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

Financial Statements

June 30, 2007 and 2006

(With Independent Auditor’s Report Thereon)

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

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THE PORT OF LOS ANGELES
1907★2007

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December 7, 2007

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

This Component Unit Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2007 and 2006, 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 changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the years ended June 30, 2007 and 2006, 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, *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, Financial Statements, and Supplemental Information.

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

The management's discussion and analysis presents a comparative review of financial position and changes in financial position for fiscal years 2007 and 2006. Also included in this section are a description of current and proposed capital development plans, a discussion of prospective revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the financial statements prepared on an accrual basis and using an economic resources measurement focus. These are accompanied by management's discussion and analysis, notes and the auditor's report on the financial statements. The financial statements are comprised of statements of net assets that present the financial position of the Port as of June 30, 2007 and 2006; statements of revenues, expenses, and changes in net assets depicting financial performance for fiscal years 2007 and 2006; and statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2007 and 2006. The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data.

The supplemental information section includes selected unaudited financial and statistical information, generally presented on a multi-year basis that further explain and support the information in the 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. In accordance with generally accepted accounting principles (GAAP), the accompanying financial statements are included as a component unit of the City, based upon the primary oversight responsibility that the City Council (the Council) and the City have on all matters affecting Port activities.

Also, based on the foregoing criteria of oversight responsibility and accountability of all Port related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying financial statements. Two joint ventures with the Port of Long Beach have been recorded as investments of the Port in accordance with the equity method of accounting. Until March 2007, the Port also participated 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 financial statements for the Port.

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

The Deputy Executive Director of Development is responsible for the environmental management, goods movement, maintenance, construction management and engineering activities of the Port.

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

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

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

The Senior Director of Communications & Legislative Affairs is charged with the dissemination of information to the public, news media liaison, advertising, legislative coordination, and community involvement activities. This position is also responsible for the communications services unit, which provides multimedia and graphic arts services to the Port.

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

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

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, assignment charges, etc.), land rentals, and fees, concessions and royalties. 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. The Port encompasses approximately 4,200 acres of land and 3,300 acres of water.

Within the Port are 26 terminals. Two major railroads serve the Port, and it lies at the terminus of two major freeways within the Los Angeles freeway system. Subsurface pipelines link the Port to major refineries and petroleum distribution terminals within the Los Angeles Basin.

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

The Port 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 Port currently handles the largest volume of containerized cargo of all U.S. ports, leading the nation for the past seven years, and additionally ranks as number one in cargo value for U.S. waterborne foreign traffic.

The Port's major trading partners are concentrated along the Pacific Rim 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.

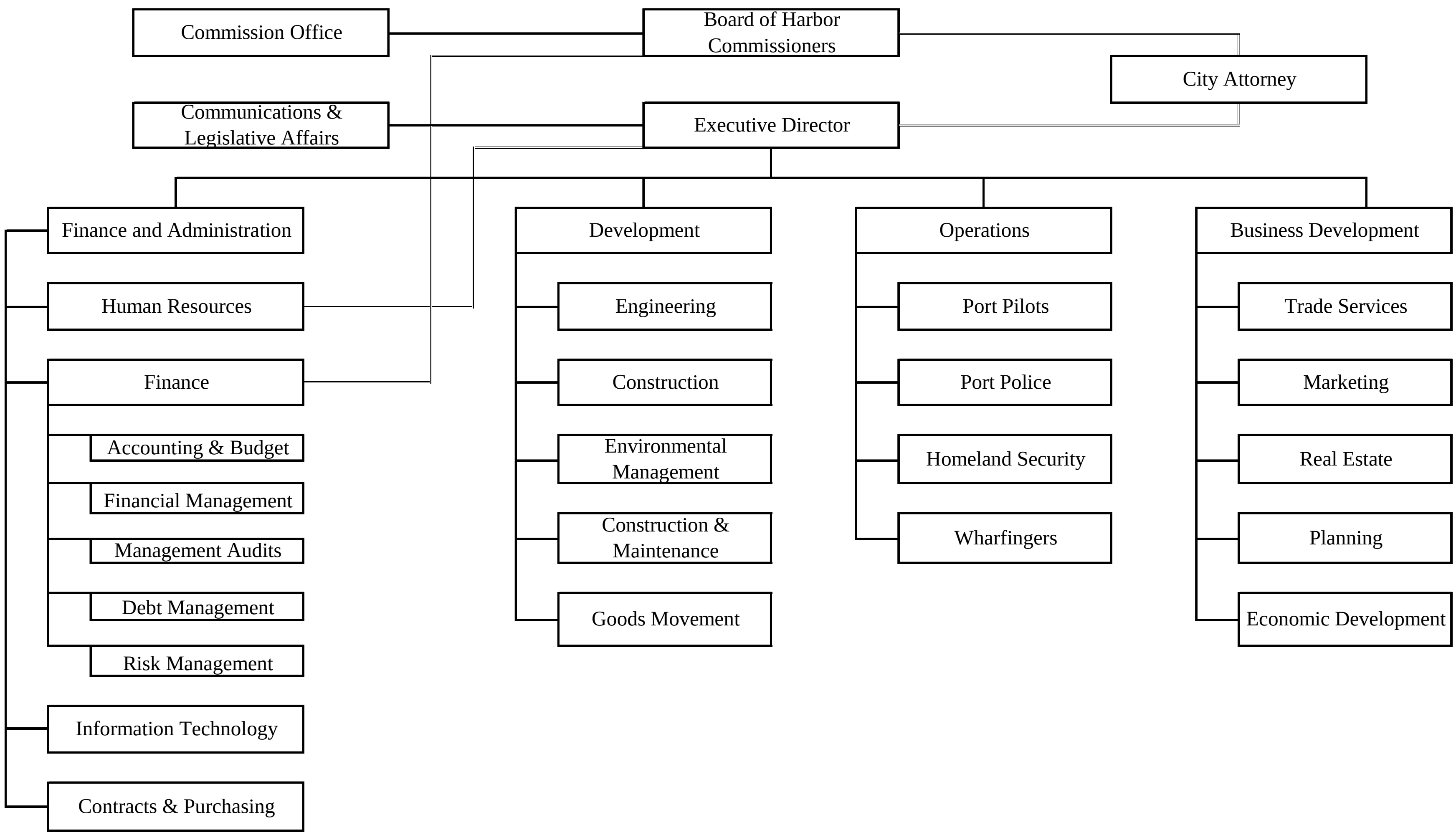
The Port continues to maintain an AA credit rating with Standard & Poor's, Moody's, and Fitch Ratings. This is the highest credit rating for any U.S. port and reflects the confidence of the financial community in the strength, continuing financial performance, and competitive position of the Port.

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 remains self-sufficient.

Sincerely,

William Gonzales
Controller

LOS ANGELES HARBOR DEPARTMENT
ORGANIZATION CHART
2007/2008



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

Board of Harbor Commissioners	S. David Freeman, President Jerilyn López Mendoza, Vice-President Kaylynn L. Kim, Commissioner Douglas P. Krause, Commissioner Joseph R. Radisich, Commissioner
Senior Management	Geraldine Knatz, Ph.D. Executive Director Michael Christensen, Deputy Executive Director, Development Molly Campbell, Deputy Executive Director, Finance & Administration Capt. John M. Holmes, Deputy Executive Director, Operations Kathryn McDermott, Deputy Executive Director, Business Development Arley Baker, Senior Director of Communications & Legislative Affairs
Management Staff	Theresa Adams Lopez, Director of Media Relations Ralph Appy, Director of Environmental Management Tish Lorenzana, Director of Human Resources Diane Boskovich, Chief Wharfinger Ronald Boyd, Chief of Port Police Charles Turner, Director of Financial Management George Cummings, Director of Homeland Security Michael DiBernado, Director of Marketing Michael Galvin II, Director of Real Estate Tony Gioiello, Chief Harbor Engineer of Design William Gonzales, Controller Margaret Hernandez, Director of Contracts & Purchasing Jim MacLellan, Director of Trade Services David Mathewson, Director of Planning & Research Kathy Merkovsky, Director of Risk Management Capt. Jim Morgan, Pilot Service Manager Julia Nagano, Director of Corporate Communications Shaun Shahrestani, Chief Harbor Engineer of Construction Soheila Sajadian, Director of Debt Management Lonnie Tang, Director of Information Technology Kerry Cartwright, Director of Goods Movement (Pending Appointment), Director of Construction and Maintenance (Pending Appointment), Director of Economic Development (Pending Appointment), Director of Management/Internal Audit
Legal Staff	Thomas Russell, General Counsel

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Independent Auditor's 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 year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Port of Los Angeles' management. Our responsibility is to express an opinion on these financial statements based on our audit. The Port of Los Angeles' basic financial statements as of and for the year ended June 30, 2006, were audited by other auditors whose report dated October 16, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles as of June 30, 2007 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Port of Angeles adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and 27,* for the year ended June 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007 on our consideration of the Port of Los Angeles' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 9 to 23 and the pension and postemployment healthcare plans schedules of funding progress on pages 70 and 74, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 7, 2007

PORT OF LOS ANGELES
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Management's Discussion & Analysis

June 30, 2007 and 2006

(Unaudited)

This section of the Port of Los Angeles' (the Port) annual financial report presents a discussion and analysis of the Port's financial performance during the years that ended June 30, 2007 and 2006. Please read it in conjunction with the transmittal letter at the front of this report and the Port's financial statements, which follow this section.

The Port is an enterprise fund, and the financial statements are prepared on an accrual basis using the economic resources measurement focus in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. 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 financial statements for a description of the Port's significant accounting policies.

The following is a condensed summary of the Port's net assets as of June 30, 2007, 2006, and 2005:

Net Assets

(In thousands)

	June 30		
	2007	**2006**	**2005**
Current and other assets	$ 652,139	571,606	433,866
Capital assets	2,726,407	2,732,704	2,722,427
Total assets	3,378,546	3,304,310	3,156,293
Long-term debt outstanding	804,815	887,765	836,569
Other liabilities	235,862	215,238	213,028
Total liabilities	1,040,677	1,103,003	1,049,597
Net assets:			
Invested in capital assets, net of related debt	1,921,592	1,844,939	1,885,858
Restricted	62	63,917	16
Unrestricted	416,215	292,451	220,822
Total net assets	$ 2,337,869	2,201,307	2,106,696

Net assets of the Port increased 6.2% to $2.3 billion in fiscal year 2007. Only a negligible percentage of these net assets are restricted in fiscal year 2007, whereas 2.9% of these net assets are restricted and are comprised of 2005A and 2005B bond proceeds for crossover refunding in fiscal year 2006. The remaining net assets are either unrestricted or are invested in capital assets (land, facilities, infrastructure, equipment, and the like), net of related debt. These assets are under the control of the Port and must be used for the operation and maintenance of Port facilities and the acquisition and construction of improvements as provided under the State of California Tidelands Trust Act.

Current and other assets of the Port increased 14.1% to $652.1 million in fiscal year 2007 and 31.8% to $571.6 million in fiscal year 2006. Other than the balance of $62.6 million in bond funds in fiscal year 2006 which were subsequently used for refunding of 1996 Series A & B Bonds in fiscal year 2007, the increases in fiscal years 2007 and 2006 mainly reflect the continued growth in internally generated funds.

Other liabilities of the Port increased 9.6% to $235.9 million in fiscal year 2007 and 1.0% to $215.2 million in fiscal year 2006. In fiscal year 2007, liability under securities lending increased $25.2 million.

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2007, 2006, and 2005:

Changes in Net Assets

(In thousands)

		Year ended June 30		
		2007	**2006**	**2005**
Operating revenues	$	417,161	392,159	355,629
Income from investments in Joint Powers Authorities and other entities		4,675	4,302	3,543
Interest and investment income		23,773	9,582	7,266
Other income and expense, net		11,018	7,222	11,842
Total revenues		456,627	413,265	378,280
Expenses:				
Operating and administrative expenses		163,775	184,132	170,891
Depreciation		88,106	98,779	70,040
Interest expense on bonds/notes payable		50,038	37,787	42,279
Total expenses		301,919	320,698	283,210
Income before capital contributions		154,708	92,567	95,070
Capital contributions		4,145	2,044	—
Special item		(22,291)	—	—
Changes in net assets		136,562	94,611	95,070
Total net assets - beginning of year		2,201,307	2,106,696	2,011,626
Total net assets - end of year	$	2,337,869	2,201,307	2,106,696

(Continued)

Fiscal Year 2007

Net assets for the Port increased $136.6 million in fiscal year 2007. Approximately 98.4% of total revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense decreased $20.4 million, or 11.1% over the prior fiscal year. The decrease mainly reflects a reduction in litigation expense this year for LAXT.

Depreciation expense decreased $10.7 million to $88.1 million in fiscal year 2007. The decrease mainly reflects that some $14.8 million of the upward adjustment of the depreciation expense recorded in fiscal year 2006 pertains to periods prior to fiscal year 2006. A substantial amount of capital projects closed out to depreciable capital assets in fiscal year 2006 were actually complete and placed in service before 2006 and the Port should have started depreciation earlier.

Other income, net of other expense, increased $3.8 million to $11.0 million in fiscal year 2007 from $7.2 million recorded in the prior year. The Port recognized $2.8 million of unearned revenue as other income this year.

Capital contributions of $4.1 million represent funds for capital grants received in fiscal year 2007.

Income before capital contributions increased $62.1 million to $154.7 million; a 67.1% increase over fiscal year 2006 reported income before capital contributions of $92.6 million. This increase reflects the addition of $43.3 million in total revenues and a decrease of $18.8 million in total expenses.

Fiscal Year 2006

Net assets for the Port increased $94.6 million in fiscal year 2006. Approximately 98.8% of total revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense increased 7.7% over the prior fiscal year. The $13.2 million increase reflects an additional $5.4 million in provision for workers' compensation in fiscal year 2006 to bring up the reserve level per the new actuarial report. Employee salaries and benefits increased $7.5 million due to higher retirement contributions and first time recording of the City's allocated net pension obligation.

Depreciation expense increased $28.7 million to $98.8 million in fiscal year 2006. Capital projects of $260.4 million in the form of construction in progress and preliminary construction in progress were closed out to depreciable capital assets in fiscal year 2006. These major projects include the container terminal development at Pier 400, the West Basin development at China Shipping Terminal and redevelopment of container terminal at Berths 226-236. Some $14.8 million of the depreciation expense in fiscal year 2006 actually belongs to prior years since certain projects closed to depreciable capital assets were complete and placed in service prior to fiscal year 2006.

Other income, net of other expense, decreased $4.5 million to $7.2 million in fiscal year 2006 from $11.8 million recorded in the prior year. State and federal grants income decreased $7.9 million in fiscal year 2006 as one major federal grant, Operation Safe Commerce, is at its last phase in fiscal year 2006.

Capital contributions of $2.0 million represent funds for capital grants received in fiscal year 2006.

Income before capital contributions decreased $2.5 million to $92.6 million; a 2.6% decrease over fiscal year 2005 reported income before capital contributions of $95.1 million. This decrease reflects the addition of $35.0 million in total revenues and a greater increase of $37.5 million in total expenses.

(In thousands)

		Year ended June 30		
		2007	**2006**	**2005**
Shipping services	$	369,972	353,390	315,615
Percentage of total revenues		88.7%	90.1%	88.7%
Rentals		40,322	33,876	34,630
Percentage of total revenues		9.7%	8.6%	9.7%
Royalties, fees, other operating revenues		6,867	4,893	5,384
Percentage of total revenues		1.6%	1.2%	1.5%
Total	$	417,161	392,159	355,629

Fiscal Year 2007

Operating revenues for fiscal year 2007 rose to $417.2 million, reflecting a 6.4% increase from prior year revenues of $392.2 million and is principally attributed to the $15.4 million increase in wharfage revenue and the $6.3 million increase in land rental income. The Port moved 8.7 million 20-foot equivalent units (TEUs) in container volume during fiscal year 2007, or an 11.0% growth over the prior year.

Fiscal Year 2006

Operating revenues for fiscal year 2006 rose to $392.2 million, reflecting a 10.3% increase from prior year revenues of $355.6 million and is principally attributed to the container volume growth and a 5.0% tariff increase effective July 1, 2005. A total of 7.8 million (TEUs) in container volume moved through Port facilities during fiscal year 2006, a 7.3% increase from the prior year. Revenue tons billed grew to 181.6 million, or 12.0% increase from the prior year.

Shipping Services

Shipping service 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 88.2% and 88.0% of the total shipping service revenues in fiscal years 2007 and 2006, respectively. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

Revenue from shipping services in fiscal year 2007 improved to $370.0 million, reflecting a growth of $16.6 million, or 4.7%, over fiscal year 2006. The effect on revenue from the increased container volume was largely offset by the higher efficiency discounts given to the customers. Revenue from shipping services in fiscal year 2006 rose to $353.4 million, reflecting a growth of $37.8 million, or 12.0%, over fiscal year 2005. Increased cargo volumes and tariff rates were the principal reasons for the growth. Ongoing development of improved intermodal facilities, the addition of Pier 400 container terminal, and increasing strength of shipping alliances based in the Port all contributed to growth in market share.

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

Cargo Type in Metric Revenue Tons

(In thousands)

	Year ended June 30		
	2007	**2006**	**2005**
Container/general cargo	171,907	155,255	144,998
Liquid bulk	15,433	22,797	12,798
Dry bulk	2,766	3,583	4,313
Total	190,106	181,635	162,109

Container Volume in TEUs

(In thousands)

	Year ended June 30		
	2007	**2006**	**2005**
Import TEUs	4,628	4,150	3,868
Export TEUs	4,029	3,651	3,405
Total	8,657	7,801	7,273

Metric revenue tons are the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when this figure is available, or when cargo weight is not provided, the weight is closely approximated by calculation. A total of 190.1 million metric revenue tons were billed in fiscal year 2007, or a 4.7% growth over fiscal year 2006. A total of 181.6 million metric revenue tons were billed in fiscal year 2006, or a 12.0% growth over fiscal year 2005 volume.

(Continued)

During fiscal year 2007, tonnage from dry bulk decreased 22.8%, or 0.8 million metric revenue tons, due principally to decreased bulk coal/coke exports. Petroleum, or mainly bulk oil, decreased 32.3%, or 7.4 million metric revenue tons. Tonnage for general cargo billed in fiscal year 2007 grew 16.7 million metric revenue tons compared to the prior year. During fiscal year 2006, tonnage from dry bulk decreased 16.9%, or 0.7 million metric revenue tons, due principally to reduced bulk coal and coke exports. Petroleum increased 78.1%, or 10.0 million metric revenue tons. Tonnage for general cargo billed in fiscal year 2006 increased 10.3 million metric revenue tons compared to the prior year. Additional information for volume by cargo type is presented in the supplementary information section of this report in the schedule titled "Key Information on Revenue Statistics."

Rentals

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

During fiscal year 2007, rental income at the Port increased $6.4 million, or 19.0%, over last year and represented 9.7% of fiscal year 2007 total operating revenues. This growth is principally attributable to the fact that land rental rates of the majority of the leases were increased effective September 2006 as a result of the periodic review by the Port. During fiscal year 2006, rental income at the Port decreased $0.8 million, or a 2.2% reduction compared to the prior year and represented 8.6% of fiscal year 2006 total operating revenues. This decline is principally attributable to the $1.6 million credits issued to marina customers at the Cerritos East Basin in return for the improvements and repairs of their facilities.

Royalties, Fees, and Other Operating Revenue

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

Revenues in this category totaled $6.9 million for fiscal year 2007, an increase of $2.0 million or 40.3% over the prior fiscal period. The growth mainly reflects the catch up on prior years' reimbursable costs of maintenance jobs performed by the Port. Revenues in this category totaled $4.9 million for fiscal year 2006, a reduction of $0.5 million or 9.1% over the prior fiscal period. Revenues were reduced by a reversal of prior year billing for wharf damage.

Operating and Administrative Expenses

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

During fiscal year 2007, operating and administrative expenses decreased $20.4 million to $163.8 million, a 11.0% increase from prior fiscal year expense of $184.1 million. During fiscal 2006, operating and administrative expenses rose $13.2 million to $184.1 million, a 7.7% increase from prior fiscal year expense of $170.8 million. Categories of expense reflecting more significant increases include salaries and benefits, marketing and public relations, and City services expenses. Offsetting these increases were reductions in other operating expenses. Changes in other categories of expenses were less significant.

Operating and Administrative Expenses (O&A)

(In thousands)

		Year ended June 30		
		2007	**2006**	**2005**
Salaries and benefits	$	74,313	65,705	58,182
Percentage of total O&A		45.4%	35.7%	34.0%
Marketing and public relations		4,521	3,333	3,455
Percentage of total O&A		2.8%	1.8%	2.0%
Travel and entertainment		604	822	743
Percentage of total O&A		0.4%	0.4%	0.4%
Outside services		33,277	33,673	39,672
Percentage of total O&A		20.3%	18.3%	23.2%
Materials and supplies		5,813	5,400	5,320
Percentage of total O&A		3.5%	2.9%	3.1%
City services		28,640	20,821	22,361
Percentage of total O&A		17.5%	11.3%	13.1%
Other operating expenses		16,607	54,378	41,158
Percentage of total O&A		10.1%	29.5%	24.1%
Total O&A	$	163,775	184,132	170,891

Fiscal Year 2007

Salaries and benefits expense rose $8.6 million, or 13.1% over the prior fiscal year. The increase results from scheduled employee pay increases, a one-time $1.4 million retro pay adjustment, and continued expansion of the Port workforce in fiscal year 2007.

City services, net of capitalized amount, increased $7.8 million during fiscal year 2007. The increase reflects the $3.0 million higher charges in recreation and park services by the City of Los Angeles. Additionally, a refund of $1.9 million understated the City services in fiscal year 2006.

(Continued)

Other operating expenses for fiscal year 2007 decreased $37.8 million from the prior year. The decrease reflects a $36.0 million reduction in provision for the litigation reserve, a substantial portion of which relates to the LAXT. Most of the litigation reserve for LAXT was made in fiscal year 2006 and the Port made no additional litigation reserve in fiscal year 2007 as the City (Port) reached a Settlement Agreement, Mutual Release and Compliance, and Permit Termination Agreement with LAXT in fiscal year 2007. Also, there is a reduction in provision for workers’ compensation claims this year by $5.5 million, arising from a one-time charge of $5.0 million to set aside additional reserves to meet actuarial requirements in fiscal year 2006.

Fiscal Year 2006

Salaries and benefits expense rose $7.5 million from the prior fiscal year. The increase results from higher charges in health and dental insurance by $1.9 million, an increase of $2.3 million in retirement contributions, and a first time recording of the $2.2 million charge in benefit expense resulting from the City's allocated net pension obligation.

The $6.0 million decrease in outside services reflects the combination of a drop of $10.5 million in Port security-related expenditures, a $16.0 million increase in capitalized amount in fiscal year 2006, an increase in environmental assessment costs of $14.7 million, and an increase of $3.1 million in maintenance dredging costs.

City services, net of capitalized amount, decreased $1.5 million during fiscal year 2006 as compared with the prior year.

Other operating expenses for fiscal year 2006 increased $13.2 million from the prior year. Provision for workers’ compensation jumped $5.4 million to meet requirements at June 30, 2006 as determined in the new actuarial valuation. Other operating expenses for fiscal year 2006 also include a $5.0 million subsidy payment for air quality program.

Nonoperating Income and Expense

Fiscal Year 2007

Net nonoperating expense for fiscal year 2007 decreased $6.1 million from the prior year to $10.6 million.

Interest and investment income increased $14.2 million to $23.8 million for fiscal year 2007. The increase includes a $7.5 million in higher interest income and a $6.7 million increase in fair value adjustment for the Port’s share in the City of Los Angeles’ investment pool.

Interest expense showed an increase of $12.3 million to $50.0 million in fiscal year 2007. This is mainly caused by an understatement of $7.2 million in interest expense in fiscal year 2006, and an overstatement of same amount in fiscal year 2007. The Port failed to record the prior year's accrued interest expense for 1996 Bonds totaling $7.2 million, which was paid through the defeasance escrow accounts in fiscal year 2007.

Fiscal Year 2006

Net nonoperating expense for fiscal year 2006 decreased $2.9 million from the prior year to $16.7 million.

Income from the Port's investment in the ICTF increased 21.4% to $4.3 million for fiscal year 2006. The increase reflects the higher container throughput handled by ICTF in fiscal year 2006. Interest and investment income increased $2.3 million to $9.6 million for fiscal year 2006. The increase includes a $5.7 million in higher interest income and a $3.4 million negative change in fair value adjustment for the Port's share in the City of Los Angeles' investment pool.

Other nonoperating income decreased $4.6 million in fiscal year 2006 due to a $7.9 million reduction in grant receipts and a $2.0 million increase in delinquency penalty income.

Long-Term Debt and Capital Assets

Long-Term Debt

The Port's long-term debt is comprised of senior debt in the form of Harbor Revenue Bonds, commercial paper (to fund capital projects that ultimately will be refunded by bonds), and subordinated debt in the form of loans. As of June 30, 2007 and 2006, the Port's outstanding long-term debt was $804.8 million and $887.8 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA and AA credit ratings from Moody's, Standard & Poor's and Fitch Ratings.

Bonded Debt

On October 13, 2005, the Port advance refunded a portion of the outstanding 1996A and 1996B Bonds with the issuance of the 2005 Refunding Bonds. Proceeds from 2005A Refunding Bonds and 2005B Refunding Bonds were deposited into the related Crossover Refunding Escrow Funds and invested to refund $30.9 million of the 1996A Bonds and $31.7 million of the 1996B Bonds on their call dates (the Crossover Dates) of August 1, 2006 and November 1, 2006, respectively. Prior to their respective Crossover Dates, interest payments on the 2005A and the 2005B Refunding Bonds are payable from and secured by investment receipts from the deposit in the related Crossover Refunding Escrow Funds. The Crossover Refunding 2005A and 2005B Bonds are not on parity with other Harbor Revenue Bonds until their respective Crossover Dates.

In addition, the Port issued and applied the proceeds of the 2005 Series C-1 Refunding Bonds to provide funds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of $15.5 million of 1996A Bonds and $27.7 million of the 1996B Bonds tendered by the holders thereof in response to a voluntary open market purchase solicitation. All such purchased 1996A Bonds and 1996B Bonds were cancelled on the date of delivery of the Series 2005C-1 Bonds.

On May 4, 2006, the Port issued the 2006A Bonds for $200.7 million on a forward delivery basis to currently refund the remaining 1996A Bonds. All such 1996A Bonds were redeemed and cancelled on their call date of August 1, 2006.

On August 3, 2006, the Port issued the 2006B Bonds for $209.8 million and the 2006C Bonds for $16.5 million on a forward-delivery basis to defease $211.9 million of the outstanding 1996B Bonds and $17.1 million of the 1996C Bonds. All such 1996B Bonds and 1996C bonds were redeemed and cancelled on their call date of November 1, 2006.

The refunding of 1996B Bonds and 1996C Bonds were completed on November 1, 2006. In combination with the completion of refunding of 1996A Bonds, the Port in effect achieved the aggregate debt service savings for approximately $87 million, representing a net present value benefit of $51.8 million.

Commercial Paper Notes

On November 7, 2001, the Port issued its Offering Memorandum for the issuance of Commercial Paper Notes (Notes) not to exceed $375 million in three series, Series A (Non-AMT), Series B (AMT), and Series C (Taxable). The purpose of the Notes is to provide interim financing for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. Rates vary on the Notes from 2.38% to 3.45% during the fiscal year ended June 30, 2006. Due dates also vary, but within the maximum of 270 days from the issue dates.

In fiscal years 2006 and 2005, the Notes were remarketed for principal only. Therefore, the outstanding balance at June 30, 2006 remained unchanged from fiscal year 2005 at $113.6 million. On August 31, 2006, the Port issued its 2006D Refunding Bonds in the aggregate principal amount of $111.3 million through a competitive sale to refund the Notes. The bonds were awarded to Lehman Brothers who submitted the bid with the lowest true interest cost (TIC) of 4.7106%. The reasons for refunding short-term variable Notes with long-term fixed rate revenue bonds are: (1) to avoid potential increases in costs of funds due to rising short-term interest rates; (2) to take advantage of the long-term low interest rates in the current bond market; and (3) to more closely match the debt to the expected economic life of the financed projects.

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, 2007, this capacity is approximately $2.1 billion, calculated by using available operating revenues and current interest rate assumptions of 6.0%. The Port's existing Debt Policy has set the maximum outstanding debt to be $2 billion.

Long-term debt consisted of the following as of June 30, 2007, 2006, and 2005 (in thousands):

		2007	2006	2005
Revenue bonds payable	$	801,118	770,099	718,513
Notes payable		3,697	4,105	4,495
Commercial paper		—	113,561	113,561
Total	$	804,815	887,765	836,569

Capital Assets

Capital assets, net of accumulated depreciation consisted of the following as of June 30, 2007, 2006, and 2005 (in thousands):

		2007	2006	2005
Land	$	991,153	955,824	953,459
Harbor facilities and equipment, net		1,400,854	1,448,659	1,284,382
Construction in progress		211,329	232,412	269,520
Preliminary costs – capital projects		123,071	95,809	215,066
Total	$	2,726,407	2,732,704	2,722,427

Capital expenditures for fiscal year 2007 decreased to $108.2 million from $117.0 million of the prior year. Spending was lower than the $188.0 million and $164.3 million originally budgeted in fiscal 2007 and 2006, respectively. This was primarily due to projects that have been put on hold pending completion of environmental assessments (EIRs). Approximately 33.5% of the fiscal year 2007 development funds were expended on terminal improvements which were not dependent on EIRs. The remaining 66.5% was primarily used for commercial development, dredging, environmental enhancements, and Port security.

Major Capital Expenditure – Facilities and the Infrastructure

(In thousands)

		Year ended June 30		
		2007	2006	2005
Commercial development	$	13,147	33,913	32,100
Dredging		26,690	17,277	22,735
Environmental studies and credits		9,598	14,126	1,773
Infrastructure improvements		4,452	1,136	445
Port security		8,819	1,921	1,064
Terminal development		36,232	25,070	27,236
Transportation improvements		2,762	2,434	2,574
Others		6,546	21,172	2,397
Total	$	108,246	117,049	90,324

Budgeted expenditures for the Port's fiscal year 2008 Capital Improvement Program will decrease slightly from the previous fiscal year. The more significant fiscal year 2008 expenditures will include the Waterfront Development Projects, Port Security, Environmental Enhancements, Cruise Terminal Baggage Handling Building, West Basin Redevelopment, Terminal Island Improvements, and the Main Channel Deepening Program.

(Continued)

The West Basin development at the Berth 100-102 includes the development of approximately 142 acres of backland terminal, construction of 2,500 feet of wharf, two buildings, and two new access bridges. Phase I of the China Shipping Terminal was completed in January 2004. Phase II of China Shipping is proposed, which includes a 925-foot Berth 102 wharf, 45 acres of backland on the Southwest Slip Fill, construction of a Marine Building and Crane Maintenance Building and Access Bridge No. 2. Phase III is proposed and consist of a 375-foot Berth 100 South wharf extension and an additional 25 acres of container yard. Project completion is expected in February 2012.

The Berth 121-131 container terminal development is a two-phase program to upgrade the container terminal with 3,500 feet of new wharves to accommodate deep draft vessels and comply with seismic code, redevelop backland area, dredging, rail improvements, and terminal buildings. Construction of the roadability structure, modular office trailer and security platform and booth will be completed in fiscal year 2008. Program completion is expected in February 2015.

The Berth 131-148 terminal expansion program is being designed and will upgrade and redevelop 110 acres and develop an additional 57+/- acres of container terminal. Improvements include the construction of 2,600 feet of wharf, five new cranes (purchased by TraPac), 100 foot gauge crane rail, alternative maritime power (AMP), dredging to -53 ft., new buildings (including administration building, maintenance and repair, yard operations, crane maintenance/marine building and driver service buildings), new main gate, relocation of the Pier A Street Rail Yard, ICTF, new reefer wash, demolition of existing buildings, concrete transtainer runways, and general container yard and infrastructure improvements. The estimated project completion date is November 2013.

The Berth 212-224 Container Terminal Development proposes redevelopment of the existing terminal for optimal utilization and efficiency. The project scope includes removal of an existing angle in the wharf at Berth 218 to maximize use of the existing wharf, reconstruction 2,600 feet of new wharf with 100-foot gauge crane rails, AMP, modifications to the existing backland, dredging to -53 feet, and relocation of parking facilities. The estimated project completion date is December 2012.

The Berth 226-236 Container Terminal Development also proposes the redevelopment of the existing terminal for optimal utilization and operational efficiencies. The project scope includes improvements to wharves, backland, new cranes, lighting, utilities, buildings, new gate complex, grade crossings, and modification of adjacent roadways and railroad tracks. Project completion is expected in May 2013.

In order to accommodate deeper draft container vessels, the Port is working with the U.S. Army Corps of Engineers to dredge 8.8 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. MLLW. The dredging program will provide a depth of -53 ft. MLLW, plus two feet overdepth, and will be complete in July 2010.

The Transportation Program is comprised of the development of a port-wide transportation master plan and traffic improvements. The Transportation Master Plan will serve as a resource to meet existing and future demands of the Port's transportation network. Planning and design is moving forward for roadway and interchange improvements, grade separations, and a new near-dock rail yard. Projects include: Harry Bridges Boulevard Improvement, I-110/SR 47 Connector Improvements, John S. Gibson Intersection and NB I-110 Ramp Access Improvements, I-110 Access Ramp Improvements, Harbor Blvd and Swinford Street Intersection, South Wilmington Grade Separation, B. 100 Rail Yard, Advanced Transportation Management Information (ATMIS), Port Incident Management System (PIMS), and other improvements.

The Port Police Headquarters Project consists of the design and construction of a new 51,000-square-foot three-story Port police station at 320 S. Center Street with subterranean parking and an adjacent two-level parking structure. The expected construction completion of the project is December 2009.

The Homeland Security Program consists of five projects: a waterside security surveillance system, facility security enhancements, passenger complex vehicle screening, passenger complex perimeter security, and a waterborne perimeter security barrier. For these projects, the Port is responsible for the design and installation of integrated surveillance systems including cameras, motion detectors, nonintrusive inspection for vehicles, and waterborne perimeter security barriers. Estimated project completion is December 2008.

The San Pedro Waterfront is envisioned as a catalyst to provide public access along the San Pedro Waterfront and includes specific development projects and associated infrastructure improvements for approximately 422 acres, from the Vincent Thomas Bridge to the Federal Breakwater. The plan has three major components: 1) a water plan; 2) a land plan; and 3) a transportation plan. This Master Plan is being developed with the community and Port stakeholders. When complete, the waterfront will be revitalized with parks, plazas, beaches, harbors, cultural, and recreational attractions – all linked by a continuous and generous promenade.

The Waterfront Gateway Program includes approximately 2.5 miles of pedestrian promenade, multi-use parkway, and open space including lighting, signage, landscaping, irrigation, and hardscaping from the Vincent Thomas Bridge to 5th Street in San Pedro. In addition, the program includes water features at the Gateway Plaza and 2nd Street, and automatic restrooms. Project completion is expected by summer 2010.

The San Pedro Waterfront Enhancements Program will improve existing, and construct new, pedestrian walks and plazas, create green open spaces, provide additional vehicular parking and new landscaping between the Port and waterfront. Project completion is expected in summer 2010.

The Cruise Terminal Development Program includes a proposed upgrade of the existing cruise terminal facilities at Berth 91-93, a temporary cruise terminal baggage building at Berth 90-91, AMP, a proposed new cruise terminal in the outer harbor at Berth 46-47, relocation of Catalina Express/Island Express, and new multi-level/shared use parking structure. Environmental assessment completion is expected in summer 2008.

The Wilmington Waterfront Development Program is a 95-acre development incorporating landscaping, commercial/retail/restaurant development, cultural/community facilities, and transportation improvements.

The Harbor Beautification Program continues to be a high-priority activity for the Port. The construction of the Pacific Avenue Beautification project was completed in August 2006. The Alameda Beautification project will construct streetscape enhancement on the north side of Alameda Street. It involves replacing topsoil, storm drain, irrigation system, and planting trees, shrubs, and ground cover. Construction completion anticipated by winter 2008. The Port Tree Planting Program has a goal of planting 6,600 trees by the year 2010.

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

Factors That May Affect the Port's Operations

In November 2006, the governing boards of the Ports of Los Angeles and Long Beach voted to approve the landmark San Pedro Bay Ports Clean Air Action Plan, the most comprehensive plan ever produced by a global port complex to reduce port-related air emissions and associated health risks.

Major components of this plan include:

- A truck replacement program to phase out all "dirty" diesel trucks from the ports in five years, replaced with a new generation of clean or retrofitted vehicles and driven by people who earn at least the prevailing wage.
- Aggressive milestones with measurable goals for air quality improvements.
- Recommendations to eliminate emissions of ultra-fine particulates.
- A technology advancement program to reduce greenhouse gases.
- A public participation process with environmental organizations and business communities.

The $2 billion Clean Air Action Plan outlines an aggressive strategy to reduce pollution by at least 45 percent in the next five years. The Plan addresses all port-related emission sources - ships, trains, trucks, terminal equipments and harbor crafts. In fiscal year 2007-2008, the Port's primary objective is to complete environmental documents to allow the Port to "Grow Green".

Competitive Environment

In the year ended June 30, 2007, 99.5% of the entire U.S. West Coast containerized cargo market was controlled by six major containerports: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 72.3% of all U.S. West Coast market share.

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

West Coast Container Market Share*
(In thousands)

	Year ended June 30					
	2007	2006	2005	2007	2006	2005
	Loaded TEUs (In thousands)			Market share Percentage		
Los Angeles	5,705	5,309	4,685	39.5%	37.3%	37.5%
Long Beach	4,743	4,799	4,061	32.8	33.7	32.5
Oakland	1,378	1,442	1,300	9.6	10.1	10.4
Tacoma	1,135	1,163	1,004	7.9	8.2	8.0
Seattle	1,218	1,318	1,223	8.4	9.3	9.8
Portland	189	139	145	1.3	1.0	1.2
All others	73	73	71	0.5	0.4	0.6
Total	14,441	14,243	12,489	100.0%	100.0%	100.0%

* Source: Port Import Export Reporting Service.

Contacting the Port's Financial Management

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

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 Net Assets

June 30, 2007 and 2006

(In thousands)

		2007	2006
Assets:			
Current assets:			
Cash and investments, unrestricted (note 2)	$	380,139	256,258
Cash and investments, restricted (note 2)		149,087	191,578
Accounts receivable, less allowance for doubtful accounts of $8,714 and $70,350 in 2007 and 2006, respectively (note 14)		46,890	38,566
Grants receivable (note 13)		1,521	1,446
Materials and supplies inventories		1,973	1,762
Prepaid and deferred expenses		1,192	3,825
Accrued interest receivable		3,863	4,033
Current portion of notes receivable, less allowance for doubtful accounts of $0 and $2,000 in 2007 and 2006, respectively (notes 10 and 14)		4,013	3,866
Total current assets		588,678	501,334
Noncurrent restricted assets (note 2):			
Restricted investments – bond funds		62	1,292
Other restricted cash and investments		9,180	9,715
Accrued interest receivable		110	1,129
Total noncurrent restricted assets		9,352	12,136
Capital assets (notes 3 and 8):			
Land		991,153	955,824
Harbor facilities and equipment, less accumulated depreciation of $993,988 and $931,313 in 2007 and 2006, respectively		1,400,854	1,448,659
Construction in progress		211,329	232,412
Preliminary costs – capital projects		123,071	95,809
Net capital assets		2,726,407	2,732,704
Notes receivable (note 10)		37,056	41,637
Investment in Joint Powers Authorities and other entities, less allowance for investment loss of $0 and $19,000 for 2007 and 2006 (notes 4 and 14)		7,814	7,140
Other assets		9,239	9,359
Total assets	$	3,378,546	3,304,310

(Continued)

PORT OF LOS ANGELES
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Statements of Net Assets

June 30, 2007 and 2006

(In thousands)

		2007	2006
Liabilities:			
Current liabilities:			
Accounts payable	$	42,774	22,537
Current installments of notes payable and bond indebtedness (note 5)		22,501	90,503
Accrued interest		16,739	9,525
Accrued employee benefits (note 5)		13,438	6,186
Unearned revenue and other deferred credits (note 5)		358	358
Liabilities under the City of Los Angeles' securities lending program (note 2)		69,252	44,014
Accrued construction costs payable		1,228	10,160
Other current liabilities (notes 5, 7, 15 and 16)		62,391	89,738
Total current liabilities		228,681	273,021
Long-term liabilities (note 5):			
Bonds payable, net of current portion and deferred amount on refunding and unamortized discount/premium of $11,793 and ($621) in 2007 and 2006, respectively		779,043	680,004
Notes payable, net of current installments		3,271	3,697
Commercial paper to be refunded from bonds		—	113,561
Unearned revenue and other deferred credits		—	2,783
Accrued employee benefits		7,291	8,013
Other liabilities (notes 7, 15, 16, and 18)		13,110	13,105
Liabilities payable from restricted assets – other liabilities (note 7)		9,281	8,819
Total long-term liabilities		811,996	829,982
Total liabilities		1,040,677	1,103,003
Commitments and contingencies (notes 4, 5, 7, 8, 9, 11, 14, 15, 16, 17, 18, and 19)			
Net assets:			
Invested in capital assets, net of related debt		1,921,592	1,844,939
Restricted, bond proceeds		62	63,917
Unrestricted		416,215	292,451
Total net assets	$	2,337,869	2,201,307

See accompanying notes to financial statements.

PORT OF LOS ANGELES
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Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2007 and 2006

(In thousands)

		2007	**2006**
Operating revenues (note 8):			
Shipping services:			
Wharfage (net of $5,499 and $19,958 for bad debt provision in 2007 and 2006, respectively)	$	326,420	310,975
Dockage		8,201	8,484
Demurrage		246	283
Cranes		2,460	2,402
Pilotage		8,829	7,737
Assignment charges		23,687	23,312
Storage		129	197
Total shipping services		369,972	353,390
Rentals:			
Land		37,147	30,807
Buildings		457	441
Warehouses		1,528	1,493
Wharf and shed revenue		1,190	1,135
Total rentals		40,322	33,876
Royalties, fees, and other operating revenues:			
Fees, concessions, and royalties		3,994	3,693
Oil royalties		78	84
Other		2,795	1,116
Total royalties, fees, and other operating revenues		6,867	4,893
Total operating revenues		417,161	392,159
Operating and administrative expenses:			
Salaries and benefits (note 9)		74,313	65,705
Marketing and public relations		4,521	3,333
Travel and entertainment		604	822
Outside services		33,277	33,673
Materials and supplies		5,813	5,400
City services and allocations, net of capitalized amounts of $6,097 and $5,629 in 2007 and 2006, respectively (note 12)		28,640	20,821
Provision for workers' compensation claims		860	6,380
Litigation, claims, and settlement expenses (notes 7, 15, 16, and 18)		(912)	35,087
Other operating expenses		16,659	12,911
Total operating and administrative expenses		163,775	184,132
Income from operations before depreciation		253,386	208,027
Depreciation (note 3)		88,106	98,779
Operating income	$	165,280	109,248

(Continued)

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Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2007 and 2006

(In thousands)

		2007	2006
Nonoperating revenues (expenses):			
Income from investments in Joint Powers Authorities and other entities (note 4)	$	4,675	4,302
Interest and investment income		23,773	9,582
Interest expense on bond indebtedness and notes payable (note 5)		(50,038)	(37,787)
Other income and expenses, net		11,018	7,222
Net nonoperating expenses		(10,572)	(16,681)
Income before capital contributions		154,708	92,567
Capital contributions (note 13)		4,145	2,044
Special item (note 14)		(22,291)	—
Changes in net assets		136,562	94,611
Total net assets – beginning of year		2,201,307	2,106,696
Total net assets – end of year	$	2,337,869	2,201,307

See accompanying notes to financial statements.

PORT OF LOS ANGELES
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Statements of Cash Flows

Years ended June 30, 2007 and 2006

(In thousands)

		2007	2006
Cash flows from operating activities:			
Shipping service fees collected	$	367,874	385,503
Rentals collected		40,720	34,056
Royalties, fees, and other operating revenues collected		6,205	5,657
Payments for employee salaries and benefits, net of capitalized amount of $10,051 and $8,611 in 2007 and 2006, respectively		(67,784)	(63,187)
Payments for goods and services		(103,787)	(160,788)
Net cash provided by other nonoperating income and expenses		3,437	334
Net cash provided by operating activities		246,665	201,575
Cash flows from noncapital financing activities:			
Proceeds from non-capital grants		7,506	2,026
Net cash provided by noncapital financing activities		7,506	2,026
Cash flows from capital and related financing activities:			
Payments for property acquisitions and construction		(107,928)	(105,110)
Proceeds from sales of capital assets		38	52
Proceeds from capital grant		3,625	2,042
Proceeds from new issuance of commercial paper		—	747,490
Payment of commercial paper		—	(747,490)
Net proceeds from issuance of bonds		—	63,446
Principal repayment – bonds		(27,470)	(17,755)
Payment to escrow agent for bond refunding		(54,166)	(841)
Principal repayment – notes		(408)	(390)
Interest paid		(44,606)	(44,535)
Net cash used in capital and related financing activities		(230,915)	(103,091)
Cash flows from investing activities:			
Receipt of interest		22,919	13,348
Increase in liabilities under the City of Los Angeles' securities lending program		25,238	10,520
Increase (decrease) in fair value of investments		2,043	(3,825)
Purchase of investments		—	(1,292)
Payments received on notes receivable		4,434	3,830
Distribution from Joint Powers Authorities and other entities		3,500	—
Net cash provided by investing activities		58,134	22,581
Net increase in cash and cash equivalents		81,390	123,091
Cash and cash equivalents, beginning of year		447,836	324,745
Cash and cash equivalents, end of year (note 2)	$	529,226	447,836

(Continued)

PORT OF LOS ANGELES
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Statements of Cash Flows

Years ended June 30, 2007 and 2006

(In thousands)

		2007	2006
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	165,280	109,248
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		88,106	98,779
Provision for doubtful accounts		5,499	19,958
Net cash provided by other nonoperating income and expense		3,437	334
Change in accounts receivable		(8,324)	(24,950)
Change in materials and supplies inventories		(211)	(140)
Change in prepaid and deferred expenses and other assets		2,633	(7,478)
Change in accounts payable		13,378	(14,551)
Change in accrued employee benefits		6,530	1,392
Change in other long-term operating liabilities		5	(9,752)
Change in unearned revenue and other deferred credits and other current operating liabilities		(29,668)	28,735
Total adjustments		81,385	92,327
Net cash provided by operating activities	$	246,665	201,575
Noncash investing, capital, and financing activities:			
Contributions of capital assets from government	$	520	2,044
Acquistion of capital assets with construction costs payable		1,228	10,160
Acquistion of capital assets with accounts payable		10,838	3,979
Write-off of discontinued construction projects		4,073	21,023
Bond proceeds deposited to escrow accounts for refundings		350,403	255,920
Capitalized interest expense, net		1,779	2,779

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

(a) Organization and Reporting Entity

The Port of Los Angeles is an independent, self-supporting department of the City of Los Angeles, California (the City), formed for the purpose of providing shipping, fishing, recreational, and other resources and benefits for the enjoyment of the citizens of Los Angeles and surrounding communities. The Port is under the control of a five-member Board of Harbor Commissioners (appointed by the Mayor and approved by the City Council) 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), rental of land and facilities, royalties (oil wells), and other fees. Capital construction is financed from operations, bonded debt, and loans secured by future revenues and federal grants. Daily operation of the port facilities and regular maintenance are performed by the Port's permanent work force. Generally, major maintenance and new construction projects are assigned to commercial contractors.

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

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, (GASB Statement No. 14) which the Port adopted effective July 1, 1993. The financial statements include only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City in conformity with GAAP.

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port by 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. Therefore, for purposes of the accompanying financial statements, the long-term indebtedness of LAHIC and the corresponding lease receivable from the tenant are 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.

Although the tenant reimburses LAHIC for its costs of operations, the Board of Harbor Commissioners is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, LAHIC is reported as if it were part of the Port in accordance with the provisions of GASB Statement No. 14, because its sole purpose is to finance and construct facilities and improvements, which directly benefit the Port.

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

(b) Summary of Significant Accounting Policies

Method of Accounting – The Port 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.

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

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

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

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

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

Wharves and sheds	10 to 15 years
Buildings and facilities	10 to 50 years
Equipment	3 to 20 years

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

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

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately $3,876,000 and $3,643,000 of such indirect project costs were allocated to construction projects for the years 2007 and 2006, respectively.

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

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects, net of any investment income earned during the temporary investment of project related borrowings. During the years ended June 30, 2007 and 2006, the Port capitalized net interest expense of $1,779,000 and $2,779,000, respectively. For 2007, gross interest expense of $330,000 related to commercial paper and $1,453,000 related to Harbor Revenue Bonds 2006D was reduced by $4,000 of interest income. For 2006, gross interest expense of $2,779,000 related to commercial paper was reduced by $0 of interest income. The remaining interest was expensed as certain projects financed by the commercial paper and Harbor Revenue Bond 2006D proceeds have been completed.

(Continued)

Pooled Cash and Investments – In order to maximize investment return, the Port pools its available cash with that of the City. 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 cash balances at year-end.

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

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

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

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

Statements of Cash Flows – For purposes of the statements of cash flows, the Port considers all cash and investments pooled with the City, 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 (the System), a plan available to substantially all City full-time

(Continued)

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.

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

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

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

Effects of Recent GASB Pronouncements –

The City of Los Angeles early implemented GASB Statements No. 45 and No. 50, accordingly, the Port has also implemented the provisions of these statements to the extent they relate to the department's financial statements:

GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* Issued in June 2004, this statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits, collectively referred to as other postemployment benefits (OPEB). The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

GASB Statement No. 50,*"Pension Disclosures- An amendment of GASB Statements No. 25 and No. 27."* Issued in May 2007, the objective of this statement is to amend note disclosure and required supplementary information standards of Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,"* and Statement No. 27, *"Accounting for Pensions by State and Local Government Employers,"* to conform with applicable changes adopted in GASB Statement Nos. 43 and 45. GASB 50 is intended to improve transparency and decision usefulness of reported information about pensions by state and local government plans and employers.

The following GASB Statements will be implemented in future years.

In December 2006, GASB issued Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations."* This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The Port is required to implement the statement for the fiscal year 2008-09 financial statements.

GASB Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets."* Issued in June 2007, this statement establishes standards for accounting and financial reporting for intangible assets, for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. GASB 51 will be effective for the Port beginning in fiscal year 2010. Retroactive reporting is required.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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 2006 in order to conform to the 2007 presentation. Such reclassifications had no effect on previously reported change in net assets.

(2) Cash and Investments

(a) Cash and Pooled Investments

Substantially all of the Port's operating cash is deposited with the City Treasurer under the City Treasurer's pooled investment program.

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

		2007	2006
Cash in bank and certificates of deposit	$	395	410
Investment in U.S. Treasury money market fund		62	64,757
Equity in the City of Los Angeles Investment Pool		538,011	393,676
Total cash and investments	$	538,468	458,843

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):

	2007	2006
Unrestricted cash and investments:	$ 380,139	256,258
Restricted cash and investments:		
Current:		
Harbor Revenue Bond Funds	-	62,625
Emergency Fund	91,775	87,409
China Shipping Mitigation Fund	46,652 `	31,036
Community Aesthetics Mitigation Fund for Parks	3,449	3,418
Owner-Controlled Insurance Program	500	500
U.S. Customs House, Terminal Island	6,230	6,153
Other	481	436
Sub-total- Current	149,087	191,578
Noncurrent:		
Harbor Revenue Bond Funds	62	1,292
Commercial Paper Redemption Fund	-	836
Customer security deposits	3,154	3,143
Batiquitos Environmental Fund	5,508	5,243
Harbor Restoration Fund	518	493
Sub-total - Noncurrent	9,242	11,008
Total restricted cash and investments	158,329	202,586
Total cash and investments	$ 538,468	458,843

(b) Deposits – Custodial Credit Risk

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to $395,160 and $410,000 at June 30, 2007 and 2006, respectively, with corresponding bank balances of $167,718 and $193,000, 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) Investments Authorized by the City's Investment Policy

The table below identifies the investment types that are authorized for the Port by the City's investment policy for its General Pool, which conforms to the State Government Code. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy is the same for 2007 and 2006.

	Maximum maturities	Maximum concentration
U.S. Treasury and Federal Agency Securities	5 years	100
Bonds issued by local agencies	5 years	100
Registered State Warrants and Municipal Notes	5 years	100
Bankers' Acceptances	180 days	40
Commercial Paper	270 days	40
Negotiable certificates of deposit or time deposits	180 days	30
Yankee certificates of deposit	180 days	30
CRA Certificates of Deposit or Time Deposits	180 days	30
Repurchase Agreements	32 days	15
Reverse Repurchase Agreements	92 days	5*
Medium Term Corporate Notes	5 years	30
Shares of a Money Market Mutual Fund	N/A	20
Securities Lending Program	N/A	20
Asset Backed Securities	5 years	20**
Collateralized Mortgage Obligations	5 years	20**
Local Agency Investment Fund (LAIF)		(per state limit)***

* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.

** Combined total for mortgage-backed and asset-backed securities

*** Current account limit is $40 million.

(d) City of Los Angeles Investment Pool

At June 30, 2007 and 2006, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

		Investment Maturities June 30, 2007			
Type of Investments	**Amount**	**1 to 30 Days**	**31 ot 60 Days**	**61 to 365 Days**	**366 Days To 5 Years**
U.S. Treasury Notes	$ 1,651,432	—	—	100,394	1,551,038
U.S. Agencies	2,588,342	270,397	63,258	267,283	1,987,404
Medium-Term Notes	1,135,468	—	—	364,595	770,873
Commercial Paper	900,606	811,139	54,758	34,710	—
State of California LAIF	2,664	2,664	—	—	—
Guaranteed Investment Contracts	314,860	314,860	—	—	—
Short-Term Investment Funds	7	7	—	—	—
Securities Lending Cash Collateral:					
U.S. Treasury Notes	898,087	—	—	5,386	892,701
U.S. Agencies	217,385	—	—	—	217,385
Total General and Special Pools	$ 7,708,851	1,399,067	118,016	772,368	5,419,401

		Investment maturities - June 30, 2006			
Type of investments	**Amount**	**1 to 30 days**	**31 ot 60 days**	**61 to 365 days**	**366 days to 5 years**
U.S. Treasury Notes	$ 757,826	7,193	—	—	750,633
U.S. Agencies	3,483,994	229,854	259,964	519,398	2,474,778
Medium-Term Notes	1,077,004	—	—	125,689	951,315
Commercial Paper	1,298,356	1,173,459	52,464	72,433	—
State of California LAIF	2,204	2,204	—	—	—
Short-Term Investment Funds	14	14	—	—	—
Securities Lending Cash Collateral:					
U.S. Treasury Notes	607,597	—	—	—	607,597
U.S. Agencies	344,340	—	—	—	344,340
Total General and Special Pools	$ 7,571,335	1,412,724	312,428	717,520	5,128,663

The City Treasurer manages a General Pool and Special Investment Pools. The investment disclosure information by pool is not available; accordingly, disclosures provided herein represent the combined General and Special Investment Pools. The Port is invested only in the General Pool.

The Port has $538,011,000 and $393,676,000 invested in the City's General Pool, which represent approximately 9.3% and 7.1% of the City Treasury's General Pool at June 30, 2007 and 2006, respectively.

Interest Rate Risk. The City's investment policy limits the maturity of its investments as set forth in (c) above.

Credit Risk. The City's investment policy requires that for all classes of investments, except linked banking certificates of deposits, the issuers must have minimum credit ratings as follows: Standard and Poor's Corporation (S&P) A-1/A; Moody's Investor Services (Moody's) P-1/A2; Fitch Ratings (Fitch), if available, F1/A. The City's investments in Federal Agency securities were rated AAA by S&P and Aaa by Moody's. In addition, medium term notes were rated A+ or better by S&P and A1 or better by Moody's, while investments in commercial paper were rated A-1+ by S&P, and P-1 by Moody's. As further required by the City's investment policy, corporations operating within the United States that have total assets in excess of $500 million issued the medium-term notes, and the commercial paper issuers are corporations organized in the United States as special purpose corporations, trust or limited liability companies having program-wide credit enhancements. The State of California Local Agency Investment Fund is not required to be rated.

Concentration of Credit Risk. The City's investment policy does not allow more than 10.0% of its investment portfolio, except U.S. Treasury and federal agencies, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments, the City does not have such investments.

(e) 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 102.0% of the fair value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 101.5% of the fair value of the securities lent. Under the City's program, no more than 20.0% of the par value of the City's General Investment Pool shall be available for lending. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk. Total cash collateral received by the City was $1,115,471,945 and $951,937,000 at June 30, 2007 and 2006, respectively. No noncash collateral was received by the City at June 30, 2007 and 2006. Net revenues earned by the City on its securities lending program totaled $1,274,873 and $1,140,731 for the years ended June 30, 2007 and 2006, respectively. The Port's share of cash collateral received and corresponding liability aggregated approximately $69,252,000 and $44,014,000 at June 30, 2007 and 2006, respectively.

(f) Other Investment

Other investments of $61,809 and $64,757,000 at June 30, 2007 and 2006, respectively, consist of investments in a money market mutual fund. With an objective of seeking maximum current income to the extent consistent with preservation of capital and maintenance of liquidity, these investments are made through the bond fund trustee bank and they may be invested, as specified in the indenture of trust, with a portfolio consisting of: (1) U.S. dollar denominated deposit account, certificates of deposit, federal funds and banker's acceptances with domestic commercial banks, which have a rating on their short term certificates of deposit on the date of purchase of the highest rating by Fitch, if Fitch rates such instruments, "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase; (2) commercial paper which is rated at the time of purchase in the single highest classification, by Fitch, if Fitch rates such instruments, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase; (3) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P and "Aaa" by

Moody’s; and (4) pre-refunded municipal obligations defined as any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of any such state; (5) investment agreements approved in writing by each Insurer with a provider whose long-term unsecured debt is rated in not lower than the second highest rating category of at least two of the rating agencies and which will not adversely affect Fitch, Moody's or S&P's underlying rating on the Bonds; (6) municipal obligations rated Aaa/AAA or general obligations of states rated in not lower than the second highest rating category of at least two of the rating agencies; and, (7) other forms of investments (including repurchase agreements) approved in writing by each Insurer and which will not adversely affect Fitch, Moody's or S&P's underlying rating on the Bonds.

As of June 30, 2007, this money market fund was rated “Aaa” by Moody’s and “AAAm” by S&P.

(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2007 and 2006 (in thousands):

	2006	Increases	Decreases	2007
Capital assets not being depreciated:				
Land	$ 955,824	35,336	(7)	991,153
Construction in progress	232,412	36,641	(57,724)	211,329
Preliminary costs – capital projects	95,809	27,398	(136)	123,071
Total capital assets not being depreciated	1,284,045	99,375	(57,867)	1,325,553
Capital assets being depreciated:				
Wharves and sheds	656,696	5,267	—	661,963
Buildings/facilities	1,661,073	48,527	(40,270)	1,669,330
Equipment	62,203	8,871	(7,525)	63,549
Total capital assets being depreciated/amortized	2,379,972	62,665	(47,795)	2,394,842
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(247,251)	(18,664)	—	(265,915)
Buildings/facilities	(642,484)	(65,063)	17,959	(689,588)
Equipment	(41,578)	(4,379)	7,472	(38,485)
Subtotal	(931,313)	(88,106)	25,431	(993,988)
Total capital assets being depreciated/amortized, net	1,448,659	(25,441)	(22,364)	1,400,854
Total capital assets, net	$ 2,732,704	73,934	(80,231)	2,726,407

	July 1, 2005	Increases	Decreases	June 30, 2006
Capital assets not being depreciated:				
Land	$ 953,459	2,365	—	955,824
Construction in progress	269,520	72,996	(110,104)	232,412
Preliminary costs – capital projects	215,066	38,681	(157,938)	95,809
Total capital assets not being depreciated	1,438,045	114,042	(268,042)	1,284,045
Capital assets being depreciated/ amortized:				
Wharves and sheds	642,694	14,002	—	656,696
Buildings/facilities	1,428,056	233,017	—	1,661,073
Equipment	47,326	16,354	(1,477)	62,203
Total capital assets being depreciated/amortized	2,118,076	263,373	(1,477)	2,379,972
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(228,231)	(19,020)	—	(247,251)
Buildings/facilities	(569,464)	(73,020)	—	(642,484)
Equipment	(35,999)	(6,739)	1,160	(41,578)
Total accumulated depreciation	(833,694)	(98,779)	1,160	(931,313)
Total capital assets being depreciated/ amortized, net	1,284,382	164,594	(317)	1,448,659
Total capital assets, net	$ 2,722,427	278,636	(268,359)	2,732,704

Net interest expense of $1,779,000 and $2,779,000 was capitalized for 2007 and 2006, respectively.

(4) Investment in Joint Powers Authorities and Other Entities

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

(a) Intermodal Container Transfer Facility Joint Powers Authority

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

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53,915,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52,315,000 in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42,915,000 of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, 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 share of net assets at June 30, 2007 and 2006 is $7,814,000 and $7,140,000, respectively.

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

(b) Alameda Corridor Transportation Authority

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

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

At June 30, 1998, the Port had advanced a total of $13,334,000 to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Port for all amounts advanced plus approximately $3.2 million of interest on such advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Port for approximately $81.7 million of capital assets directly related to the ACTA's mission, which the Port had previously included in construction in progress. Of the capital assets transferred, approximately $22.2 million had been funded by capital grants, which the Port had previously included in contributions/land valuation equity. The Port has no share of the ACTA's net assets and income at June 30, 2007 and 2006 and, accordingly, they have not been recorded in the accompanying financial statements.

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

(c) Los Angeles Export Terminal, Inc.

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

The Port has contributed $19,000,000 to LAXT as part of the agreement. Such contribution represents a 13.2% share of the total committed capital of $143,174,000. This capital was raised from the shareholders through a purchase of stock in LAXT. The Port's investment totaled $19,000,000 at June 30, 2006. The Port has the right to nominate two directors to a 19-member board of directors. As of June 30, 1998, the terminal began operating under a long-term lease agreement with a terminal manager/operator.

In June 2003, LAXT loaded the last coal vessel, thereby ceasing the coal operations at the facility. As a result of a Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement, the Port wrote off in March 2007 of its $19,000,000 investment, or 100% for its share of equity participation in the LAXT (see note 14.)

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 Liabilities

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

(a) Bonds Payable

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. The 1996 Series A Bonds with maturity dates ranging from August 1, 1997 through 2026 bear interest at rates from 5.00% to 6.25%. The term bonds are subject to mandatory early redemption. The bonds maturing on or after August 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after August 1, 2008 are subject to optional redemption without an early redemption premium. The 1996 Series A Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles.

On October 13, 2005, the Port issued the 2005 Series A Refunding Bonds for $29,930,000 to advance refund, on a crossover basis, $30,935,000 of the 1996 Series A Bonds. Such 1996 Series A Bonds were redeemed on their call date (the Crossover Date) of August 1, 2006 at a redemption price of 101%.

In addition, the Port issued and applied a portion of the 2005 Series C-1 Refunding Bonds to provide funds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of $15,525,000 of 1996 Series A Bonds tendered by the holders thereof in response to a voluntary open market purchase solicitation. All such purchased 1996 Series A Bonds were cancelled on the date of delivery of the Series 2005 Series C-1 Bonds.

On May 4, 2006, the Port issued the 2006 Series A Refunding Bonds for $200,710,000 to currently refund, on a forward delivery basis, $202,705,000 of the 1996 Series A Bonds. On August 1, 2006, all 1996 Series A Bonds were redeemed. For the Port's current refunding and advance refunding of bonds, the difference between the reacquisition price and the net carrying amount of the refunded bonds is deferred and amortized as interest expense over the life of the refunding bonds, which is shorter than the remaining life of the refunded bonds.

The refunding transaction with the 2006 Series A Bonds resulted in an economic gain of $27,665,368 and a reduction of $44,824,990 in future debt service payments.

1996 Series B and C Bonds

The Revenue Bonds, Issue of 1996 Series B and Series C (the 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 final maturity dates for 1996 Series B Bonds and 1996 Series C Bonds are November 1, 2026, and 2025, respectively. 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 $21,350,000 of 1996 Series C Bonds was issued to advance refund $19,750,000 of outstanding 1995 Series A Bonds. 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 financial statements as a deduction from bonds payable, is being charged to operations through 2025 using the straight-line method.

On October 13, 2005, the Port issued the 2005 Series B Refunding Bonds for $30,110,000 to advance refund, on a crossover basis, $31,690,000 of the 1996 Series B Bonds. Such 1996 Series B Bonds were redeemed and cancelled on their call date (the Crossover Date) of November 1, 2006 at the redemption price of 101%.

In addition, the Port issued and applied a portion of the 2005 Series C-1 Refunding Bonds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of $27,725,000 of the 1996 Series B Bonds tendered by the holders in response to a voluntary open market purchase solicitation. All such purchased 1996 Series B Bonds were cancelled on the date of delivery of the 2005C-1 Series Bonds.

The Port issued the 2006 Series B Refunding Bonds for $209,815,000 and the 2006 Series C Refunding Bonds for $16,545,000, on a forward-delivery basis, to currently refund $211,895,000 of the 1996 Series B Bonds and $17,065,000 of the 1996 Series C Bonds. Such 1996 Series B Bonds and 1996 Series C Bonds were redeemed and cancelled on their call date of November 1, 2006.

The refunding of 1996 Series B Bonds and 1996 Series C Bonds was completed on November 1, 2006. The refunding transaction with the 2006 Series B Bonds resulted in an economic gain of $18,879,238 and a reduction of $34,739,094 in future debt service payments. The refunding transaction with the 2006 Series C Bonds resulted in an economic gain of $1,217,279 and a reduction of $1,552,163 in future debt service payments.

2001 Series A Refunding Bonds

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

The outstanding balances on the 2001 Series A Refunding Bonds, net of unamortized discount of $921,776 and $972,986 and unamortized deferred amount on refunding of $839,823 and $886,480 were $34,418,401 and $34,320,534 at June 30, 2007 and 2006, respectively.

(Continued)

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

	Annual Debt Service Requirement		
Fiscal Year	Principal	Interest	Total
2008	$ -	1,809	1,809
2009	-	1,809	1,809
2010	-	1,809	1,809
2011	-	1,809	1,809
2012	-	1,809	1,809
2013-2017	-	9,045	9,045
2018-2022	-	9,045	9,045
2023-2026	36,180	4,471	40,651
Sub-total	36,180	31,606	67,786
Unamortized Deferred Amount on Refunding of 1995 Series B	(840)		(840)
Unamortized Discount	(922)	-	(922)
Total	$ 34,418	31,606	66,024

2001 Series B Bonds

The Port issued the 2001 Series B Refunding Bonds in the aggregate principal amount of $64,925,000 to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters.

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

The outstanding balances on the 2001 Series B Refunding Bonds, net of unamortized premium of $777,243 and $829,059 and unamortized deferred amount on refunding of $3,208,281 and $3,422,166, were $62,493,962 and $62,331,893 at June 30, 2007 and 2006, respectively.

(Continued)

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	-	3,547	3,547
2009		-	3,547	3,547
2010		-	3,547	3,547
2011		-	3,547	3,547
2012		-	3,547	3,547
2013-2017		10,270	17,311	27,581
2018-2022		45,170	8,966	54,136
2023		9,485	249	9,734
Sub-total		64,925	44,261	109,186
Unamortized Deferred Amount on Refunding of 1995 Series B		(3,208)		(3,208)
Unamortized Premium		777	-	777
Total	$	62,494	44,261	106,755

2002 Series A Bonds

The 2002A Series A Refunding Bonds were issued in the aggregate principal amount of $63,520,000 on May 6, 2002, on a crossover basis, to advance refund $64,110,000 of the outstanding 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of 1995 Series B Bonds maturing on August 1, 2002 and 2003.

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

Prior to the Crossover Date, interest on the 2002 Series A Refunding Bonds was secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture. The outstanding balances on the 2002 Series A Refunding Bonds, net of unamortized premium of $1,457,371 and $1,637,664 and unamortized deferred amount on refunding of $1,251,219 and $1,406,009 were $50,941,152 and $55,461,655 at June 30, 2007 and 2006, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	4,740	2,660	7,400
2009		5,000	2,392	7,392
2010		5,275	2,110	7,385
2011		5,565	1,812	7,377
2012		5,865	1,497	7,362
2013-2016		24,290	2,556	26,846
Sub-total		50,735	13,027	63,762
Unamortized Deferred Amount on Refunding of 1995 Series B		(1,251)		(1,251)
Unamortized Premium		1,457	-	1,457
Total	$	50,941	13,027	63,968

On August 1, 2002, the refunding of 1995 Series B Bonds was completed and resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series B Bonds of $3,818,649. The difference is prorated to 2001 Series A Bonds, 2001 Series B Bonds, and 2002 Series A Bonds based on the face value. They are reported in the accompanying financial statements as a deduction from bonds payable and charged to operations through 2025 using the straight-line method.

2005 Series A Bonds

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

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

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

The outstanding balance on the 2005 Series A Bonds, plus the unamortized premium of $1,838,921 and $1,934,231 and unamortized deferred amount on refunding of $556,508 were $31,211,413 and $31,864,231 at June 30, 2007 and 2006, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	-	1,433	1,433
2009		-	1,433	1,433
2010		-	1,433	1,433
2011		275	1,428	1,703
2012		1,285	1,401	2,686
2013-2017		7,220	6,188	13,408
2018-2022		9,255	4,177	13,432
2023-2027		11,896	1,547	13,443
Sub-total		29,931	19,040	48,971
Unamortized Deferred Amount on Refunding of 1996 Series A		(557)		(557)
Unamortized Premium		1,838	-	1,838
Total	$	31,212	19,040	50,252

2005 Series B Bonds

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

Interest on the 2005 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series B Bonds with maturity dates ranging from

August 1, 2008 to August 1, 2026, bear interest at rates from 3.00% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

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

The outstanding balance on the 2005 Series B Bonds, plus the unamortized premium of $1,877,063 and $1,975,424 and unamortized deferred amount on refunding of $536,222 were $31,450,841 and $32,085,424 at June 30, 2007 and 2006, respectively.

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

	Annual Debt Service Requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2008	$ -	1,436	1,436
2009	125	1,434	1,559
2010	850	1,419	2,269
2011	1,200	1,382	2,582
2012	1,215	1,334	2,549
2013-2017	7,095	5,802	12,897
2018-2022	9,105	3,814	12,919
2023-2027	10,520	1,256	11,776
Sub-total	30,110	17,877	47,987
Unamortized Deferred Amount on Refunding of 1996 Series B	(536)		(536)
Unamortized Premium	1,877	-	1,877
Total	$ 31,451	$ 17,877	49,328

2005 Series C Bonds

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

Interest on the 2005 Series C-1 Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006, with principal payments commencing August 1, 2006. The 2005 Series C-1 Bonds with maturity dates ranging from August 2006 to 2017, bear interest at rates from 3.50% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

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

The outstanding balances on the 2005 Series C Refunding Bonds, net of unamortized premium of $2,219,856 and $2,440,006 and unamortized deferred amount on refunding of $1,546,245 and $1,699,591, were $42,698,611 and $48,560,415 at June 30, 2007 and 2006, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	3,340	2,009	5,349
2009		4,145	1,822	5,967
2010		1,540	1,680	3,220
2011		7,125	1,463	8,588
2012		15,290	903	16,193
2013-2017		875	2,514	3,389
2018		9,710	243	9,953
Sub-total		42,025	10,634	52,659
Unamortized Deferred Amount on Refunding of 1996 Series A & 1996 Series B		(1,546)		(1,546)
Unamortized Premium		2,220	-	2,220
Total	$	42,699	10,634	53,333

2006 Series A Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of $200,710,000, on a forward delivery basis, to currently refund $202,705,000 of the 1996A Bonds.

Interest on the 2006 Series A Bonds is payable semiannually on February 1 and August 1 of each year. Principal and interest are payable commencing August 1, 2006. The 2006 Series A Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The outstanding balance on the 2006 Series A Bonds, net of unamortized premium of $8,149,558 and $8,576,609 and unamortized deferred amount on refunding of $3,570,446 and $7,994,553 were $202,339,112 and $201,292,056 at June 30, 2007 and 2006, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	8,360	9,679	18,039
2009		7,545	9,281	16,826
2010		8,515	8,880	17,395
2011		1,270	8,635	9,905
2012		800	8,584	9,384
2013-2017		41,920	37,787	79,707
2018-2022		50,375	26,234	76,609
2023-2027		78,975	10,608	89,583
Sub-total		197,760	119,688	317,448
Unamortized Deferred Amount on Refunding of 1996 Series A		(3,570)		(3,570)
Unamortized Premium		8,150	-	8,150
Total	$	202,339	119,688	322,027

2006 Series B Bonds

The 2006 Series B Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $209,815,000, on a forward delivery basis, to currently refund $211,895,000 of the 1996B Bonds.

Interest on the 2006 Series B Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series B Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The outstanding balance on the 2006 Series B Bonds, net of unamortized premium of $7,973,257 and unamortized deferred amount on refunding of $4,265,064 was $213,523,193 at June 30, 2007.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	3,990	10,391	14,381
2009		4,430	10,181	14,611
2010		5,975	9,920	15,895
2011		7,885	9,574	17,459
2012		-	9,377	9,377
2013-2017		50,730	40,798	91,528
2018-2022		60,190	28,050	88,240
2023-2027		76,615	9,733	86,348
Sub-total		209,815	128,024	337,839
Unamortized Deferred Amount on Refunding of 1996 Series B		(4,265)		(4,265)
Unamortized Premium		7,973	-	7,973
Total	$	213,523	128,024	341,547

2006 Series C Bonds

The 2006 Series C Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $16,545,000, on a forward delivery basis, to currently refund $17,065,000 of the 1996 Series C Bonds.

Interest on the 2006 Series C Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series C Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2008 to August 1, 2025. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The outstanding balance on the 2006 Series C Bonds, net of unamortized premium of $972,005 and unamortized deferred amount on refunding of $338,949 was $17,178,056 at June 30, 2007.

(Continued)

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	-	827	827
2009		235	821	1,056
2010		635	800	1,435
2011		665	767	1,432
2012		700	733	1,433
2013-2017		4,050	3,092	7,142
2018-2022		5,155	1,946	7,101
2023-2027		5,105	525	5,630
Sub-total		16,545	9,511	26,056
Unamortized Deferred Amount on Refunding of 1996 Series C		(339)		(339)
Unamortized Premium		972	-	972
Total	$	17,178	9,511	26,689

(Continued)

2006 Series D Bonds

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

Interest on the 2006 Series D Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series D Bonds bear interest at rates ranging from 4.5% to 5.00% with maturity dates from August 1, 2007 to August 1, 2036. The bonds maturing on or after August 1, 2014 are subject to optional redemption at the redemption price of 101%.

The outstanding balance on the 2006 Series D Bonds, net of unamortized premium of $3,562,962 was $114,862,962 at June 30, 2007.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2008	$	1,645	5,452	7,097
2009		1,730	5,368	7,098
2010		1,820	5,279	7,099
2011		1,915	5,186	7,101
2012		2,010	5,088	7,098
2013-2017		11,710	23,781	35,491
2018-2022		15,040	20,453	35,493
2023-2027		19,315	16,181	35,496
2028-2032		24,600	10,896	35,496
2033-2037		31,515	3,979	35,494
Sub-total		111,300	101,663	212,963
Unamortized Premium		3,563	-	3,563
Total	$	114,863	101,663	216,526

(b) Other Debt

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes (Notes) not to exceed $375,000,000 as a means of interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. Rates vary on the Notes from 2.38% to 3.45% during the fiscal year ended June 30, 2006. Due dates also vary, but within the limit of 270 days from the issue dates.

In fiscal year 2006, the Notes were remarketed for principal only. The outstanding balance for the Notes at June 30, 2006 remained unchanged from fiscal year 2005 at $113,561,000. On August 31, 2006, the outstanding Commercial Paper was refunded through the issuance of the 2006 Series D Refunding Bonds in the aggregate principal amount of $111,300,000.

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 Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's Parity Obligations on the Harbor Revenue Funds. The outstanding balances on such notes were $3,696,946 and $4,104,701 at June 30, 2007 and 2006, respectively.

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

Fiscal year	Principal	Interest	Total
2008	$ 426	166	592
2009	445	147	592
2010	465	127	592
2011	486	106	592
2012	508	84	592
2013-2015	1,366	112	1,478
Total	$ 3,696	742	4,438

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

Bonds were defeased through the establishment of irrevocable escrow funds with a major financial institution. Monies placed in trust, when considered with interest to be earned thereon, will be sufficient to make required debt service payments through the earliest possible debt retirement dates. Accordingly, the liability for those bonds has been removed from the accompanying financial statements.

(Continued)

In May 2006, the Port defeased a portion of its outstanding Harbor Revenue Bonds issue of 1996 Series A Bonds in an aggregate amount of $202,705,000 through the issuance of the 2006 Series A Bonds. These defeased 1996 Series A Bonds were redeemed and cancelled on the call date of August 1, 2006.

On August 3, 2006, the Port defeased a portion of its outstanding Harbor Revenue Bonds issue of 1996 Series B Bonds in an aggregate amount of $211,895,000 through the issuance of the 2006 Series B Bonds and defeased a portion of its outstanding 1996 Series C Bonds in an aggregate amount of $17,065,000 through the issuance of the 2006 Series C Bonds. The above said Bonds were redeemed and cancelled on the call date of November 1, 2006.

The remaining bonds in the defeasance escrows held by the trustee at June 30, 2007 and 2006 were as follows (in thousands):

		2007	2006
1988 Bonds	$	89,525	94,045
1996A Bonds		-	202,705
Total	$	89,525	296,750

(d) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2007 and 2006 was as follows (in thousands):

	July 1, 2006	Additions	Reductions	June 30, 2007	Due within one year
Revenue bonds payable	$ 770,720	337,660	(319,055)	789,325	22,075
Less unamortized discount/premium	15,587	13,033	(714)	27,906	—
Unamortized deferred amount on refunding	(16,208)	(1,707)	1,802	(16,113)	—
Total revenue bonds payable	770,099	348,986	(317,967)	801,118	22,075
Notes payable	4,105	—	(408)	3,697	426
Commercial paper	113,561	—	(113,561)	—	—
Unearned revenue and other deferred credit	3,141	—	(2,783)	358	358
Accrued employee benefits	14,199	6,530		20,729	13,438
Other liabilities (notes 7, 16, and 18)	111,662	5,073	(31,953)	84,782	62,391
Total long-term liabilities	$ 1,016,767	360,589	(466,672)	910,684	98,688

(Continued)

		July 1, 2005	Additions	Reductions	June 30, 2006	Due within one year
Revenue bonds payable	$	725,870	308,570	(263,720)	770,720	90,095
Less unamortized discount/premium		(388)	15,260	715	15,587	—
Unamortized deferred amount on refunding		(6,969)	(9,853)	614	(16,208)	—
Total revenue bonds payable		718,513	313,977	(262,391)	770,099	90,095
Notes payable		4,495	—	(390)	4,105	408
Commercial paper		113,561	747,490	(747,490)	113,561	—
Unearned revenue and other deferred credit		3,141	—	—	3,141	358
Accrued employee benefits		12,807	1,392	—	14,199	6,186
Other liabilities (note 7, 16 and 18)		103,725	54,167	(46,230)	111,662	89,738
Total long-term liabilities	$	956,242	1,117,026	(1,056,501)	1,016,767	186,785

(6) Employee-Deferred Compensation Plan

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

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

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

(7) Risk Management

The Port purchases insurance on certain risk exposures such as property, railroad, automobiles, fleet, pilotage, and public official. The Port is, however, self-insured for general liability/litigation-type claims and workers' compensation of the Port's employees. In addition, 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, 2007 and 2006, approximately $15,055,000 and $46,475,000, respectively, were accrued for litigation claims and workers' compensation claims, which are included in other liabilities in the accompanying statements of net assets.

Changes in the reported liability for the years ended June 30, 2007 and 2006 are as follows (in thousands):

		Beginning liability	Estimate changes	Claim payments	Fiscal yearend
2006 – 2007:					
Workers' compensation	$	8,400	1,440	(1,440)	8,400
General liability/litigation		38,075	(3,377)	(28,043)	6,655
2005 – 2006:					
Workers' compensation	$	2,906	6,587	(1,093)	8,400
General liability/litigation		15,830	28,788	(6,543)	38,075

(8) Leases, Rentals, and Revenue Sharing Agreements

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

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, 2007 and 2006, the minimum rental income from such agreements aggregated approximately $248,278,000 and $250,257,000, respectively.

The property on lease at June 30, 2007 consists of the following (in thousands):

Wharves and sheds	$	661,962
Cranes and bulk facilities		67,400
Municipal warehouses		10,449
Port pilot facilities and equipment		6,114
Buildings and other facilities		774,952
Cabrillo Marina		36,097
		1,556,974
Less accumulated depreciation		(691,460)
Total	$	865,514

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):

Year ended June 30:		
2008	$	245,723
2009		246,546
2010		247,004
2011		247,859
2012		248,733
Total	$	1,235,865

(9) Retirement Plan

(a) Retirement Plan Description

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

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

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. The Port's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS were approximately $10,908,000 (100% of ARC), $8,577,000 (100% of ARC) and $6,253,000 (86.3% of ARC) for the years ended June 30, 2007, 2006, and 2005, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

(Continued)

LACERS's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The current year contribution requirement was determined based on the June 30, 2005 actuarial valuation, using the following actuarial assumptions:

	LACERS
Actuarial valuation date	June 30, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75% - 10%
Inflation rate	3.75%
Cost of living adjustments	3%

The City and member contribution rates for the year ended June 30, 2007 are as follows:

Contribution rates:	LACERS
City	14.6% of covered payroll
Plan members	8.22% to 13.33% of salaries at entry age with City subsidy for members prior to February 1983; 6% for entry date after January 1983

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for fiscal year 2006-07 and the two preceding years for the plan are as follows (in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
LACERS	06/30/07	$ 183,242	100%	$ (81,723)
	06/30/06	227,006	100%	(83,049)
	06/30/05	276,191	86%	(83,784)

The City allocated a pro rata share of its net pension obligation to the Port and the amounts recorded at June 30, 2007 and 2006 were $2,172,000 and $2,169,000, respectively.

(c) Funded Status of LACERS

Based upon available data, the following is funded status information for the plan as of June 30, 2007, separate information for the Port is not available (in thousands):

		LACERS
Actuarial Accrued Liability (AAL)	$	10,526,874
Actuarial Value of Assets		8,599,700
Underfunded AAL		1,927,174
Funded Ratio		81.7%
Covered Payroll	$	1,896,609
Underfunded AAL as a percentage of covered payroll		101.6%

(Continued)

The funded status of the plan as of June 30, 2007 was based on the following actuarial assumptions:

	LACERS
Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75% - 10%
Inflation rate	3.75%
Cost of living adjustments	3%

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

(Continued)

of funding progress, presented as Required Supplementary Information (RSI) in section (d) below, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Other contribution information and ten-year historical trend information can be found in LACERS's Comprehensive Annual Financial Report. Copies of LACERS's Comprehensive Annual Financial Report can be obtained from LACERS, 360 East Second Street, 2nd Floor, Los Angeles, California 90012.

(d) Required Supplementary Information (Unaudited)

Based upon available data, the following represents the LACERS Schedule of Funding Progress, separate information for the Port is not available (in thousands):

Schedule of Funding Progress
(in thousands)

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2005	$9,321,525	$ 7,193,142	$(2,128,383)	77.2%	$1,589,306	(133.9)%
2006	9,870,662	7,674,999	(2,195,663)	77.8%	1,733,340	(126.7)%
2007	10,526,874	8,599,700	(1,927,174)	81.7%	1,896,609	(101.6)%

(e) Other Postemployment Benefits (OPEB)

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

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

The City's annual required contribution rate for OPEB was 6.1% of annual covered payroll and was determined based on the June 30, 2005 actuarial valuation. Significant methods and assumptions are as follows:

	LACERS OPEB
Actuarial valuation date	June 30, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	12% graded down over 7 years to ultimate rate of 5%
Dental	5%

Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

The City's annual pension cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2006-07 and the two preceding years for the plan are as follows (in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset (Obligation)
LACERS	06/30/07	$ 115,233	100%	-
	06/30/06	76,116	100%	-
	06/30/05	53,190	100%	-

From the most recent data made available by the City, as of June 30, 2007, LACERS membership consists of 30,175 active plan participants and 14,836 retired members. Also as of June 30, 2007, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total underfunded health benefit subsidy applicable to LACERS as a whole was approximately $545,000,000 as follows (in thousands):

	LACERS
Actuarial Accrued Liability (AAL)	$ 1,730,400
Actuarial Value of Assets	1,185,544
Underfunded AAL	544,856
Funded Ratio	68.5%
Covered Payroll	$ 1,896,609
Underfunded AAL as a percentage of covered payroll	28.7%

The funded status of the OPEB plan as of June 30, 2007 was based on the following actuarial assumptions:

	LACERS OPEB
Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates Medical	8.75%, decreasing by 0.5% for each year for eight years unitl it reaches an ultimate rate of 5%
Dental	5%

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The require schedule of funding progress, presented as RSI in section (f) below, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(f) Required Supplementary Information (Unaudited)

Based upon available data, the following represents the LACERS Schedule of Funding Progress for the OPEB Plan, separate information for the Port is not available (in thousands):

**Other Postemployment Benefits Healthcare Plans
Schedule of Funding Progress
(in thousands)**

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2005	$ 1,718,899	$ 893,378	$ (825,521)	52.0%	$ 1,589,305	(51.9)%
2006	1,730,799	990,270	(740,529)	57.2%	1,733,340	(42.7)%
2007	1,730,400	1,185,544	(544,856)	68.5%	1,896,609	(28.7)%

(10) Notes Receivable

(a) City of Los Angeles Settlement

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

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

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

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

The settlement agreement also provides that the City reimburse the Port for the payment differential, that amount representing the difference between the actual payments and the amount to which the City would have been entitled to reimbursement during fiscal year 1994-95 and fiscal year 2002-2003, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at $8,352,000. Payment for this period is to be reimbursed to the Port over 15 years, including 3% simple interest. The agreement also states that at any time after five years from January 19, 2001, the City, the Port, and California State Lands Commission may negotiate to amend this agreement to account for new or changed circumstances.

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

Accordingly, the Port of Los Angeles had recorded the amount due from the City as a note receivable of $36,348,000 and $40,310,000 and a current portion of notes receivable of $3,962,000 and $3,846,000 as of June 30, 2007 and 2006, respectively.

(b) Note Receivable – LAXT

In August of 2001, LAXT issued a note to the Port to defer payment of $2.0 million of the minimum annual rent required in their lease. This note provides for quarterly interest payments to be made to the Port until such time as the note is fully repaid on or before July 1, 2004. As a result of the Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement (Settlement Agreement) with LAXT, the Port wrote off, in March 2007, the $2.0 million note receivable against the reserve that was made before.

(c) Note Receivable – Yusen

In order to settle the then outstanding $2,350,867 terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of $106,857. To book accounting entries, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1,476,887, with the balance of $873,980 recognized as the Port’s capital assets in fiscal year 1995. The note matures in October 2015. The balance outstanding on the Yusen note is $759,520 and $825,121 at June 30, 2007 and 2006, respectively.

(11) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $232,931,000 as of June 30, 2007. 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 2007 or 2006.

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

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

Alameda Corridor Transportation Authority Agreement (ACTA)

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

In October 1998, the Ports, ACTA, and the railroads, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroads to pay certain use fees and container charges (Use Fees), which ACTA will assess for the privilege of using the corridor to transport cargo into and out of the Ports. ACTA is currently negotiating with the railroads regarding certain types of cargo movements (transload movements) for which the railroads are not paying Use Fees. ACTA asserts that Use Fees are due for these cargo movements. No assurances can be given that these negotiations will conclude in a manner favorable to ACTA. These Use Fees are used to pay (a) the debt service that ACTA incurs on approximately $1.2 billion of bonds, which ACTA issued in early 1999 and approximately $686 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use Fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

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

In April 2004, it was estimated by ACTA that the Ports would be required to make Shortfall payments totaling approximately $20.5 million (the Port and POLB each being liable for their one-half share of $10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, the Port is obligated to include any forecasted Shortfall payments in its budget each fiscal year. No Shortfall payments were payable by the Port in the prior years. ACTA notified the two ports in March 2007 that no Shortfall payment was required for the fiscal year ending June 30, 2007 due to transfers from other available sources and that the total amount of the Shortfall payment for FY 2007-08 is estimated to be zero.

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

(12) Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate $34,737,000 and $26,450,000 in fiscal years 2007 and 2006, respectively.

(13) Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During the years ended June 30, 2007 and 2006, the Port reported capital contributions of $4,145,000 and $2,044,000, respectively, for certain capital construction and grant projects.

(14) Los Angeles Export Terminal

Los Angeles Export Terminal (LAXT) is an approximately 120-acre dry bulk facility that handles coal and petroleum coke destined for Asia and the Americas. When incorporated, LAXT's ownership was comprised of a coalition of 51% US firms involved in the coal chain and 49% Japanese utility, steel, and energy companies. Since LAXT's formation, the Port has made equity contributions of $19.0 million. Beginning in fiscal year 2001, business conditions have been such that LAXT has been unable to meet its minimum rent guarantee to the Port. Accordingly, the Port fully reserved for its share of investment in LAXT and any trade receivables due from LAXT.

On June 10, 2004, LAXT, Oxbow Carbon & Minerals, Inc., and Oxbow Terminals LLC (collectively, the Claimants) filed a claim against the City for damages in excess of $400 million (the LAXT Claim). The Claimants assert, among other things, that the City breached fiduciary duties to LAXT, breached its lease with LAXT, and interfered with LAXT's efforts to raise additional revenues. The City rejected the LAXT claim on June 23, 2004. The Claimants subsequently filed a court action in which they claimed damages in excess of $600 million. The Port filed an answer and cross-claim to the court action. The parties reached a Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement (Settlement Agreement) effective March 16, 2007 and the City paid the claimants a total of $27,412,000 as part of the settlement. The Port also wrote off $66,922,000 in accounts receivable and $2,000,000 in note receivable that are due from LAXT and $19,000,000 in LAXT investment against reserves specifically made for LAXT in prior years.

As a result of this settlement, certain Port capital assets that are related to LAXT operations have suffered permanent impairment of their value and are due for demolition. The Port charged a total of $22,291,000 as a special item in fiscal year 2006-07 and reduced the book value of these impacted assets to zero.

(15) Natural Resources Defense Council Settlement Judgment

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

The terms of the agreement require that the Port fund various mitigation activities in the amount of $10 million per year over a five-year term ending fiscal year 2007. As of June 30, 2007, a total of $50 million has been transferred from Harbor Revenue Fund to the restricted mitigation funds.

Pursuant to the settlement, the Port is also obligated to expend up to $5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2007, the Port has spent $5 million for this program.

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

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar year 2007 and 2006 and in May 2007 and in April 2006 the Port charged to non-operating expense and deposited in the restricted mitigation funds an additional $5,767,000 and $3,862,000, respectively.

As of June 30, 2007 the Port has disbursed a total of $19.1 million as provided in accordance with the provisions of the settlement.

(16) China Shipping Settlement Agreement

In June 2005, the Port of Los Angeles settled a claim filed by China Shipping Holding Company, Ltd. (China Shipping), a current Port tenant, claiming damages and costs resulting from the delays in timely delivery of the premises at Berths 100-102, and environmental mitigation costs.

The settlement provided for an immediate payment of $10 million to China Shipping and amended their operating permit to provide various credits to the claimant in the form of reduction of minimum annual guarantee and container charges of $12.2 million to be applied in fiscal year 2005 – 2006. The amendment also provides for additional other credits amounting up to $7.1 million, if certain acreage or wharf improvements are not delivered within 24 – 48 months following approval of the environmental impact report for the project. Port management believes no conditions currently exist that will impact timely delivery of the facilities. Accordingly, a liability of $22.2 million was recorded as of June 30, 2005 and payment of $10 million was made and credits of $12.2 million issued in fiscal year 2006.

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

An individual has brought a lawsuit under the Federal Civil False Claims Act against the Port, the City, and the Port's former Executive Director, challenging the use by the Port of certain federal funds obtained via the United States Army Corps of Engineers and State funds for the construction of Pier 400 at the Port. The plaintiff alleges that the federal contribution amount to the construction of Pier 400 was $108 million and the State contribution was approximately $1 billion. The case was under seal from 2002 to 2005 while the federal government determined whether to join as a plaintiff. In 2005, the federal government decided not to join as a plaintiff. An amended complaint was served on the Port in August 2005 requesting treble damages. The Port believes that any claims alleging misuse of federal funds and State funds are without merit. The defendants, including the City and the Port, filed motions to have the court dismiss the complaint or grant judgment in their favor. On August 11, 2006, the Court granted the City's and Port's motion to disqualify the plaintiff, on the grounds that the plaintiff is not an attorney and therefore cannot represent the interests of the United States or the State in the action, and dismissed the lawsuit. Subsequently the plaintiff brought motions to vacate the dismissal and to allow the substitution of an attorney. The trial court denied both of these motions. On October 13, 2006 the plaintiff in proper filed a notice of appeal seeking review of three court orders: the August 14, 2006 order granting defendant's motion to disqualify relator and dismiss his claims, the October 6, 2006 order denying relator's motion for substitution of counsel, and the October 6, 2006 order denying relator's motion to vacate order of dismissal. The relator Stanley Mosler appealed the dismissal of the action to the Ninth Circuit. The appeal is currently pending.

(18) Asbestos Removal Liabilities

The Port acquired the U.S. Customs House property on Terminal Island from the U.S. General Services Administration in 2005. The Port is aware of the fact that the U.S. Customs House facility is in need of asbestos abatement. The estimate for removal of asbestos materials and lead-based paint materials is $3,000,000. The Port would incur these asbestos removal costs if the Port's future use of the site requires demolition of the existing structure. Development of the site would require future Board action and approval. The Port has accrued the $3,000,000 asbestos removal liability in the financial statements as of June 30, 2007 and 2006.

(19) Westway Terminal Co., Inc. Settlement Agreement

Westway operates a marine liquid bulk terminal at the Port under a permit that expires in March 2025. On August 21, 2007, the City of Los Angeles approved the Port's Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement with Westway. Under the settlement, Westway's permit will be early terminated and Westway will vacate and surrender the premises on or before February 23, 2009. Within 30 days after the vacate and surrender date, the Port will pay Westway $17 million, less any applicable charges, as settlement payment. On August 21, 2007, the City (Port) assumed responsibility for the cleanup and abatement order that the Regional Water Quality Control Board had issued to Westway. On and after the vacate and surrender date, the City (Port) will assume responsibility for all claims, demands and damages related to the environmental conditions. Estimate of costs for any clean up and abatement of the property has not been determined.

PORT OF LOS ANGELES
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Capital Development Program Budget

Fiscal Year 2007/2008

(Unaudited)

(In thousands)

Project description		Estimated expenditure
Terminal Improvements, General	$	437
Minor Capital Projects		549
POLA Administrative Building Modifications		6,129
Environmental Assessment & Remediation		4,245
Container Cranes - General		1,652
World Cruise Center - General Improvements		16,117
Berth 161 - Maintenance - Yard Improvements		2,377
Wilmington Waterfront		9,290
Berths 97-115 Redevelopment		4,819
West Channel Cabrillo Beach Recreation Complex - Phase II		4,850
Harry S. Bridges Blvd. Improvement		708
Berths 142-147 Terminal Redevelopment		772
Pier 300 - Wharf & Backland Improvements		12,269
Pier 400 - Dredging, Landfill and Terminal Development		1,007
Berths 225-236 Container Terminal Redevelopment		1,112
Main Channel Deepening		6,655
Berths 115-131 Redevelopment		5,992
Waterfront Red Car Line		1,381
Future Port Development		4,263
Berths 212-225 Backland Development		2,375
New Derrick Barge		1,498
Harbor Wide Beautification Projects		2,817
San Pedro Waterfront Project - San Pedro Waterfront		27,703
Port-Wide Transportation Improvements		7,468
B. 206-211 Redevelopment		1,219
Pacific Energy Liquid Bulk Terminal		1,109
Port Security		11,181
Port-Wide Wharf Upgrade Program		232
LA Port Police Headquarters		11,992
San Pedro Waterfront Project - B. San Pedro Downtown Harbor		2,616
San Pedro Waterfront Project - B. 73 Fisherman's Wharf		637
San Pedro Waterfront Project - Ports-O-Call		11,596
Alternative Maritime Power Port-wide		5,957
B. 171-181 Terminal Redevelopment		1,813
B. 258 - 269 (Fish Harbor) Rehabilitation		3,610
San Pedro Slip Improvements		840
B. 191-194 Improvements		786
Other miscellaneous projects		254
Supplemental Engineering/Architectural Services		17,103
Total Estimated Capital Improvement Program Cost	$	**197,430**

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Schedule of Net Assets by Components

Last Ten Fiscal Years

(Unaudited)

(In thousands)

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net assets:											
Invested in capital assets, net of related debt	$	1,359,253	1,295,476	1,343,039	1,441,989	1,676,374	1,782,169	1,849,398	1,885,858	1,844,939	1,921,592
Restricted		207	197	204	29	195	95	17	16	63,917	62
Unrestricted		115,845	210,682	242,527	303,402	185,189	148,532	162,211	220,822	292,451	416,215
Total net assets	$	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869

PORT OF LOS ANGELES
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Schedule of Key Information on Revenue Statistics

Last Ten Fiscal Years

(Unaudited)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Rates:										
General cargo tariff rate	$ 5.15	5.15	5.67	5.67	5.67	5.95	5.95	5.95	6.25	6.25
Basic dockage rate (600')	2,033	2,033	2,236	2,236	2,236	2,236	2,348	2,348	2,465	2,465
Required rate of return	10.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Containerized cargo volume (in millions of TEUs)	3.15	3.51	4.37	4.99	5.63	6.70	7.35	7.27	7.80	8.66
Revenue tons (millions):										
General cargo	60.0	66.8	81.9	97.6	107.1	131.9	146.3	145.0	155.2	171.9
Liquid bulk	13.3	10.2	12.5	10.9	12.9	11.4	11.9	12.8	22.8	15.4
Dry bulk	4.6	5.1	7.1	5.4	6.2	4.2	3.9	4.3	3.6	2.8
Total	77.9	82.1	101.5	113.9	126.2	147.5	162.1	162.1	181.6	190.1
Vessel arrivals	2,569	2,683	3,060	2,899	2,778	2,845	2,812	2,646	2,771	2,920
Cruise passengers	961,187	998,086	1,110,053	1,073,357	1,099,552	1,057,293	803,308	1,097,204	1,205,947	1,194,984
Vehicles	326,274	272,348	388,619	312,248	314,986	347,067	213,933	242,024	232,149	144,068

PORT OF LOS ANGELES
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Summary of Revenues, Expenses, and Changes in Net Assets

Last Ten Fiscal Years

(Unaudited)

(In thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating revenues:										
Shipping services	$ 145,770	171,798	208,436	232,749	248,624	281,700	293,977	315,615	353,390	369,972
Rentals	39,655	37,494	35,594	36,554	34,691	36,563	33,261	34,630	33,876	40,322
Royalties, fees, and other operating revenues	4,485	3,329	5,059	4,195	5,362	5,013	5,016	5,384	4,893	6,867
Total operating revenues	189,910	212,621	249,089	273,498	288,677	323,276	332,254	355,629	392,159	417,161
Operating and administrative expenses:										
Salaries and benefits	38,001	39,863	35,274	39,554	40,682	44,427	53,165	58,182	65,705	74,313
Marketing and public relations	2,459	1,648	2,229	2,385	3,064	3,654	3,769	3,455	3,333	4,521
Travel and entertainment	655	567	557	716	713	658	758	743	822	604
Outside services	10,125	13,339	12,715	16,583	21,468	21,971	32,104	39,672	33,673	33,277
Material and supplies	4,115	3,373	3,069	3,108	3,508	3,771	4,682	5,320	5,400	5,813
City services and payments	33,741	20,574	22,961	20,395	19,210	18,525	18,729	22,361	20,821	28,640
Other operating expenses	4,831	7,549	7,189	7,275	10,632	55,409	16,967	41,158	54,378	16,607
Total operating and administrative expenses	93,927	86,913	83,994	90,016	99,277	148,415	130,174	170,891	184,132	163,775
Income from operations before depreciation	95,983	125,708	165,095	183,482	189,400	174,861	202,080	184,738	208,027	253,386
Depreciation	46,356	56,081	56,205	63,187	59,680	59,365	67,934	70,040	98,779	88,106
Operating income	49,627	69,627	108,890	120,295	129,720	115,496	134,146	114,698	109,248	165,280
Nonoperating revenues/(expenses):										
Income from investments in JPAs and other entities	4,182	1,662	2,146	4,485	4,912	3,717	2,795	3,543	4,302	4,675
Interest and investment income	7,706	11,041	12,432	20,092	11,003	11,430	2,298	7,266	9,582	23,773
Interest expense	(30,349)	(36,611)	(37,300)	(45,983)	(47,555)	(44,293)	(43,034)	(42,279)	(37,787)	(50,038)
Other income and expenses, net	(2,803)	(2,873)	(2,716)	(1,146)	(1,123)	(18,698)	(13,724)	11,842	7,222	11,018
Net nonoperating expenses	(21,264)	(26,781)	(25,438)	(22,552)	(32,763)	(47,844)	(51,665)	(19,628)	(16,681)	(10,572)
Income before capital contributions	28,363	42,846	83,452	97,743	96,957	67,652	82,481	95,070	92,567	154,708
Capital contributions	18,404	5,582	2,809	7,500	17,203	1,386	867	—	2,044	4,145
Special item	—	—	—	61,752	2,178	—	—	—	—	(22,291)
Deletions of capital contribution	—	(17,378)	(6,846)	(7,345)	—	—	(2,518)	—	—	—
Changes in net assets	46,767	31,050	79,415	159,650	116,338	69,038	80,830	95,070	94,611	136,562
Total net assets – beginning of year	107,696	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307
Total net assets – end of year	$ 154,463	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869

PORT OF LOS ANGELES
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Schedule of Revenue Tonnage by Trade Routes

Last Ten Fiscal Years

(Unaudited)

(In thousands of metric revenue tons)

Trade routes	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Far East	57,294	61,140	73,707	83,727	102,482	131,304	143,005	142,385	151,971	166,277
Domestic	15,403	9,770	9,905	9,465	10,979	10,171	8,808	8,408	15,941	9,750
Australia and New Zealand	3,311	2,629	2,797	2,755	3,233	3,004	3,649	3,716	4,204	4,577
Western Mexico, Central and Western S. America	3,198	3,317	2,960	3,185	2,332	2,246	2,077	1,797	1,360	1,586
India, Persian Gulf, and Red Sea	4,498	4,610	5,485	2,225	2,614	1,970	1,795	1,888	2,502	2,258
Eastern South America	944	722	1,665	1,009	1,665	988	754	1,099	1,409	800
Western Europe	1,885	1,727	1,496	1,953	1,671	882	960	1,128	1,752	1,642
Caribbean	968	853	930	860	676	612	1,102	1,369	1,432	1,273
Mediterranean	491	593	560	148	206	159	157	151	227	165
Africa	75	19	31	88	77	94	54	188	25	28
Advance Wharfage and Accruals	(10,141)	(3,252)	1,973	8,539	(2,523)	(3,887)	(292)	(20)	811	1,749
Total	77,926	82,128	101,509	113,954	123,412	147,543	162,069	162,109	181,634	190,105

Percentage of total volume Trade routes	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Far East	73.5%	74.4%	72.6%	73.5%	83.0%	89.0%	88.2%	87.8%	83.7%	87.5%
Domestic	19.8%	11.9%	9.8%	8.3%	8.9%	6.9%	5.4%	5.2%	8.8%	5.1%
Australia and New Zealand	4.2%	3.2%	2.8%	2.4%	2.6%	2.0%	2.3%	2.3%	2.3%	2.4%
Western Mexico, Central and Western S. America	4.1%	4.0%	2.9%	2.8%	1.9%	1.5%	1.3%	1.1%	0.7%	0.8%
India, Persian Gulf, and Red Sea	5.8%	5.6%	5.4%	2.0%	2.1%	1.3%	1.1%	1.2%	1.4%	1.2%
Eastern South America	1.2%	0.9%	1.6%	0.9%	1.3%	0.7%	0.5%	0.7%	0.8%	0.4%
Western Europe	2.4%	2.1%	1.5%	1.7%	1.4%	0.6%	0.6%	0.7%	1.0%	0.9%
Caribbean	1.2%	1.0%	0.9%	0.8%	0.5%	0.4%	0.7%	0.8%	0.8%	0.7%
Mediterranean	0.6%	0.7%	0.6%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Africa	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%
Advance Wharfage and Accruals	(13.0)%	(4.0)%	1.9%	7.5%	(2.0)%	(2.6)%	(0.2)%	(0.0)%	0.4%	0.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

PORT OF LOS ANGELES
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Summary of Debt Service Coverage (Pledged Revenue)

Last Ten Fiscal Years

(Unaudited)

(In thousands)

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating revenues (1)	$	189,910	212,621	249,089	273,498	288,677	323,276	332,254	355,629	392,159	417,161
Operating expenses (2)		93,927	86,913	83,994	90,016	99,277	148,415	130,174	170,891	184,132	163,775
Net available revenue (3) = (1) – (2)		95,983	125,708	165,095	183,482	189,400	174,861	202,080	184,738	208,027	253,386
Debt service, revenue bonds		53,353	53,343	53,336	53,333	54,310	54,097	57,994	58,515	58,673	71,117
Debt service, commercial papers						—	988	1,029	2,021	3,431	792
Total debt service (4)	$	53,353	53,343	53,336	53,333	54,310	55,085	59,023	60,536	62,104	71,909
Coverage (5) = (3) / (4)		1.8	2.4	3.1	3.4	3.5	3.2	3.4	3.1	3.3	3.5
Net cash flow from operations (6)	$	91,021	136,803	167,228	200,342	176,083	215,117	208,762	226,037	246,665	266,305
Coverage (7) = (6) / (4)		1.7	2.6	3.1	3.8	3.2	3.9	3.5	3.7	4.0	3.7

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

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

PORT OF LOS ANGELES
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Highlights of Operating Information

Last Ten Fiscal Years

(Unaudited)

(In millions)

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Cash:											
Cash & investments – Unrestricted	$	42.2	192.6	201.6	246.4	74.2	84.5	117.3	211.2	256.3	380.1
Cash & investments – Restricted		69.9	73.5	77.3	82.7	87.2	97.1	107.3	122.4	201.3	158.2
Property:											
Total property	$	2,578.3	2,576.8	2,675.5	2,810.9	3,120.2	3,346.0	3,471.4	3,556.1	3,664.0	3,760.6
Allowance for depreciation		425.7	480.1	535.0	594.0	653.4	711.8	764.2	833.7	931.3	1,034.2
Net property	$	2,152.6	2,096.7	2,140.5	2,216.9	2,466.8	2,634.2	2,707.2	2,722.4	2,732.7	2,726.4
Construction and maintenance:											
Additions to properties	$	177.5	0.3	542.3	154.2	330.4	227.8	208.0	85.3	109.3	104.2
Maintenance expenses		9.4	12.3	13.1	12.4	13.4	15.2	17.4	18.4	21.0	23.5
Employees:											
Salaries/benefits paid	$	38.8	38.5	37.5	39.0	41.2	43.9	48.9	53.0	56.9	64.9
Number of employees		611	577	541	542	557	594	634	659	706	737