

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Comprehensive Annual Financial Report
June 30, 2014 and 2013
(With Independent Auditor's Report Thereon)**



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

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014**

Table of Contents

	<u>Page</u>
Introductory Section	
Letter of Transmittal.....	1
Organizational Chart.....	4
Board of Commissioners and Management.....	5
Financial Section	
Independent Auditor's Report.....	6
Management's Discussion and Analysis (Unaudited).....	8
Financial Statements	
Statements of Net Position.....	40
Statements of Revenues, Expenses, and Changes in Net Position.....	42
Statements of Cash Flows.....	44
Notes to the Financial Statements (Index Page 46).....	47
Supplemental Information – Unaudited	
Ten-year Comparison	
Summary of Revenues, Expenses, and Changes in Net Position.....	107
Summary of Debt Service Coverage (Pledged Revenue).....	108
Revenues Statistics.....	109
Other Operating Information.....	110
Operating Expense Net of Direct and Indirect Costs.....	111
Capital Development Program Expenditures per Adopted Budget.....	113
Compliance Section	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	114



Introductory Section



Eric Garcetti	<i>Mayor, City of Los Angeles</i>				
Board of Harbor Commissioners	Ambassador Vilma S. Martinez <i>President</i>	David Arian <i>Vice President</i>	Patricia Castellanos	Anthony Pirozzi, Jr.	Edward R. Renwick
Eugene D. Seroka	<i>Executive Director</i>				

October 24, 2014

Mr. Eugene D. Seroka
Executive Director
Port of Los Angeles
San Pedro, California

This Annual Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2014 and 2013, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the fiscal years ended June 30, 2014 and 2013, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The report is presented in five sections: Introductory, Financial, 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 personnel.

The Financial Section includes the independent auditor's report. The Management's Discussion and Analysis presents a comparative review of financial position and changes in financial position for fiscal years 2014, 2013, and 2012. Also included in this section are a description of current and proposed capital development plans, a discussion of revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial statements are prepared on an accrual basis and use an economic resources measurement focus. The Financial Statements Section comprise statements of net position that present the financial position as of June 30, 2014 and 2013, statements of revenues, expenses, and changes in net position depicting financial performance for fiscal years 2014 and 2013, statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2014 and 2013, and notes to the financial statements. The accompanying notes to the financial statements explain some of the information in the financial statements and provide more detailed information, generally presented on a multiyear basis that further explain and support the information in the statements.

The Port of Los Angeles

The Port is a proprietary department of the City of Los Angeles (the City) and is held in trust by the City for the people of the State of California pursuant to a series of tidelands grants. The Port is operated independently from the City, generating its own revenues, and administering and controlling its own expenses and fiscal activities. The Port is governed by a five-member Board of Harbor Commissioners (the Board), subject to the oversight by the City Council, which has the duty to provide for the needs of maritime commerce, navigation, fishing and recreation and environmental activities that are water-related and are intended to be of statewide benefit. In accordance with generally accepted accounting principles (GAAP), the accompanying financial statements are included as an Enterprise Fund of the City, based upon the primary oversight responsibility that the City Council (the Council) and the City have on all matters affecting Port activities.

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

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups. These groups fall under the responsibilities of the Deputy Executive Director of Development, Deputy Executive Director of Finance & Administration, Deputy Executive Director of Operations, Deputy Executive Director of Business Development, and Deputy Executive Director of External Relations.

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

The Deputy Executive Director of Finance & Administration oversees the financial affairs as well as administrative side of the Port. Reporting to this position are the Finance section and five divisions comprised of Contracts and Purchasing, the Commission Office, Human Resources, Construction and Maintenance and Information Technology. The Finance section is headed by the Chief Financial Officer and is comprised of the following divisions: Accounting, Debt and Treasury Management, Financial Management, Management Audit, and Risk Management.

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

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

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

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

The Port is located 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 cargoes. The Port is a landlord to close to 300 entities. In addition to major terminal operators, other tenants include marinas, fish markets, boat repair yards, railroads, restaurants, and a shipyard.

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 approximately 80 shipping companies and agents with facilities that include 270 berthing facilities along 43 miles of waterfront.

In terms of its size and volume, the Port is one of the world's largest and busiest ports. The Port encompasses approximately 4,300 acres of land and 3,200 acres of water. The Port is a deep-water port with a minimum depth of 45 feet below mean low water mark and 53 feet in its main channel and at the bulk loader and supertanker channels. Two major railroads serve the Port.

The Port 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 handles the largest volume of containerized cargo of all U.S. ports, and additionally ranks as number one in cargo value for U.S. waterborne foreign traffic. The Port's major trading partners, concentrated along the Pacific Rim, include China/Hongkong, Japan, South Korea, Taiwan, and Vietnam. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port.

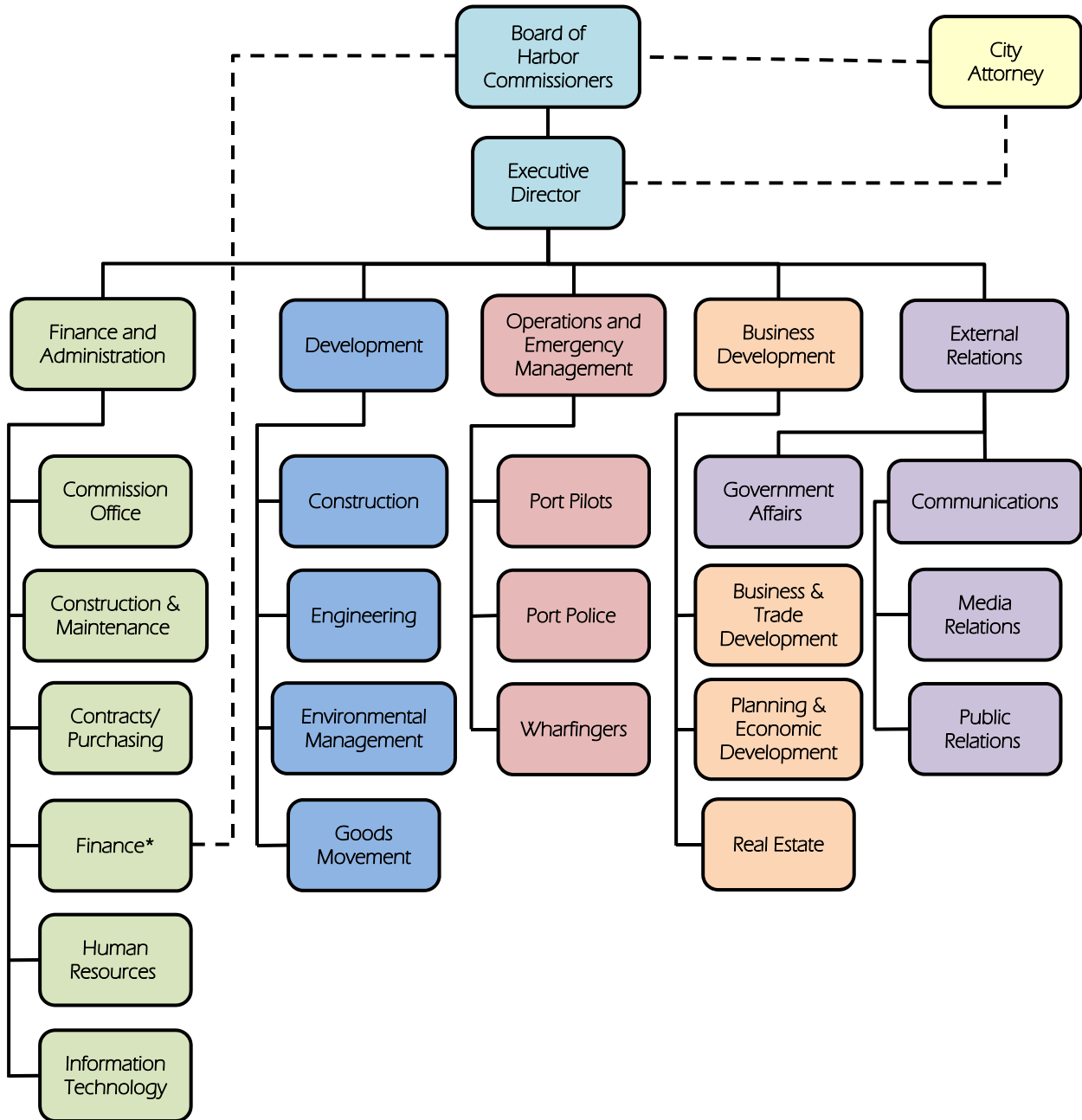
The Port must be financially self-sufficient through the revenues it generates as it has no taxing authority. When appropriate, it seeks to obtain State and Federal funding for defined projects. The Port continues to maintain an AA/Aa2/AA credit ratings with Standard & Poor's, Moody's, and Fitch Investor Services, respectively, with a "stable" outlook. These are the highest credit ratings for any stand-alone U.S. port.

Sincerely,



KARL K.Y. PAN
Chief Financial Officer

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**
Organizational Chart
Fiscal Year 2013-2014



*The Chief Financial Officer and Departmental Audit Manager have additional reporting responsibilities to the Board of Harbor Commissioners.

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



BOARD OF HARBOR COMMISSIONERS



Ambassador Vilma
S. Martinez
President



David Arian
Vice President



Patricia Castellanos
Commissioner



Anthony Pirozzi, Jr.
Commissioner



Edward R. Renwick
Commissioner

SENIOR MANAGEMENT



Eugene D. Seroka
Executive Director

Molly Campbell
Deputy Executive Director
Finance & Administration

Mike Christensen
Deputy Executive Director
Development

Cynthia Ruiz
Deputy Executive Director
External Relations

Ronald Boyd
Acting Deputy Executive Director
Operations

David Mathewson
Interim Deputy Executive Director
Business Development

MANAGEMENT STAFF

Theresa Adams Lopez
Director of Public Relations

Arley Baker
Senior Director of
Communications

Diane Boskovich
Chief Wharfinger

Ronald Boyd
Chief of Port Police

Christopher Cannon
Director of Environmental
Management

Tricia Carey
Director of Contracts &
Purchasing

Kerry Cartwright
Director of Goods Movement

Capt. Bent Christiansen
Pilot Service

Michael DiBernardo
Director of Business & Trade
Development

Tony Gioiello
Chief Harbor Engineer of Design

Annie Gregorio
Director of Accounting

Jack Hedge
Director of Real Estate

Julie Huerta
Commission Office

Lance Kaneshiro
Director of Information
Technology

Michael Keenan
Acting Director of Planning &
Economic Development

David Libatique
Senior Director of Governmental
Affairs

Tish Lorenzana
Director of Human Resources

Joe Maldonado/Tim Clark
Acting Directors of Construction &
Maintenance

Kathy Merkovsky
Director of Risk Management

Jim Olds
Director of Management Audits

Karl K.Y. Pan
Chief Financial Officer

Capt. Mike Rubino
Pilot Service

Soheila Sajadian
Director of Debt & Treasury

Phillip Sanfield
Director of Media Relations

Shaun Shahrestani
Chief Harbor Engineer of
Construction

Eileen Yoshimura
Director of Financial Management

CITY ATTORNEY STAFF

Janna Sidley
General Counsel



Financial Section



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2014 and 2013, and respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.





Emphasis of Matters

As discussed in note 1.A, the financial statements of the Port are intended to present the financial position, the changes in financial position and, and, where applicable, cash flows of only that portion of the business-type activities of the City of Los Angeles, California that is attributable to the transactions of the Port. They do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to the matters aforementioned.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 to 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Port's financial statements. The introduction and supplemental information sections as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 24, 2014, on our consideration of the Port's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports 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* in considering the Port's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'Simpson & Simpson'.

Los Angeles, California
October 24, 2014



Management's Discussion and Analysis

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Using This Financial Report

The management of the Port of Los Angeles (the Port) presents an overview of the Port's financial performance during the years ended June 30, 2014 and 2013. This discussion and analysis should be read in conjunction with the transmittal letter on pages 1-3 and the Port's financial statements starting from page 40.

The Port's financial report consists of this management's discussion and analysis (MD&A), and the following financial statements:

- *Statements of Net Position* – present information of all of the Port's assets, deferred outflow of resources and liabilities as of June 30, 2014 and 2013. The difference between assets, deferred outflows of resources and liabilities is reported as net position, which over time may increase or decrease and, serves as an indicator of the Port's financial position.
- *Statements of Revenues, Expenses, and Changes in Net Position* – present the results of operations during the current and prior fiscal year. These show the sources of the Port's revenues and its expenditures. Revenues and expenses were recorded and reported for some items that will result in cash flows in future periods. Changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows.
- *Statements of Cash Flows* – present the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. A reconciliation is also provided to assist in understanding the difference between operating income and cash flows from operating activities.
- *Notes to the Financial Statements* – present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of the Port's financial activities.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Overview of the Port's Financial Statements

The Port is a fiscally independent department and an enterprise fund of the City. The Port's financial statements are prepared on an accrual basis using the economic resources measurement focus in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The notes to the financial statements on pages 47 to 106 provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights for Fiscal Year 2014

- Current assets exceeded current liabilities by \$205.5 million.
- Capital assets, net of accumulated depreciation of \$1.6 billion amounted to \$3.8 billion.
- Application development costs of \$4.2 million for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System (ERP), was capitalized as Intangible Assets.
- Total assets and deferred outflows of resources exceeded total liabilities by \$3.1 billion.
- Bonded debt net of unamortized discounts/premiums of \$16.5 million, totaled \$781.0 million.
- Borrowings in the form of commercial paper totaled \$125.0 million.
- Operating revenue amounted to \$426.0 million.
- Net operating expenses excluding depreciation of \$124.2 million amounted to \$205.4 million.
- Capital contributions amounted to \$80.4 million.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Financial Highlights for Fiscal Year 2013

- Current assets exceeded current liabilities by \$265.5 million.
- Capital assets, net of accumulated depreciation of \$1.5 billion amounted to \$3.6 billion.
- Application development costs of \$ 8.2 million for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System (ERP), was capitalized as Intangible Assets. The ERP system went live in fiscal year 2013.
- Total assets and deferred outflows of resources exceeded total liabilities by \$2.9 billion.
- Bonded debt net of unamortized discounts/premiums of \$30.4 million, totaled \$821.1 million.
- Borrowings in the form of commercial paper continue to total \$100.0 million.
- Operating revenue amounted to \$397.4 million.
- Net operating expenses excluding depreciation of \$108.0 million amounted to \$205.2 million.
- Capital contributions amounted to \$17.6 million.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Analysis of Net Position

Net position is the difference between the Port's assets, deferred outflows of resources, and liabilities. Over time, increases or decreases in net position may serve as an indicator of whether the Port's financial position is improving or deteriorating. The following is a condensed summary of the Port's net position as of June 30, 2014, 2013, and 2012 (in thousands):

Condensed Net Position

	FY 2014	FY 2013	FY 2012	Increase (Decrease) Over Prior Year	
				FY 2014	FY 2013
Assets					
Current and other assets	\$ 422,527	\$ 536,621	\$ 653,844	\$ (114,094)	\$ (117,223)
Capital assets, net	3,764,716	3,551,505	3,358,320	213,211	193,185
Total assets	4,187,243	4,088,126	4,012,164	99,117	75,962
Deferred outflows of resources	5,073	5,660	6,726	(587)	(1,066)
Liabilities					
Current liabilities	138,750	188,219	167,256	(49,469)	20,963
Long term liabilities	989,012	1,021,216	1,075,506	(32,204)	(54,290)
Total liabilities	1,127,762	1,209,435	1,242,762	(81,673)	(33,327)
Net position					
Net investment in capital assets	2,863,795	2,634,840	2,397,744	228,955	237,096
Restricted for debt service	58,054	57,913	67,796	141	(9,883)
Unrestricted	142,705	191,598	310,588	(48,893)	(118,990)
Total net position	\$ 3,064,554	\$ 2,884,351	\$ 2,776,128	\$ 180,203	\$ 108,223

Net Position, Fiscal Year 2014

The largest portion of the Port's net position (\$2.9 billion or 93.4%) reflects its investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets). These assets are used for the construction, operation and maintenance of Port facilities. An additional portion of the Port's net position (\$58.1 million or 1.9%) represents resources that are restricted for debt service. The remaining balance of \$142.7 million or 4.7% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Current and other assets decreased by \$114.1 million or 21.3% from \$536.6 million in fiscal year 2013 to \$422.5 million in fiscal year 2014. Fluctuations in current and other assets result from: decrease in cash and investments of \$97.7 million, net decrease of \$11.6 million in accounts and grants receivables, increase of \$0.3 million in inventories and prepaid expenses, and decline of \$4.8 million in notes receivable.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasurer on behalf of the Port. The decrease of \$97.7 million from \$457.6 million at June 30, 2013 to \$359.8 million at June 30, 2014 resulted as the Port used portions of its cash for capital improvement activities and the redemption of bonds. Restricted cash and cash equivalents decreased by \$8.8 million due to payments made from the China Shipping Mitigation Funds of \$8.0 million to reimburse expenditures for improvement projects and \$0.9 million from the Clean Truck Restricted Funds for clean truck program expenses. At June 30, 2014, the Port's share in the mark to market valuation of the City's pooled investments totaled \$0.9 million. The Port reported additional investments of \$2.1 million from its share in the City's investment purchases on June 30, 2014, and \$0.4 million in securities lending transactions.

Higher cargo volume and revenues for the current fiscal year contributed to the \$7.1 million or 19.6% increase in net accounts receivable. Certain billings pertaining to a TEU rate increase remained uncollected due to ongoing negotiations with a tenant which contributed to the higher outstanding accounts receivable as well. Grants receivable decreased by \$18.7 million mainly due to the higher level of grant receipts in FY 2014 as the Port had received \$8.5 million from the State of California Emergency Management Agency for the Port and Maritime Security Grant Program and \$6.2 million from the U.S. Department of Homeland Security.

Capital assets, net of depreciation increased by \$213.2 million due to continued commercial and terminal development, various building and facilities improvements, and acquisition of equipment.

Current liabilities decreased by \$49.5 million or 26.3% mainly due to the decreases of \$43.9 million in accounts payable resulting from improved efficiency in payments, \$1.1 million lower obligations under securities lending transactions, and \$11.0 million in other current liabilities. The net decrease of \$11.0 million in other current liabilities mainly resulted from decreases of \$4.1 million in China Shipping and Community Aesthetic Mitigation liabilities, \$3.0 million in federal pass through grant liability, and \$1.6 million in pollution remediation liability. Please refer to pages 103-104 for additional information on the payments from the China Shipping and Community Aesthetic Mitigation Funds, and pages 83-85 for the decrease in pollution remediation liability.

These decreases were offset by \$4.8 million increase in accrued construction payable resulting from higher retention liabilities, \$1.2 million increase in accrued salaries and benefits and \$0.5 million increase in the current portion of notes, bonds payable and interest payable for the redemption of bonds.

Long-term liabilities decreased by \$32.2 million mainly due to lower bonds and notes payable of \$41.2 million and \$16.2 million decrease in other liabilities. These were offset by an increase of \$25.0 million obligation for commercial paper notes from additional issuance during the fiscal year. The decrease of \$16.2 million in other liabilities was mainly due to lower estimated pollution remediation liability. Additional information on the decrease in pollution remediation liability is found on pages 83-85.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Net Position, Fiscal Year 2013

The largest portion of the Port's net position (\$2.6 billion or 91.3%) reflects its investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets). These assets are used for the construction, operation and maintenance of Port facilities. An additional portion of the Port's net position (\$57.9 million or 2.0%) represents resources that are restricted for debt service. The remaining balance of \$191.6 million or 6.7% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Current and other assets decreased by \$117.2 million or 17.9% from \$653.8 million in fiscal year 2012 to \$536.6 million in fiscal year 2013. Fluctuations in current and other assets result from: decrease in cash and investments of \$107.6 million, net increase of \$2.3 million in accounts and grants receivables, decrease of \$0.1 million in inventories and prepaid expenses, and decline of \$4.7 million in notes receivable.

Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasurer on behalf of the Port. The decrease of \$107.6 million from \$565.2 million at June 30, 2012 to \$457.6 million at June 30, 2013 resulted as the Port used cash for construction activities, the redemption of bonds, and saw a decline in grant reimbursements. At June 30, 2013, the Port's share in the mark to market valuation of the City's pooled investments totaled \$0.9 million, a decrease of \$6.3 million from \$7.2 million in the prior fiscal year. The Port reported additional investments of \$3.9 million from its share in the City's investment purchases on June 30, 2013 and \$1.4 million in securities lending transactions.

Capital assets, net of depreciation increased by \$193.2 million due to continued commercial and terminal development, various building and facilities improvements, and acquisition of equipment.

Current liabilities increased by \$21.0 million or 12.5% mainly due to the increase of \$28.8 million in accounts payable resulting from timing differences in payments, \$1.4 million obligations under securities lending transactions and an increase of \$3.7 million in accrued salaries and benefits, offset by \$6.7 million decrease in the current portion of notes, bonds payable and interest payable due to the redemption of bonds and payment of loans, and decrease of \$5.8 million in other current liabilities. The net decrease of \$5.8 million in other current liabilities mainly resulted from decrease of \$1.6 million in China Mitigation liability, \$2.5 million lower Community Aesthetic Mitigation liability, decrease in shortfall liability of \$3.0 million to the Alameda Corridor Transportation Authority (ACTA), offset by \$3.9 million in accrual of investment purchases, increased pollution remediation liability of \$6.0 million and \$2.9 million additional federal pass through grant liability. Please refer to page 103 of the notes to the financial statements for additional information on the payments from the Community Aesthetic Mitigation Fund, and pages 83-85 for the increase in pollution remediation liability.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Long-term liabilities decreased by \$54.3 million mainly due to lower bonds and notes payable of \$47.1 million and \$6.4 million decrease in other liabilities. The decrease of \$6.4 million in other liabilities was mainly due to \$1.4 million lower workers' compensation liability, \$11.2 million decline in pollution remediation liability, offset by additional liability of \$3.2 million for demolition, restoration, and remediation of a property site resulting from a permit termination and mutual release agreement with Del Monte Corporation. Additional information on the \$11.2 million decline in pollution remediation liability is found on pages 83-85 of the notes to the financial statements.

Analysis of the Port's Activities

The following table presents condensed information showing how the Port's net position changed during fiscal years 2014, 2013 and 2012 (in thousands):

Condensed Statement of Net Position

				Increase (Decrease) Over Prior Year	
	FY 2014	FY 2013	FY 2012	FY 2014	FY 2013
Operating revenue	\$ 425,951	\$ 397,368	\$ 409,787	\$ 28,583	\$ (12,419)
Operating expenses	(205,354)	(205,169)	(199,806)	(185)	(5,363)
Operating income before depreciation and amortization	220,597	192,199	209,981	28,398	(17,782)
Depreciation and amortization	(124,221)	(108,037)	(100,485)	(16,184)	(7,552)
Operating income	96,376	84,162	109,496	12,214	(25,334)
Net nonoperating revenue (expenses)	(22,111)	1,186	(7,560)	(23,297)	8,746
Income before capital contributions	74,265	85,348	101,936	(11,083)	(16,588)
Capital contributions	80,374	17,630	31,307	62,744	(13,677)
Special Item	15,002	13,387	--	1,615	13,387
Changes in net position	169,641	116,365	133,243	53,276	(16,878)
Net position, July 1	2,884,351	2,776,128	2,642,885	108,223	133,243
Net adjustment for write off of bond issue costs	--	(8,142)	--	8,142	(8,142)
Net adjustment for prior year amortization of bond premium/discount	10,562	--	--	10,562	--
Net position July 1, restated	2,894,913	2,767,986	2,642,885	126,927	125,101
Net position, June 30	\$ 3,064,554	\$ 2,884,351	\$ 2,776,128	\$ 180,203	\$ 108,223

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Fiscal Year 2014

Net position for the Port posted a \$180.2 million or 6.2% increase in fiscal year 2014. Approximately \$417.4 million or 98.0% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating expenses were higher by \$0.2 million in fiscal year 2014 compared to the previous fiscal year.

Depreciation expense increased by \$16.2 million to \$124.2 million in fiscal year 2014 from \$108.0 million in fiscal year 2013, primarily due the addition of \$80.1 million in depreciable assets in fiscal year 2014.

Nonoperating revenues for fiscal year 2014 totaled \$21.0 million, while nonoperating expenses were \$43.1 million, thereby resulting in net nonoperating expenses of \$22.1 million. Net nonoperating revenues of \$21.0 million include \$2.1 million income from the investment in the Intermodal Container Transfer Facility Joint Powers Authority, \$4.7 million from interest and investment income from the Port's cash in the City's pooled investments, \$1.4 million from noncapital grants, \$6.8 million from pass through grant revenue, \$5.0 million from various rebates and reimbursements, and \$1.0 million miscellaneous other receipts. Nonoperating expenses of \$43.1 million include \$1.5 million interest on indebtedness, \$6.8 million pass through grant expenditures, \$33.7 million charges to expenses resulting from certain capitalized projects that were discontinued during the fiscal year, \$0.5 million loss on sale of assets, and \$1.2 million related to the costs of issuing commercial paper and maintaining the liquidity support for the program during the fiscal year.

As a result, income before capital contributions decreased by \$13.0 million or 15.3% to \$72.3 million in fiscal year 2014 from \$85.3 million in fiscal year 2013.

Capital contributions of \$80.4 million represented funds for capital grants obtained in fiscal year 2014, or an increase of \$62.7 million compared to the \$17.6 million received in fiscal year 2013. Capital grant reimbursements in fiscal year 2014 came from the California Transportation Commission for the Proposition 1B transportation projects (\$35.7 million), Metropolitan Transit Authority for the Trade Corridor Improvement project (\$17.8 million), U.S. Department of Homeland Security for the Integrated Command and Control Fiber Connectivity project (\$4.0 million), and U.S. Department of Transportation for various transportation projects (\$22.0 million).

In fiscal year 2014, the Port adjusted its beginning net position by \$10.6 million to reflect the cumulative effect of changing the method of amortizing bond premium and discount.

An adjustment of \$15.0 million for pollution remediation obligations was reflected as Special Item. Additional information on pollution remediation liability adjustment may be found on pages 83-85.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Fiscal Year 2013

Net position for the Port posted a \$108.2 million or 3.9% increase in fiscal year 2013. Approximately \$390.8 million or 98.3% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating expenses were higher by \$5.4 million or 2.7%.

Depreciation expense increased by \$7.6 million to \$108.0 million in fiscal year 2013 from \$100.5 million in fiscal year 2012, primarily due the net addition of \$148.2 million in net depreciable assets in fiscal year 2013.

Nonoperating revenues for fiscal year 2013 totaled \$19.6 million, while nonoperating expenses were \$18.4 million, thereby resulting in net nonoperating revenues of \$1.2 million. Net nonoperating revenues of \$1.2 million mainly include \$2.0 million income from investments in the Intermodal Container Transfer Facility Joint Powers Authority, \$0.8 million from interest and investment income from the Port's cash in the City's pooled investments, \$3.7 million from various rebates and reimbursements, and miscellaneous other receipts of \$0.4 million, offset by nonoperating expenses of \$2.5 million from interest on indebtedness, and \$2.3 million miscellaneous capital work order costs closed to expenses.

As a result, income before capital contributions decreased by \$16.6 million or 16.3% to \$85.3 million in fiscal year 2013 from \$101.9 million in fiscal year 2012.

Capital contributions of \$17.6 million represented funds for capital grants obtained in fiscal year 2013, or a decrease of \$13.7 million compared to the \$31.3 million received in fiscal year 2012. Federal capital grants decreased because the maximum grant awards for various projects have been used as of fiscal year 2013 and most of the American Recovery and Reinvestment Act (ARRA) grants are closing. Decreases in capital grants include \$7.5 million for the 2008 Prop B CA Port and Maritime Security Grant and \$3.3 million for Round 8 of the PSG Homeland Security Supplemental Projects Grant. Major ARRA grants that have closed or are closing include \$5.6 million in Port-wide fiber optic project and the Harry Bridges Boulevard improvement project.

In the fiscal year, the Port implemented GASB 65 which requires the charging to expenses of all debt issuance costs, except any portion related to prepaid insurance costs, in the period incurred. The Port adjusted its beginning net position by \$8.1 million to reflect the cumulative effect of applying this change.

An adjustment of \$13.4 million for pollution remediation obligations was reflected as Special Item. Additional information on pollution remediation liability adjustment may be found on pages 83-85.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

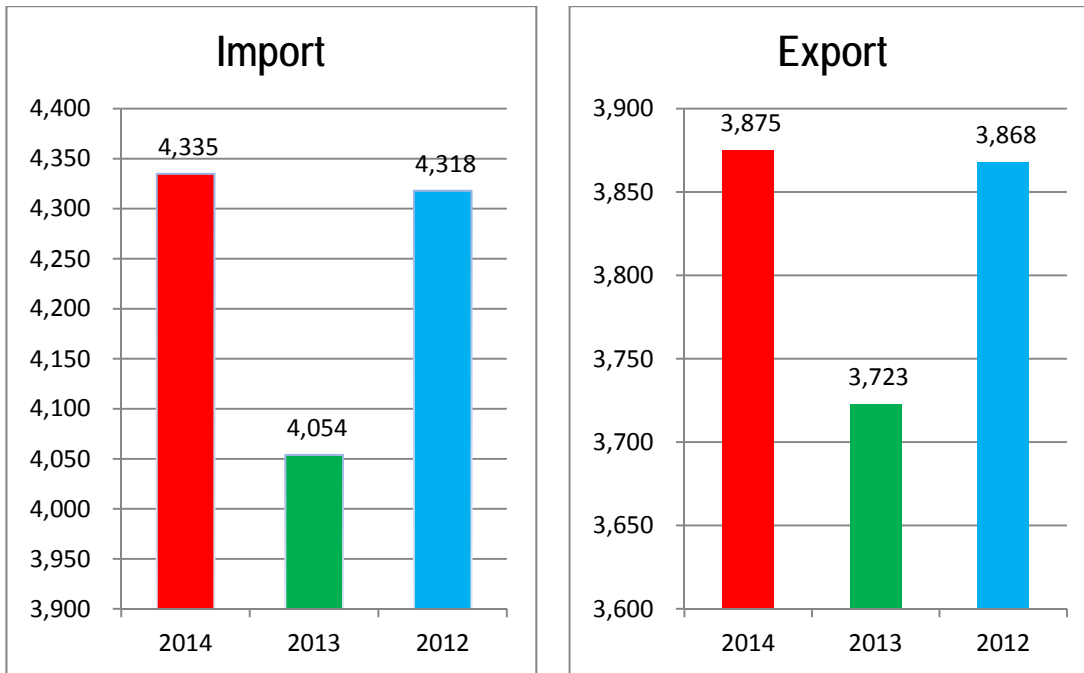
(Unaudited)

Operating Revenue

Annual container counts for the Port in twenty-foot equivalent units (TEUs) - a standard measurement used in the maritime industry for measuring containers of varying lengths for the last three fiscal years are as follows (in thousands):

Container Volume	In TEUs			% Change Over Prior Year	
	FY 2014	FY 2013	FY 2012	FY 2014	FY 2013
Import	4,335	4,054	4,318	6.9%	-6.1%
Export	3,875	3,723	3,868	4.1%	-3.7%
Total	8,210	7,777	8,186	5.6%	-5.0%

Following is the graphical presentation of the Port's container counts (in thousands TEUs) for fiscal years 2012 to 2014:



In Thousand TEUs

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

Management's Discussion and Analysis

June 30, 2014 and 2013

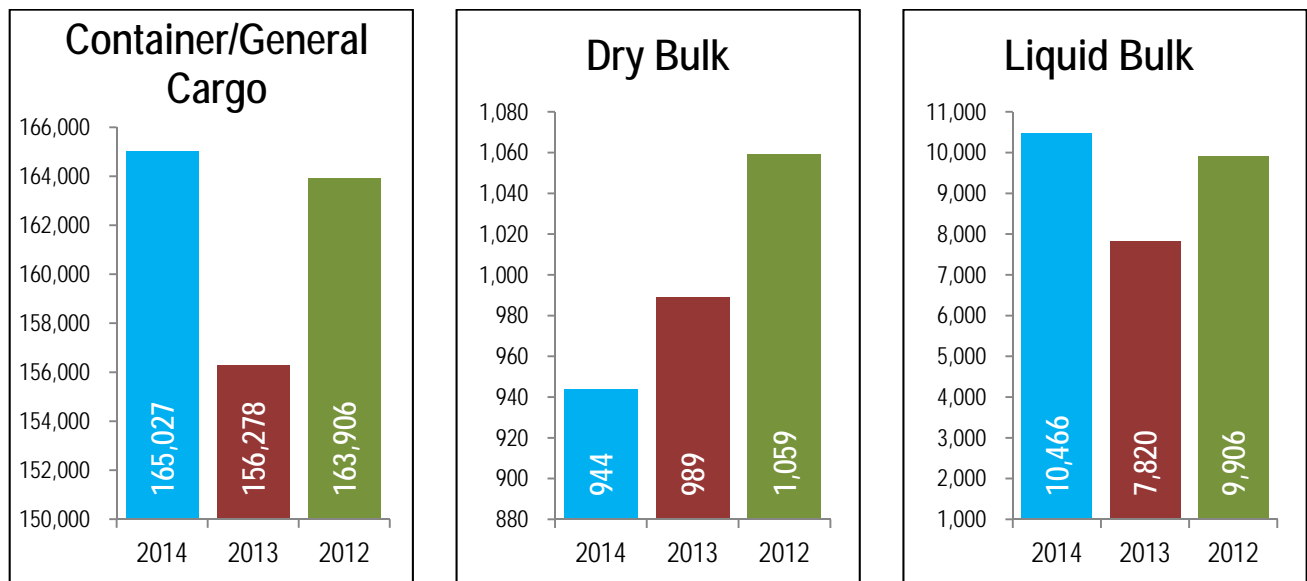
(Unaudited)

The Port is the leading seaport in North America in terms of shipping container volume. The following presents a summary of cargo volumes by major classification handled by the Port for the last three fiscal years (in thousands):

Cargo Type	In Metric Revenue Tons			% Change Over Prior Year	
	FY 2014	FY 2013	FY 2012	FY 2014	FY 2013
Container/general cargo	165,027	156,278	163,906	5.6%	-4.7%
Dry bulk	944	989	1,059	-4.6%	-6.6%
Liquid bulk	10,466	7,820	9,906	33.8%	-21.1%
Total	176,437	165,087	174,871		

Information for the cargo volume that moved through the Port for the last ten fiscal years is found in the supplemental information on page 109.

Following is the graphical presentation of the Port's cargo volumes for fiscal years 2012 to 2014 in thousand metric tons:



In Thousand Metric Tons

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

The Port is the number one port by container volume in North America. In fiscal year 2014, container volume improved as the U.S. economy continued to recover from the recession of 2008. In addition, the G6 Alliance that was established in February of 2013 also helped to induce increased cargo volumes through the Port. The G6 Alliance is a network of shipping companies that covers all three major East-West trade lanes and operates a total of 29 ship services. Five of the container-shipping lines (i.e., APL, Hapag-Lloyd, Hyundai, MOL and NYK) that are part of the G6 Alliance operate at the Port, helping to drive more cargo volumes.

The Port's biggest volume commodities include miscellaneous metal products comprising of steel, metal ingots, metal scrap, ferrous and pig iron. These types of goods decreased thereby resulting in lower dry bulk volume in fiscal year 2014.

In March 2014, a new bunker supplier started operations at the Port, significantly increasing the liquid bulk volume. This is a positive growth for the first time in three years and volume is expected to continue in the coming fiscal year. The stabilization of markets both for refined products and bunker fuel for ships also resulted in increased liquid bulk volume. The shift to a higher refined products volume was due to improved economic conditions and a significant increase in fuel efficient cars that had resulted in reduced demand for gasoline. Refiners are now finding alternative markets for refined products and diesel exports had begun to rise thereby adding to the growth in export markets. The last six months of fiscal year 2014 saw an increase of approximately 4 million barrels of diesel exports compared to the prior fiscal year.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

The Port's major sources of its operating revenue are derived from shipping services, rental fees, royalties and other concession fees. The following table presents a summary of the Port's operating revenues during fiscal years 2014, 2013 and 2012 (in thousands):

Summary of Operating Revenues

	FY 2014	FY 2013	FY 2012	Increase (Decrease) Over Prior Year	
				FY 2014	FY 2013
Shipping services					
Wharfage	\$ 350,928	\$ 322,821	\$ 333,757	\$ 28,107	\$ (10,936)
Dockage and demurrage	5,153	4,917	5,043	236	(126)
Pilotage	7,540	6,954	7,131	586	(177)
Assignment and other charges	13,592	13,184	11,785	408	1,399
Total shipping services	<u>377,213</u>	<u>347,876</u>	<u>357,716</u>	<u>29,337</u>	<u>(9,840)</u>
Rentals					
Land	38,189	38,856	40,127	(667)	(1,271)
Others	1,967	4,034	3,016	(2,067)	1,018
Total rentals	<u>40,156</u>	<u>42,890</u>	<u>43,143</u>	<u>(2,734)</u>	<u>(253)</u>
Royalties and other fees					
Fees, concession and royalties	2,767	1,744	1,866	1,023	(122)
Clean truck program fees	2,119	1,409	3,250	710	(1,841)
Others	3,696	3,449	3,812	247	(363)
Total royalties and other fees	<u>8,582</u>	<u>6,602</u>	<u>8,928</u>	<u>1,980</u>	<u>(2,326)</u>
Total operating revenues	<u>\$ 425,951</u>	<u>\$ 397,368</u>	<u>\$ 409,787</u>	<u>\$ 28,583</u>	<u>\$ (12,419)</u>

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

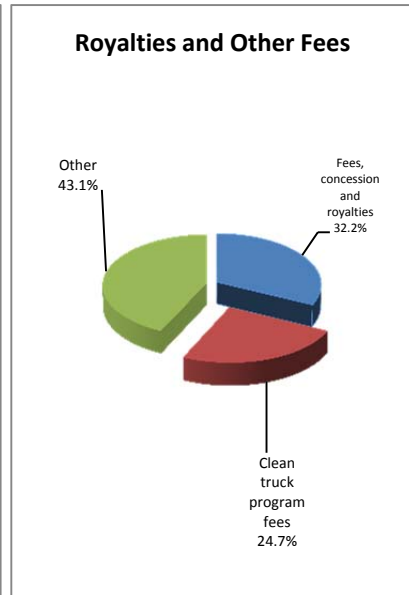
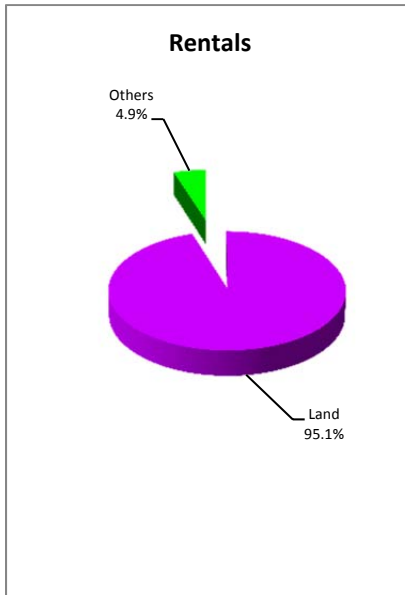
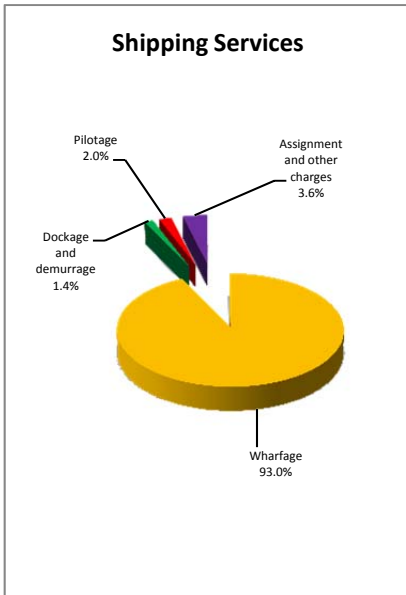
Management's Discussion and Analysis

June 30, 2014 and 2013

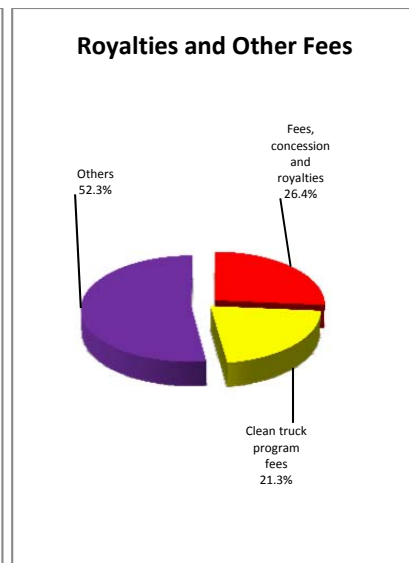
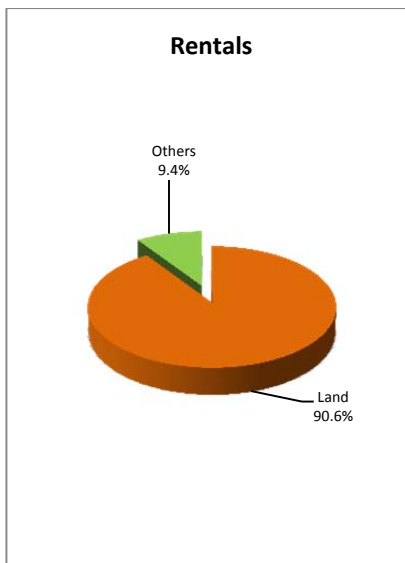
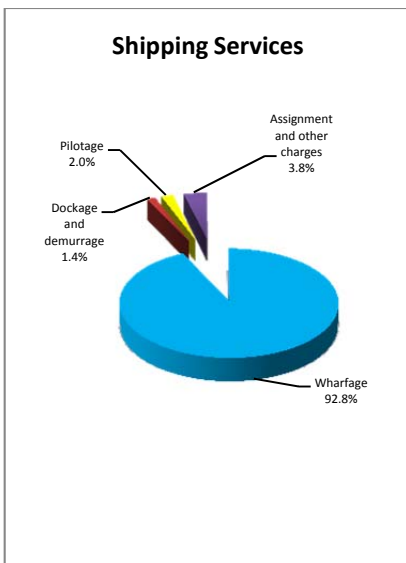
(Unaudited)

The following charts show the major components of the Port's sources of operating revenue for fiscal years 2014 and 2013:

Fiscal Year 2014



Fiscal year 2013



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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Operating Revenue, Fiscal Year 2014

Operating revenue for fiscal year 2014 increased to \$426.0 million, reflecting a 7.2% increase from the prior year revenue of \$397.4 million. As stated earlier, the Port derives its operating revenues primarily from shipping services, rentals, and fees from royalties, concessions and other fees.

Shipping Services

Shipping services revenues consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 93.0% of the total shipping service revenues in fiscal year 2014. Wharfage is the fee charged against merchandise for passage over wharf premises, to and from vessels, and barges. Wharfage is \$28.1 million higher compared to fiscal year 2013 mainly due to higher container cargo volume as measured in TEUs as both organic growth and, towards the latter part of the fiscal year, uncertainty over labor contract negotiations spurred cargo owners to stockpile goods. A general rate increase of 1.7% from July to November 2013 as well as scheduled TEU rate adjustments also contributed to the higher shipping services revenues. Net other shipping revenues were \$1.2 million higher as dockage and demurrage, pilotage and assignment revenues increased by \$0.2 million, \$0.6 million and \$0.4 million respectively. Increases in net other shipping revenues were due to more favorable contract terms to the Port with respect to cruise ships handling, and a 25% increase in the number of cruise vessels that called at the Port as well as more space assignments provided due to additional areas requested by terminal operators.

Rentals

The Port generates revenues from making available various types of rental properties such as land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. 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 taking into account the condition, location, utility, and other aspects of the property

During fiscal year 2014, rental income at the Port which represented 9.4% of fiscal year 2014 total operating revenues decreased by \$2.7 million, or 6.4%, over last fiscal year. Rental revenues from land, building, and warehouse facilities declined by \$2.8 million or 6.7% due to the cancellation of certain rental agreements. In addition, a one-time fee of \$0.7 million billed to the U.S. Customs House in fiscal year 2013 contributed to the higher rental revenue in the prior fiscal year. This decline in fiscal year 2014 was offset by higher rental revenues from wharves and sheds of \$0.1 million or 19.0% because of a 1.33% rent adjustment based on an increase in consumer price index.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Royalties, Fees, and Other Operating Revenue

The Port levies fees for a variety of activities conducted on the 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 from royalties, fees, and other operating revenues in 2014 was \$8.6 million or 2.0% of the total operating revenue. This represented a 30.0% increase or \$2.0 million more in this revenue category compared with fiscal year 2013. Revenues from fees and concessions were up by \$1.0 million mainly due to higher receipts from Temporary Entry and Use Permits and general engineering permit fees. Income from oil royalties went down because of a refund granted to Tidelands Oil Production Company for overpayment to the Port due to certain billing adjustment. Net other revenues increased by \$0.8 million due to higher receipts from utility reimbursements from customers for Alternative Marine Power (AMP) usage.

Operating Revenue, Fiscal Year 2013

Operating revenue for fiscal year 2013 decreased to \$397.4 million, reflecting a 3.0% decrease from the prior year revenue of \$409.8 million.

Shipping Services

Shipping services revenues consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 92.8% of the total shipping service revenues in fiscal year 2013. Wharfage is \$10.9 million lower compared to fiscal year 2012 mainly due to the drop in container cargo volume with the departure of one shipping string. Net other shipping revenues were \$1.1 million higher as space assignment revenues increased by \$1.4 million but were offset by \$0.3 million decreases in dockage, demurrage and pilotage revenues. Increase in space assignment revenues was due to additional areas requested by terminal operators.

Rentals

The Port generates revenues from making available various types of rental properties such as land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. 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 taking into account the condition, location, utility, and other aspects of the property.

During fiscal year 2013, rental income at the Port which represented 10.8% of fiscal year 2013 total operating revenues decreased by \$0.3 million, or 0.6%, over last fiscal year. Land rental was down \$1.3 million or 3.2% compared to prior year. The decrease in land rentals was primarily due to the loss of revenues from the termination of permit with Del Monte Corporation and the absence of the Port of Los Angeles High School property offset against scheduled increases in certain other permits.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Royalties, Fees, and Other Operating Revenue

Revenues from royalties, fees, and other operating revenues in 2013 was \$6.6 million or 1.7% of the total revenue. This represented a 26.1% decline or \$2.3 million less in this revenue category compared with fiscal year 2012. The decline was mainly due to a decrease of \$1.8 million in fees from noncompliant trucks under the Port's Clean Truck Program (CTP), as the collection of fees for non-compliant trucks ended in December of 2011.

Operating Expenses

The following table presents a summary of the Port's operating expenses, net of direct and indirect costs allocated to capitalized construction projects for fiscal years 2014, 2013 and 2012. Included in other operating expenses are expenses for workers compensation, clean truck program, pollution remediation, insurance premiums, travel and entertainment and miscellaneous other items:

**Operating Expenses, Net of Direct and Indirect Costs
(amounts in thousands)**

	FY2014	FY2013*	FY2012*	Increase(Decrease) Over Prior Year	
				FY2014	FY2013*
Salaries and benefits	\$ 112,053	\$ 101,861	\$ 98,614	\$ 10,192	\$ 3,247
City services	33,633	31,074	32,014	2,559	(940)
Outside services	26,331	29,690	27,660	(3,359)	2,030
Utilities	12,335	5,723	6,659	6,612	(936)
Materials and supplies	6,883	5,989	6,314	894	(325)
Marketing and public relations	2,711	2,877	3,177	(166)	(300)
Other operating expenses	11,408	27,955	25,368	(16,547)	2,587
Total Operating Expenses	\$ 205,354	\$ 205,169	\$ 199,806	\$ 185	\$ 5,363

*Certain information were reclassified to conform to current year's presentation.

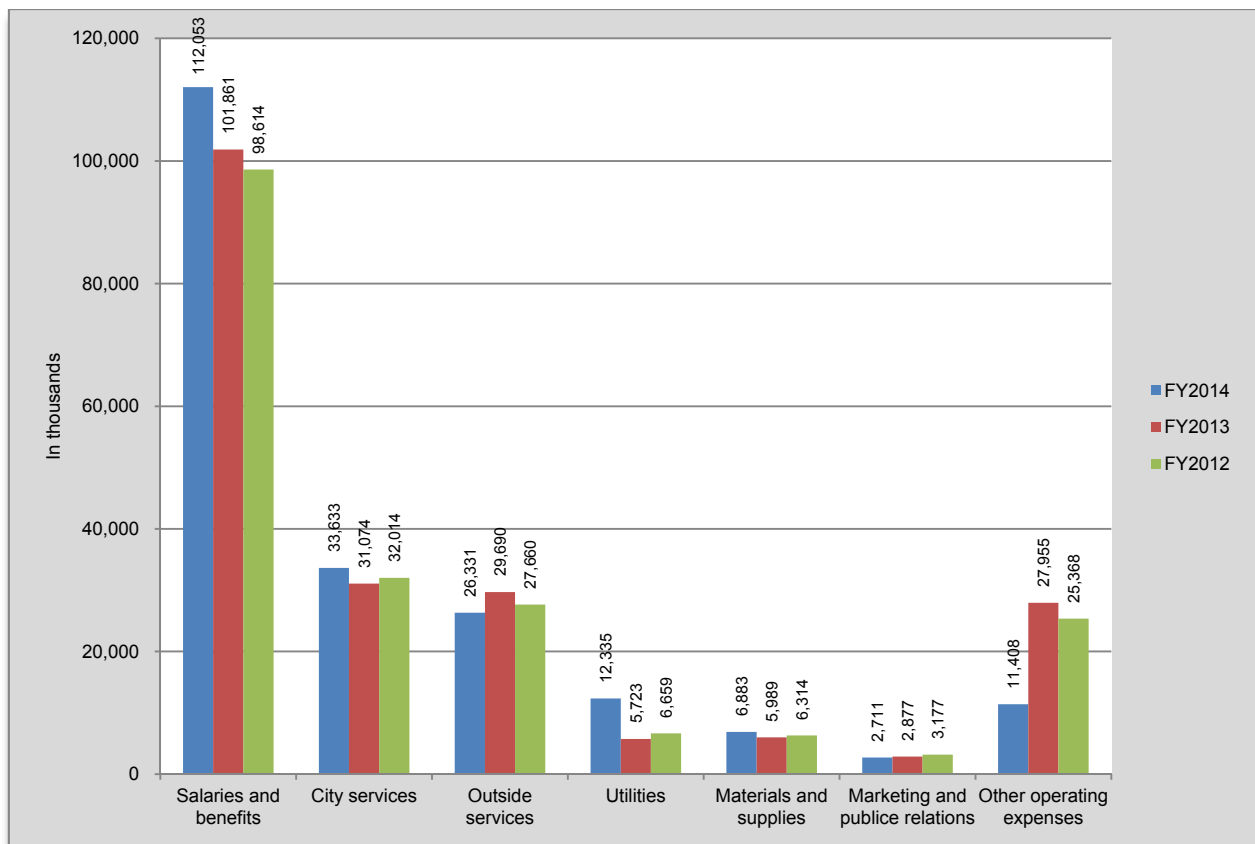
**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

The following chart shows the graphical comparison of the Port's operating expenses, net of direct and indirect costs, for fiscal years 2014, 2013 and 2012:



Fiscal Year 2014

Operating expenses were presented net of direct and indirect costs allocated to capitalized construction projects. Direct costs are costs of materials, labor, and expenses assigned or identified with specific capital projects. Indirect costs are overhead costs not directly identified with a particular capital project such as administrative expenses, maintenance costs and City services, and hence, are allocated based on the average outstanding balance of capitalized construction projects. Information on direct and indirect costs deducted from operating expenses and charged to capitalized construction projects are presented on pages 111-112 of the supplemental information section.

In fiscal year 2014, operating expenses increased by a nominal \$0.2 million to \$205.4 million, a 0.1% increase from prior fiscal year expense of \$205.2 million as the Port controlled its overall level of operating expenditures in light of rising salaries and benefits costs. Significant drivers in operating expenses include salaries and benefits, outside services, City services, utilities, materials and supplies and pollution remediation obligations.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Salaries and benefits expense increased by \$10.2 million to \$112.1 million, or 10.0% higher than prior year of \$101.9 million despite slightly lower average full-time filled positions of 939. Salaries and benefits rose primarily driven by an increase of \$2.8 million in salaries due to increases that ranged from 1.0% to 5.5% in cost of living allowances for employees covered by various MOUs and mandatory step salary increases. The costs of benefits increased as rising costs associated with the City's defined pension plan and health and dental insurance rose by \$2.3 million. The increase comprised of \$2.0 million or 9.6% in pension contributions, and \$0.3 million or 2.4% increase in medical and dental insurance costs. Allocation of salaries and benefits to capital projects decreased by \$4.2 million despite higher capital expenditures as Port staff time spent on capital projects declined.

Total payments for City services increased by \$2.6 million. The increase in City services payments resulted from \$2.2 million in higher salaries costs as the City employees providing services to the Port billed at higher rates in line with negotiated MOUs. Also contributing to the higher costs was \$0.9 million in higher payment to the Fire Department for the protection services given slightly higher CAP rates offset by a \$0.8 million refund for City Attorney services overbilling given the existence of furlough in the previous year. Indirect allocation to capitalized projects decreased by \$10.6 million as the level of indirect allocation is formula based against the level of direct allocation. Offsetting these higher costs were lower payment to the Department of Recreation and Parks of \$1.6 million due to completion of various projects, and decreased charges of \$3.1 million for utility costs, as well as net decrease of \$6.9 million in payments to the Department of Public Works due to reduced services.

Outside services decreased by \$3.4 million to \$26.3 million or 11.3% from prior year of \$29.7 million primarily due to the following: \$3.9 million lower spending for maintenance of building and grounds (\$1.9 million), open facilities and land (\$0.7 million), wharves and other facilities (\$1.3 million), \$0.6 million decline in maintenance and consulting needs for various computer hardware and software primarily because the ERP continues to stabilize requiring less configuration, \$5.0 million decline in expenditures for architectural and engineering design support services, lower hiring hall payments of \$1.5 million given greater reliance on Port staff and found efficiencies in certain maintenance activities, and \$5.3 million lower environmental assessment services as the Port reclassified certain projects to capital, fewer emergency hazardous waste response took place, and portions of the Clean Air Action Plan experienced lower costs. These decreases were offset by the following higher payments: \$0.7 million for dredging activities, \$1.1 million increase in Port security operations, and \$0.5 million additional legal services, and \$1.3 million for operations at the Cruise Terminal as the number of cruise ship calls increased over the previous fiscal year. Allocation of portions of outside services to capital projects declined by \$7.8 million as a result of the reversion of certain capital projects to expense, thereby resulting in higher operating expense charge for outside services.

Utilities increased by \$6.6 million to \$12.3 million or 115.5% from prior year of \$5.7 million mainly as a result of the additional \$4.2 million electricity consumption due to the full operation of the AMP program in fiscal year 2014, and \$1.0 million prior fiscal year usage paid in fiscal year 2014. Water and communications usage also increased by \$0.9 million during the year as new facilities required additional utility services.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Materials and supplies expenses increased by \$0.9 million to \$6.9 million or 14.9% from prior year of \$6.0 million due to \$0.4 million more purchases of equipment for security activity and the tools needed for the maintenance of additional infrastructure. Allocation to capital projects decreased by \$0.5 million resulting in higher expense charges.

Marketing and public relations expenses decreased by \$0.2 million to \$2.7 million or 5.8% from prior year of \$2.9 million as the Port refocused its strategy for marketing and public relations.

Other operating expenses decreased by \$16.5 million to \$11.4 million or 59.2% from prior year of \$28.0 million. This \$16.5 million decrease comprised of \$10.4 million related to pollution remediation as the latest estimation of certain remediation liability turned out to be lower. Other components included \$1.6 million for workers compensation as actuarial estimates of such costs, upon which the expense is based, have declined given the Port's improved record of safety, \$0.6 million in travel expenses as the Port realigned travel to be more in line with its strategic plan, and \$4.2 million miscellaneous other operating expense items. The \$4.2 million decline in other operating expense were mainly due to lower provision for doubtful accounts of \$1.4 million, and decline of \$1.3 million in payments for customer environmental subsidies and incentives and lower amounts of expenses allocated to capital projects.

Additional information regarding pollution remediation for these sites is found on pages 83-85 of the notes to the financial statements.

Fiscal Year 2013

In fiscal year 2013, operating expenses increased by \$5.4 million to \$205.2 million, a 2.7% increase from prior fiscal year expense of \$199.8 million. Significant drivers in operating expenses include salaries and benefits, outside services, City services, and pollution remediation obligations.

Salaries and benefits expense increased by \$3.2 million to \$101.9 million, or 3.3% higher than prior year of \$98.6 million. Fluctuations in salaries and benefits were caused primarily by the following: increase of \$2.3 million in salaries due to a 2.50% to 3.75% increase in cost of living allowances for Port employees covered by various MOUs effective July 1, 2012, \$0.5 million increase in medical and dental insurance costs; and \$0.8 million increase in overtime pay due to increased construction and capital projects workload. Allocation of portions of the cost of salaries and benefits to capital projects increased by \$0.5 million. Average full time employee headcount decreased by 2 to 952.

As part of its strategic plan to retain and increase market share, the Port spent \$2.9 million in domestic trade promotion, business, government and other commercial promotion expenses.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Outside services increased by \$2.0 million to \$29.7 million or 7.3% from prior year of \$27.7 million primarily due to higher professional, consulting and maintenance services for the following: \$0.9 million for wharves maintenance, \$0.8 million computer software services, \$4.0 million architectural and engineering design support services, and \$0.5 million legal fees. These increases were offset by decreases of \$2.7 million in environmental assessment service fees, \$1.0 million information systems consulting services and \$0.9 million in port security services.

Lower expenditures for maintenance, administrative and operating supplies mainly accounted for the decrease of \$0.3 million in materials and supplies expense.

Total payments for City services decreased by \$1.0 million. Fluctuations in City services payments were: \$4.6 million higher charges from the Department of Water and Power due to the charges for the Alternative Maritime Power project for Berths 136-139, 144 and 145-147, \$3.2 million increase in the Recreation and Parks Department charges because of timing difference in payments for services to various facilities, and \$0.5 million from the departments of Public Works, General Services and Personnel. These increases were offset by lower net payments of \$0.8 million to the City Attorney's Office, \$0.3 million to the City's Information Technology Agency, and allocation of \$12.0 million to various capital projects.

Litigation and settlement expenses were \$0.4 million in fiscal year 2013 due to claims for refunds of overpayment of certain rent and breach of contracts.

The increase of \$5.3 million in pollution remediation expenses was mainly due to remediation costs incurred in the current fiscal year as well as estimates for new pollution remediation sites including that of San Pedro Boat Works, Southwest Marine and the Total Maximum Daily Load Monitoring projects. Additional information regarding pollution remediation for these sites is found on pages 83-85 of the notes to the financial statements.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses include income from investment in a joint powers authority, interest income, and expenses along with receipts and expenditures related with noncapital grant as well as pass through grant awards. The following table presents a summary of the Port's nonoperating revenues and expenses for fiscal years 2014, 2013 and 2012:

Summary of NonOperating Revenues and Expenses
(amounts in thousands)

	FY 2014	FY 2013	FY 2012	Increase (Decrease) Over Prior Year	
				FY 2014	FY 2013
Nonoperating revenues					
Income from investments in					
Joint Powers Authorities	\$ 2,129	\$ 2,049	\$ 1,851	\$ 80	\$ 198
Interest and investment income	4,654	826	9,486	3,828	(8,660)
Other nonoperating revenue	14,176	16,731	14,167	(2,555)	2,564
Total nonoperating revenues	<u>20,959</u>	<u>19,606</u>	<u>25,504</u>	<u>1,353</u>	<u>(5,898)</u>
Nonoperating expenses					
Interest expense	1,530	2,473	10,538	(943)	(8,065)
Other nonoperating expenses	41,540	15,947	22,526	25,593	(6,579)
Total nonoperating expenses	<u>43,070</u>	<u>18,420</u>	<u>33,064</u>	<u>24,650</u>	<u>(14,644)</u>
Net nonoperating revenues (expenses)	<u>\$ (22,111)</u>	<u>\$ 1,186</u>	<u>\$ (7,560)</u>	<u>\$ (23,297)</u>	<u>\$ 8,746</u>

Fiscal Year 2014

Net nonoperating revenues (expenses) for fiscal year 2014 decreased by \$23.3 million from \$1.2 million in fiscal year 2013 to \$(22.1) million in fiscal year 2014.

Interest and investment income increased by \$3.8 million or 463.4% to \$4.7 million from the prior fiscal year's \$0.8 million due to higher interest earnings on investments.

Other nonoperating revenues mainly include noncapital grant and pass through grant revenues of \$1.4 million and \$6.8 million respectively, and \$2.2 million refund from South Coast Air Quality Management District for uncommitted funds related to the Clean Trucks Program.

Interest expense decreased by \$1.0 million to \$1.5 million from the prior fiscal year of \$2.5 million. The decrease was a result of the adjustment to the current fiscal year interest expense account arising from the change in amortizing bond discount/premium from straight line method to the effective interest method in compliance with the requirements of GASB 65.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Other nonoperating expenses increased by \$25.6 million in fiscal year 2014 mainly because \$33.7 million in various capital projects were cancelled during the year causing the expenditures previously capitalized to be expensed. Partially offsetting this increase was a \$4.7 million decrease in pass through grant expenses and \$2.6 million in miscellaneous rebates, refunds and reimbursements.

Fiscal Year 2013

Net nonoperating revenues (expenses) for fiscal year 2013 increased by \$8.7 million from \$(7.6) million in fiscal year 2012 to \$1.2 million in fiscal year 2013.

Interest and investment income decreased by \$8.7 million or 91.3% to \$0.8 million from the prior fiscal year's \$9.5 million due to lower interest earnings on investments and substantial mark to market loss on investments.

Interest expense decreased by \$8.1 million to \$2.5 million from the prior fiscal year of \$10.5 million. The Port redeemed its Series 2002A bonds and fully paid its \$1.4 million Boating and Waterways loans thereby decreasing interest expenses. Also, in fiscal year 2013, capitalized interest was \$35.7 million compared to \$30.6 million in fiscal year 2012, or a \$5.1 million higher interest capitalized to the construction in progress account resulting in lower interest charged to expenses.

Other nonoperating expenses decreased by \$6.6 million because in the prior fiscal year 2012, the Port recognized a loss on sale of the POLA High School of \$8.5 million.

Long-Term Debt

The Port's long-term debt comprises of senior debt in the form of Harbor Revenue Bonds, commercial paper, and subordinated debt in the form of a loan. As of June 30, 2014 and 2013, the Port's outstanding long-term debt was \$906.0 million and \$921.1 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, respectively. For its commercial paper, the ratings are P-1, A-1+, and F-1+, respectively.

Bonded Debt

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). The Port's financial policy requires that a minimum of 2.0x debt service coverage ratio be maintained at all times. At June 30, 2014, the Port's debt service coverage ratio stood was 3.4x using the additional bond test method as defined in its bond indentures.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

The Port's long-term debt consisted of the following as of June 30, 2014, 2013, and 2012 (in thousands):

	2014	2013	2012
Revenue bonds payable	\$ 780,993	\$ 821,130	\$ 873,488
Notes payable	--	--	1,366
Commercial paper	125,000	100,000	100,000
Total	<u>\$ 905,993</u>	<u>\$ 921,130</u>	<u>\$ 974,854</u>

Capital Assets

The Port's investment in capital assets, net of accumulated depreciation as of June 30, 2014, 2013 and 2012 amounted to \$3.8 billion, \$3.6 billion and \$3.4 billion, respectively. These accounted for 89.8%, 86.9%, and 83.7% of total assets, respectively. The following table presents the Port's capital assets, net of accumulated depreciation for fiscal years 2014, 2013 and 2012 (in thousands):

Summary of Capital Assets

	FY 2014	FY 2013	FY 2012	Increase(Decrease) Over Prior Year	
				FY 2014	FY 2013
Land	\$ 1,094,732	\$ 1,133,902	\$ 1,072,398	\$ (39,170)	\$ 61,504
Facilities and equipment, net	1,773,059	1,821,353	1,788,966	(48,294)	32,387
Intangible assets, net	24,657	20,942	16,953	3,715	3,989
Construction in progress	646,727	342,279	328,026	304,448	14,253
Preliminary costs-capital projects	225,541	233,029	151,977	(7,488)	81,052
Total	<u>\$ 3,764,716</u>	<u>\$ 3,551,505</u>	<u>\$ 3,358,320</u>	<u>\$ 213,211</u>	<u>\$ 193,185</u>

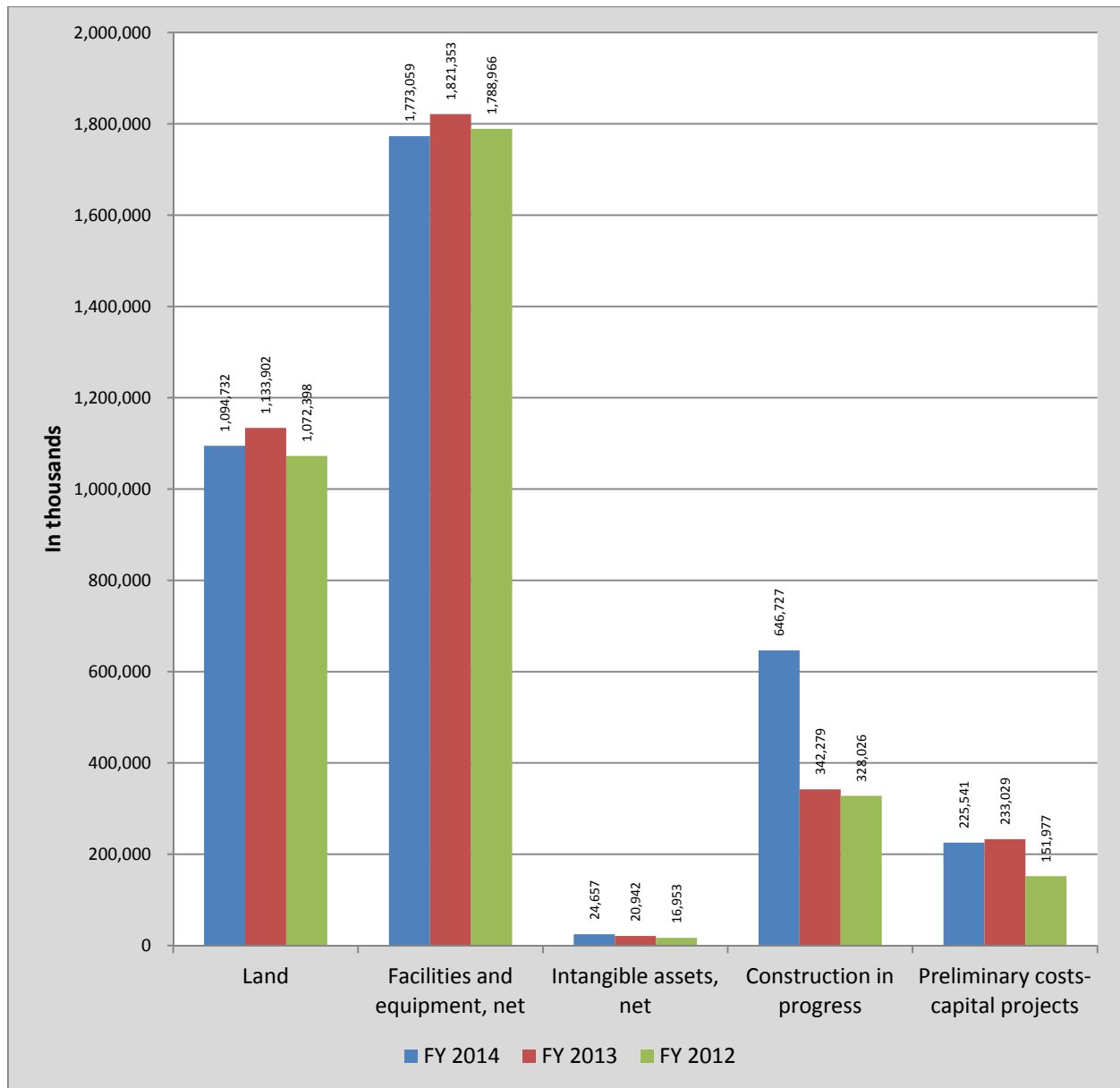
**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

The following chart shows the graphical presentation of the Port's capital assets for the fiscal years 2014, 2013 and 2012:



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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Fiscal Year 2014

Major capital assets activities during fiscal year 2014 are as follows:

- \$50.4 million - Port-wide AMP™ installations at Yang Ming, YTI, Everport, APL and APMT/CUT terminals.
- \$31.1 million - completion of 375 linear feet of expanded wharf, an AMP™ installation at Berth 100, and the development of approximately 37 acres of new backlands at the China Shipping Container Terminal (Berths 100-102).
- \$17.7 million - design and construction of a waterfront promenade, plaza and town square from Fire Station 112 to 6th Street at the Downtown Harbor.
- \$6.5 million - design and construction of the second phase of a fiber optic network around the Port complex.
- \$91.4 million - automatic stacking crane infrastructure at the TRAPAC (Berths 135-147) including backland grading and paving, utilities installation and design, and preliminary construction of the TRAPAC Administration building.
- \$61.0 million - design and construction of yard site, tracks, yard office building, diesel engine service facility and rail yard track connections at Berth 200 Rail Yard.
- \$33.0 million - design and construction of a grade separation in South Wilmington to carry vehicular traffic over railroad tracks to Port terminals.
- \$11.7 million – various transportation projects including C-Street/I-110 access ramp improvements, John S. Gibson Intersection/I-110 access ramp improvements, I-110/SR-47 connector improvements and Terminal Island street improvements.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Fiscal Year 2013

Major capital assets activities during fiscal year 2013 were as follows:

- \$19.0 million - Southwest Marine dry dock demolition.
- \$2.0 million - Acre backland development.
- \$39.6 million - Harry Bridges Boulevard improvement.
- \$16.8 million - construction and improvement of various wharves and terminals including facilities for the San Pedro Waterfront-Downtown water cut.
- \$94.3 million - improvement of various warehouses, buildings and facilities including \$4.7 million for E. Water St. building interior improvement, \$3.6 million for Phase 1A backland improvement, \$33.2 million for alternative marine power improvement, \$4.6 million for improvement of various administration buildings, \$3.7 million for demolition of liquid bulk terminal, \$21.7 million for Inner Cabrillo Beach water quality improvement; \$12.0 million for So. Pacific slip improvement in the San Pedro Waterfront, and \$8.5 million for the Southern California International Gateway project.
- \$1.4 million - Maritime Law Enforcement Training Center equipment.
- \$4.7 million - fiber optic network programs.
- \$3.6 million - Port Police Law Enforcement Resource Tracking system.
- \$4.0 million - Port Police headquarters, Port Police integrated command and control system and other security enhancement projects, and passenger complex perimeter security enhancement projects.
- \$8.2 million - application and development costs for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System.

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

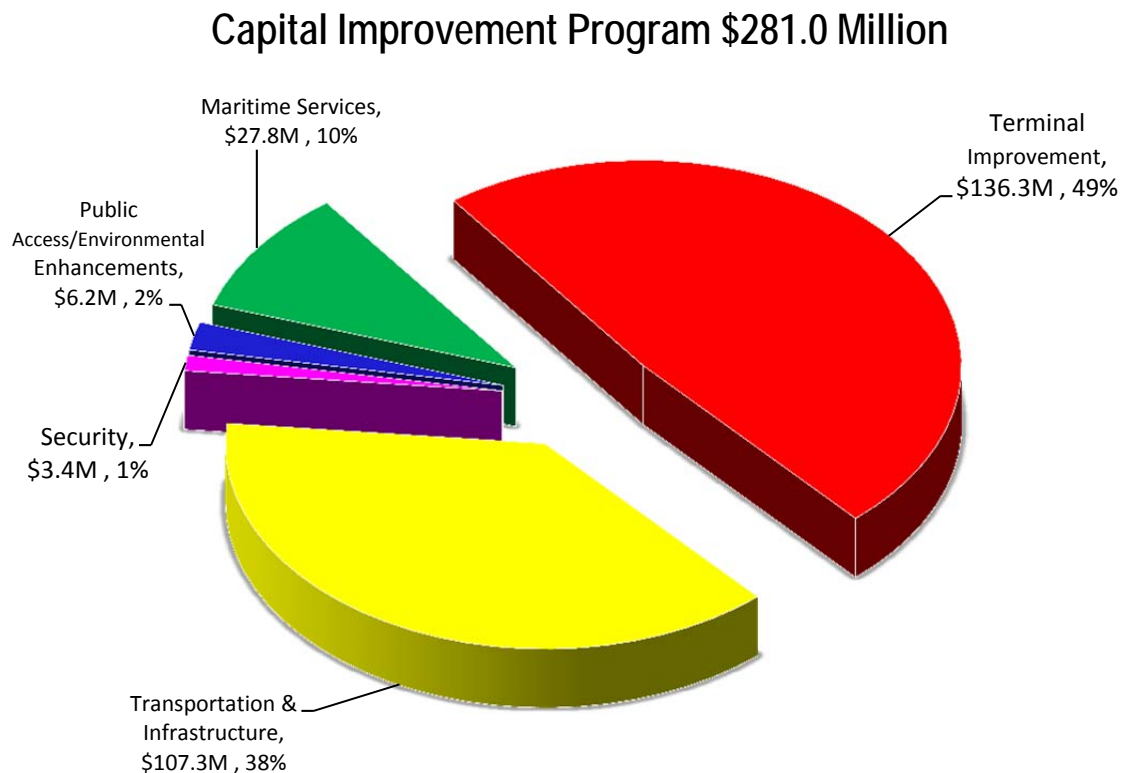
Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Capital Improvement Expenditures (CIP) for Fiscal Year 2015

The Port aims to continue to maintain its competitive edge and support the community and local economy by adopting a capital budget of \$349.9 million in fiscal year 2015. Comprising 37.3% of its total budget of \$938.8 million, the adopted capital expenditures include \$281.0 million of direct costs of capital improvement projects, indirect costs of \$62.9 million in allocated capitalized overhead and interest costs, and \$6.0 million for capital equipment. The adopted capital expenditures of \$281.0 million include \$136.3 million for terminal development projects, \$107.3 million for transportation and infrastructure projects, \$6.2 million for public access/environmental enhancement projects, \$3.4 million for security projects, and \$27.8 million for maritime services. Below is the graphical presentation of the fiscal year 2015 adopted capital improvement projects budget:



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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

The components of the CIP are as follows:

Terminal Development Projects

- Approximately \$136.3 million or 48.5% of the total CIP direct cost budget of \$281.0 million is dedicated to development projects at various Port terminals.
- \$100.4 million for projects at TraPac terminal, including \$24.8 million for a new main gate and administrative buildings, \$40.7 million for backland improvements, and the installation of automatic stacking crane infrastructure necessary to support future terminal automation, \$34.2 million for a new Intermodal Container Transfer facility to provide on-dock trail capabilities, and \$0.7 million for other terminal improvements.
- \$2.9 million for the expansion of China Shipping Container Terminal, including \$0.4 million for wharf expansion and an AMP installation at Berth 100, \$0.5 million for backland development, \$1.9 million for the design of marine operations and crane maintenance buildings and \$0.1 million designated for the relocation of Catalina Express.
- \$3.7 million for the improvement of Yang Ming Terminal, including \$1.6 million for wharf upgrade with new crane rails, \$0.2 million for the expansion of the West Basin Intermodal Container Transfer Facility, and \$1.9 million for environmental assessment and AMP installation.
- \$5.3 million for project planning and construction at the Everport Terminal including AMP installation, terminal equipment upgrades, and pavement resurfacing and striping.
- \$3.8 million for AMP installation and continued development of the APL Terminal including wharf extension, gate modifications, tank relocations, reefer additions, and backland development.
- \$3.6 million for redevelopment at the YTI Terminal including improvements at Berth 212 and 220, installation of AMP and fire alarm system replacement.
- \$11.5 million for the audit, design, and construction of upgrades at liquid bulk oil cargo handling facilities pursuant to the requirements of the State Lands Marine Oil Terminal Engineering Maintenance Standards.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Transportation and Infrastructure Projects

- Approximately \$107.3 million or 38.2% of the total CIP direct cost budget of \$281.0 million is designated for transportation improvement projects.
- \$35.5 million for the Berth 200 Rail Yard with its accompanying track connections which will facilitate more fuel-efficient, faster, and safer rail operations.
- \$27.9 million for the South Wilmington grade separation which will provide unimpeded grade-separated vehicular access to safety vehicles and residents.
- \$37.7 million for the improvement of vehicular traffic flow to and from the I-110 freeway.
- \$6.2 million for various transportation projects such as additional improvements at Harry Bridges Boulevard, vehicular directional signage improvements, and improvements of the rail crossing protection system.

Public Access and Environmental Enhancement Projects

- \$6.2 million for L.A. Waterfront projects including design for the Alta Sea Urban Marine Research & Innovation Center as well as the Sampson Way Roadway improvement project.

Port Security Projects

- \$3.4 million for the Fiber Optic project, IT Cyber Security Improvement project, Port Police Tactical Radio Communications Improvements, Port Police Headquarters audio visual system and Maritime Law Enforcement Training Center.

Maritime Services

- \$27.8 million of miscellaneous projects including the Berth 72 Municipal Fish Market renovation and other future projects.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Factors That May Affect the Port's Operations

There is significant competition for container traffic among North American ports. The availability of alternate port facilities at competitive prices affects the use of the Port's facilities and therefore the revenues of the Port. The Port cannot predict the scope of such impact.

All of the ports on the West Coast of the U.S. compete for discretionary intermodal cargo destined for locations across the U.S. and Canada. Discretionary cargo makes up approximately 50% of cargo arriving at the Port. Currently, this discretionary cargo moves eastward both by rail and through the Panama Canal. The use of all-water routes primarily through the Panama Canal to the East and Gulf Coasts of the U.S. is an alternative to Asian intermodal cargo moving through U.S. West Coast ports. The Panama Canal is in the process of expanding its locks with reports indicating that the opening of the new locks will take place in early 2016 as the widening and deepening of the lock chambers will allow ships of greater size to transit the Canal. The expansion creates a route to the East and Gulf Coast for ships of greater capacity than the current "Panamax" ships. While the effects of an expanded Canal are unknown, the Port has an existing ability to handle the New Panamax and Super Post-Panamax ships and continues to maintain and improve its strong infrastructure and intermodal capabilities.

The activities at the Port may generate air emissions that are subject to legal and regulatory requirements. Such requirements mandate and offer certain incentives for reductions of air pollution from ships, trains, trucks and other operational activities. Paying for mandated air pollution reduction infrastructure, equipment and other measures may become a significant portion of the Port's capital budget and operating budget. Such expenditures may be necessary even if the Port does not undertake any new revenue-generating capital improvements. The Port cannot provide assurances that the actual cost of the required measures will not exceed the forecasted amount.

Competitive Environment

As of fiscal year ended June 30, 2014, six major container ports controlled 99.2% of the entire U.S. West Coast containerized cargo market: 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 72.7% of all U.S. West Coast market share based on a loaded TEU basis.

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 permits at the Port that currently range from 15 to 30 years before expiry. Occupancy remains high and West Coast ports have limited land areas for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but also the most attractive point of origin for trans-shipments to points east as the Port has extensive on-dock rail facilities creating intermodal connections that provide for time-to-market advantages.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

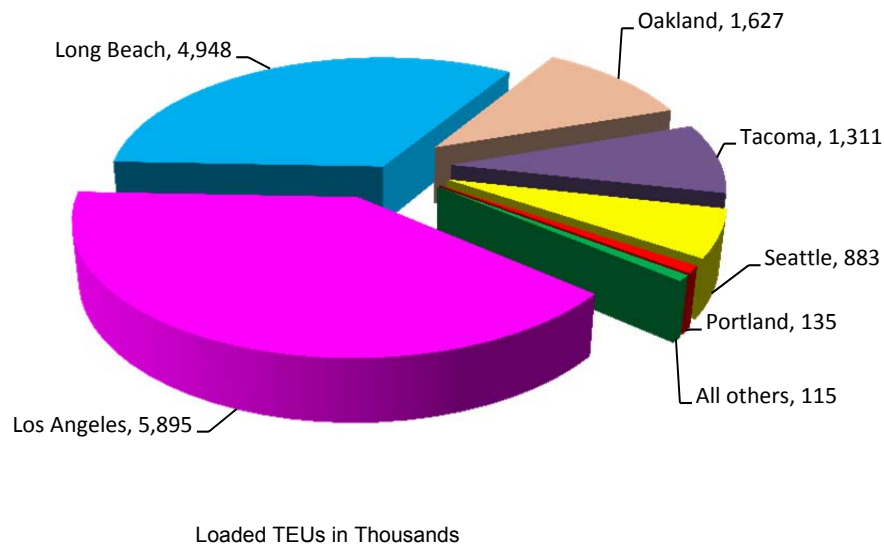
(Unaudited)

The following presents a summary of the West Coast container market share for fiscal years 2012 to 2014:

Ports	Loaded TEUs (in thousands)			Percentage Market Share		
	FY 2014*	FY 2013*	FY 2012*	FY 2014	FY 2013	FY 2012
Los Angeles	5,895	5,621	6,146	39.5%	38.8%	42.3%
Long Beach	4,948	4,705	4,238	33.2%	32.5%	29.2%
Oakland	1,627	1,569	1,573	10.9%	10.8%	10.8%
Tacoma	1,311	1,265	914	8.8%	8.7%	6.3%
Seattle	883	1,070	1,399	5.9%	7.4%	9.6%
Portland	135	139	157	0.9%	1.0%	1.1%
All others	115	114	97	0.8%	0.8%	0.7%
	<u>14,914</u>	<u>14,483</u>	<u>14,524</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Source: PIERS

Following is the graphical presentation of the West Coast container market share for fiscal year 2014:



Request for Information

This financial report is designed to provide a general overview of the Port of Los Angeles' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Karl K.Y. Pan, Chief Financial Officer, Port of Los Angeles (Harbor Department of the City of Los Angeles), 425 S. Palos Verdes St., San Pedro, CA 90731.



Financial Statements

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

**Statements of Net Position
June 30, 2014 and 2013
(amounts In thousands)**

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents, unrestricted	\$ 262,729	\$ 351,793
Cash and cash equivalents, restricted	29,234	38,066
Accounts receivable, net of allowance for doubtful accounts: 2014 - \$3,469; 2013 - \$5,170	43,283	36,200
Grants receivable	429	19,161
Materials and supplies inventories	2,606	2,054
Prepaid expenses	421	671
Accrued interest receivable	599	934
Current portion of notes receivable	4,947	4,803
Total current assets	344,248	453,682
Noncurrent Restricted Assets		
Restricted investments – bond funds	58,054	57,913
Other restricted cash and investments	9,826	9,787
Accrued interest receivable	2	3
Total noncurrent restricted assets	67,882	67,703
Capital assets		
Land	1,094,732	1,133,902
Facilities and equipment net of accumulated depreciation: 2014 - \$1,614,961; 2013 - \$1,496,429	1,773,059	1,821,353
Intangible assets, net of amortization: 2014 - \$703; 2013 - \$203	24,657	20,942
Construction in progress	646,727	342,279
Preliminary costs – capital projects	225,541	233,029
Total capital assets	3,764,716	3,551,505
Notes receivable	5,182	10,150
Investment in Joint Powers Authorities	5,215	5,086
TOTAL ASSETS	4,187,243	4,088,126
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	5,073	5,660
		continued.....

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

**Statements of Net Position
June 30, 2014 and 2013
(amounts In thousands)**

	2014	2013
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 26,098	\$ 69,966
Current maturities of notes payable and bonded debt	27,270	26,235
Accrued interest payable	16,073	16,564
Accrued salaries and employee benefits	15,625	14,461
Obligations under securities lending transactions	357	1,447
Accrued construction cost payable	6,475	1,658
Other current liabilities	46,852	57,888
Total current liabilities	138,750	188,219
Long-term liabilities		
Long-term liabilities payable from unrestricted assets		
Bonds payable, net of unamortized discount/premium:		
2014 - \$16,488; 2013 - \$30,390	753,723	794,895
Commercial paper	125,000	100,000
Accrued salaries and employee benefits	11,740	11,559
Other liabilities	88,997	105,201
Total long-term liabilities payable from unrestricted assets	979,460	1,011,655
Long-term liabilities payable from restricted assets	9,552	9,561
Total long-term liabilities	989,012	1,021,216
TOTAL LIABILITIES	1,127,762	1,209,435
NET POSITION		
Net investment in capital assets	2,863,795	2,634,840
Restricted for debt service	58,054	57,913
Unrestricted	142,705	191,598
TOTAL NET POSITION	\$ 3,064,554	\$ 2,884,351

See accompanying notes to financial statements.

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

**Statements of Revenues, Expenses, and Changes in Net Position
For the Years ended June 30, 2014 and 2013
(amounts In thousands)**

	2014	2013
OPERATING REVENUE		
Shipping services		
Wharfage	\$ 349,953	\$ 322,708
Dockage	4,930	4,689
Demurrage	223	228
Lay day fees	975	113
Pilotage	7,540	6,954
Assignment charges	13,592	13,184
Total shipping services	377,213	347,876
Rentals		
Land	38,189	38,856
Buildings	1,211	2,103
Warehouses	180	1,447
Wharf and shed	576	484
Total rentals	40,156	42,890
Royalties, fees, and other operating revenues		
Fees, concessions, and royalties	2,767	1,744
Clean truck program fees	2,119	1,409
Oil royalties	--	567
Other	3,696	2,882
Total royalties, fees, and other operating revenues	8,582	6,602
Total operating revenue	425,951	397,368
OPERATING EXPENSES		
Salaries and benefits	112,053	101,861
City services	33,633	31,074
Outside services	26,331	29,690
Utilities	12,335	5,723
Materials and supplies	6,883	5,989
Pollution remediation expenses	1,269	11,635
Marketing and public relations	2,711	2,877
Workers' compensation, claims and settlement	1,959	3,550
Clean truck program expenses	1,100	934
Travel and entertainment	548	1,139
Other operating expenses	6,532	10,697
Total operating expenses before depreciation	205,354	205,169
Operating Income before depreciation - forwarded	220,597	192,199

continued....

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

**Statements of Revenues, Expenses, and Changes in Net Position
For the Years ended June 30, 2014 and 2013
(amounts in thousands)**

	2014	2013
Operating Income before depreciation - forwarded	\$ 220,597	\$ 192,199
Depreciation	124,221	108,037
OPERATING INCOME	96,376	84,162
NONOPERATING REVENUE (EXPENSES)		
Nonoperating revenue		
Income from investments in Joint Powers Authorities	2,129	2,049
Interest and investment income	4,654	826
Non capital grant revenue	1,368	1,029
Pass through grant revenue	6,823	11,551
Other nonoperating revenue	5,985	4,152
Total nonoperating revenue	20,959	19,607
Nonoperating expenses		
Interest expense	(1,530)	(2,473)
Pass through grant expenses	(6,823)	(11,551)
Discontinued capital projects	(32,949)	--
Other nonoperating expenses	(1,768)	(4,397)
Total nonoperating expenses	(43,070)	(18,421)
Net nonoperating revenue (expenses)	(22,111)	1,186
INCOME BEFORE CAPITAL CONTRIBUTIONS	74,265	85,348
Capital contributions	80,374	17,630
Special item	15,002	13,387
CHANGES IN NET POSITION	169,641	116,365
NET POSITION, JULY 1	2,884,351	2,776,128
Net adjustment for write off of prior period bond issue costs	--	(8,142)
Net adjustment for prior year amortization of bond premium/discount	10,562	--
Net position July 1, restated	2,894,913	2,767,986
NET POSITION, JUNE 30	\$ 3,064,554	\$ 2,884,351

See accompanying notes to financial statements.

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

**Statements of Cash Flows
Years ended June 30, 2014 and 2013
(amounts in thousands)**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Shipping service fees collected	\$ 370,942	\$ 345,640
Rentals collected	39,488	42,614
Royalties, fees, and other operating revenues collected	8,439	6,561
Payments for employee salaries and benefits, net of capitalized amounts: 2014 - \$24,199; 2013 - \$21,080	(110,709)	(105,470)
Payments for goods and services	(176,876)	(55,111)
Net cash provided by operating activities	131,284	234,234
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITY		
Proceeds from noncapital grants	1,368	1,029
Net cash provided by noncapital and related financing activity	1,368	1,029
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for property acquisitions and construction	(298,149)	(268,540)
Proceeds from sale of capital assets	188	87
Proceeds from capital grants	99,106	17,930
Net proceeds from issuance of commercial paper notes	25,000	--
Principal repayment, redemption, and defeasance – bonds	(26,235)	(49,385)
Principal repayment – notes	--	(1,366)
Payments from (to) bond sinking fund	(141)	8,661
Interest paid	(39,246)	(41,186)
Net cash used in capital and related financing activities	(239,477)	(333,799)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	4,969	7,020
Cash collateral received (paid) under the securities lending transactions	(1,090)	1,447
Increase (decrease) in fair value of investments	(19)	(6,267)
Purchase of investments	(1,755)	(8,081)
Net payments received on notes receivable	4,824	4,685
Distribution from Joint Powers Authorities	2,000	2,000
Net cash provided by (used in) investing activities	8,929	804
NET DECREASE IN CASH AND CASH EQUIVALENTS	(97,896)	(97,732)
CASH AND CASH EQUIVALENTS, JULY 1	389,859	487,591
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 291,963	\$ 389,859

continued.....

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

**Statements of Cash Flows
Years ended June 30, 2014 and 2013
(amounts in thousands)**

	2014	2013
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and cash equivalents, unrestricted	\$ 262,729	\$ 351,793
Cash and cash equivalents, restricted	<u>29,234</u>	<u>38,066</u>
Total cash and cash equivalents	<u>\$ 291,963</u>	<u>\$ 389,859</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	<u>\$ 96,376</u>	<u>\$ 84,162</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	124,221	108,037
Provision for doubtful accounts	(1,545)	(137)
Changes in assets and liabilities		
Accounts receivable	(5,537)	(2,417)
Materials and supplies inventories	(552)	49
Prepaid and other assets	250	331
Accounts payable	(43,868)	31,374
Accrued salaries and employee benefits	1,345	3,993
Other deferred credits and other liabilities	<u>(39,406)</u>	<u>8,842</u>
Total adjustments to reconcile operating income to net cash provided by operating activities	<u>34,908</u>	<u>150,072</u>
Net cash provided by operating activities	<u>\$ 131,284</u>	<u>234,234</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets with construction payable	\$ 6,475	\$ 1,658
Acquisition of capital assets with accounts payable	3,103	732
Write-off of discontinued construction projects	33,718	2,332
Capitalized interest expense, net	34,466	35,720

See accompanying notes to financial statements.

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

Notes to the Financial Statements

June 30, 2014 and 2013

The Notes to the Financial Statements include disclosures considered necessary for a better understanding of the accompanying financial statements. An index to the Notes follows:

	<u>Page</u>
Note 1 - Organization and Summary of Significant Accounting Policies.....	47
Note 2 - Adoption of new GASB Pronouncements.....	52
Note 3 - Recent GASB Pronouncements.....	53
Note 4 - Cash and Investments	53
Note 5 - Capital Assets	62
Note 6 - Investment in Joint powers Authorities and Other Entities.....	64
Note 7 - Long-Term Liabilities	66
Note 8 - Changes in Long-Term Liabilities.....	82
Note 9 - GASB 49 Pollution Remediation Obligations.....	83
Note 10 - Employee-Deferred Compensation Plan.....	86
Note 11 - Risk Management.....	86
Note 12 - Leases, Rentals, and Minimum Annual Guarantee (MAG) Agreement.	87
Note 13 - Los Angeles City Employees Retirement System.....	89
Note 14 - City of Los Angeles Fire and Police Pension System.....	94
Note 15 - Notes Receivable	98
Note 16 - Commitments, Litigations and Contingencies	100
Note 17 - Related-Party Transactions.....	103
Note 18 - Capital Contributions.....	103
Note 19 - Natural Resources Defense Council Settlement Judgment.....	103
Note 20 - Cash Funding of Reserve Fund.....	104
Note 21 - Special Item.....	105
Note 22 - Subsequent Events.....	105

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

Notes to the Financial Statements

June 30, 2014 and 2013

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 generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port’s significant 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 (the City), formed for the purpose of providing shipping, fishing, recreational, and other resources and benefits for the enjoyment of the citizens of California. The Port is under the control of a five-member Board of Harbor Commissioners (BHC), who are appointed by the Mayor and approved by the City Council. The Port is administered by an Executive Director, subject to the State of California Tidelands Trust Act.

Most of the property on which the Port’s land, docks, wharves, transit shed, terminals, and other facilities are located is owned by the City and administered by the Port, subject to a trust created pursuant to certain tideland grants from the State. 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.

The Port prepares and controls its own financial plan, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port operates as principal landlord for the purpose of assigning or leasing port facilities and land areas. The Port’s principal source of revenue is from shipping services under tariffs (dockage and wharfage, etc.), rental of land and facilities, fees (parking and foreign trade zones), and royalties (oil wells). Capital construction is financed by cash from operations, and debt secured by future revenues and federal and state grants. The Port’s permanent work force attends to the daily operation of the Port facilities and its regular maintenance. Generally, the Port uses commercial contractors for large construction projects.

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 by applying the criteria set forth by the GASB. The financial statements present only the financial activities of the Port in conformity with GAAP and are not intended to present the financial position and results of operations of the City.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Reporting Entity

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 in undertaking financing third party capital expenditures at potentially advantageous terms that the BHC deems necessary for the promotion and accommodation of commerce.

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the BHC. The BHC is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, it is reported as if it were part of the Port, because its sole purpose is to help finance and construct facilities and improvements, related to Port activities.

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. There are current or recent activity related to LAHIC.

B. Summary of Significant Accounting Policies

Method of Accounting – The Port activities are 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 the related liabilities are incurred.

Cash, Cash Equivalents, and Investments – The Port pools its available cash with that of the City. All cash and investments pooled with the City, plus any other cash deposits or investments with initial maturities of three months or less are considered cash and cash equivalents.

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 average daily cash balances to aggregate pooled cash and investments. 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.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Securities Lending – As a participant in the City's Investment Pool, the Port's funds are also part of the City's securities lending program (SLP). The investment collateral received by the City together with the corresponding liability is allocated among the City's participating funds using the same basis as that of allocating interest income and realized gains or losses.

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

Capital Assets – Capital assets are carried at cost or at appraised fair value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation. The Port has a capitalization threshold of \$5,000. Capital assets include intangible assets for the Port's radio frequency and emission mitigation credits, and capitalized costs of the new enterprise resource planning system.

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. Preliminary costs - capital projects for fiscal years 2014 and 2013 are \$225.5 million and \$233.0 million, respectively.

The Port capitalizes interest costs incurred on indebtedness issued in connection with the acquisition, construction or improvement of capital assets, net of interest revenue on reinvested debt proceeds. Interest capitalized in fiscal years 2014 and 2013 were \$34.5 million and \$35.7 million, respectively.

The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects. Indirect project costs allocated to construction projects for fiscal years 2014 and 2013 were \$10.5 million and \$14.1 million, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the Port's depreciable assets are as follows:

Wharves and sheds	15 to 30 years
Buildings and facilities	10 to 50 years
Equipment	3 to 18 years
Intangible assets	20 years

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

Accrued Salaries and Employee Benefits – Aside from accrued salaries, the Port records as liabilities all accrued employee benefits, including estimated liabilities for certain unused vacation and sick leave in the period the benefits are earned. Port employees accumulate annual vacation and sick leave based on their length of service up to a designated maximum. Upon termination or retirement, employees are paid the cash value of their accumulated leave benefits.

Deferred Outflows and Inflows of Resources – In addition to assets, the Port reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Port classified deferred charges on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price amortized over the shorter of the life of the refunded or refunding debt as deferred outflows of resources.

Operating and Nonoperating Revenues and Expenses – The Port differentiates between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from the Port's primary ongoing operations. All revenues and expenses other than these are reported as nonoperating revenues and expenses.

Revenues from shipping services, rental fees, and royalties are the major sources of the Port's revenues. Shipping services revenues consist of fees assessed for various activities relating to vessel and cargo movement. Twenty-foot equivalent units (TEUs) and metric tons are the measures used to determine cargo volumes that move through the Port. Rental fees are collected from the lease of various types of rental properties in Port-controlled lands. Rental rates are set using various methodologies, and are appraised periodically to evaluate and establish benchmark rates. Rental rates may be adjusted, within reason, to reflect general market conditions. The Port levies fees for various activities such as royalties from oil and natural gas production, fees for parking lots, and miscellaneous concessions.

Operating Expenses – The Port presents operating expenses at net of direct and indirect overhead costs allocated to capitalized construction projects. Direct costs are costs of materials, labor, and expenses assigned or identified with specific capitalized construction projects. Indirect costs are those that are not directly identifiable with a particular capital project and hence, are allocated to all outstanding construction projects. Indirect overhead costs such as

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

Notes to the Financial Statements

June 30, 2014 and 2013

administrative expenses, maintenance costs and City services are allocated to projects based on the average outstanding balance of capitalized construction projects.

Indirect overhead costs are defined to be the costs not directly attributable to those activities related to a capital project. The overhead rate is calculated based on the ratio of the costs of the direct amount of work assigned to capital projects to the total amount of hours worked by Port staff. The resulting rate is defined as the indirect overhead rate and is applied to the operating expenses of those divisions that participate both directly and indirectly in the activities related to capital projects. The resulting indirect overhead amount is then allocated on a pro-rata basis to capitalized construction projects based on the outstanding balance of each project.

Details of operating expenses net of allocated direct and indirect costs may be found on pages 111-112 of the Supplemental Information Section.

Operating Leases – The Port leases a substantial portion of lands and facilities 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 to pre-leased conditions at the expiration of the agreement; accordingly, no leases are considered capital leases.

Pension and Other Postemployment Benefits (OPEB) – All full-time civilian Port employees are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a defined benefit single-employer pension plan. All full-time Port police officers are eligible to participate in the Los Angeles Fire and Police Pension system (LAFPP), a defined benefit single-employer pension plan. The Port funds fully its entire annual share of LACERS and LAFPP pensions and the respective OPEB costs. The funded costs are determined at the start of each fiscal year and are incorporated as part of the Port's payroll to reimburse the City for the Port's pro rata contribution share.

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

Net Position – The statements of net position are designed to display the financial position of the Port. The Port's equity is reported as net position, which is classified into the following categories:

- *Net investment in capital assets* – This category consists of capital assets, net of accumulated depreciation, and is 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 category consists of restrictions placed on net asset use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments. Constraints may also be imposed by law or constitutional provisions or enabling legislation.

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

Notes to the Financial Statements

June 30, 2014 and 2013

- *Unrestricted* – This category 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 unrestricted resources as needed and restricted resources for the purpose for which the restriction exists.

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

Reclassifications – Certain reclassifications have been made to amounts reported in fiscal year 2013 to conform to the fiscal year 2014 presentation. These reclassifications have no material impact on the Port’s financial statements.

Restatement – In fiscal year 2014, the Port changed the method of amortizing bond premium and discount from straight line method to effective interest method. The effective interest method allocates bond interest expense over the life of the bonds in such a way that it yields a constant rate of interest, which in turn is the market rate of interest at the date of issue of bonds. With effective interest method, the amortization of bond discount/premium is calculated using the effective market interest rate versus the coupon rate used in straight-line method. As a result of this change, the beginning net position at July 1, 2013 was adjusted for the cumulative effect of this change in the amount of \$10.6 million and fiscal year 2014 interest expense was reduced by \$0.9 million.

2. Adoption of New GASB Pronouncements

GASB Statement No. 66, “Technical Corrections.” Issued in March 2012, this statement aims to resolve conflicting guidance from the issuance of statements no. 54 on Fund Balance reporting, and no. 62 on codification of accounting and financial reporting guidance contained in the pre-November 30, 1989 FASB and AICPA pronouncements. The Port implemented this statement in fiscal year 2014. This statement has no material impact on the Port’s financial statements.

GASB Statement No. 67, “Financial Reporting for Pension Plans.” Issued in June 2012, this statement establishes financial reporting standards for defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements. It establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This statement has no impact on the Port’s financial statements.

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

Notes to the Financial Statements

June 30, 2014 and 2013

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." Issued in April 2012, this statement establishes standards for financial guarantees that are nonexchange transactions extended or received by a state or local government. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. The Port implemented this statement in fiscal year 2014. This statement has no material impact on the Port's financial statements.

3. Recent GASB Pronouncements

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." Issued in June 2012, this statement aims (a) to improve the usefulness of information for decisions made by users of financial reports of governments whose employees, both active and inactive, are provided with pensions, and (b) improve information provided about pension-related financial support from certain non-employer entities that make contributions to pension plans that are used to provide benefits to employees of other entities. This statement will be effective beginning fiscal year 2015.

GASB Statement No. 69, "Government Combinations and Disposals for Government Operations." Issued in January 2013, this statement addresses accounting and financial reporting for government combinations and disposals of government operations. Government combinations are arrangements that meet the definition of a government merger, government acquisition, or transfer of operations. This statement will be effective beginning fiscal year 2015.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68." Issued in November 2013, this statement aims to improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. This statement will be effective beginning fiscal year 2015.

4. Cash and Investments

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

	2014	2013
Cash in bank and certificates of deposit	\$ 382	\$ 376
Investment in U.S. Treasury money market fund	58,130	57,958
Equity in the City of Los Angeles Investment Pool	301,331	399,225
Total cash and investments	\$ 359,843	\$ 457,559

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

	2014	2013
Unrestricted cash and cash equivalents	\$ 262,729	\$ 351,793
Restricted cash and cash equivalents		
Current		
China Shipping Mitigation Fund	26,836	34,305
Community Aesthetics Mitigation Fund for Parks	--	475
Community Mitigation Trust Fund – Trapac	108	108
Narcotics/Customs Enforcement Forfeiture Fund	394	327
Clean Truck Program and Fee Fund	227	521
Other	1,669	2,330
Subtotal – Current	29,234	38,066
Noncurrent		
Harbor Revenue Bond Funds	58,054	57,913
Commercial Paper Redemption Fund	76	46
Customer Security Deposits	3,184	3,183
Batiquitos Environmental Fund	6,006	6,000
Harbor Restoration Fund	560	558
Subtotal – Noncurrent	67,880	67,700
Total restricted cash and investments	97,114	105,766
Total cash and investments	\$ 359,843	\$ 457,559

A. Deposits

The Port had cash deposits and certificates of deposit with several major financial institutions amounting to \$0.3 million and \$0.4 million for fiscal years ended June 30, 2014 and 2013, respectively. The deposits were entirely covered by federal depository insurance or collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

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

Notes to the Financial Statements

June 30, 2014 and 2013

B. Pooled Investments

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

Pursuant to California Government Code Section 53607 and the Los Angeles City Council (City Council) File No. 94-2160, the City Treasury shall render to the City Council a statement of investment policy (the Policy) annually. City Council File No. 11-1740 was adopted on February 12, 2014, as the City's investment policy. This Policy shall remain in effect until the City Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1.

Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, local agency bonds, commercial paper notes, certificates of deposit (CD) placement service, bankers' acceptances, medium term notes, repurchase agreements, mutual funds, money market mutual funds, and the State of California Local Agency Investment Fund.

The Port had \$301.3 million and \$399.2 million invested in the City's General Pool and three Special Investment Pools, representing approximately 3.5% and 4.7% of the City Treasury's General Pool and Special Investment Pools at June 30, 2014 and 2013, respectively.

The disclosures on "Note 4.B. Pooled Investments" were derived from information prepared by the City and furnished to the Port.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Fiscal Year 2014

At June 30, 2014, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of Investments	Amount	Investment Maturities				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury Bills	\$ 248,766	\$ 248,746	\$ --	\$ 20	\$ --	\$ --
U.S. Treasury Notes	4,121,579	--	--	--	4,085,830	35,749
U.S. Sponsored Agency Issues	1,915,548	606,056	213,475	352,807	730,202	13,008
Medium Term Notes	1,443,640	--	--	191,976	1,231,654	20,010
Commercial Paper	904,407	867,252	26,998	10,157	--	--
Municipal Bonds	30,207	--	--	--	30,207	--
Certificates of Deposit	7,000	--	--	7,000	--	--
Short Term Investment Funds	5,609	5,609	--	--	--	--
Securities Lending Short-Term Collateral Investment Pool	11,425	11,425	--	--	--	--
Total General and Special Pools	<u>\$ 8,688,181</u>	<u>\$ 1,739,088</u>	<u>\$ 240,473</u>	<u>\$ 561,960</u>	<u>\$ 6,077,893</u>	<u>\$ 68,767</u>

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, negotiable certificate of deposits, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's \$1.9 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$896.7 million, Federal National Mortgage Association - \$675.8 million, Federal Home Loan Mortgage Corporation - \$279.7 million, Federal Farm Credit Bank - \$17.3 million, and Tennessee Valley Authority - \$46.2 million. Of the City's \$1.9 billion investments in U.S. Sponsored Agencies securities, \$798.3 million were rated "AA+" by S&P and "Aaa" by Moody's; \$1,117.3 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "AA+/A-1+" by S&P and "Aaa/P-1" by Moody's).

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

Notes to the Financial Statements

June 30, 2014 and 2013

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an “A” rating. The City’s \$1.4 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated “A” or better by S&P and “A3” or better by Moody’s. Subsequent to purchase, two issuers of \$38.7 million medium term notes were downgraded to “A-1” by S&P and “Baa1” by Moody’s and one issuer of \$7.0 million medium term notes was downgraded to “BBB+” by S&P and “A3” by Moody’s.

Commercial paper issues must have a minimum of “A-1” or equivalent rating. If the issuer has issued long-term debt, it must be rated “A” without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500.0 million. The City’s \$904.4 million investments in commercial paper were rated “A-1+/A-1” by S&P and “P-1” by Moody’s.

Municipal bonds have no minimum rating requirement. The City’s \$30.2 million investments in municipal bonds were rated “AA/A” by S&P and “Aa2/Aa3” by Moody’s.

The issuers of the certificates of deposit were not rated.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers’ acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City’s pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City’s total pooled investments as of June 30, 2014, \$896.7 million (10%) was invested in securities issued by Federal Home Loan Bank, and \$675.8 million (8%) was invested in securities issued by Federal National Mortgage Association.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Fiscal Year 2013

At June 30, 2013, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of Investments	Amount	Investment Maturities				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury Bills	\$ 184,540	\$ 20,999	\$ --	\$ 163,541	\$ --	\$ --
U.S. Treasury Notes	3,705,030	--	--	--	3,687,736	17,294
U.S. Sponsored Agency Issues	1,980,334	153,076	240,942	512,318	1,060,252	13,746
Medium Term Notes	1,467,556	8,913	32,361	201,292	1,224,990	--
Commercial Paper	1,071,321	962,231	33,999	75,091	--	--
Municipal Bonds	9,774	--	--	--	9,774	--
Certificates of Deposit	7,000	--	--	7,000	--	--
Short Term Investment Funds	22,261	22,261	--	--	--	--
Securities Lending Short-Term Collateral						
Investment Pool	31,659	31,659	--	--	--	--
Total General and Special Pools	<u>\$ 8,479,475</u>	<u>\$ 1,199,139</u>	<u>\$ 307,302</u>	<u>\$ 959,242</u>	<u>\$ 5,982,752</u>	<u>\$ 31,040</u>

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's \$2.0 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$292.5 million, Federal National Mortgage Association - \$880.9 million, Federal Home Loan Mortgage Corporation - \$617.1 million, Federal Farm Credit Bank - \$121.7 million, Tennessee Valley Authority - \$62.0 million and Farmer Mac Discount Note - \$6.1 million. Of the City's \$2.0 billion investments in U.S. Sponsored Agencies securities, \$1,281.6 million were rated "AA+" by S&P and "Aaa" by Moody's; \$698.7 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "A-1+" by S&P and "P-1" by Moody's).

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

Notes to the Financial Statements

June 30, 2014 and 2013

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating. The City's \$1.5 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, one issuer of \$12.0 million medium term notes was downgraded to "BBB" by S&P and Baa1 by Moody's.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500.0 million. Of the City's \$1.1 billion investments in commercial paper, \$971.0 million were rated A-1+/A-1 by S&P and P-1 by Moody's; \$33.0 million were rated P-1 by Moody's and not rated by S&P; \$67.3 million were not rated individually by S&P nor Moody's. The issuers of the certificates of deposit and municipal bonds were not rated.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers' acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2013, \$617.1 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation, and \$880.9 million (10%) was invested in securities issued by Federal National Mortgage Association.

C. Special Investment Pools

The Port currently has three funds that are invested in the City's Special Investment Pools. They are Emergency/ACTA Reserve Fund 751, Restoration Fund 70L, and Batiquitos Long-term Investment Fund 72W. Investments in the Special Investment Pool are managed in accordance with the California State Government Code Sections 53600-53635 and the City's Policy. Funds in the three funds were invested in U.S. treasuries and government agency securities with maturities of 180 days or less.

D. Other Investments

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

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

Notes to the Financial Statements

June 30, 2014 and 2013

The Port evaluates the value of the reserve funds on or at August 1 of each year, in accordance with the Indenture of Trust (Indenture). The common reserve was \$58.1 million at June 30, 2014 versus \$57.9 million at June 30, 2013. The reserve funds were invested in federal agency securities rated "Aaa" by Moody's and "AAA" by Standard & Poor's (S&P), and U.S. treasuries.

Proceeds from any new money bonds should be invested in the "Permitted Investments" specified as follows: (1) direct obligations of the United States of America or obligations of the principal of and interest on which are unconditionally guaranteed by the United States of America; (2) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by the federal or U.S. government agencies identified in the Indenture; (3) money market funds registered under the Federal Securities Act of 1933, and having a rating of AAAM-G, AAA-m, or AA-m by S&P and Aaa, Aa1, or Aa2 by Moody's; (4) certificates of deposit issued by commercial bank, savings and loan associations, or mutual saving banks and secured at all times by collateral held by a third party; (5) certificates of deposits, savings accounts, deposit accounts, or money market deposits, which are fully insured by the Federal Deposit Insurance Corporation (FDIC), including the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF); (6) investment agreements including guaranteed investment contracts, forward purchase agreements, and reserve fund agreements with a provider whose long-term unsecured debt is rated not lower than the second highest rating category of Moody's, and S&P; (7) commercial paper rated at the time of purchase, "Prime-1" by Moody's, and "A-1" or better by S&P; (8) bonds or notes issued by any state or municipality, which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies; (9) federal funds or bankers acceptances with a maximum term of one year of any bank, which has an unsecured, uninsured, and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P; and (10) repurchase agreements between the department and a dealer bank and securities firm. The term of the repurchase agreement may be up to 30 days and the value of the collateral must be equal to 104% of the amount of cash transferred to the dealer bank plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the department, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) then the value of collateral must equal to 105%.

E. City of Los Angeles Securities Lending Program

Portions of the Port funds are also used by the City in a Securities Lending Program (SLP) as part of the investment strategy relative to the total pool of funds invested by the City. The SLP is permitted and limited under provision of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are safety of loaned securities and prudent investment of cash collateral to enhance revenues from the investment program. The SLP is governed by a separate policy and guidelines.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default.

In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans which either party can terminate a lending contract on demand, term loans shall have a maximum life of 60 days. Earnings from securities lending accrue to the General Investment Pool and are allocated on a prorata basis to all Pool participants.

During fiscal year 2014, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. 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.

The Port's share in the assets and liabilities from the reinvested cash collateral amounted to \$0.4 million in fiscal year 2014.

The above disclosures on "Note 4.E. City of Los Angeles Securities Lending Program" were derived from information prepared by the City and furnished to the Port.

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

Notes to the Financial Statements

June 30, 2014 and 2013

5. Capital Assets

The Port's capital assets consist of the following activities for fiscal year ended June 30, 2014 (in thousands):

	Balance July 1, 2013	Additions	Retirements and Disposals	Transfers	Balance June 30, 2014
Capital assets not depreciated					
Land	\$ 1,133,902	\$ --	\$ --	\$ (39,170)	\$ 1,094,732
Construction in progress	342,279	347,545	(13,058)	(30,039)	646,727
Preliminary costs – capital projects	233,029	17,387	(20,660)	(4,215)	225,541
Intangible assets	12,900	--	--	--	12,900
Total capital assets not depreciated	<u>1,722,110</u>	<u>364,932</u>	<u>(33,718)</u>	<u>(73,424)</u>	<u>1,979,900</u>
Capital assets depreciated/amortized					
Wharves and sheds	884,284	--	--	(2,984)	881,300
Buildings/facilities	2,300,508	--	--	65,672	2,366,180
Equipment	132,787	6,720	(5,488)	6,521	140,540
Intangible assets	8,245	--	--	4,215	12,460
Total capital assets depreciated/amortized	<u>3,325,824</u>	<u>6,720</u>	<u>(5,488)</u>	<u>73,424</u>	<u>3,400,480</u>
Less accumulated depreciation/amortization					
Wharves and sheds	(385,240)	(25,616)	--	--	(410,856)
Buildings/facilities	(1,039,304)	(80,435)	--	--	(1,119,739)
Equipment	(71,682)	(17,669)	4,985	--	(84,366)
Intangible assets	(203)	(500)	--	--	(703)
Total accumulated depreciation/amortization	<u>(1,496,429)</u>	<u>(124,220)</u>	<u>4,985</u>	<u>--</u>	<u>(1,615,664)</u>
Total capital assets depreciated/amortized, net	<u>1,829,395</u>	<u>(117,500)</u>	<u>(503)</u>	<u>73,424</u>	<u>1,784,816</u>
Capital assets, net	<u>\$ 3,551,505</u>	<u>\$ 247,432</u>	<u>\$ (34,221)</u>	<u>\$ --</u>	<u>\$ 3,764,716</u>

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

Notes to the Financial Statements

June 30, 2014 and 2013

The Port's capital assets consist of the following activities for fiscal year ended June 30, 2013 (in thousands):

	Balance July 1, 2012	Additions	Retirements and Disposals	Transfers	Balance June 30, 2013
Capital assets not depreciated					
Land	\$ 1,072,398	\$ --	\$ --	\$ 61,504	\$ 1,133,902
Construction in progress	328,026	171,159	--	(156,906)	342,279
Preliminary costs – capital projects	151,977	122,063	--	(41,011)	233,029
Intangible assets	16,953	--	--	(4,053)	12,900
Total capital assets not depreciated	<u>1,569,354</u>	<u>293,222</u>	<u>--</u>	<u>(140,466)</u>	<u>1,722,110</u>
Capital assets depreciated/amortized					
Wharves and sheds	856,960	--	--	27,324	884,284
Buildings/facilities	2,205,221	--	--	95,287	2,300,508
Equipment	115,429	3,829	(273)	13,802	132,787
Intangible assets	--	4,192	--	4,053	8,245
Total capital assets depreciated/amortized	<u>3,177,610</u>	<u>8,021</u>	<u>(273)</u>	<u>140,466</u>	<u>3,325,824</u>
Less accumulated depreciation/amortization					
Wharves and sheds	(361,532)	(23,708)	--	--	(385,240)
Buildings/facilities	(963,908)	(75,396)	--	--	(1,039,304)
Equipment	(63,204)	(8,730)	252	--	(71,682)
Intangible assets	--	(203)	--	--	(203)
Total accumulated depreciation/amortization	<u>(1,388,644)</u>	<u>(108,037)</u>	<u>252</u>	<u>--</u>	<u>(1,496,429)</u>
Total capital assets depreciated/amortized, net	<u>1,788,966</u>	<u>(100,016)</u>	<u>(21)</u>	<u>140,466</u>	<u>1,829,395</u>
Capital assets, net	<u>\$ 3,358,320</u>	<u>\$ 193,206</u>	<u>\$ (21)</u>	<u>\$ --</u>	<u>\$ 3,551,505</u>

Net interest expense of \$34.5 million and \$35.7 million was capitalized for fiscal years 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

6. Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint power agreements as follows:

A. Intermodal Container Transfer Facility Joint Powers Authority

The Port of Los Angeles (POLA) and the Harbor Department of the City of Long Beach, California (POLB) entered into a joint 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 POLA contributed \$2.5 million 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 POLA appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the POLA and POLB share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued \$53.9 million in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued \$52.3 million 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 \$42.9 million 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, POLA, or POLB.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those actions necessary for the development of the facility, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's net position at June 30, 2014 and 2013 totaled \$5.2 million and \$5.1 million, respectively. Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 4801 Airport Plaza Drive, Long Beach, California 90815.

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

Notes to the Financial Statements

June 30, 2014 and 2013

B. Alameda Corridor Transportation Authority

In August 1989, the POLA and the Port of Long Beach (the POLB and, together with the POLA, the Ports) entered into a joint 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 Harbor and Long Beach Freeways and the POLA and POLB in San Pedro Bay linking the two ports to the central Los Angeles area.

The POLA has no share of the ACTA's net assets and income at June 30, 2014 and 2013, and accordingly, they have not been recorded in the accompanying financial statements. If in the future, ACTA become entitled to distribute income or make equity distributions. The Ports shall share such income and equity distributions equally. If ACTA revenues are insufficient to pay ACTA debt obligations, the POLA will severally but not jointly with the POLB pay up to 20% of any shortfall of that obligation on an annual basis. Any payments made to ACTA are in the form of an advance and subordinated to other obligations of the POLA. Shortfall payments are not expected to occur until fiscal year 2020, at which time, payments are projected to be made each year over a four-year period. If shortfall payments are required, the Port does not expect such payments will have a material effect on its financial condition.

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.

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

Notes to the Financial Statements

June 30, 2014 and 2013

7. Long-Term Liabilities

A. Bonded Debt, Commercial Paper and Other Indebtedness

The Port's activities for bonded debt, commercial paper and other indebtedness for fiscal year 2014 are as follows (in thousands):

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2013	Additions	Deductions	Ending Balance June 30, 2014	Principal Due Within One Year
Issue 2005, Series A	8/1/2015 @ 102%	10/13/2005	3.25% - 5.00%	2027	\$ 29,930	\$ 27,055	\$ --	\$ (1,370)	\$ 25,685	\$ 1,435
Issue 2005, Series B	8/1/2015 @ 102%	10/13/2005	3.00% - 5.00%	2027	30,110	25,440	--	(1,345)	24,095	1,415
Issue 2005, Series C-1	8/1/2015 @ 102%	10/13/2005	4.00% - 5.00%	2018	43,730	7,880	--	--	7,880	470
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2027	200,710	50,130	--	--	50,130	1,370
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2027	209,815	90,100	--	(6,000)	84,100	--
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	13,580	--	(765)	12,815	810
Issue 2006, Series D	8/1/2014 @ 102%	8/31/2006	4.50% - 5.00%	2037	111,300	78,160	--	(2,225)	75,935	2,335
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% - 5.25%	2029	100,000	89,870	--	(3,580)	86,290	3,720
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	--	100,000	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% - 5.25%	2032	230,160	216,775	--	(10,950)	205,825	15,715
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% - 5.00%	2023	58,930	58,930	--	--	58,930	--
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% - 5.00%	2026	32,820	32,820	--	--	32,820	--
Total parity bonds					<u>\$ 1,164,050</u>	<u>790,740</u>	<u>--</u>	<u>(26,235)</u>	<u>764,505</u>	<u>27,270</u>
Unamortized bond (discount) premium						30,390	--	(13,902)	16,488	--
Net parity bonds						<u>821,130</u>	<u>--</u>	<u>(40,137)</u>	<u>780,993</u>	<u>27,270</u>
Commercial paper notes						100,000	25,000	--	125,000	--
Less: current maturities of long-term debt						(26,235)	(27,270)	26,235	(27,270)	--
Total long-term debt net of current maturities						<u>\$ 894,895</u>	<u>\$ (2,270)</u>	<u>\$ (13,902)</u>	<u>\$ 878,723</u>	<u>\$ 27,270</u>

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

Notes to the Financial Statements

June 30, 2014 and 2013

The Port's activities for bonded debt, commercial paper and other indebtedness for fiscal year 2013 are as follows (in thousands):

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2012	Additions	Deductions	Ending Balance June 30, 2013	Principal Due Within One Year
Issue 2002, Series A	8/1/2012 @ 100%	5/6/2002	5.25% - 5.50%	2016	\$ 63,520	\$ 24,290	\$ --	\$ (24,290)	\$ --	\$ --
Issue 2005, Series A	8/1/2015 @ 102%	10/13/2005	3.25% - 5.00%	2027	29,930	28,370	--	(1,315)	27,055	1,370
Issue 2005, Series B	8/1/2015 @ 102%	10/13/2005	3.00% - 5.00%	2027	30,110	26,720	--	(1,280)	25,440	1,345
Issue 2005, Series C-1	8/1/2015 @ 102%	10/13/2005	4.00% - 5.00%	2018	43,730	7,880	--	--	7,880	--
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2027	200,710	50,130	--	--	50,130	--
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2027	209,815	93,425	--	(3,325)	90,100	6,000
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	14,310	--	(730)	13,580	765
Issue 2006, Series D	8/1/2014 @ 102%	8/31/2006	4.50% - 5.00%	2037	111,300	80,275	--	(2,115)	78,160	2,225
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% - 5.25%	2029	100,000	93,335	--	(3,465)	89,870	3,580
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	--	100,000	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% - 5.25%	2032	230,160	229,640	--	(12,865)	216,775	10,950
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% - 5.00%	2023	58,930	58,930	--	--	58,930	--
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% - 5.00%	2026	32,820	32,820	--	--	32,820	--
Total parity bonds					<u>\$ 1,227,570</u>	<u>840,125</u>	<u>--</u>	<u>(49,385)</u>	<u>790,740</u>	<u>26,235</u>
Unamortized bond (discount) premium						<u>33,363</u>	<u>--</u>	<u>(2,973)</u>	<u>30,390</u>	<u>--</u>
Net parity bonds						<u>873,488</u>	<u>--</u>	<u>(52,358)</u>	<u>821,130</u>	<u>26,235</u>
Commercial paper notes						<u>100,000</u>	<u>--</u>	<u>--</u>	<u>100,000</u>	<u>--</u>
Loans - Dept. of Boating and Waterways (DBW)										
C#82-21-148			4.50%	2014	\$ 4,000	562	--	(562)	--	--
C#83-21-147			4.50%	2015	4,000	804	--	(804)	--	--
Total loans					<u>\$ 8,000</u>	<u>1,366</u>	<u>--</u>	<u>(1,366)</u>	<u>--</u>	<u>--</u>
Less: current maturities of long-term debt						<u>(31,816)</u>	<u>(26,235)</u>	<u>31,816</u>	<u>(26,235)</u>	<u>--</u>
Total long-term debt net of current maturities						<u>\$ 943,038</u>	<u>\$ (26,235)</u>	<u>\$ (21,908)</u>	<u>\$ 894,895</u>	<u>\$ 26,235</u>

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

Notes to the Financial Statements

June 30, 2014 and 2013

B. Bond Premium and Discount

Original bond premium or discount is amortized over the life of the bonds. At the time of bond refunding, the unamortized discount or premium is amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

In fiscal year 2014, the Port changed the method of amortizing bond premium and discount from straight line method to effective interest method. The effective interest method allocates bond interest expense over the life of the bonds in such a way that it yields a constant rate of interest, which in turn is the market rate of interest at the date of issue of bonds. With effective interest method, the amortization of bond discount/premium is calculated using the effective market interest rate versus the coupon rate used in straight-line method. As a result of this change, the beginning net position at July 1, 2013 was adjusted for the cumulative effect of this change in the amount of \$10.6 million and fiscal year 2014 interest expense was reduced by \$0.9 million.

The unamortized discount or premium for the outstanding bonds for fiscal years 2014 and 2013 are as follows (in thousands):

Harbor Revenue Bonds	2014 Premium (Discount)	2013 Premium (Discount)
Issue of 2005, Series A	\$ 895	\$ 1,260
Issue of 2005, Series B	830	1,287
Issue of 2005, Series C-1	161	829
Issue of 2006, Series A	1,101	1,865
Issue of 2006, Series B	1,476	2,912
Issue of 2006, Series C	350	649
Issue of 2006, Series D	1,237	2,238
Issue of 2009, Series A	1,189	2,350
Issue of 2009, Series B	(2,098)	(2,025)
Issue of 2009, Series C	4,298	10,447
Issue of 2011, Series A	4,076	5,410
Issue of 2011, Series B	2,973	3,168
Total	<u>\$ 16,488</u>	<u>\$ 30,390</u>

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

Notes to the Financial Statements

June 30, 2014 and 2013

C. Principal Maturities and Interest

The Port's scheduled annual debt service payments for bonded debt and other indebtedness are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2015	\$ 27,270	\$ 37,813	\$ 65,083
2016	31,505	36,385	67,890
2017	37,970	34,714	72,684
2018	40,300	32,807	73,107
2019	42,395	30,783	73,178
2020 – 2024	243,335	119,240	362,575
2025 – 2029	187,460	56,275	243,735
2030 – 2034	68,425	31,318	99,743
2035 – 2039	73,390	12,041	85,431
2040	12,455	327	12,782
Subtotal	764,505	391,703	1,156,208
Unamortized bond premium (discount), net	16,488	--	16,488
Current maturities of long-term debt	(27,270)	--	(27,270)
Total	<u>\$ 753,723</u>	<u>\$ 391,703</u>	<u>\$ 1,145,426</u>

The above schedule does not include the debt service requirements for the commercial paper notes in the amount of \$125.0 million at June 30, 2014.

D. Summary of the Port's Bonded Indebtedness and Pledged Revenues

2005 Series A Refunding Bonds

The 2005 Series A Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of \$29.9 million to advance refund, on a crossover basis, \$30.9 million of the 1996 Series A Bonds on their call date (the Crossover Date) of August 1, 2006.

Interest on the 2005 Series A Refunding 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 coupon interest rates from 3.25% to 5.00%.

The bonds maturing on or after August 1, 2016 are subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

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

Notes to the Financial Statements

June 30, 2014 and 2013

At June 30, 2014 and 2013, the outstanding balances of the 2005 Series A Refunding Bonds, plus the unamortized premium of \$0.9 million and \$1.3 million, were \$26.6 million and \$28.3 million, respectively.

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

Fiscal Year	Principal	Interest	Total
2015	\$ 1,435	\$ 1,248	\$ 2,683
2016	1,510	1,175	2,685
2017	1,590	1,097	2,687
2018	1,670	1,016	2,686
2019	1,755	930	2,685
2020 – 2024	10,230	3,203	13,433
2025 – 2027	7,495	575	8,070
Subtotal	25,685	9,244	34,929
Unamortized premium	895	--	895
Total	<u>\$ 26,580</u>	<u>\$ 9,244</u>	<u>\$ 35,824</u>

2005 Series B Refunding Bonds

The 2005 Series B Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of \$30.1 million, on a crossover basis, to advance refund \$31.7 million 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 Refunding Bonds with maturity dates ranging from August 1, 2008 to 2026 bear coupon interest rates from 3.00% to 5.00%.

The bonds maturing on or after August 1, 2016 are subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

At June 30, 2014 and 2013, the outstanding balances of the 2005 Series B Refunding Bonds, plus the unamortized premium of \$0.8 million and \$1.3 million, were \$24.9 million and \$26.7 million, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Fiscal Year	Principal	Interest	Total
2015	\$ 1,415	\$ 1,169	\$ 2,584
2016	1,490	1,097	2,587
2017	1,565	1,020	2,585
2018	1,640	940	2,580
2019	1,725	856	2,581
2020 – 2024	10,070	2,856	12,926
2025 – 2027	6,190	418	6,608
Subtotal	24,095	8,356	32,451
Unamortized premium	830	--	830
Total	<u>\$ 24,925</u>	<u>\$ 8,356</u>	<u>\$ 33,281</u>

2005 Series C-1 Refunding Bonds

The 2005 Series C-1 Refunding Bonds, associated with the purchase on the open market of the purchased 1996 Bonds, were issued on October 13, 2005 in the aggregate principal amount of \$43.7 million.

Interest on the 2005 Series C-1 Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series C-1 Bonds with maturity dates ranging from August 1, 2006 to August 1, 2017 bear coupon interest rates from 4.00% to 5.00%.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

The 2005 Series C-2 Refunding Bonds were issued for \$4.1 million to pay certain issuance costs. The 2005 Series C-2 Bonds Refunding Bonds were sold with a coupon rate of 4.75%.

To take advantage of the American Recovery and Reinvestment Act (ARRA) of 2009, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds in an aggregate amount of \$230.2 million on July 9, 2009. A portion of the Refunding bond proceeds was to provide funds to refund \$2.7 million of the 2005 Series C-1 AMT Bonds.

The outstanding balances of the 2005 Series C-1 Refunding Bonds, net of unamortized premium of \$0.2 million and \$0.8 million, were \$8.0 million and \$8.7 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Debt service of the Port's 2005 Series C-1 Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2015	470	380	850
2016	--	371	371
2017	--	371	371
2018	7,410	185	7,595
Subtotal	7,880	1,307	9,187
Unamortized premium	161	--	161
Total	\$ 8,041	\$ 1,307	\$ 9,348

The 2005 Series A, B, and C refunding transactions resulted in an economic gain of \$4.0 million and a cash savings of \$6.1 million.

2006 Series A Refunding Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of \$200.7 million, on a forward-delivery basis, to currently refund \$202.7 million of the 1996A Bonds. The 2006 Series A refunding transactions resulted in an economic gain of \$27.7 million and cash savings of \$44.8 million.

Interest on the 2006 Series A Refunding 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 a coupon interest rate of 5.00% with maturity dates ranging from August 1, 2006 to August 1, 2026.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund \$121.1 million of the 2006 Series A AMT Bonds.

At June 30, 2014 and 2013, the outstanding balances of the 2006 Series A Refunding Bonds, net of unamortized premium of \$1.1 million and \$1.9 million, were \$51.2 million and \$52.0 million, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Fiscal Year	Principal	Interest	Total
2015	\$ 1,370	\$ 2,472	\$ 3,842
2016	--	2,438	2,438
2017	195	2,433	2,628
2018	8,930	2,205	11,135
2019	9,990	1,732	11,722
2020 – 2024	12,930	5,423	18,353
2025 – 2026	16,715	418	17,133
Subtotal	50,130	17,121	67,251
Unamortized premium	1,101	--	1,101
Total	<u>\$ 51,231</u>	<u>\$ 17,121</u>	<u>\$ 68,352</u>

2006 Series B Refunding Bonds

The 2006 Series B Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of \$209.8 million, on a forward-delivery basis, to currently refund \$211.9 million of the 1996 Series B Bonds. The 2006 Series B refunding transactions resulted in an economic gain of \$18.9 million and cash savings of \$34.7 million.

Interest on the 2006 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series B Bonds bear a coupon interest rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund \$94.1 million of the 2006 Series B AMT Bonds.

The outstanding balances of the 2006 Series B Refunding Bonds, net of unamortized premium of \$1.5 million and \$2.9 million, were \$85.6 million and \$93.0 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Fiscal Year	Principal	Interest	Total
2015	\$ --	\$ 4,205	\$ 4,205
2016	11,540	3,917	15,457
2017	12,140	3,324	15,464
2018	3,095	2,944	6,039
2019	12,855	2,545	15,400
2020 – 2024	44,240	3,489	47,729
2025 – 2026	230	17	247
Subtotal	84,100	20,441	104,541
Unamortized premium	1,476	--	1,476
Total	\$ 85,576	\$ 20,441	\$ 106,017

2006 Series C Refunding Bonds

The 2006 Series C Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of \$16.5 million, on a forward-delivery basis, to currently refund \$17.1 million of the 1996 Series C Bonds. The refunding transactions resulted in an economic gain of \$1.2 million and cash savings of \$1.6 million.

Interest on the 2006 Series C Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series C Refunding Bonds bear coupon interest at a rate of 5.00% with maturity dates ranging from August 1, 2008 to August 1, 2025.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

The outstanding balances of the 2006 Series C Refunding Bonds, net of unamortized premium of \$0.4 million and \$0.6 million, were \$13.2 million and \$14.2 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Fiscal Year	Principal	Interest	Total
2015	\$ 810	\$ 620	\$ 1,430
2016	850	579	1,429
2017	895	535	1,430
2018	930	490	1,420
2019	980	442	1,422
2020 – 2024	5,685	1,404	7,089
2025 – 2026	2,665	135	2,800
Subtotal	12,815	4,205	17,020
Unamortized premium	350	--	350
Total	<u>\$ 13,165</u>	<u>\$ 4,205</u>	<u>\$ 17,370</u>

2006 Series D Refunding Bonds

The 2006 Series D Refunding Bonds were issued on August 31, 2006 in the aggregate principal amount of \$111.3 million, to refund \$113.6 million of Commercial Paper Notes.

Interest on the 2006 Series D Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series D Bonds bear coupon interest at rates ranging from 4.50% to 5.00% with maturity dates from August 1, 2007 to August 1, 2036.

The bonds maturing on or after August 1, 2015 are subject to optional redemption prior to their stated maturities at the redemption price of 101% if they are redeemed during the period from August 1, 2014 to July 31, 2015.

To take advantage of the American Recovery and Reinvestment Act of 2009 (ARRA), the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the Refunding Bonds was to provide funds to refund \$22.5 million of the 2006 Series D AMT Bonds.

The outstanding balances of the 2006 Series D Refunding Bonds, plus the unamortized premium of \$1.2 million and \$2.2 million were \$77.2 million and \$80.4 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Fiscal Year	Principal	Interest	Total
2015	\$ 2,335	\$ 3,669	\$ 6,004
2016	400	3,601	4,001
2017	1,500	3,553	5,053
2018	2,615	3,451	6,066
2019	2,810	3,315	6,125
2020 – 2024	16,620	14,229	30,849
2025 – 2029	8,620	11,696	20,316
2030 – 2034	21,195	8,001	29,196
2035 – 2037	19,840	1,455	21,295
Subtotal	75,935	52,970	128,905
Unamortized premium	1,237	--	1,237
Total	\$ 77,172	\$ 52,970	\$ 130,142

2009 Series A New Money Bonds

The 2009 Series A New Money Bonds were issued on July 9, 2009 in the aggregate principal amount of \$100.0 million, in accordance with ARRA. The Bonds were issued to (i) finance certain Private Activity Projects; (ii) fund a debt service reserve fund with respect to the 2009A Bonds; and (iii) pay the costs incidental to the issuance of the 2009A Bonds.

Interest on the 2009 Series A Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear coupon interest at rates ranging from 2.00% to 5.25% with maturity dates from August 1, 2010 to August 1, 2029.

The Bonds with stated maturities on or after August 1, 2020 shall be subject to optional redemption prior to their maturities on or after August 1, 2019 without early redemption premium. The Bonds are not subject to mandatory sinking fund redemption.

The outstanding balances of the 2009 Series A Bonds, net of unamortized premium of \$1.2 million and \$2.4 million, were \$87.5 million and \$92.2 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Debt service of the Port's 2009 Series A Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2015	\$ 3,720	\$ 4,154	\$ 7,874
2016	3,905	3,969	7,874
2017	4,095	3,794	7,889
2018	4,255	3,627	7,882
2019	4,425	3,453	7,878
2020 – 2024	25,480	13,708	39,188
2025 – 2029	32,820	6,195	39,015
2030 – 2032	7,590	190	7,780
Subtotal	86,290	39,090	125,380
Unamortized premium	1,189	--	1,189
Total	<u>\$ 87,479</u>	<u>\$ 39,090</u>	<u>\$ 126,569</u>

2009 Series B New Money Bonds

Along with the issuance of the 2009 Series A New Money Bonds, the Port issued its 2009 Series B Bonds in the aggregate principal amount of \$100.0 million in accordance with the ARRA of 2009. The Bonds were issued to (i) finance certain Governmental Projects in Fiscal Years 2009 and 2010; (ii) fund a debt service reserve fund with respect to the 2009B Bonds; and (iii) pay the costs incidental to the issuance of the 2009B Bonds.

Interest on the 2009 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear a coupon interest rate at 5.25% with maturity dates from August 1, 2030 to August 1, 2039.

The Bonds with stated maturities on or after August 1, 2020 shall be subject to optional redemption on or after August 1, 2019 without early redemption premium. The Bonds maturing on August 1, 2034 (the 2009B 2034 Term Bonds) and on August 1, 2039 (the 2009B 2039 Term Bonds) are subject to mandatory sinking fund redemption.

The outstanding balance of the 2009 Series B Bonds, net of unamortized discount of \$2.1 million and \$2.0 million were \$97.9 million and \$98.0 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Debt service of the Port's 2009 Series B Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2015	\$ --	\$ 5,250	\$ 5,250
2016	--	5,250	5,250
2017	--	5,250	5,250
2018	--	5,250	5,250
2019	--	5,250	5,250
2020 – 2024	--	26,250	26,250
2025 – 2029	--	26,250	26,250
2030 – 2034	33,995	22,794	56,789
2035 – 2039	53,550	10,585	64,135
2040	12,455	327	12,782
Subtotal	100,000	112,456	212,456
Unamortized discount	(2,098)	--	(2,098)
Total	\$ 97,902	\$ 112,456	\$ 210,358

2009 Series C Refunding Bonds

Contemporaneously with the issuance of the 2009 Series A and Series B New Money Bonds, the Port issued the 2009 Series C Refunding Bonds in the aggregate principal amount of \$230.2 million. The Bonds were issued to provide funds for the purchase of certain maturities of the Department's outstanding (i) Refunding Revenue Bonds 2005 Series C-1 (AMT) of \$2.7 million, (ii) Refunding Revenue Bonds 2006 Series A (AMT) of \$121.1 million, (iii) Refunding Revenue Bonds 2006 Series B (AMT) of \$94.1 million, and (iv) Revenue Bonds 2006 Series D (AMT) of \$22.5 million. The refunding transactions resulted in a reduction of \$12.7 million in future debt service payments and the net present value benefit of \$8.2 million.

Interest on the 2009 Series C Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear coupon interest rates ranging from 4.00% to 5.25% with maturity dates from August 1, 2011 to August 1, 2031.

The Bond maturing on August 1, 2021, which bears coupon interest at 5.25% per annum, and the Bonds maturing on or after August 1, 2022 are subject to optional redemption prior to their respective stated maturities without early redemption premium. The Bonds maturing on August 1, 2031 (the Term Bonds) are subject to mandatory sinking fund redemption.

The outstanding balances of the 2009 Series C Refunding Bonds, plus the unamortized premium of \$4.3 million and \$10.4 million, were \$210.1 million and \$227.2 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Debt service of the Port's 2009 Series C Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2015	\$ 15,715	\$ 10,122	\$ 25,837
2016	9,675	9,500	19,175
2017	8,860	9,055	17,915
2018	2,265	8,786	11,051
2019	--	8,729	8,729
2020 – 2024	72,515	37,462	109,977
2025 – 2029	91,150	9,497	100,647
2030 – 2032	5,645	334	5,979
Subtotal	205,825	93,485	299,310
Unamortized premium	4,298	--	4,298
Total	\$ 210,123	\$ 93,485	\$ 303,608

2011 Series A Refunding Bonds

The 2011 Series A Refunding Bonds were issued in 2011 in the aggregate principal amount of \$58.9 million to refund the outstanding principal of \$64.9 million of the 2001 Series B Refunding Bonds. The refunding transaction resulted in cash flow savings of \$10.7 million and economic gain of \$8.6 million over the life of the bonds.

Interest on the 2011 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from August 1, 2012. The bonds bear interest at coupon rates from 3.00% to 5.00% with maturity dates ranging from August 2015 to 2022.

The 2011 Series A Refunding Bonds are subject to optional redemption on or after August 1, 2021 without early redemption premium. Principal and interests on these bonds are payable solely from Harbor revenues and other amounts pledged under the indenture.

The outstanding balance of the 2011 Series A Refunding Bonds, net of unamortized premium of \$4.1 million and \$5.4 million, were \$63.0 million and \$64.3 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Debt service of the Port's 2011 Series A Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2015	\$ --	\$ 2,904	\$ 2,904
2016	2,135	2,872	5,007
2017	7,130	2,662	9,792
2018	7,490	2,296	9,786
2019	7,855	1,912	9,767
2020 – 2023	34,320	3,448	37,768
Subtotal	58,930	16,094	75,024
Unamortized premium	4,076	--	4,076
Total	\$ 63,006	\$ 16,094	\$ 79,100

2011 Series B Refunding Bonds

The 2011 Series B Refunding Bonds were issued in 2011 in the aggregate principal amount of \$32.8 million to refund the outstanding principal of \$36.2 million of the 2001 Series A Refunding Bonds. The refunding transaction resulted in cash flow savings of \$5.7 million and economic gain of \$4.0 million.

Interest on the 2011 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from February 1, 2012. The bonds bear coupon interest rates from 4.00% to 5.00% with maturity dates ranging from August 2022 to 2025.

The 2011 Series B Refunding Bonds are subject to optional redemption on or after August 1, 2021 without early redemption premium. Principal and interests on these bonds are payable solely from Harbor revenues and other amounts pledged under the indenture.

The outstanding balance of the 2011 Series B Refunding Bonds, net of unamortized premium of \$3.0 million and \$3.2 million, were \$35.8 million and \$36.0 million at June 30, 2014 and 2013, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

Debt service of the Port's 2011 Series B Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2015	\$ --	\$ 1,618	\$ 1,618
2016	--	1,618	1,618
2017	--	1,618	1,618
2018	--	1,618	1,618
2019	--	1,618	1,618
2020 – 2024	11,245	7,769	19,014
2025 – 2027	21,575	1,076	22,651
Subtotal	32,820	16,935	49,755
Unamortized premium	2,973	--	2,973
Total	<u>\$ 35,793</u>	<u>\$ 16,935</u>	<u>\$ 52,728</u>

E. Commercial Paper

The Port has established a Commercial Paper program (Program) supported by bank credit lines to issue commercial paper notes (Notes) to provide interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment needs. The total credit available under the credit facilities that support the Program stands at \$250.0 million. The term of the Program will expire at the end of July 2015.

As of June 30, 2014 and 2013, the total amount outstanding was \$125.0 million and \$100.0 million, respectively. Funds were used to finance the China Shipping and TraPac Container Terminal Projects. The Notes issued are being remarketed upon maturity and will be refunded through the issuance of long term bonds, and are thus classified as long-term liabilities.

F. Current Year and Prior Years' Defeasance of Debt

The Port defeased those bonds refunded by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Port's financial statements.

The Port has outstanding bonds in the defeasance escrows held by the trustee at June 30, 2014 and 2013 of \$46.8 million and \$54.3 million, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

8. Changes in Long-Term Liabilities

The changes in the Port's long-term liabilities for the year ended June 30, 2014 are as follows (in thousands):

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due within one year
Revenue bonds	\$ 790,740	\$ --	\$ (26,235)	\$ 764,505	\$ 27,270
Unamortized (discount)/ premium	30,390	--	(13,902)	16,488	--
Net revenue bonds	821,130	--	(40,137)	780,993	27,270
Commercial paper	100,000	25,000	--	125,000	--
Accrued salaries	4,274	85,151	(84,159)	5,266	5,266
Compensated absences	9,386	20,773	(20,616)	9,543	9,543
Accrued employee benefits	9,469	30,975	(30,561)	9,883	816
Litigation	441	--	(108)	333	333
Workers compensation	15,175	2,686	(2,035)	15,826	1,939
Pollution remediation	99,361	6,790	(25,319)	80,832	10,873
Deposits	12,938	1,264	(1,277)	12,925	--
Net pension obligation	2,891	--	(218)	2,673	--
Others	39,130	17,723	(25,123)	31,730	29,951
Total long-term liabilities	<u>\$ 1,114,195</u>	<u>\$ 190,362</u>	<u>\$ (229,553)</u>	<u>\$ 1,075,004</u>	<u>\$ 85,991</u>

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

Notes to the Financial Statements

June 30, 2014 and 2013

The changes in the Port's long-term liabilities for the year ended June 30, 2013 are as follows (in thousands):

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due within one year
Revenue bonds	\$ 840,125	\$ --	\$ (49,385)	\$ 790,740	\$ 26,235
Unamortized (discount)/ premium	33,363	--	(2,973)	30,390	--
Net revenue bonds	873,488	--	(52,358)	821,130	26,235
Commercial paper	100,000	--	--	100,000	--
Notes payable	1,366	--	(1,366)	--	--
Accrued salaries	1,862	124,452	(122,040)	4,274	4,274
Compensated absences	8,856	20,733	(20,203)	9,386	9,386
Accrued employee benefits	8,269	122,152	(120,952)	9,469	801
Litigation	465	133	(157)	441	441
Workers compensation	13,639	4,700	(3,164)	15,175	1,939
Pollution remediation	104,599	11,688	(16,926)	99,361	12,520
Deposits	9,596	3,910	(568)	12,938	--
Net pension obligation	3,040	--	(149)	2,891	--
Others	43,702	117,035	(121,607)	39,130	37,383
Total long-term liabilities	<u>\$ 1,168,882</u>	<u>\$ 404,803</u>	<u>\$ (459,490)</u>	<u>\$ 1,114,195</u>	<u>\$ 92,979</u>

9. GASB 49 Pollution Remediation Obligations

The Port's estimated pollution remediation liability as of June 30, 2014 and 2013 totaled \$80.8 million and \$99.4 million, respectively. These costs relate mostly to soil and ground water contamination on sites within the Port premises. As certain sites were formerly used for a variety of industrial purposes, legacy contamination or environmental impairments exist. As environmental risks may be managed, the Port has adopted the "Managed Environmental Risk" approach in estimating the remediation liability. The Port uses a combination of in-house specialists as well as outside consultants to perform estimates of potential liability. Certain remediation contracts are included in site development plans as final uses for the sites have been identified.

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

Notes to the Financial Statements

June 30, 2014 and 2013

The changes in the Port's pollution remediation obligations for fiscal year 2014 are as follows (in thousands):

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year
Obligating Event					
Named by regulator as a potential party to remediation	\$ 89,444	\$ 3,212	\$ (18,353)	\$ 74,303	\$ 10,323
Voluntary commencement	9,917	4,545	(7,944)	6,518	550
Total	<u>\$ 99,361</u>	<u>\$ 7,757</u>	<u>\$ (26,297)</u>	<u>\$ 80,821</u>	<u>\$ 10,873</u>
Pollution Type					
Soil and or groundwater remediation	<u>\$ 99,361</u>	<u>\$ 7,757</u>	<u>\$ (26,297)</u>	<u>\$ 80,821</u>	<u>\$ 10,873</u>

The changes in the Port's pollution remediation obligations for fiscal year 2013 are as follows (in thousands):

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Obligating Event					
Named by regulator as a potential party to remediation	\$ 81,297	\$ 8,147	\$ --	\$ 89,444	\$ 12,320
Voluntary commencement	23,302	218	(13,603)	9,917	200
Total	<u>\$ 104,599</u>	<u>\$ 8,365</u>	<u>\$ (13,603)</u>	<u>\$ 99,361</u>	<u>\$ 12,520</u>
Pollution Type					
Soil and or groundwater remediation	<u>\$ 104,599</u>	<u>\$ 8,365</u>	<u>\$ (13,603)</u>	<u>\$ 99,361</u>	<u>\$ 12,520</u>

A Notice of Violation was issued to the former San Pedro Boat Works and the Port by the Los Angeles County Fire Department to remove, dredge and properly dispose of hazardous chemicals found at the location where the company operated. The Port entered into a Voluntary Cleanup Agreement (VCA) with the Department of Toxic Substances Control (DTSC) to oversee this cleanup. The Port has provided the DTSC with testing results as well as maps of the dredging footprints. A majority of the dredging was conducted in conjunction with the Port's main channel deepening, but one area remains to be dredged to comply with the VCA requirements. After further analysis, organotins (Tin with Hydrocarbons) no longer presented a threat to groundwater quality, thereby reducing the estimated liability to \$2.1 million as of June 30, 2014.

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

Notes to the Financial Statements

June 30, 2014 and 2013

The Harbor Toxics Total Maximum Daily Load (Toxics TMDL) integrates all of the Clean Water Act-listed impairments in the Los Angeles Harbor. There are approximately 80 pollutant-water body combinations including but not limited to sediment chemistry and toxicity to fish tissue impairments. The Toxics TMDL establishes load allocations for existing sediments and waste load allocations for inputs such as storm water runoff. The Toxics TMDL has a 20-year compliance timeline, with several intermediate milestones. The Port estimated cost of \$2.3 million to be incurred for complying with one of these milestones which involves assessment of sediments, water, fish, and pollutant inputs, as well as establishing an implementation plan for remediation action.

Additional estimated liabilities of \$3.2 million were provided in fiscal year 2014 for the following: \$1.1 million for ongoing monitoring, sampling, additional chemical injections and source removal at the Avalon Triangle site; \$0.5 million additional off-site investigation and remediation costs for the Hy C Tane Tank Farm site; \$1.4 million increased cost due to Polychlorinated Biphenyl requiring Toxic Substances Control Act labels at the Southwest Marine site; and \$0.3 million additional estimate for the Toxics TMDL monitoring.

In fiscal years 2014 and 2013, the Port adjusted the outstanding pollution remediation liabilities by \$15.0 million and \$13.4 million, respectively, and presented this as Special Item in the Port's financial statements. Please see Note 21 on page 105 for more information.

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

Notes to the Financial Statements

June 30, 2014 and 2013

10. 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 Port employees participate, allowing them to defer receipt of income. All amounts deferred by the Port's employees are paid to the City, which in turn pays them to the deferred compensation plan administrator. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such custodial account for the exclusive benefit of the employee participants and their beneficiaries. Information on the Port employees' share of plan assets is not available and is not recorded in the Port's financial statements.

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

11. Risk Management

The Port purchases insurance for a variety of exposures associated with property, automobiles, vessels, railroad, employment practices, travel, police, pilotage, and terrorism. The City is self-insured for workers compensation, and the Port participates in the City's self-insurance program. Third party general liability exposures are self-insured by the Port for \$1.0 million and the excess liability is maintained over the self-insured retention. There have been no settlements in the past three years that have exceeded the Port's insurance coverage.

The actuarially determined accrued liability for workers compensation includes provision for incurred but not reported claims and loss adjustment expenses. The Port's accrued workers compensation liability at June 30, 2014 and 2013 were \$15.8 million and \$15.2 million, respectively.

A number of lawsuits were pending against the Port that arose in the normal course of operations. The Port recognizes a liability for claims and 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 City Attorney provides estimates for the amount of liabilities to be probable of occurring from lawsuits. The Port's liability for litigation and other claims at June 30, 2014 and 2013 were \$0.3 million and \$0.4 million, respectively.

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

Notes to the Financial Statements

June 30, 2014 and 2013

The changes in the Port's estimated claims payable are as follows (in thousands):

	2014	2013	2012
Unpaid claims, July 1			
Workers compensation	\$ 15,175	\$ 13,639	\$ 7,858
General liability/litigation	441	465	475
Total unpaid claims, July 1	15,616	14,104	8,333
Provision for current year's events and changes			
in provision for prior year's events			
Workers compensation	2,686	4,700	7,507
General liability/litigation	--	133	115
Total provision	2,686	4,833	7,622
Claims payments			
Workers compensation	(2,035)	(3,164)	(1,726)
General liability/litigation	(108)	(157)	(125)
Total claims payments	(2,143)	(3,321)	(1,851)
Unpaid claims, June 30			
Workers' compensation	15,826	15,175	13,639
General liability/litigation	333	441	465
Total unpaid claims, June 30	\$ 16,159	\$ 15,616	\$ 14,104
Current portion			
Workers compensation	\$ 1,939	\$ 1,939	\$ 1,807
General liability/litigation	333	441	465
Total current portion	\$ 2,272	\$ 2,380	\$ 2,272

12. Leases, Rentals, and Minimum Annual Guarantee (MAG) Agreements

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

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

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

Notes to the Financial Statements

June 30, 2014 and 2013

Agreements relating to terminal operations tend to be long term in nature (as long as 30 years) and are made to provide the Port with a firm tenant commitment. These agreements are subject to periodic review and reset of base amounts. For the years ended June 30, 2014 and 2013, the minimum rental income from such lease agreements was approximately \$40.2 million and \$42.9 million, respectively. For the years ended June 30, 2014 and 2013, the MAG payments were approximately \$241.6 million and \$236.1 million, respectively, and were reported under shipping services revenue.

The carrying cost and related accumulated depreciation of property held for operating leases as of June 30, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Wharves and sheds	\$ 881,299	\$ 873,719
Cranes and bulk facilities	52,441	52,441
Municipal warehouses	13,422	13,431
Port pilot facilities and equipment	7,910	7,820
Buildings and other facilities	774,710	772,172
Cabrillo Marina	221,666	221,557
Total	<u>1,951,448</u>	<u>1,941,140</u>
Less accumulated depreciation	<u>(1,003,238)</u>	<u>(939,462)</u>
Net	<u>\$ 948,210</u>	<u>\$ 1,001,678</u>

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):

<u>Fiscal Year Ending</u>	<u>Rental income</u>	<u>MAG income</u>
2015	\$ 40,557	\$ 258,815
2016	40,963	258,815
2017	41,372	258,815
2018	41,786	258,815
2019	42,204	258,815
Total	<u>\$ 206,882</u>	<u>\$ 1,294,075</u>

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

Notes to the Financial Statements

June 30, 2014 and 2013

13. Los Angeles City Employees Retirement System

A. Retirement Plan Description

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

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits, and annual cost-of-living adjustments based on the employees' years of service, age, and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age.

B. Actuarially Determined LACERS Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Prior to the Early Retirement Incentive Program (ERIP) in 2009, there were two different types of contributions from members. 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 February 1983 (Defrayal Group).

Starting November 8, 2009, as the ERIP Ordinance became effective, all members of LACERS contributed a flat rate of 6% of pay regardless of their entry date, and the City's Defrayal of employee contributions had been completely phased out after June 30, 2011. The ERIP Ordinance also stipulates a 1% increase in the member contribution rate for all employees effective July 1, 2011, for a period of 15 years, or until the ERIP cost obligation is fully paid, whichever comes first. In 2011, the City Council adopted new ordinances that require members of LACERS represented by certain bargaining groups to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, LACERS' members' contribution rates were increased to 7% or 9% or 11% of pay. Most of the members who contribute 7% or 9% will be required to contribute 11% effective July 1, 2012, and January 1, 2013, respectively. The remaining members, who belong to three bargaining groups, still contribute 7% of pay.

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

Notes to the Financial Statements

June 30, 2014 and 2013

The City subsidizes member contributions as determined by the actuarial consultant of LACERS. The City's contribution rate as calculated by LACERS actuary is 25.33% for Tier 1 members (i.e., all LACERS members hired prior to July 1, 2012). However, the City has created a new tier of LACERS benefits (Tier 2) for all City employees who become members of LACERS on or after July 1, 2013. The fiscal year 2014 contribution rate for Tier 2 members is 18.32%.

Based on the Port's reported covered payroll of \$74.9 million for fiscal year 2014, \$74.1 million is subject to the 25.33% rate and \$0.8 million is subject to the 18.32% rate. The Port's actual contribution to LACERS, including family death benefit, excess benefit, and limited term plans is \$19.0 million, 100% of the annual required contribution (ARC), \$17.6 million (100% of ARC), and \$17.5 million (100% of ARC) for the fiscal years ended June 30, 2014, 2013, and 2012, respectively. The allocation of contributions between the pension and postemployment healthcare benefits are not available.

The City's annual pension cost, the percentage of annual pension cost contributed to LACERS, and the net pension obligation for fiscal years ended June 30, 2013, 2012 and 2011 are as follows (amounts in thousands):

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/13	\$ 341,511	101%	\$ (63,320)
06/30/12	304,657	101%	(67,990)
06/30/11	300,329	101%	(71,873)

The City allocated a pro-rata share of its net pension obligation to the Port, and the share of the Port at June 30, 2013 was \$2.7 million.

LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. As of the completion date of the Port's financial statements, LACERS' financial statements and the plan's actuarial valuation study for fiscal year 2014 are not yet available. Separate information for the Port is not available. Reports regarding LACERS may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012, (800) 779-8328.

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

Notes to the Financial Statements

June 30, 2014 and 2013

C. Funded Status of LACERS

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan 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. Following is the funded status information of the plan for fiscal years ended June 30, 2013, 2012 and 2011 (amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
06/30/2013	\$ 10,223,961	\$ 14,881,663	\$ 4,657,702	68.7%	\$ 1,846,970	252.2%
06/30/2012	9,934,959	14,393,959	4,459,000	69.0%	1,819,270	245.1%
06/30/2011	9,691,011	13,391,704	3,700,693	72.4%	1,833,392	201.9%

The most recent actuarial valuation methods and assumptions used for LACERS as of June 30, 2013 were as follows: actuarial cost method used – entry age normal; amortization method - level percent of payroll; remaining amortization period - multiple layers not exceeding 30 years, closed. Initial years range from 15 to 30 years. Years remaining range from 6 to 29 years; asset valuation method - 7-year market related; investment rate of return - 7.75%; projected salary increases - 4.65% to 11.25%; inflation rate - 3.50%; and cost-of-living adjustment of 3.00%

In October 2012, the LACERS Board modified its funding policy to (1) change the actuarial cost method for the existing retirement benefits from the projected unit credit method to the entry age normal method beginning with the June 30, 2012 valuation; and (2) amortize all UAAL layers as of June 30, 2012 over 30 years, except the layers created in 2004 and 2005 for GASB compliance, and the layers created in 2009 as a result of the City's Early Retirement Incentive Plan, which will maintain their original amortization schedules.

As previously mentioned, information related to the funded status of LACERS retirement plan for fiscal year 2014 are not yet available as of the completion date of the Port's financial statements. Separate information for the Port is not available.

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

Notes to the Financial Statements

June 30, 2014 and 2013

D. Other Postemployment Benefits (OPEB)

The Port, as a participant in LACERS, also provides a retiree health insurance premium subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for a 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 actuarially determined basis.

During fiscal year 2011, the City adopted an ordinance to freeze the maximum medical subsidy at \$1,190 for LACERS members who retire on or after July 1, 2011. However, LACERS members who at any time prior to retirement contribute the additional 2% or 4% of pay are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2013, approximately 97% of non-retired members were making the additional contributions, and therefore are not subject to the medical subsidy freeze.

Projections of benefits 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.

As previously mentioned, the actuarial valuation for OPEB for fiscal year 2014 is not yet available as of the completion date of the Port's financial statements.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2013 and the two preceding years for the plan are as follows (amounts in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/13	\$ 72,916	100%	\$ --
06/30/12	115,209	100%	--
06/30/11	107,396	100%	--

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

Notes to the Financial Statements

June 30, 2014 and 2013

E. Funded Status of LACERS OPEB

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan 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. Following is the funded status information of the plan for fiscal years ended June 30, 2013, 2012 and 2011 (amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
06/30/2013	\$ 1,734,733	\$ 2,412,484	\$ 677,751	71.9%	\$ 1,846,970	36.7%
06/30/2012	1,642,374	2,292,400	650,026	71.6%	1,819,270	35.7%
06/30/2011	1,546,884	1,968,708	421,824	78.6%	1,833,392	23.0%

The most recent actuarial valuation methods and assumptions used for LACERS OPEB as of June 30, 2013 were as follows: actuarial cost method used – entry age normal; amortization method - level percent of payroll; remaining amortization period - multiple layers, closed not exceeding 30 years. Initial years range from 15 to 30 years. Years remaining range from 11 to 29 years; asset valuation method - 7-year fair value of assets less unrecognized return in each of the last 7 years; investment rate of return - 7.75%; projected salary increases - 4.25%; inflation rate - 3.50%; and healthcare cost trend rates – for medical, 7.75%, decreasing by 0.5% for each year for six years until it reaches an ultimate rate of 5.00%, and 5.00% for dental.

On October 23, 2012, the LACERS Board modified its funding policy to change the actuarial cost method from the projected unit credit method to entry age normal method beginning with the June 30, 2012 valuation, and to combine and re-amortize all UAAL layers with some exceptions, over 30 years, to mitigate the immediate impact on the employer contributions.

As previously mentioned, information related to the funded status of LACERS for fiscal year 2014 are not yet available as of the completion date of the Port's financial statements. Separate information for the Port is not available.

Notes 14. A to E on LACERS retirement and OPEB plans were derived from information prepared by LACERS and the City.

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

Notes to the Financial Statements

June 30, 2014 and 2013

14. City of Los Angeles Fire and Police Pension System

A. Retirement Plan Description

The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Department's Port police officers the option to transfer from LACERS to Tier V of LAFPP. The election period was from January 8, 2006 to January 5, 2007 and the decision to transfer is irrevocable.

Only "sworn" service with the Port is transferable to LAFPP. Other "non-sworn" services with other City Departments are not eligible for transfer. All new employees hired by the Harbor Department after the effective date of the Ordinance automatically go into either Tier V or Tier VI of LAFPP.

As part of the change, LACERS transferred \$6.1 million of Harbor Port Police assets to LAFPP in October 2007 for fiscal year 2007.

B. Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration/Commissioners of LAFPP establishes and may amend the contribution requirements of members and the City. The City's annual cost for the LAFPP plan is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions.

In fiscal year 2014, the Port's contribution rate for sworn employees that are members of the Harbor Tier V plan, as determined by the actuary is 33.88% of covered payroll. The Harbor Tier VI rate is 30.48%. Based on the Port's reported sworn covered payroll of \$11.5 million for Tier V, and \$0.08 million for Tier VI, the Port's pro rata share of the combined ARC for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was \$3.9 million (100% of ARC), \$3.3 million (100% of ARC) and \$3.6 million (100% of ARC) for the years ended June 30, 2014, 2013 and 2012, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

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

Notes to the Financial Statements

June 30, 2014 and 2013

The City's annual LAFPP pension cost and the percentage of annual pension cost contributed to the plan for fiscal years ended June 30, 2013, 2012, and 2011 are as follows (amount in thousands):

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net pension Asset (Obligation)
6/30/13	\$ 375,448	100%	\$ --
6/30/12	321,593	100%	--
6/30/11	277,092	100%	--

C. Funded Status of LAFPP

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to expectations and new estimates are made about the future. Following is the funded status information for the LAFPP plan for fiscal years ended June 30, 2013, 2012, and 2011 (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
06/30/2013	\$ 14,657,713	\$ 17,632,425	\$ 2,974,712	83.1%	\$ 1,367,237	217.6%
06/30/2012	14,251,914	17,030,833	2,778,919	83.7%	1,341,914	207.1%
06/30/2011	14,337,669	16,616,476	2,278,807	86.3%	1,343,963	169.6%

The most recent actuarial valuation methods and assumptions used for LAFPP as of June 30, 2013 were as follows: actuarial cost method used - entry age normal; amortization method - level dollar for Tier 1, and level percent of payroll for Tiers 2 to 6; remaining amortization period - multiple layers not exceeding 25 years, closed. Initial years range from 1 to 24 years. Years remaining range from 1 to 28 years; asset valuation method - 5-year market related prior to July 1, 2008, and 7-year market related after July 1, 2008; investment rate of return - 7.75%; projected salary increases - 5.25% to 12.25%; inflation rate - 3.50%; and cost-of-living adjustment of 3.50% for Tiers 1 and 2, and 3% for Tiers 3 to 6.

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

Notes to the Financial Statements

June 30, 2014 and 2013

LAFPP issues a publicly available financial report that includes financial statements and required supplementary information for the plan. As of the completion date of the Port's financial statements, the LAFPP's financial statements and the plan's actuarial valuation study for fiscal year 2014 are not yet available. Financial and valuation reports may be obtained by writing or calling: Los Angeles Fire and Police Pension system, 360 E. Second Street, Suite 400, Los Angeles, CA 90012, (213) 978-4545.

D. Other Postemployment Benefits (OPEB)

The City Charter, the Administrative Code, and related ordinance define the postemployment healthcare benefits. There are no member contributions for healthcare benefits. The Port, as a participant in LAFPP, also provides a retiree health insurance premium subsidy.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the LAFPP plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2013, 2012, and 2011 are as follows (amounts in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/13	\$ 144,569	99%	\$ (128,780)
06/30/12	159,777	83%	(127,024)
06/30/11	173,646	69%	(99,352)

From the most recent data made available by the City, as of June 30, 2013, amounts contributed specifically to the retiree health insurance premium subsidy by the Port alone are not available.

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

Notes to the Financial Statements

June 30, 2014 and 2013

E. Funded Status of LAFPP OPEB

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to expectations and new estimates are made about the future. Following is the funded status information for the LAFPP OPEB plan for fiscal years ended June 30, 2013, 2012 and 2011 (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
06/30/2013	\$ 1,013,400	\$ 2,633,793	\$ 1,620,393	38.5%	\$ 1,367,237	118.5%
06/30/2012	927,362	2,499,289	1,571,927	37.1%	1,341,914	117.1%
06/30/2011	882,890	2,557,607	1,674,717	34.5%	1,343,963	124.6%

The most recent actuarial valuation methods and assumptions used for LAFPP OPEB as of June 30, 2013 were as follows: actuarial cost method used - entry age normal; amortization method – closed amortization periods; remaining amortization period – multiple layers, closed, 23 years for prior to June 30, 2012, 19 years on June 30, 2012, and 20 years on June 30, 2013; asset valuation method – 5-year market related prior to June 30, 2008, and 7-year market related after June 30, 2008; investment rate of return - 7.75%; projected salary increases - 4.25%; inflation rate - 3.50%; medical healthcare cost trend rate of 8.00% in fiscal year 2014, decreasing by 0.5% for each year for six years until it reaches an ultimate rate of 5.00%; and dental healthcare cost trend of 5.00%.

As previously mentioned, the LAFPP's financial statements and actuarial study for fiscal year 2014 are not yet available as of the completion date of the Port's financial statements.

Notes 15. A to E on LAFPP retirement and OPEB plans were derived from information prepared by LAFPP and the City.

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

Notes to the Financial Statements

June 30, 2014 and 2013

15. Notes Receivable

A. Settlement of Dispute on Nexus Study

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 Port'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 BHC adopted a resolution providing for the reimbursement to the City of certain expenditures incurred by the City on behalf of the Port, but which the City had never inclusively billed the Port. Under its resolution, the BHC authorized the Port to make, and the Port paid to the City, two annual payments of \$20.0 million for the 1994/95 and 1995/96 fiscal years. The BHC further authorized the Executive Director to negotiate additional amounts as may be determined to be due, and accordingly, a memorandum of understanding (MOU) with the City was executed on June 27, 1997 (1997 MOU).

The California State Lands Commission (the Commission) is responsible for oversight of the State's Tideland Trust Lands. This Commission, together with the State Office of the 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 Commission officials and the Office of the Attorney General requested the BHC to postpone any decision involving these trust funds until the Commission and Office of the Attorney General could complete an inquiry into the studies and transfers. Subsequently, various organizations, including the Steamship Association of Southern California, which represents carriers using the Port, together with the Commission and Office of the Attorney General, brought legal action against the City and Port regarding the BHC's action.

On January 19, 2001, the City, along with the Port and the Commission, entered into a settlement and mutual release agreement to 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 \$53.4 million in principal plus 3% simple interest over a 15-year period.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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 1994–1995 through fiscal year 2000–2001, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at \$8.4 million. 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 the Commission may negotiate to amend this agreement to account for new or changed circumstances.

The State of California (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 had recorded the notes receivable due from the City. At June 30, 2014 and 2013, long-term notes receivable amounted to \$5.0 million and \$9.9 million; and current portion of notes receivable amounted to \$4.9 million and \$4.7 million, respectively.

B. Note Receivable – Yusen

In order to settle the then-outstanding \$2.4 million 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 \$0.1 million. To record the transaction, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to \$1.5 million, with the balance of \$0.9 million recognized as the Port's capital assets in fiscal year 1995. The note matures in October 2015. The long-term note receivable balance outstanding on the Yusen note is \$0.1 million and \$0.2 million at June 30, 2014 and 2013, respectively; while the current portion is \$0.1 million for both fiscal years 2014 and 2013.

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

Notes to the Financial Statements

June 30, 2014 and 2013

16. Commitments, Litigations and Contingencies

A. Commitments

Open purchase orders and uncompleted construction contracts amounted to approximately \$22.1 million as of June 30, 2014. 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 \$14.0 million from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to \$14.0 million from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in fiscal years 2014 and 2013.

B. Litigations

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.

C. Alameda Corridor Transportation Authority Agreement (ACTA)

In August 1989, the Port and the POLB (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 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 comprises 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 become entitled to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally.

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

Notes to the Financial Statements

June 30, 2014 and 2013

In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the privilege of using the corridor to transport cargo into and out of the Ports. ACTA negotiated with BNSF Railway Company (BNSF) and Union Pacific (UP) regarding certain types of cargo movements (transload movements) for which BNSF and UP are not paying use fees. In the Settlement and Release Agreement (the Agreement), dated July 5, 2006, ACTA, BNSF, and UP agreed to resolve the "Transloading Dispute." ACTA, the Ports, the City of Los Angeles, and the City of Long Beach (the ACTA Releasing Parties) each release, acquit, and discharge BNSF and UP of all liability and costs, as stated in the Agreement, arising from or relating to the Transloading Dispute. BNSF and UP (the Railroad Releasing Parties) each release, acquit, and discharge the ACTA Releasing Parties from any and all liability and costs, as stated in the Agreement, arising from or relating to any claim by the Railroad Releasing Parties. These use fees are used to pay (a) the debt service that ACTA incurs on approximately \$1.2 billion of bonds, which ACTA issued in early 1999 and approximately \$686.0 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 event 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 bonds and commercial paper currently outstanding, the Port does not and is not 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 2012, ACTA obtained a Federal Railroad Administration loan for \$83.7 million under Railroad Rehabilitation and Improvement Financing (RRIF) Program. The purpose of the loan which was in the form of 2012 Taxable Senior Lien Revenue Refunding Bonds, was to refinance a portion of ACTA's outstanding bonds. Furthermore, in 2013, ACTA refunded \$288.0 million of its 1999 Series A Bonds in the form of Tax-Exempt Senior Lien Revenue Refunding Bonds of Series 2013A, generating a present value savings of \$35.0 million or 12%. As a result of ACTA's 2012 and 2013 refunding transactions, it is projected that no shortfall advances will be required by the two ports until the year 2019.

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

Notes to the Financial Statements

June 30, 2014 and 2013

D. TraPac Project and Environmental Impact Report

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

On April 3, 2008, the BHC approved a Memorandum of Understanding (MOU) between the City and the Appellants to resolve the appeal of the TraPac Environmental Impact Report (EIR). The MOU provides for the revocation of the appeals and the establishment of a Port Community Mitigation Trust Fund (PCMTF) to be operated by a nonprofit entity to pay for off-Port environmental impacts from Port-related operations. The nonprofit created to provide administrative services for this fund is the Harbor Community Benefit Foundation (HCBF).

The Port had provided the first two years funding of \$12.0 million and \$4.0 million to the PCMTF for the identified TraPac projects in the MOU. Based on the volume of cargo processed in the third year, no additional funding has been necessary.

On October 26, 2010, the BHC approved the Operating Agreement of the TraPac MOU (Operating Agreement) which provided for more detailed procedures for the implementation of the MOU. The Operating Agreement also provided for the management of the PCMTF by California Community Foundation (CCF) or other appropriate independent financial manager. CCF managed the PCMTF funds pursuant to the Operating Agreement from 2011 to 2013.

In fiscal year 2013, the Port and HCBF agreed that a change in financial manager was in the best interest of the PCMTF, and hence, terminated the financial management agreement with CCF. On October 18, 2013, the Board approved the selection of J.P. Morgan Private Bank (JPMorgan) as the new independent financial manager to receive, manage, and disburse funds from the PCMTF. Approximately \$7.8 million in PCMTF funds being managed by CCF were transferred to a JPMorgan account in November 2013. Due to disbursements made in accordance with the MOU and Operating Agreement, the balance in the PCMTF account managed by JPMorgan as of July 2014 totaled \$6.3 million.

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

Notes to the Financial Statements

June 30, 2014 and 2013

While the five-year MOU expired in April 2013, the Operating Agreement provided that the Port shall continue to fund the PCMTF with contributions on account of certain expansion projects that have environmental impact reports certified within five years after the first HCBF Board of Directors meeting, which time expires in May 2016. The Operating Agreement provides that if the identified MOU expansion projects have EIRs certified and will proceed with construction; the Port will make a one-time additional contribution at a rate of \$3.50 per TEU (or \$1.50 per cruise passenger, and 0.15 per ton of bulk cargo) per project for growth associated with such expansion projects. Funds will be transferred to the PCMTF within 21 days following award of a construction contract or commencement of construction of each project that had an EIR certified prior to May 19, 2016. There were no contributions made during fiscal year 2014.

As of June 30, 2014, a total of \$16.8 million has been disbursed from the PCMTF fund held by the Port. The remaining fund balance including interest earned as of June 30, 2014 is \$0.1 million.

17. 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, utilities and legal services. Total amounts charged by the City for services approximate \$41.8 million and \$49.8 million in fiscal years 2014 and 2013, respectively.

18. 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, 2014 and 2013, the Port reported capital contributions of \$80.4 million and \$17.6 million, respectively, for certain capital construction and grant projects.

19. Natural Resources Defense Council Settlement Judgment

In March 2003, the Port 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 at the China Shipping Terminal. The settlement called for a total of \$50.0 million in mitigation measures to be undertaken by the Port. This \$50.0 million charge was recorded as expense in fiscal year 2003.

The terms of the agreement require that the Port fund various mitigation activities in the amount of \$10.0 million per year over a five-year term ending in fiscal year 2007. As of June 30, 2009, a total of \$50.0 million were transferred from Harbor Revenue Fund to the restricted mitigation funds.

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

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar years 2008, 2007, 2006, and 2005, and payments of \$1.8 million, \$6.9 million, \$5.8 million, and \$3.9 million, respectively, were made for having exceeded the caps. The Port charged to nonoperating expense and deposited in the restricted mitigation fund the said amounts in June 2009, June 2008, May 2007, and April 2006, respectively. Total deposits for the four years were \$18.3 million, with the June 2009 deposit for calendar year 2008 being the last payment for excess throughput required under the settlement agreement.

In April 2011, the Port contributed \$3.2 million to the restricted mitigation funds as payment for four low profile cranes installed on Berth 102 designed to reduce visual impact by the use of a horizontal boom that does not need to be raised up when the crane is not in use.

As of June 30, 2014, the Port has contributed a total of \$75.0 million to the restricted mitigation funds in accordance with the provisions of the settlement.

20. Cash Funding of Reserve Fund

As of June 30, 2014 and 2013, the Port had \$764.5 million and \$790.7 million of outstanding parity bonds. The Port holds cash reserves for each Indenture of the outstanding bonds as the BHC, on September 18, 2008, approved the full cash funding of the entire reserve requirement of \$61.5 million and transferred it to the Port's bond trustee in December 2008. The cash funding of the reserve took place to reassure bond holders of the strong commitment of the Port to its financial wherewithal as rating agencies had reduced the AAA ratings of the surety companies that had provided insurance for the bonds that the Port had issued. As of June 30, 2014, the balance of the reserve funds totaled \$58.1 million.

The required amount for the individual reserve fund will be reevaluated on a yearly basis. Any excess amounts in the Common Reserve resulting from principal repayments will be transferred to the interest fund and/or redemption fund to be used to pay interest and redeem bonds.

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

Notes to the Financial Statements

June 30, 2014 and 2013

21. Special Item

In fiscal year 2014, the Port reduced the pollution remediation liabilities by \$15.0 million primarily associated with remediation of the Wilmington Waterfront Park and Opp Street/Southerland Avenue sites. The Port completed site development and cleanup at the Wilmington Waterfront Park and there are no additional regulatory and remediation requirements from the Regional Water Quality Control Board (RWQCB). The Port also determined that there is a lack of regulatory and remediation requirements from the RWQCB for the Opp Street/Southerland Avenue sites. These adjustments were presented as Special Item in the Port's financial statements.

In fiscal year 2013, the Port adjusted the outstanding pollution remediation liabilities for the Cabrillo Way Marina and the former Kaiser Bulk Loading and Storage of \$7.0 million and \$6.4 million, respectively. The adjustment of \$13.4 million was presented as Special Item in the Port's financial statements. Remediation of these sites was previously identified as necessary in order to excavate and dispose metal impacted soil and remove contamination caused by pipeline leaks. Upon completion of soil excavation, infiltration galleries and nutrient delivery system to perform enhanced in-situ bioremediation for TPH-impacted groundwater would have been installed.

However, the obligating event to perform cleanup at the sites no longer exists and there is no requirement, directive or order from any regulatory agency to perform site cleanup. Currently, the Port has no plan to remediate these sites in the future.

22. Subsequent Events

A. Indebtedness

On September 3, 2014, the Port issued \$203.3 million Series 2014 A Bonds to finance certain private activity projects, refund all of the outstanding Series 2006 D Revenue Bonds, make deposit to the Reserve Fund and pay the costs of issuance of the Series 2014 A Bonds. Series 2014 B Bonds of \$89.1 million were issued to refund \$100.0 million of exempt facility outstanding commercial paper notes, make deposit to the Reserve Fund and pay the costs of issuance of the Series 2014 B Bonds. Series 2014 C Bonds of \$44.9 million were issued to finance certain government projects, make deposit to the Reserve Fund and pay the costs of issuance of the Series 2014 B Bonds. The last maturity on these bonds will be August 1, 2044. The bonds each bear an interest rate of 2.0% to 5.0%.

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

Notes to the Financial Statements

June 30, 2014 and 2013

B. Cash Funding of the Reserve Fund

As of August 31, 2014, the Port had \$49.4 million in the Reserve Funds. The issuance of the 2014 Series Bonds requires additional reserve funds of \$17.8 million. Hence, as of September 18, 2014, the balance of the Reserve Funds totaled \$67.2 million.

C. Fire at Berths 177 – 178

On September 23, 2014, a fire destroyed the wooden railroad wharf in front of the Berths 177-178 warehouse, the southerly 160 feet of warehouse, and damaged the remainder of the warehouse. The Port has begun cleanup operations. In addition, the Port has started recovery options including stabilizing portions of the building for access to assess damage and recovery of steel coils stored inside the warehouse. While the evaluation of the building and structure damage continues, preliminary damage assessments revealed that the southerly 160 feet of the warehouse was damaged beyond repair, the wooden railroad wharf in front of the warehouse on the water side must be repaired or replaced with a structure compliant with current design and code standards, and the remaining warehouse may need certain levels of repairs too. The amount of damage cannot be determined at this time.

The Port has an all risk property insurance policy with an additional excess layer of insurance coverage. The Port believes that its insurance is and will remain adequate. As this incident is still under investigation, the amount of potential claims cannot be determined at this time. The insurance providers are working with the Port for timely handling of this incident.



Supplemental Information

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Summary of Revenues, Expenses, and Changes in Net Position
Last Ten Fiscal Years
(Unaudited)
(amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating revenues										
Shipping services	\$ 315,615	\$ 353,390	\$ 369,972	\$ 374,878	\$ 329,347	\$ 327,630	\$ 343,498	\$ 357,716	\$ 347,876	\$ 377,213
Rentals	34,630	33,876	40,322	45,524	42,368	43,141	45,428	43,143	42,890	40,156
Royalties, fees, and other operating revenues	5,384	4,893	6,867	5,943	30,509	36,047	11,577	8,928	6,602	8,582
Total operating revenues	<u>355,629</u>	<u>392,159</u>	<u>417,161</u>	<u>426,345</u>	<u>402,224</u>	<u>406,818</u>	<u>400,503</u>	<u>409,787</u>	<u>397,368</u>	<u>425,951</u>
Operating expenses										
Salaries and benefits	56,790	64,090	72,183	92,979	95,429	92,930	98,837	98,614	101,861	112,053
Marketing and public relations	3,372	3,251	4,391	5,137	3,531	2,490	2,912	3,177	2,877	2,711
Travel and entertainment	725	802	587	1,099	609	546	804	932	1,139	548
Outside services	38,723	32,845	32,323	36,957	34,977	25,776	29,367	27,660	29,690	26,331
Materials and supplies	5,193	5,267	5,646	8,719	7,800	6,366	6,249	6,314	5,989	6,883
City services and payments	25,915	24,835	32,514	32,129	30,680	37,147	29,964	32,014	31,074	33,633
Other operating expenses	40,173	53,042	16,131	44,732	81,117	44,980	41,562	31,095	32,539	23,195
Total operating expenses before depreciation	<u>170,891</u>	<u>184,132</u>	<u>163,775</u>	<u>221,752</u>	<u>254,143</u>	<u>210,235</u>	<u>209,695</u>	<u>199,806</u>	<u>205,169</u>	<u>205,354</u>
Operating Income before depreciation	184,738	208,027	253,386	204,593	148,081	196,583	190,808	209,981	192,199	220,597
Depreciation	70,040	98,779	88,106	78,295	83,413	87,255	90,468	100,485	108,037	124,221
Operating Income	<u>114,698</u>	<u>109,248</u>	<u>165,280</u>	<u>126,298</u>	<u>64,668</u>	<u>109,328</u>	<u>100,340</u>	<u>109,496</u>	<u>84,162</u>	<u>96,376</u>
Nonoperating revenues (expenses)										
Income from investments in Joint Powers										
Authorities	3,543	4,302	4,675	4,440	2,980	5,832	(333)	1,851	2,049	2,129
Interest and investment income	7,266	9,582	23,773	34,863	18,824	11,671	6,436	9,486	826	4,654
Interest expense	(42,279)	(37,787)	(50,038)	(38,052)	(36,979)	(35,663)	(3,704)	(10,538)	(2,473)	(1,530)
Other income and expenses, net	11,842	7,222	11,018	(2,536)	(7,625)	(2,951)	(6,667)	(8,359)	784	(27,364)
Net nonoperating revenues (expenses)	<u>(19,628)</u>	<u>(16,681)</u>	<u>(10,572)</u>	<u>(1,285)</u>	<u>(22,800)</u>	<u>(21,111)</u>	<u>(4,268)</u>	<u>(7,560)</u>	<u>1,186</u>	<u>(22,111)</u>
Income before capital contributions	95,070	92,567	154,708	125,013	41,868	88,217	96,072	101,936	85,348	74,265
Capital contributions	--	2,044	4,145	14,161	4,103	16,950	12,059	31,307	17,630	80,374
Special item	--	--	(22,291)	--	--	--	--	--	13,387	15,002
Changes in net position	<u>95,070</u>	<u>94,611</u>	<u>136,562</u>	<u>139,174</u>	<u>45,971</u>	<u>105,167</u>	<u>108,131</u>	<u>133,243</u>	<u>116,365</u>	<u>169,641</u>
Total net position – beginning of year	2,011,626	2,106,696	2,201,307	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885	2,776,128	2,884,351
Net Adjustment for write off prior period bond issue costs	--	--	--	--	--	--	--	--	(8,142)	10,562
Net Position July 1, restated	<u>2,011,626</u>	<u>2,106,696</u>	<u>2,201,307</u>	<u>2,337,869</u>	<u>2,383,616</u>	<u>2,429,587</u>	<u>2,534,754</u>	<u>2,642,885</u>	<u>2,767,986</u>	<u>2,894,913</u>
Total net assets – end of year	<u>\$ 2,106,696</u>	<u>\$ 2,201,307</u>	<u>\$ 2,337,869</u>	<u>\$ 2,477,043</u>	<u>\$ 2,429,587</u>	<u>\$ 2,534,754</u>	<u>\$ 2,642,885</u>	<u>\$ 2,776,128</u>	<u>\$ 2,884,351</u>	<u>\$ 3,064,554</u>
Net position:										
Net investment in capital assets	1,890,002	1,854,468	1,931,037	1,985,653	2,101,396	2,164,885	2,278,052	2,397,744	2,634,840	2,863,795
Restricted	16	63,917	62	9	61,608	67,844	67,341	67,796	57,913	58,054
Unrestricted	<u>216,678</u>	<u>282,922</u>	<u>406,770</u>	<u>491,381</u>	<u>266,583</u>	<u>302,025</u>	<u>297,492</u>	<u>310,588</u>	<u>191,598</u>	<u>142,705</u>
Total net position	<u>\$ 2,106,696</u>	<u>\$ 2,201,307</u>	<u>\$ 2,337,869</u>	<u>\$ 2,477,043</u>	<u>\$ 2,429,587</u>	<u>\$ 2,534,754</u>	<u>\$ 2,642,885</u>	<u>\$ 2,776,128</u>	<u>\$ 2,884,351</u>	<u>\$ 3,064,554</u>

See accompanying independent auditor's report.

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

Summary of Debt Service Coverage (Pledged Revenue)

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Operating revenues (including investment/interest income and non-capital grant revenues) (1)	\$ 366,438	\$ 406,043	\$ 445,609	\$ 465,648	\$ 424,028	\$ 424,306	\$ 412,962	\$ 435,291	\$ 416,974	\$ 446,910
Operating expenses (2)	<u>170,891</u>	<u>184,132</u>	<u>163,775</u>	<u>221,752</u>	<u>254,143</u>	<u>210,235</u>	<u>209,695</u>	<u>199,806</u>	<u>205,169</u>	<u>205,354</u>
Net available revenue	<u>\$ 195,547</u>	<u>\$ 221,911</u>	<u>\$ 281,834</u>	<u>\$ 243,896</u>	<u>\$ 169,885</u>	<u>\$ 214,071</u>	<u>\$ 203,267</u>	<u>\$ 235,485</u>	<u>\$ 211,805</u>	<u>\$ 241,556</u>
Debt service, revenue bonds	\$ 58,515	\$ 58,143	\$ 58,293	\$ 61,318	\$ 61,298	\$ 66,851	\$ 72,736	\$ 71,382	\$ 72,204	\$ 65,323
Debt service, commercial papers	<u>2,021</u>	<u>3,431</u>	<u>792</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>191</u>	<u>227</u>	<u>194</u>	<u>165</u>
Total debt service (3)	<u>\$ 60,536</u>	<u>\$ 61,574</u>	<u>\$ 59,085</u>	<u>\$ 61,318</u>	<u>\$ 61,298</u>	<u>\$ 66,851</u>	<u>\$ 72,927</u>	<u>\$ 71,609</u>	<u>\$ 72,398</u>	<u>\$ 65,488</u>
Net available revenue coverage	3.2	3.6	4.8	4.0	2.8	3.2	2.8	3.3	2.9	3.7
Net cash flow from operations	\$ 226,037	\$ 201,575	\$ 246,665	\$ 252,898	\$ 151,264	\$ 185,416	\$ 158,228	\$ 217,113	\$ 234,234	\$ 131,284
Net operating cash flow Coverage	3.7	3.3	4.2	4.1	2.5	2.8	2.2	3.0	3.2	2.0

(1) Operating revenues include pledged pooled investment/interest income and non-capital grant revenues.

(2) Depreciation and amortization expenses, interest expense, and other nonoperating expenses are not included.

(3) Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are senior debt backed by pledged-revenue. Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged-revenue.

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

See accompanying independent auditor's report.

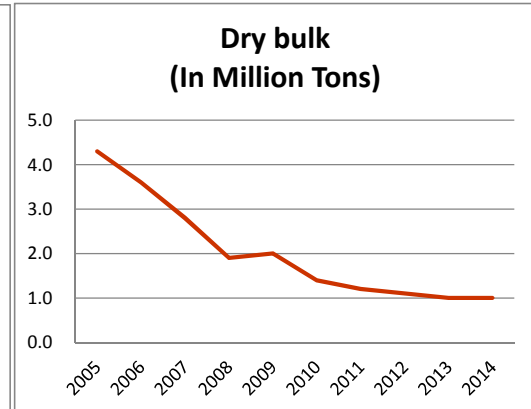
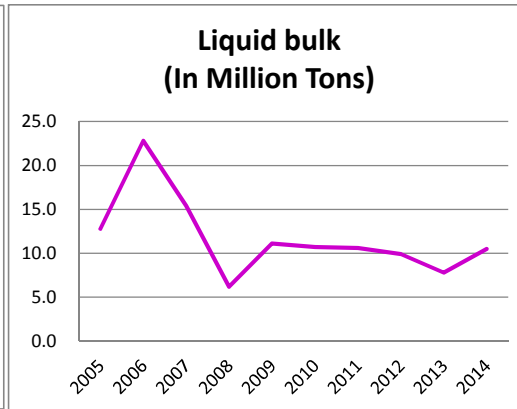
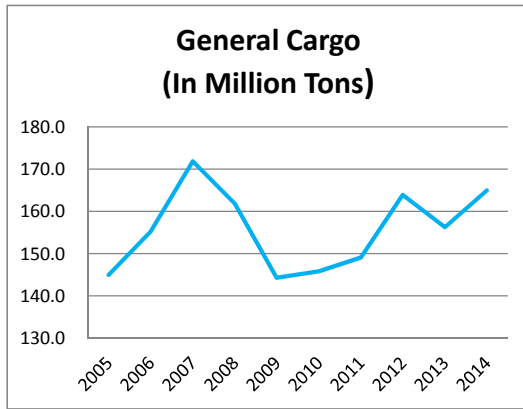
**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

**Revenue Statistics
Last Ten Fiscal Years**

(Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenue Information										
Revenue Rates										
General cargo tariff rate	5.95	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Basic dockage (600')	2,348	2,465	2,465	2,465	2,465	2,465	2,465	2,465	2,465	2,465
Required rate of return on improvements	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Required rate of return on land	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Containerized cargo volume										
(in millions of TEUs)	7.3	7.8	8.7	8.1	7.3	7.2	7.9	8.2	7.8	8.2
Inbound tonnage (million tons)	102	113	118	105	94	88	94	98	93	99
Outbound tonnage (million tons)	60	69	72	65	66	67	68	75	72	74.3
Revenue tons (million)										
General cargo	145.0	155.2	171.9	161.9	144.3	145.8	149.1	163.9	156.3	165.0
Liquid bulk	12.8	22.8	15.4	6.2	11.1	10.7	10.6	9.9	7.8	10.5
Dry bulk	4.3	3.6	2.8	1.9	2.0	1.4	1.2	1.1	1.0	1.0
Total revenue tons (million)	<u>162.1</u>	<u>181.6</u>	<u>190.1</u>	<u>170.0</u>	<u>157.4</u>	<u>157.9</u>	<u>160.9</u>	<u>174.9</u>	<u>165.1</u>	<u>176.5</u>

See accompanying independent auditor's report.

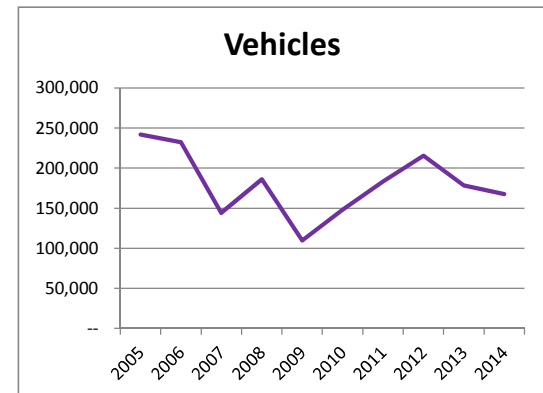
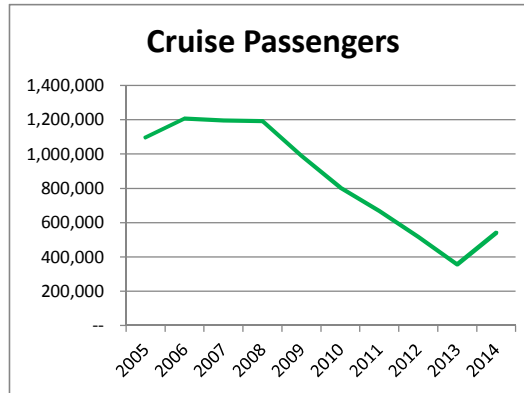
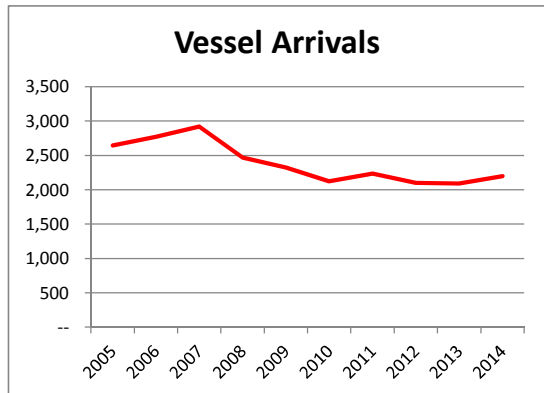


**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

**Other Operating Information
Last Ten Fiscal Years**

(Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Other Operating Information										
Miles of waterfront	43	43	43	43	43	43	43	43	43	43
Number of major container terminals	8	8	8	8	8	8	8	8	8	8
Number of cargo terminals	26	27	25	25	25	24	24	24	24	23
Vessel Arrivals	2,646	2,771	2,920	2,467	2,322	2,124	2,236	2,100	2,089	2,196
Cruise Passengers	1,097,204	1,205,947	1,194,984	1,191,449	990,965	802,899	667,434	515,827	355,875	541,418
Vehicles	242,024	232,149	144,068	185,978	109,634	147,935	183,126	215,374	178,252	167,826
Full Time employees	659	717	806	935	971	948	959	958	947	949



See accompanying independent auditor's report.

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

Operating Expenses Net of Direct and Indirect Costs
Fiscal Year Ended June 30, 2014

	Expenses Before Allocation of Direct and Indirect Costs	Direct Costs Allocated to Capital Projects	Expenses After Allocation of Direct Costs	Indirect Overhead Costs Allocated to Capital Projects	Net Operating Expenses
Salaries and benefits	\$ 136,253	\$ (18,200)	\$ 118,053	\$ (6,000)	\$ 112,053
City services	41,882	(6,526)	35,356	(1,723)	33,633
Outside services	314,622	(287,009)	27,613	(1,282)	26,331
Utilities	13,264	(338)	12,926	(591)	12,335
Materials and supplies	9,657	(2,407)	7,250	(367)	6,883
Pollution remediation expenses	1,269	--	1,269	--	1,269
Marketing and public relations	2,867	(24)	2,843	(132)	2,711
Workers' compensation, claims and settlements	1,959	--	1,959	--	1,959
Clean truck program expenses	1,100	--	1,100	--	1,100
Travel and entertainment	610	(6)	604	(56)	548
Other operating expenses	8,413	(1,506)	6,907	(375)	6,532
Total Operating Expenses	<u>\$ 531,896</u>	<u>\$ (316,016)</u>	<u>\$ 215,880</u>	<u>\$ (10,526)</u>	<u>\$ 205,354</u>

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

Operating Expenses Net of Direct and Indirect Costs
Fiscal Year Ended June 30, 2013

	Expenses Before Allocation of Direct and Indirect Costs	Direct Costs Allocated to Capital Projects	Expenses After Allocation of Direct Costs	Indirect Overhead Costs Allocated to Capital Projects	Net Operating Expenses
Salaries and benefits	\$ 130,454	\$ (20,991)	\$ 109,463	\$ (7,602)	\$ 101,861
City services	49,837	(16,444)	33,393	(2,319)	31,074
Outside services	235,155	(203,250)	31,905	(2,215)	29,690
Utilities	7,183	(362)	6,821	(1,098)	5,723
Materials and supplies	9,446	(3,010)	6,436	(447)	5,989
Pollution remediation expenses	11,635	--	11,635	--	11,635
Marketing and public relations	3,116	(24)	3,092	(215)	2,877
Workers' compensation, claims and settlements	3,550	--	3,550	--	3,550
Clean truck program expenses	934	--	934	--	934
Travel and entertainment	1,231	(7)	1,224	(85)	1,139
Other operating expenses	832	9,992	10,824	(127)	10,697
Total Operating Expenses	<u>\$ 453,373</u>	<u>\$ (234,096)</u>	<u>\$ 219,277</u>	<u>\$ (14,108)</u>	<u>\$ 205,169</u>

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Capital Development Program Expenditures per Adopted Budget
For Fiscal year 2014-2015
(Unaudited)
(amounts in thousands)**

Project Description	Expenditures per Adopted Budget
Berth 90-93 World Cruise Center	\$ 1,028
Berth 100-102 Development - China Shipping Container Terminal	2,872
Berth 121-131 - Yang Ming Container Terminal	3,697
Berth 135-147 Development - TraPac Container Terminal	100,391
Berth 212-224 Development - YTI Container Terminal	3,632
Berth 222-236 Development - Evergreen Container Terminal	5,252
Berth 240 - 267 Development	13
Berth 300-306 Development - APL Container Terminal	3,778
Berth 400-409 Development - Maersk/Cut	1,254
Motems (Marine Oil Terminal Engineering and Maintenance Standards)	11,478
Miscellaneous Terminal Improvements	2,904
Transportation Improvement	107,310
Security Projects	3,372
Port-wide Public Enhancements - Community	60
Environmental Enhancements	924
Harbor Department Facilities	10,275
Los Angeles Waterfront	5,170
Miscellaneous Projects	2,889
Unallocated Capital Improvement Program Fund	14,663
Total	\$ 280,962

Note: Schedule above excludes capital equipment.

See accompanying independent auditor's report.



Compliance Section



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the 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, the financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements as listed in the table of contents, and have issued our report thereon dated October 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Simpson' twice with a colon between them.

Los Angeles, California
October 24, 2014