



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: APRIL 9, 2020
TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS
SUBJECT: AUDITED FINANCIAL STATEMENTS AND ANNUAL SINGLE AUDIT

Submitted for your review are (1) audited financial statements of Los Angeles Harbor Improvement Corporation (LAHIC) for fiscal year 2018-19, (2a) the Harbor Department's Single Audit for fiscal year 2018-19, and (2b) Status of Corrective Action Plan for Prior Year Single Audit Findings.

Macias Gini & O'Connell, LLP (MGO), an independent public accounting firm, has performed these audits in accordance with *Government Auditing Standards* and auditing standards generally accepted in the United States.

At the Audit Committee meeting, the partner from MGO will present its required communications regarding the audit.

Attachments:

1. Audited Financial Statements for LAHIC for fiscal year 2018-19
- 2a. Single Audit Report for fiscal year 2018-19
- 2b. Status of Corrective Action Plan for Prior Year Single Audit Findings

MARLA BLEAVINS
Deputy Executive Director and Chief Financial Officer

**LOS ANGELES HARBOR
IMPROVEMENT CORPORATION**

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

Basic Financial Statements
June 30, 2019 and 2018



Certified
Public
Accountants

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

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Independent Auditor's Report

The Board of Directors
Los Angeles Harbor Improvement Corporation

We have audited the accompanying financial statements of the Los Angeles Harbor Improvement Corporation (the Corporation), a blended component unit of the Port of Los Angeles (Harbor Department of the City of Los Angeles, California), as of and for the years ended June 30, 2019 and 2018, and the related notes to the basic financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2019 and 2018, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Macias Gini & O'Connell LLP

Los Angeles, California
January 10, 2020

**LOS ANGELES HARBOR IMPROVEMENT CORPORATION
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Management's Discussion and Analysis

June 30, 2019 and 2018

(Unaudited)

This section of the Los Angeles Harbor Improvement Corporation's (Corporation) financial report summarizes the significant factors affecting the Corporation's financial performance for fiscal years ended June 30, 2019 and 2018. The discussion should be read in conjunction with the financial statements and the notes to the financial statements, which follow this section.

The Corporation is a nonprofit public benefit corporation formed in 1984 by the City of Los Angeles Harbor Department, also known as the Port of Los Angeles (the Port), to assist with financing for the Port and its tenants. The board of directors of the Corporation consists of five members. Election of the Corporation board of directors occurs by vote of the Board of Harbor Commissioners. Although the Corporation is legally separate from the Port, the Corporation is reported as if it were part of the Port because its sole purpose is to finance and construct facilities and improvements that directly benefit the Port.

The Corporation was formed solely to assist the City of Los Angeles, acting through the Board of Harbor Commissioners, in providing financing for the acquisition, construction, replacement, or expansion of improvements to the facilities within the area controlled by the Port. When there is activity, the Corporation's operating expenses are allocated to tenants under the terms of the underlying lease agreements.

Total Assets, Liabilities, and Net Position

The Corporation's total assets, liabilities and net position for the last three fiscal years are as follows:

	June 30		
	2019	2018	2017
Total assets	\$ 20,629	\$ 20,629	\$ 20,628
Total liabilities	20,629	20,629	20,628
Net position	\$ --	\$ --	\$ --

The Corporation's assets for fiscal years 2019, 2018 and 2017 are composed of cash, while the liabilities are fees collected by the Corporation from tenants in prior years that are due to the Port.

Net position is the difference between the sum of assets and deferred outflows of resources, if any, and the sum of liabilities and deferred inflows of resources, if any.

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Management's Discussion and Analysis (Continued)

June 30, 2019 and 2018

(Unaudited)

Changes in Net Position

	Fiscal Year Ended June 30		
	2019	2018	2017
Operating revenues	\$ --	\$ --	\$ --
Operating expenses	--	--	--
Operating loss	--	--	--
Net nonoperating revenues (expenses)	--	--	--
Changes in net position	--	--	--
Net position, July 1	--	--	--
Net position, June 30	\$ --	\$ --	\$ --

The Corporation is a nonprofit, public benefit corporation formed to assist with financing requirements of the Port and its tenants and hence, its business is not designed to generate assets for the Corporation. In previous transactions undertaken by the Corporation, it established a long-term lease agreement among the Corporation, the Port, and the tenants, from which it derived lease rental income from the tenants. The rental income was used for debt service. Its expenses which are mainly administration fees paid to the Port, were reimbursed by the tenants. There were no tenant-related activities for fiscal years ended June 30, 2019, 2018, and 2017; and therefore, there are no changes in net position.

Operating Revenues and Operating Expenses

The Corporation no longer has outstanding debt and related tenant activities; and therefore, has no operating revenues and expenses for fiscal years ended June 30, 2019, 2018, and 2017.

The Corporation is required to pay the Port administrative fees for each year that there are tenant-related activities such as issuance of conduit debt. The tenants are required to reimburse the Corporation for the administrative fees and any other miscellaneous expenses incurred by the Corporation, if any. For fiscal years ended June 30, 2019, 2018, and 2017, there were no tenant activities; and thus, no fees have been charged by the Port.

Factors that May Affect Future Operations

As a result of tax law changes, it has become more difficult for issuers of industrial development type bonds to use the Corporation as a conduit. The Corporation currently has no financing activities. At this time, it is uncertain whether the Corporation will be used again in the future to provide financing for the acquisition, construction, replacement, or expansion of improvements to the facilities within the area controlled by the Port.

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Statements of Net Position

June 30, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current assets		
Cash (note 2)	\$ 20,629	\$ 20,629
Total assets	<u>20,629</u>	<u>20,629</u>
 LIABILITIES AND NET POSITION		
Current liabilities		
Payable to the Port of Los Angeles	<u>20,629</u>	<u>20,629</u>
Total liabilities	<u>20,629</u>	<u>20,629</u>
Total net position	<u><u>\$ --</u></u>	<u><u>\$ --</u></u>

See accompanying notes to the basic financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

For Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING EXPENSES		
Other	\$ --	\$ --
Total operating expenses	--	--
Operating loss	--	--
NONOPERATING REVENUE (EXPENSE)		
Miscellaneous receipt	--	1
Miscellaneous fee	--	(1)
Changes in net position	--	--
NET POSITION, JULY 1	--	--
NET POSITION, JUNE 30	\$ --	\$ --

See accompanying notes to the basic financial statements.

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Statements of Cash Flows

For Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Miscellaneous	\$ --	\$ 1
Net cash provided by investing activities	--	1
Cash, July 1	20,629	20,628
Cash, June 30	\$ 20,629	\$ 20,629

See accompanying notes to the basic financial statements.

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Notes to the Basic Financial Statements

June 30, 2019 and 2018

1. Summary of Significant Accounting Policies

A. Organization

The Los Angeles Harbor Improvement Corporation (Corporation) is a nonprofit, public benefit corporation organized under the laws of the state of California and is exempted from payments of Federal income and California franchise taxes under Internal Revenue Code section 501 (c)(4). The sole purpose of the Corporation is to assist the City of Los Angeles, acting through the Board of Harbor Commissioners (BHC), in providing financing for the acquisition, construction, replacement, or expansion of improvements to the facilities within the area controlled by the Port of Los Angeles (the Port). The Corporation's operating expenses are allocated to tenants under the terms of the underlying lease agreements. The Corporation is considered a blended component unit of the Port for financial reporting purposes. The board of directors of the Corporation consists of five members. Election of the Corporation's board of directors occurs by vote of the BHC.

B. Method of Accounting

The Corporation is accounted for as an enterprise fund and, as such, utilizes the economic resources measurement focus and the accrual method of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in financial statements. Actual results could differ from those estimates.

2. Cash

Cash in the amount of \$20,629 at both June 30, 2019 and 2018 consists of cash in a checking account with a depository financial institution.

Custodial credit risk is the risk that, in the event of failure of a depository financial institution, the Corporation will not be able to receive its deposits. The Corporation does not have a deposit policy for custodial credit risk. The Corporation's deposits at June 30, 2019 and 2018 are covered by the Federal Deposit Insurance Corporation (FDIC).

3. Related-Party Transactions

The Port charges the Corporation an administrative fee for all administrative cost incurred by the Port whenever the Port assists the Corporation in its conduit financing activities. No administration fee was charged by the Port during fiscal years 2019 and 2018 since the Corporation did not have any financing activities. The outstanding liability of the Corporation to the Port remains unpaid because the Corporation uses the money to maintain its checking account.