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

Comprehensive Annual Financial Report

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

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INTRODUCTION

THE PORT
OF LOS ANGELES

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January 18, 2011

Ms. Geraldine Knatz, Ph.D.
Executive Director
Port of Los Angeles
San Pedro, California:

This Annual Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2010 and 2009, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the years ended June 30, 2010 and 2009, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The report is presented in three sections: Introduction, Financial Statements, and Supplemental Information.

The introductory section outlines the relationship of the Port to the City of Los Angeles and describes the organization and reporting entity. It additionally provides an overview of Port properties, operations, and key statistical data.

The management's discussion and analysis presents a comparative review of financial position and changes in financial position for fiscal years 2010, 2009, and 2008. 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 financial statements prepared on an accrual basis and using an economic resources measurement focus. Management's discussion and analysis and the auditors' report accompany these financial statements. The financial statements comprises statements of net assets that present the financial position of the Port as of June 30, 2010 and 2009; statements of revenues, expenses, and changes in net assets depicting financial performance for fiscal years 2010 and 2009; statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2010 and 2009; and the notes to the financial statements. The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data information, generally presented on a multiyear basis that further explain and support the information in the financial statements.

The Port of Los Angeles

The Port is a proprietary department 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. In accordance with generally accepted accounting principles (GAAP), the accompanying financial statements are included as an Enterprise Fund of the City, based upon the primary oversight responsibility that the City Council (the Council) and the City have on all matters affecting Port activities.

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

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups. These groups fall under the responsibilities of the Deputy Executive Director of Development, Deputy Executive Director of Finance & Administration, Deputy Executive Director of Operations, and Deputy Executive Director of Business Development. The Senior Director of Communications and the Senior Director of Governmental Affairs report directly to the Executive Director.

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

The Deputy Executive Director of Finance & Administration oversees the financial affairs as well as administrative side of the Port. Reporting to this position are the Contracts and Purchasing, Finance, Human Resources and Information Technology divisions. The Finance Division made up of the Chief Financial Officer and the following sections: Accounting, Debt and Treasury Management, Financial Management, Management/Internal Audit, and Risk Management.

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

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

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

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

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

The Port operates primarily as a landlord, as opposed to an operating port. Its docks, wharves, transit sheds, and terminals are leased to shipping or terminal companies, agents, and to other private firms. Although the Port owns these facilities, it has no direct hand in managing the daily movement of cargoes. The Port is 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, assignment charges, etc.), land rentals, and fees, concessions, and royalties. It currently serves over 80 shipping companies and agents with facilities that include 270 berthing facilities along 43 miles of waterfront.

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

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

The Port provides leases to more than 300 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 break-bulk 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 currently handles the largest volume of containerized cargo of all U.S. ports, leading the nation for the past nine years 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 that includes China, Japan, Taiwan, Thailand, and South Korea. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port.

The Port is not subsidized by tax dollars and has maintained its financial strength through self-generated revenues. The Port continues to maintain an AA/Aa2/AA credit ratings with Standard & Poor's, Moody's, and Fitch Investor Services, respectively. These are the highest credit rating for any stand-alone U.S. port and reflect the confidence of the rating agencies in the financial strength of the Port.

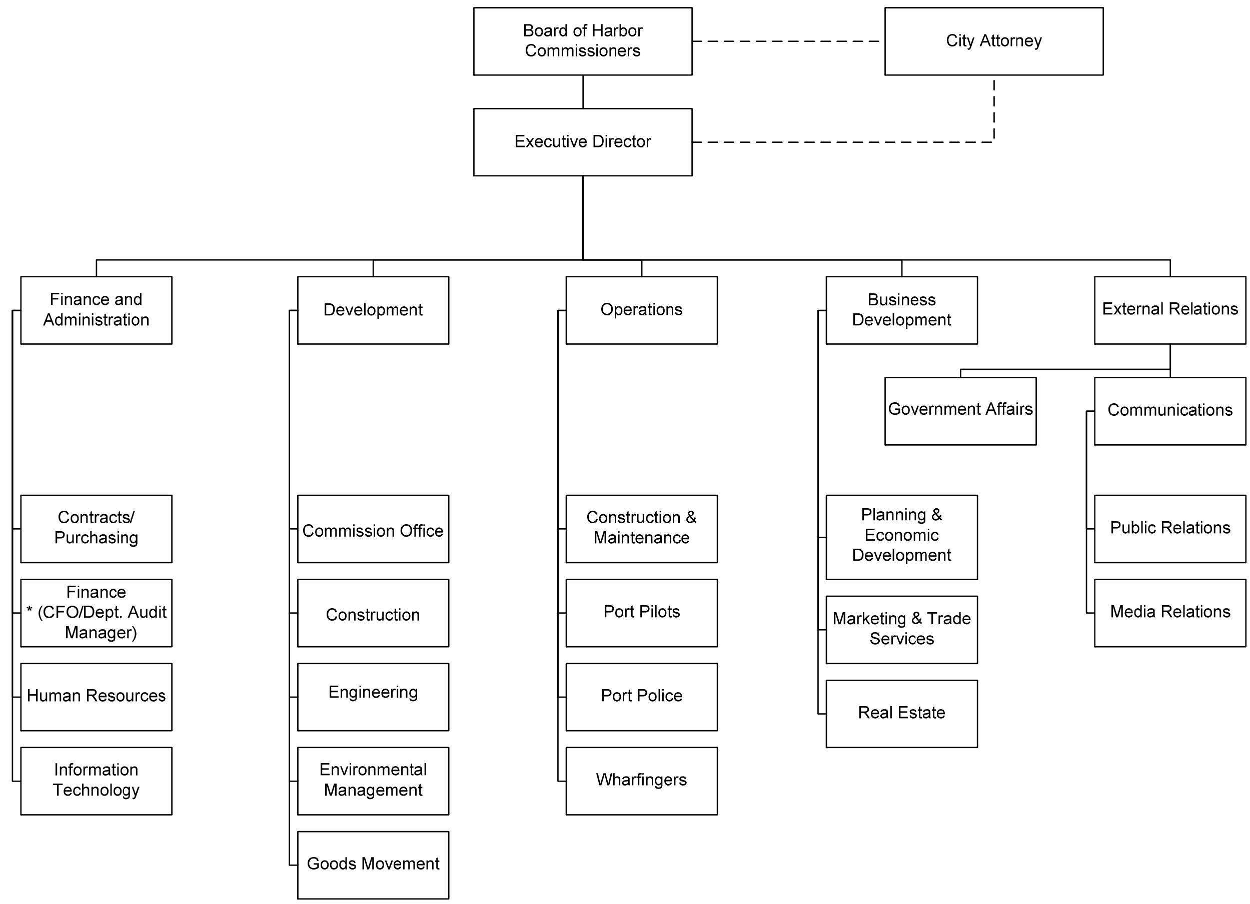
Sincerely,

CHUNGMIN CHU
Director of Accounting

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

Organizational Chart

2009 and 2010



* Additional reporting responsibility to the Board of Harbor Commissioners

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

Administrative Staff

Board of Harbor Commissioners	Cindy Miscikowski, President David Arian, Vice President Kaylynn L. Kim, Commissioner Robin Kramer, Commissioner Douglas P. Krause, Commissioner
Senior Management	Geraldine Knatz, Ph.D., Executive Director Michael Christensen, Deputy Executive Director – Development Molly Campbell, Deputy Executive Director – Finance & Administration Capt. John M. Holmes, Deputy Executive Director – Operation Kathryn McDermott, Deputy Executive Director – Business Development Arley Baker, Senior Director of Communications Isaac Kos-Read, Senior Director of Governmental Affairs
Management Staff	Theresa Adams-Lopez, Director of Public Relations Diane Boskovich, Chief Wharfinger Ronald Boyd, Chief of Port Police Kerry Cartwright, Director of Goods Movement Capt. Bent Christiansen and Capt. Mike Rubino, Pilot Service Michael Galvin II, Director of Real Estate Tony Gioiello, Chief Harbor Engineer of Design Kraig Jondle, Director of Marketing & Trade Services Lance Kaneshiro, Director of Information Technology Tish Lorenzana, Director of Human Resources David Mathewson, Director of Planning & Economic Development Jim Morgan, Director of Construction & Maintenance Karl K.Y. Pan, Chief Financial Officer Glenn Robison, Director of Contracts & Purchasing Phillip Sanfield, Director of Media Relations Shaun Shahrestani, Chief Harbor Engineer of Construction Julie Wichmann-Huerta, Commission Office Christopher Cannon, Director of Environmental Management
Legal Staff	Thomas Russell, General Counsel

FINANCIAL SECTION

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Irvine, CA 92618-3391

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 financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an Enterprise Fund of the City of Los Angeles (the City), California, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Port as of and for the year ended June 30, 2009 were audited by other auditors whose report thereon dated January 29, 2010, expressed an unqualified opinion on those statements.

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

As discussed in note 1, the financial statement of the Port are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City of Los Angeles, California that is attributable to the transactions of the Port. They do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California as of June 30, 2010, the changes in its financial position or its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles (Harbor Department of the City of Los Angeles) as of June 30, 2010 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2011 on our consideration of the Port's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 9 to 23 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introduction and supplemental information sections listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introduction and supplemental information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

January 18, 2011

This section of the Port of Los Angeles' (the Port) annual financial report presents a discussion and analysis of the Port's financial performance during the years that ended June 30, 2010 and 2009. Please read it in conjunction with the transmittal letter at the front of this report and the Port's financial statements, which follow this section.

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

The following is a condensed summary of the Port's net assets as of June 30, 2010, 2009, and 2008:

Net Assets

(In thousands)

		June 30	
	2010	**2009**	**2008**
Current and other assets	$ 669,593	639,444	772,618
Capital assets	3,087,544	2,850,568	2,758,500
Total assets	3,757,137	3,490,012	3,531,118
Current and long-term debt outstanding	931,562	757,535	781,752
Other liabilities	290,821	302,890	272,323
Total liabilities	1,222,383	1,060,425	1,054,075
Net assets:			
Invested in capital assets, net of related debt	2,164,885	2,101,396	1,985,653
Restricted	67,844	61,608	9
Unrestricted	302,025	266,583	491,381
Total net assets	$ 2,534,754	2,429,587	2,477,043

Net assets of the Port increased $105.2 million to $2.5 billion in fiscal year 2010. Of these net assets, restricted assets made up 2.7% for fiscal year 2010 and 2.5% in 2009. The remaining net assets were either unrestricted or were invested in capital assets such as land, facilities, infrastructure, equipment, and the like, net of related debt. These assets are under the management 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.

Current and other assets of the Port increased 4.7% to $669.6 million in fiscal year 2010, mainly due to the increase of cash from lower operating and administrative expenses. In comparison, the decrease of 17.2% to $639.4 million in fiscal year 2009 was substantially due to the lower revenue and interest.

Current and long-term debt outstanding of the Port increased 23% to $931.6 million in fiscal year 2010 due to the addition of new bonds series 2009A, B, and C. The decrease of 3.1% to $757.5 million in fiscal year 2009 was due to principal payments.

Other liabilities of the Port decreased 4.0% to $290.8 million in fiscal year 2010 and increased 11.2% to $302.9 million in fiscal year 2009. The decrease of $12 million in fiscal year 2010 was mainly due to the decrease in accounts payable of $14 million with cost cutting measures, $11 million in China Shipping Mitigation liability and $10 million paid off facility revenue credit provided to Maersk offset by the increase in accrued interest $3 million, accrued benefits of $6 million, and the reinstatement of the City Securities Lending of $11.4 million. Increase of $30.6 million in fiscal year 2009 was due to the increase of $93.4 in GASB 49, Environmental Remediation Liability, and $13.2 million in trade payables offset by $73.7 million in the suspension of the securities lending program.

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2010, 2009, and 2008:

Changes in Net Assets

		Year ended June 30		
		2010	**2009**	**2008**
Net operating revenues	$	406,818	402,224	426,345
Income from investments in Joint Powers Authorities and other entities		2,270	2,980	4,440
Interest and investment income		15,233	18,824	34,863
Other income and (expenses), net		(2,951)	(7,625)	(2,536)
Total revenues		421,370	416,403	463,112
Expenses:				
Operating and administrative expenses		210,235	254,143	221,752
Depreciation		87,255	83,413	78,295
Interest expense on bonds/notes payable		35,663	36,979	38,052
Total expenses		333,153	374,535	338,099
Income before capital contributions		88,217	41,868	125,013
Capital contributions		16,950	4,103	14,161
Changes in net assets		105,167	45,971	139,174
Total net assets – beginning of year [1]		2,429,587	2,383,616	2,337,869
Total net assets – end of year	$	2,534,754	2,429,587	2,477,043

[1] Total net assets – beginning of year for 2009 was restated to reflect the implementation of GASB 49 in that fiscal year.

Fiscal Year 2010

Net assets for the Port increased $105.2 million in fiscal year 2010. Approximately 91.1% 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 decreased $43.9 million, or 17.3% from prior fiscal year. The decrease was mainly from Clean Truck Program (CTP) expense being lower by $33.3 million and $9.9 million in reduced litigation, claims, and settlement expenses.

Depreciation expense increased $3.8 million to $87.3 million in fiscal year 2010 primarily due to the net addition of depreciable assets of $27.8 million in fiscal year 2009. The Port's policy is to start deprecation of depreciable assets placed in service in a fiscal year at the beginning of the next fiscal year.

Other income, net of other expense, increased $4.7 million to negative $3.0 million in fiscal year 2010, from negative $7.6 million in fiscal year 2009 as fewer discontinued projects were recorded in 2010 fiscal year.

As a result, income before capital contributions increased $46.3 million to $88.2 million, a 110.5% increase over the fiscal year 2009 amount of $41.9 million. This increase reflected the combined effect of greater revenue generation despite weak trade volumes given higher clean truck fees and control of operating expenses.

Capital contributions of $17 million represented funds for capital grants earned in fiscal year 2010 and $4.1 million in fiscal year 2009. The increase of capital grants earned was due to proactive and successful efforts on part of the Port in applying for and obtaining more capital grants for its projects.

Fiscal Year 2009

Net assets for the Port increased $46 million before the GASB 49 pollution remediation obligation adjustment of $93.4 million being charged to net assets. With the adjustment, net assets decreased $47.5 million to $2.4 billion in fiscal year 2009. Approximately 92.4% 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 $32.4 million, or 14.6% over the prior fiscal year. The increase was mainly from the addition of the CTP in fiscal year 2009.

Depreciation expense increased $5.1 million to $83.4 million in fiscal year 2009. The increase was primarily due to the net addition of the depreciable assets of $29.3 million in fiscal year 2008.

Other income, net of other expense, decreased $5.1 million to negative $7.6 million in fiscal year 2009, from negative $2.5 million related to discontinued projects recorded in the prior year. The decrease was mainly due to the increase of construction in progress work orders being expensed in fiscal year 2009.

Capital contributions of $4.1 million represented funds for capital grants earned in fiscal year 2009 and $14.2 million in fiscal year 2008. The decrease of capital grants earned was due to fewer approval of grant requests as budget constraints at both the federal and state levels reduced funding resulting in less capital grant projects commencing in fiscal year 2009.

Income before capital contributions decreased $83.1 million to $41.9 million, a 66.5% decrease over the fiscal year 2008 amount of $125.0 million. This decrease reflected the combined effect of the $46.7 million decrease in total revenues given weakened trade volumes negatively affecting shipping revenues and the $36.4 million increase in total expenses as the Port expended monies at a much higher level for the CTP.

Operating Revenues

(In thousands)

		Year ended June 30		
		2010	2009	2008
Shipping services	$	327,630	329,347	374,878
Percentage of total operating revenues		80.5%	81.9%	87.9%
Rentals		43,141	42,368	45,524
Percentage of total operating revenues		10.6%	10.5%	10.7%
Royalties, fees, other operating revenues		36,047	30,509	5,943
Percentage of total operating revenues		8.9%	7.6%	1.4%
Total	$	406,818	402,224	426,345

Fiscal Year 2010

Operating revenues for fiscal year 2010 increased to $406.8 million, reflecting a 1.1% improvement from the prior year revenues of $402.2 million. The increase was principally attributed to $5.7 million increase in CTP revenues. Revenues from shipping services declined slightly but still formed 80.5% of total operating revenues as incentives to customers and recovering trade volumes in the first half of calendar year 2010 helped to offset the weakness trade experienced in the latter part of calendar year 2009.

The number of twenty-foot equivalent units (TEUs) moved in the Port during fiscal years 2010 and 2009 were 7.2 million and 7.3 million TEUs, respectively.

Fiscal Year 2009

Operating revenues for fiscal year 2009 decreased to $402.2 million, reflecting a 5.7% decline from the prior year revenues of $426.3 million. The decline was principally attributed to the drastic drop of shipping services revenues as TEU volume at the Port was severely affected by the economic decline seen in the United States. Partly offsetting the decreases were $24.8 million in fees from the CTP that the Port collected beginning February 2009.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel or cargo movement. Of these fees, wharfage is the most significant and comprised 93.0% and 89.7% of the total shipping service revenues in fiscal years 2010 and 2009, respectively. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

Shipping services revenue in fiscal year 2010 was $327.6 million, $1.7 million, or 0.5% less than fiscal year 2009. The declines in space assignment charges, pilotage charges, dockage charges, and crane rentals accounted for the lower shipping services revenue in 2010. The number of vessel calls was 8.5% lower than fiscal year 2009.

In fiscal year 2009, revenue from shipping services reduced to $329.3 million, reflecting a decline of $45.5 million, or 12.2%, from fiscal year 2008. The considerable decline in container volumes from container terminals led to lower shipping services income.

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

Cargo Type in Metric Revenue Tons

(In thousands)

		Year ended June 30		
		2010	2009	2008
Container/general cargo	$	145,760	144,344	161,901
Liquid bulk		10,661	11,127	6,208
Dry bulk		1,354	2,023	1,862
Total	$	157,775	157,494	169,971

Container Volume in TEUs

(In thousands)

		Year ended June 30		
		2010	2009	2008
Import TEUs	$	3,786	3,866	4,325
Export TEUs		3,442	3,395	3,758
Total	$	7,228	7,261	8,083

Metric revenue tons is the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when the figure is available, or the weight is closely approximated by calculation when cargo weight is not provided. The total metric revenue tons billed in fiscal year 2010 was 157.8 million metric revenue tons, or 0.2% above fiscal year 2009. A total of 157.5 million metric revenue tons were billed in fiscal year 2009, or 7.3% less than fiscal year 2008.

In fiscal year 2010, tonnage from dry bulk dropped 33.1% or 0.7 million metric revenue tons compared to prior fiscal year. Liquid bulk metric revenue tonnage was also down by 0.5 million metric revenue tons or 4.2% compared to the prior year. Revenue tonnage for general cargo billed in 2010 went up slightly, 1%, or 1.4 million metric revenue tonnage above fiscal year 2009.

(Continued)

During fiscal year 2009, tonnage from dry bulk increased 5.3% or 0.1 million metric revenue tons over prior fiscal year. Liquid bulk metric revenue tonnage drastically increased by 79.2% from prior year. Revenue tonnage for general cargo billed in 2009 went down 10.8% mainly because of the recession slowed the economy and reduced demand for goods.

Additional information for volume by cargo type is presented in the supplementary information section of this report in the schedule titled "Key Information on Revenue Statistics."

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 currently seeks to achieve the 12% rate of return on improvements and 10% of land that has been set by Board policy.

During fiscal year 2010, rental income at the Port increased $0.8 million, or 1.8%, over last year and represented 10.6% of fiscal year 2010 total operating revenues. Land rental was up $0.9 million compared to prior year. In fiscal year 2010, there was a reset in the compensation of Vopak Terminal and Shell Oil Company that resulted in higher rental income from them of $1.2 million and $1.0 million, respectively. Due to the decline in overall container volumes, Union Pacific Railroad Company, operator of the Intermodal Container Transfer Facility (ICTF), moved fewer boxes during fiscal year 2009 and paid the $2.3 million in December 2009. Crescent Warehouse returned warehouses 9 and 10 to the Port in December 2009 reducing warehouse revenue rental by 0.2 million in fiscal year 2010.

Rental income in fiscal year 2009 was $42.4 million, $3.2 million below 2008 and represented 10.5% of the total operating revenues. Land rental income, which comprises the large portion of this income, went down by $2.7 million.

Royalties, Fees, and Other Operating Revenue

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

Revenues in this category totaled $36.0 million for fiscal year 2010, $5.5 million or 18.2% above fiscal year 2009. Collections from CTP fees increased to $30.5 million, $5.7 million more than fiscal year 2009. Wharf damage repairs increased reimbursable costs of maintenance jobs performed by the Port by $0.8 million. Decrease in parking fees offset the increases royalties, fees, and other operating revenue.

Revenues from royalties, fees, and other operating revenues in 2009 was $30.5 million, 7.6% of the total revenue. In February 2009, the Port started collecting fees relative to the CTP. The total amount earned was $24.8 million as of June 30, 2009.

Operating and Administrative Expenses

In fiscal year 2010, operating and administrative expenses decreased $43.9 million to $210.2 million, a 17.3% decrease from prior fiscal year expense of $254.1 million. The decline was attributable to decreases in other operating expenses of $36.1 million, outside services of $5.1 million, salaries and benefits of $2.5 million.

In fiscal year 2009, operating and administrative expenses increased $32.4 million to $254.1 million, a 14.6% from prior year. It was due to the addition of CTP expense of $54.0 million and an increase of $3.9 million in salaries and benefits were partially offset by the decreases in other categories of expenses.

Operating and Administrative Expenses (O&A)

(In thousands)

		Year ended June 30		
		2010	**2009**	**2008**
Salaries and benefits	$	96,838	99,350	95,444
Percentage of total O&A		46.1%	39.1%	43.0%
Marketing and public relations		2,594	3,676	5,274
Percentage of total O&A		1.2%	1.5%	2.4%
Travel and entertainment		569	635	1,128
Percentage of total O&A		0.3%	0.2%	0.5%
Outside services		24,428	29,498	37,937
Percentage of total O&A		11.6%	11.6%	17.1%
Materials and supplies		6,634	8,121	8,950
Percentage of total O&A		3.2%	3.2%	4.1%
City services		31,142	28,704	27,101
Percentage of total O&A		14.8%	11.3%	12.2%
Other operating expenses		48,015	84,159	45,918
Percentage of total O&A		22.8%	33.1%	20.7%
Total O&A	$	210,220	254,143	221,752

Fiscal Year 2010

Salaries and benefits expense decreased $2.5 million to $96.8 million, or 2.5% lower than prior year of $99.4 million. Decline in salaries and benefits were attributable to lower overtime usage mainly in Port Police and Construction and Maintenance, and lower headcount of full-time employees. Full-time employees dropped from 975 to 948 mainly due to the Early Retirement Incentive Program (ERIP) offered by the City of Los Angeles (City) in fiscal year 2010.

Outside services decreased $5.1 million to $24.4 million or 17.3% from prior year of $29.5 million due to decline in professional services of $7.0 million and financial and legal services of $1.9 million. Offsetting these decreases was the $3.8 million increase in maintenance and data processing services including the $2.6 million dredging fee paid to U.S. Army Corps.

City services, net of capitalized amount increased $2.4 million to $31.1 million or 8.4% higher over previous year of $28.7 million mainly due to cost allocation plan (CAP) rate increases.

Other operating expenses for fiscal year 2010 decreased $36.1 million to $48.0 million or 43.0% from prior year of $84.2 million due to the decline in CTP's subsidy payments and administrative costs of $33.3 million, workers' compensation claims, litigation, and settlements of $10.7 million. Offsetting these decreases was the $7.8 million increase in estimated pollution remediation expenses per GASB 49.

Fiscal Year 2009

Salaries and benefits expense increased $3.9 million to $99.4 million, or 4.1% over the prior fiscal year of $95.4 million. Regular salaries climbed by $7.8 million or 15.5% due to increase in Port workforce mainly in Port Police and Construction and Maintenance. Offsetting this increase were decreases in overtime and benefits. Cost of overtime dropped by $1.7 million or 23.1% from prior year due to tighter control in overtime usage. Employee benefits decreased $2.6 million or 6.8% over prior year. Offsetting this decrease was the $4.6 million increase in employee benefits that was due to the increase of headcount in current year.

Outside services decreased $8.4 million to $29.5 million or 22.2% lower than prior year of $37.9 million due to $2.0 million decrease in facility maintenance, $4.8 million in professional services, $2.5 million in financial and legal services and $0.2 million in data processing services. Offsetting the decreases was the $1.1 million increase in office equipment maintenance.

City services, net of capitalized amount increased $1.6 million to $28.7 million or 5.9% higher over previous year of $27.1 million. The increase was primarily due to $3.4 million in cost of living allowance and cost allocation plan (CAP) rate increases, which were partially offset by an increase in capital allocations by $1.8 million.

Other operating expenses for fiscal year 2009 increased $38.2 million to $84.2 million or 83.3% over prior year of $45.9 million due to the increases in subsidy payments for the CTP of $41.5 million, subsidy payments for the Clean Air Action Program of $3.2 million and utilities of $1.0 million. Offsetting these increases was the $6.2 million decrease in litigation and settlement expenses and $1.2 million in miscellaneous expenses.

Nonoperating Income and Expense

Fiscal Year 2010

Net nonoperating expenses for fiscal year 2010 decreased $1.7 million or 7.5% to $21.1 million from prior year of $22.8 million.

Interest and investment income decreased $3.6 million or 19.1% to $15.2 million from prior fiscal year of $18.8 million. The interest income decrease of $7.2 million was mainly due to the lower average yields of 2% in fiscal year 2010 from 2009. It was offset by the gain in investment pool of $3.6 million.

Interest expense decreased $1.3 million or 3.5% to $35.7 million from prior fiscal year of $37 million due to the increase of capitalized interest expense in fiscal year 2010.

Other income, net of other expense, increased $4.7 million to negative $3.0 million in fiscal year 2010, from negative $7.6 million in prior year.

Other income increased $0.6 million from $1.9 million to $2.5 million mainly due to the increase of $0.6 in gain on sales of fixed asset and $0.5 million in miscellaneous nonoperating revenue partially offset by the decrease of $0.5 million in Federal operating grant earned.

Other Expenses decreased $4.0 million from $9.6 million to $5.6 million primarily due to the decrease of $6.4 million in abandoned projects charged to expense. The decrease was partially offset by the increase of $0.8 million in loss on sale of fixed assets and $1.6 in commercial paper issuance cost.

Fiscal Year 2009

Net nonoperating expenses for fiscal year 2009 increased $21.5 million from the prior year to $22.8 million.

Interest and investment income decreased $16.0 million to $18.8 million for fiscal year 2009. The decrease included an $8.4 million decrease in interest income from Harbor Revenue Fund and restricted funds. It was mainly due to the lower average yields of 3.9% in fiscal year 2009 from 5.1% in fiscal year 2008.

Interest expense showed a decrease of $1.1 million to $37.0 million from prior fiscal year.

Other income, net of other expense, decreased $5.1 million to negative $7.6 million in fiscal year 2009, from negative $2.5 million in prior year. Other income decreased $0.3 million from $2.2 million to $1.9 million. Other Expenses increased $4.8 million from $4.8 million to $9.6 million. Federal operating grants earned in fiscal year 2008 were $0.9 million less than the grants earned last year. The decrease was offset by the increase in delinquency penalties collected in fiscal year 2009. Abandoned projects charged to expense increased $6.2 million and were partially offset by the decrease of $0.7 million in loss on sale of assets in fiscal year 2009.

Long-Term Debt and Capital Assets

Long-Term Debt

The Port's long-term debt is comprised of senior debt in the form of Harbor Revenue Bonds, and subordinated debt in the form of loans. As of June 30, 2010 and 2009, the Port's outstanding long-term debt was $931.6 million and $757.5 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA, and AA credit ratings from Moody's, Standard & Poor's, and Fitch Ratings.

Bonded Debt

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

Long-term debt consisted of the following as of June 30, 2010, 2009, and 2008 (in thousands):

		2010	2009	2008
Revenue bonds payable	$	929,202	754,709	778,481
Notes payable		2,360	2,826	3,271
Total	$	931,562	757,535	781,752

Capital Assets

Capital assets, net of accumulated depreciation consisted of the following as of June 30, 2010, 2009, and 2008 (in thousands):

		2010	2009	2008
Land	$	1,042,081	1,040,942	1,012,297
Harbor facilities and equipment, net		1,324,063	1,320,643	1,366,028
Intangible assets		12,800	12,800	12,450
Construction in progress		500,129	309,599	239,291
Preliminary costs – capital projects		208,471	166,584	128,434
Total	$	3,087,544	2,850,568	2,758,500

(Continued)

Capital expenditures for fiscal year 2010 increased to $325.1 million from $175.5 million in the prior year. Spending was significantly higher in commercial development, dredging and terminal development. Approximately 37% of the fiscal year 2010 funds were expended on terminal improvements, 31% on commercial development, 8% on dredging, and 9% on Port security. The remaining 15% was primarily used for environmental studies and credits, infrastructure improvements, and transportation improvements.

Major Capital Expenditures – Facilities and Infrastructure

(In thousands)

	Year ended June 30		
	2010	**2009**	**2008**
Commercial development	$ 94,879	67,838	27,981
Dredging	24,309	1,369	2,252
Environmental studies and credits	29,874	24,512	4,345
Infrastructure improvements	3,474	3,923	2,102
Port security	28,418	33,680	17,663
Terminal development	113,385	35,429	28,957
Transportation improvements	10,674	8,725	1,274
Others	20,084	—	26,443
Total	$ 325,097	175,476	111,017

Budgeted expenditures for the Port's fiscal year 2011 Capital Improvement Program has decreased from the previous fiscal year. The more significant fiscal year 2011 expenditures will include the Cabrillo Marina Development, Harry Bridges Boulevard Buffer, Port Security projects, AMP, Main Channel Deepening Program, TraPac Development, and the B. 100-102 China Shipping Container Terminal Development.

The West Basin project at Berth 100-102 includes the development of approximately 142 acres of backland terminal, construction of 2,500 feet of wharf, two building, and two new access bridges. Phase I of China Shipping Terminal was completed in January 2004. Phase II of China Shipping includes a 925-foot Berth 102 wharf, 35 acres of backland on the Southwest Slip Fill, construction of a Marine Building and Crane Maintenance Building, AMP, and Access Bridge No. 2. The wharf, 18 of 35-acre backland, AMP, and Access Bridge No. 2, is scheduled for construction completion in February 2011. The remainder of Phase II is scheduled for completion by August 2013. Phase III consists of a 375-foot Berth 100 South wharf extension, AMP, and an additional 24 acres of container yard. Project completion is expected in March 2015.

Construction has begun on the Berth 135-147 (TraPac) terminal expansion program, which will redevelop 110 acres of existing container terminal and develop an additional 50+/- acre of container terminal. Improvements include the construction of 705 feet of new wharf and upgrade of 1,022 feet of existing wharf, five new cranes (purchased by TraPac), 100-foot gauge crane rail, alternative maritime power (AMP), dredging to -53 feet., new buildings (including administration building, yard operations, crane maintenance/marine building, longshore toilet, and driver service buildings), new main gate, ICTF, and general container yard and infrastructure improvements. The wharf improvements and AMP at Berth 136-139 and B. 144 & 145-147 is scheduled for construction completion by February 2011. The estimated total program completion date is June 2015.

The Port Police Headquarters Project consists of the design and construction of a new 51,000-square-foot three-story Port police station at 320 S. Center Street with subterranean parking and an adjacent two-level parking structure. The expected construction completion of the project is April 2011.

The Homeland Security Program is an ongoing effort. Projects include a waterside security surveillance system, facility security enhancements, passenger complex perimeter security, port police integrated command and control system, law enforcement resource tracking system, port police interoperable communication system, mass notification system, fiber optic network program, etc. Estimated project completion is January 2015.

The Los Angeles Waterfront is envisioned as a catalyst to provide public access waterfront and includes specific development projects and associated infrastructure improvements. The plan has five major programs: 1) Gateway, 2) Enhancements, 3) Waterfront, 4) Cabrillo Way Marina, and 5) Cruise Terminal.

The Waterfront Gateway Program includes approximately 2.5 miles of pedestrian promenade, multiuse parkway, and open space including lighting, signage, landscaping, irrigation, and landscaping. In addition, the program includes water features at the Gateway Plaza and 2nd Street, and automatic restrooms. Program was completed in November of 2009.

The San Pedro Waterfront Enhancements Program will improve existing, and construct new, pedestrian walks and plazas, create green open spaces, provide additional vehicular parking, construct Angel's Walk LA stanchions, and new landscaping between the Port and waterfront. Program completion is expected in November 2013.

The San Pedro Waterfront will construct new promenades along the water's edge, water cuts, parks and open space, museum and maintenance facilities for the Red Car, roadway improvement and clean-up and development of the former Westway property at Berth 70-71. Estimated program completion date is undetermined at this time.

The Wilmington Waterfront Development Program is a 95-acre development incorporating landscaping, commercial/retail/restaurant development, cultural/community facilities, and transportation improvements. Projects include the Avalon Triangle Park, Catalina Freight Relocation, Harry Bridges Boulevard Buffer, and Avalon Boulevard Corridor – Phase I & II. Harry Bridges Boulevard Buffer is scheduled for completion in March of 2011. The other projects remain undetermined at this time.

Cabrillo Way Marina Phase II will include new floating docks with boat slips, boater restrooms, shower facilities, public restrooms, boater and public parking lots, trailer boat and dry storage, and hoist launching facilities. Estimated completion date is July 2011.

The Cruise Terminal Program includes a proposed upgrade of the existing cruise terminal facilities at Berth 91-93, which includes a temporary cruise terminal baggage building, 2 AMP projects, fender improvements, gangways, solar power, and numerous other improvements as a result of the Disney Cruise Line. This work is

(Continued)

expected for completion in early 2011. A proposed new cruise terminal in the outer harbor at Berth 46-47, and new multilevel/shared use parking structure is unscheduled at this time.

Open purchase orders and uncompleted construction contracts amounted to approximately $338,958,000 as of June 30, 2010.

Factors That May Affect the Port's Operations

In November 2006, the governing boards of the Ports of Los Angeles and Long Beach voted to approve the landmark San Pedro Bay Ports Clean Air Action Plan (CAAP), the most comprehensive plan that addresses emissions from the trucks, oceangoing vessels, trains, terminal equipment, and harbor craft that serve the Port. The $2 billion CAAP is expected to reduce Port-related emissions by nearly 50% by 2011.

The major component of this plan is the CTP. This program will replace or retrofit high polluting diesel trucks with ones that meet 2007 EPA emission standards. Revenue from the collection of Clean Truck Fee totaled $28.7 million with expenses of $20.7 million in fiscal year 2010. On January 1, 2010 all 1989 – 1993 trucks will be banned in addition to 1994 – 2003 trucks that have not been retrofitted and on January 1, 2012 all trucks that do not meet the 2007 Federal Clean Truck emissions standards will be banned from the Port.

The Vessel Speed Reduction Program (VSRP) provides incentives to vessel operators to reduce vessel speeds from 20 knots or more to 12 knots on approach to and departure from the Port.

An economic relief program with an estimated value of more than $28.9 million aimed at helping Port of Los Angeles container terminal operators emerge from the recession was approved by the Los Angeles Harbor Commission on December 10, 2009. The program includes a temporary 6% rate reduction for container terminal operators as well as an empty container and Inland Points Intermodal Incentive discounts. The benefits of the program are spread out over calendar years 2009 through 2011 and beyond.

Competitive Environment

In the year ended June 30, 2010, 99.4% of the entire U.S. West Coast containerized cargo market was controlled by six major container ports: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 71.1% 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 land areas for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but is also the most attractive point of origin for trans-shipments to Midwest and East Coast destinations as the Port has extensive on-dock rail facilities creating intermodal connections that provide for time to market advantages.

West Coast Container Market Share*

(In thousands)

	Year ended June 30			Year ended June 30		
	2010	2009	2008	2010	2009	2008
	Loaded TEUs (In thousands)			Market share Percentage		
Los Angeles	$ 5,287	5,179	5,698	40.2%	41.1%	38.6%
Long Beach	4,071	3,956	4,908	30.9	31.4	33.2
Oakland	1,463	1,313	1,461	11.1	10.4	9.9
Seattle	1,299	939	1,246	9.9	7.4	8.4
Tacoma	815	965	1,178	6.2	7.7	8.0
Portland	141	176	207	1.1	1.4	1.4
All others	81	75	75	0.6	0.6	0.5
Total	$ 13,157	12,603	14,773	100.0%	100.0%	100.0%

* Source: Port Import Export Reporting Service

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.

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

Statements of Net Assets

June 30, 2010 and 2009

(In thousands of dollars)

Assets		**2010**	**2009**
Current assets:			
Cash and investments, unrestricted (note 2)	$	443,034	400,849
Cash and investments, restricted (note 2)		57,703	68,509
Accounts receivable, less allowance for doubtful accounts of $8,310 and $8,395 in 2010 and 2009, respectively		24,552	34,086
Grants receivable (note 14)		14,013	4,308
Materials and supplies inventories		2,292	1,905
Prepaid and deferred expenses		1,659	3,139
Accrued interest receivable		2,018	3,043
Current portion of notes receivable (note 11)		4,393	4,263
Total current assets		549,664	520,102
Noncurrent restricted assets:			
Restricted investments – bond funds (notes 2 and 17)		67,844	61,608
Other restricted cash and investments (note 2)		9,752	9,701
Accrued interest receivable		5	15
Total noncurrent restricted assets		77,601	71,324
Capital assets (notes 3 and 9):			
Land		1,042,081	1,040,942
Harbor facilities and equipment, less accumulated depreciation of $1,203,442 and $1,131,382 in 2010 and 2009, respectively		1,324,063	1,320,643
Intangible assets		12,800	12,800
Construction in progress		500,129	309,599
Preliminary costs – capital projects		208,471	166,584
Net capital assets		3,087,544	2,850,568
Notes receivable (note 11)		24,208	28,621
Investment in Joint Powers Authorities (note 4)		9,520	11,250
Other assets		8,600	8,147
Total assets		3,757,137	3,490,012

(Continued)

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

Statements of Net Assets

June 30, 2010 and 2009

(In thousands of dollars)

Liabilities		**2010**	**2009**
Current liabilities:			
Accounts payable	$	60,226	74,392
Current installments of notes payable and bond indebtedness (note 5)		29,686	25,075
Accrued interest		19,188	15,740
Accrued employee benefits (note 5)		17,591	11,632
Unearned revenue and other deferred credits (note 5)		1,503	1,649
Liabilities under the City of Los Angeles' securities lending program (note 2)		11,440	—
Accrued construction cost payable		3,909	2,976
Other current liabilities (notes 5, 6, and 8)		62,306	86,239
Total current liabilities		205,849	217,703
Long-term liabilities:			
Bond payable, net of deferred amount on refunding and unamortized discount/premium of $20,072 and $10,669 in 2010 and 2009, respectively		900,002	730,099
Notes payable, net of current installments		1,874	2,361
Accrued employee benefits		9,701	9,282
Other liabilities (notes 6 and 8)		95,370	91,436
Liabilities payable from restricted assets – other liabilities		9,587	9,544
Total long-term liabilities		1,016,534	842,722
Total liabilities		1,222,383	1,060,425
Net assets:			
Invested in capital assets, net of related debt		2,164,885	2,101,396
Restricted, bond reserve funds		67,844	61,608
Unrestricted		302,025	266,583
Total net assets	$	2,534,754	2,429,587

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

(In thousands of dollars)

		2010	2009
Operating revenues (note 9):			
Shipping services:			
Wharfage	$	304,653	295,287
Dockage		5,943	6,234
Demurrage		212	227
Cranes		913	1,120
Pilotage		7,025	7,683
Assignment charges		8,883	18,720
Storage		1	76
Total shipping services		327,630	329,347
Rentals:			
Land		39,741	38,875
Buildings		538	491
Warehouses		1,592	1,797
Wharf and shed revenue		1,270	1,205
Total rentals		43,141	42,368
Royalties, fees, and other operating revenues:			
Fees, concessions, and royalties		2,561	3,057
Clean truck program fees		30,505	24,787
Oil royalties		124	144
Other		2,857	2,521
Total royalties, fee, and other operating revenue		36,047	30,509
Total operating revenues		406,818	402,224
Operating and administrative expenses:			
Salaries and benefits (note 10)		96,838	99,350
Marketing and public relations		2,594	3,676
Travel and entertainment		569	635
Outside services		24,428	29,498
Materials and supplies		6,634	8,121
City services, net of capitalized amounts of $14,836 and $11,088 in 2010 and 2009, respectively		31,142	28,704
Provision for workers' compensation claims		264	1,105
Litigation, claims, and settlement expenses (notes 8 and 15)		3,964	13,838
Clean truck program expenses		20,692	54,003
Other operating expenses		23,110	15,213
Total operating and administrative expenses		210,235	254,143
Income from operations before depreciation		196,583	148,081
Depreciation (note 3)		87,255	83,413
Operating income		109,328	64,668

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

(In thousands of dollars)

		2010	2009
Nonoperating revenues (expenses):			
Income from investments in Joint Powers Authorities (note 4)	$	2,270	2,980
Interest and investment income		15,233	18,824
Interest expense on bond indebtedness and notes payable (notes 3 and 5)		(35,663)	(36,979)
Other income and expenses, net		(2,951)	(7,625)
Net nonoperating expenses		(21,111)	(22,800)
Income before capital contributions		88,217	41,868
Capital contributions (note 14)		16,950	4,103
Changes in net assets		105,167	45,971
Total net assets – beginning of year		2,429,587	2,383,616
Total net assets – end of year	$	2,534,754	2,429,587

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands of dollars)

		2010	2009
Cash flows from operating activities:			
Shipping service fees collected	$	335,981	332,992
Rentals collected		43,205	42,362
Royalties, fees, and other operating revenues collected		37,166	30,796
Payments for employee salaries and benefits, net of capitalized amounts of $16,879 and $14,639 in 2010 and 2009, respectively		(90,460)	(97,015)
Payments for goods and services		(136,461)	(157,349)
Net cash used in other nonoperating income and expenses		(4,015)	(522)
Net cash provided by operating activities		185,416	151,264
Cash flows from noncapital and related financing activity:			
Proceeds from noncapital grants		606	1,050
Net cash provided by noncapital and related financing activity		606	1,050
Cash flows from capital and related financing activities:			
Payments for property acquisitions and construction		(327,964)	(171,335)
Proceeds from sales of capital assets		122	8
Proceeds from capital grant		7,245	8,134
Net proceeds from issuance of bonds		430,160	—
Principal repayment, redemption, and defeasance – bonds		(265,070)	(23,210)
Principal repayment – notes		(465)	(445)
Payments to bond sinking fund		(6,236)	(61,520)
Interest paid		(31,960)	(37,673)
Net cash used in capital and related financing activities		(194,168)	(286,041)
Cash flows from investing activities:			
Receipt of interest		16,240	20,975
Increase (decrease) in liabilities under the City of Los Angeles' securities lending program		11,440	(73,692)
Increase (decrease) in fair value of investments		3,562	(14)
Net payments received on notes receivable		4,283	4,154
Distribution from Joint Powers Authorities		4,000	4,000
Net cash provided by (used in) investing activities		39,525	(44,577)
Net increase (decrease) in cash and cash equivalents		31,379	(178,304)
Cash and cash equivalents, at beginning of year		469,358	647,662
Cash and cash equivalents, at end of year	$	500,737	469,358
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	109,328	64,668
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		87,255	83,413
Provision for doubtful accounts		15	—
Change in accounts receivable		9,534	3,926
Change in materials and supplies inventories		(387)	406
Change in prepaid and deferred expenses and other assets		1,027	951
Change in accounts payable		(3,617)	1,834
Change in accrued employee benefits		6,378	2,336
Change in deferred revenue and other deferred credits and other operating liabilities		(24,117)	(6,270)
Total adjustments		76,088	86,596
Net cash provided by operating activities	$	185,416	151,264

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

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands of dollars)

		2010	2009
Noncash investing, capital, and financing activities:			
Acquisition of capital assets with construction payable	$	3,909	2,976
Acquisition of capital assets with accounts payable		6,860	17,409
Write-off of discontinued construction projects		2,398	8,874
Capitalized interest expense, net		9,148	172

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

The financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), hereafter referred to as "Port of Los Angeles" or "Port," have been prepared in conformity with U.S. 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 of the City of Los Angeles) 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, etc.), rental 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* (GASB Statement No. 14), which the Port adopted effective July 1, 1993. The financial statements 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 in conformity with GAAP.

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port by 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 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. 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 financial statements.

(b) Summary of Significant Accounting Policies

Method of Accounting – The Port activities are accounted for as 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.

The Port follows private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) and predecessor standard setters prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The Port also has the option of following subsequent private-sector guidance subject to the same limitation. The Port has elected not to follow subsequent private-sector guidance.

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

Capital Assets – Capital assets are carried at cost or at appraised fair value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation. Capital assets include intangible assets for the Port's radio frequency and emission mitigation credits.

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 15 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. In addition to the $14,836,000 and $11,088,000 of capitalized City services, approximately $5,943,000 and $6,366,000 of other indirect project costs were allocated to construction projects for the years 2010 and 2009, respectively.

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

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects, net of any investment income earned during the temporary investment of project-related borrowings. During the years ended June 30, 2010 and 2009, the Port capitalized net interest expense of $9,148,000 and $172,000, respectively. For fiscal year 2010, gross interest expense of $9,148,000 related to Harbor Revenue Bonds 2006D of $143,000, 2009A of $4,197,000, and 2009B of $4,808,000. For 2009, gross interest expense of $184,000 related to Harbor Revenue Bonds 2006D was reduced by $12,000 of interest income. The remaining interest was expensed as certain projects financed by the commercial paper and Harbor Revenue Bond 2006D proceeds have been completed.

Pooled Cash and Investments – In order to maximize investment return, the Port pools its available cash with that of the City. The City Treasurer makes investment decisions.

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 (note 2). The change in the fair value of pooled investments is allocated to each participating City department/fund based on the aggregate respective cash balances at year-end.

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

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 liability for financial statement presentation.

Operating Leases – A substantial portion of the Port 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 (note 9).

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

Pension and OPEB Plans – All full-time employees of the Port are eligible to participate in the City Employees' Retirement System of the City (the System), a plan available to substantially all City full-time employees. Also, starting fiscal year 2007, all full-time Port Police Officers are eligible to participate in the Los Angeles Fire and Police Pension System (LAFPP), a defined benefit single-employer pension plan available to all full-time active sworn firefighters and police officers (except Airport Police) of the City of Los Angeles. The Port's policy is to fund its entire share of the System and LAFPP pensions and the respective other postemployment benefit (OPEB) 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 (note 10).

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.

Statements of Net Assets – The statements of net assets are designed to display the financial position of the Port. The Port's equity is reported as net assets, which is classified into three categories defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

Operating Revenues and Expenses – Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Port. Operating revenues consist primarily of charges for services and rentals of properties. Nonoperating revenues and expenses consist of those revenues and expenses that relate to financing and investing activities and result from ancillary activities.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the amounts reported in 2009 in order to conform to the 2010 presentation. Such reclassifications had no effect on the previously reported change in net assets.

(2) Cash and Investments

(a) Cash and Pooled Investments

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

Pursuant to California Government Code Section 53607 and Los Angeles City Council File No. 94-2160, the City Treasury shall render to the City Council a statement of Investment Policy (the Policy) annually. The Policy governs the City’s pooled investment practices. City Council File No. 09-3050 was adopted on January 27, 2010 as the City’s investment policy for calendar year 2010. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1.

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

		2010	2009
Cash in bank and certificates of deposit	$	374	374
Investment in U.S. Treasury money market fund		67,844	61,608
Investment in the City of Los Angeles Investment Pool		510,115	478,685
Total cash and investments	$	578,333	540,667

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 of Harbor Commissioners. The Port's unrestricted and restricted cash and investments are as follows (in thousands):

		2010	2009
Unrestricted cash and investments	$	443,034	400,849
Restricted cash and investments:			
Current:			
China Shipping Mitigation Fund		37,815	48,547
Community Aesthetics Mitigation Fund for Parks		3,474	3,448
Community Mitigation Trust Fund – Trapac		15,734	11,421
Customs Enforcement Forfeiture Fund		20	—
Clean Truck Fee Fund		72	4,551
Other		588	542
Sub-total – Current		57,703	68,509
Noncurrent:			
Harbor Revenue Bond Funds		67,844	61,608
Customer security deposits		3,222	3,199
Batiquitos Environmental Fund		5,974	5,947
Harbor Restoration Fund		556	555
Sub-total – Noncurrent		77,596	71,309
Total restricted cash and investments		135,299	139,818
Total cash and investments	$	578,333	540,667

(b) Deposits – Custodial Credit Risk

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to $374,000 and $374,000 at June 30, 2010 and 2009, respectively, with corresponding bank balances of $179,000 and $183,000, 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 conformity with the State Government Code.

(c) Investments Authorized by the City's Investment Policy

General Pool Investments

The table below identifies the investment types that are authorized in the investment policy for the City of Los Angeles's General Pool and certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

	Maximum maturities	Maximum specified percentage of portfolio
Local Agency Bonds	5 years	None
U.S. Treasury Obligations	5 years	None
State of California Obligations	5 years	None
CA Local Agency Obligations	5 years	None
U.S. Agencies	5 years	None
Bankers' Acceptances	180 days	40 [(2)]
Commercial Paper	270 days	40[(3)]
Negotiable certificates of deposit	5 years	30 [(4)]
CD Placement Service	5 years	30 [(4)]
Repurchase Agreements	1 year	None
Reverse Repurchase Agreements	92 days [(5)]	20
Medium Term Corporate Notes	5 years	30
Mutual Funds and Money Market Mutual Funds	N/A	20 [(6)]
Collateralized Bank Deposits	5 years	None
Mortgage Pass-Through Securities	5 years	20
Bank/Time Deposits	5 years	None

(1) Sources: Government Code Sections 16429.1, 53601, 53601.8, 53635, and 53638.

(2) No more than 30 percent of the agency's funds may be in Bankers' Acceptances of any one commercial bank.

(3) No more than 10 percent of the City's funds may be invested in the Commercial Paper of any one issuer. Under Section 53635(a), the City of Los Angeles is subject to the concentration limits for counties and for cities and counties with regard to the investment of money in eligible commercial paper.

(4) No more than 30 percent of the City's total funds may be invested in Certificates of Deposits authorized under Sections 53601.8, 53635.8, and 53601 (i) combined.

(5) Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase or securities lending agreement and the final maturity dates of the same security.

(6) No more than 10 percent of the City's money may be invested in any one mutual fund.

Special Investment Pool Investments

The Port has three restricted funds that are invested in the City's Special Investment Pool. These are Emergency Fund, Harbor Restoration Fund, and Batiquitos Environmental Fund. Investments in the

Special Investment Pool are managed in accordance with the pool's policy. If none exists, the pool's policy will be deemed to be the California State Government Code Sections 53600-53636 et. Seq. Funds in the three restricted funds were solely invested in government agency securities with maturities of 182 days or less per Harbor Department instruction.

(d) City of Los Angeles Investment Pool

At June 30, 2010 and 2009, the investments held in the City Treasury's General Pool and Special Investment Pool Program and their maturities are as follows (in thousands):

		Investment maturities June 30, 2010				
Type of investments		**Amount**	**1 to 30 days**	**31 to 60 days**	**61 to 365 days**	**366 days to 5 years**
U.S. Treasury notes	$	1,977,346	—	—	—	1,977,346
U.S. Treasury Bills		1,002,601	474,965	288,831	238,805	—
U.S. sponsored agency issues		2,830,258	474,135	590,834	693,595	1,071,694
Medium-term notes		735,133	—	—	20,036	715,097
Commercial paper		594,181	322,519	117,918	153,744	—
Certificates of deposit		9,000	—	—	9,000	—
Short-term investment funds		41,770	41,770	—	—	—
Securities lending cash collateral:						
U.S. Treasury notes		54,031	—	—	—	54,031
U.S. Sponsored agency issues		111,068	—	—	—	111,068
Total general and special pools	$	7,355,388	1,313,389	997,583	1,115,180	3,929,236

		Investment maturities June 30, 2009				
Type of investments		**Amount**	**1 to 30 days**	**31 to 60 days**	**61 to 365 days**	**366 days to 5 years**
U.S. Treasury notes	$	1,613,049	—	—	—	1,613,049
U.S. Treasury Bills		44,984	—	44,984	—	—
U.S. sponsored agency issues		1,428,909	164,842	82,201	182,052	999,814
Medium-term notes		1,047,781	—	25,153	125,866	896,762
Commercial paper		1,348,312	992,287	235,582	120,443	—
Guaranteed investment contracts		70,081	70,081	—	—	—
Certificates of deposit		9,000	—	—	9,000	—
Short-term investment funds		3	3	—	—	—
Total general and special pools	$	5,562,119	1,227,213	387,920	437,361	3,509,625

The Port has $510,115,000 and $478,685,000 invested in the City's General Pool and three Special Investment Programs, which represent approximately 8.1% and 8.5% of the City Treasury's General Pool and Special Pool at June 30, 2010 and 2009, respectively.

Interest Rate Risk: The Policy limits the maturity of its investments to a maximum of five years for the U.S. Treasury and government agency securities, medium-term notes, CD placement service, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits, one year for repurchase agreements, 270 days for commercial paper, 180 days for bankers' acceptances, and 92 days for reverse repurchase agreements.

Credit Risk: The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Agencies (U.S. government sponsored enterprises) securities in the Policy. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term notes must have at least an "A" rating. Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of $500 million.

Concentration of Credit Risk: The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium-term notes, 20% in mutual funds and money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers' acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in anyone issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2010, $887.3 million (12%) was invested in securities issued by the Federal Home Loan Bank, $476.2 million (6%) was invested in securities issued by Federal Home Loan Mortgage Corporation, $763.7 million (10%) was invested in securities issued by Federal National Mortgage Association, and $500.5 million (7%) was invested in securities issued by Freddie Mac.

(e) City of Los Angeles Securities Lending Program

The Securities Lending Program (the SLP) is permitted and limited under provision of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

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

The Port participates in the City of Los Angeles securities lending program (SLP). 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 102.0% 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 and in accordance with the California Government Code, no more than 20.0% of the par value of the City's General Investment Pool (the Pool) shall be available for lending. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk. Except for open loans where either party can terminate a lending contract on demand, term loans shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro rata basis to all Pool participants. Net revenues earned by the City on its securities lending program totaled $10,277 and $688,000 for the years ended June 30, 2010 and 2009, respectively.

Due to the extreme volatility in the financial markets, the City's SLP was temporarily suspended in November 2008 and resumed in April 2010. The Port's share of cash collateral received and corresponding liability aggregated approximately $11,440,000 at June 30, 2010.

(f) Other Investments

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

As a result of the credit downgrades of the bond insures (Ambac, FGIC, and MBIA) during 2008, the Port cash funded its debt service reserve funds in December 2008. Subsequent to the issuance of the 2009 Series C Refunding Bonds and the 2009 Series A and Series B New Money Bonds, the debt service reserve requirement increased to $67.8 million at June 30, 2010 from $62.0 million at June 30, 2009. The majority of the debt reserve funds were invested at Federal Agency Securities rated "Aaa" by Moody's and "AAA" by Standard & Poor's (S&P).

Proceeds from the issuance of the 2009 Series A and Series B New Money Bonds were deposited into the construction funds and invested through the trustee bank at U.S. Treasury notes with laddered maturities through April 30, 2010. The investments were made with an objective of seeking maximum returns to the extent consistent with preservation of capital and maintenance of liquidity, as specified in the indenture of trust.

(I) Permitted investments may include one of the following: (a) direct obligations of the United of America or obligations of the principal of and interest on which are unconditionally guaranteed by the United States of America; (b) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by the federal or U.S. government agencies identified in the Indenture; (c) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating of AAAm-G, AAA-m, or AA-m by S&P and Aaa, Aa1, or Aa2 by Moody's; (d) certificates of deposit issued by commercial bank, savings and loan associations, or mutual saving banks and secured at all times by collateral held by a third party; (e) certificates of deposits, savings accounts, deposit accounts, or money market deposits, which are fully insured by FDIC, including BIF and SAIF; (f) investment agreements including guaranteed investment contracts, forward purchase agreements, and reserve fund agreements with a provider whose long-term unsecured debt is rated not lower than the second highest rating category of Moody's, and S&P; (g) commercial paper rated at the time of purchase, "Prime-1" by Moody's, and "A-1" or better by S&P; (h) bonds or notes issued by any state or municipality, which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies; (i) federal funds or bankers acceptances with a maximum term of one year of any bank, which has an unsecured, uninsured, and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P; and (j) repurchase agreements between the department and a dealer bank and securities firm. The term of the repurchase agreement may be up to 30 days and the value of the collateral must be equal to 104% of the amount of cash transferred to the dealer bank plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the department then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC then the value of collateral must equal to 105%.

(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2010 and 2009 (in thousands):

	July 1, 2009	Increases	Decreases	June 30, 2010
Capital assets not being depreciated:				
Land	$ 1,040,942	1,139	—	1,042,081
Construction	309,599	258,764	(68,234)	500,129
Preliminary costs – Capital projects	166,584	41,974	(87)	208,471
Intangible asset – radio frequency/ mitigation credits	12,800	—	—	12,800
Total capital assets not being depreciated	1,529,925	301,877	(68,321)	1,763,481
Capital assets being depreciated/ amortized:				
Wharves and sheds	685,430	5,724	—	691,154
Buildings/facilities	1,692,931	64,235	(15,243)	1,741,923
Equipment	73,664	21,582	(818)	94,428
Total capital assets being depreciated/amortized	2,452,025	91,541	(16,061)	2,527,505
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(302,464)	(18,859)	—	(321,323)
Buildings/facilities	(790,725)	(60,690)	14,378	(837,037)
Equipment	(38,193)	(7,706)	817	(45,082)
	(1,131,382)	(87,255)	15,195	(1,203,442)
Total capital assets being depreciated/amortized net	1,320,643	4,286	(866)	1,324,063
Total capital assets, net	$ 2,850,568	306,163	(69,187)	3,087,544

	July 1, 2008	Increases	Decreases	June 30, 2009
Capital assets not being depreciated:				
Land	$ 1,012,297	28,645	—	1,040,942
Construction	239,291	113,737	(43,429)	309,599
Preliminary costs – Capital projects	128,434	52,718	(14,568)	166,584
Intangible asset – radio frequency/ mitigation credits	12,450	350	—	12,800
Total capital assets not being depreciated	1,392,472	195,450	(57,997)	1,529,925
Capital assets being depreciated/ amortized:				
Wharves and sheds	660,308	25,122	—	685,430
Buildings/facilities	1,689,553	3,378	—	1,692,931
Equipment	74,324	9,613	(10,273)	73,664
Total capital assets being depreciated/amortized	2,424,185	38,113	(10,273)	2,452,025
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(284,190)	(18,274)	—	(302,464)
Buildings/facilities	(731,832)	(58,893)	—	(790,725)
Equipment	(42,135)	(6,246)	10,188	(38,193)
	(1,058,157)	(83,413)	10,188	(1,131,382)
Total capital assets being depreciated/amortized net	1,366,028	(45,300)	(85)	1,320,643
Total capital assets, net	$ 2,758,500	150,150	(58,082)	2,850,568

Net interest expense of $9,148,000 and $172,000 were capitalized for 2010 and 2009, respectively.

(4) Investment in Joint Powers Authorities and Other Entities

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

(a) Intermodal Container Transfer Facility Joint Powers Authority

The Port 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 in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42,915,000 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, nor the Port of Los Angeles, nor the Port of Long Beach.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those actions necessary for the development of its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's share of net assets at June 30, 2010 and 2009 is $9,520,000 and $11,250,000, 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 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 has no share of the ACTA's net assets and income at June 30, 2010 and 2009, and accordingly, they have not been recorded in the accompanying financial statements.

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

(5) Long-Term Liabilities

Long-term debt consists of the following for the year ending June 30, 2010:

	Call provisions	Interest rate	Fiscal maturity year	Original amount	Beginning balance July 1, 2009	Additions	Reductions	Ending balance June 30, 2010	Principal due within one year
Parity bonds:									
Harbor Revenue bonds, Issue 2001, Series A	8/1/2011 @ 100%	5.00%	2026	$ 36,180	36,180	—	—	36,180	—
Harbor Revenue bonds, Issue 2001, Series B	8/1/2011 @ 100%	5.25% – 5.50%	2023	64,925	64,925	—	—	64,925	—
Harbor Revenue bonds, Issue 2002, Series A	8/1/2012 @ 100%	5.50%	2016	63,520	40,995	—	5,275	35,720	5,564
Harbor Revenue bonds, Issue 2005, Series A	8/1/2015 @ 102%	3.25% – 5.00%	2027	29,930	29,930	—	—	29,930	275
Harbor Revenue bonds, Issue 2005, Series B	8/1/2015 @ 102%	3.00% – 5.00%	2027	30,110	29,985	—	850	29,135	1,200
Harbor Revenue bonds, Issue 2005, Series C-1	8/1/2015 @ 102%	4.00% – 5.00%	2018	43,730	34,540	—	4,245	30,295	7,125
Harbor Revenue bonds, Issue 2006, Series A	8/1/2016 @ 102%	5.00%	2027	200,710	181,855	—	129,655	52,200	1,270
Harbor Revenue bonds, Issue 2006, Series B	8/1/2016 @ 102%	5.00%	2027	209,815	201,395	—	100,085	101,310	7,885
Harbor Revenue bonds, Issue 2006, Series C	8/1/2016 @ 102%	5.00%	2026	16,545	16,310	—	635	15,675	665
Harbor Revenue bonds, Issue 2006, Series D	8/1/2016 @ 102%	4.50% – 5.00%	2037	111,300	107,925	—	24,325	83,600	1,915
Harbor Revenue bonds, Issue 2009, Series A	8/1/2019 @ 100%	2.00% – 5.25%	2029	100,000	—	100,000	—	100,000	3,300
Harbor Revenue bonds, Issue 2009, Series B	8/1/2019 @ 100%	5.25%	2040	100,000	—	100,000	—	100,000	—
Harbor Revenue bonds, Issue 2009, Series C	8/1/2019 @ 100%	4.50% – 5.00%	2032	230,160	—	230,160	—	230,160	—
Total parity bonds				$ 1,236,925	744,040	430,160	265,070	909,130	29,199
Dept. of Boating and Waterways (DBW) Loans									
C#82-21-148		4.50%	2014	$ 4,000	1,317	—	240	1,077	252
C#83-21-147		4.50%	2015	4,000	1,509	—	225	1,284	235
Total loans				$ 8,000	2,826	—	465	2,361	487
Unamortized bond premium					24,672	13,342	10,753	27,261	—
Unamortized deferred amount on refunding					(14,003)	—	(6,813)	(7,190)	—
Current maturities of long-term debt					(25,075)	(29,686)	(25,075)	(29,686)	—
Total long-term debt					$ 732,460	413,816	244,400	901,876	29,686

(Continued)

Long-term debt consists of the following for the year ending June 30, 2009:

	Call provisions	Interest rate	Fiscal maturity year	Original amount	Beginning balance July 1, 2008	Additions	Reductions	Ending balance June 30, 2009	Principal due within one year
Parity bonds:									
Harbor Revenue bonds, Issue 2001, Series A	8/1/2011 @ 100%	5.00%	2026	$ 36,180	36,180	—	—	36,180	—
Harbor Revenue bonds, Issue 2001, Series B	8/1/2011 @ 100%	5.25% – 5.50%	2023	64,925	64,925	—	—	64,925	—
Harbor Revenue bonds, Issue 2002, Series A	8/1/2012 @ 100%	5.50%	2016	63,520	45,995	—	5,000	40,995	5,275
Harbor Revenue bonds, Issue 2005, Series A	8/1/2015 @ 102%	3.25% – 5.00%	2027	29,930	29,930	—	—	29,930	—
Harbor Revenue bonds, Issue 2005, Series B	8/1/2015 @ 102%	3.00% – 5.00%	2027	30,110	30,110	—	125	29,985	850
Harbor Revenue bonds, Issue 2005, Series C-1	8/1/2015 @ 102%	4.00% – 5.00%	2018	43,730	38,685	—	4,145	34,540	1,540
Harbor Revenue bonds, Issue 2006, Series A	8/1/2016 @ 102%	5.00%	2027	200,710	189,400	—	7,545	181,855	8,515
Harbor Revenue bonds, Issue 2006, Series B	8/1/2016 @ 102%	5.00%	2027	209,815	205,825	—	4,430	201,395	5,975
Harbor Revenue bonds, Issue 2006, Series C	8/1/2016 @ 102%	5.00%	2026	16,545	16,545	—	235	16,310	635
Harbor Revenue bonds, Issue 2006, Series D	8/1/2016 @ 102%	4.50% – 5.00%	2038	111,300	109,655	—	1,730	107,925	1,820
Total parity bonds				$ 806,765	767,250	—	23,210	744,040	24,610
Dept. of Boating and Waterways (DBW) Loans									
C#82-21-148		4.50%	2014	$ 4,000	1,547	—	230	1,317	240
C#83-21-147		4.50%	2015	4,000	1,724	—	215	1,509	225
Total loans				$ 8,000	3,271	—	445	2,826	465
Unamortized bond premium					26,290	—	1,618	24,672	—
Unamortized deferred amount on refunding					(15,059)	—	(1,056)	(14,003)	—
Current maturities of long-term debt					(23,655)	(1,420)	—	(25,075)	—
Total long-term debt					$ 758,097	(1,420)	24,217	732,460	25,075

The Port's required debt service payments for long-term debt for years ending June 30 are as follows:

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2011	$ 29,686	45,235	74,921
2012	30,958	43,801	74,759
2013	31,816	42,315	74,131
2014	33,325	40,776	74,101
2015	34,445	39,106	73,551
2016 – 2020	203,935	166,714	370,649
2021 – 2025	260,835	107,794	368,629
2026 – 2030	144,615	47,962	192,577
2031 – 2035	71,965	27,712	99,677
2036 – 2040	69,911	8,347	78,258
Subtotal	911,491	569,762	1,481,253
Unamortized bond premium (discount), net	27,261	—	27,261
Unamortized deferred amount on refunding	(7,190)	—	(7,190)
Current maturities of long term debt	(29,686)	—	(29,686)
Total per financial statement	$ 901,876	569,762	1,471,638

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

(a) Bonds Payable

2001 Series A Refunding Bonds

The 2001 Series A Refunding Bonds were issued on July 11, 2001 in the aggregate principal amount of $36,180,000 to advance refund, on a crossover basis, $33,330,000 of the 1995 Series B Bonds. Interest on the 2001 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2002. The 2001 Series A Refunding Bonds with maturity dates ranging from August 1, 2022 to 2025 bear interest at a rate of 5.0%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without early redemption premium.

The outstanding balances of the 2001 Series A Refunding Bonds, net of unamortized discount of $768,000 and $819,000 and unamortized deferred amount on refunding of $700,000 and $747,000 were $34,712,000 and $34,614,000 at June 30, 2010 and 2009, respectively.

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

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2011	$ —	1,809	1,809
2012	—	1,809	1,809
2013	—	1,809	1,809
2014	—	1,809	1,809
2015	—	1,809	1,809
2016 – 2020	—	9,045	9,045
2021 – 2025	23,910	7,782	31,692
2026	12,270	307	12,577
Subtotal	36,180	26,179	62,359
Unamortized deferred amount on refunding of 1995 Series B	(700)	—	(700)
Unamortized discount	(768)	—	(768)
Total	$ 34,712	26,179	60,891

2001 Series B Refunding Bonds

The Port issued the 2001 Series B Refunding Bonds in the aggregate principal amount of $64,925,000 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 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2002. The 2001 Series B Refunding Bonds with maturity dates ranging from August 1, 2015 to 2022 bear interest at rates from 5.25% to 5.50%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without early redemption premium.

The outstanding balances of the 2001 Series B Refunding Bonds, plus unamortized premium of $622,000 and $674,000 and unamortized deferred amount on refunding of $2,567,000 and $2,781,000, were $62,980,000 and $62,818,000 at June 30, 2010 and 2009, respectively.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2011	$	—	3,547	3,547
2012		—	3,547	3,547
2013		—	3,547	3,547
2014		—	3,547	3,547
2015			3,547	3,547
2016 – 2020		35,910	13,551	49,461
2021 – 2025		29,015	2,334	31,349
Subtotal		64,925	33,620	98,545
Unamortized deferred amount on refunding of 1995 Series B		(2,567)	—	(2,567)
Unamortized premium		622	—	622
Total	$	62,980	33,620	96,600

2002 Series A Refunding Bonds

The 2002A Series A Refunding Bonds were issued in the aggregate principal amount of $63,520,000 on May 6, 2002, on a crossover basis, to advance refund $64,110,000 of the outstanding 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 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 2002. The 2002 Series A Refunding Bonds with maturity ranging from August 1, 2004 to 2015 bear interest rates from 5.25% to 5.50%. The bonds maturing on or after August 1, 2012 are subject to optional redemption without an early redemption premium.

Prior to the Crossover Date, interest on the 2002 Series A Refunding Bonds was secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture.

The outstanding balances of the 2002 Series A Refunding Bonds, net of unamortized premium of $916,000 and $1,097,000 and unamortized deferred amount on refunding of $787,000 and $942,000 were $35,849,000 and $41,150,000 at June 30, 2010 and 2009, respectively.

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

		Annual debt service requirement		
		Principal	Interest	Total
Fiscal year:				
2011	$	5,564	1,812	7,376
2012		5,865	1,497	7,362
2013		6,190	1,166	7,356
2014		6,535	816	7,351
2015		6,895	446	7,341
2016 – 2016		4,671	128	4,799
Subtotal		35,720	5,865	41,585
Unamortized deferred amount on refunding of 1995 Series B		(787)	—	(787)
Unamortized premium		916	—	916
Total	$	35,849	5,865	41,714

On August 1, 2002, the refunding of 1995 Series 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 $3,819,000. The difference is prorated to 2001 Series A Bonds, 2001 Series B Bonds, and 2002 Series A Bonds based on the face value. They are reported in the accompanying financial statements as a deduction from bonds payable and charged to operations through 2025 using the straight-line method.

2005 Series A Refunding Bonds

The 2005 Series A Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $29,930,000 to advance refund, on a crossover basis, $30,935,000 of the 1996 Series A Bonds on their call date (the Crossover Date) of August 1, 2006.

Interest on the 2005 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006. The 2005 Series A Bonds with maturity dates ranging from August 1, 2010 to 2026 bear interest at rates from 3.25% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

Prior to the Crossover Date, interest on the Series 2005 Series A Bonds is payable from and secured solely by investment receipts from and amounts on deposit in the related crossover refunding escrow accounts. Until the Crossover Date, the 2005 Series A Bonds are not on parity with other outstanding Harbor Revenue Bonds.

The outstanding balances of the 2005 Series A Bonds, plus the unamortized premium of $1,549,000 and $1,645,300 and unamortized deferred amount on refunding of $469,000 and $498,000, were $31,010,000 and $31,077,000 at June 30, 2010 and 2009, respectively.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
2011	$ 275	1,428	1,703
2012	1,285	1,401	2,686
2013	1,315	1,358	2,673
2014	1,370	1,310	2,680
2015	1,435	1,248	2,683
2016 – 2020	8,375	5,058	13,433
2021 – 2025	10,755	2,679	13,434
2026 – 2027	5,120	259	5,379
Subtotal	29,930	14,741	44,671
Unamortized deferred amount on refunding of 1995 Series B	(469)	—	(469)
Unamortized premium	1,549	—	1,549
Total	$ 31,010	14,741	45,751

2005 Series B Refunding Bonds

The 2005 Series B Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $30,110,000, on a crossover basis, to advance refund $31,690,000 of the 1996 Series B Bonds on their call date of November 1, 2006 (the Crossover Date).

Interest on the 2005 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series B Bonds with maturity dates ranging from August 1, 2008 to August 1, 2026 bear interest at rates from 3% to 5%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

Prior to the Crossover Date, interest on the 2005 Series B Bonds is payable from and secured solely by investment receipts from deposits in the related crossover refunding escrow funds. Until the Crossover Date, the 2005 Series B Bonds are not on parity with other outstanding Harbor Revenue Bonds.

The outstanding balances of the 2005 Series B Bonds, plus the unamortized premium of $1,582,000 and $1,680,000 and unamortized deferred amount on refunding of $452,000 and $480,000, were $30,265,000 and $31,185,000 at June 30, 2010 and 2009, respectively.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2011	$	1,200	1,382	2,582
2012		1,215	1,334	2,549
2013		1,280	1,284	2,564
2014		1,345	1,232	2,577
2015		1,415	1,169	2,584
2016 – 2020		8,240	4,681	12,921
2021 – 2025		10,585	2,340	12,925
2026 – 2027		3,855	166	4,021
Subtotal		29,135	13,588	42,723
Unamortized deferred amount on refunding of 1995 Series B		(452)	—	(452)
Unamortized premium		1,582	—	1,582
Total	$	30,265	13,588	43,853

2005 Series C Refunding Bonds

The 2005 Series C-1 Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of $43,730,000 to reimburse Citigroup and De La Rosa for and to pay fees associated with the purchase on the open market of the purchased 1996 Bonds.

Interest on the 2005 Series C-1 Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006, with principal payments commencing August 1, 2006. The 2005 Series C-1 Bonds with maturity dates ranging from August 2006 to 2026 bear interest at rates from 4% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

The 2005 Series C-2 Bonds were issued for $4,090,000 to pay certain issuance costs. The 2005 Series C-2 Bonds were sold at rate of 4.75%. The bonds are maturing on August 1, 2006 and are not subject to redemption prior to maturity.

On July 9 2009, the Department issued the 2009 Series C Refunding Bonds to refund $2,705,000 of the 2006 Series A Bonds. The outstanding balances of the 2005 Series C Refunding Bonds, net of unamortized premium of $1,437,000 and $1,780,000 ~~and~~ and unamortized deferred amount on refunding of $1,001,000 and $1,240,000 were $30,731,000 and $35,080,000 at June 30, 2010 and 2009, respectively.

Debt service of the Port's 2005 Series C Bonds is as follows (in thousands):

		Annual debt service requirement		
		Principal	Interest	Total
Fiscal year:				
2011	$	7,125	1,332	8,457
2012		15,290	772	16,062
2013		—	389	389
2014		—	389	389
2015		470	380	850
2016 – 2019		7,410	926	8,336
Subtotal		30,295	4,188	34,483
Unamortized deferred amount on refunding of 1995 Series B		(1,001)	—	(1,001)
Unamortized premium		1,437	—	1,437
Total	$	30,731	4,188	34,919

The 2005 Series A, B and C refunding transactions resulted in an economic gain of $4,049,353 and a reduction of $6,103,824 in future debt service payments.

2006 Series A Refunding Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of $200,710,000, on a forward delivery basis, to currently refund $202,705,000 of the 1996A Bonds. The 2006 Series A refunding transactions resulted in an economic gain of $27,665,368 and a reduction of $44,824,990 in future debt service payments.

Interest on the 2006 Series A Bonds is payable semiannually on February 1 and August 1 of each year. Principal and interest are payable commencing August 1, 2006. The 2006 Series A Bonds bear interest at a rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2024. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

On July 9 2009, the Department issued the 2009 Series C Refunding Bonds to refund $121,140,000 of the 2006 Series A Bonds. The outstanding balances of the 2006 Series A Bonds, net of unamortized premium of $2,293,000 and $7,095,000 and unamortized deferred amount on refunding of $1,005,000 and $3,196,000 were $53,488,000 and $185,954,000 at June 30, 2010 and 2009, respectively.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2011	$	1,270	2,578	3,848
2012		800	2,527	3,327
2013		—	2,507	2,507
2014		—	2,507	2,507
2015		1,370	2,472	3,842
2016 – 2020		19,115	10,290	29,405
2021 – 2025		29,645	4,358	34,003
Subtotal		52,200	27,239	79,439
Unamortized deferred amount on refunding of 1995 Series B		(1,005)	—	(1,005)
Unamortized premium		2,293	—	2,293
Total	$	53,488	27,239	80,727

2006 Series B Refunding Bonds

The 2006 Series B Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $209,815,000, on a forward delivery basis, to currently refund $211,895,000 of the 1996 Series B Bonds. The 2006 Series B refunding transactions resulted in an economic gain of $18,879,238 and a reduction of $34,739,094 in future debt service payments.

Interest on the 2006 Series B Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series B Bonds bear interest at a rate of 5% with maturity dates ranging from August 1, 2007 to August 1, 2025. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

On July 9 2009, the Department issued the 2009 Series C Refunding Bonds to refund $94,110,000 of the 2006 Series A Bonds. The outstanding balances of the 2006 Series B Bonds, net of unamortized premium of $3,580,000 and $7,138,000 and unamortized deferred amount on refunding of $1,915,000 and $3,818,000 were $102,975,000 and $204,715,000 at June 30, 2010 and 2009, respectively.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2011	$	7,885	4,868	12,753
2012		—	4,671	4,671
2013		3,325	4,588	7,913
2014		6,000	4,355	10,355
2015		—	4,205	4,205
2016 – 2020		53,115	14,616	67,731
2021 – 2025		30,760	1,614	32,374
2026 – 2027		225	6	231
Subtotal		101,310	38,923	140,233
Unamortized deferred amount on refunding of 1995 Series B		(1,915)	—	(1,915)
Unamortized premium		3,580	—	3,580
Total	$	102,975	38,923	141,898

2006 Series C Refunding Bonds

The 2006 Series C Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $16,545,000, on a forward delivery basis, to currently refund $17,065,000 of the 1996 Series C Bonds. The refunding transactions resulted in an economic gain of $1,217,279 and a reduction of $1,552,163 in future debt service payments.

Interest on the 2006 Series C Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series C Bonds bear interest at a rate of 5% with maturity dates ranging from August 1, 2008 to August 1, 2025. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The outstanding balances of the 2006 Series C Bonds, net of unamortized premium of $811,000 and $865,000 and unamortized deferred amount on refunding of $283,000 and $301,000 were $16,203,000 and $16,873,000 at June 30, 2010 and 2009, respectively.

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

		Annual debt service requirement	
	Principal	**Interest**	**Total**
Fiscal year:			
2011	$ 665	767	1,432
2012	700	733	1,433
2013	730	697	1,427
2014	765	660	1,425
2015	810	621	1,431
2016 – 2020	4,690	2,438	7,128
2021 – 2025	5,955	1,113	7,068
2026 – 2027	1,360	34	1,394
Subtotal	15,675	7,063	22,738
Unamortized deferred amount on refunding of 1995 Series B	(283)	—	(283)
Unamortized premium	811	—	811
Total	$ 16,203	7,063	23,266

2006 Series D Refunding Bonds

The 2006 Series D Refunding Bonds were issued on August 31, 2006 in the aggregate principal amount of $111,300,000 to refund $113,561,000 of the Commercial Paper Notes.

Interest on the 2006 Series D Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series D Bonds bear interest at rates ranging from 4.5% to 5.0% with maturity dates from August 1, 2007 to August 1, 2036. The bonds maturing on or after August 1, 2016 are subject to optional redemption without an early redemption premium.

On July 9 2009, the Department issued the 2009 Series C Refunding Bonds to refund $22,505,000 of the 2006 Series D Bonds. The outstanding balances of the 2006 Series D Bonds, plus the unamortized premium of $2,529,000 and $3,317,000, were $86,129,000 and $111,242,000 at June 30, 2010 and 2009, respectively.

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

		Annual debt service requirement		
		Principal	Interest	Total
Fiscal year:				
2011	$	1,915	4,063	5,978
2012		1,410	3,980	5,390
2013		2,115	3,892	6,007
2014		2,225	3,783	6,008
2015		2,335	3,669	6,004
2016 – 2020		10,325	17,089	27,414
2021 – 2025		13,620	13,473	27,093
2026 – 2030		10,200	11,269	21,469
2031 – 2035		25,905	6,823	32,728
2036 – 2037		13,550	647	14,197
Subtotal		83,600	68,688	152,288
Unamortized premium		2,529	—	2,529
Total	$	86,129	68,688	154,817

2009 Series A New Money Bonds

The 2009 Series A New Money Bonds were issued on July 9, 2009 in the aggregate principal amount of $100,000,000, in accordance with the American Recovery and Reinvestment Tax Act of 2009, enacted on February 19, 2009 (ARRA). The Bonds were issued to (i) finance certain Private Activity Projects; (ii) fund a debt service reserve fund with respect to the 2009A Bonds; and (iii) pay the costs incidental to the issuance of the 2009A Bonds.

Interest on the 2009 Series A Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear interest at rates ranging from 2.00% to 5.25% with maturity dates from August 1, 2010 to August 1, 2029. The Bonds maturing on or after August 1, 2019 are subject to optional redemption without an early redemption premium. The Bonds are not subject to mandatory redemption.

The outstanding balance of the 2009 Series A Bonds, net of unamortized premium of $2,789,000 was $102,789,000 at June 30, 2010.

Harbor Revenue Bonds, Issue of 2009A:

		Annual debt service requirement		
		Principal	Interest	Total
Fiscal year:				
2011	$	3,300	4,637	7,937
2012		3,365	4,554	7,919
2013		3,465	4,447	7,912
2014		3,580	4,319	7,899
2015		3,720	4,154	7,874
2016 – 2020		21,285	18,093	39,378
2021 – 2025		26,795	12,354	39,149
2026 – 2030		34,490	4,489	38,979
Subtotal		100,000	57,047	157,047
Unamortized premium		2,789	—	2,789
Total	$	102,789	57,047	159,836

2009 Series B New Money Bonds

Along with the issuance of the 2009 Series A New Money Bonds, the Department issued its 2009 Series B Bonds in the aggregate principal amount of $100,000,000 in accordance with the “ARRA” of 2009. The Bonds were issued to (i) finance certain Governmental Projects in fiscal years 2009 and 2010; (ii) fund a debt service reserve fund with respect to the 2009B Bonds; and (iii) pay the costs incidental to the issuance of the 2009B Bonds.

Interest on the 2009 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear interest rate at 5.25% with maturity dates from August 1, 2030 to August 1, 2039. The Bonds maturing on or after August 1, 2019 are subject to optional redemption without early redemption premium. The Bonds maturing on August 1, 2034 (the 2009B 2034 Term bonds) and on August 1, 2039 (the 2009B 2039 Term bonds) are subject to mandatory sinking-fund redemption.

The outstanding balance of the 2009 Series B Bonds, net of unamortized discount of $2,258,000 was $97,742,000 at June 30, 2010**.**

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2011	$	—	5,250	5,250
2012		—	5,250	5,250
2013		—	5,250	5,250
2014		—	5,250	5,250
2015		—	5,250	5,250
2016 – 2020		—	26,250	26,250
2021 – 2025		—	26,250	26,250
2026 – 2030		—	26,250	26,250
2031 – 2035		43,640	20,756	64,396
2036 – 2040		56,360	7,700	64,060
Subtotal		100,000	133,456	233,456
Unamortized discount		(2,258)	—	(2,258)
Total	$	97,742	133,456	231,198

2009 Series C Refunding Bonds

Contemporaneously with the issuance of the 2009 Series A and Series B New Money Bonds, the Department issued the 2009 Series C Refunding Bonds in the aggregate principal amount of $230,160,000. The Bonds were issued to provide funds for the purchase of certain maturities of the Department’s outstanding (i) Refunding Revenue Bonds 2005 Series C-1 (AMT) of $2,705,000, (ii) Refunding Revenue Bonds 2006 Series A (AMT) of $121,140,000, (iii) Refunding Revenue Bonds 2006 Series B (AMT) of $94,110,000, and (iv) Revenue Bonds 2006 Series D (AMT) of $22,505,000. The refunding transactions resulted in a reduction of $12,668,078 in future debt service payments and the net present value benefits of $8,202,056.

Interest on the 2009 Series C Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear interest rates ranging from 4.00% to 5.25% with maturity dates from August 1, 2011 to August 1, 2031. The Bonds maturing on or after August 1, 2019 are subject to optional redemption without early redemption premium. The Bonds with a stated maturity of August 1, 2021, which bears interest at 5.00% per annum is not subject to early redemption. The Bonds maturing on August 1, 2031 (the Term Bonds) are subject to mandatory sinking-fund redemption.

(Continued)

The outstanding balance of the 2009 Series C Bonds, plus the unamortized premium of $12,180,000 and unamortized deferred amount on refunding of $1,988,000 was $244,328,000 at June 30, 2010.

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
2011	$ —	11,656	11,656
2012	520	11,643	12,163
2013	12,865	11,320	24,185
2014	10,950	10,762	21,712
2015	15,715	10,122	25,837
2016 – 2020	30,800	44,549	75,349
2021 – 2025	79,795	33,499	113,294
2026 – 2030	77,095	5,183	82,278
2031 – 2035	2,420	133	2,553
2036 – 2040	—	—	—
Subtotal	230,160	138,867	369,027
Unamortized deferred amount on refunding	1,988	—	1,988
Unamortized premium	12,180	—	12,180
Total	$ 244,328	138,867	383,195

(b) Other Debt

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes (Notes) not to exceed $375,000,000. The Commercial Paper Program is used as a means of interim financing primarily for the construction, maintenance, and replacement of the Port’s structures, facilities, and equipment.

On August 31, 2006, the outstanding Commercial Paper of $113,561,000 was fully refunded through the issuance of the 2006 Series D Refunding Bonds in the aggregate principal amount of $111,300,000.

In June 2009, the Port reinstated its Commercial Paper Notes Program at an aggregate amount of $100,000,000. The Program was amended in June 2010 to increase the credit limit to $200,000,000 and extended the term to July 29, 2012. On August 11, 2010, a $10 million of the tax-exempt Commercial Paper Notes, Series B, Issue 2010-1, was issued to meet the funding needs. This issue will finance the China Shipping and Trapac Container Terminal Projects.

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 Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's Parity Obligations on the Harbor Revenue Funds. The outstanding balances on such notes were $2,360,000 and $2,826,000 at June 30, 2010 and 2009, respectively.

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

	Principal	Interest	Total
Fiscal year:			
2011	$ 486	107	593
2012	508	84	592
2013	531	61	592
2014	555	38	593
2015	281	13	294
Total	$ 2,361	303	2,664

(c) Current Year and Prior Years' Defeasance of Debt

Bonds were 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 financial statements.

The remaining bonds in the defeasance escrows held by the trustee at June 30, 2010 and 2009 were as follows (in thousands):

	2010	2009
1988 Bonds	$ 73,825	79,440
Total	$ 73,825	79,440

(d) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2010 and 2009 was as follows (in thousands):

	July 1, 2009	Additions	Reductions	June 30, 2010	Due within one year
Revenue bonds payable	$ 744,040	430,160	(265,070)	909,130	29,199
Less unamortized discount/ premium	24,672	13,342	(10,753)	27,261	—
Unamortized deferred amount on refunding	(14,003)	—	6,813	(7,190)	—
Total revenue bonds payable	754,709	443,502	(269,010)	929,201	29,199
Notes payable	2,826	—	(465)	2,361	487
Accrued employee benefits	20,914	211,801	(205,423)	27,292	17,591
Other liabilities	187,219	3,977	(23,933)	167,263	62,306
Total long-term liabilities	$ 965,668	659,280	(498,831)	1,126,117	109,583

	July 1, 2008	Additions	Reductions	June 30, 2009	Due within one year
Revenue bonds payable	$ 767,250	—	(23,210)	744,040	24,610
Less unamortized discount/ premium	26,290	—	(1,618)	24,672	—
Unamortized deferred amount on refunding	(15,059)	—	1,056	(14,003)	—
Total revenue bonds payable	778,481	—	(23,772)	754,709	24,610
Notes payable	3,271	—	(445)	2,826	465
Accrued employee benefits	18,578	212,587	(210,251)	20,914	11,632
Other liabilities	99,324	115,813	(27,918)	187,219	86,239
Total long-term liabilities	$ 899,654	328,400	(262,386)	965,668	122,946

(6) GASB 49 Pollution Remediation Obligations

The Port has identified obligating events under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* and the estimated remediation liability totaled $91,836,000 and $93,427,000 as of June 30, 2010 and 2009 and is recorded under other liabilities in the statements of net assets. These are mostly soil and ground water contamination on sites within the Port premises. As sites are formally used for industrial purposes, there would always be legacy contamination or environment impairment associated with the parcel. However, environmental risks can be managed and the presence of contamination on the parcel does not necessarily mean that an extensive cleanup is required. For this reason, the Port adopts the “Managed Environmental Risk” approach in estimating the remediation liability. The Port uses a combination of in-house specialists as well as outside consultants to perform such estimates. These are current best estimates of potential liability. Certain remediation project contracts are included in the site development contracts, as defined final uses for the sites have been identified.

Since all of these obligating events existed in prior years, the Port has recorded the full liability amount by charging it to beginning net assets in the GASB Statement No. 49 implementation in fiscal year 2009. Fiscal year 2009 beginning Net Assets were restated to reflect this charge. The Port does not have objective and verifiable information to apply the provisions of GASB Statement No. 49 to periods prior to fiscal year 2009.

Pollution remediation obligations rollforward schedule

	July 1, 2009	Additions	Reductions	June 30, 2010	Due within one year
$	93,427	7,768	(9,359)	91,836	3,531

Pollution remediation obligations rollforward schedule

	July 1, 2008	Additions	Reductions	June 30, 2009	Due within one year
$	—	93,427	—	93,427	9,807

(7) 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 and is not recorded in the Port’s financial statements.

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

(8) Risk Management

The Port purchases insurance on certain risk exposures such as property, railroad, automobiles, fleet, pilotage, 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, during fiscal years 2010 and 2009, the Port carried 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 expenses 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, 2010 and 2009, approximately $7,963,000 and $8,733,000, 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 for the years ended June 30, 2010 and 2009 are as follows (in thousands):

		Beginning liability	Current year claims and estimate changes	Claims payments	Balance at fiscal year-end
2009 – 2010:					
Workers' compensation	$	8,633	264	(1,039)	7,858
General liability/litigation		100	5	—	105
2008 – 2009:					
Workers' compensation	$	8,633	1,220	(1,220)	8,633
General liability/litigation		100	10	(10)	100
2007 – 2008:					
Workers' compensation	$	8,400	2,812	(2,579)	8,633
General liability/litigation		6,655	(6,459)	(96)	100

(9) Leases, Rentals, and Minimum Annual Guarantee (MAG) Agreements

A substantial portion of the Port 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.

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

These 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. In addition, these agreements are generally subject to periodic inflationary escalation of base amounts due to the Port. For the years ended June 30, 2010 and 2009, the minimum rental income from such lease agreements was approximately $43,141,000 and $42,368,000, respectively. For the years ended June 30, 2010 and 2009, the MAG payments approximated $225,401,000 and $219,272,000, respectively, and were reported under shipping services revenue.

The property on lease at June 30, 2010 consists of the following (in thousands):

Wharves and sheds	$	691,154
Cranes and bulk facilities		39,805
Municipal warehouses		10,646
Port pilot facilities and equipment		6,027
Buildings another facilities		746,692
Cabrillo Marina		62,715
		1,557,039
Less accumulated depreciation		(777,762)
Total	$	779,277

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):

		Rental income	MAG income
Year ending June 30:			
2011	$	43,572	225,401
2012		44,088	223,900
2013		44,448	223,900
2014		44,893	223,900
2015		45,342	243,709
Total	$	222,343	1,140,810

(10) Retirement Plan

Los Angeles City Employees Retirement System

(a) Retirement Plan Description

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

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits, and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age and none of the Port's employees are required to contribute to LACERS.

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. The Port's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS were approximately $11,625,000 (100% of ARC), $14,526,000 (100% of ARC), and $13,765,000 (100% of ARC) for the years ended June 30, 2010, 2009, and 2008, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for fiscal year 2010 and the two preceding years for the plan are as follows (in thousands):

	Year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
LACERS	06/30/10	$ 255,999	100%	$ (75,105)
	06/30/09	272,332	100	(77,749)
	06/30/08	286,368	100	(79,972)

The City allocated a pro rata share of its net pension obligation to the Port and the amounts recorded at June 30, 2010 and 2009 were $2,423,000 and $2,529,000, respectively.

(c) Funded Status of LACERS

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial valuation date	Valuation value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded/ (overfunded) AAL (UAAL) (b) – (a)	Funded ratio (a)/(b)	Covered payroll (e)	UAAL as a percentage of covered payroll [(b) – (a))/(c)
06/30/2010	$ 9,554,027,411	12,595,025,119	3,040,997,708	75.86%	$ 1,817,662,284	167.30%
06/30/2009	9,577,747,421	12,041,983,936	2,464,236,515	79.54	1,816,171,212	135.68
06/30/2008	9,438,318,300	11,186,403,741	1,748,085,441	84.37	1,977,644,640	88.39

For complete information related to the funded status of LACERS and contribution information, refer to LACERS' basic financial statements. The LACERS' basic financial statements can be obtained from LACERS, 360 East Second Street, 2nd Floor, Los Angeles, CA 90012. Separate information for the Port is not available.

(d) Other Postemployment Benefits (OPEB)

The Port, as a participant in LACERS, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for 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. LACERS is advance funding the retiree health benefits on an actuarial determined basis.

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2010 and the two preceding years for the plan are as follows (dollars in thousands):

	Year ended	Annual OPEB cost (AOC)	Percentage of OPEB cost contributed	Net OPEB asset (obligation)
LACERS	06/30/10	$ 96,511	100%	$ —
	06/30/09	95,122	100	—
	06/30/08	108,849	100	—

City of Los Angeles City Fire and Police Pension

(a) Retirement Plan Description

The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Department (Port Police Officers) the option to transfer from LACERS to Tier 5 of Los Angeles Fire and Police Pensions (LAFPP). The election period was from January 8, 2006 to January 5, 2007 and the decision to transfer is irrevocable.

Only "sworn" service with the Harbor Department is transferable to LAFPP. Other "nonsworn" service with other City Departments is not eligible for transfer. All new employees hired by the Harbor Department after the effective date of the Ordinance automatically go into Tier 5 of LAFPP.

LACERS transferred $6.1 million of allocated discounted Harbor Port Police assets to LAFPP in October 2007 for fiscal year 2007

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration/Commissioners of LAFPP establishes and may amend the contribution requirements of members and the City. The City's annual cost for the plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions. The Port's pro rata share of the combined actuarially required contribution (ARC) for pension and postemployment healthcare benefits and actual contributions made to LAFPP was approximately $2,088,000 (100% of ARC) and $1,485,000

(100% of ARC) for the years ended June 30, 2010 and 2009, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

The City's annual pension cost and the percentage of annual pension cost contributed to the plan for fiscal year 2010 and the two preceding years for the plan are as follows (dollars in thousands):

	Year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset (obligation)
LAFPP	6/30/10	$ 250,517	100%	—
	6/30/09	238,698	100	—
	6/30/08	261,635	100	—

(e) Funded Status of LAFPP

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial valuation date	Valuation value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded/ (overfunded) AAL (UAAL) (b) – (a)	Funded ratio (a)/(b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b) – (a)]/(c)
06/30/2010	$ 14,219,581	15,520,625	1,301,044	91.6%	$ 1,356,986	95.9%
06/30/2009	14,256,611	14,817,146	560,535	96.2	1,357,249	41.3
06/30/2008	14,153,296	14,279,116	125,820	99.1	1,206,589	10.4

For complete information related to the funded status of LAFPP and contribution information, refer to LAFPP's basic financial statements. The LAFPP's basic financial statements can be obtained from LAFPP, 360 East Second Street, Suite 400, Los Angeles, CA 90012. Separate information for the Port is not available.

(f) Other Postemployment Benefits (OPEB)

The City Charter, the Administrative Code, and related ordinance define the postemployment healthcare benefits. There are no member contributions for healthcare benefits. The Port, as a participant in LAFPP, also provides a Retiree Health Insurance Premium Subsidy.

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2010 and the two preceding years for the plan are as follows (in thousands):

	Year ended	Annual OPEB cost (AOC)	Percentage of OPEB cost contributed	Net OPEB asset (obligation)
LAFPP	06/30/10	$ 127,604	90%	$ (12,788)
	06/30/09	106,453	89	(11,536)
	06/30/08	105,876	79	(21,358)

From the most recent data made available by the City, as of June 30, 2010, LAFPP membership consists of 13,654 active plan participants, 58 vested terminated members, and 12,348 retired members and beneficiaries. Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the ARCs of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

For complete information related to the funded status of LAFPP and contribution information, refer to LAFPP's basic financial statements. The LAFPP's basic financial statements can be obtained from LAFPP, 360 East Second Street, Suite 400, Los Angeles, CA 90012.

(11) Notes Receivable

(a) City of Los Angeles Settlement

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

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 certain expenditures incurred by the City on behalf of the Port, but which the City had never inclusively billed the Port. Under its resolution, the Board of Harbor Commissioners 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 of Harbor Commissioners further authorized the Executive Director to negotiate additional amounts as may be determined to be due, and accordingly, a memorandum of understanding (MOU) with the City was executed on June 27, 1997 (1997 MOU).

The California State Lands Commission 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 California State Tidelands Trust Land laws. Prior to the adoption of the above-referenced resolution, the California State Lands Commission officials and the Office of the Attorney General requested the Board of Harbor Commissioners to postpone any decision involving these trust funds until the California State Lands Commission and Office of Attorney General could complete an inquiry into the studies and transfers. Subsequently, various organizations, including the Steamship Association of Southern California, which represents carriers using the Port, together with the 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, along with the Port and the California 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 through fiscal year 2000-2001, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at $8,352,000. 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 California State Lands Commission may negotiate to amend this agreement to account for new or changed circumstances.

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

Accordingly, the Port of Los Angeles had recorded the amount due from the City as a long-term note receivable of $23,725,000 and $28,060,000 and a current portion of notes receivable of $4,334,000 and $4,206,000 as of June 30, 2010 and 2009, respectively.

(b) Note Receivable – Yusen

In order to settle the then-outstanding $2,351,000 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 $107,000. To record the transaction, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1,477,000, with the balance of $874,000 recognized as the Port's capital assets in fiscal year 1995. The note matures in October 2015. The long-term note receivable balance outstanding on the Yusen note is $483,000 and $562,000 and the current portion is $59,000 and $56,000 at June 30, 2010 and 2009, respectively.

(12) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $338,958,000 as of June 30, 2010. 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 2010 or 2009.

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.

(a) Alameda Corridor Transportation Authority Agreement (ACTA)

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

In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the privilege of using the corridor to transport cargo into and out of the Ports. ACTA negotiated with BNSF Railway Company (BNSF) and Union Pacific (UP) regarding certain types of cargo movements (transload movements) for which BNSF and UP are not paying Use Fees.

In the Settlement and Release Agreement (the Agreement), dated as July 5, 2006, ACTA, BNSF, and UP agreed to resolve the "Transloading Dispute." ACTA, the Ports, the City of Los Angeles, and the City of Long Beach (the ACTA Releasing Parties) each release, acquit, and discharge BNSF and UP of all liability and costs, as stated in the Agreement, arising from or relating to the Transloading Dispute. BNSF and UP (the Railroad Releasing Parties) each release, acquit, and discharge the ACTA Releasing Parties from any and all liability and costs, as stated in the Agreement, arising from or relating to any claim by the Railroad Releasing Parties. These Use Fees are used to pay (a) the debt service that ACTA incurs on approximately $1.2 billion of bonds, which ACTA issued in early 1999 and approximately $686 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use Fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations, the Corridor Agreement obligates each Port to pay up to twenty percent (20%) of the shortfall (Shortfall) on an annual basis. If this contingency occurs, the Ports' payments to ACTA are intended to provide cash for debt service payments and to assure that the Alameda Corridor is available to maintain continued cargo movement through the Ports. The Ports are required to include expected Shortfall payments in their budgets, but Shortfall payments are subordinate to other obligations of the Port, including the 2005 and 2006 Bonds, and neither the Port nor the POLB is required to take Shortfall payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions.

In April 2004, it was estimated by ACTA that the Ports would be required to make Shortfall payments totaling approximately $20.5 million (the Port and POLB each being liable for their one-half share of $10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, the Port is obligated to include any forecasted Shortfall payments in its budget each fiscal year. No Shortfall payments were payable by the Port in the prior years. The total amount of Shortfall Advance for the next fiscal year ending June 30, 2011 is estimated to be zero and no Shortfall Advance is required for fiscal year 2011 per the ACTA's latest Notice of Estimated Shortfall Advances and Reserve Account Funding dated August 11, 2010.

Estimates of Shortfalls are prepared by ACTA and such Shortfalls could vary materially from the estimates. It is not possible to predict whether, when, or how much the Port will be liable for Shortfall payments. In the opinion of management, shortfall payments, if any, would not materially affect the financial position of the Port.

(b) Community Redevelopment Agency Agreement

On September 20, 2007, the Los Angeles Board of Harbor Commissioners approved the agreement between the City of Los Angeles and the Community Redevelopment Agency of the City of Los Angeles (CRALA) for the purpose of readying the underutilized and contaminated industrial properties within the Wilmington Industrial Park, the project area for development.

CRALA may execute note(s) in an aggregate amount not to exceed $25 million. The note(s) will accrue interest at the General Pool Rate compounded monthly. All notes will become due and payable sixty months from the date of the first executed note pursuant to this agreement unless the term of the note(s) is otherwise extended and approved in writing by CRALA and the Port. The CRALA and the Port may agree in writing to no more than two options to extend the term of this agreement and the notes granted hereunder, each option period not to exceed five additional years.

CRALA shall pay down the line of credit by applying proceeds generated from the periodic sale and disposition of acquired properties. Repayment of each draw (principal and accruing interest) is deferred until such time as the property that was acquired with the funds at issue is disposed of. CRALA shall repay any outstanding draw (principal and interest) at the end of the term of the line of credit. The line of credit will be frozen if any fund draws are outstanding for longer than sixty months. CRALA shall repay the then outstanding principal together with the interest, promptly upon selling a property, provided that the amount shall be repaid in one balloon payment no later than the 72nd month.

As of June 30, 2010 and 2009, there has been no drawdown made by CRALA from this line of credit.

(c) Trapac Project and Environmental Impact Report

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

On April 3, 2008, the Board of Harbor Commissioners approved an MOU between the City and the Appellants of the Trapac EIR. The term of the MOU is five years and after the first five years, the agreement may be renewed for a successive five-year period by mutual agreement of the Port and a majority of the Appellants. The MOU provides for the revocation of the appeals and the establishment of a Port Community Mitigation Trust Fund.

The Port has provided the first two years funding of $4,017,000 and $11,240,000 in the Community Mitigation Trust Fund geared towards the identified Trapac projects in the MOU. Additionally, the Port has set aside a reserve of $800,000 to cover other first year commitments as specified in the MOU. Contributions from the Port to the fund over the subsequent three years of the initial MOU term may vary based on the volume of cargo processed at the Port.

(13) Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate $45,978,000 and $39,792,000 in fiscal years 2010 and 2009, 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 capital expenditures are recorded as capital contributions. During the years ended June 30, 2010 and 2009, the Port reported capital contributions of $16,950,000 and $4,103,000, respectively, for certain capital construction and grant projects.

(15) Natural Resources Defense Council Settlement Judgment

In March 2003, the Port of Los Angeles settled a lawsuit entitled: Natural Resources Defense Council, Inc., et al. v. City of Los Angeles, et al., regarding the environmental review of a Port project. The settlement calls for a total of $50 million in mitigation measures to be undertaken by the Port. This $50 million charge was recorded to expense in fiscal year 2003.

The terms of the agreement require that the Port fund various mitigation activities in the amount of $10 million per year over a five-year term ended fiscal year 2007. As of June 30, 2009, a total of $50.0 million has been transferred from Harbor Revenue Fund to the restricted mitigation funds.

Pursuant to the settlement, the Port is also obligated to expend up to $5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2009, the Port has spent $5.0 million for this program.

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

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar years 2008, 2007, 2006, and 2005 were $1,770,000, $6,931,000, $5,767,000, and $3,862,000, and the Port charged to nonoperating expense and deposited in the restricted mitigation funds the said amounts in June 2009, June 2008, May 2007, and April 2006, respectively. Total deposits for the four years were $18,330,000 with the June 2009 deposit for calendar year 2008 being the last payment for excess throughput required under the settlement agreement.

As of June 30, 2010, the Port has disbursed a total of $40.6 million, $12.7 million of this amount was made in fiscal year 2010, as provided in accordance with the provisions of the settlement.

(16) Alleged Misuse of Federal Funds – Stanley D. Mosler vs. City of Los Angeles

An individual has brought a lawsuit under the Federal Civil False Claims Act against the Port, the City, and the Port’s former Executive Director, challenging the use by the Port of certain federal funds obtained from the United States under the Water Resources Development Act of 1986 and State funds in the form of Tidelands Revenues for the construction of Pier 400 at the Port. The plaintiff alleges that the federal contribution amount to the construction of Pier 400 was $108 million and the State contribution was approximately $1 billion. The case was under seal from 2002 to 2005 while the federal government determined whether to join as a plaintiff. In 2005, the federal government decided not to join as a plaintiff. An amended complaint was served on the Port in August 2005 requesting treble damages. The Port believes that any claims alleging misuse of federal funds and State funds are without merit. After an initial dismissal for failure to have counsel and an appeal by the Realtor to the Ninth Circuit, on remand all of the defendants, including the City, filed motions for Summary Judgment. The trial court granted motions for summary judgment on behalf of all defendants. The Realtor has again appealed to the Ninth Circuit. On December 22, 2010, the United States Court of Appeals for the Ninth Circuit issued a judgment affirming the trial court dismissal of the action.

(17) Cash Funding of Reserve Fund

As of June 30, 2010, the Department had $909.1 million of outstanding parity bonds. Each Indenture for the outstanding bonds requires the Department to establish a reserve fund and authorizes the Department to obtain one or more reserve sureties in lieu of fully funding the reserve fund with cash. Three bond insurers (Ambac, FGIC, and MBIA) provide the reserve sureties for the Department's outstanding bonds. Until December 2007, these bond insurers maintained "AAA" ratings from the three rating agencies: Fitch, Moody's and S&P. Starting in January 2008, the rating agencies began downgrading the bond insurers. The Department filed material event notices as part of its continuing disclosure undertakings subsequent to each of the related downgrades or placements on negative outlook.

The downgrade of MBIA by S&P on June 5, 2008 triggered certain specific requirements in compliance with the 2005/2006 Indenture. The Department opted to cash fund its reserve funds in order to comply with its bond covenants. In doing, so, the Board of Harbor Commissioners on September 18, 2008, approved the one-time cash funding of the entire reserve requirement of $61.5 million and transferred from the Harbor Emergency Fund (Fund 751) to the Department's bond trustee in December 2008.

Subsequent to the refunding and new money borrowing in July 2009, the total reserve fund balance increased to $67.8 million. To be consistent with the bond covenants in the Indenture, the required amount for the individual reserve fund will be reevaluated on a yearly basis. The excess amounts in the Common Reserve will be transferred to the interest fund and/or the redemption fund to be used to pay interest and redeem bonds.

(18) Subsequent Event

Issuing Commercial Paper Notes

In June 2010, the Los Angeles Board of Harbor Commissioners approved increasing the not-to-exceed limit of the Commercial Paper Program from $100 million to $200 million and extending the term from one year to two years, through June 2012. The purpose of the increase and extension was to meet the Department's potential funding and liquidity requirements of its capital improvement projects over the next two years and to take advantage of the historically low interest rate environment for short-term debt.

In early August 2010, the Department issued Commercial Paper Notes for $10 million and another $90 million was issued in December 2010 to partially fund capital improvement projects.

STATISTICAL SECTION

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

Capital Development Program Budget

Fiscal year 2010 and 2011

(Unaudited)

(In thousands of dollars)

Project description		Estimated expenditure
Terminal Improvements, General	$	1,717,555
Minor Capital Projects		1,062,207
POLA Administrative Building Modifications		1,169,195
Environmental Assessment and Remediation		4,629,264
World Cruise Center – General Improvements		5,726,626
Berth 161 – Maintenance Yard Improvements		1,030,528
Wilmington Waterfront		22,901,014
Berths 97-115 – Redevelopment		25,530,274
West Channel Cabrillo Beach Recreation Complex – Phase II		54,474,537
Harry S. Bridges Blvd. Improvement		20,194,211
Berths 135-147 – Terminal Redevelopment		32,404,682
Pier 300 – Wharf and Backland Improvements		2,575,982
Pier 400 – Dredging, Landfill and Terminal Development		413,315
Berths 225-236 – Container Terminal Redevelopment		228,789
Main Channel Deepening Program		16,412,873
Pier A Street Yard Redevelopment		54,626
Harbor Wide Beautification Projects		51,787
San Pedro Waterfront Project – Cabrillo Beach Improvements		45,072
San Pedro Waterfront Project – Promenade, Parks and Public Space		272,540
Port-Wide Transportation Improvements		4,711,561
Berth 49-50 Sediment Removal		104,364
Pacific Energy Liquid Bulk Terminal		629,585
Port Security		14,997,383
LA Port Police Headquarters		9,451,210
San Pedro Waterfront Project – City Dock No. 1		41,231
San Pedro Waterfront Project – San Pedro Downtown Harbor		886,705
San Pedro Waterfront Project – San Pedro Slip		1,727,185
Alternative Maritime Power Port-wide		27,650,116
B. 258 – 269 (Fish Harbor) Rehabilitation		147,713
Intermodal Container Transfer Facility (ICTF) South		498,367
San Pedro Slip Improvements		33,352
Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS)		3,402,478
Port-Wide Solar Panel Program		317,632
LEED Program		70,824
Port-Wide Capital Contingency Projects		23,058,046
Total		278,622,829
Slippage (to reach target number)		(43,000,000)
Total estimated capital improvement program cost	$	235,622,829

See accompanying independent auditors' report

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

Schedule of Net Assets by Components

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net assets:										
Invested in capital assets, net of related debt	$ 1,446,072	1,682,470	1,786,780	1,853,776	1,890,002	1,854,468	1,931,037	1,985,653	2,101,396	2,164,885
Restricted	29	195	95	17	16	63,917	62	9	61,608	67,844
Unrestricted	299,319	179,093	143,921	157,883	216,678	282,922	406,770	491,381	266,583	302,025
Total net assets	$ 1,745,420	1,861,758	1,930,796	2,011,676	2,106,696	2,201,307	2,337,869	2,477,043	2,429,587	2,534,754

See accompanying independent auditors' report.

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

Schedule of Key Information on Revenue Statistics

Last Ten Fiscal Years

(Unaudited)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Rates:										
General cargo tariff rate	$ 5.67	5.67	5.95	5.95	5.95	6.25	6.25	6.25	6.25	6.25
Basic dockage (600')	2,236	2,236	2,236	2,348	2,348	2,465	2,465	2,465	2,465	2,465
Required rate of return	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Containerized cargo volume (in millions of TEUs)	4.99	5.63	6.70	7.35	7.27	7.80	8.66	8.08	7.26	7.23
Revenue tons (million):										
General cargo	97.6	107.1	131.9	146.3	145.0	155.2	171.9	161.9	144.3	145.7
Liquid bulk	10.9	12.9	11.4	11.9	12.8	22.8	15.4	6.2	11.1	10.7
Dry bulk	5.4	6.2	4.2	3.9	4.3	3.6	2.8	1.9	2.0	1.4
Total	113.9	126.2	147.5	162.1	162.1	181.6	190.1	170.0	157.4	157.8
Vessel arrivals	2,899	2,778	2,845	2,812	2,646	2,771	2,920	2,467	2,322	2,124
Cruise passengers	1,073,357	1,099,552	1,057,293	803,308	1,097,204	1,205,947	1,194,984	1,191,449	990,965	802,899
Vehicles	312,248	314,986	347,067	213,933	242,024	232,149	144,068	185,978	109,634	147,935

See accompanying independent auditors' report.

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

Summary of Revenues, Expenses, and Changes in Net Assets

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating revenues:										
Shipping services	$ 232,749	248,624	281,700	293,977	315,615	353,390	369,972	374,878	329,347	327,630
Rentals	36,554	34,691	36,563	33,261	34,630	33,876	40,322	45,524	42,368	43,141
Royalties, fees, and other operating revenues	4,195	5,362	5,013	5,016	5,384	4,893	6,867	5,943	30,509	36,047
Total operating revenues	273,498	288,677	323,276	332,254	355,629	392,159	417,161	426,345	402,224	406,818
Operating and administrative expenses:										
Salaries and benefits	39,554	40,682	44,427	53,165	58,182	65,705	74,313	95,444	99,350	96,838
Marketing and public relations	2,385	3,064	3,654	3,769	3,455	3,333	4,521	5,274	3,676	2,594
Travel and entertainment	716	713	658	758	743	822	604	1,128	635	569
Outside services	16,583	21,468	21,971	32,104	39,672	33,673	33,277	37,937	29,498	24,428
Materials and supplies	3,108	3,508	3,771	4,682	5,320	5,400	5,813	8,950	8,121	6,634
City services and payments	20,395	19,210	18,525	18,729	22,361	20,821	28,640	27,101	28,704	31,142
Other operating expenses	7,275	10,632	55,409	16,967	41,158	54,378	16,607	45,918	84,159	48,030
Total operating and administrative expenses	90,016	99,277	148,415	130,174	170,891	184,132	163,775	221,752	254,143	210,235
Income from operations before depreciation	183,482	189,400	174,861	202,080	184,738	208,027	253,386	204,593	148,081	196,583
Depreciation	63,187	59,680	59,365	67,934	70,040	98,779	88,106	78,295	83,413	87,255
Operating income	120,295	129,720	115,496	134,146	114,698	109,248	165,280	126,298	64,668	109,328
Nonoperating revenues (expenses):										
Income from investments in Joint Powers Authorities	4,485	4,912	3,717	2,795	3,543	4,302	4,675	4,440	2,980	5,832
Interest and investment income	20,092	11,003	11,430	2,298	7,266	9,582	23,773	34,863	18,824	11,671
Interest expense	(45,983)	(47,555)	(44,293)	(43,034)	(42,279)	(37,787)	(50,038)	(38,052)	(36,979)	(35,663)
Other income and expenses, net	(1,146)	(1,123)	(18,698)	(13,724)	11,842	7,222	11,018	(2,536)	(7,625)	(2,951)
Net nonoperating revenues	(22,552)	(32,763)	(47,844)	(51,665)	(19,628)	(16,681)	(10,572)	(1,285)	(22,800)	(21,111)
Income before capital contributions	97,743	96,957	67,652	82,481	95,070	92,567	154,708	125,013	41,868	88,217
Capital contributions	7,500	17,203	1,386	867	—	2,044	4,145	14,161	4,103	16,950
Special item	61,752	2,178	—	—	—	—	(22,291)	—	—	—
Deletions of capital contribution	(7,345)	—	—	(2,518)	—	—	—	—	—	—
Changes in net assets	159,650	116,338	69,038	80,830	95,070	94,611	136,562	139,174	45,971	105,167
Total net assets – beginning of year	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,383,616	2,429,587
Total net assets – end of year	$ 1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,477,043	2,429,587	2,534,754

See accompanying independent auditors’ report.

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

Schedule of Revenue Tonnage by Trade Routes

Last Ten Fiscal Years

(Unaudited)

(In thousands of metric revenue tons)

Trade routes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Far East	83,727	102,482	131,304	143,005	142,385	151,971	166,277	158,442	144,453	140,861
Domestic	9,465	10,979	10,171	8,808	8,408	15,941	9,750	4,899	8,267	7,017
Australia and New Zealand	2,755	3,233	3,004	3,649	3,716	4,204	4,577	2,203	952	1,268
Western Mexico, Central and Western S. America	3,185	2,332	2,246	2,077	1,797	1,360	1,586	1,311	1,305	1,396
India, Persian Gulf, and Red Sea	2,225	2,614	1,970	1,795	1,888	2,502	2,258	1,455	1,901	1,587
Eastern South America	1,009	1,665	988	754	1,099	1,409	800	542	505	394
Western Europe	1,953	1,671	882	960	1,128	1,752	1,642	339	1,192	853
Caribbean	860	676	612	1,102	1,369	1,432	1,273	906	1,667	1,257
Mediterranean	148	206	159	157	151	227	165	208	240	201
Africa	88	77	94	54	188	25	28	37	5	30
Advance wharfage and accrual	8,539	(2,523)	(3,887)	(292)	(20)	811	1,749	(371)	(3,938)	1,302
APM rail/truck wharfage	—	—	—	—	—	—	—	—	945	1,609
Total	113,954	123,412	147,543	162,069	162,109	181,634	190,105	169,971	157,494	157,775

Percentage of total volume Trade routes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Far East	73.5%	83.0%	89.0%	88.2%	87.8%	83.7%	87.5%	93.2%	91.7%	89.3%
Domestic	8.3	8.9	6.9	5.4	5.2	8.8	5.1	2.9	5.2	4.4
Australia and New Zealand	2.4	2.6	2.0	2.3	2.3	2.3	2.4	1.3	0.6	0.8
Western Mexico, Central and Western S. America	2.8	1.9	1.5	1.3	1.1	0.7	0.8	0.8	0.8	0.9
India, Persian Gulf, and Red Sea	2.0	2.1	1.3	1.1	1.2	1.4	1.2	0.9	1.2	1.0
Eastern South America	0.9	1.3	0.7	0.5	0.7	0.8	0.4	0.3	0.3	0.3
Western Europe	1.7	1.4	0.6	0.6	0.7	1.0	0.9	0.2	0.8	0.6
Caribbean	0.7	0.5	0.4	0.7	0.8	0.8	0.7	0.5	1.1	0.8
Mediterranean	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Africa	0.1	0.1	0.1	—	0.1	—	—	—	—	—
Advance Wharfage and Accruals	7.5	(2.0)	(2.6)	(0.2)	—	0.4	0.9	(0.2)	(2.5)	0.8
APM rail/truck wharfage	—	—	—	—	—	—	—	—	0.6	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

See accompanying independent auditors' report.

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

Summary of Debt Service Coverage (Pledged Revenue)

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

Trade routes		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating revenues (including investment/interest income) (1)	$	298,075	304,592	338,423	337,347	366,438	406,043	445,609	465,648	424,028	424,306
Operating expenses (2)		90,016	99,277	148,415	130,174	170,891	184,132	163,775	221,752	254,143	210,235
Net available revenue (3) = (+1) – (2)	$	208,059	205,315	190,008	207,173	195,547	221,911	281,834	243,896	169,885	214,071
Debt service, revenue bonds	$	53,333	54,310	54,097	57,994	58,515	58,143	58,293	61,318	61,298	66,851
Debt services, commercial papers		—	—	988	1,029	2,021	3,431	792	—	—	—
Total debt service (4)	$	53,333	54,310	55,085	59,023	60,536	61,574	59,085	61,318	61,298	66,851
Coverage (5) = (3) / (4)		3.9	3.8	3.4	3.5	3.2	3.6	4.8	4.0	2.8	3.2
Net cash flow from operations (6)	$	200,342	176,083	215,117	208,762	226,037	201,575	246,665	252,898	151,264	185,416
Coverage (7) = (6) / (4)		3.8	3.2	3.9	3.5	3.7	3.3	4.2	4.1	2.5	2.8

(1) Operating revenues include pledged pooled investment and interest income.
(2) Depreciation and amortization expenses, interest expense, and other nonoperating expenses are not included.
(3) Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are senior debt backed by pledged-revenue.
(4) Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged-revenue.

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

See accompanying independent auditors' report.

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

Highlights of Operating Information

Last Ten Fiscal Years

(Unaudited)

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cash:										
Cash balance – Harbor revenue fund	$ 246.4	74.2	84.5	117.3	211.2	256.3	380.1	488.9	363.7	405.8
Cash balance – Restricted	82.7	87.2	97.1	107.3	122.4	201.3	158.3	168.3	115.3	104.7
Property:										
Total property	$ 2,810.9	3,120.2	3,346.0	3,471.4	3,556.1	3,664.0	3,720.4	3,816.7	3,982.0	4,290.9
Allowance for depreciation	594.0	653.4	711.8	764.2	833.7	931.3	994.0	1,058.2	1,131.4	1,203.4
Net property	$ 2,216.9	2,466.8	2,634.2	2,707.2	2,722.4	2,732.7	2,726.4	2,758.5	2,850.6	3,087.5
Construction and maintenance:										
Additions to properties	$ 154.2	330.4	227.8	208.0	85.3	109.3	104.2	117.7	175.6	325.1
Maintenance expenses	12.4	13.4	15.2	17.4	18.4	21.0	23.5	28.1	30.5	25.0
Employees:										
Salaries	$ 39.0	41.2	43.9	48.9	53.0	56.9	64.9	75.9	85.7	85.6
Number of employees	542	557	594	634	659	706	737	850	975	948

See accompanying independent auditors' report.