7%	2,466,790
Total assets	2,923,542	1%	2,887,426
Long-term debt outstanding	852,003	-4%	890,116
Other liabilities	140,743	4%	135,552
Total liabilities	992,746	-3%	1,025,668
Net assets			
Invested in capital assets, net of related debt	1,782,169	6%	1,676,374
Restricted	95	-51%	195
Unrestricted	148,532	-20%	185,189
Total net assets	$1,930,796	4%	$1,861,758

Net assets of the Port increased 4% to $1.9 billion. Less than 1% of these net assets are restricted and are comprised of interest income and unspent bond proceeds reserved for cost of issuance. The remaining net assets are either unrestricted or are invested in capital assets (facilities, infrastructure, equipment, etc.), net of related debt. These assets are under the control of the Port and must be used for the operation and maintenance of Port facilities and the acquisition and construction of improvements as provided under the State of California Tidelands Trust Act.

Liquidity
(in thousands)

	Twelve Months Ended		
	June 30, 2003	Change	June 30, 2002
Working Capital	$116,485	-10%	$128,964
Cash and cash equivalents, unrestricted	84,499	14%	74,151
Cash and cash equivalents, current restricted	88,426	12%	78,852
Net cash provided by operating activities	215,117	22%	176,083
Net cash provided by (used in) investing activities	21,894	-338%	(9,197)
Net cash used in capital and related financing activities	(217,089)	-35%	(334,693)

Working capital at June 30, 2003, decreased 10% from the close of the prior fiscal year to $116.5 million. Principal reason for the decrease is the reduction in net accounts/grants receivable in FY 2003.

Net cash provided by operating activities increased $39.0 million, or 22% over the prior year. The increase reflects mainly the additional $73.2 million revenue collected, offset by the $33.4 million in additional payments for employee salaries and for goods and services.

Cash generated from investing activities increased $31.1 million over the prior year principally due to the fact that there was an increase of $30.5 million in the securities lending program over the two years.

The $117.6 million, or 35% decline in net cash used in capital and related financing activities reflects the $54.7 million in lower spending levels for capital construction. The decline is also contributed by the $15.9 million capital grants received and the $50.0 million more in cash inflow from new issuance of commercial paper in FY 2003.

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2003 and 2002:

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

Management's Discussion and Analysis, Continued

Years ended June 30, 2003 and 2002

Changes in Net Assets

	Twelve Months Ended		
	June 30, 2003	Change	June 30, 2002
Operating revenues	$343,654	19%	$289,853
Income from investments in Joint Powers Authorities and other entities	3,717	-24%	4,912
Interest and investment income	11,430	4%	11,003
Total revenues	358,801	17%	305,768
Expenses			
Operating & administrative expenses	124,046	26%	98,069
Depreciation	59,365	-1%	59,680
Interest expense on bond indebtedness notes payable	44,293	-7%	47,555
Other income and expense, net	63,445	1709%	3,507
Total expenses	291,149	39%	208,811
Income before contributions and special items	67,652	-30%	96,957
Capital contributions	1,386	-92%	17,203
Special Items	0	-100%	2,178
Change in net assets	$69,038	-41%	$116,338

Net assets for the Port increased $69.0 million for fiscal year 2003. Approximately 98% 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 expense increased 26% over the prior fiscal year. Additional provisions to fully reserve for Los Angeles Export Terminal accounts receivable totaling $16.8 million constitute most of this increase. Other income and expense rose to $63.4 million in fiscal year 2003. This change reflects the $50 million settlement with the Natural Resources Defense Council regarding the environmental review process associated with a major Port container terminal development project. Also included in this amount is provision to fully reserve the Port's $19 million equity investment in Los Angeles Export Terminal, Inc. (LAXT), a customer of the Port. The future for LAXT operations at the close of fiscal year 2003 is uncertain.

Contributed capital totaled $1.4 million for fiscal year 2003 and relates to grant proceeds received or accrued from FEMA and the California Coastal Conservancy. These amounts represent reimbursement for minor earthquake damage and studies relating to the Port Waterfront Promenade.

Net income before capital contributions and special items decreased $29.3 million to $67.7 million, a 30.2% decline from fiscal year 2002 reported net income of $97.0 million. The aforementioned lawsuit settlement and additional provisions to reserves are the principal causes for the decline.

Operating Revenues
(in thousands)

	Twelve Months Ended		
	June 30, 2003	Change	June 30, 2002
Shipping Services	$302,078	21%	$249,800
Percentage of total revenues	88%		86%
Rentals	36,563	5%	34,691
Percentage of total revenues	11%		12%
Royalties, Fees, Other Operating Revenues	5,013	-7%	5,362
Percentage of total revenues	1%		2%
Total	$343,654	19%	$289,853

Operating revenues for fiscal year 2003 rose to $343.7 million, reflecting a 19% increase from prior year revenues of $289.9 million, and is principally attributed to cargo volume growth. A record 6.7 million twenty-foot equivalent units (TEUs) in container volume moved through Port facilities during fiscal year 2003, a 19.0% increase from the 5.6 million units recorded in fiscal year 2002. Revenue tons billed grew 16.9% over the comparative period to 147.5 million tons.

Shipping Services

Shipping services revenues consist of several classifications of fees assessed for various activities relating to vessel or cargo movement, merchandise storage, and use of Port facilities and cranes. Of these fees, wharfage is the most significant and comprised 87.0% of the total shipping services revenues in fiscal year 2003. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

Income from shipping services in fiscal year 2003 rose to $302.0 million, reflecting growth of $52.3 million, or 20.9%, over fiscal 2002. Increased cargo volumes are the principal reason for the growth and reflect market share gained from other U.S. West Coast ports as well as continuing growth of imports from China. On-going development of improved intermodal facilities, the addition of the Pier 400 container terminal and increasing strength of shipping alliances based in the Port all contributed to growth in market share. Shipping lines also continued to place larger vessels in services during FY 2003.

The following are summaries of cargo volumes by major classification handled by the Port and container volumes and associated tonnage:

Cargo Type in Revenue Tons
(in thousands)

	Twelve Months Ended		
	June 30, 2003	Change	June 30, 202
Container/General Cargo	131,949	23%	107,069
Liquid Bulk	11,356	-12%	12,924
Dry Bulk	4,236	-32%	6,208
Total	147,541	17%	126,201

Container Volume in Loaded TEUs
(in thousands)

	Twelve Months Ended		
	June 30, 2003	Change	June 30, 2002
Import TEUs	3,646	18%	3,078
Export TEUs	3,056	20%	2,555
Total	6,702	19%	5,633

Metric revenue tons are the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when this figure is available, or, when cargo weight is not provided, the weight is closely approximated by calculation. A total of 147.5 million revenue tons were billed in fiscal 2003. This is an increase of 21.3 million tons, or 16.9% over fiscal 2002 volume. Revenue tons from general cargo grew 23.2%, or 24.9 million tons. Tonnage from dry bulk decreased 31.8%, or 2.0 million revenue tons, due principally to declining bulk coal exports. Petroleum also decreased 12.1%, or 1.6 million revenue tons. Additional information for volume by cargo type is presented in the Supplementary Information Section of this report in the schedule titled "Schedule of Revenue Tonnage Billed."

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 set for these properties using various methodologies and are broken into two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these broad land classifications. 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 through negotiations and will further take into account the condition, location, utility and other aspects of the property. In all cases, the Port seeks to achieve the 12 percent rate of return that has been set by Board policy.

Rental income at the Port increased $1.9 million, or 5.4%, over last year and represented 10.6% of fiscal year 2003 total operating revenues. This growth is principally attributable to general rate increases.

Royalties, Fees, and Other Operating Revenue

The Port levies fees for a variety of activities conducted on Harbor 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.

Revenues in this category totaled $5.0 million for fiscal year 2003, a decrease of $0.4 million, or 6.5%, over the prior fiscal period. Although nominal increases in revenues for parking, movie permits and maintenance performed for Port tenants were realized, this growth was offset by declines in pass-through utility charges to customers in fiscal year 2003.

Operating and Administrative Expense

The Port of Los Angeles is a landlord port. As such, the Port does not manage or participate in the operations of facilities, and expenses incurred are principally administrative and relatively fixed in nature.

Operating and administrative expenses rose $26.0 million to $124.0 million, a 26.5% increase from prior fiscal year expense of $98.1 million. Categories of expense reflecting more significant increases include salaries and benefits, marketing and public relations and other operating expenses. Offsetting these increases were reductions in travel and entertainment expense. Changes in other categories of expenses were immaterial.

Operating and Administrative Expenses (O & A)
(in thousands)

	Twelve Months Ended		
	June 30, 2003	Change	June 30, 2002
Salaries and Benefits	$44,427	9%	$40,682
Percentage of total O & A expense	36%		41%
Marketing and Public Relations	3,654	19%	3,064
Percentage of total O & A expense	3%		3%
Travel and Entertainment	658	-8%	713
Percentage of total O & A expense	1%		1%
Outside Services	21,971	2%	21,468
Percentage of total O & A expense	18%		22%
Materials and Supplies	3,771	7%	3,508
Percentage of total O & A expense	3%		4%
City Services	18,525	-4%	19,210
Percentage of total O & A expense	15%		20%
Other Operating Expenses	31,040	229%	9,424
Percentage of total O & A expense	25%		10%
Total O & A expense	$124,046	26%	$98,069

Salaries and benefits expense rose $3.7 million from the prior fiscal year. The increase results from scheduled employee pay increases and expansion of the Port workforce in FY 2003.

Marketing and public relations expense rose 19% over the prior year, reflecting the Port's focus on public outreach programs and continuing promotion of the Port to the shipping industry. In an effort to be responsive to the needs of its neighboring communities, the Port has expanded funding for a wide array of programs designed to better serve the Harbor area.

Other operating expense for fiscal year 2003 rose $21.6 million from the prior year. Additional provisions to the bad-debt reserves for the Los Angeles Export Terminal (LAXT) constitute most of this additional expense. As future operations of the LAXT are uncertain at this time, the Port has elected to fully reserve all outstanding receivables due from this customer.

Non-Operating Income and Expense

Net non-operating expense for fiscal year 2003 increased $57.4 million over the prior year to $92.6 million. In fiscal year 2003, the Port recorded a $50 million settlement with the Natural Resources Defense Council related to the China Shipping terminal project as one-time non-operating expense. Additionally, the Los Angeles Export Terminal ceased its coal operations in June 2003 and its business future is uncertain. As such, the Port has fully reserved the $19 million equity investment in LAXT.

Income from the Port's investments in the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) and other entities decreased 24.3% to $3.7 million for fiscal year 2003. The decrease reflects the lower container throughput handled by ICTF in FY 2003.

Long-Term Debt and Capital Assets

Long-term Debt

On June 30, 2003, the Port's total of $852 million in long-term debt comprised senior debt in the form of Harbor Revenue Bonds, commercial paper and subordinated debt in the form of loans.

On July 11, 2001, the Port issued $101.1 million in long-term bonds and entered into an agreement for the forward delivery of $63.5 million of additional bonds, that were delivered on May 6, 2002, to refund $158.3 million of the Harbor Revenue Bonds of 1995. On June 30, 2002, a total of $99.8 million were available for advance refunding of the 1995 Series B Revenue Bonds. On August 2, 2002, the refunding was completed, achieving a present value savings of approximately $12.6 million. The Refunding Bonds received an underlying AA rating by the three major credit agencies.

On November 7, 2001, the Port issued its Offering Memorandum for the issuance of commercial paper notes (Notes) not to exceed $375 million in three series, Series A (Non-AMT) and Series B (AMT) and Series C (Taxable). The purpose of the Notes is to provide interim financing for the construction, maintenance and replacement of the Port's structures, facilities, and equipment. As of June 30, 2003 and 2002, the Port's commercial paper outstanding was $92,002,000 and $21,000,000, respectively in Series B (AMT) Notes.

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 contractually 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%). As of June 30, 2003, this capacity is approximately $1.2 billion, calculated using operating revenues and current interest rate assumptions.

Capital Assets

Capital assets net of accumulated depreciation consisted of the following as of June 30, 2003 and 2002:
(in thousands)

	June 30, 2003	June 30, 2002
Land	$782,392	$739,483
Harbor facilities and equipment, net	968,960	986,557
Construction in progress	635,257	492,562
Preliminary costs - Capital projects	247,563	248,188
Total	$2,634,172	$2,466,790

Capital expenditures for FY 2002 rose to $293.4 million, an increase of 96% over the prior year. Spending fell substantially short of the $513.4 million originally budgeted, primarily due to projects that have been put on hold pending completion of additional environmental assessments. Over 93.5% of the FY 2002 development funds were expended for terminal development alone, most of it related to Pier 400 development. Other significant increases in spending were for dredging and infrastructure.

Capital Expenditure – Facilities and Infrastructure*
(in thousands)

Capital expenditures for FY 2003 decreased to $237.4 million, a reduction of 19% over the prior year. Spending fell short of the $318.9 million originally budgeted, primarily due to projects that have been put on hold pending completion of additional environmental assessments. Approximately 67% of the FY 2003 development funds were expended for terminal development alone, most of it related to Pier 400 and Berth 100 developments. Continuing dredging operations were another significant source of capital spending.

	Twelve Months Ended		
	June 30, 2003	Change	June 30, 2002
Commercial Development	$4,237	74%	$2,429
Dredging	62,886	990%	5,772
Environmental Studies & Credits	2,048	92%	1,066
Infrastructure Improvements	5,667	-32%	8,336
Terminal Development	160,660	-41%	274,539
Transportation Improvements	1,934	49%	1,298
Total	$237,432	-19%	$293,440

* Source: Engineering Division of the Port of Los Angeles. Non-Engineering transactions not included.

Projected spending for the Port's FY 2004 Capital Improvement Program is expected to increase slightly from the previous fiscal year, principally for Pier 400 Phase II related development. The more significant fiscal year 2004 expenditures will include Pier 400 Container Terminal–Phase II construction, West Basin redevelopment, Berth 131-147 terminal expansion, and the Main Channel deepening.

The Pier 400 Program comprises a 484-acre container terminal complex with full rail, highway and utility access. Phase I of the Pier 400 Container Terminal was completed and placed in service in August 2002. Construction of the Phase II wharf and backland began in January 2003. Phase II includes an additional 141-acre container terminal area, additional wharves, and new buildings for APM Terminals and is scheduled for completion in June 2004.

The West Basin Development Program includes the development of the China Shipping terminal at Berths 100 to 109, and the redevelopment of the Yang Ming terminal at Berths 115 to 120 and TraPac terminal at Berths 136 to 147. At China Shipping, the program includes the development of approximately 140 acres of backland terminal, construction of 2,500 feet of wharf at Berths 100 and 102, a new gate complex, and two new bridges that allow vehicular access between China Shipping and Yang Ming terminals. Improvements at the Yang Ming terminal include the potential development of 23 acres of backland, terminal circulation improvements, wharf upgrades, and minor backland modifications. Improvements at the TraPac terminal include new and redeveloped wharfs, additional backland, improved terminal access, and the relocation of Harry Bridges Boulevard, from Figueroa Street to Avalon Boulevard. The northerly realignment of the boulevard will allow for future terminal expansion in this area of the Port. Reduction of traffic congestion, accelerated movement of cargo within the Port and a buffered parkway adjacent to the community are additional benefits expected from this project. The Wilmington Parkway is being envisioned as a landscaped area with walkways and open park areas to be utilized by the adjacent community.

In order to accommodate deeper draft container vessels, the Port is working with the U.S. Army Corps of Engineers to dredge eight million cubic yards from the Main Channel Turning Basin, East Basin, West Basin, East Basin Channel and Cerritos Channel. Existing design depth in the channel is currently –45 ft. mean lower low water (MLLW). The dredging program will provide a depth of –53 ft. MLLW, plus two feet of overdepth, and is expected to be complete in April 2005.

The Berths 131-148 terminal expansion program is being designed and will upgrade and incorporate an additional 147 acres to the existing 103 acre container terminal. The waterside elements of the project include 2,600 ft. of wharf, 100-foot gauge crane rail, and dredging water depth to –53 ft. Additionally, new and upgraded gate facilities and support buildings will be coupled with a yard configuration designed to optimize container throughput. Transportation improvements will include grade separations at Neptune Avenue and Avalon Boulevard to reduce rail and truck traffic at-grade crossings.

Terminal Island improvements during FY 2004 will include backland improvements at Berths 232-236, expansion of Terminal Way and Phase II of Berths 210-211 Rail Spur. The new container facility entrance, gatehouse complex, secondary gate and buildings for terminal operations, and the new maintenance and repair facility will relieve congestion, reduce vehicle emissions and improve cargo handling efficiency at the terminal. Work continues on the closure of Earle Street between Ferry and Pilchard Streets, and the Berth 212-225 Backland Development.

These programs are designed to meet the needs of the Port's current container terminal customers over the next three to five years. All major terminals will be upgraded and expanded to accommodate projected growth in container movements and increase cargo capacity.

Work continued throughout fiscal year 2003 on the San Pedro Waterfront Red Car Line. This project consists of a 1.5-mile, rail-based streetcar line that replicates the historic Pacific Electric Red Cars. The line was placed in service in July 2003 and runs from the Cruise Ship Terminal to 22nd Street along existing railroad right-of-way. The Red Car Line is intended to provide an infrastructure backbone for commercial development along the west side of the Main Channel and the Cabrillo Marina. The intent of the project is to connect the cruise ship terminal with other attractions along the waterfront.

The Harbor Beautification Program continues to be a high-priority activity for the Port. In addition to upgrades at Bloch Field and the Crescent Avenue Pathway, several new areas have been identified for enhancement, including the Pacific Avenue bike path and improvements to the Yang Ming Terminal entrance. The terminal entrance will serve as a gateway to the Port and will include trees, shrubs, a bus bench, bike, and pedestrian pathways.

Factors That May Affect the Port's Operations

The revenue growth and profitability of the Port's business depends upon changes in income, industrial output and the relative value of world currencies. Real increases in domestic consumer income tends to induce increases in foreign imports of household goods, while growth of consumer spending power outside the United States fosters our export market. Expanding industrial production overseas will usually generate more shipments of export raw materials and intermediate or semi-finished goods. A rise in the value of the US dollar would typically adversely impact US exports while accelerating imports. Conversely, a significant drop in the value of the US dollar would reduce imports and strengthen the US export market. Although the effect is more indirect, changes in the world labor force and transportation costs can impact where goods are made and port selection.

The Port is addressing a number of trends developing in the industry. Business alliances among shipping lines are creating increasing demand for development of progressively larger container terminals, frequently exceeding 250 acres. The Port is working to expand existing terminals as well as construct new facilities of this scale to meet demand. The Pier 400 container terminal, built for APM Terminals, is one such example and construction at the new Berth 100 continues. Major progress has also been made with improvements to the TraPac Terminal at Berths 136-147. These Port developments will create larger cargo facilities with improved economies of scale.

Efficient railyard operations represent another important requirement. In addition to the on-dock intermodal rail at Pier 400 and other existing on-dock/near-dock facilities that serve our customers, the Port is developing a new, general-use railyard. The Port is also initiating new programs to address environmental efficiencies for ships in Port and operating equipment on terminals.

Larger container vessels continue to be placed in service. These new-generation container vessels require channel depths of more than 50 feet for safe navigation. The Port's Main Channel deepening project, which will lower the channel depth to -53 feet, will complete in April 2005.

Competitive Environment

In the eleven-month period ending May 31, 2003, 99.5% of the entire U.S. West Coast containerized cargo market was controlled by six major containerports: 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 72% of all U.S. West Coast market share.

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 leases of 25 to 30 years. Occupancy remains high and West Coast ports have limited capacity for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but is the most attractive point of origin for trans-shipments to Midwest and East Coast destinations.

West Coast Container Market Share *
(in thousands)

	Twelve Months Ended		Twelve Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
	Loaded TEUs (000s)	Loaded TEUs (000s)	Market Share Percentage	Market Share Percentage
Los Angeles	4,064	3,744	43.0%	38.3%
Long Beach	2,707	3,355	28.6%	34.3%
Oakland	934	962	9.9%	9.8%
Seattle	778	822	8.2%	8.4%
Tacoma	746	669	7.9%	6.8%
Portland	176	195	1.9%	2.0%
All Others	49	23	0.5%	0.2%
Total	9,454	9,770	100.0%	100.0%

*Source: Port Import Export Reporting Service
June 2003 information not available at date of publication.

Contacting the Port's Financial Management

Questions about this report or requests for additional financial information should be addressed to the Chief Financial Officer, Port of Los Angeles, 425 S. Palos Verdes Street, San Pedro, CA 90731.

KPMG

355 South Grand Avenue
Suite 2000
Los Angeles, CA 90071-1568

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), a component unit of the City of Los Angeles, California, as of and for the years ended June 30, 2003 and 2002 as listed in the table of contents. These financial statements are the responsibility of the Port of Los Angeles' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in note 1, the basic financial statements referred to above include only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City of Los Angeles in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2003 on our consideration of the Port of the Los Angeles' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 7 to 17 and the pension supplementary information on page 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 16, 2003

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Net Assets

June 30, 2003 and 2002
(In thousands of dollars)

	2003	2002
Assets:		
Current assets:		
Cash and investments, unrestricted (note 2)	$ 84,499	74,151
Cash and investments, restricted (note 2)	88,426	78,852
Accounts receivable, less allowance for doubtful accounts of $21,280 and $2,934 in 2003 and 2002, respectively (note 15)	33,709	42,657
Grants receivable (note 14)	2,671	17,203
Materials and supplies inventories	1,564	1,404
Prepaid and deferred expenses	998	304
Accrued interest receivable	1,434	2,402
Current portion of notes receivable, less allowance for doubtful accounts of $1,000 and $0 in 2003 and 2002, respectively (note 10)	3,516	3,412
Total current assets	216,817	220,385
Noncurrent restricted assets (note 2):		
Restricted investments – bond funds	95	99,895
Other restricted cash and investments	8,699	8,362
Accrued interest receivable	2	1,088
Total noncurrent restricted assets	8,796	109,345
Capital assets (notes 3 and 8):		
Land	782,392	739,483
Harbor facilities and equipment, less accumulated depreciation of $711,852 and $653,372 in 2003 and 2002, respectively	968,960	986,557
Construction in progress	635,257	492,562
Preliminary costs – capital projects	247,563	248,188
Net capital assets	2,634,172	2,466,790
Notes receivable, less allowance for doubtful accounts of $1,000 and $0 in 2003 and 2002, respectively (note 10)	52,517	58,093
Investment in Joint Powers Authorities and other entities, less allowance for investment loss of $19,000 and $0 for 2003 and 2002, respectively (notes 4, 10, and 15)	6,000	25,283
Other assets	5,240	7,530
Total assets	2,923,542	2,887,426

(Continued)

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Net Assets

June 30, 2003 and 2002
(In thousands of dollars)

	2003	2002
Liabilities:		
Current liabilities:		
Accounts payable	$ 21,166	31,281
Current installments of notes payable and bond indebtedness (note 5)	20,503	9,037
Accrued interest	13,941	15,661
Accrued employee benefits (note 5)	306	498
Deferred revenue and other deferred credits	358	358
Liabilities under the City of Los Angeles' securities lending program (note 2)	12,956	10,872
Accrued construction costs payable	8,259	21,831
Other current liabilities (notes 5, 7, and 16)	22,843	1,883
Total current liabilities	100,332	91,421
Long-term liabilities (note 5):		
Bonds payable, net of current portion and deferred amount on refunding of $8,101 and $5,264 in 2003 and 2002, respectively	734,629	850,391
Notes payable, net of current installments	4,869	9,688
Commercial paper to be refunded from bonds	92,002	21,000
Deferred revenue and other deferred credits	3,119	3,119
Accrued employee benefits	9,815	10,638
Other liabilities (notes 7 and 16)	39,643	31,190
Liabilities payable from restricted assets – other liabilities (note 7)	8,337	8,221
Total long-term liabilities	892,414	934,247
Total liabilities	992,746	1,025,668
Commitments and contingencies (notes 4, 5, 7, 8, 9, 12, 15, and 16)		
Net assets:		
Invested in capital assets, net of related debt	1,782,169	1,676,374
Restricted, bond proceeds	95	195
Unrestricted	148,532	185,189
Total net assets	$ 1,930,796	1,861,758

See accompanying notes to basic financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Revenues, Expenses, and Changes in Net Assets

June 30, 2003 and 2002
(In thousands of dollars)

	2003	2002
Operating revenues (note 8):		
Shipping services:		
Wharfage	$ 262,712	214,643
Dockage	8,155	9,334
Demurrage	722	201
Cranes	6,329	4,112
Pilotage	7,193	6,933
Assignment charges	16,601	14,278
Storage	366	299
Total shipping services	302,078	249,800
Rentals:		
Land	33,417	32,207
Buildings	294	293
Warehouses	2,088	1,337
Wharf and shed revenue	764	854
Total rentals	36,563	34,691
Royalties, fees, and other operating revenues:		
Fees, concessions, and royalties	3,547	3,364
Oil royalties	50	37
Other	1,416	1,961
Total royalties, fees, and other operating revenues	5,013	5,362
Total operating revenues	343,654	289,853
Operating and administrative expenses (notes 7, 9, 12, and 13):		
Salaries and benefits	44,427	40,682
Marketing and public relations	3,654	3,064
Travel and entertainment	658	713
Outside services	21,971	21,468
Materials and supplies	3,771	3,508
City services, net of capitalized amounts of $4,074 and $1,647 in 2003 and 2002, respectively	18,525	19,210
Provision for bad debts (notes 10 and 15)	20,378	1,176
Other operating expenses	10,662	8,248
Total operating and administrative expenses	124,046	98,069
Income from operations before depreciation	219,608	191,784
Depreciation (note 3)	59,365	59,680
Operating income	160,243	132,104

(Continued)

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Revenues, Expenses, and Changes in Net Assets

June 30, 2003 and 2002
(In thousands of dollars)

	2003	2002
Nonoperating revenues (expenses):		
Income from investments in Joint Powers Authorities and other entities	$ 3,717	4,912
Interest and investment income	11,430	11,003
Interest expense on bond indebtedness and notes payable (note 3)	(44,293)	(47,555)
Litigations, claims, and settlement expenses (notes 7 and 16)	(44,747)	(2,384)
Other income and expenses, net (note 2)	(18,698)	(1,123)
Net nonoperating expenses	(92,591)	(35,147)
Income before capital contributions and special item	67,652	96,957
Capital contributions (note 14)	1,386	17,203
Special item (note 11)	—	2,178
Change in net assets	69,038	116,338
Total net assets – beginning of year	1,861,758	1,745,420
Total net assets – end of year	$ 1,930,796	1,861,758

See accompanying notes to basic financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Cash Flows

June 30, 2003 and 2002
(In thousands of dollars)

	2003	2002
Cash flows from operating activities:		
Shipping services fees collected	$ 309,539	237,746
Rentals collected	37,126	35,810
Royalties, fees, and other operating revenues collected	6,027	5,948
Payments for employee salaries and benefits	(53,671)	(46,876)
Payments for goods and services	(81,180)	(54,537)
Net cash used in other nonoperating income and expenses	(2,724)	(2,008)
Net cash provided by operating activities	215,117	176,083
Cash flows from capital and related financing activities:		
Payments for property acquisitions and construction	(250,309)	(304,993)
Proceeds from sales of capital assets	—	126
Proceeds from capital grant	15,918	—
Net proceeds from issuance of bonds	99,800	63,457
Proceeds from issuance of commercial paper	391,624	21,000
Payment of commercial paper	(320,622)	—
Principal repayment – bonds	(106,135)	(69,100)
Principal repayment – notes	(342)	(327)
Interest paid	(47,023)	(44,856)
Net cash used in capital and related financing activities	(217,089)	(334,693)
Cash flows from investing activities:		
Receipt of interest	9,515	14,517
Investment in other notes	—	(2,008)
Increase (decrease) in liabilities under the City of Los Angeles' securities lending program	2,084	(28,438)
Increase (decrease) in fair value of investments	2,883	(2,831)
Excess cash from restructuring securities in bond defeasance escrow	—	2,178
Payments received on notes receivable	3,412	3,635
Distribution from Joint Powers Authorities and other entities	4,000	3,750
Net cash provided by (used in) investing activities	21,894	(9,197)
Net increase (decrease) in cash and cash equivalents	19,922	(167,807)
Cash and cash equivalents, beginning of year	153,003	320,810
Cash and cash equivalents, end of year (note 2)	$ 172,925	153,003

(Continued)

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Statements of Cash Flows

June 30, 2003 and 2002
(In thousands of dollars)

	2003	2002
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 160,243	132,104
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	59,365	59,680
Provision for doubtful accounts	20,378	1,176
Change in accounts receivable	(9,398)	(11,188)
Change in materials and supplies inventories	(160)	(60)
Change in prepaid and deferred expenses and other assets	1,596	(1,189)
Change in accounts payable	(10,115)	(13,706)
Change in accrued employee benefits	(1,015)	1,555
Change in other long-term operating liabilities	(24,013)	10,709
Change in deferred revenue and other deferred credits and other current liabilities	20,960	(990)
Net cash used in other nonoperating income and expense	(2,724)	(2,008)
Total adjustments	54,874	43,979
Net cash provided by operating activities	$ 215,117	176,083

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

The basic 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 applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Port's 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, California (the City), formed for the purpose of providing shipping, fishing, recreational, and other resources and benefits for the enjoyment of the citizens of Los Angeles and surrounding communities. The Port is under the control of a five-member Board of Harbor Commissioners (appointed by the Mayor and approved by the City Council) and 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 of Los Angeles. 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), rentals of land, and facilities, royalties (oil wells), and other fees. Capital construction is financed from operations, bonded debt, and loans 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, major maintenance and new 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. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, which the Port adopted effective July 1, 1993.

(Continued)

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 City of Los Angeles by erecting, constructing, replacing, extending, or improving facilities and services that the Board of Harbor Commissioners deems necessary for the promotion and accommodation of commerce. From time to time, LAHIC has issued long-term indebtedness to finance specific capital facilities improvements on behalf of the Port's tenants. The nature of these financings is such that the long-term indebtedness will be that of the Port tenant and not LAHIC, the Port, or the City of Los Angeles. Therefore, for purposes of the accompanying basic financial statements, the long-term indebtedness of LAHIC and the corresponding lease receivable from the tenant is eliminated.

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the Board of Harbor Commissioners. In fiscal 2003 and 2002, all five members of the LAHIC Board were employees or Commissioners of the Port. Although the tenant reimburses LAHIC for its costs of operations, the Board of Harbor Commissioners is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, LAHIC is reported as if it were part of the Port in accordance with the provisions of GASB Statement No. 14, because its sole purpose is to finance and construct facilities and improvements, which directly benefit the Port.

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

(b) Summary of Significant Accounting Policies

Accounting Pronouncements – In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Effective July 1, 2000, the Port adopted GASB Statement No. 34. This statement requires that basic financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis required by the private sector provided in their annual reports. Another significant requirement of this statement related to the Port of Los Angeles is to report the financial position of the government in a schedule of net assets. The net assets of a government are broken down into three categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

Method of Accounting – The Port is 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 liabilities are incurred without regard to receipt or disbursement of cash. The measurement focus is on determination of changes in net assets, financial position, and cash flows.

(Continued)

Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. In accordance with GASB Statement No. 20, the Port of Los Angeles has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

Materials and Supplies Inventories – Inventories of materials and supplies are stated at average cost on a first-in, first-out basis.

Capital assets – Capital assets are carried at cost or at appraised fair market 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.

Depreciation – Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Current ranges of useful lives for depreciable assets are as follows:

Wharves and sheds	10 to 50 years
Buildings and facilities	10 to 50 years
Equipment	3 to 20 years

Capitalization – The Port capitalizes all purchases greater than $5,000.

Preliminary Costs of Proposed Capital Projects – 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.

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately $3,387,000 and $1,276,000 of such indirect project costs were allocated to construction projects for the years 2003 and 2002, respectively.

Investment in Joint Ventures – Investments of joint powers authorities are accounted for by the equity method.

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects. No interest paid was capitalized during 2002. All of the $988,000 commercial paper interest paid in 2003 was capitalized.

(Continued)

Pooled Cash and Investments – In order to maximize investment return, the Port pools its available cash with that of the City of Los Angeles, California. Investment decisions are made by the City Treasurer.

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 daily cash balances to aggregate pooled cash and investments (see note 2). The change in the fair value of pooled investments is allocated to each participating City department/fund based on the aggregate respective average cash balances.

The Port's investments, including its share of the City's pooled investments, 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 guaranteed investment contracts and other 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 appropriate 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 in 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.

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

Accrued Employee Benefits – The Port records all accrued employee benefits, including accumulated vacation and sick pay, as a liability in the period the benefits are earned. Accrued employee benefits are treated as a current liability for financial statement presentation.

Operating Leases – A substantial portion of the harbor lands and facilities is 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 (see note 8).

Statements of Cash Flows – For purposes of the statements of cash flows, the Port considers all cash and investments pooled with the City of Los Angeles, California, plus any other cash deposits or investments with initial maturities of three months or less, to be cash and cash equivalents.

(Continued)

Pension Plan – All full-time employees of the Port are eligible to participate in the City Employees' Retirement System of the City of Los Angeles, California (the System), a plan available to substantially all City of Los Angeles full-time employees. The Port's policy is to fund its entire share of System pension costs billed by the City. The costs to be funded are determined annually as of July 1 by the System's actuary and are incorporated into the payroll burden rate to reimburse the City for the Port's pro rata share of contributions made (see note 9).

Capital Contributions – The Port receives grants for the purpose of acquisition or construction of property and equipment. These grants are recorded as capital contributions when the grant is earned. Grants are generally earned upon expenditure of funds.

Use of Estimates – The preparation of financial statements in conformity with 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 the amounts reported in 2002 in order to conform to the 2003 presentation. Such reclassifications had no effect on previously reported results of operations.

(2) Cash and Investments

(a) Cash and Pooled Investments

Substantially all of the Port's operating cash is deposited with the City Treasurer and is invested in short-term investments under the City Treasurer's pooled investment program. The California Government Code authorizes the City to invest in obligations of the U.S. Treasury, federal agencies, municipalities, certain commercial paper, bankers' acceptances, and repurchase and reverse repurchase agreements, up to certain specified allowable percentages.

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

	2003	2002
Cash in bank and certificates of deposit	$ 4,259	2,311
Investment in U.S. Treasury money market fund	117	99,873
Equity in the City of Los Angeles Investment Pool	177,343	159,076
Total cash and investments	$ 181,719	261,260

(Continued)

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

	2003	2002
Unrestricted cash and investments	$ 84,499	74,151
Restricted cash and investments:		
Current:		
Earthquake/Disaster Fund	82,463	78,000
Owner-Controlled Insurance Program	500	500
Other	5,463	352
	88,426	78,852
Noncurrent:		
Harbor Revenue Bond Fund	95	99,895
Commercial Paper Redemption Fund	22	—
Customer security deposits	2,061	2,033
Batiquitos Environmental Fund	4,948	4,673
Harbor Restoration Fund	462	450
Marina Credit Fund	1,206	1,206
	8,794	108,257
Total restricted cash and investments	97,220	187,109
Total cash and investments	$ 181,719	261,260

(b) Deposits

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to $4,259,335 and $2,310,511 at June 30, 2003 and 2002, respectively, with a corresponding bank balance of $4,018,156 and $2,105,310, respectively. The deposits are entirely covered by federal depository insurance or are collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

(c) City of Los Angeles Investment Pool

The Port's equity in the City of Los Angeles Investment Pool is not required to be categorized. However, investments in the City of Los Angeles Investment Pool are categorized by the City to provide an indication of the level of holding risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. At June 30, 2003 and 2002, substantially all of the City's investments were classified in Category 1 type investments or were not required to be categorized.

(d) City of Los Angeles Securities Lending Program

The Port participates in the City of Los Angeles securities lending program. Under this program, the City lends investment securities to broker-dealers for collateral that will be returned for the same securities in the future. These activities are governed by a contractual agreement with the City's bank limiting the nature and amount of transactions subject to full collateralization. Collateral securities are initially pledged at 102% of the fair value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 101.5% of the fair value of the securities lent. Under the City's program, no more than 20% of the par value of the City's General Investment Pool shall be available for lending. Total cash collateral received by the City was $702,382,993 and $577,051,613 at June 30, 2003 and 2002, respectively. No noncash collateral was received by the City at June 30, 2003. Net revenues earned by the City on its securities lending program totaled $699,395 and $731,564 for the years ended June 30, 2003 and 2002, respectively. The Port's share of cash collateral received and corresponding liability aggregated approximately $12,956,077 and $10,871,988 at June 30, 2003 and 2002, respectively.

(e) Other Investments

Other investments of $117,156 and $99,872,949 at June 30, 2003 and 2002, respectively, consist of investments in a U.S. Treasury securities money market fund. At June 30, 2003 and 2002, these investments were not required to be categorized.

(Continued)

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
A COMPONENT UNIT OF THE CITY OF LOS ANGELES, CALIFORNIA

Notes to Basic Financial Statements

June 30, 2003 and 2002

(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2003 and 2002 (in thousands of dollars):

	July 1, 2002	Increases	Decreases	June 30, 2003
Capital assets not being depreciated:				
Land	$ 739,483	43,494	(585)	782,392
Construction in progress	492,562	231,834	(89,139)	635,257
Preliminary costs – capital projects	248,188	51,281	(51,906)	247,563
Total capital assets not being depreciated	1,480,233	326,609	(141,630)	1,665,212
Capital assets being depreciated/amortized:				
Wharves and sheds	439,029	592	—	439,621
Buildings/facilities	1,159,551	38,263	(431)	1,197,383
Equipment	41,349	3,425	(966)	43,808
Total capital assets being depreciated/amortized	1,639,929	42,280	(1,397)	1,680,812
Less accumulated depreciation/amortization for:				
Wharves and sheds	(183,578)	(13,522)	—	(197,100)
Buildings/facilities	(439,558)	(43,425)	—	(482,983)
Equipment	(30,236)	(2,418)	885	(31,769)
Total accumulated depreciation	(653,372)	(59,365)	885	(711,852)
Total capital assets being depreciated/amortized, net	986,557	(17,085)	(512)	968,960
Total capital assets, net	$ 2,466,790	309,524	(142,142)	2,634,1720

(Continued)

Interest expense of $988,000 was capitalized for 2003. No interest was capitalized for 2002.

	July 1, 2001	Increases	Decreases	June 30, 2002
Capital assets not being depreciated:				
Land	$ 753,413	—	(13,930)	739,483
Construction in progress	252,977	239,588	(3)	492,562
Preliminary costs – capital projects	175,827	72,400	(39)	248,188
Total capital assets not being depreciated	1,182,217	311,988	(13,972)	1,480,233
Capital assets being depreciated/amortized:				
Wharves and sheds	438,850	179	—	439,029
Buildings/facilities	1,166,292	—	(6,741)	1,159,551
Equipment	23,529	18,244	(424)	41,349
Total capital assets being depreciated/amortized	1,628,671	18,423	(7,165)	1,639,929
Less accumulated depreciation/amortization for:				
Wharves and sheds	(170,037)	(13,541)	—	(183,578)
Buildings/facilities	(395,946)	(43,612)	—	(439,558)
Equipment	(28,040)	(2,527)	331	(30,236)
Total accumulated depreciation	(594,023)	(59,680)	331	(653,372)
Total capital assets being depreciated/amortized, net	1,034,648	(41,257)	(6,834)	986,557
Total capital assets, net	$ 2,216,865	270,731	(20,806)	2,466,790

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(4) Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint exercise of powers agreements and a shareholders' agreement as follows:

(a) Intermodal Container Transfer Facility Joint Powers Authority

The Port and the Harbor Department of the City of Long Beach, California (Port of Long Beach) 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 Port contributed $2,500,000 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 Port appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53,915,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52,315,000 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 $42,915,000 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, the Port of Los Angeles, or the Port of Long Beach.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those acts necessary for the development of its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's operations and assets, liabilities, and equity at June 30, 2003 and 2002 is $6,000,000 and $6,283,000, respectively.

Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

(b) Alameda Corridor Transportation Authority

In August 1989, the Port and the Port of Long Beach 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

(Continued)

the Santa Monica Freeway and the Ports of Los Angeles and Long Beach in San Pedro Bay linking the two ports to the central Los Angeles area. The Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

During fiscal year 1995, the Port and the Port of Long Beach purchased railroad rights-of-way and other assets totaling approximately $370 million along the proposed corridor route. At June 30, 1998, the Port had advanced a total of $13,334,000 to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Port for all amounts advanced plus approximately $3.2 million of interest on such advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Port for approximately $81.7 million of capital assets directly related to the ACTA's mission, which the Port had previously included in construction in progress. Of the capital assets transferred, approximately $22.2 million had been funded by capital grants, which the Port had previously included in contributions/land valuation equity. The Port's share of the ACTA's operations, and assets, liabilities, and equity at June 30, 2003 and 2002 is immaterial to the accompanying basic financial statements.

Separate financial statements for ACTA may be obtained from the Controller, Alameda Corridor Transportation Authority, One Civic Plaza Drive, Suite 650, Carson, California 90745.

(c) Los Angeles Export Terminal, Inc.

On April 12, 1993, the Port entered into a shareholders' agreement which formed the Los Angeles Export Terminal, Inc. (LAXT) for the purpose of financing, constructing, and managing a dry bulk handling facility for the export of coal, petroleum coke, and related products on land leased by permit from the Port.

The Port has contributed $19,000,000 to LAXT as part of the agreement. Such contribution represents a 13.2% share of the total committed capital of $143,174,231. This capital was raised from the shareholders through a purchase of stock in LAXT. The Port's investments totaled $19,000,000 at June 30, 2003 and 2002, respectively. The Port has the right to nominate two directors to a 19-member board of directors. As of June 30, 1998, the terminal began operating under a long-term lease agreement with a terminal manager/operator.

In June 2003, LAXT loaded the last coal vessel thereby ceasing the coal operations at the facility. Due to these circumstances, the Port has set aside $19,000,000 as 100% investment loss reserve for its share of equity participation in the LAXT.

Separate financial statements for LAXT may be obtained from the General Manager of LAXT, Post Office Box 1769, San Pedro, California 90733.

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(5) Long-Term Debt

A summary of the Port's long-term indebtedness is as follows.

(a) Bonds Payable

1995 Bonds

The Revenue Bonds, Issue of 1995 Series A and Series B (the 1995 Bonds), were issued by the Harbor Department of the City of Los Angeles in the aggregate principal amount of $200,000,000 on January 1, 1995. Proceeds from the sale of these insured 1995 Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to redeem at maturity certain short-term revenue certificates previously issued by the Port, and to pay certain costs of issuance in connection with the 1995 Bonds.

Interest on the 1995 Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 1995, with principal payments commencing August 1, 1996. The 1995 Bonds, which mature in 2025, bear interest at rates ranging from 5.800% to 6.625%. The 1995 Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles.

In fiscal year 1997, the Port issued $21,350,000 of 1996 Revenue Bonds, Series C to defease the $19,750,000 of outstanding 1995 Series A bonds. On August 1, 2002, all remaining 1995 Series A Bonds were redeemed.

On July 11, 2001, the Port issued Harbor Revenue Bonds of $36,189,000, Series A Bonds (2001 A Refunding Bonds) to provide funds to advance refund, on a crossover basis, $33,330,000 of the 1995 B Bonds and the Port also issued Harbor Revenue Bonds, of $64,925,000, Series B Bonds (2001B Refunding Bonds) to provide funds to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters. The Port issued The Harbor Revenue Bonds, of $63,520,000, Series A Bonds (2002 A Refunding Bonds) on May 6, 2002 on a crossover basis, to refund $64,110,000 of the outstanding 1995 Series B Bonds on a forward-delivery basis and to provide funds (together with the 2001 A Refunding Bonds) to currently refund the 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of the 1995 Series B Bonds maturing on August 1, 2002 and 2003. The balance outstanding on the 1995 Series B Bonds, net of unamortized discount of $0 and $618,854, is $3,300,000 and $103,231,146 at June 30, 2003 and 2002, respectively.

The remaining debt service of the Port's 1995 Series B Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
Outstanding debt service:			
2004	$ 3,300	99	3,399

1996 Series A Bonds

The Revenue Bonds, Issue of 1996 (the 1996 Series A Bonds), were issued by the Port of the City of Los Angeles in the aggregate principal amount of $300,000,000 on April 23, 1996. Proceeds from the sale of these insured 1996 Series A Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to redeem at maturity certain short-term revenue certificates previously issued by the Port, and to pay certain costs of issuance in connection with the 1996 Series A Bonds.

Interest on the 1996 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 1996, with principal payments commencing August 1, 1997. The 1996 Series A Bonds, which mature in 2026, bear interest ranging from 5% to 6.25%. The term bonds are subject to mandatory early redemption. The bonds maturing on or after August 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after August 1, 2008 are subject to optional redemption without an early redemption premium.

The 1996 Series A Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balance outstanding on the 1996 Series A Bonds, net of unamortized discount of $1,432,353 and $1,495,314, is $271,177,647 and $276,269,686 at June 30, 2003 and 2002, respectively.

(Continued)

Debt service of the Port's 1996 Series A Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2004	$ 5,420	16,232	21,652
2005	5,700	15,951	21,651
2006	6,000	15,650	21,650
2007	6,325	15,327	21,652
2008	6,675	14,975	21,650
2009 – 2013	39,705	68,543	108,248
2014 – 2018	53,480	54,76	108,245
2019 – 2023	72,620	35,634	108,254
2024 – 2027	76,685	9,914	86,599
Subtotal	272,610	246,991	519,601
Unamortized discount	(1,432)	—	(1,432)
Total	$ 271,178	246,991	518,169

1996 Series B and C Bonds

The Revenue Bonds, Issue of 1996 Series B and Series C (1996 Series B and C Bonds), were issued by the Port of the City of Los Angeles in the aggregate principal amount of $320,000,000 on December 4, 1996. Proceeds from the sale of these insured 1996 Series B and C Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to pay certain costs of issuance in connection with the 1996 Series B and C Bonds, and to advance refund the outstanding balance of the 1995 Series A Bonds.

Interest on the 1996 Series B and C Bonds is payable semiannually on May 1 and November 1 of each year commencing May 1, 1997, with principal payments commencing November 1, 1997. The 1996 Series B and C Bonds consist of serial and term bonds maturing in amounts ranging from $340,000 to $21,960,000 at rates ranging from 4.875% to 6.25%. The 1996 Series B Bonds mature on November 1, 2026 and the 1996 Series C Bonds mature on November 1, 2025. The term bonds are subject to mandatory early redemption. The bonds maturing on or after November 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after November 1, 2008 are subject to optional redemption without an early redemption premium.

The 1996 Series B and C Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balance outstanding on the 1996 Series B and C Bonds, net of unamortized discount of $827,581 and $862,923 and unamortized deferred amount on refunding of $917,093 and $956,257 is $315,935,326 and $316,290,820 at June 30, 2003 and 2002, respectively.

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The $21,350,000 of 1996 Series C Bonds with an average interest rate of 5.29% was issued to advance refund $19,750,000 of outstanding 1995 Series A Bonds with an average interest rate of 6.21%. The net proceeds of $21,129,000 (after payment of $155,000 of underwriters' fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the escrow agent to provide for all future debt service payments on the 1995 Series A Bonds. As a result, the 1995 Series A Bonds are considered defeased and the liability for those bonds has been removed from the accompanying basic financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series A Bonds of $1,175,000. This difference, reported in the accompanying basic financial statements as a deduction from bonds payable, is being charged to operations through 2025 using the straight-line method. The Port advance refunded the 1995 Series A Bonds to reduce its total debt service payments over the next 27 years by almost $1,755,000 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of $1,209,000.

Debt service of the Port's 1996 Series B and C Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2004	$ 6,765	17,328	24,093
2005	7,125	16,965	24,090
2006	7,500	16,583	24,083
2007	7,905	16,181	24,086
2008	8,325	15,757	24,082
2009 – 2013	48,840	71,566	120,406
2014 – 2018	63,730	56,619	120,349
2019 – 2023	83,330	37,009	120,339
2024 – 2027	84,160	10,657	94,817
Subtotal	317,680	258,665	576,345
Unamortized deferred amount on refunding of 1995 Series A	(917)	—	(917)
Unamortized discount	(828)	—	(828)
Total	$ 315,935	258,665	574,600

2001 Series A Refunding Bonds

On July 11, 2001, the Department issued Harbor Revenue Bonds, of $36,180,000, Series A Refunding Bonds (2001 A Refunding Bonds) to provide funds to advance refund, on a crossover basis, $33,330,000 of the 1995 B Bonds. Interest on the 2001 A Refunding Bonds is payable

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semiannually on February 1 and August 1 of each year commencing February 1, 2002, with principal payments commencing annually on August 1, 2022. The 2001 A Refunding Bonds, which mature in 2025, bear interest at a rate of 5.0%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without an early redemption premium.

The 2001 A Refunding Bonds are secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture until the crossover date of August 1, 2002. The balance outstanding on the 2001 A Refunding Bonds, net of unamortized discount of $1,126,615 and $1,177,825 and unamortized deferred amount on refunding of $1,026,450 and $0, is $34,026,934 and $35,002,175 at June 30, 2003 and 2002, respectively.

Debt service of the Port's 2001 A Refunding Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2004	$ —	1,809	1,809
2005	—	1,809	1,809
2006	—	1,809	1,809
2007	—	1,809	1,809
2008	—	1,809	1,809
2009 – 2013	—	9,045	9,045
2014 – 2018	—	9,045	9,045
2019 – 2023	1,090	9,018	10,108
2023 – 2026	35,090	2,689	37,779
Subtotal	36,180	38,842	75,022
Unamortized deferred amount on refunding of 1995 Series B	(1,026)	—	(1,026)
Unamortized discount	(1,127)	—	(1,127)
Total	$ 34,027	38,842	72,869

2001 Series B Bonds

The Department issued the Harbor Revenue Bonds, of $64,925,000, Series B Bonds (2001 B Refunding Bonds) to provide funds to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters.

Interest on the 2001 B Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on February 1, 2002, with principal payments commencing annually on August 1, 2015. The 2001 B Refunding Bonds, which mature in 2022, bear interest at rates ranging from 5.25% to 5.50%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without an early redemption premium.

The balance outstanding on the 2001 B Refunding Bonds, net of unamortized premium of $984,508 and $1,036,324 and unamortized deferred amount on refunding of $4,063,823 and $3,547,603, is $61,845,685 and $62,413,722 at June 30, 2003 and 2002, respectively.

Debt service of the Port's 2001 B Refunding Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2004	$ —	3,547	3,547
2005	—	3,547	3,547
2006	—	3,547	3,547
2007	—	3,547	3,547
2008	—	3,547	3,547
2009 – 2013	—	17,735	17,735
2014 – 2018	18,365	16,523	34,888
2019 – 2023	46,560	6,456	53,016
Subtotal	64,925	58,449	123,374
Unamortized deferred amount on refunding of 1995 Series B	(4,064)	—	(4,064)
Unamortized premium	985	—	985
Total	$ 61,846	58,449	120,295

2002 Series A Bonds

The Harbor Revenue Bonds, of $63,520,000, Series A Bonds (2002 A Refunding Bonds) were issued on May 6, 2002 on a crossover basis, to refund $64,110,000 of the outstanding 1995 Series B Bonds on a forward-delivery basis and to provide funds to currently refund the 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of 1995 Series B Bonds maturing on August 1, 2002 and 2003.

Interest on the 2002 A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2002, with principal payments commencing annually on August 1, 2004. The 2002 A Refunding Bonds, which mature in 2015, bear interest at a rate of 5.50%. The bonds maturing on or after August 1, 2012 are subject to optional redemption without an early redemption premium.

The 2002 A Refunding Bonds are secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture. The balance outstanding on the 2002 A Refunding Bonds, net of unamortized premium of $2,178,544 and $2,358,837 and unamortized deferred amount on refunding of $1,870,379 and $0, is $63,828,165 and $65,878,837 at June 30, 2003 and 2002, respectively.

Debt service of the Port's 2002 A Refunding Bonds is as follows (in thousands):

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2004	$ —	3,495	3,495
2005	4,035	3,383	7,418
2006	4,255	3,155	7,410
2007	4,495	2,914	7,409
2008	4,740	2,660	7,400
2009 – 2013	27,895	8,976	36,871
2014 – 2016	18,100	1,391	19,491
Subtotal	63,520	25,974	89,494
Unamortized deferred amount on refunding of 1995 Series B	(1,870)	—	(1,870)
Unamortized premium	2,178	—	2,178
Total	$ 63,828	25,974	89,802

On August 1, 2002, the refunding of 1995 B Bonds was completed and resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series B Bonds of $3,818,649. The difference is prorated to 2001 A Bonds, 2001 B Bonds, and 2002 A Bonds based on the face value. They are reported in the above accompanying basic financial statements as a deduction from bonds payable and charged to operations through 2025 using the straight-line method. As a result of the refunding, the Port in effect reduced its aggregate debt service payments by approximately $22,307,000 over the next 24 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $12,633,000.

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(b) Other Long-Term Debt

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes not to exceed $375,000,000 as a means of interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. The Port intends to refinance the commercial paper on a long-term basis by uninterrupted renewal of the commercial paper and future issuance of revenue bonds. Rates vary on the commercial paper from 0.80% to 1.65% during the fiscal year ended June 30, 2003. Due dates also vary but normally they are less than 270 days from the issue dates. As of June 30, 2003 and 2002, the Port's commercial paper outstanding was $92,002,000 and $21,000,000, respectively.

California Department of Boating and Waterways

The Port obtained two loans aggregating $8,000,000 from the California Department of Boating and Waterways. The notes currently bear interest at 4.5%. The Port makes annual payments of interest and principal and the notes will mature in 2014 and 2015, respectively. The notes are secured by the future revenues of the Port and do not constitute a general obligation of the City of Los Angeles. The balance outstanding on such notes is $5,225,607 and $5,567,534 at June 30, 2003 and 2002, respectively.

Debt service of the Port's indebtedness is as follows (in thousands):

Fiscal year	Principal	Interest	Total
2004	$ 357	235	592
2005	373	219	592
2006	390	202	592
2007	408	185	593
2008	426	166	592
2009 – 2013	2,437	527	2,964
2014 – 2015	835	51	886
Total	$ 5,226	1,585	6,811

Ports O' Call Restaurant Corporation

In May 1999, a judgment was rendered and settlement reached in a case involving the City of Los Angeles vs. the Ports O' Call Restaurant Corporation, whereby the City took back a portion of the Ports O' Call properties controlled by Ports O' Call Restaurant Corporation. The judgment provided that the City (Port of Los Angeles) pay the note balance of $3.8 million to Ports O' Call Restaurant Corporation for leasehold interests in one parcel at the note value on or before June 30, 2004.

The $3.8 million face amount of the note is reduced by any increase in minimum annual guarantee over $346,000 per year. Any adjustment made at a date, other than the start of the compensation period (July 1 through June 30), will be prorated for the period effective. Simple interest is applied at 5.5% for the first three years of the term of the note and interest at prime rate applied for the last two years. Interest will be prorated for any partial year in which the note is retired. The leasehold interest purchased (deferred expenses) is amortized over the term of the note (five years).

At June 30, 2003 and 2002, the note payable totaled $4,661,053 and $4,462,117, respectively.

(c) *Prior Years' Defeasance of Debt*

In December 1989, June 1993, and December 1996, the Port defeased its outstanding Harbor Revenue Bond indebtedness issues of 1985, 1988, and 1995 Series A, aggregating $33,800,000, $131,960,000, and $19,750,000, respectively. Such debt was defeased through the establishment of irrevocable escrow funds with a major financial institution. Monies placed in trust, when considered with interest to be earned thereon, will be sufficient to make required debt service payments through the earliest possible debt retirement dates. Accordingly, the liability for those bonds has been removed from the accompanying basic financial statements. On August 1, 2002, all 1995 Series A Bonds were redeemed.

The remaining bonds to be redeemed by the trusts at June 30, 2003 and 2002 were as follows (in thousands):

		2003	2002
1988 Bonds	$	105,815	109,235
1995 Series A Bonds		—	18,225
Total	$	105,815	127,460

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(d) *Changes in Long-Term Liabilities*

Long-term liability activity for the years ended June 30, 2003 and 2002 was as follows (in thousands):

		July 1, 2002	Additions	Reductions	June 30, 2003	Due within one year
Revenue bonds payable	$	864,350	—	(106,135)	758,215	15,485
Less unamortized discount/premium		(760)	—	536	(224)	—
Unamortized deferred amount on refunding		(4,504)	(3,590)	217	(7,877)	—
Total revenue bonds payable		859,086	(3,590)	(105,382)	750,114	15,485
Notes payable		10,030	199	(342)	9,887	5,018
Commercial paper		21,000	391,624	(320,622)	92,002	—
Deferred revenue and other deferred credit		3,119	—	—	3,119	—
Accrued employee benefits		11,136	—	(1,015)	10,121	306
Other liabilities (note 7)		40,926	81,997	(52,446)	70,477	22,497
Total long-term liabilities	$	945,297	470,230	(479,807)	935,720	43,306

		July 1, 2001	Additions	Reductions	June 30, 2002	Due within one year
Revenue bonds payable	$	768,825	164,625	(69,100)	864,350	8,695
Less unamortized discount/premium		(3,077)	2,248	69	(760)	—
Unamortized deferred amount on refunding		(996)	(3,725)	217	(4,504)	—
Total revenue bonds payable		764,752	163,148	(68,814)	859,086	8,695
Notes payable		10,124	233	(327)	10,030	342
Commercial paper		—	21,000	—	21,000	—
Deferred revenue and other deferred credit		3,119	—	—	3,119	—
Accrued employee benefits		9,581	1,555	—	11,136	498
Other liabilities (note 7)		30,217	14,962	(4,253)	40,926	1,515
Total long-term liabilities	$	817,793	200,898	(73,394)	945,297	11,050

(6) 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 the Port and its employees participate, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City, except for a catastrophic circumstance creating an undue financial hardship for the employee.

As a result of changes to Section 457 deferred compensation plans resulting from the Small Business Job Protection Act of 1996, the City's deferred compensation plan administrator established a custodial account on behalf of the plan participants. 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.

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.

(7) Risk Management

The Port purchases insurance on certain risk exposures such as automobiles, fleet, pilotage, wharfinger, kidnap, and public official. The Port is, however, self-insured for general liability/litigation-type claims and workers' compensation of the Port's employees. In addition, the Port carries excess insurance on certain claims over $1,000,000. There have been no settlements related to these programs that exceeded insurance coverage in the last three years.

Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The Port utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities. At June 30, 2003 and 2002, approximately $16,789,000 and $32,376,000, respectively, were accrued for litigation claims and workers' compensation claims, which are included in other liabilities in the accompanying statements of net assets.

Changes in the reported liability since June 30, 2002 are as follows (in thousands):

	Beginning liability	Current year claims and estimate changes	Claim payments	Balance at fiscal year end
2002 - 2003:				
Workers' compensation	$ 4,365	835	1,268	3,932
Litigation	28,011	(13,153)	2,001	12,857
2001 - 2002:				
Workers' compensation	3,910	1,500	1,045	4,365
Litigation	19,049	12,170	3,208	28,011

(8) Leases, Rentals, and Revenue Sharing Agreements

A substantial portion of the harbor lands and facilities is 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.

These lease agreements are intended to be long term in nature (as long as 30 years) and to provide the Port with a firm tenant commitment for a minimum fixed income stream. Many agreements also provide for additional payment beyond the fixed portion, based upon tenant usage, revenues, or volume. These agreements are also generally subject to periodic inflationary escalation of base amounts due the Port. For the years ended June 30, 2003 and 2002, revenues from such agreements aggregated approximately $195,542,875 and $176,025,558, respectively.

The property on lease at June 30, 2003 consists of the following (in thousands of dollars):

Wharves and sheds	$	439,621
Cranes and bulk facilities		63,818
Municipal warehouses		11,606
Port pilot facilities and equipment		5,111
Buildings and other facilities		462,449
Cabrillo Marina		35,430
		1,018,035
Less accumulated depreciation		(479,726)
Total	$	538,309

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 of dollars):

Year ending June 30:		
2004	$	209,707
2005		210,693
2006		211,454
2007		211,670
2008		212,461
Total	$	1,055,985

(9) Retirement Plan

(a) Plan Description

All full-time employees of the Port are eligible to participate in the Los Angeles City Employees' Retirement System (the System), a single-employer defined benefit public employee retirement system (PERS). The System is under the management and control of the System's Board of Administration, whose authority is granted by the City Charter (Article XI). The System is an independent department of the City and its financial statements are included in the City's Comprehensive Annual Financial Report as a retirement trust fund. The Port makes contributions to the System for its pro rata share of retirement costs attributable to its employees. The total payroll for

(Continued)

Port employees covered by the System for the years ended June 30, 2002, 2001, and 2000 was \$37,181,000, \$35,276,000, and \$34,478,000, respectively (2.9%, 2.9%, and 3.1% of total System-covered payroll in 2002, 2001, and 2000, respectively); the Port's total payroll for 2002, 2001, and 2000 was \$41,199,000, \$39,043,000, and \$37,561,000, respectively.

The System provides retirement, disability, and death benefits 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. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have 30 or more years of service and are age 55 or older. Employees age 70 or above may retire at any time with no required minimum period of service. The System does not have a mandatory retirement age and none of the Port's employees are required to contribute to the System under state statute.

Covered employees contribute to the System at a rate established through the collective bargaining process for those whose membership began prior to February 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after February 1, 1983. The City contributes the remaining amounts necessary to pay benefits when due, as determined by the actuarial consultant of the System. Amounts charged to the Port by the City for its pro rata share of actuarially determined contributions to the System were \$2,308,581, \$2,679,504, and \$1,909,358 for the years ended June 30, 2002, 2001, and 2000, respectively, representing 6.2%, 7.2%, and 5.4% of the Port's covered payroll for the respective years and 7.1%, 4.5%, and 2.8% of total System employer contributions, respectively.

(b) Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the fund to which contributions are made on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used. The System does not make separate measurements of assets and pension benefit obligation for individual entities of the City.

(Continued)

The pension benefit obligation has been computed for the System as a whole as part of an actuarial valuation performed as of June 30, 2001, the date of the latest actuarial valuation of System pension benefits, but reflects all plan amendments adopted through June 30, 2002. The valuation was performed using the projected-unit-credit-cost method using the following significant actuarial assumptions:

- A rate of return on the investment of present and future assets of 8% per year compounded annually
- Annual cost-of-living increases of 3% for retirees
- Total annual payroll increases of 4%
- Annual salary increases for individuals that vary by age averaging 4% per year over a full 30-year career.

The total unfunded pension benefit obligation applicable to the System as a whole was $191,930,000 at June 30, 2002, as follows (in thousands):

Total pension benefit obligation	$	7,252,118
Actuarial value of available plan assets		7,060,188
Unfunded pension benefit obligation	$	191,930

(c) *Actuarially Determined Contribution Requirements and Contributions Made*

The System's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined primarily by using the projected-unit-credit-cost method to amortize the unfunded actuarial accrued liability over the period ending June 30, 2010. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are essentially the same as those used to compute the pension benefit obligation.

Total annual pension costs for the City were $32,296,000, $59,153,000, and $72,146,277 for the years ended June 30, 2002, 2001, and 2000, respectively, representing 100% of annual required contributions for each year.

Other contribution information and ten-year historical trend information can be found in the System's Comprehensive Annual Financial Report. This CAFR can be obtained from the Los Angeles City Employees' Retirement System (LACERS), 360 E. Second Street, 8th Floor, Los Angeles, California 90012.

(d) Required Supplemental Information (Unaudited)

The following represents the Los Angeles City Employees' Retirement System Schedule of Funding Progress, separate information for the Port of Los Angeles was not available (in thousands of dollars):

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded (overfunded) AAL	Funded ratio	Covered payroll	Overfunded AAL as a % of covered payroll
2002	$ 7,252,118	7,060,188	191,930	97.4%	$ 1,334,335	14.4%
2001	6,468,066	6,988,782	(520,716)	108.1	1,293,350	(40.3)
2000	6,012,931	6,561,365	(548,434)	109.1	1,182,203	(46.4)

(e) Other Postemployment Benefits

The Port, as a participant in the System, 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 this 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. The contributions to the health care subsidy represent approximately 46% of total actuarially determined City contributions to the System for 2002. Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

At June 30, 2002, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total unfunded health benefit subsidy applicable to the System as a whole was approximately $78,048,000 as follows (in thousands):

Total health benefit liability	$ 931,964
Reserve for health benefits	853,916
Unfunded benefit liability	$ 78,048

(10) Notes Receivable

(a) City of Los Angeles Settlement

In 1994, the City of Los Angeles undertook a series of studies to determine whether or not the Port received services from the City of Los Angeles 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 of Los Angeles 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 Harbor's jurisdiction.

(Continued)

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 Board of Harbor Commissioners adopted a resolution providing for the reimbursement to the City of Los Angeles of certain expenditures incurred by the City on behalf of the Port, but which had never been inclusively billed by the City to the Port. Under its resolution, the Board authorized the Port to make, and the Port paid to the City, two annual payments of $20,000,000 for the 1994/95 and 1995/96 fiscal years. The Board further authorized the Executive Director to negotiate additional amounts as may be determined to be due, and accordingly, a memorandum of understanding with the City was executed on June 27, 1997 (1997 MOU).

The California State Lands Commission is responsible for oversight of the State's Tideland Trust Lands. This Commission, together with the State Office of 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 State Tidelands Trust Land laws. Prior to the adoption of the above-referenced resolution, the State Lands Commission officials and the Attorney General requested the Board of Harbor Commissioners to postpone any decision involving these trust funds until an inquiry into the studies and transfers could be completed by the California State Lands Commission and Office of Attorney General. Subsequently, various organizations, including the Steamship Association of Southern California, which represents carriers using the Port, together with the California State Lands Commission and Office of Attorney General, have brought legal action against the City and Port regarding the Board of Harbor Commissioners' action.

On January 19, 2001, the City of Los Angeles, along with the Port and the State Lands Commission, entered into a settlement and mutual release agreement to amicably 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 $53,400,000 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 1994-95 and fiscal year 2002-2003, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at $8,352,000. 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 State Lands Commission may negotiate to amend this agreement to account for new or changed circumstances.

(Continued)

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 during the period July 1, 1977 through June 30, 2002.

Accordingly, the Port of Los Angeles had recorded the amount due from the City of Los Angeles as a note receivable of $51,511,000 and $55,026,735 and a current portion of notes receivable of $3,516,000 and $3,412,374 as of June 30, 2003 and 2002, respectively.

(b) Note Receivable – LAXT

Since LAXT ceased its coal operations in June 2003, the Port has made 100% reserve to cover the potential loss of the $2,000,000 in note receivable from LAXT. This $2,000,000 represents the unpaid 2001 MAG shortfall, of which $1,000,000 became current as of June 30, 2003 (see note 4).

(c) Note Receivable – Yusen

In order to settle the then outstanding $2,350,867 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 $106,857. To book accounting entries, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1,476,887, with the balance of $873,980 recognized as the Port's fixed assets in FY 1995. The note matures in October 2015. The balance outstanding on the Yusen note is $1,003,769 and $1,057,739 at June 30, 2003 and 2002, respectively.

(11) Special Item

In June 2002, the Port completed a restructure of the 1993 Refunding Escrow established for the defeasance of the 1988 Revenue Bonds. As a result of the restructuring, there was an excess flow of funds of $2,177,832 released to the Port which was classified as special item at June 30, 2002.

(12) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $649,198,263 as of June 30, 2003. 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 $14,000,000 from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to $14,000,000 from excess revenues, if any, generated from marina operations, after the Port has recovered all costs of construction. No such payments were made in 2003 or 2002.

The Port has certain operating leases whose future minimum payments are insignificant.

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.

Alameda Corridor Transportation Authority Agreement

In 1998, the Ports of Los Angeles and Long Beach (Ports), Alameda Corridor Transportation Authority (ACTA), and the railroads which will operate on the corridor entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroads, after completion of construction, to pay certain Use Fees and container charges which ACTA will assess for the privilege of using the corridor to transport cargo into and out of the Ports. These Use Fees will be used to pay (a) the debt service which ACTA incurs on approximately $1.2 billion of bonds which ACTA issued in early 1999 and on a $400 million loan which ACTA has received or will receive from the United States Department of Transportation (DOT) which may reach a loan balance of about $900 million with accrued interest depending on the level and timing of ACTA revenues received and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebated requirements, if any. The Use Fees end after 35 years or sooner if 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 20% of the shortfall on an annual basis. If this contingency occurs, the Port payments to ACTA are intended to ensure that the Corridor is available to maintain continued cargo movement through the Ports. Annual shortfall payments by the Port to ACTA, if required, are estimated to range from $20,000 to $12.7 million per year from fiscal year 2002 through 2018. Completion of the Corridor, and therefore, the amount and timing of the Port's obligation to make shortfall payments, is subject to a variety of risks and contingencies. In addition, the Corridor Agreement obligates the Port to pay up to $2 million per year for each of the first nine years after the Corridor is substantially completed to be used for an ACTA capital and expense reserve fund if monies payable to this reserve fund by the railroads do not maintain an annual reserve fund balance of $15 million per year. The Corridor Agreement allows the Port to make certain payments to ACTA if ACTA revenues do not cover ACTA administrative expenses. Port payments to ACTA to cover such administrative expenses are estimated to range from $155,000 to $760,000 per year for the period 2002 through 2019. Any shortfall advance made by the Port is reimbursable with interest subject to the priority of payments ordered in the Corridor Agreement. The agreement subordinates repayment of shortfall advances to principal and interest payment on debt issued and loans received for construction of the Corridor, operating and maintenance reserve account funding, subordinate lien revenue bonds, ACTA administrative expenses, and property assembly reimbursements. The construction of the Corridor was completed in April 2002.

(Continued)

(13) Related Party Transactions

During the normal course of business, the Port is charged for services and benefits provided and use of land owned by the City of Los Angeles, the most significant of which is related to fire protection, water and power, City retirement system contributions, and other employee benefits. Total amounts charged by the City for services approximate $44,454,000 and $36,112,000 in fiscal years 2003 and 2002, respectively.

(14) Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related expenditures are recorded as capital contributions. During fiscal year 2003, the Port received reimbursement of $440,000 from FEMA to cover the Northridge earthquake damages and reimbursement of $296,000 from the California Coastal Conservancy for the work performed by the Port for the promenade in San Pedro. Under a grant from the Federal Transportation Security Administration, the Port had expended $650,000 during the year ended June 30, 2003 on the Container Inspection Facility project to improve security. During the year ended June 30, 2003, the Port reported total capital contributions of $1,386,000 and grant receivable of $2,671,000 in the accompanying statements of revenues, expenses, and changes in net assets.

During fiscal year 2002, the Port had actively expended on two capital projects, namely the Grade Separation and Pier 400-Intermodal Yard projects. By the end of the fiscal year, the Grade Separation project was completed, while the Pier 400-Intermodal Yard project was substantially completed. As these are projects subject to state and federal grant reimbursements, as of June 30, 2002, the Port had a grant receivable and a corresponding capital contribution of $17,203,000.

(15) Los Angeles Export Terminals

Los Angeles Export Terminals (LAXT) is a 120-acre dry bulk facility that handles coal and petroleum coke destined for Asia and the Americas. LAXT ownership is comprised of a coalition of 51% US firms involved in the coal chain and 49% Japanese utility, steel, and energy companies. Due to decline in demand for coal, LAXT ceased its coal operation during the Port of Los Angeles' FY 2003. Since LAXT's formation, the Port has made equity contributions of $19 million and total receivables due the Port from LAXT stand at $16.8 million.

Due to these circumstances, the Port has set aside a reserve of $19 million as a conservative planning measure in the event that the Port's $19 million investment is lost. The Port of Los Angeles has also set aside a $16.8 million reserve in the event that the receivables due from LAXT are lost.

(16) Natural Resources Defense Council Settlement Judgment

In March 2003, the Port of Los Angeles settled a lawsuit entitled: *Natural Resources Defense Council, Inc. vs. City of Los Angeles* regarding the environmental review of a Port project. The settlement calls for a total of $50 million in mitigation measures to be undertaken by the Port. This $50 million settlement liability has been charged as an expense as of June 30, 2003. The Port has also set up a restricted mitigation fund and has funded the first $10 million as called for in the settlement. Of this $10 million, $5 million has actually been disbursed from the fund as of June 30, 2003 to pay for designated uses.

PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
SCHEDULE OF REVENUE TONNAGE BILLED
Fiscal Years 2003 and 2002 (in thousands of metric revenue tons)
(Unaudited)

	FY 2003	FY 2002	Inc (Dec)	% Change
GENERAL CARGO				
Merchandise, NOS*	81,744	28,003	53,741	191.9
Bananas	88	268	(180)	(67.2)
Beer/Malt Liq. in Bottles/Cans	45	84	(39)	(46.4)
Bldg. Modules-Others	4	9	(5)	(55.6)
Cargo Vans, Merchandise	21,818	28,997	(7,179)	(24.8)
Cargo Vans, Empty	1,277	1,821	(544)	(29.9)
Coffee-Green in Bags	3	17	(14)	(82.4)
Fresh Fish	159	289	(130)	(45.0)
Fresh Fruits & Vegetables	419	450	(31)	(6.9)
Metals-Loose in Bundles	2,487	2,504	(17)	(0.7)
Liquids (Excluding Petroleum)	234	242	(8)	(3.3)
Lumber	6	13	(7)	(53.8)
Papers & Paper Products	54	74	(20)	(27.0)
U. S. Mails	1	4	(3)	(75.0)
Motor Vehicles	1,434	1,292	142	11.0
Vessel Stores	18	14	4	28.6
Meat	288	401	(113)	(28.2)
Appliances	9	22	(13)	(59.1)
Bicycles	358	702	(344)	(49.0)
Clothing, New NOS	3,620	5,066	(1,446)	(28.5)
Food or Food Prep. Cans/Bottles	392	832	(440)	(52.9)
Elec. Equip. LCL	5,869	9,121	(3,252)	(35.7)
Food or Food Prep. Dry/Deh	718	1,286	(568)	(44.2)
Footwear	94	130	(36)	(27.7)
Furniture NOS	496	567	(71)	(12.5)
House. Goods & Per. Effects	5,479	9,375	(3,896)	(41.6)
Motorcycles	50	118	(68)	(57.6)
Resins	737	1,407	(670)	(47.6)
Tires & Tubes	664	1,452	(788)	(54.3)
Specified Mdse in Vans, Etc.	7,271	12,242	(4,971)	(40.6)
Subtotal	135,836	106,802	29,034	27.2
Advance wharfage and accruals	(3,887)	266	(4,153)	1,561.3
TOTAL GENERAL CARGO	131,949	107,068	24,881	23.2
DRY BULK				
Bulk Coal, Coke, Etc.	2,937	4,907	(1,970)	(40.1)
Scrap Metal-Bulk	1,299	1,302	(3)	(0.2)
TOTAL DRY BULK	4,236	6,209	(1,973)	(31.8)
TOTAL GENERAL CARGO AND DRY BULK	136,185	113,277	22,908	20.2
PETROLEUM:				
Bulk Oil	5,219	6,643	(1,424)	(21.4)
Bunkers	1,846	2,048	(202)	(9.9)
Other Petroleum	4,291	4,233	58	1.4
TOTAL PETROLEUM	11,356	12,924	(1,568)	(12.1)
TOTAL REVENUE TONS BILLED	147,541	126,201	21,340	16.9

* Includes merchandises in containers where TEU pricing are used.

PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
REVENUE TONNAGE BY TRADE ROUTE

Fiscal Years 2003 and 2002

(Unaudited)

Fiscal Year 2003

Trade Routes	Inbound	Outbound	Total	% of Total Volume
Far East	83,796,881	47,507,078	131,303,959	89.0%
Domestic	5,643,384	4,527,187	10,170,571	6.9%
Australia & New Zealand	1,339,514	1,664,294	3,003,808	2.0%
W. Mexico, C. & W. S. America	1,895,519	350,047	2,245,566	1.5%
India, Persian Gulf & Red Sea	1,618,032	351,581	1,969,613	1.3%
Eastern South America	970,870	17,174	988,044	0.7%
Western Europe	825,586	56,835	882,421	0.6%
Caribbean	526,177	85,327	611,504	0.4%
Mediterranean	146,952	12,067	159,019	0.1%
Africa	88,113	6,101	94,214	0.1%
Total	96,851,028	54,577,691	151,428,719	102.6%
Advance Wharfage & Accruals			(3,887,459)	(2.6%)
Total	96,851,028	54,577,691	147,541,260	100.0%

Fiscal Year 2002

Trade Routes	Inbound	Outbound	Total	% of Total Volume
Far East	74,469,887	28,012,418	102,482,305	81.2%
Domestic	5,321,866	5,657,290	10,979,156	8.7%
Australia & New Zealand	1,325,833	1,907,007	3,232,840	2.6%
India, Persian Gulf & Red Sea	2,043,025	570,537	2,613,562	2.1%
W. Mexico, C. & W. S. America	1,619,649	712,817	2,332,466	1.8%
Western Europe	1,272,946	398,127	1,671,073	1.3%
Eastern South America	1,646,802	17,874	1,664,676	1.3%
Caribbean	560,583	114,960	675,543	0.5%
Mediterranean	108,763	96,926	205,689	0.2%
Africa	73,752	3,748	77,500	0.1%
Total	88,443,106	37,491,704	125,934,810	99.8%
Advance Wharfage & Accruals			265,984	0.2%
Total	88,443,106	37,491,704	126,200,794	100.0%

PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
FIVE-YEAR HIGHLIGHTS
(Unaudited)

	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Cash ($Millions)					
Cash Balance-Rev. Fund	**65.2**	60.2	201.2	166.5	142.9
Cash Balance-Restricted	**97.1**	87.2	82.7	77.3	73.5
Property ($Millions)					
Total Property	**3,346.0**	3,120.2	2,810.9	2,675.5	2,576.8
Allowances for Depreciation	**711.8**	653.4	594.0	535.0	480.1
Net Property	**2,634.2**	2,466.8	2,216.9	2,140.5	2,096.7
Construction and Maintenance ($Millions)					
Additions to Properties	**381,005**	304,854	145,264	542.3	263.9
Maintenance Expenses	**15.2**	13.4	12.4	13.1	12.3
Employees					
Salaries Paid	**43.9**	41.2	39.0	37.5	38.5
Number of Employees	**594**	557	542	541	577
Bonds					
Bonding Capacity ($000s)**	**1,156,966**	1,510,978	1,484,202	1,574,000	1,579,00
Bond Coverage Ratio	**3.1**	3.8	3.8	3.3	3.0

KEY STATISTICAL INFORMATION

	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Rates					
General Cargo Tariff Rate	**$5.67**	$5.67	$5.67	$5.67	$5.1
Basic Dockage (600')	**$2,236**	$2,236	$2,236	$2,236	$2,03
Required Rate of Return	**12%**	12%	12%	12%	12%
Containerized Cargo Volume (in millions of TEUs)	**6.70**	5.63	4.99	4.37	3.51
Revenue Tons (in million)					
General Cargo	**131.9**	107.1	97.6	81.9	66.8
Liquid Bulk	**11.4**	12.9	10.9	12.5	10.2
Dry Bulk	**4.2**	6.2	5.4	7.1	5.1
Total	**147.5**	126.2	113.9	101.5	82.1
Vessel Arrivals	**2,845**	2,778	2,899	3,060	2,683
Cruise Passengers	**1,057,293**	1,099,552	1,073,357	1,110,053	998,086
Vehicles	**347,067**	314,986	312,248	388,619	272,348

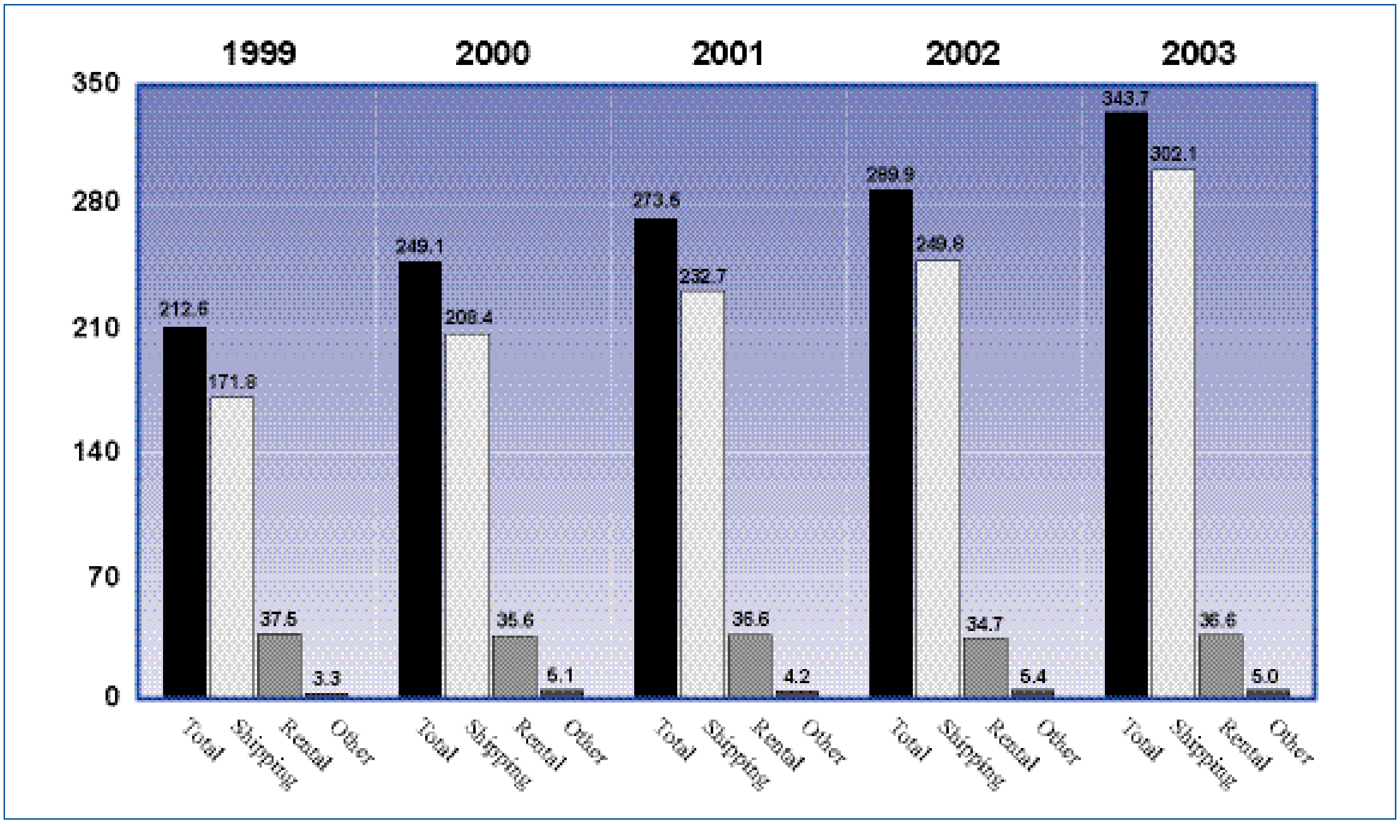
* Years ending June 30.
**Assumes 1.25 coverage ratio and prevailing interest rates for debt financing.

PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
CAPITAL DEVELOPMENT PROGRAM
Fiscal Years 2003 (in thousands of dollars)
(Unaudited)

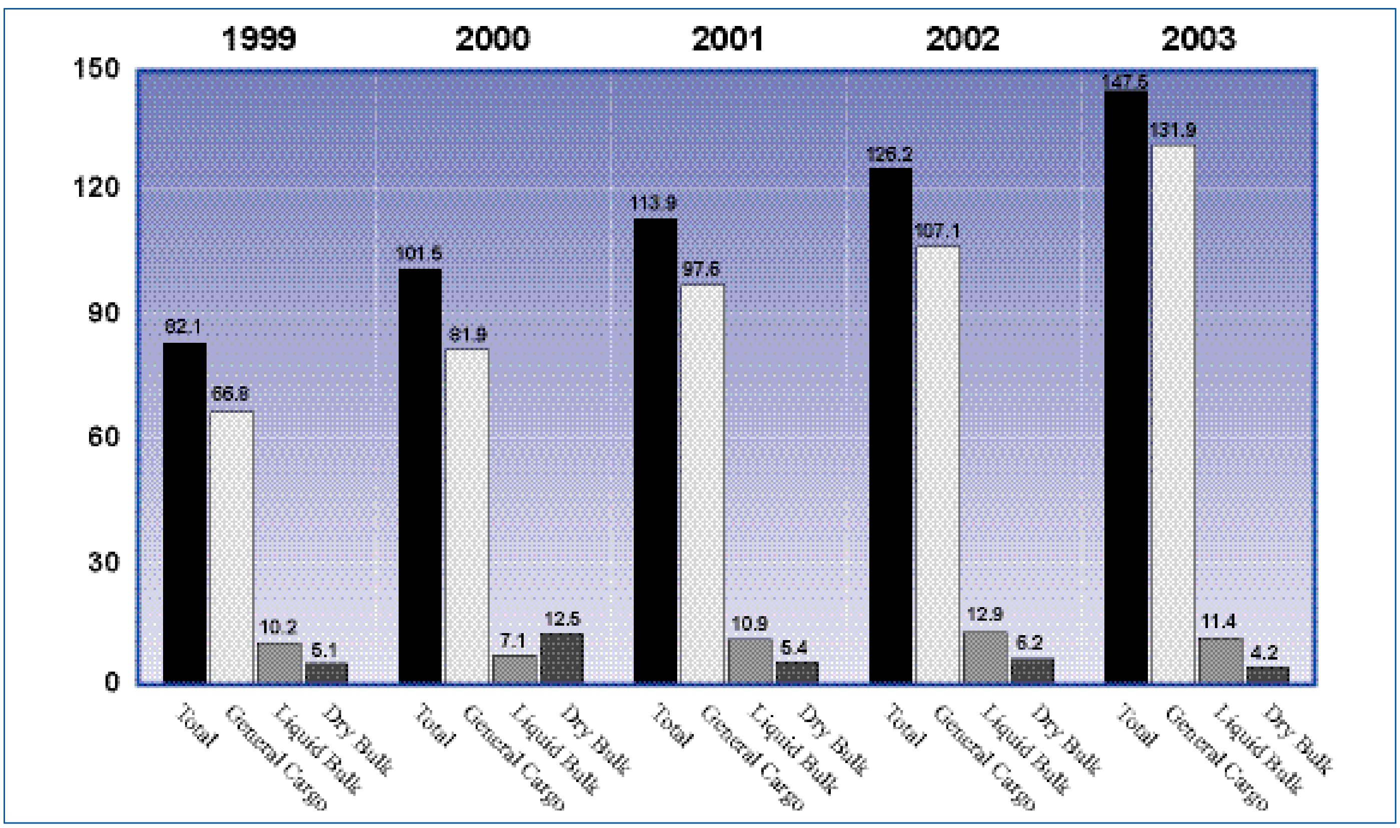
Project Description		Estimated Expenditure
Terminal Improvements, General	$	4,232
Minor Capital Projects		1,983
POLA Administrative Building Modifications		2,369
West Channel Recreation Complex		116
Environmental Assessment & Remediation		4,432
Container Cranes - General		689
World Cruise Center - General Improvements		612
Badger Avenue Bridge Trestles		766
Berth 161 - Maintenance - Yard Improvements		234
Anaheim St. Viaduct Reconstruction		37
Berths 97-115 Redevelopment		16,366
T.I. Container Terminal Facility		207
Construction of New Fire Boats		22
Port Pilot Station Facility		130
West Channel Cabrillo Beach Recreation Complex - Phase II		721
Harry S. Bridges Blvd. Improvement		2,061
Berths 132-147 Terminal Improvements		4,295
2020 Plan - Studies & Reports		38
Pier 300 - Wharf & Backland Improvements		7,618
Pier 300 - ICTF and Railroad Improvements		42
Pier 400 - Dredging, Landfill and Dikes		113,450
Pier 400 - Environmental Mitigation Projects - Batiquitos/Others		516
Berths 225-236 Container Terminal Redevelopment		3,815
Berths 206-209 Terminal Upgrade		2,938
Berths 171-173 Facilities Improvements		629
Main Channel Deepening		26,685
Pier A Street Yard Redevelopment		679
Berths 115-131 Redevelopment		4,935
Waterfront Red Car Line		693
20/30 Planning Program		6,150
Berths 212-225 Backland Development		1,064
Harbor Wide Beautification Projects		3,613
Inner Cabrillo Beach Water Quality Improvement		2,375
San Pedro Waterfront Development		7,662
Berth 240Y & B. 262 Auto Storage Lots		4,155
Berth 195-199 Container Terminal Development		165
Port-Wide Transportation Improvements		1,014
Berth 49-50 Sediment Removal		10,581
Berth 206-211 Redevelopment		349
Port Charter School		122
Supplemental Eng./Arch.Services		25,554
Total Construction Projects	$	**264,114**

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

OPERATING REVENUE
Fiscal Years 1999 through 2003 (in millions of dollars)

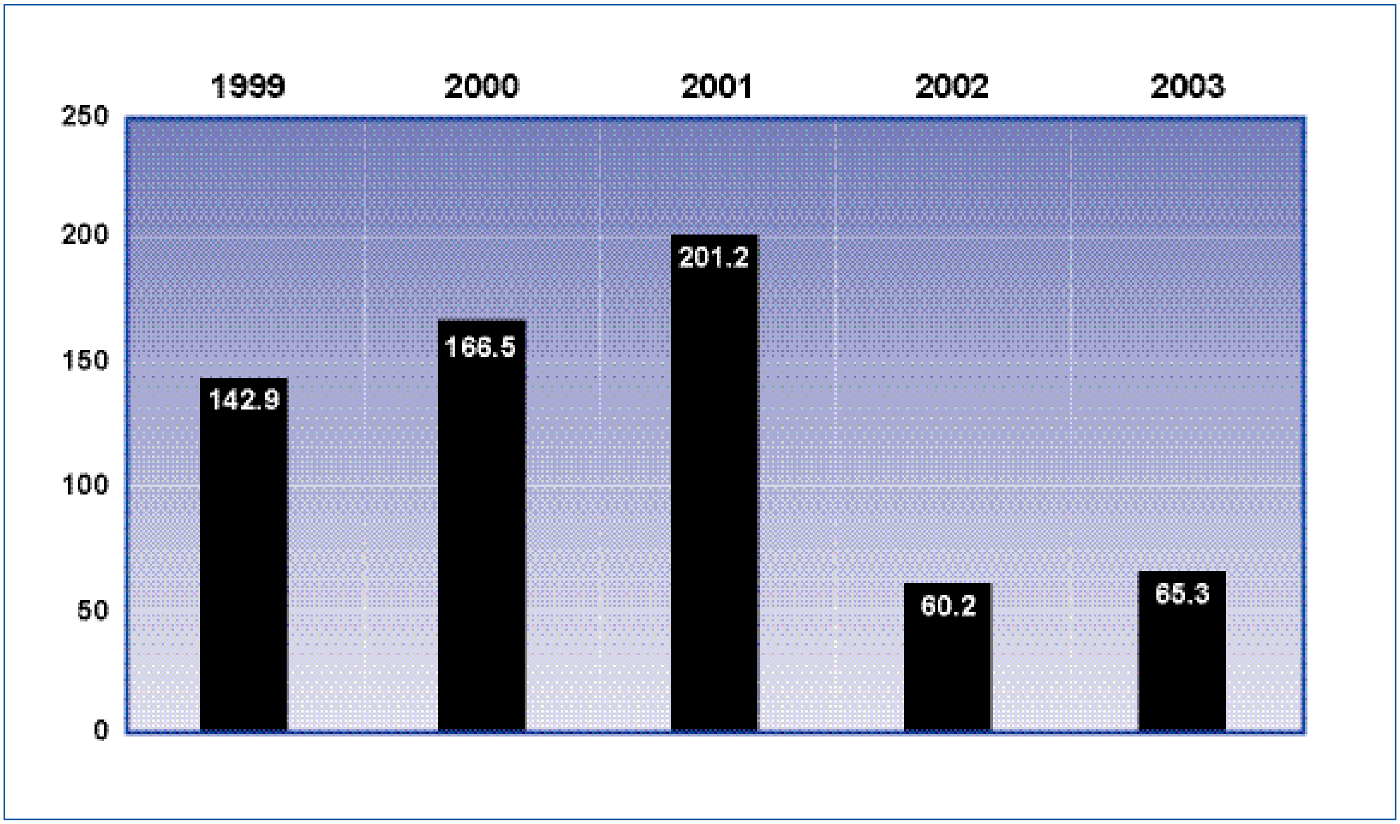


REVENUE TONS
Fiscal Years 1999 through 2003 (in millions of metric revenue tons)

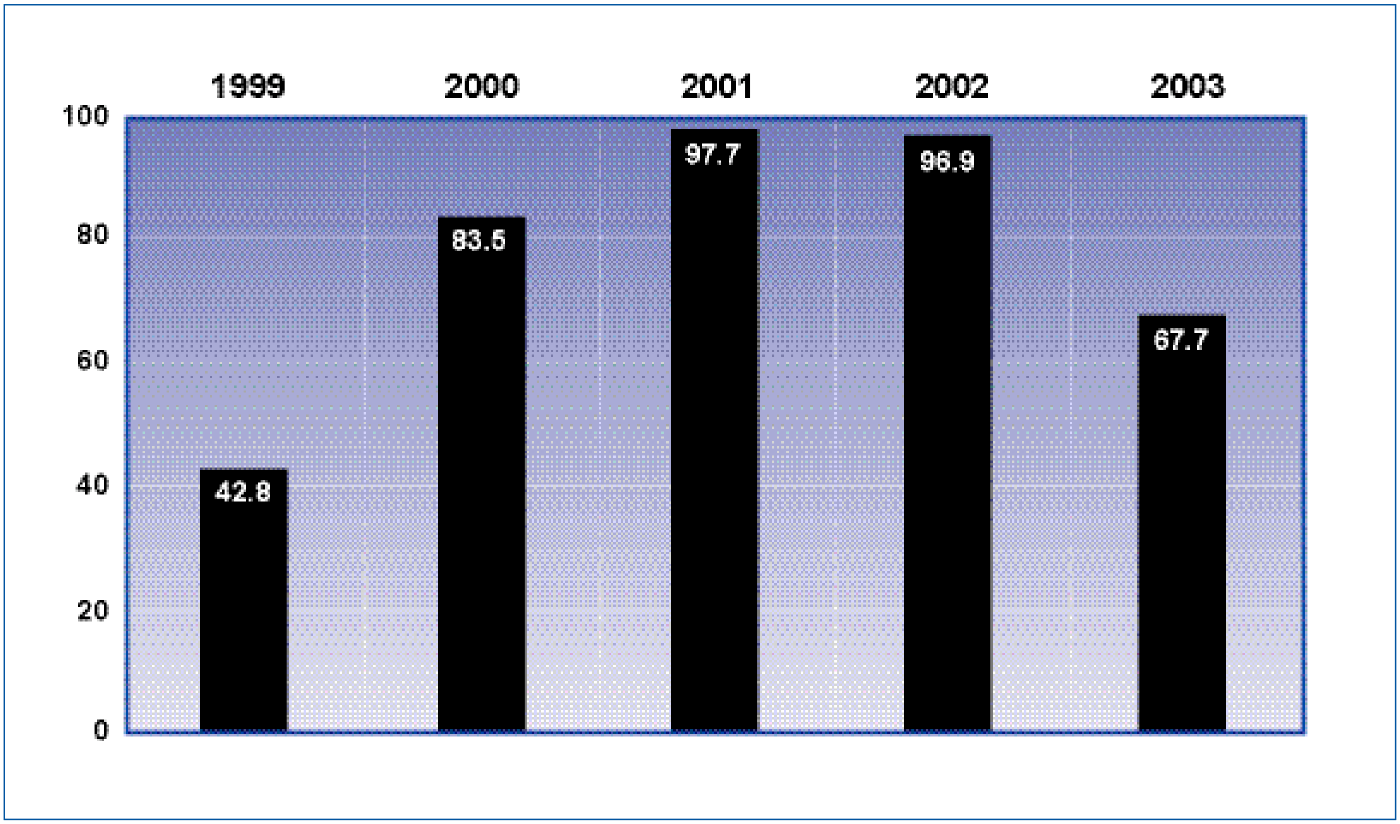


PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

CASH BALANCE – HARBOR REVENUE FUND
Fiscal Years 1999 through 2003 (in millions of dollars)



NET INCOME
Fiscal Years 1999 through 2003 (in millions of dollars)



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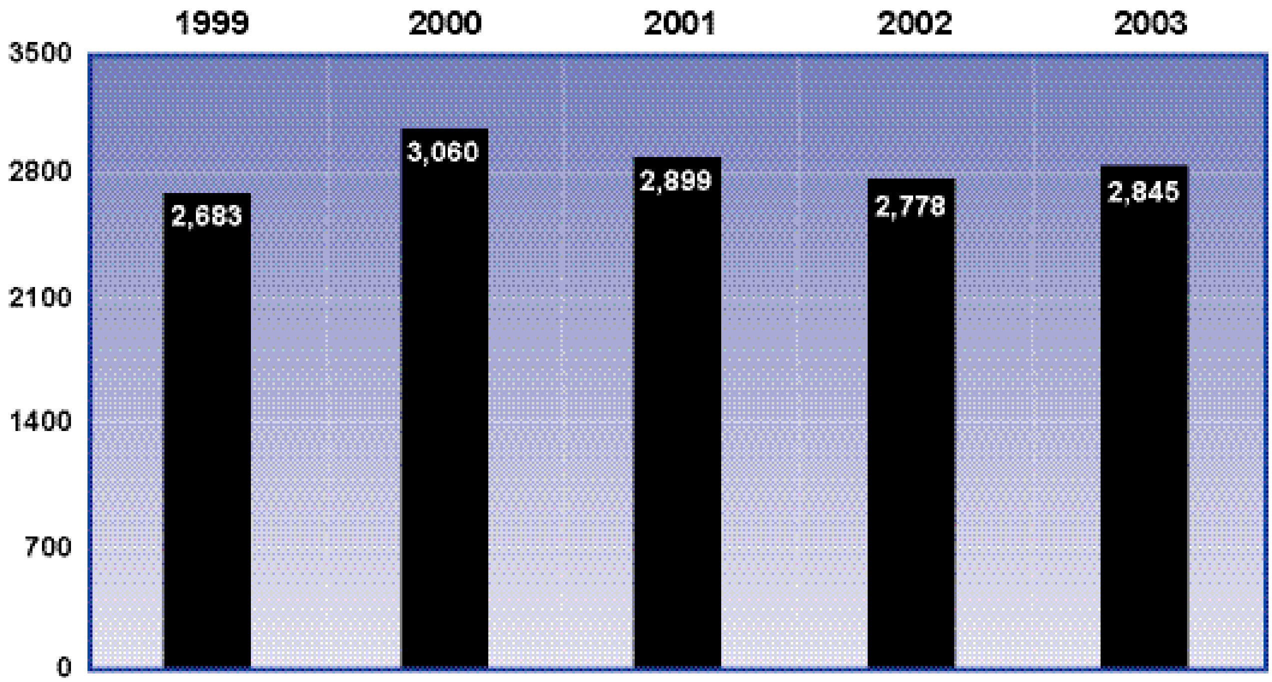
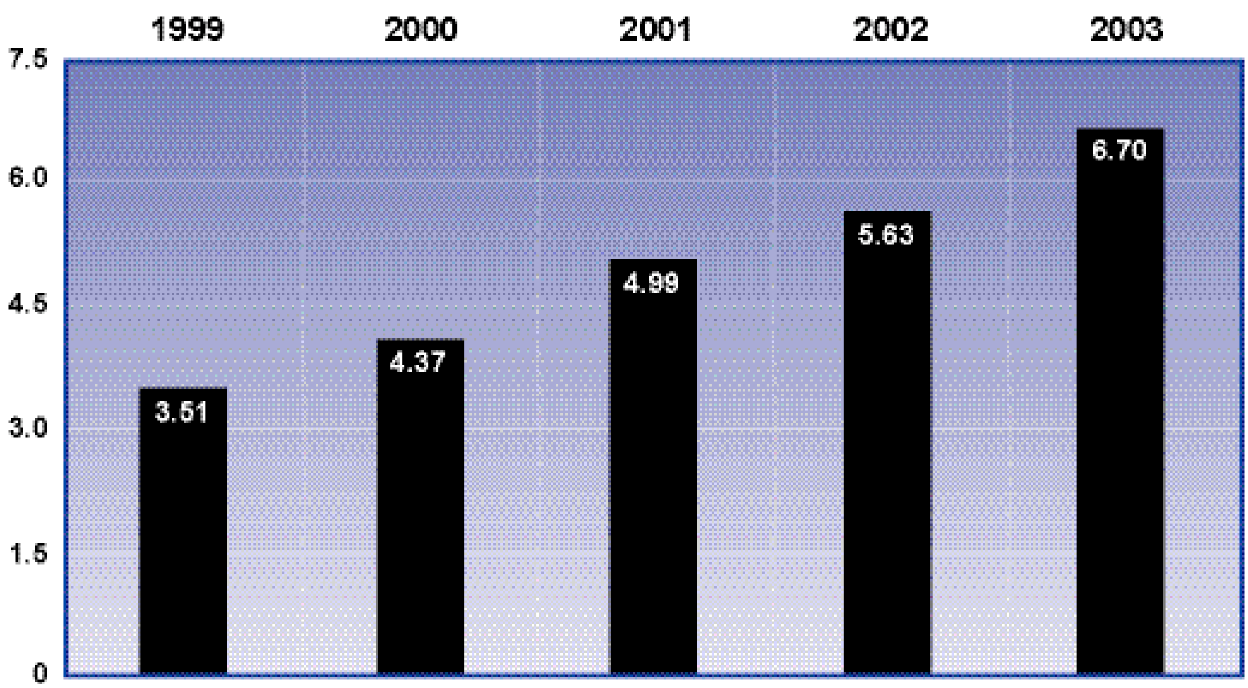
VESSEL ARRIVALS
Fiscal Years 1999 through 2003



CONTAINERIZED CARGO VOLUME
Fiscal Years 1999 through 2003 (in millions of TEUs*)



*TEUs stands for twenty-foot equivalent units, the standard measurement used in the maritime industry when counting marine cargo containers.

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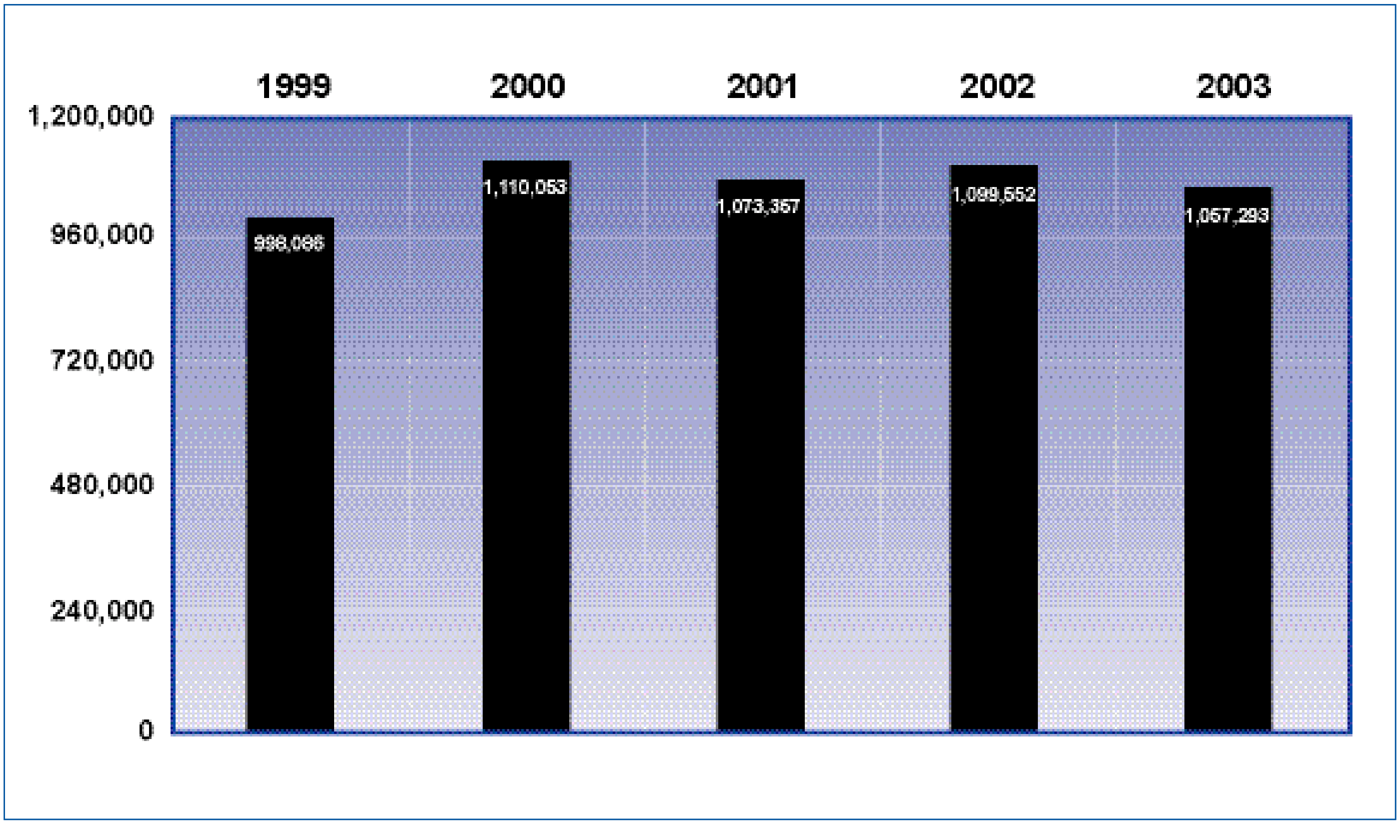
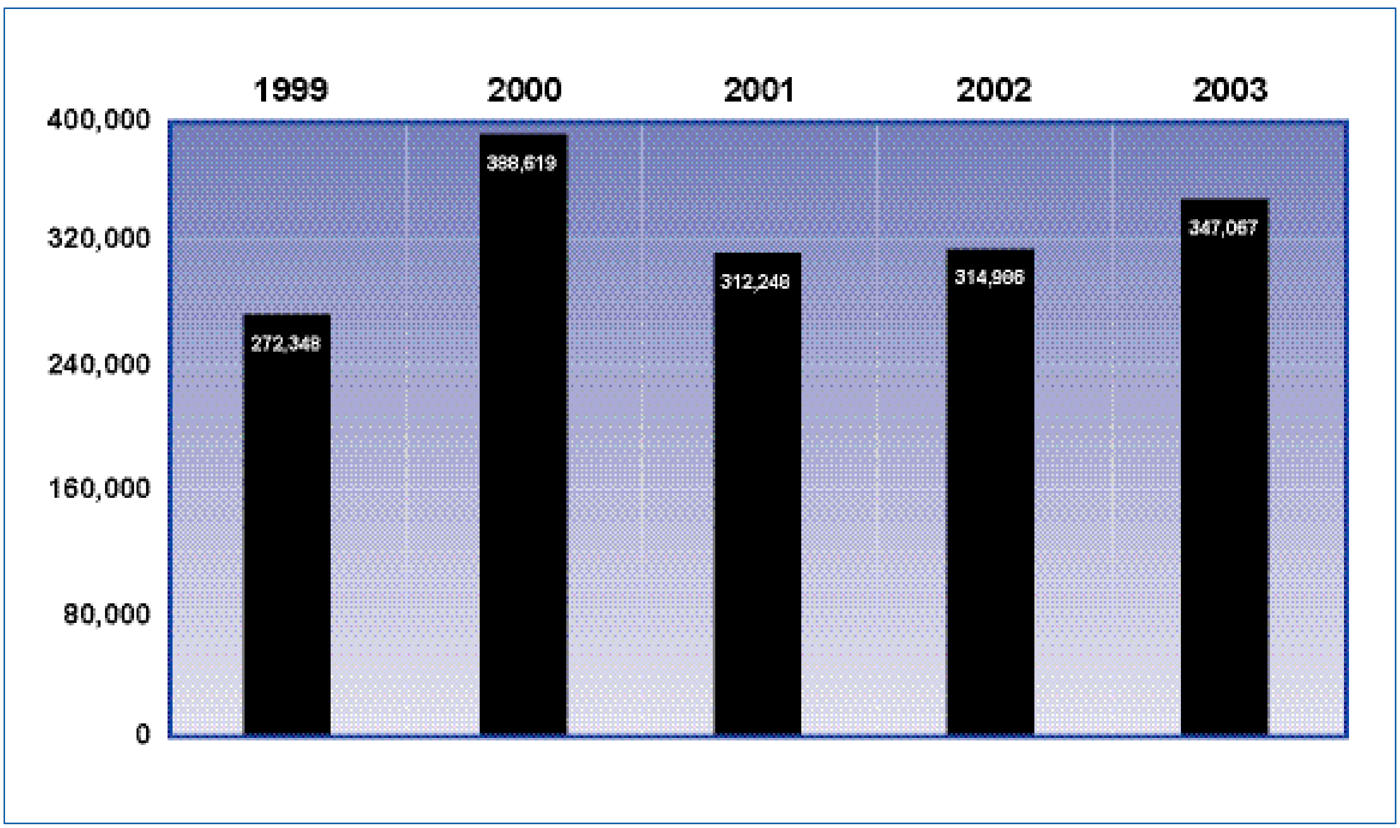
CRUISE PASSENGERS
Fiscal Years 1999 through 2003



VEHICLES
Fiscal Years 1999 through 2003



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Separate financial statements for ACTA may be obtained from the
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Alameda Corridor Transportation Authority
One Civic Plaza Drive, Suite 650
Carson, California 90745

Separate financial statements for ICTF may be obtained from the
Executive Director
Port of Long Beach
925 Harbor Plaza
Long Beach, California 90802

Separate financial statements for LAXT may be obtained from the
General Manager
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Post Office Box 1769
San Pedro, California 90733

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