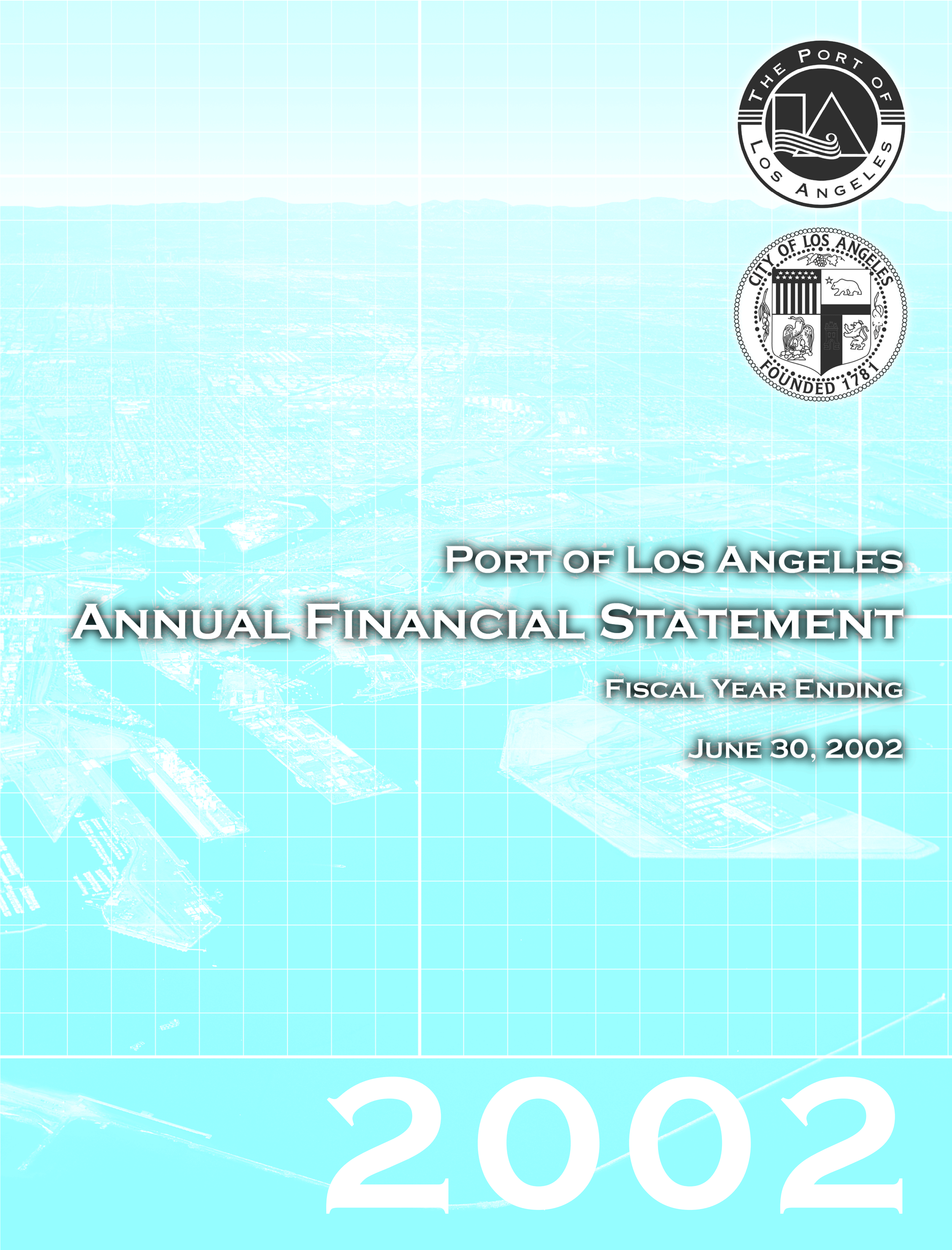

Port of Los Angeles
Annual Financial Statement

Fiscal Year Ending

June 30, 2002

2002

Annual Financial Statement

Fiscal Year Ending June 30, 2002

Los Angeles Board of Harbor Commissioners

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August 30, 2002

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

This Component Unit Financial Report of the Harbor Department of the City of Los Angeles, California, for the fiscal year ended June 30, 2002, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of the management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited basic financial statements of the Port for the years ended June 30, 2002 and 2001, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The report is presented in four sections: introduction, management's discussion and analysis, the basic financial statements, and required supplementary information.

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

The management's discussion and analysis presents a comparative review of results of operations and changes in financial position for fiscal years 2002 and 2001. Also included in this section are a description of current and proposed capital development plans, a discussion of prospective revenue growth and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the basic financial statements prepared on an accrual basis and using an economic resources focus. These are accompanied by notes and the auditor's report on the basic financial statements. The basic financial statements are comprised of Statements of Net Assets that present the financial position of the Port as of June 30, 2002 and 2001; Statements of Revenues, Expenses and Changes in Net Assets depicting financial performance for Fiscal Years 2002 and 2001; and Statements of Cash Flows that present the source and application of funds from operations, financing and investment activities for Fiscal Years 2002 and 2001. The accompanying Notes to Basic Financial Statements explain some of the information in the basic financial statements and provide more detailed data.

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

The Port of Los Angeles

The Port is an Enterprise Fund of the City of Los Angeles (the City) and was created by the City Charter to promote and develop a deep-water port facility. It is governed by a five-member Board of Harbor Commissioners (the Board), which has the duty to provide for the needs of commerce, navigation, and fishery for the citizens of California. It operates similar to a private business and is substantially autonomous from the City of Los Angeles. In accordance with Generally Accepted Accounting Principles (GAAP), the accompanying basic financial statements are included as a component unit of the City of Los Angeles, based upon the primary oversight responsibility that the City Council (the Council) and the City of Los Angeles have on all matters affecting Port activities.

Also, based on the foregoing criteria of oversight responsibility and accountability of all Harbor related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying basic financial statements. Two joint ventures with the Port of Long Beach have been recorded as investments of the Port in accordance with the equity method of accounting. The Port also participates in a shareholder agreement that was created to form the Los Angeles Export Terminal (LAXT). Additional information regarding these joint ventures and shareholders agreement may be found in the Notes to the Basic Financial Statements for the Port.

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups through the Chief Operating Officer. These groups fall under the responsibilities of the Director of Engineering Development, Director of Port Administration, the Director of Business Development, the Director of Customer Service, the Director of Public Affairs and the Chief Financial Officer.

The Director of Engineering Development is responsible for the Environmental Management and Engineering and Construction Management activities of the Port.

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

The Director of Port Administration is responsible for several operating divisions of the Port, including Purchasing, Human Resources, and Operations. The latter includes Port Police and Emergency Preparedness.

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

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

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

The Port also provides pilot services to assist vessels entering, exiting or moving within the harbor. This operating group reports directly to the Chief Operating Officer.

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

The Port operates primarily as a landlord, as opposed to an operating, port. Its docks, wharves, transit sheds, and terminals are leased to shipping or terminal companies, agents and to other private firms. Although the Port owns these facilities, it has no direct hand in managing the daily movement of cargo. The Port is also landlord to various fish markets, boat repair yards, railroads, restaurants, a shipyard, and other maritime activities.

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

In terms of its size, the Port is one of the largest West Coast ports. Within its boundaries lie approximately 4,200 acres of land and 3,300 acres of water that are being increased through acquisition and reconfiguration.

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

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

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

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

The Port of Los Angeles currently handles the largest volume of containerized cargo of all U. S. ports, setting records in 2001 and 2002, and additionally ranks as number one in cargo value for U. S. waterborne foreign traffic.

The Port's major trading partners are concentrated along the Pacific Rim and include China, Japan, Taiwan, Thailand and South Korea. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port.

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

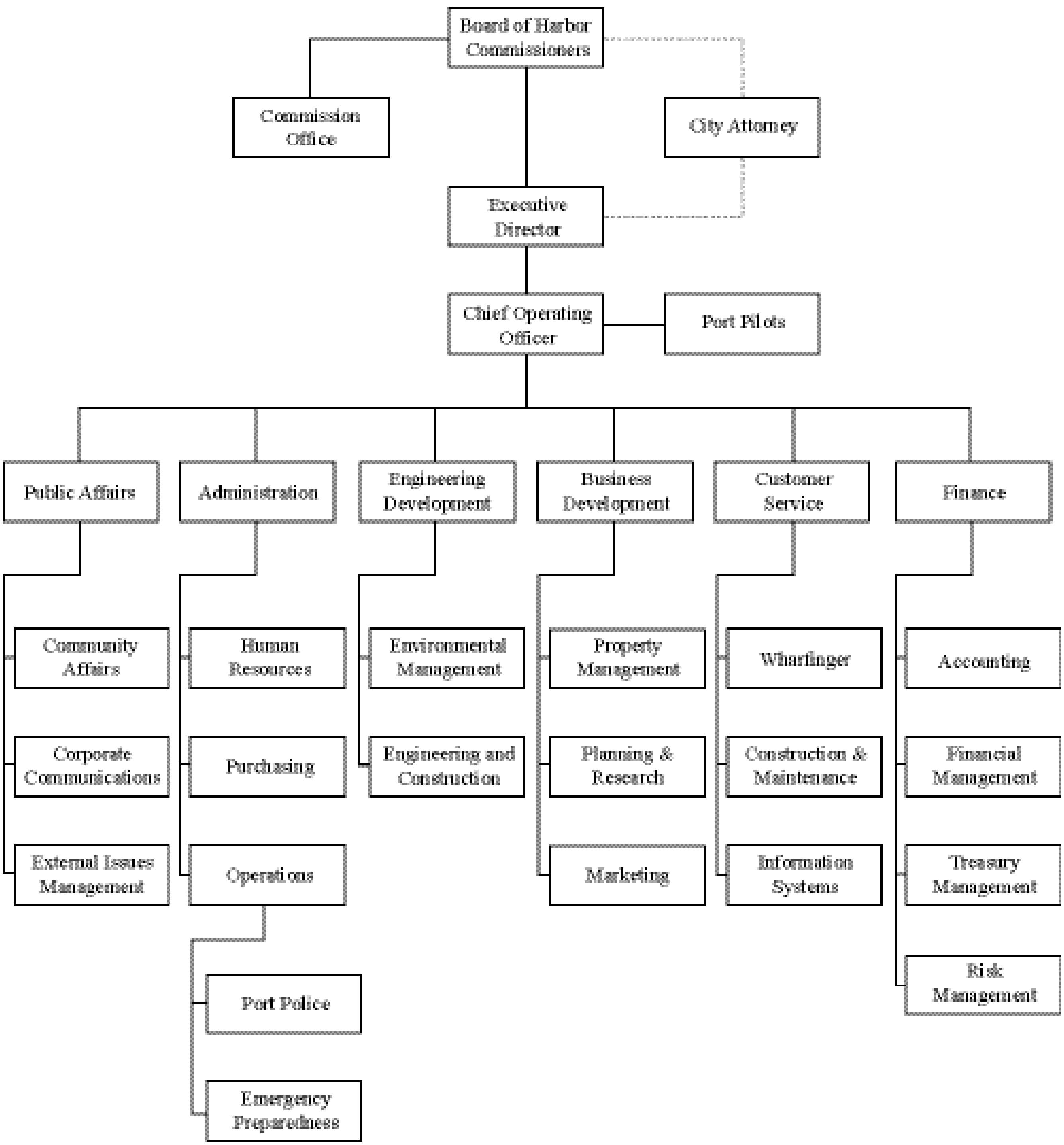
The Port is not subsidized by tax dollars and has maintained its financial strength through generated revenues. The Port of Los Angeles is one of the few U.S. ports that remain self-sufficient.

Sincerely,

Jim Garrott
Controller

LOS ANGELES HARBOR DEPARTMENT
Organization Chart

2001 – 2002



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

ADMINISTRATIVE STAFF

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

SENIOR MANAGEMENT
Larry A. Keller, Executive Director
Bruce Seaton, Chief Operating Officer
Ron Reddick, Director of Engineering Development
Bill Stein, Director of Port Administration
Al Fierstine, Director of Business Development
Lonnie Tang, Director of Customer Service
Molly Campbell, Chief Financial Officer
Julia Nagano, Director of Public Affairs

MANAGEMENT STAFF
Ralph Appy, Director of Environmental Management
Angie Birkenbach, Chief Wharfinger
Lou Colletta, Director of Finance
Noel Cunningham, Director of Operations
Jim Garrott, Controller
Bill Gonzales, Treasurer
Stacey Jones, Chief Harbor Engineer
Jim MacLellan, Director of Marketing
David Mathewson, Director of Planning and Research
Kathy Merkovsky, Director of Risk Management
Capt. Jim Morgan, Pilot Service Manager
Joannie Mukai, Director of Construction and Maintenance
Arnie Netka, Director of Purchasing
Sid Robinson, Director of Property Management
Rocki Walker, Director of Human Resources

LEGAL STAFF
David McKenna, Acting Managing Assistant City Attorney

Management's Discussion and Analysis

Years ended June 30, 2002 and 2001

This section of the Port of Los Angeles' annual financial report presents a discussion and analysis of the Port's financial performance during the fiscal year that ended June 30, 2002. Please read it in conjunction with the transmittal letter at the front of this report and the Port's basic financial statements, which follow this section.

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

The following is a summary of the Port's net assets as of June 30, 2002 and 2001:

Net Assets
(in thousands)

	June 30, 2002	Change	June 30, 2001
Current and other assets	$420,636	-9%	$462,359
Capital assets	2,466,790	11%	2,216,865
Total assets	2,887,426	8%	2,679,224
Long-term debt outstanding	890,116	15%	774,876
Other liabilities	135,552	-15%	158,928
Total liabilities	1,025,668	10%	933,804
Net assets			
Invested in capital assets, net of related debt	1,676,374	17%	1,432,395
Restricted	195	572%	29
Unrestricted	185,189	-41%	312,996
Total net assets	$1,861,758	7%	$1,745,420

Net assets of the Port increased 7% to $1.9 billion. Less than 1% of these net assets are restricted and are comprised wholly of unspent bond proceeds for capital development. The remaining net assets are either unrestricted or are invested in capital assets (facilities, infrastructure, equipment, etc.). These assets are under the control of the Port and must be used for the operation and maintenance of Port facilities and the acquisition and construction of improvements as provided under the State of California Tidelands Trust Act.

Liquidity
(in thousands)

	Twelve Months Ended		
	June 30, 2002	Change	June 30, 2001
Working Capital	$119,841	-48%	$229,641
Cash and cash equivalents, unrestricted	74,151	-70%	246,384
Cash and cash equivalents, current restricted	78,852	6%	74,426
Net cash provided by operating activities	175,516	-12%	200,342
Net cash provided by (used in) investing activities	(9,197)	-132%	28,565
Net cash used in capital and related financing activities	(334,126)	86%	(179,215)

Working capital at June 30, 2002, decreased 48% from the close of the prior fiscal year to $119.8 million due primarily to significant cash requirements for FY 2002 capital development projects at the Port.

Cash generated from investing activities decreased $37.8 million over the prior year principally due to lower levels of securities lending and lower fair market value of the Port's share in the City's investment pools.

Growth in net cash used in capital and related financing activities reflects increased spending levels for capital construction. This was offset by the $21 million cash inflow from new issuance of commercial paper. Total proceeds from the three Harbor Revenue Bonds refunding issuances of 2001 Series A Bonds, 2001 Series B Bonds and 2002 Series A Bonds, net of $99.8 million deposited in escrow accounts set aside to advance refund debt in August 2002, was $63.5 million. This was offset by the $69.1 million cash outflow for reduction of the existing 1995 Series B Bonds.

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2002 and 2001:

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

Management's Discussion and Analysis, Continued

Years ended June 30, 2002 and 2001

Changes in Net Assets

	Twelve Months Ended		
	June 30, 2002	Change	June 30, 2001
Operating revenues	$289,853	6%	$273,498
Income from investments in Joint Powers Authorities and other entities	4,912	10%	4,485
Interest and investment income	11,003	-45%	20,092
Total revenues	305,768	3%	298,075
Expenses			
Operating & administrative expenses	98,069	9%	90,016
Depreciation	59,680	-6%	63,187
Interest expense on bond indebtedness notes payable	47,555	3%	45,983
Other income and expense, net	3,507	206%	1,146
Total expenses	208,811	4%	200,332
Income before contributions and special items	96,957	-1%	97,743
Capital contributions	17,203	129%	7,500
Special Items	2,178	-96%	61,752
Deletions of capital contributions	0	-100%	(7,345)
Change in net assets	$116,338	-27%	$159,650

Net assets for the Port increased $116.3 million for fiscal year 2002. Approximately 98% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. These costs increased 8.9% from the prior fiscal year. Depreciation expense dropped $3.5 million, or 5.6% less than in prior fiscal year mainly due to the fact that in FY 2001 the Port sold five container cranes to a tenant. The combined effects of the $1.0 million issuance costs for the Port's commercial paper program in FY 2002 and the gain on sale of the cranes in FY 2001 caused the net non-operating expense to increase by 206%, or $2.4 million.

Construction on two capital projects that are reimbursable from certain grant funds have been substantially completed at June 30, 2002. Accordingly, the Port accrued $17.2 million in grants receivable and increased the contributed capital by same amount at June 30, 2002. In June 2002, the Port restructured the securities in the 1993 Refunding Escrow established for the defeasance of the 1988 Revenue Bonds. The restructuring produced $2.2 million of cash in excess of the defeasance requirements. These funds have been reported as a special item in the Statements of Revenues, Expenses and Changes in Net Assets.

Operating Revenues
(in thousands)

	Twelve Months Ended		
	June 30, 2002	Change	June 30, 2001
Shipping Services	$249,800	7%	$232,749
Percentage of total revenues	86%		85%
Rentals	34,691	-5%	36,554
Percentage of total revenues	12%		13%
Royalties, Fees, Other Operating Revenues	5,362	28%	4,195
Percentage of total revenues	2%		2%
Total	$289,853	6%	$273,498

Operating revenues for fiscal year 2002 rose to $289.9 million, reflecting a 6% increase from prior year revenues of $273.5 million and is principally attributed to cargo volume growth. A record 5.63 million twenty-foot equivalent units (TEUs) in container volume moved through Port facilities during fiscal year 2002. This is a 12.7% increase from the 4.99 million units recorded in fiscal year 2001. Revenue tons billed grew 8.0% over the comparative period to 123.4 million tons from the 113.9 million tons recorded in the prior year.

Income for the year, before contributions and special items, decreased $0.8 million to $97.0 million, a 0.8% decrease from fiscal year 2001 reported income of $97.7 million. Increased operating and administrative expense and lower interest income are the principal causes for the decline.

Shipping Services

Shipping services revenues consist of several classifications of fees assessed for various activities relating to vessel or cargo movement, merchandise storage, and use of Port facilities and cranes. Of these fees, wharfage is the most significant and comprised 85.9% of the total shipping services revenues in fiscal year 2002. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, to or from barges.

Income from shipping services in fiscal year 2002 rose to $249.8 million, reflecting growth of $17.1 million, or 7.3%, over fiscal 2001. Increased cargo volumes are the principal reason for the growth and are attributed to the increase in U.S. personal consumption expenditures on goods in FY 2002, increased market share gained from other U.S. West Coast ports and the continuing expansion of imports from China. The on-going development of improved intermodal facilities, in addition to the increasing strength of the shipping alliances based in the Port, also contributed to growth in market share. Shipping lines also continued to place larger vessels in services and, despite a 4.2% decline in vessel arrivals during fiscal year 2002, loaded container throughput grew 15% over the prior year.

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

Cargo Type in Revenue Tons
(in thousands)

	Twelve Months Ended		
	June 30, 2002	Change	June 30, 2001
Container/General Cargo	104,279	7%	97,646
Liquid Bulk	12,924	19%	10,897
Dry Bulk	6,208	15%	5,411
Total	123,411	8%	113,954

Container Volume in Loaded TEUs
(in thousands)

	Twelve Months Ended		
	June 30, 2002	Change	June 30, 2001
Import TEUs	2,883	16%	2,479
Export TEUs	861	9%	788
Total	3,744	15%	3,267

Revenue tons are the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when this figure is available, or, when cargo weight is not provided, the weight is closely approximated by calculation. A total of 123.4 million revenue tons were billed in fiscal 2002, an increase of 9.5 million tons, or 8.3% higher than fiscal 2001. Revenue tons from general cargo grew 6.9%, or 6.7 million tons. Tonnage from dry bulk increased 15%, or 0.8 million revenue tons due principally to growth of scrap metal exports. Petroleum also increased 19%, or 2.0 million revenue tons. Additional information for volume by cargo type is presented in the Supplementary Information Section of this report in the schedule titled "Schedule of Revenue Tonnage Billed."

Rentals

The Port makes available to customers various types of rental properties on Port controlled lands. These properties include land, buildings, warehouses, and wharves and sheds. Rates are set for these properties using various methodologies and are broken into two general classifications: waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these broad land classifications. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set through negotiations and will further take into account the condition, location, utility and other aspects of the property. In all cases, the Port seeks to achieve the 12 percent rate of return that has been set by Board policy.

Rental income at the Port decreased $1.9 million, or 5.1%, from last year and is in part attributable to retroactive contract adjustments and conversion of warehouse properties to container terminal use.

Royalties, Fees, and Other Operating Revenue

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

Revenues in this category totaled $5.4 million for fiscal year 2002, an increase of $1.2 million, or 27.8%, over the prior fiscal period. Revenue increased mainly due to additional parking fees generated from the cruise terminal and higher customer utility charges in fiscal year 2002.

Operating and Administrative Expense

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

Operating and administrative expense rose $8.1 million to $98.1 million, an 8.9% increase from the prior fiscal year. Categories of expense reflecting increases include salaries and benefits, marketing and public relations, outside services, materials and supplies, and other operating expenses. These classifications rose 3%, 28%, 29%, 13% and 30%, respectively. Offsetting these increases were drops in city services and allocation costs. Changes in other categories of expenses were immaterial.

Operating Revenues
(in thousands)

	Twelve Months Ended		
	June 30, 2002	Change	June 30, 2001
Salaries and Benefits	$40,682	3%	$39,554
Percentage of total O & A expense	41%		40%
Marketing and Public Relations	3,064	28%	2,385
Percentage of total O & A expense	3%		2%
Travel and Entertainment	713	–	716
Percentage of total O & A expense	1%		1%
Outside Services	21,468	29%	16,583
Percentage of total O & A expense	22%		17%
Materials and Supplies	3,508	13%	3,108
Percentage of total O & A expense	4%		3%
City Services	19,210	-6%	20,395
Percentage of total O & A expense	20%		21%
Other Operating Expenses	9,424	30%	7,275
Percentage of total O & A expense	10%		7%
Total O & A expense	$98,069	9%	$90,016

Salaries and benefits expense rose $1.1 million from the prior fiscal year. Scheduled employee pay increases and overtime paid to the Port police for tightened security following the September 11 attack caused an additional $2.8 million in salaries and overtime expense. Offsetting this increase was a $1.7 million reduction in employee benefits expense attributable to a FY 2001 change in benefits that resulted in the recognition of an additional $1.6 million liability for unused sick benefits payable to employees upon retirement that was recorded that year.

Marketing and public relations expense increased 28% over the prior year, reflecting the Port's focus on public outreach programs and continuing promotion of the Port to the shipping industry. In an effort to be responsive to the needs of its neighboring communities, the Port has allotted increased funding for a wide array of programs designed to better serve the Harbor area.

Outside services expense increased $4.9 million, or 29%, over fiscal year 2001. Costs for engineering design support services for dredging operations and environmental services account for most of this growth. Contracted legal support services relating to ongoing litigation and debt management account for the remainder.

City services expense dropped $1.2 million, or 6%, from the prior fiscal year. Net reductions in costs totaling $2.5 million for various services provided by the City were accompanied by a decline of $1.4 million in capitalized administrative expense allocated to capital construction.

Other operating expense for fiscal year 2002 rose $2.1 million from the prior year. The increase was mainly due to the additional provision for bad debt for right-of-way leases acquired by the Port and uncollectible accounts that were written off in FY 2002.

Non-Operating Income and Expense

Net non-operating expense for fiscal year 2002 increased $12.6 million over the prior year to $35.1 million. Higher net non-operating expenses and lower interest income from investments were the principal factors for the increase. Net interest income and expense for Harbor Revenue Bonds remained essentially unchanged for fiscal year 2002. However, interest income generated from cash balances decreased $6.4 million mainly due to Port's lower average cash balances and decreased yields for fiscal year 2002. Additionally, the decrease in interest income included a $6.2 million adjustment to reflect the change the Port's allocated portion of the adjustment of the City investment pool to fair value. Interest income of $1.8 million relating to the outstanding note balance due from the City of Los Angeles Nexus settlement was recorded in fiscal year 2002.

Income from the Port's investments in the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) increased 9.5% to $4.9 million for fiscal year 2002.

Long-Term Debt and Capital Assets

Long-term Debt

At June 30, 2002, the Port had a total of $890.1 million in long-term debt outstanding comprised of senior debt in the form of Harbor Revenue Bonds, commercial paper and subordinated debt in the form of loans.

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

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained contractually, under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). As of June 30, 2002, this capacity is approximately $1.5 billion calculated using June 30, 2002, operating revenues and current interest rate assumptions.

In August 2001, the Board of Harbor Commissioners authorized the Port to issue and sell from time to time short-term revenue notes not to exceed an aggregate principal amount of $375 million. At June 30, 2002, the Port had a total of $21 million in short-term commercial paper outstanding. See additional information on the Port's long-term debt in footnote 5 in the accompanying basic financial statements.

Capital Assets

Capital assets consisted of the following as of June 30, 2002 and 2001:
(in thousands)

	June 30, 2002	June 30, 2001
Land	$739,483	$753,413
Harbor facilities and equipment, net	986,557	1,034,648
Construction in progress	492,562	252,977
Preliminary costs - Capital projects	248,188	175,827
Total	$2,466,790	$2,216,865

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

Capital Expenditure - Facilities and Infrastructure*
(in thousands)

	Twelve Months Ended		
	June 30, 2002	Change	June 30, 2001
Commercial Development	$2,429	-59%	$5,890
Dredging	5,772	642%	778
Environmental Studies & Credits	1,066	-54%	2,335
Infrastructure Improvements	8,336	497%	1,397
Terminal Development	274,539	136%	116,349
Transportation Improvements	1,298	-94%	23,017
Land & Property Acquisitions	–	-100%	4,157
Total	$293,440	91%	$153,923

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

Projected expenditures for the Port's FY 2003 Capital Improvement Program will fall off slightly from the previous fiscal year due to the large proportion of construction costs expended during FY 2002 for the Pier 400 Phase 1 development. For FY 2003, the largest costs will be those associated with the construction of Phase 2 of the Pier 400 Container Terminal, expenditures for the West Basin redevelopment, and the Main Channel Deepening Program.

The Pier 400 Program will result in a 484-acre container terminal complex with full rail, highway and utility access. Phase 1 of the Pier 400 Container Terminal consisting of 343 acres was completed and turned over to the terminal operator, APM Terminals, in August 2002. Construction of the Phase 2 wharf and backland is scheduled to begin in January 2003. Phase 2 includes an additional 141-acre container terminal area, additional wharves, and new buildings for tenant Maersk Sealand. Phase 2 is scheduled for completion in May 2004.

The West Basin Development Program includes the relocation and improvement of Harry Bridges Boulevard to improve traffic flow, and consists of a 1.5 mile-long street realignment from Figueroa Street to Avalon Street. The northerly realignment of the boulevard will allow for future terminal expansion in this area of the Port. Reduction of traffic congestion, accelerated movement of cargo within the Port and a buffered parkway adjacent to the community are additional benefits expected from this project. The Wilmington Parkway is being envisioned as a landscaped area with walkways and open park areas to be utilized by the adjacent community.

Also included in the West Basin Program is the development of a 75-acre container terminal at Berth 100. Other elements of this program are upgrades to Berths 124-130, creation of a Berth 102 wharf, a gate expansion at Berth 121, and construction of two access bridges. Also included as part of this program is the partial filling of the Southwest Slip. Completion of these projects is scheduled for March 2005.

In order to accommodate deeper draft container vessels, the Port is working with the U.S. Army Corps of Engineers to dredge eight million cubic yards from the Main Channel Turning Basin, East Basin, West Basin, East Basin Channel and Cerritos Channel. Existing design depth in the channel is currently -45 ft mean lower low water (MLLW). The dredging program will provide a depth of -53 ft. MLLW, plus two feet overdepth, and will be complete in November 2004.

The Berths 136-147 terminal improvements are being designed and will upgrade and incorporate an additional 130 acres to the existing 127-acre container terminal. Elements of the project include 2,400 ft. of 100-foot gauge crane rail; dredging water depth to -53 ft.; new and upgraded gate facilities and support buildings; yard configuration to optimize container throughput; and transportation improvements to minimize rail and truck at-grade crossings.

Terminal Island improvements during FY 2003 will include backland improvements and development at Berths 230-236 and the closure of Earle Street between Ferry and Pilchard Streets to provide additional acreage to the Evergreen Terminal. The redevelopment of the Berths 225-232 Gate Entrance and Buildings was completed during FY 2002. The new container facility entrance, gatehouse complex, secondary gate and buildings for terminal operations, and the new maintenance and repair facility will relieve congestion, reduce vehicle emissions and improve cargo handling efficiency at the terminal.

The programs described are being designed and constructed to meet the needs of our current container terminal customers. Every major terminal within the Port will be upgraded and expanded over the next three to five years to accommodate growth in container movements and increase cargo capacity.

The World Cruise Center renovation at Berth 93 A&B will be completed in September 2002. The project will result in updated passenger processing and luggage handling areas to increase the efficiency and security of the operations at the Cruise Center. Also included will be a roadway and walkways for passenger pick-up and drop-off to improve traffic flow into, and out of, the terminal.

Work continued throughout FY 2002 on the San Pedro Waterfront Red Car Line. This project consists of a 1.5-mile, rail-based streetcar line that replicates the historic Pacific Electric Red Cars. The line will run from the Cruise Terminal to 22nd Street, along existing railroad right-of-way. The Red Car Line is intended to provide an infrastructure backbone for commercial development along the west side of the Main Channel and the Cabrillo Marina. The intent of the project is to connect the cruise ship terminal with other attractions along the waterfront.

The Harbor Beautification Program continues to be a high-priority activity for the Port. In addition to the upgrades at Bloch Field and along the Crescent Avenue Pathway, several new project areas have been identified for enhancement. One of these is the Pacific Avenue Bike Path and Improvements to the Yang Ming Terminal entrance. This entrance will serve as a portal to the Port and will include trees, shrubs, a bus bench, bike, and pedestrian pathways. These and other projects will be discussed at community meetings to obtain public input and support.

Factors That May Affect the Port's Operations

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

The Port of Los Angeles continued its strong growth in cargo throughput. In the fiscal year ending June 30, 2002, the Port handled 5,633,566 TEUs (twenty-foot equivalent units), an increase of 12.7% from the previous fiscal year.

The Port is addressing a number of trends developing in the industry. Business alliances among shipping lines are creating increasing demand for development of progressively larger container terminals, frequently in excess of 250 acres. The Port is working to expand existing terminals as well as construct new facilities of this scale to meet demand. The new Pier 400 container terminal is one such example. It was built for Maersk Sealand and was officially opened in August 2002. The new China Shipping Terminal is currently under construction and it is anticipated that Phase I will be completed at the end of 2002. Major progress has been made with improvements to the TraPac Terminal at Berths 136-147. These Port developments will create larger cargo facilities with improved economies of scale. Efficient railyard operations represent another important requirement. In addition to our new on-dock intermodal rail facility at Pier 400 and the existing on-dock/near-dock facilities that serve our customers, the Port is developing a new general-use railyard. The Port is also initiating new programs to address environmental efficiencies for ships in Port and operating equipment on terminals.

In addition, larger container vessels continue to be placed in service. These new-generation container vessels require channel depths of more than 50 feet for safe navigation. The Port's Main Channel deepening project, which will lower the channel depth to -53 feet, is expected to commence in September 2002.

Existing shipping companies operating facilities or calling at the Port of Los Angeles have been increasing their service and others are planning to do so in the coming year.

Competitive Environment

In the fiscal year period ending June 30, 2002, 99.8% of the entire U.S. West Coast containerized cargo market was controlled by six major containerports: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington state; and the Port of Portland in Oregon. The San Pedro Bay ports of Los Angeles and Long Beach together controlled 73% of all U.S. West Coast market share.

The port industry is capital intensive and requires long lead times to plan and develop new facilities and infrastructure. Resources are typically allocated and facilities developed upon the commitment of customers to long-term leases of 25 to 30 years. Occupancy remains high and West Coast ports have limited capacity for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but is the most attractive point of origin for transshipments to Midwest and East Coast destinations.

West Coast Container Market Share*
(in thousands)

	Twelve Months Ended			Twelve Months Ended	
	June 30, 2002	June 30, 2001		June 30, 2002	June 30, 2001
	Loaded TEUs (000s)	Loaded TEUs (000s)	FY Change	Market Share Percentage	Market Share Percentage
Los Angeles	3,744	3,267	15%	38.3%	35.1%
Long Beach	3,355	3,249	3%	34.3%	34.9%
Oakland	962	985	-2%	9.8%	10.6%
Seattle	822	906	-9%	8.4%	9.7%
Tacoma	669	639	5%	6.8%	6.9%
Portland	195	207	-6%	2.0%	2.2%
All Others	23	50	-54%	0.2%	0.5%
Total	9,770	9,303		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.

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

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), a component unit of the City of Los Angeles, California, as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the Port of Los Angeles' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2002 on our consideration of Port of Los Angeles' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 7 to 18 and the pension supplementary information on page 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

August 30, 2002

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

Statements of Net Assets

June 30, 2002 and 2001
(In thousands of dollars)

	2002	2001
Assets:		
Current assets:		
Cash and investments, unrestricted (note 2)	$ 74,151	246,384
Cash and investments, restricted (note 2)	78,852	74,426
Accounts receivable, less allowance for doubtful accounts of $2,934 and $2,325 in 2002 and 2001, respectively	42,657	32,078
Grants receivable (note 14)	17,203	—
Materials and supplies inventories	1,404	1,344
Prepaid and deferred expenses	304	350
Accrued interest receivable	2,402	5,916
Current portion of notes receivable (note 10)	3,412	3,312
Total current assets	220,385	363,810
Noncurrent restricted assets (note 2):		
Restricted investments – bond funds	99,895	29
Other restricted cash and investments	8,362	8,260
Accrued interest receivable	1,088	24
Total noncurrent restricted assets	109,345	8,313
Capital assets (notes 3 and 8):		
Land	739,483	753,413
Harbor facilities and equipment, less accumulated depreciation of $653,372 and $594,023 in 2002 and 2001, respectively	986,557	1,034,648
Construction in progress	492,562	252,977
Preliminary costs – capital projects	248,188	175,827
Net capital assets	2,466,790	2,216,865
Notes receivable (note 10)	58,093	59,820
Investment in Joint Powers Authorities and other entities (note 4)	25,283	24,121
Other assets	7,530	6,295
Total assets	2,887,426	2,679,224

(Continued)

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

Statements of Net Assets

June 30, 2002 and 2001
(In thousands of dollars)

	2002	2001
Liabilities:		
Current liabilities:		
Accounts payable	$ 31,281	44,987
Current installments of notes payable and bond indebtedness (note 5)	9,037	8,577
Accrued interest	15,661	12,962
Accrued employee benefits	11,136	9,581
Deferred revenue and other deferred credits	358	1,380
Liabilities under the City of Los Angeles' securities lending program (note 2)	10,872	39,310
Accrued construction costs payable	21,831	17,036
Other current liabilities	368	336
Total current liabilities	100,544	134,169
Long-term liabilities:		
Bonds payable, net of current portion and deferred amount on refunding of $956 and $995 in 2002 and 2001, respectively (note 5)	850,391	756,502
Notes payable, net of current installments (note 5)	9,688	9,797
Commercial paper to be refunded from bonds (note 5)	21,000	—
Deferred revenue and other deferred credits	3,119	3,119
Other liabilities (note 7)	32,705	23,247
Liabilities payable from restricted assets – other liabilities	8,221	6,970
Total long-term liabilities	925,124	799,635
Total liabilities	1,025,668	933,804
Commitments and contingencies (notes 4, 5, 7, 8, 12, and 15)		
Net assets:		
Invested in capital assets, net of related debt	1,676,374	1,441,989
Restricted, bond proceeds	195	29
Unrestricted	185,189	303,402
Total net assets	$ 1,861,758	1,745,420

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

June 30, 2002 and 2001
(In thousands of dollars)

	2002	2001
Operating revenues (note 8):		
Shipping services:		
Wharfage	$ 214,643	200,623
Dockage	9,334	10,008
Demurrage	201	1,329
Cranes	4,112	5,767
Pilotage	6,933	6,858
Assignment charges	14,278	7,625
Storage	299	539
Total shipping services	249,800	232,749
Rentals:		
Land	32,207	33,843
Buildings	293	320
Warehouses	1,337	2,218
Wharf and shed revenue	854	173
Total rentals	34,691	36,554
Royalties, fees, and other operating revenues:		
Fees, concessions, and royalties	3,364	2,880
Oil royalties	37	40
Other	1,961	1,275
Total royalties, fees, and other operating revenues	5,362	4,195
Total operating revenues	289,853	273,498
Operating and administrative expenses (notes 7, 9, 12, and 13):		
Salaries and benefits	40,682	39,554
Marketing and public relations	3,064	2,385
Travel and entertainment	713	716
Outside services	21,468	16,583
Materials and supplies	3,508	3,108
City services, net of capitalized amounts of $1,647 and $3,013 in 2002 and 2001, respectively	19,210	20,395
Other operating expenses	9,424	7,275
Total operating and administrative expenses	98,069	90,016
Income from operations before depreciation	191,784	183,482
Depreciation	59,680	63,187
Operating income	132,104	120,295

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Assets

June 30, 2002 and 2001
(In thousands of dollars)

	2002	2001
Nonoperating revenues (expenses):		
Income from investments in Joint Powers Authorities and other entities	$ 4,912	4,485
Interest and investment income	11,003	20,092
Interest expense on bond indebtedness and notes payable	(47,555)	(45,983)
Other income and expenses, net (note 2)	(3,507)	(1,146)
Net nonoperating expenses	(35,147)	(22,552)
Income before contributions and special item	96,957	97,743
Capital contributions (note 14)	17,203	7,500
Special item (notes 10 and 11)	2,178	61,752
Deletion of capital contributions (note 14)	—	(7,345)
Change in net assets	116,338	159,650
Total net assets – beginning	1,745,420	1,585,770
Total net assets – ending	$ 1,861,758	1,745,420

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

June 30, 2002 and 2001
(In thousands of dollars)

	2002	2001
Cash flows from operating activities:		
Shipping services fees collected	$ 237,746	226,954
Rentals collected	35,810	30,885
Royalties, fees, and other operating revenues collected	5,948	3,804
Payments for employee salaries and benefits	(46,876)	(44,982)
Payments for goods and services	(55,104)	(10,864)
Net cash used in other nonoperating income and expenses	(2,008)	(5,455)
Net cash provided by operating activities	175,516	200,342
Cash flows from capital and related financing activities:		
Payments for property acquisitions and construction	(304,426)	(143,366)
Proceeds from sales of capital assets	126	15,032
Proceeds from capital grant	—	5,194
Net proceeds from issuance of bonds	63,457	—
Proceeds from issuance of commercial paper	21,000	—
Principal repayment – bonds	(69,100)	(7,830)
Principal repayment – notes	(327)	(313)
Interest paid	(44,856)	(47,932)
Net cash used in capital and related financing activities	(334,126)	(179,215)
Cash flows from investing activities:		
Receipt of interest	14,517	15,762
Investment in other notes	(2,008)	—
Increase (decrease) in liabilities under the City of Los Angeles' securities lending program	(28,438)	5,884
Increase (decrease) in fair value of investments	(2,831)	3,368
Excess cash from restructuring securities in bond defeasance escrow	2,178	—
Payments received on notes receivable	3,635	51
Distribution from Joint Powers Authorities and other entities	3,750	3,500
Net cash provided by (used in) investing activities	(9,197)	28,565
Net increase (decrease) in cash and cash equivalents	(167,807)	49,692
Cash and cash equivalents, beginning of year	320,810	271,118
Cash and cash equivalents, end of year (note 2)	$ 153,003	320,810

(Continued)

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

Statements of Cash Flows

June 30, 2002 and 2001
(In thousands of dollars)

	2002	2001
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 132,104	120,295
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	59,680	63,187
Provision for doubtful accounts	609	(633)
Increase in accounts receivable	(11,188)	(4,731)
Increase in materials and supplies inventories	(60)	(63)
(Increase) decrease in prepaid and deferred expenses and other assets	(1,189)	2,536
Increase (decrease) in accounts payable	(13,706)	29,483
Increase in accrued employee benefits	1,555	1,899
Increase in other liabilities	10,709	1,010
Decrease in deferred revenue and other deferred credits and other current liabilities	(990)	(7,184)
Net cash used in other nonoperating income and expense	(2,008)	(5,457)
Total adjustments	43,412	80,047
Net cash provided by operating activities	$ 175,516	200,342

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

(a) Organization and Reporting Entity

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, The Financial Reporting Entity, which the Port adopted effective July 1, 1993. The basic, but not the only, criterion for including a potential component unit within the reporting entity is whether the primary governing body has financial accountability for the potential component unit. The most significant manifestations of financial accountability are that the primary government appoints a voting majority of the organization's governing body and it is able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. In addition to those organizations for which a primary government may be financially accountable, other organizations for which the primary government is not financially accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, may also be component units. Based upon the application of these criteria, the following is a brief review of each component unit addressed in defining the Port's reporting entity.

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

The Port operates as principal landlord for the purpose of assigning or leasing Port facilities and land areas. The Port's principal source of revenue is from shipping services under tariffs (dockage and wharfage), rentals of land and facilities, royalties (oil wells), and other fees. Capital construction is financed from operations, bonded debt, and loans secured by future revenues and federal grants. Daily operation of the Port facilities and regular maintenance are performed by the Port's permanent work force. Generally, major maintenance and new construction projects are assigned to commercial contractors.

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

Los Angeles Harbor Improvements Corporation – The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the State of California for public purposes. LAHIC was formed to assist the City of Los Angeles by erecting, constructing, replacing, extending, or improving facilities and services that the Board of Harbor Commissioners deems necessary for the promotion and accommodation of commerce. From time to time, LAHIC has issued long-term indebtedness to finance specific capital facilities improvements on behalf of the Port's tenants. The nature of these financings is such that the long-term indebtedness will be that of the Port tenant and not LAHIC, the Port, or the City of Los Angeles. Therefore, for purposes of the accompanying basic financial statements, the long-term indebtedness of LAHIC and the corresponding lease receivable from the tenant is eliminated.

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the Board of Harbor Commissioners. In fiscal 2002 and 2001, all five members of the LAHIC Board were employees or Commissioners of the Port. Although the tenant reimburses LAHIC for its costs of operations, the Board of Harbor Commissioners is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, LAHIC is reported as if it were part of the Port because its sole purpose is to finance and construct facilities and improvements, which directly benefit the Port.

Both the Port and LAHIC are included in the reporting entity of the Port, and accordingly, the operations of both entities are blended in the accompanying basic financial statements.

(b) Summary of Significant Accounting Policies

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

Method of Accounting – The Port is accounted for as an enterprise fund, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The measurement focus is on determination of changes in net assets, financial position, and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. In accordance with GASB Statement No. 20, the Port of Los Angeles has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

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

Properties – Properties are carried at cost or at appraised fair market value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation.

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

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

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

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

Preliminary Costs of Proposed Capital Projects – Development costs for proposed capital projects that are incurred prior to the finalization of formal construction contracts are capitalized. Upon completion of capital projects, such preliminary costs are transferred to the appropriate property account. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately $1,276,000 and $2,685,000 of such indirect project costs were allocated to construction projects for the years 2002 and 2001, respectively.

(Continued)

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

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects during 2000. No interest paid was capitalized during 2002 or 2001.

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

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating City department/fund based on the relationship of such department/fund's respective daily cash balances to aggregate pooled cash and investments (see note 2). The change in the fair value of pooled investments is allocated to each participating City department/fund based on the aggregate respective average cash balances.

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

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

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

Operating Leases – A substantial portion of the harbor lands and facilities is leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property at the expiration of the agreement; accordingly, no leases are considered capital leases for purposes of financial reporting (see note 8).

(Continued)

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

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

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

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

Reclassifications – Certain reclassifications have been made to the amounts reported in 2001 in order to conform to the 2002 presentation. Such reclassifications had no effect on previously reported results of operations.

(2) Cash and Investments

(a) Cash and Pooled Investments

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

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

	2002	2001
Cash in bank and certificates of deposit	$ 2,311	2,260
Investment in U.S. Treasury money market fund	99,873	9
Equity in the City of Los Angeles Investment Pool	159,076	326,830
Total cash and investments	$ 261,260	329,099

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

	2002	2001
Unrestricted cash and investments	$ 74,151	246,384
Restricted cash and investments:		
Current:		
Earthquake/Disaster Fund	78,000	73,661
Owner-Controlled Insurance Program	500	500
Other	352	265
	78,852	74,426
Noncurrent:		
Harbor Revenue Bond Fund	99,895	29
Customer security deposits	2,033	3,203
Batiquitos Environmental Fund	4,673	4,627
Harbor Restoration Fund	450	430
Marina Credit Fund	1,206	—
	108,257	8,289
Total restricted cash and investments	187,109	82,715
Total cash and investments	$ 261,260	329,099

(b) *Deposits*

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to $2,311,000 and $2,260,000 at June 30, 2002 and 2001, respectively, with a corresponding bank balance of $2,105,000 and $1,641,000, 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 conformance with the State Government Code.

(c) *City of Los Angeles Investment Pool*

The Port's equity in the City of Los Angeles Investment Pool is not required to be categorized. However, investments in the City of Los Angeles Investment Pool are categorized by the City to provide an indication of the level of holding risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. At June 30, 2002 and 2001, substantially all of the City's investments were classified in Category 1 type investments or were not required to be categorized.

(Continued)

(d) City of Los Angeles Securities Lending Program

The Port participates in the City of Los Angeles securities lending program. Under this program, the City lends investment securities to broker-dealers for collateral that will be returned for the same securities in the future. These activities are governed by a contractual agreement with the City's bank limiting the nature and amount of transactions subject to full collateralization. Collateral securities are initially pledged at 102% of the fair value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 101.5% of the fair value of the securities lent. Under the City's program, no more than 50% of the par value of the City's General Investment Pool shall be available for lending. Total cash collateral received by the City was $577,051,613 and $689,629,669 at June 30, 2002 and 2001, respectively. No noncash collateral was received by the City at June 30, 2002. Net revenues earned by the City on its securities lending program totaled $731,564 and $1,070,770 for the years ended June 30, 2002 and 2001, respectively. The Port's share of cash collateral received and corresponding liability aggregated approximately $10,872,000 and $39,310,000 at June 30, 2002 and 2001, respectively.

(e) Other Investments

Other investments of $99,872,949 and $9,000 at June 30, 2002 and 2001, respectively, consist of investments in a U.S. Treasury securities money market fund. At June 30, 2002 and 2001, these investments were not required to be categorized.

(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2002 and 2001 (in thousands of dollars):

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

No interest was capitalized for 2002 and 2001.

	July 1, 2000	Increases	Decreases	June 30, 2001
Capital assets not being depreciated:				
Land	$ 738,687	15,800	(1,074)	753,413
Construction in progress	139,652	117,198	(3,873)	252,977
Preliminary costs – capital projects	156,656	19,571	(400)	175,827
Total capital assets not being depreciated	1,034,995	152,569	(5,347)	1,182,217
Capital assets being depreciated/amortized:				
Wharves and sheds	437,580	1,270	—	438,850
Buildings/facilities	1,164,793	1,899	(400)	1,166,292
Equipment	37,967	2,707	(17,145)	23,529
Total capital assets being depreciated/amortized	1,640,340	5,876	(17,545)	1,628,671
Less accumulated depreciation/amortization for:				
Wharves and sheds	(156,464)	(13,573)	—	(170,037)
Buildings/facilities	(351,781)	(44,274)	109	(395,946)
Equipment	(26,713)	(5,340)	4,013	(28,040)
Total accumulated depreciation	(534,958)	(63,187)	4,122	(594,023)
Total capital assets being depreciated/amortized, net	1,105,382	(57,311)	(13,423)	1,034,648
Total capital assets, net	$ 2,140,377	95,258	(18,770)	2,216,865

(Continued)

(4) Investment in Joint Powers Authorities and Other Entities

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

(a) Intermodal Container Transfer Facility Joint Powers Authority

The Port and the Harbor Department of the City of Long Beach, California (Port of Long Beach) entered into a joint exercise of powers agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purpose of financing and constructing a facility to transfer cargo containers between trucks and railroad cars. The Port contributed $2,500,000 to the ICTF as part of the agreement. The facility, which began operations in December 1986, was developed by Southern Pacific Transportation Company (SPTC, subsequently a wholly owned subsidiary of Union Pacific Corporation), which operates the facility under a long-term lease agreement. The Port appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued approximately $54,000,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52,315,000 refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42,915,000 of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, the Port of Los Angeles, or the Port of Long Beach.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those acts necessary for the development of its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's operations and assets, liabilities, and equity at June 30, 2002 and 2001 is $6,283,000 and $5,121,000, 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.

(Continued)

During fiscal year 1995, the Port and the Port of Long Beach purchased railroad rights-of-way and other assets totaling approximately $370 million along the proposed corridor route.

At June 30, 1998, the Port had advanced a total of $13,334,000 to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Port for all amounts advanced plus approximately $3.2 million of interest on such advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Port for approximately $81.7 million of capital assets directly related to the ACTA's mission, which the Port had previously included in construction in progress. Of the capital assets transferred, approximately $22.2 million had been funded by capital grants, which the Port had previously included in contributions/land valuation equity. The Port's share of the ACTA's operations and assets, liabilities, and equity at June 30, 2002 and 2001 is immaterial to the accompanying basic financial statements.

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

(c) Los Angeles Export Terminal, Inc.

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

The Port has contributed $19,000,000 to the LAXT as part of the agreement. Such contribution represents a 13.2% share of the total committed capital of $143,174,231. This capital was raised from the shareholders through a purchase of stock in LAXT. The Port's investments totaled $19,000,000 at June 30, 2002 and 2001, respectively. The Port has the right to nominate two directors to a 19-member board of directors. As of June 30, 1998, the terminal began operating under a long-term lease agreement with a terminal manager/operator.

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

(5) Long-Term Debt

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

(a) Bonds Payable

1995 Bonds

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

(Continued)

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

In fiscal year 1997, the Port issued $21,350,000 of 1996 Revenue Bonds, Series C to defease the $19,750,000 of outstanding 1995 Series A bonds.

On July 11, 2001, the Port issued Harbor Revenue Bonds of $36,189,000, Series A Bonds (2001 A Refunding Bonds) to provide funds to advance refund, on a crossover basis, $33,330,000 of the 1995 B Bonds and the Port also issued Harbor Revenue Bonds, of $64,925,000, Series B Bonds (2001 B Refunding Bonds) to provide funds to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters. The Port issued The Harbor Revenue Bonds, of $63,520,000, Series A Bonds (2002 A Refunding Bonds) on May 6, 2002 on a crossover basis, to refund $64,110,000 of the outstanding 1995 Series B Bonds on a forward delivery basis and to provide funds (together with the 2001 A Refunding Bonds) to currently refund the 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of the 1995 Series B Bonds maturing on August 1, 2002 and 2003. The balance outstanding on the 1995 Series B Bonds, net of unamortized discount of $618,854 and $621,049, is $103,231,146 and $167,013,951 at June 30, 2002 and 2001, respectively.

As the proceeds of the 2001 B Refunding Bonds were used to defease $60,850,000 of the 1995 Series B Bonds, that amount has been removed from the Port's long-term debt as of June 30, 2002. However, because the 2001 A and 2002 A Refunding Bond issuances were issued to refund $97,440,000 of the 1995 Series B Bonds on a crossover basis, as of June 30, 2002, the 1995 Series B bonds and the 2001 A and 2002 A Refunding Bonds amounts will remain recorded as long-term debt until the crossover date of August 1, 2002. (See note 15.)

(Continued)

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

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
Outstanding debt service:			
2003	$ 3,110	3,461	6,571
2004	3,300	99	3,399
Refunded debt service:			
2005-2026	97,440	97,402	194,842
Subtotal	103,850	100,962	204,812
Unamortized discount	(619)	—	(619)
Total	$ 103,231	100,962	204,193

1996 Series A Bonds

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

Interest on the 1996 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 1996, with principal payments commencing August 1, 1997. The 1996 Series A Bonds, which mature in 2026, bear interest ranging from 5% to 6.25%. The 1996 Series A Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balance outstanding on the 1996 Series A Bonds, net of unamortized discount of $1,495,314 and $1,558,274, is $276,269,686 and $281,106,726 at June 30, 2002 and 2001, respectively.

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

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2003	$ 5,155	16,497	21,652
2004	5,420	16,232	21,652
2005	5,700	15,951	21,651
2006	6,000	15,650	21,650
2007	6,325	15,327	21,652
2008-2012	37,480	70,769	108,249
2013-2017	50,355	57,887	108,242
2018-2022	68,265	39,987	108,252
2023-2027	93,065	15,187	108,252
Subtotal	277,765	263,487	541,252
Unamortized discount	(1,495)	—	(1,495)
Total	$ 276,270	263,487	539,757

1996 Series B and C Bonds

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

Interest on the 1996 Series B and C Bonds is payable semiannually on May 1 and November 1 of each year commencing May 1, 1997 with principal payments commencing November 1, 1997. The 1996 Series B and C Bonds consist of serial and term bonds maturing in amounts ranging from $340,000 to $21,960,000 at rates ranging from 4.875% to 6.25%. The 1996 Series B Bonds mature on November 1, 2026 and the 1996 Series C Bonds mature on November 1, 2025. The term bonds are subject to mandatory early redemption. The bonds maturing on or after November 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after November 1, 2008 are subject to optional redemption without an early redemption premium. The 1996 Series B and C Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balance outstanding on the 1996 Series B and C Bonds, net of unamortized discount of $862,923 and $898,264 and unamortized deferred amount on refunding of $956,257 and $995,421, is $316,290,820 and $316,631,315 at June 30, 2002 and 2001, respectively.

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

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

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

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2003	$ 430	17,515	17,945
2004	6,765	17,328	24,093
2005	7,125	16,965	24,090
2006	7,500	16,583	24,083
2007	7,905	16,181	24,086
2008-2012	46,345	74,064	120,409
2013-2017	60,405	59,982	120,387
2018-2022	78,975	41,368	120,343
2023-2027	102,660	16,221	118,881
Subtotal	318,110	276,207	594,317
Advance refunding – loss in defeasance of Harbor Revenue Bond 1995 Series A	(956)	—	(956)
Unamortized discount	(863)	—	(863)
Total	$ 316,291	276,207	592,498

2001 Series A Refunding Bonds

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

(Continued)

on February 1 and August 1 of each year commencing February 1, 2002, with principal payments commencing annually on August 1, 2022. The 2001 A Refunding Bonds, which mature in 2025, bear interest at a rate of 5.0%. The 2001 A Refunding Bonds are secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture until the crossover date of August 1, 2002. The balance outstanding on the 2001 A Refunding Bonds, net of unamortized discount of $1,177,825, is $35,002,175 at June 30, 2002.

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

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2003	$ —	905	905
2004	—	1,809	1,809
2005	—	1,809	1,809
2006	—	1,809	1,809
2007	—	1,809	1,809
2008-2012	—	9,045	9,045
2013-2017	—	9,045	9,045
2018-2022	—	9,045	9,045
2023-2027	36,180	4,471	40,651
Subtotal	36,180	39,747	75,927
Unamortized discount	(1,178)	—	(1,178)
Total	$ 35,002	39,747	74,749

2001 Series B Bonds

The Department issued the Harbor Revenue Bonds, of $64,925,000, Series B Bonds (2001 B Refunding Bonds) to provide funds to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters. Interest on the 2001 B Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on February 1, 2002, with principal payments commencing annually on August 1, 2015. The 2001 B Refunding Bonds, which mature in 2022, bear interest at rates ranging from 5.25% to 5.50%. The balance outstanding on the 2001 B Refunding Bonds, net of unamortized premium of $1,036,324 and unamortized deferred amount on refunding of $3,547,603, is $62,413,722 at June 30, 2002.

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

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2003	$ —	3,547	3,547
2004	—	3,547	3,547
2005	—	3,547	3,547
2006	—	3,547	3,547
2007	—	3,547	3,547
2008-2012	—	17,736	17,736
2013-2017	10,270	17,310	27,580
2018-2022	45,170	8,966	54,136
2023-2027	9,485	249	9,734
Subtotal	64,925	61,996	126,921
Amortization of tender premium	(3,548)	—	(3,548)
Unamortized discount	1,036	—	1,036
Total	$ 62,413	61,996	124,409

2002 Series A Bonds

The Harbor Revenue Bonds, of $63,520,000, Series A Bonds (2002 A Refunding Bonds) were issued on May 6, 2002 on a crossover basis, to refund $64,110,000 of the outstanding 1995 Series B Bonds on a forward delivery basis and to provide funds to currently refund the 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of 1995 Series B Bonds maturing on August 1, 2002 and 2003. Interest on the 2002 A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2002, with principal payments commencing annually on August 1, 2004. The 2002 A Refunding Bonds, which mature in 2015, bear interest at a rate of 5.50%. The 2002 A Refunding Bonds are secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture. The balance outstanding on the 2002 A Refunding Bonds, net of unamortized premium of $2,358,837, is $65,878,837, at June 30, 2002.

(Continued)

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

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2003	$ —	1,747	1,747
2004	—	3,494	3,494
2005	4,035	3,383	7,418
2006	4,255	3,155	7,410
2007	4,495	2,914	7,409
2008-2012	26,445	10,471	36,916
2013-2016	24,290	2,556	26,846
Subtotal	63,520	27,720	91,240
Unamortized discount	2,359	—	2,359
Total	$ 65,879	27,720	93,599

(b) Other Long-Term Debt

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes not to exceed $375,000,000 as a means of interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. The Port intends to refinance the commercial paper on a long-term basis by uninterrupted renewal of the commercial paper and future issuance of Revenue Bonds. Rates vary on the commercial paper from 1.2% to 1.45%. As of June 30, 2002, the Port's commercial paper outstanding was $21,000,000.

California Department of Boating and Waterways

The Port obtained two loans aggregating $8,000,000 from the California Department of Boating and Waterways. The notes currently bear interest at 4.5%. The Port makes annual payments of interest and principal and the notes will mature in 2014 and 2015, respectively. The notes are secured by the future revenues of the Port and do not constitute a general obligation of the City of Los Angeles. The balance outstanding on such notes is $5,567,534 and $5,894,738 at June 30, 2002 and 2001, respectively.

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

Fiscal year	Principal	Interest	Total
2003	$ 342	250	592
2004	357	235	592
2005	373	219	592
2006	390	202	592
2007	408	184	592
2008-2012	2,331	631	2,962
2013-2015	1,366	112	1,478
Total	$ 5,567	1,833	7,400

Ports O' Call Restaurant Corporation

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

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

At June 30, 2002 and 2001, the note payable totaled $4,462,117 and $4,229,494, respectively.

(c) Prior Years' Defeasance of Debt

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

The remaining bonds to be redeemed by the trusts at June 30, 2002 and 2001 were as follows (in thousands):

	2002	2001
1988 Bonds	$ 109,235	112,440
1995 Series A Bonds	18,225	18,590
Total	$ 127,460	131,030

(d) *Changes in Long-Term Liabilities*

Long-term liability activity for the years ended June 30, 2002 and 2001 was as follows (in thousands):

	July 1, 2001	Additions	Reductions	June 30, 2002
Revenue bonds payable	$ 768,825	164,625	(69,100)	864,350
Less unamortized discount/ premium	(3,077)	2,248	69	(760)
Less current portion	(8,250)	(8,695)	8,250	(8,695)
Unamortized deferred amount on refunding	(996)	(3,725)	217	(4,504)
Total revenue bonds payable	756,502	154,453	(60,564)	850,391
Notes payable	10,124	233	(327)	10,030
Less current portion	(327)	(342)	327	(342)
Total notes payable	9,797	(109)	—	9,688
Commercial paper	—	21,000	—	21,000
Deferred revenue and other deferred credit	3,119	—	—	3,119
Other liabilities (note 7)	30,217	14,962	(4,253)	40,926
Total long-term liabilities	$ 799,635	190,306	(64,817)	925,124

(Continued)

	July 1, 2000	Additions	Reductions	June 30, 2001
Revenue bonds payable	$ 776,655	—	(7,830)	768,825
Less unamortized discount/ premium	(3,202)	—	125	(3,077)
Less current portion	(7,836)	(8,250)	7,836	(8,250)
Unamortized deferred amount on refunding	(1,035)	—	39	(996)
Total revenue bonds payable	764,582	(8,250)	170	756,502
Notes payable	10,217	220	(313)	10,124
Less current portion	(313)	(327)	313	(327)
Total notes payable	9,904	(107)	—	9,797
Deferred revenue and other deferred credit	10,619	—	(7,500)	3,119
Other liabilities (note 7)	29,207	7,104	(6,094)	30,217
Total long-term liabilities	$ 814,312	(1,253)	(13,424)	799,635

(6) Employee-Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which the Port and its employees participate, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City, except for a catastrophic circumstance creating an undue financial hardship for the employee.

As a result of changes to Section 457 deferred compensation plans resulting from the Small Business Job Protection Act of 1996, the City's deferred compensation plan administrator established a custodial account on behalf of the plan participants. All amounts deferred by the Port's employees are paid to the City which in turn pays them to the deferred compensation plan administrator. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such custodial account for the exclusive benefit of the employee participants and their beneficiaries. Information on the Port employees' share of plan assets is not available.

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

(Continued)

(7) Risk Management

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

Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The Port utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities. At June 30, 2002 and 2001, approximately $32,376,000 and $22,959,000, respectively, were accrued for litigation claims and workers' compensation claims, which are included in other liabilities in the accompanying statements of net assets.

Changes in the reported liability since June 30, 2001 are as follows (in thousands):

	Beginning liability	Current year claims and estimate changes	Claim payments	Balance at fiscal year end
2001 - 2002:				
Workers' compensation	$ 3,910	1,500	1,045	4,365
Litigation	19,049	12,170	3,208	28,011
2000 - 2001:				
Workers' compensation	3,854	1,431	1,375	3,910
Litigation	18,250	5,518	4,719	19,049

(8) Leases, Rentals, and Revenue Sharing Agreements

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

These lease agreements are intended to be long-term in nature (as long as 30 years) and to provide the Port with a firm tenant commitment for a minimum fixed income stream. Many agreements also provide for additional payment beyond the fixed portion, based upon tenant usage, revenues, or volume. These agreements are also generally subject to periodic inflationary escalation of base amounts due the Port. For the years ended June 30, 2002 and 2001, revenues from such agreements aggregated approximately $176,025,558 and $173,294,668, respectively.

The property on lease at June 30, 2002 consists of the following (in thousands of dollars):

Wharves and sheds	$	439,028
Cranes and bulk facilities		63,787
Municipal warehouses		11,606
Port pilot facilities and equipment		4,488
Buildings and other facilities		460,721
Cabrillo Marina		35,203
		1,014,833
Less accumulated depreciation		(446,385)
Total	$	568,448

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

Year ending June 30:		
2003	$	202,461
2004		199,333
2005		220,562
2006		221,298
2007		222,049
Total	$	1,065,703

(9) Retirement Plan

(a) Plan Description

All full-time employees of the Port are eligible to participate in the Los Angeles City Employees' Retirement System (the System), a single-employer defined benefit public employee retirement system (PERS). The System is under the management and control of the System's Board of Administration, whose authority is granted by the City Charter (Article XI). The System is an independent department of the City and its financial statements are included in the City's Comprehensive Annual Financial Report as a retirement trust fund. The Port makes contributions to the System for its pro rata share of retirement costs attributable to its employees. The total payroll for Port employees covered by the System for the years ended June 30, 2002, 2001, and 2000 was $37,181,000, $35,276,000, and $34,478,000, respectively (2.9%, 2.9%, and 3.1% of total System-covered payroll in 2002, 2001, and 2000, respectively); the Port's total payroll for 2002, 2001, and 2000 was $41,199,000, $39,043,000, and $37,561,000, respectively.

(Continued)

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

Covered employees contribute to the System at a rate established through the collective bargaining process for those whose membership began prior to February 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after February 1, 1983. The City contributes the remaining amounts necessary to pay benefits when due, as determined by the actuarial consultant of the System. Amounts charged to the Port by the City for its pro rata share of actuarially determined contributions to the System were $2,679,504, $1,909,358, and $2,361,000 for the years ended June 30, 2001, 2000, and 1999, respectively, representing 7.2%, 5.4%, and 6.8% of the Port's covered payroll for the respective years and 4.5%, 2.8%, and 2.2% of total System employer contributions.

(b) Funding Status and Progress

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

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

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

The total overfunded pension benefit obligation applicable to the System as a whole was $520,716,000 at June 30, 2001, as follows (in thousands):

Total pension benefit obligation	$	6,468,066
Actuarial value of available plan assets		6,988,782
Overfunded pension benefit obligation	$	520,716

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

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

Total annual pension costs for the City were $59,153,000, $72,146,277, and $69,248,626 for the years ended June 30, 2001, 2000, and 1999, respectively, representing 100% of annual required contributions for each year.

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

(d) *Required Supplemental Information (Unaudited)*

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

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded (overfunded) AAL	Funded ratio	Covered payroll	Overfunded AAL as a % of covered payroll
2001	$ 6,468,066	6,988,782	(520,716)	108.1%	$ 1,293,350	(40.3)%
2000	6,012,931	6,561,365	(548,434)	109.1	1,182,203	(46.4)
1999	5,684,586	5,910,948	(226,362)	104.0	1,068,124	(21.2)

(e) *Other Postemployment Benefits*

The Port, as a participant in the System, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a

City-approved health carrier. The contributions to the health care subsidy represent approximately 12% of total actuarially determined City contributions to the System for 2000. Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

At June 30, 2001, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total overfunded health benefit subsidy applicable to the System as a whole was approximately $37,079,000 as follows (in thousands):

Total health benefit liability	$	827,436
Reserve for health benefits		864,515
Overfunded benefit liability	$	37,079

(10) City of Los Angeles Settlement

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

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

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

(Continued)

On January 19, 2001, the City of Los Angeles, along with the Port and the State Lands Commission, entered into a settlement and mutual release agreement to amicably resolve their disputes concerning the City's entitlement to historic and future reimbursements for costs the City incurred or would incur providing services to the Port. The settlement agreement provides that the City, as reimbursement for payments made by the Port to the City for retroactive billings for City services provided during the period July 1, 1977 through June 30, 1994, inclusive, pay the Port $53,400,000 in principal plus 3% simple interest over a 15-year period.

The settlement agreement also provides that the City reimburse the Port for the payment differential, that amount representing the difference between the actual payments and the amount to which the City would have been entitled to reimbursement during fiscal year 1994-95 and fiscal year 2001-2002, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at $8,352,000. Payment for this period is to be reimbursed to the Port over 15 years including 3% simple interest. The agreement also states that at any time after five years from January 19, 2001, the City, the Port, and State Lands Commission may negotiate to amend this agreement to account for new or changed circumstances.

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

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

(11) Special Item

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

(12) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $205,855,919 as of June 30, 2002. 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 2002 or 2001.

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

(Continued)

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

Alameda Corridor Transportation Authority Corridor Agreement

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

(13) Related Party Transactions

During the normal course of business, the Port is charged for services and benefits provided and use of land owned by the City of Los Angeles, the most significant of which is related to fire protection, Nexus Study-related payments, water and power, City retirement system contributions, and other employee benefits. Total amounts charged by the City for services approximate $36,112,000 and $45,848,000 in fiscal years 2002 and 2001, respectively.

(14) Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition or construction of capital assets are recorded as capital contributions. During fiscal year 2002, the Port had actively expended on two such capital projects, namely the Grade Separation and Pier 400-Intermodal Yard projects. By the end of the fiscal year, the Grade Separation project was completed, while the Pier 400-Intermodal Yard project was substantially completed. As these are projects subject to state and federal grant reimbursements, as of the fiscal year-end the Port had a grant receivable and a corresponding capital contribution of $17,203,000.

(15) Subsequent Events

Defeasance of 1995 Series B Harbor Revenue Bonds

On the cross-over date of August 1, 2002, the Port defeased $97,440,000 of 1995 Series B Harbor Revenue Bonds from the combined proceeds of the 2001 Series A Refunding Bonds and the 2002 Series A Bonds issuances (note 5) of $100,025,000. In combination with the 2001 Series B Refunding issuance of $63,520,000 (note 5), the Port defeased in total $158,290,000 1995 Series B Harbor Revenue Bonds. The only debt service remaining for the 1995 Series B Harbor Revenue Bonds were the debt service requirements of August 1, 2002 and August 1, 2003.

Although the aggregate refunding resulted in the recognition of an accounting loss of approximately $11,999,000, the Port in effect reduced its aggregate debt service payments by approximately $22,307,000 over the next 24 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $12,633,000.

Commercial Paper

In September and October of 2002, the Port issued $70,200,000 of commercial paper notes to repay the commercial paper notes of $21,000,000 outstanding as of June 30, 2002 and to pay for construction costs related to the Port's Pier 400 projects and World Cruise Center general improvements. The commercial paper note rates vary from 1.25% to 1.50%. The cumulative amount of commercial paper notes to be issued through June 30, 2003 is anticipated to reach approximately $181,400,000.

West Coast Ports Labor Disputes

The Pacific Maritime Association (PMA) and the International Longshore and Warehouse Union (ILWU) were engaged in contract negotiations during the latter part of fiscal year 2002. After alleging slowdowns by ILWU dockworkers, the PMA initiated a lockout of these workers on September 27, 2002. At this time, work effectively stopped at all West Coast ports. Exceptions to the lockout included perishable items already at the docks, goods destined for the isolated states of Alaska and Hawaii, passengers, and petroleum, which is not handled by the ILWU.

Ships destined for the Port of Los Angeles were anchored outside the breakwater, waiting for the Port to reopen, a situation repeated at all West Coast ports. Many shipping lines sent ships with perishable cargo to Mexico or other ports to be unloaded. However, the vast majority of cargo remained on ships outside the Port, simply waiting for the lockout to end.

On October 8, 2002, President George W. Bush invoked the Taft-Hartley Act to end the lockout. A first-come, first-unloaded policy was put into effect for offloading the ships waiting outside the Port's breakwater and the ships began to be unloaded. Financially, the impacts of the lockout for the Port will be negligible. Cargo unloading was merely delayed, not lost entirely to other ports. The shipments that were diverted to other ports were minimal and are expected to be a one-time occurrence. Shipments both to and from the Port of Los Angeles are back on schedule. In late November 2002, the PMA and ILWU reached an agreement for a six-year contract, ending concerns of labor actions in the upcoming years.

PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
SCHEDULE OF REVENUE TONNAGE BILLED
Fiscal Years 2002 and 2001 (in thousands of metric revenue tons)
(Unaudited)

	FY 2002	FY 2001	Inc (Dec)	% Change
GENERAL CARGO				
Merchandise, NOS	28,003	16,169	11,834	73.2
Bananas	268	252	16	6.3
Beer/Malt Liq. in Bottles/Cans	84	102	(18)	(17.6)
Bldg. Modules-Others	9	22	(13)	(59.1)
Cargo Vans, Merchandise	28,997	25,372	3,625	14.3
Cargo Vans, Empty	1,821	1,666	155	9.3
Coffee-Green in Bags	17	31	(14)	(45.2)
Fresh Fish	289	294	(5)	(1.7)
Fresh Fruits & Vegetables	450	487	(37)	(7.6)
Metals-Loose in Bundles	2,504	2,330	174	7.5
Liquids (Excluding Petroleum)	242	260	(18)	(6.9)
Lumber	13	22	(9)	(40.9)
Papers & Paper Products	74	68	6	8.8
U. S. Mails	4	11	(7)	(63.6)
Motor Vehicles	1,292	1,239	53	4.3
Vessel Stores	14	15	(1)	(6.7)
Appliances	22	52	(30)	(57.7)
Bicycles	702	686	16	2.3
Clothing, New NOS	5,066	4,869	197	4.0
Food or Food Prep. Cans/Bottles	832	870	(38)	(4.4)
Elec. Equip. LCL	9,121	8,834	287	3.2
Food or Food Prep. Dry/Deh	1,286	1,336	(50)	(3.7)
Footwear	130	456	(326)	(71.5)
Furniture NOS	567	630	(63)	(10.0)
House. Goods & Per. Effects	9,375	6,871	2,504	36.4
Motorcycles	118	93	25	26.9
Resins	1,407	1,547	(140)	(9.0)
Tires & Tubes	1,452	1,446	6	0.4
Specified Mdse in Vans, Etc.	12,643	13,077	(434)	(3.3)
Subtotal	106,802	89,107	17,695	19.9
Advance wharfage and accruals	(2,523)	8,539	(11,062)	(129.5)
TOTAL GENERAL CARGO	104,279	97,646	6,633	6.8
DRY BULK				
Bulk Coal, Coke, Etc.	4,907	4,465	442	9.9
Scrap Metal-Bulk	1,302	946	356	37.6
TOTAL DRY BULK	6,209	5,411	798	14.7
TOTAL GENERAL CARGO AND DRY BULK	110,488	103,057	7,431	7.2
PETROLEUM:				
Bulk Oil	6,643	5,314	1,329	25.0
Bunkers	2,048	1,366	682	49.9
Other Petroleum	4,233	4,217	16	0.4
TOTAL PETROLEUM	12,924	10,897	2,027	18.6
TOTAL REVENUE TONS BILLED	123,412	113,954	9,458	8.3

PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
REVENUE TONNAGE BY TRADE ROUTE
Fiscal Years 2002 and 2001
(Unaudited)

Fiscal Year 2002

Trade Routes	Inbound	Outbound	Total	% of Total Volume
Far East	74,469,887	28,012,418	102,482,305	83.0%
Domestic	5,321,866	5,657,290	10,979,156	8.9%
Australia & New Zealand	1,325,833	1,907,007	3,232,840	2.6%
India, Persian Gulf & Red Sea	2,043,025	570,537	2,613,562	2.1%
W. Mexico, C. & W. S. America	1,619,649	712,817	2,332,466	1.9%
Western Europe	1,272,946	398,127	1,671,073	1.4%
Eastern South America	1,646,802	17,874	1,664,676	1.3%
Caribbean	560,583	114,960	675,543	0.5%
Mediterranean	108,763	96,926	205,689	0.2%
Africa	73,752	3,748	77,500	0.1%
Total	88,443,106	37,491,704	125,934,810	102.0%
Advance Wharfage & Accruals			(2,523,316)	(2.0%)
Total	88,443,106	37,491,704	123,411,494	100.0%

Fiscal Year 2001

Trade Routes	Inbound	Outbound	Total	% of Total Volume
Far East	60,556,183	23,170,586	83,726,769	73.5%
Domestic	4,374,047	5,091,444	9,465,491	8.3%
W. Mexico, C. & W. S. America	1,754,020	1,430,561	3,184,581	2.8%
Australia & New Zealand	1,157,336	1,597,363	2,754,699	2.4%
India, Persian Gulf & Red Sea	1,872,856	352,448	2,225,304	2.0%
Western Europe	1,582,085	371,074	1,953,159	1.7%
Eastern South America	885,346	123,667	1,009,013	0.9%
Caribbean	712,265	147,270	859,535	0.8%
Mediterranean	144,205	3,417	147,622	0.1%
Africa	86,042	2,325	88,367	0.1%
Total	73,124,385	32,290,155	105,414,540	92.5%
Advance Wharfage & Accruals			8,539,251	7.5%
Total	73,124,385	32,290,155	113,953,791	100.0%

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

	2002*	2001	2000	1999	1998
Cash ($Millions)					
Cash Balance-Rev. Fund	**60.2**	201.2	166.5	142.9	29.7
Cash Balance-Restricted	**187.1**	82.7	77.3	73.5	69.9
Property ($Millions)					
Total Property	**3,120.2**	2,810.9	2,675.5	2,576.8	2,578.3
Allowances for Depreciation	**653.4**	594.0	535.0	480.1	425.7
Net Property	**2,466.8**	2,216.9	2,140.5	2,096.7	2,152.6
Construction and Maintenance ($Millions)					
Additions to Properties	**304,854**	145,264	542.3	263.9	177.5
Maintenance Expenses	**13.4**	12.4	13.1	12.3	9.4
Employees					
Salaries Paid	**40.7**	39.0	37.5	38.5	38.8
Number of Employees	**557**	542	541	577	611
Bonds					
Bonding Capacity ($000s)**	**1,510,978**	1,484,202	1,574,000	1,579,000	1,385,000
Bond Coverage Ratio	**3.8**	3.8	3.3	3.0	1.8

KEY STATISTICAL INFORMATION

	2002	2001	2000	1999	1998
Rates					
General Cargo Tariff Rate	**$5.67**	$5.67	$5.67	$5.15	$5.15
Basic Dockage (600')	**$2,236**	$2,236	$2,236	$2,033	$2,033
Required Rate of Return	**12%**	12%	12%	12%	10%
Containerized Cargo Volume (in millions of TEUs)	**5.63**	4.99	4.37	3.51	3.15
Revenue Tons (in million)					
General Cargo	**104.3**	97.6	81.9	66.8	60.0
Liquid Bulk	**12.9**	10.9	12.5	10.2	13.3
Dry Bulk	**6.2**	5.4	7.1	5.1	4.6
Total	**123.4**	113.9	101.5	82.1	77.9
Vessel Arrivals	**2,778**	2,899	3,060	2,683	2,569
Cruise Passengers	**1,099,552**	1,073,357	1,110,053	998,086	961,187
Vehicles	**314,986**	312,248	388,619	272,348	326,274

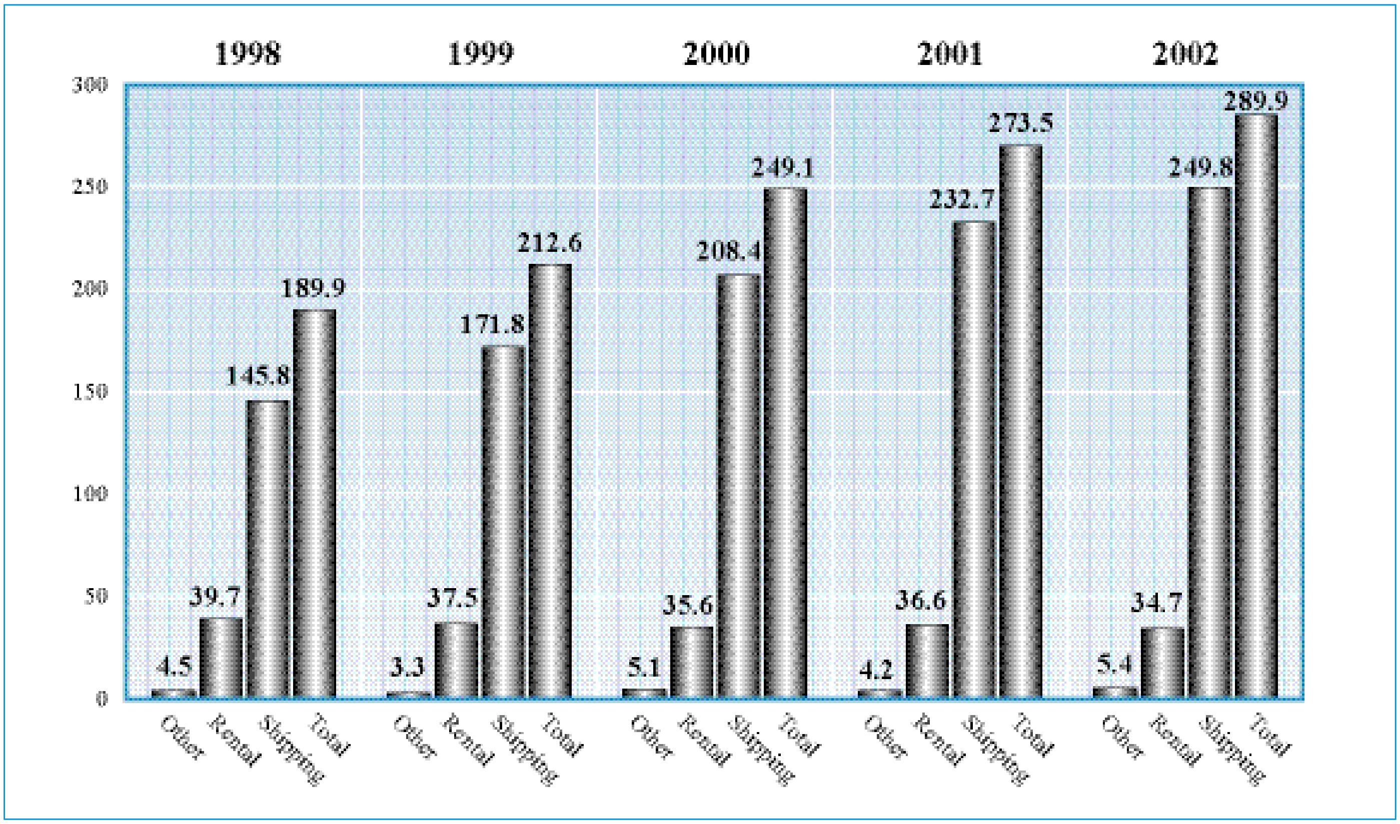
* Years ending June 30.
**Assumes 1.25 coverage ratio and prevailing interest rates for debt financing.

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

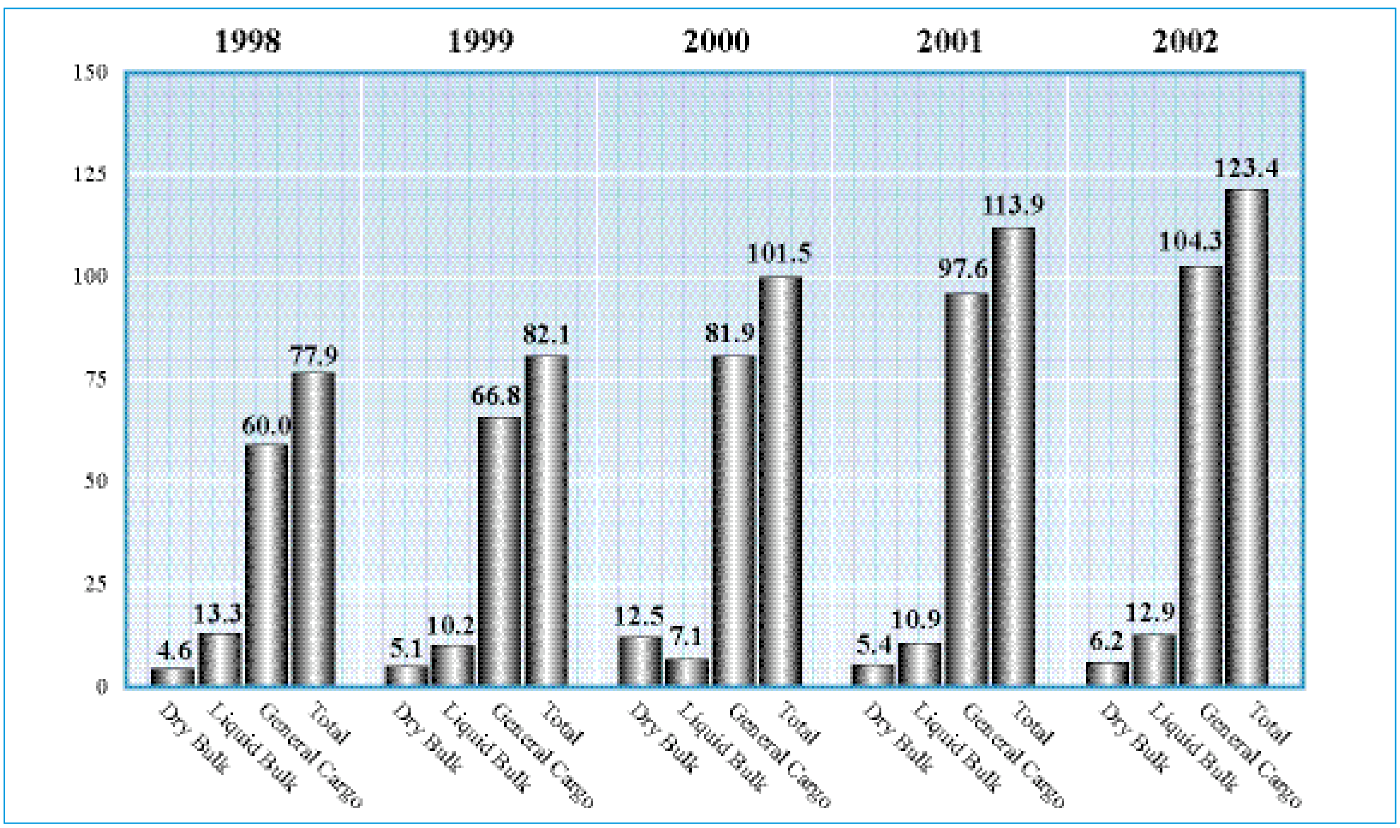
Project Description		Estimated Expenditure
Terminal Improvements, General	$	1,861
Minor Capital Projects		3,901
POLA Administrative Building Modifications		984
West Channel Recreation Complex		116
Environmental Assessment & Remediation		7,201
Container Cranes - General		860
World Cruise Center - General Improvements		6,491
Badger Avenue Bridge Trestles		692
Anaheim St. Viaduct Reconstruction		26
Berths 48-52 Steel Handling Facility		109
Wilmington Waterfront Access		21
Berths 97-115 Redevelopment		40,695
Construction of New Fire Boats		4,854
Port Pilot Station Facility		130
West Channel Cabrillo Beach Recreation Complex - Phase II		167
Harry S. Bridges Blvd. Improvements		3,105
Berths 142-147 Terminal Improvements		4,934
2020 Plan - Studies & Reports		38
Pier 300 - Dry Bulk Terminal		7
Pier 300 - Wharf & Backland Improvements		474
Pier 300 - ICTF and Railroad Improvements		97
Pier 400 - Dredging, Landfill and Dikes		114,622
Pier 400 - Environmental Mitigation Projects - Batiquitos/Others		701
Consolidated Transportation Corridor		7
Berths 225-236 Container Terminal Redevelopment		6,616
Berths 206-209 Terminal Upgrade		50
Berths 171-173 Facilities Improvements		2,909
Main Channel Deepening		42,564
Pier A Street Yard Redevelopment		245
Berths 115-131 Redevelopment		1,781
Waterfront Red Car Line		2,547
20/30 Planning Program		4,240
Berths 212-225 Backland Development		9,475
Berth 161 New Derrick Barge		950
Harbor Wide Beautification Projects		2,198
Supplemental Eng./Arch.Services		22,509
Total Construction Projects	**$**	**288,177**

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

OPERATING REVENUE
Fiscal Years 1998 through 2002 (in millions of dollars)

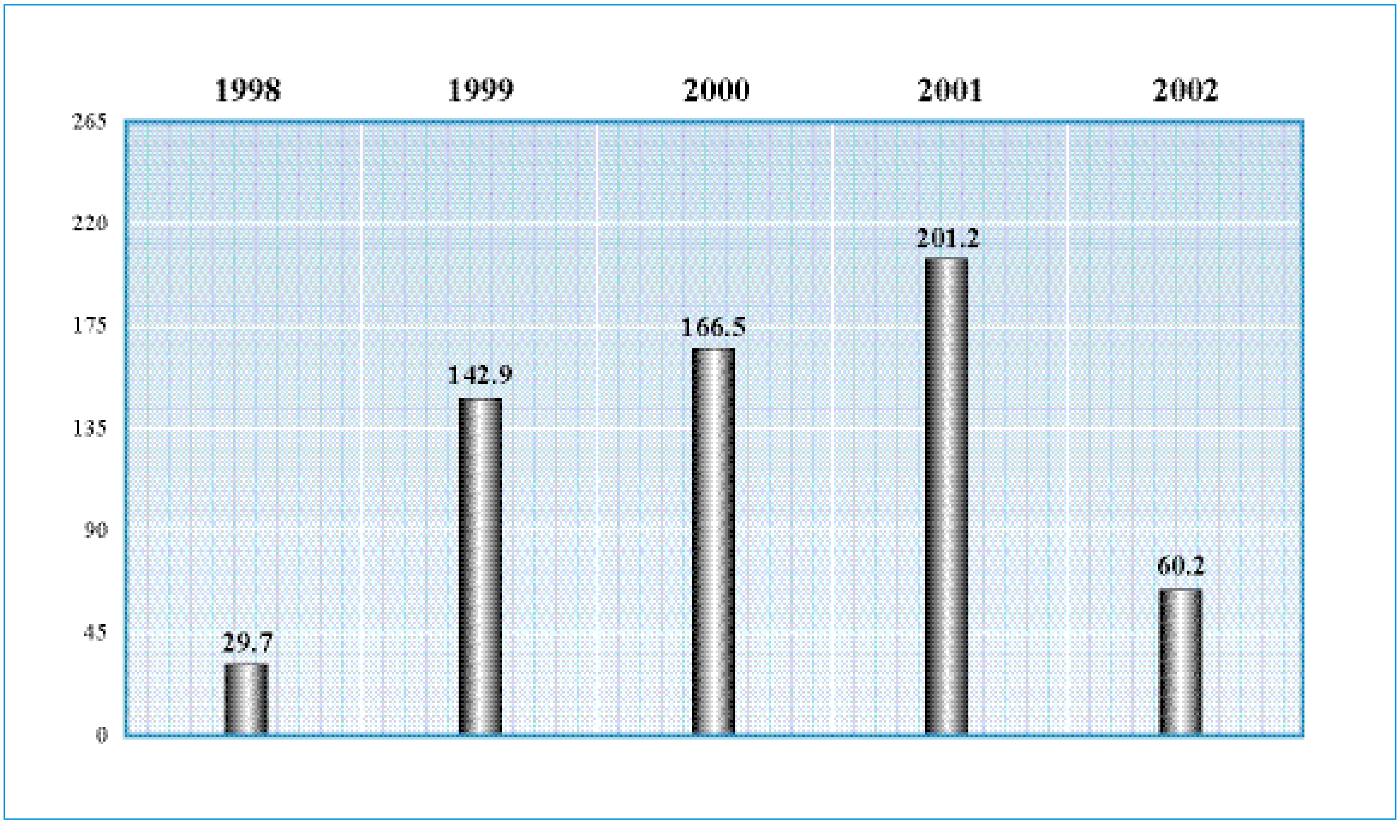


REVENUE TONS
Fiscal Years 1998 through 2002 (in millions of metric revenue tons)

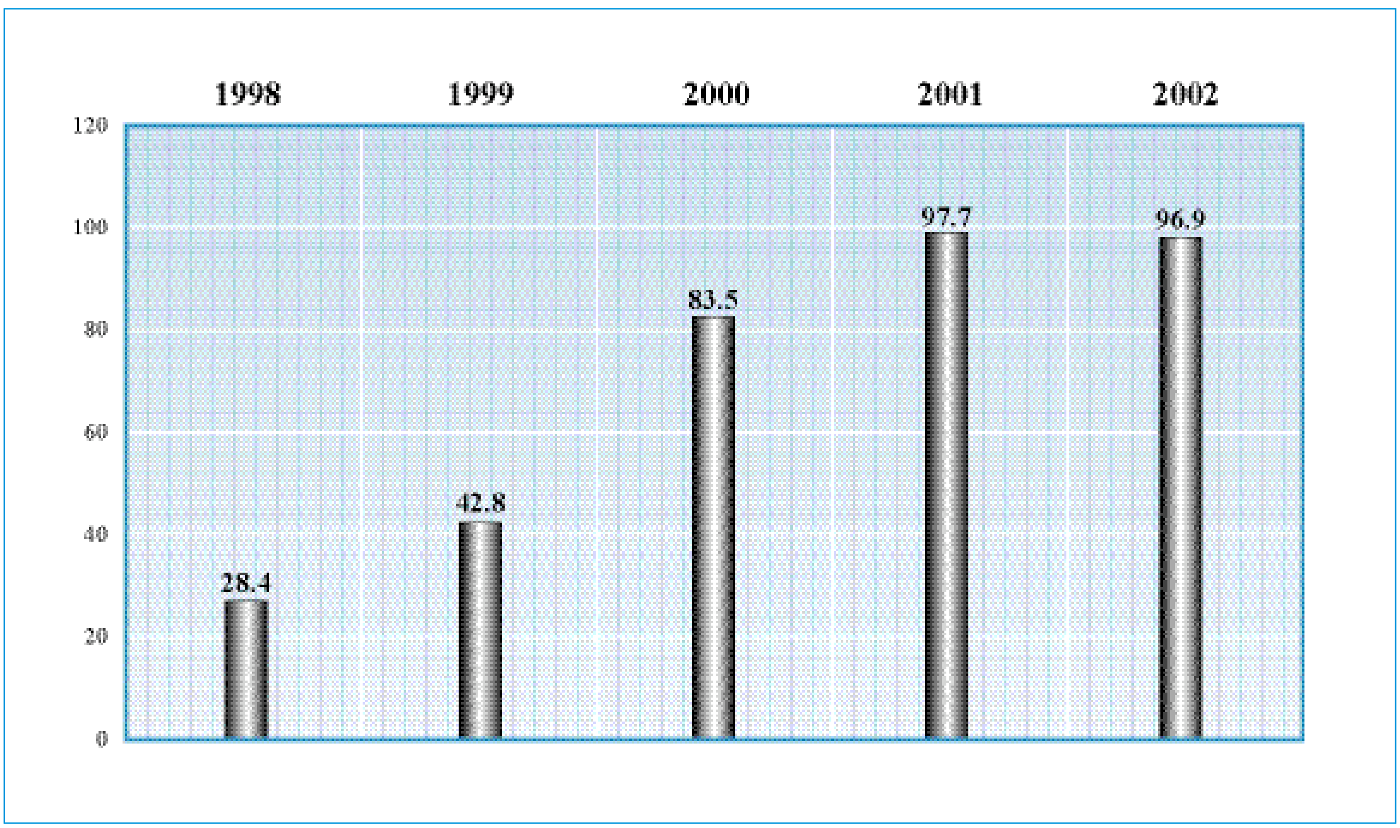


PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

CASH BALANCE – HARBOR REVENUE FUND
Fiscal Years 1998 through 2002 (in millions of dollars)

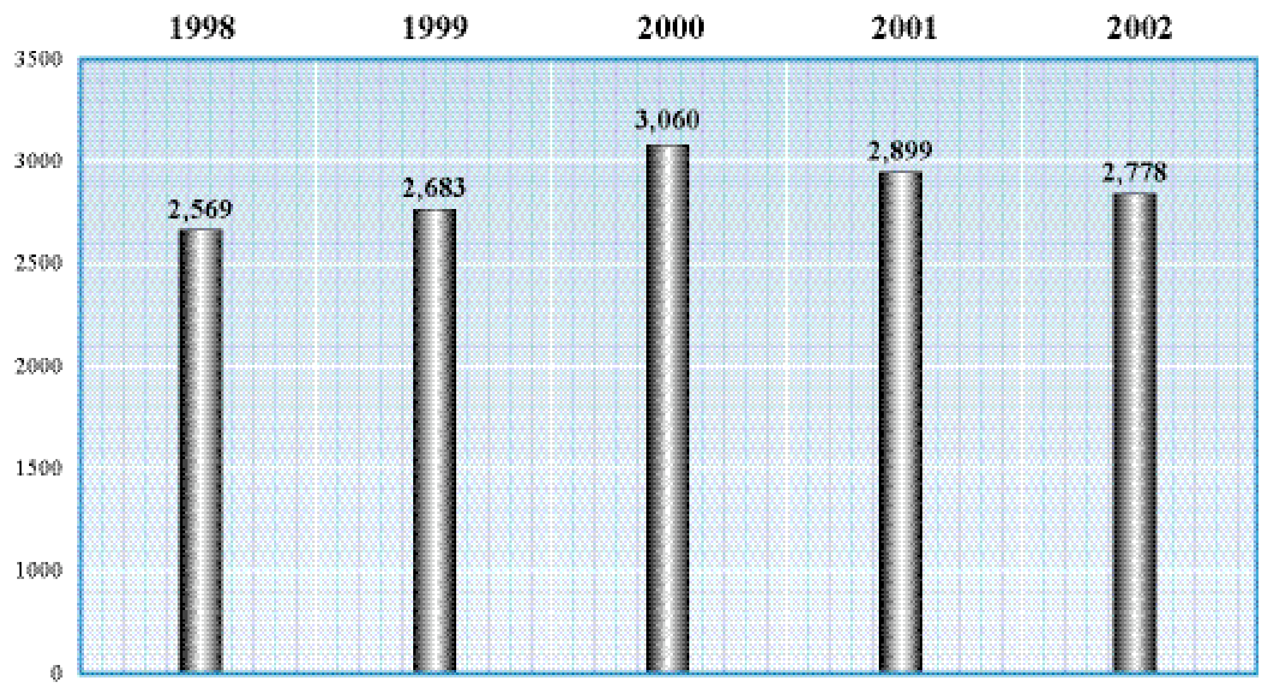


NET INCOME
Fiscal Years 1998 through 2002 (in millions of dollars)

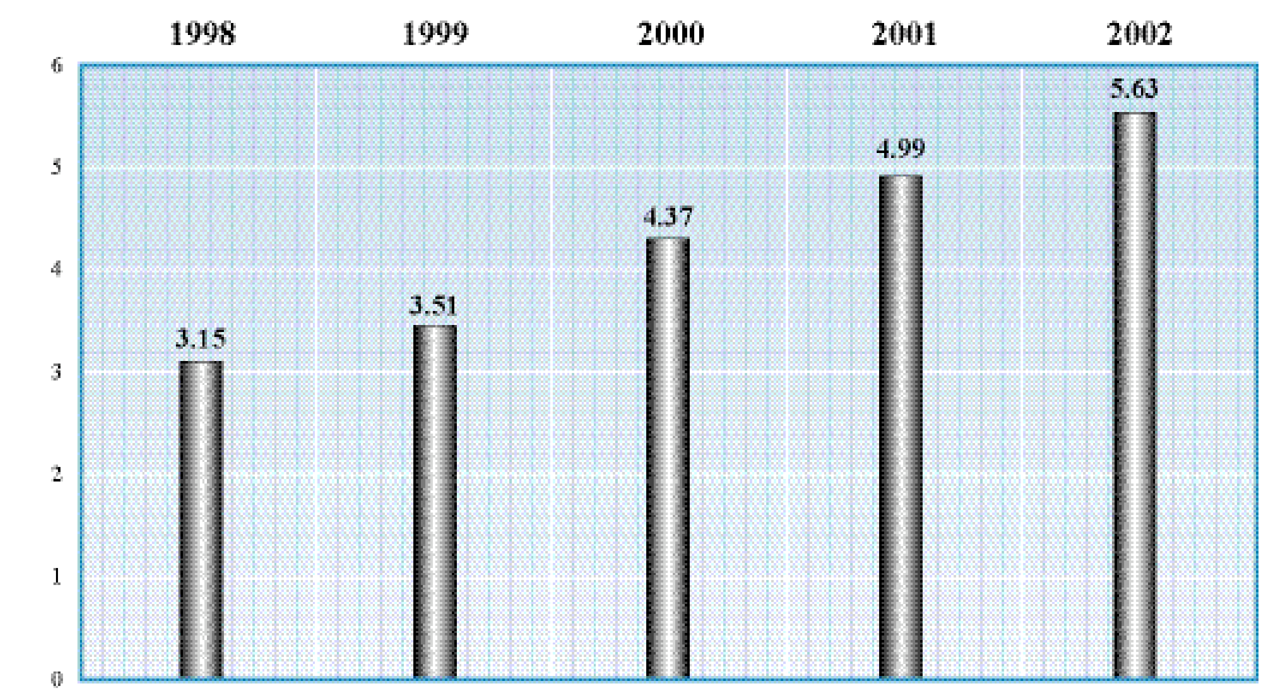


PORT OF LOS ANGELES (HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

VESSEL ARRIVALS
Fiscal Years 1998 through 2002



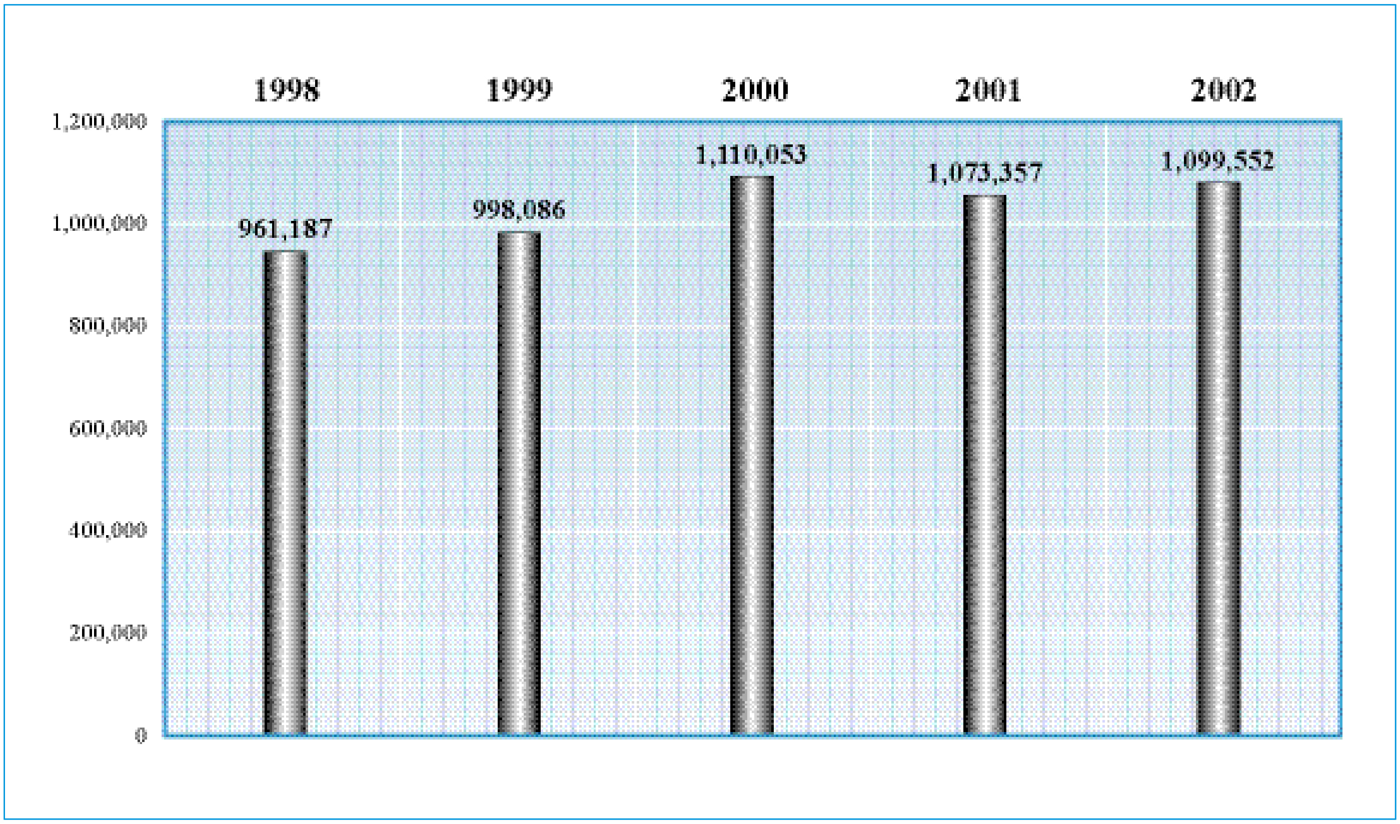
CONTAINERIZED CARGO VOLUME
Fiscal Years 1998 through 2002 (in millions of TEUs*)



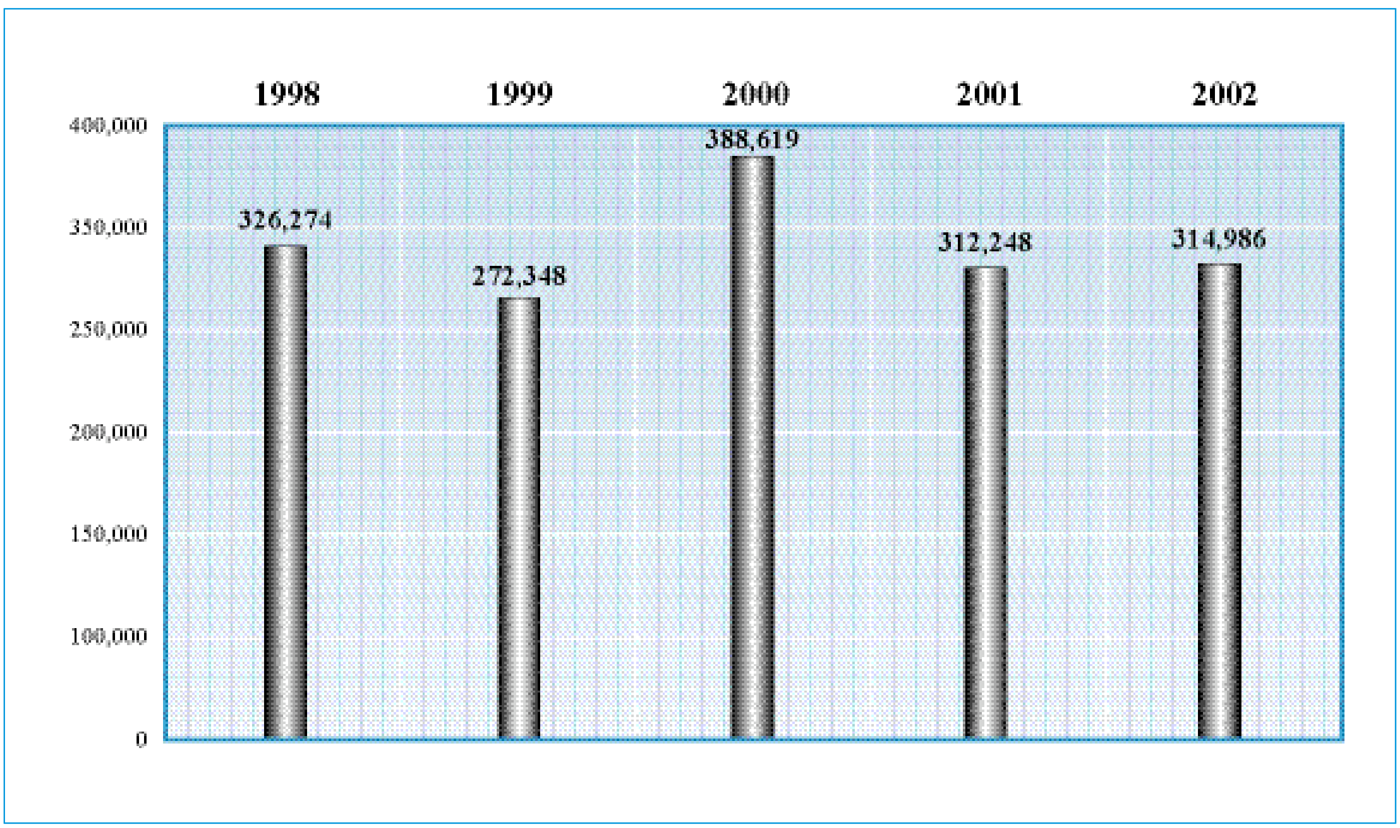
*TEUs stands for twenty-foot equivalent units, the standard measurement used in the maritime industry when counting marine cargo containers.

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

CRUISE PASSENGERS
Fiscal Years 1998 through 2002



VEHICLES
Fiscal Years 1998 through 2002



For additional financial information, please contact:

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Port of Los Angeles
425 S. Palos Verdes Street
San Pedro, CA 90731
Phone: (310) 732-3827

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

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

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

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