Comprehensive Annual Financial Report

PORT OF LOS ANGELES

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA

June 30, 2018 and 2017

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

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

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Prepared by: Finance and Administration Bureau of Port of Los Angeles

INTRODUCTORY SECTION

THE PORT OF LOS ANGELES
425 S. Palos Verdes Street Post Office Box 151 San Pedro, CA 90733-0151 TEL/TDD 310 SEA-PORT www.portoflosangeles.org

December 4, 2018

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

This Comprehensive Annual Financial Report (CAFR) of the Port of Los Angeles (the Port), Harbor Department of the City of Los Angeles, California (the City), for the years ended June 30, 2018 and 2017, is hereby submitted.

Introduction

The management of 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, 2018 and 2017, which have received an unmodified opinion from the Port's independent auditors and are presented in accordance with generally accepted accounting principles (GAAP). The report is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section outlines the relationship of the Port to the City and describes the organization and reporting entity. It additionally provides an overview of Port properties, operations, and key personnel. This letter of transmittal is designed to complement the management discussion and analysis (MD&A), which provides a narrative introduction, overview, and analysis to the financial statements, and should be read in conjunction with it.

The Financial Section includes the independent auditor's report, MD&A, financial statements, and required supplementary information. The MD&A presents a comparative review of financial position and changes in financial position for fiscal years 2018, 2017, and 2016. 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.

Financial statements are prepared on an accrual basis and use an economic resources measurement focus. Financial statements comprise the statements of net position that present the financial position as of June 30, 2018 and 2017, statements of revenues, expenses, and changes in net position depicting financial performance for fiscal years 2018 and 2017, statements of cash flows that present the source and application of funds from operations, financing (noncapital and capital related), and investment activities for fiscal years 2018 and 2017, and notes to financial statements. The accompanying notes to financial statements further explain and support the information in the statements.

Profile of the Reporting Entity

The Port is a proprietary department of the City and is held in trust by the City for the people of the State of California (the State) 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 the Board of Harbor Commissioners (the Board) which consists of five commissioners, appointed by the Mayor and confirmed by the City Council (the Council).

Most of the properties on which the Port's land, docks, wharves, transit sheds, terminals and other facilities are located is owned by the State and administered by the City through the Port, pursuant to certain tidelands grants from the State. The Port 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 GAAP, the accompanying financial statements are included as an Enterprise Fund of the City.

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 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 or bureaus. These bureaus each consist of multiple divisions and fall under the responsibilities of five senior executives who report directly to the Executive Director. The Port's management structure is described in more detail below.

- The Deputy Executive Director of Stakeholder Engagement leads the Stakeholder Engagement Bureau, which consists of the Communications (including Community Relations and Media Relations), Government Affairs, Labor Relations and Workforce Development, and Trade Development divisions.

- The Deputy Executive Director & Chief Financial Officer leads the Finance and Administration Bureau, which consists of the Contracts and Purchasing, Human Resources, Accounting, Debt and Treasury Management, Financial Management, Management Audit, and Risk Management divisions.

- The Chief of Public Safety & Emergency Management leads the Public Safety & Emergency Management Bureau, which consists of the Los Angeles Pilot Service, Port Police, and Information Technology divisions.

- The Deputy Executive Director of Marketing & Customer Relations leads the Marketing & Customer Relations Bureau, which consists of the Planning & Strategy, Cargo Marketing, Environmental Management, Waterfront/Commercial Real Estate, and Cargo/Industrial Real Estate divisions.

- The Deputy Executive Director of Development leads the Development Bureau, which consists of the Construction, Goods Movement, Construction and Maintenance, and Engineering divisions.

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

The Port operates primarily as a landlord, as opposed to an operating port. Its docks, wharves, transit sheds, and terminals are leased to shipping or terminal companies, agents, and to other private firms. Although the Port owns these facilities, it has no direct hand in managing the daily movement of cargo. The Port is a landlord to close to 300 entities. In addition to major terminal operators, other tenants include marinas, commercial fishing operations, cruise operations, restaurants, and recreational facilities.

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, space assignment charges, etc.), land rentals, 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/Hong Kong, 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 Rating Services, Moody's Investors Service, and Fitch Ratings, respectively, with a "stable" outlook. These are the highest credit ratings for any stand-alone U.S. port.

Initiatives and Developments

The Port aims to continue to maintain its competitive edge by developing infrastructure that supports growth and efficiency, secure, and sustainable port operations. As such, the Port has adopted a capital budget of $153.6 million in fiscal year 2019. Comprising 11.5% of its total budget of $1.3 billion, the adopted capital expenditures include $91.0 million for direct costs of capital improvement projects, indirect costs of $45.6 million in allocated capitalized overhead and interest costs, $1.0 million for land and property acquisition, and $16.0 million for capital equipment. The adopted capital expenditures of $91.0 million include $31.6 million for terminal improvement projects, $10.0 million for transportation and infrastructure projects, $13.6 million for public access/environmental enhancement projects, $4.7 million for security projects, and $31.1 million for maritime services.

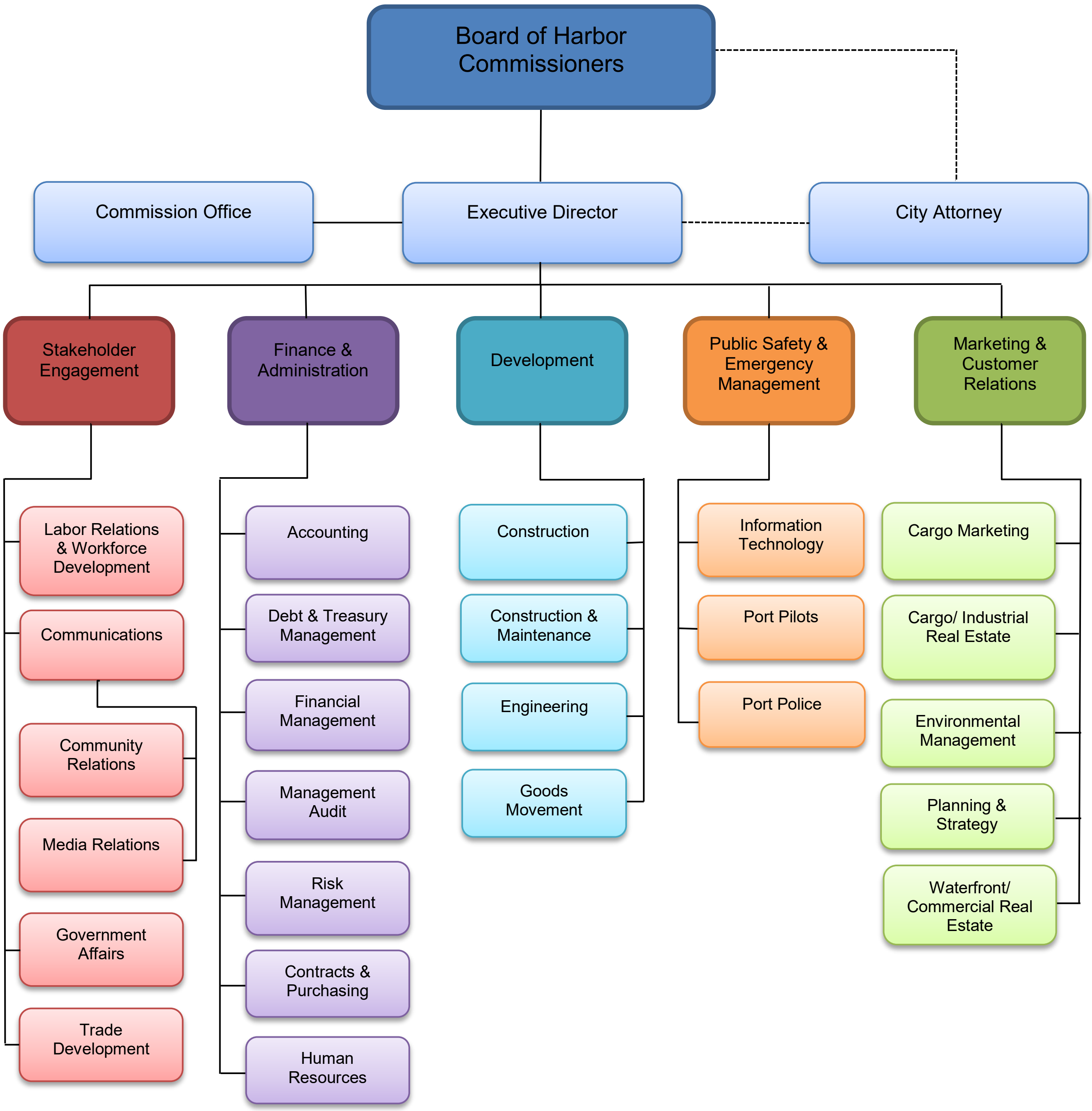
Publication of this CAFR is a reflection of the excellence and professionalism of the Port's entire staff. The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance and Administration Bureau. We wish to thank all Port's divisions for their assistance in providing the data necessary to prepare this report.

Sincerely,

Marla Bleavins

MARLA BLEAVINS
Deputy Executive Director and Chief Financial Officer

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



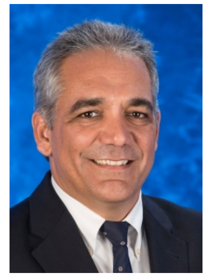
PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)

BOARD OF HARBOR COMMISSIONERS

Jaime L. Lee
President

David Arian
Vice President

Lucia
Moreno-Linares
Commissioner



Anthony Pirozzi, Jr.
Commissioner

Edward R. Renwick
Commissioner

EXECUTIVE STAFF

Eugene D. Seroka
Executive Director

Marla Bleavins
Deputy Executive Director &
Chief Financial Officer
Finance & Administration

Tony Gioiello
Deputy Executive Director
Development

Thomas Gazsi
Chief of Public Safety &
Emergency Management

Michael Di Bernardo
Deputy Executive Director
Marketing & Customer Relations

David Libatique
Deputy Executive Director
Stakeholder Engagement

MANAGEMENT STAFF

Theresa Adams Lopez
Director of Community Relations

Arley Baker
Senior Director of
Communications

Christopher Cannon
Director of Environmental
Management

Tricia Carey
Director of Contracts &
Purchasing

Eric Caris
Director of Cargo Marketing

Kerry Cartwright
Director of Goods Movement

Tim Clark
Director of Construction &
Maintenance

Capt. John Dwyer
Pilot Service

Capt. David Craig Flinn
Pilot Service

Michael Galvin
Director of Waterfront &
Commercial Real Estate

Jack Hedge
Director of Cargo/Industrial Real
Estate

Julie Huerta
Commission Office

Lance Kaneshiro
Director of Information
Technology

Michael Keenan
Director of Planning & Economic
Development

Frank Liu
Director of Accounting

Tish Lorenzana
Director of Human Resources

James MacLellan
Director of Business & Trade
Development

Kathy Merkovsky
Director of Risk Management

Jim Olds
Director of Management Audits

Michael Graychik
Assistant Chief of Port Police

Soheila Sajadian
Director of Debt & Treasury
Management

Phillip Sanfield
Director of Media Relations

Shaun Shahrestani
Chief Harbor Engineer of
Construction

Avin Sharma
Director of Labor Relations &
Workforce Development

Jeffrey Strafford
Director of Financial Management

Dave Walsh
Chief Harbor Engineer of Design

Vacant
Director of Governmental Affairs

CITY ATTORNEY STAFF

Janna Sidley
General Counsel

FINANCIAL SECTION

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Independent Auditor's Report

Honorable Members of the Board of Harbor 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) (Port), an enterprise fund of the City of Los Angeles, California, as of and for the years ended June 30, 2018 and 2017, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
700 South Flower St., Suite 800
Los Angeles, CA 90017

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Port and do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California, as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 2, effective July 1, 2017, the Port adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability and related ratios and schedule of contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 4, 2018, on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Port's 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.

Macias Gini É O'Connell LLP

Los Angeles, California
December 4, 2018

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, 2018 and 2017. This discussion and analysis should be read in conjunction with the transmittal letter on pages 1-4 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 outflows of resources, liabilities, and deferred inflows of resources as of June 30, 2018 and 2017. The sum of assets and deferred outflows of resources minus the sum of liabilities and deferred inflows of resources 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 expenses. Revenues and expenses are recorded and reported for some items that will result in cash flows in future periods. Changes in net position are 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 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.

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Overview of the Port's Financial Statements

The Port is a fiscally independent department and an enterprise fund of the City of Los Angeles, California (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 financial statements on pages 47 to 113 provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights for Fiscal Year 2018

- Current assets exceeded current liabilities by $581.4 million.
- Capital assets, net of accumulated depreciation and amortization of $2.2 billion amounted to $3.9 billion.
- Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $3.3 billion.
- Bonded debt net of unamortized discounts/premiums of $68.3 million, totaled $922.4 million.
- Operating revenue amounted to $490.8 million.
- Net operating expenses excluding depreciation of $168.0 million amounted to $237.0 million.
- Capital contributions amounted to $4.5 million.

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Financial Highlights for Fiscal Year 2017

- Current assets exceeded current liabilities by $495.1 million.
- Capital assets, net of accumulated depreciation and amortization of $2.0 billion amounted to $3.9 billion.
- Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $3.3 billion.
- Bonded debt net of unamortized discounts/premiums of $77.6 million, totaled $969.3 million.
- Operating revenue amounted to $474.5 million.
- Net operating expenses excluding depreciation of $172.9 million amounted to $227.7 million.
- Capital contributions amounted to $18.8 million.

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Analysis of Net Position

Net position is the sum of assets and deferred outflows of resources minus liabilities and deferred inflows of resources. 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, 2018, 2017, and 2016 (in thousands):

Condensed Net Position

				Increase (Decrease) Over Prior Year	
	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Assets					
Current and other assets	$ 823,337	$ 753,106	$ 634,124	$ 70,231	$ 118,982
Capital assets, net	3,871,402	3,925,084	3,950,902	(53,682)	(25,818)
Total assets	4,694,739	4,678,190	4,585,026	16,549	93,164
Deferred outflows of resources	66,313	79,575	44,857	(13,262)	34,718
Liabilities					
Current liabilities	164,143	180,120	164,471	(15,977)	15,649
Long-term liabilities	1,224,655	1,282,205	1,281,576	(57,550)	629
Total liabilities	1,388,798	1,462,325	1,446,047	(73,527)	16,278
Deferred inflows of resources	37,383	30,042	21,881	7,341	8,161
Net position					
Net investment in capital assets	2,964,553	2,972,442	2,945,412	(7,889)	27,030
Restricted for debt service	62,225	62,255	66,599	(30)	(4,344)
Unrestricted	308,093	230,701	149,944	77,392	80,757
Total net position	$ 3,334,871	$ 3,265,398	$ 3,161,955	$ 69,473	$ 103,443

Net Position, Fiscal Year 2018

The largest portion of the Port's net position ($3.0 billion or 88.9%) reflects its net 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 ($62.2 million or 1.9%) represents resources that are restricted for the debt service reserve fund. The remaining balance of $308.1 million or 9.2% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Current and other assets increased by $70.2 million or 9.3% from $753.1 million in fiscal year 2017 to $823.3 million in fiscal year 2018. This increase in current assets occurred due to higher year-over-year unrestricted cash levels.

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Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasury on behalf of the Port. The increase of $51.0 million from $707.5 million at June 30, 2017 to $758.5 million at June 30, 2018 was primarily due to the aforementioned increased unrestricted cash levels. Unrestricted cash increased over the course of the fiscal year as cash receipts derived from operating income and nonoperating sources more than sufficiently covered capital spending needs, debt service obligations, pollution remediation payments and workers' compensation payments. At June 30, 2018, the Port's share in the fair value measurement of the City's pooled investments reflected a decline of $10.3 million. The Port reported additional investments of $3.5 million from its share in the City's investment purchases on June 30, 2018, and $11.5 million in securities lending transactions.

Grants receivable increased by $3.0 million or 324.6% as larger amount of grant invoices remained outstanding at fiscal year-end relative to prior fiscal year.

Capital assets, net of depreciation decreased by $53.7 million or 1.4% as the increase in accumulated depreciation associated with the Port's existing facilities and equipment more than offset the increase in new capital assets associated with capital project development and construction in progress.

Current liabilities decreased by $16.0 million or 8.9% as a decrease of $31.3 million for the Port's share in the City's investment purchases on June 30, 2018 settled subsequently in the next fiscal year was only slightly offset by increases of $7.2 million in obligations from securities lending transactions, $6.4 million in current portion of outstanding bonds payable and $1.7 million in the net balance of other current liabilities.

Long-term liabilities decreased by $57.6 million or 4.5% primarily due to a decrease of $53.3 million in the noncurrent portion of bonds payable arising from the customary repayment of principal in conjunction with the Port's annual servicing of its debt, a decrease of $20.4 million or 8.8% in net pension liability attributable to the actual investment return rate of plan assets in fiscal year 2016-17 exceeding the investment return rate used in actuarial assumption, and a decrease of $10.2 million in estimated pollution remediation obligations. These decreases were offset by an increase in liabilities following the recognition of $24.4 million for other postemployment benefits (OPEB) liability as a result of implementing the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) and other increases totaling $1.9 million for deposits, accrued employee benefits, and allowance for workers compensation.

Net Position, Fiscal Year 2017

The largest portion of the Port's net position ($3.0 billion or 91.0%) reflects its net 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 ($62.3 million or 1.9%) represents resources that are restricted for the debt service reserve fund. The remaining balance of $230.7 million or 7.1% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Current and other assets increased by $119.0 million or 18.8% from $634.1 million in fiscal year 2016 to $753.1 million in fiscal year 2017. This increase in current assets occurred due to higher year-over-year unrestricted cash levels.

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Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasury on behalf of the Port. The increase of $135.1 million from $572.4 million at June 30, 2016 to $707.5 million at June 30, 2017 was primarily due to the aforementioned increased unrestricted cash levels. Unrestricted cash was driven higher over the course of the fiscal year as record cargo volumes drove operating income to levels which more than sufficiently covered annual capital spending and debt service obligations. In addition, unrestricted cash was driven higher by the receipt of one-time legal settlement awards and insurance settlement proceeds. At June 30, 2017, the Port's share in the fair value measurement of the City's pooled investments reflected a decline of $0.1 million. The Port reported additional investments of $34.8 million from its share in the City's investment purchases on June 30, 2017, and $4.4 million in securities lending transactions.

Grants receivable decreased by $9.2 million as grant funded projects progressed over the course of the fiscal year and their associated grant funds were drawn down.

Capital assets, net of depreciation decreased by $25.8 million due to the salvage of old cranes and lower spending on certain projects at TraPac, cruise and WWL Vehicle Services Americas, Inc. terminals.

Current liabilities increased by $15.6 million or 9.5% mainly due to an increase in other current liabilities for the Port's share in the City's investment purchases on June 30, 2017 settled subsequently in the next fiscal year.

Long-term liabilities increased by $0.6 million as increases in long-term environmental remediation obligations and net pension liabilities slightly exceeded the decline in bonds payable arising from the customary repayment of principal in conjunction with the Port's annual servicing of its debt.

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Analysis of the Port's Activities

The following table presents condensed information showing how the Port's net position changed during fiscal years 2018, 2017 and 2016 (in thousands):

Condensed Changes in Net Position

				Increase (Decrease) Over Prior Year	
	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Operating revenue	$ 490,760	$ 474,532	$ 436,126	$ 16,228	$ 38,406
Less: Operating expenses	236,955	227,675	226,261	9,280	1,414
Operating income before depreciation and amortization	253,805	246,857	209,865	6,948	36,992
Less: Depreciation and amortization	167,984	172,895	163,933	(4,911)	8,962
Operating income	85,821	73,962	45,932	11,859	28,030
Net nonoperating revenue (expenses)	3,006	1,530	7,512	1,476	(5,982)
Income before capital contributions	88,827	75,492	53,444	13,335	22,048
Capital contributions	4,524	18,801	40,489	(14,277)	(21,688)
Extraordinary Item	--	9,150	5,123	(9,150)	4,027
Changes in net position	93,351	103,443	99,056	(10,092)	4,387
Net position, July 1	3,265,398	3,161,955	3,062,899	103,443	99,056
Cumulative effect of change in accounting principles	(23,878)	--	--	(23,878)	--
Net position, July 1, restated	3,241,520	3,161,955	3,062,899	79,565	99,056
Net position, June 30	$ 3,334,871	$ 3,265,398	$ 3,161,955	$ 69,473	$ 103,443

Changes in Net Position, Fiscal Year 2018

The Port reported a $93.4 million change in net position in fiscal year 2018, a 9.8% decrease as compared to fiscal year 2017. Approximately $466.7 million or 95.1% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating expenses were higher by $9.3 million in fiscal year 2018 compared to the previous fiscal year.

Depreciation expense decreased by $4.9 million to $168.0 million in fiscal year 2018 from $172.9 million in fiscal year 2017, primarily due to certain assets being fully depreciated in the prior year.

Nonoperating revenues for fiscal year 2018 totaled $10.9 million, while nonoperating expenses were $7.9 million, thereby resulting in net nonoperating revenue of $3.0 million. Nonoperating revenues of $10.9 million include: $2.0 million of income from an investment in the Intermodal Container Transfer Facility Joint Powers Authority, $0.6 million from interest and investment income from the Port's cash in the City's pooled investments, $1.5 million from noncapital grants, $2.7 million from pass through grant revenue, as well as $4.1 million from various rebates, reimbursements, and miscellaneous other receipts. Nonoperating

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expenses of $7.9 million include $1.6 million of interest on indebtedness, $2.7 million from pass through grant expenditures, $1.6 million of expenses resulting from certain capitalized projects being discontinued during the fiscal year, and $2.0 million related to disposed asset write-offs and maintaining liquidity support for the commercial paper program during the fiscal year.

As a result, income before capital contributions increased by $13.3 million or 17.7% to $88.8 million in fiscal year 2018 from $75.5 million in fiscal year 2017.

Capital contributions decreased by $14.3 million from $18.8 million received in fiscal year 2017 to $4.5 million in fiscal year 2018 following the completion of more grant-funded initiatives in fiscal year 2017 relative to fiscal year 2018. Capital grants in fiscal year 2018 funded initiatives such as Harbor Boulevard/Sampson Way/7th Street Reconfiguration ($2.7 million), Yusen Terminal Efficiency Enhancements and Truck Trip Redesign Program ($2.3 million), I-110/C-Street Access Ramp Improvements ($1.2 million), Rail Yard Track Connections at Berth 200 ($1.4 million), and I-110/SR-47/Harbor Boulevard Connectors and Vincent Thomas Bridge ($0.6 million). These grant receipts of $8.2 million were offset by a $3.7 million refund related to TraPac terminal construction.

Changes in Net Position, Fiscal Year 2017

The Port reported a $103.4 million change in net position in fiscal year 2017, a 4.4% increase as compared to fiscal year 2016. Approximately $449.5 million or 94.7% 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 $1.4 million in fiscal year 2017 compared to the previous fiscal year.

Depreciation expense increased by $9.0 million to $172.9 million in fiscal year 2017 from $163.9 million in fiscal year 2016, primarily due to the completion of capital projects that have been put into service in recent years.

Nonoperating revenues for fiscal year 2017 totaled $13.2 million, while nonoperating expenses were $11.7 million, thereby resulting in net nonoperating revenue of $1.5 million. Nonoperating revenues of $13.2 million include: $2.2 million of income from an investment in the Intermodal Container Transfer Facility Joint Powers Authority, $1.1 million from interest and investment income from the Port's cash in the City's pooled investments, $1.2 million from noncapital grants, $7.9 million from pass through grant revenue, as well as $0.8 million from various rebates, reimbursements, and miscellaneous other receipts. Nonoperating expenses of $11.7 million include $0.6 million of interest on indebtedness, $7.9 million from pass through grant expenditures, $0.8 million of expenses resulting from certain capitalized projects being discontinued during the fiscal year, and $2.4 million related to the costs of issuing debt and maintaining liquidity support for the commercial paper program during the fiscal year.

As a result, income before capital contributions increased by $22.1 million or 41.3% to $75.5 million in fiscal year 2017 from $53.4 million in fiscal year 2016.

Capital contributions of $18.8 million represented funds for capital grants obtained in fiscal year 2017, and decreased by $21.7 million compared to the $40.5 million received in fiscal year 2016. Capital grant reimbursements in fiscal year 2017 funded initiatives such as the Yusen Terminal Efficiency Enhancements

Continued…..

and Truck Trip Redesign Program ($7.7 million), I-110/C-Street Access Ramp Improvements ($4.5 million), I-110/SR-47/Harbor Boulevard Connectors ($2.3 million), TraPac Terminal Construction ($1.5 million), the South Wilmington Grade Separation ($1.4 million), San Pedro Waterfront Development ($0.7 million) and Rail Yard Track Connections at Berth 200 ($0.7 million).

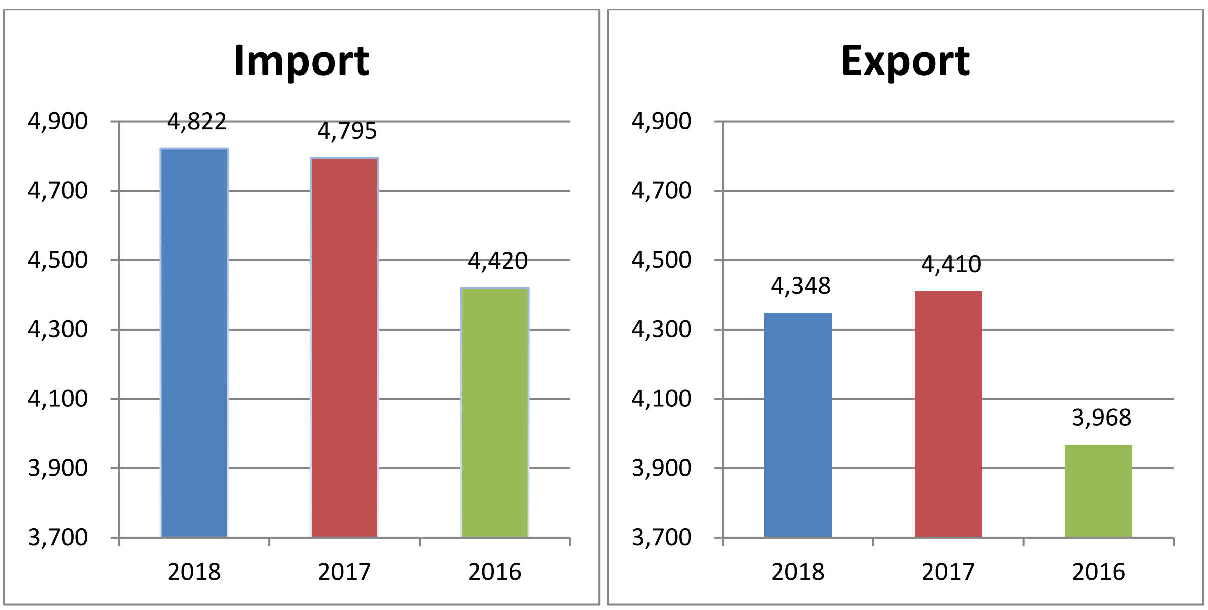
Insurance recovery for the fire damage to Berths 177-178 and a portion of Berth 179 in 2014 in the amount of $9.2 million was received in fiscal year 2017 and reflected as Extraordinary Item. See page 113 of this report for additional information.

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 thousand TEUs):

	In TEUs			% Change Over Prior Year	
Container Volume	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Import	4,822	4,795	4,420	0.6%	8.5%
Export	4,348	4,410	3,968	-1.4%	11.1%
Total	9,170	9,205	8,388	-0.4%	9.7%

Following is the graphical presentation of the Port's container counts (in thousand TEUs) for fiscal years 2016 to 2018:



In Thousand TEUs

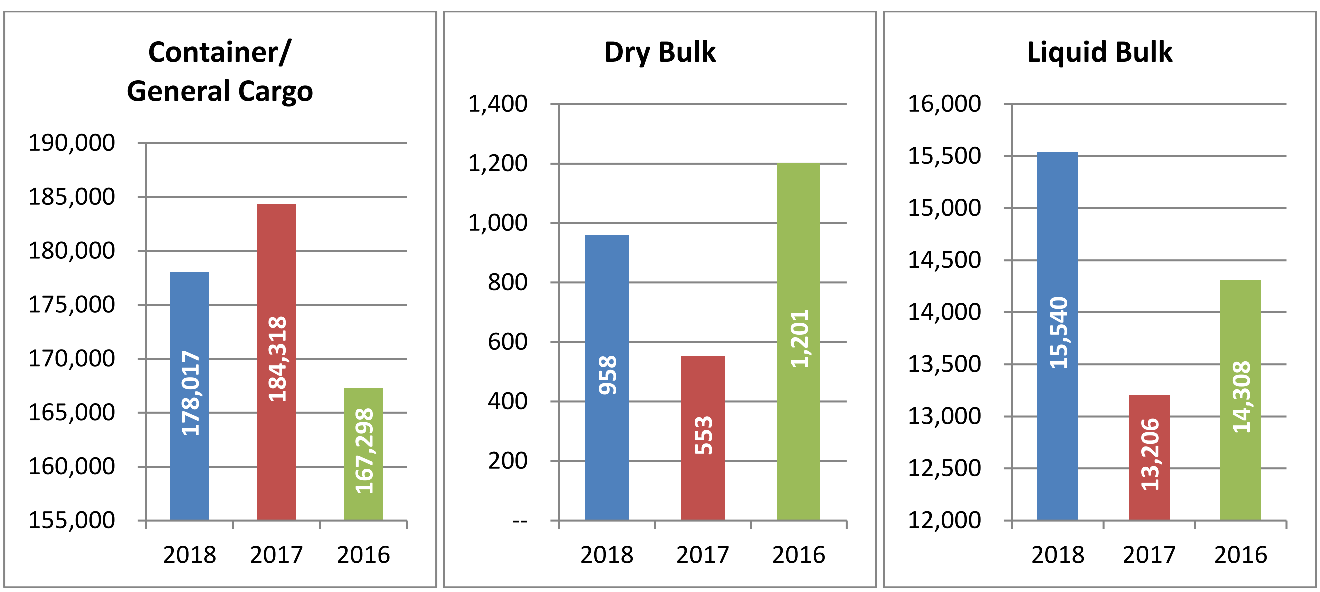
Continued…..

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):

	In Metric Revenue Tons			% Change Over Prior Year	
Cargo Type	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Container/general cargo	178,017	184,318	167,298	-3.4%	10.2%
Dry bulk	958	553	1,201	73.2%	-54.0%
Liquid bulk	15,540	13,206	14,308	17.7%	-7.7%
Total	194,515	198,077	182,807	-1.8%	8.4%

Information for the cargo volume that moved through the Port for the last ten fiscal years may be found in the Statistical Section on page 122.

Following is the graphical presentation of the Port's cargo volumes for fiscal years 2016 to 2018 in thousand metric tons:



In Thousand Metric Tons

Continued…..

The Port is the number one port by container volume in North America. Fiscal year 2018 marked the second consecutive fiscal year period in which the Port has surpassed the 9.0 million TEU mark. Fiscal Year 2018 cargo volumes of 9.2 million TEUs represented a 0.4% decrease relative to the prior fiscal year. Total loaded containers of 6.6 million represented a 0.4% decrease relative to the prior fiscal year.

Continued…..

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

Management's Discussion and Analysis

June 30, 2018 and 2017

(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 2018, 2017 and 2016 (in thousands):

Summary of Operating Revenues

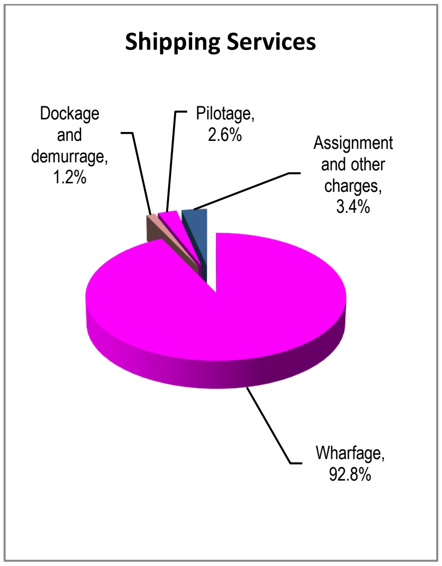
				Increase (Decrease) Over Prior Year	
	FY 2018	FY 2017	FY 2016*	FY 2018	FY 2017
Shipping services					
Wharfage	$ 376,127	$ 369,459	$ 341,765	$ 6,668	$ 27,694
Dockage and demurrage	4,751	4,326	5,845	425	(1,519)
Pilotage	10,502	9,558	7,064	944	2,494
Assignment and other charges	13,899	14,912	13,796	(1,013)	1,116
Total shipping services	405,279	398,255	368,470	7,024	29,785
Rentals					
Land	60,746	50,554	45,763	10,192	4,791
Other	673	704	808	(31)	(104)
Total rentals	61,419	51,258	46,571	10,161	4,687
Royalties and other fees					
Fees, concession and royalties	10,555	10,436	10,655	119	(219)
Clean truck program fees	2,186	2,340	2,384	(154)	(44)
Other	11,321	12,243	8,046	(922)	4,197
Total royalties and other fees	24,062	25,019	21,085	(957)	3,934
Total operating revenues	$ 490,760	$ 474,532	$ 436,126	$ 16,228	$ 38,406

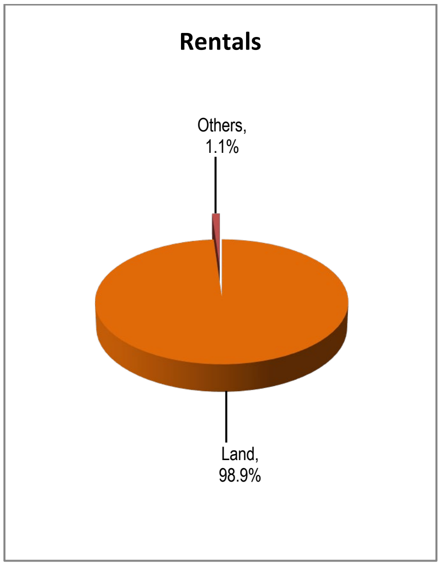
* Certain information was reclassified to conform to current year's presentation.

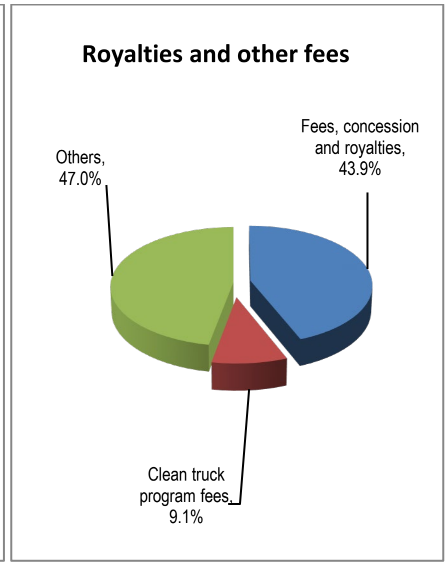
Continued…..

The following charts show the major components of the Port's sources of operating revenue for fiscal years 2018 and 2017:

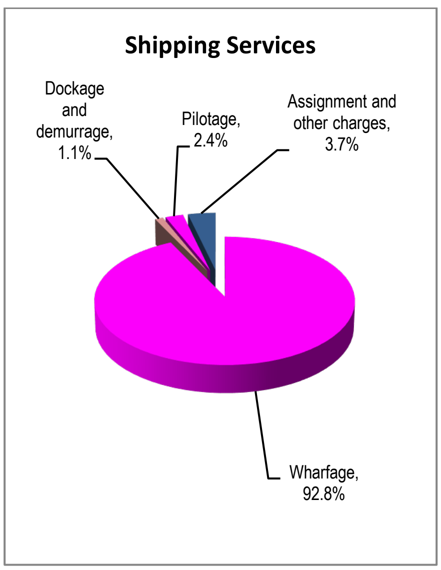
Fiscal Year 2018

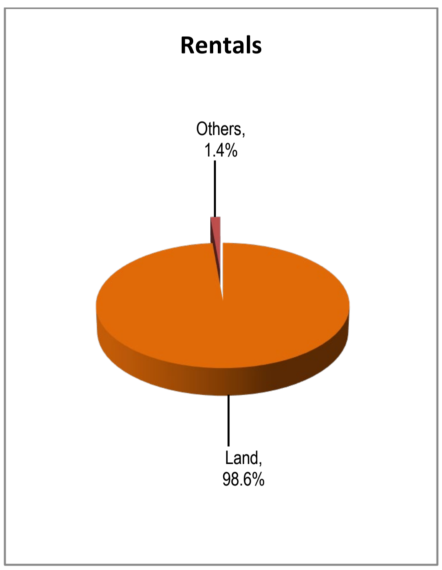


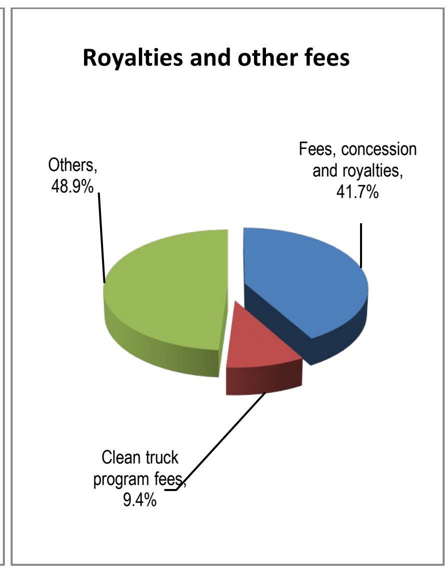




Fiscal Year 2017







Continued…..

Operating Revenue, Fiscal Year 2018

Operating revenue for fiscal year 2018 increased to $490.8 million, reflecting an 3.4% increase from the prior year revenue of $474.5 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 represented 82.6% of fiscal year 2018 total operating revenues and 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 2018. Wharfage is the fee charged against merchandise for passage over wharf premises, to and from vessels, and barges. Wharfage was $6.7 million higher compared to fiscal year 2017 mainly due to higher rates realized on cargo volumes moved through terminals. Other shipping services revenues were $0.3 million higher as dockage and demurrage revenue as well as pilotage revenue increased by $0.4 million and $0.9 million, respectively, while assignment revenues decreased by $1.0 million.

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 2018, rental income at the Port, which represented 12.5% of fiscal year 2018 total operating revenues, increased by $10.2 million, or 19.8%, over last fiscal year. The increase was due to $11.4 million in net rental rate increases and new permits offset by $0.6 million in the non-recurrence of one-time payments and $0.6 million in permit terminations.

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 fiscal year 2018 was $24.1 million or 4.9% of the total operating revenues. This represented a decrease of $1.0 million in this revenue category compared with fiscal year 2017 mainly due to $1.4 million in higher credits for tenant services being only partially offset by $0.4 million in higher other miscellaneous receipts.

Continued…..

Operating Revenue, Fiscal Year 2017

Operating revenue for fiscal year 2017 increased to $474.5 million, reflecting an 8.8% increase from the prior year revenue of $436.1 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 represented 83.9% of fiscal year 2017 total operating revenues and 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 2017. Wharfage is the fee charged against merchandise for passage over wharf premises, to and from vessels, and barges. Wharfage was $27.7 million higher compared to fiscal year 2016 mainly due to higher cargo volumes moved through terminals. Other shipping services revenues were $2.1 million higher as pilotage revenue and assignment revenue increased by $2.5 million and $1.1 million, respectively, while dockage and demurrage revenues decreased by $1.5 million.

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 2017, rental income at the Port, which represented 10.8% of fiscal year 2017 total operating revenues, increased by $4.7 million, or 10.1%, over last fiscal year. The increase was due to $6.7 million in net rental rate increases and new permits offset by $1.4 million in the non-recurrence of one-time payments and $0.6 million in permit terminations.

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 fiscal year 2017 was $25.0 million or 5.3% of the total operating revenues. This represented an increase of $3.9 million in this revenue category compared with fiscal year 2016 mainly due to the receipt of $3.0 million in Harbor Maintenance Tax proceeds and $0.9 million in other miscellaneous receipts.

Continued…..

Operating Expenses

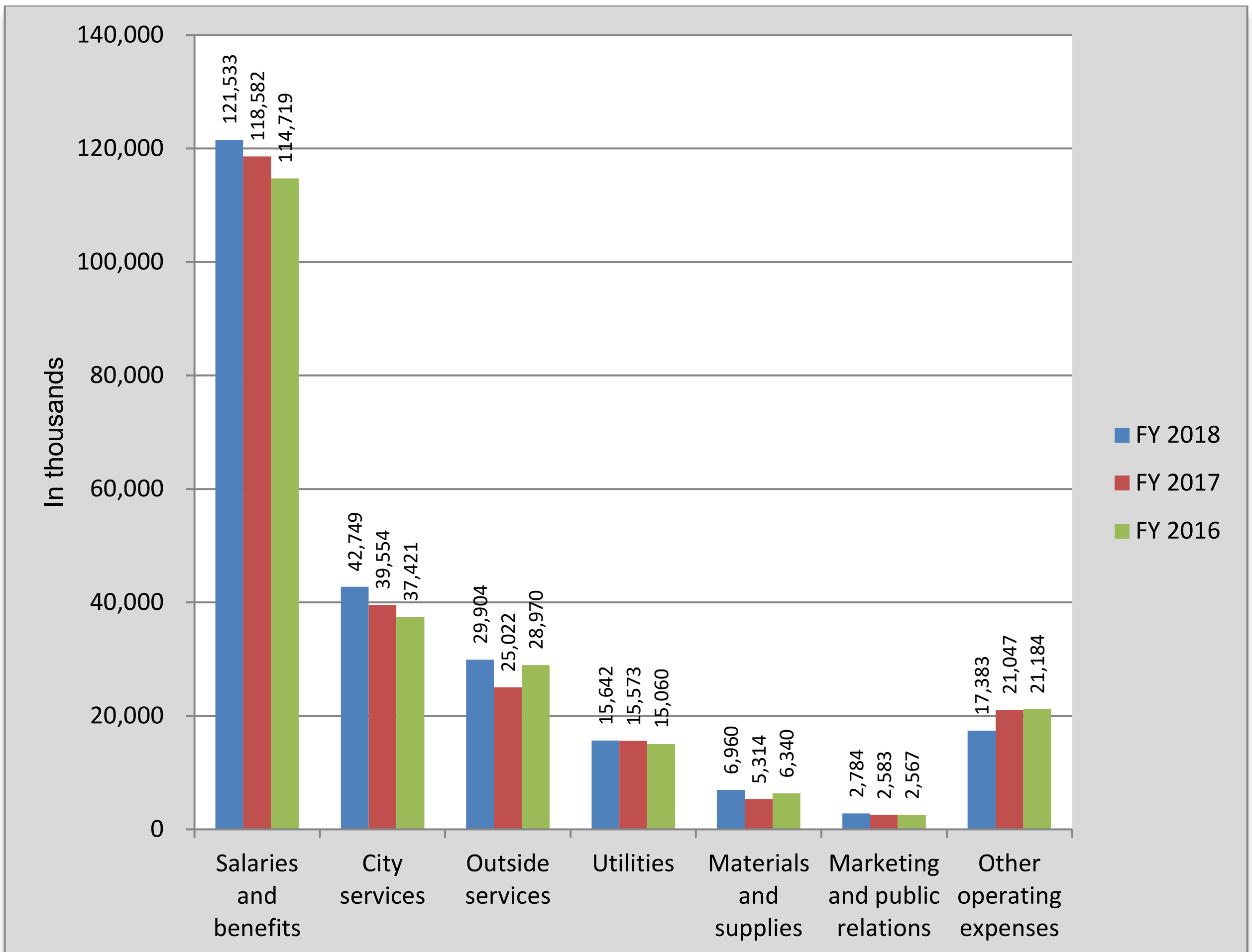
The following table presents a summary of the Port's operating expenses, net of direct and indirect costs allocated to capitalized construction projects for fiscal years 2018, 2017 and 2016. Included in other operating expenses are expenses for workers' compensation, clean truck program, pollution remediation, insurance premiums, travel and entertainment, customer incentive payouts, and miscellaneous other items.

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

				Increase(Decrease) Over Prior Year	
	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Salaries and benefits	$ 121,533	$ 118,582	$ 114,719	$ 2,951	$ 3,863
City services	42,749	39,554	37,421	3,195	2,133
Outside services	29,904	25,022	28,970	4,882	(3,948)
Utilities	15,642	15,573	15,060	69	513
Materials and supplies	6,960	5,314	6,340	1,646	(1,026)
Marketing and public relations	2,784	2,583	2,567	201	16
Other operating expenses	17,383	21,047	21,184	(3,664)	(137)
Total Operating Expenses	$ 236,955	$ 227,675	$ 226,261	$ 9,280	$ 1,414

Continued…..

The following chart shows the graphical comparison of the Port's operating expenses, net of direct and indirect costs, for fiscal years 2018, 2017 and 2016:



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Operating Expenses, Fiscal Year 2018

Operating expenses are 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.

In fiscal year 2018, operating expenses increased by $9.3 million to $237.0 million, a 4.1% increase from prior fiscal year expenses of $227.7 million. Major components of operating expenses are salaries and benefits, city services, outside services, utilities, materials and supplies, and other operating expenses that are further discussed and analyzed below.

Salaries and benefits expense including pension expense increased by $2.9 million to $121.5 million, or 2.4% higher than the prior year expense of $118.6 million due to Memorandum of Understanding (MOU) salary increases for employees throughout the Port.

Total payments for City services of $42.7 million increased by $3.2 million or 8.1% relative to the prior fiscal year of $ 39.6 million due to higher cost allocation plan rates and MOU mandated salary increases as well as higher fireboat maintenance expenses.

Outside services expenses of $29.9 million increased by $4.9 million or 19.5% relative to the prior fiscal year of $25.0 million with spending increases totaling $6.2 million across various divisions throughout the Port offset by $1.3 million spending decreases in maintenance services and legal expenses. These increases in outside services expenses were primarily attributable to the following: higher spending on the supply chain optimization GE Portal project by $2.4 million, higher spending on computer aided dispatch, port security and various police technology by $0.7 million, higher spending on environmental assessments and projects by $0.7 million, initiation of the Metro Bike Share Program of $0.6 million, higher spending on internal audits by $0.5 million, a one-time catch-up payment of $0.4 million for the City's Bond Assistance Program, one-time payment of $0.4 million on terminal security services, higher spending on the Port's website redesign by $0.3 million, and higher general spending on outside consultants by $0.2 million.

Materials and supplies expenses of $7.0 million increased by $1.7 million or 31.0% relative to the prior fiscal year of $5.3 million primarily due to $1.4 million in higher materials and supplies purchases within the construction and maintenance division.

Other operating expenses of $17.4 million represented a decrease of $3.6 million, or 17.1%, relative to prior fiscal year other operating expenses of $21.0 million. This decrease in other operating expenses was primarily attributable to lower provisioning for pollution remediation obligations by $5.3 million and lower provisioning for workers' compensation liabilities by $2.3 million. These decreases were partially offset by higher provisioning for litigation and claim expenses by $1.3 million, payments of $1.1 million related to the cruise incentive program, and higher miscellaneous other operating expenses by $1.6 million.

Additional information regarding pollution remediation for these sites may be found in Note 9 on page 74.

Continued…..

Operating Expenses, Fiscal Year 2017

Operating expenses are 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.

In fiscal year 2017, operating expenses increased by $1.4 million to $227.7 million, a 0.6% increase from prior fiscal year expenses of $226.3 million. Major components of operating expenses are salaries and benefits, city services, outside services, utilities, materials and supplies, and other operating expenses that are further discussed and analyzed below.

Salaries and benefits expense including pension expense increased by $3.9 million to $118.6 million, or 3.4% higher than the prior year expense of $114.7 million due to Memorandum of Understanding (MOU) salary increases for employees throughout the Port.

Total payments for City services of $39.6 million increased by $2.1 million or 5.7% relative to the prior fiscal year of $37.4 million due to higher cost allocation plan rates and MOU mandated salary increases.

Outside services expenses of $25.0 million declined by $3.9 million or 13.6% relative to the prior fiscal year of $29.0 million with $5.1 million in spending declines offset by spending increases totaling $1.2 million across various divisions throughout the Port. These decreases in outside services expenses were primarily attributable to the following: lower demolition expenses by $1.9 million, lower security technology expenses by $0.9 million, lower legal expenses by $0.9 million, lower environmental assessment spending by $0.6 million and lower spending on miscellaneous outside services by $0.8 million. Increases in outside services expenses were comprised of: higher spending on building maintenance costs by $0.8 million and less capitalization of outside services overhead costs by $0.4 million.

Utilities increased by $0.5 million to $15.6 million or 3.4% from the prior fiscal year expense of $15.1 million mainly due to higher water and gas expenses relative to fiscal year 2016.

Materials and supplies expenses of $5.3 million declined by $1.0 million or 16.2% relative to the prior fiscal year of $6.3 million primarily due to $1.0 million in lower materials and supplies purchases within the construction and maintenance division.

Other operating expenses of $21.0 million represented a decrease of $0.1 million, or 0.6%, relative to prior fiscal year other operating expenses of $21.1 million. This decrease in other operating expenses was primarily attributable to lower provisioning for pollution remediation obligations by $3.7 million, lower provisioning for litigation and claim expenses by $0.8 million, lower provisioning for bad debt by $0.7 million, and lower miscellaneous other operating expenses by $0.4 million almost completely offset by an increase in provisioning for workers' compensation liabilities of $5.5 million.

Additional information regarding pollution remediation for these sites may be found in Note 9 on page 74.

Continued…..

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 expenses 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 2018, 2017 and 2016:

Summary of Nonoperating Revenues and Expenses
(amounts in thousands)

				Increase (Decrease) Over Prior Year	
	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Nonoperating revenues					
Income from investments in Joint Powers Authorities	$ 2,001	$ 2,162	$ 2,544	$ (161)	$ (382)
Interest and investment income	618	1,118	9,326	(500)	(8,208)
Other nonoperating revenue	8,284	9,994	4,402	(1,710)	5,592
Total nonoperating revenues	10,903	13,274	16,272	(2,371)	(2,998)
Nonoperating expenses					
Interest expense	1,612	604	507	1,008	97
Other nonoperating expenses	6,285	11,140	8,253	(4,855)	2,887
Total nonoperating expenses	7,897	11,744	8,760	(3,847)	2,984
Net nonoperating revenues (expenses)	$ 3,006	$ 1,530	$ 7,512	$ 1,476	$ (5,982)

Nonoperating Revenues and Expenses, Fiscal Year 2018

Net nonoperating revenues (expenses) for fiscal year 2018 of $3.0 million increased by $1.5 million relative to net nonoperating revenues of $1.5 million in fiscal year 2017.

Nonoperating revenues decreased by $2.4 million due to lower interest and investment income by $0.5 million and lower other nonoperating revenues by $1.7 million.

Nonoperating expenses decreased by $3.8 million in fiscal year 2018 primarily due to lower pass-through grant funding disbursements by $5.2 million and the non-recurrence of bond issuance costs of $0.9 million incurred in the prior fiscal year. These declines were partially offset by higher discontinued capital project by $0.9 million, higher interest expense by $1.0 million and a loss of $0.4 million related to the retirement of crane assets.

Continued…..

Nonoperating Revenues and Expenses, Fiscal Year 2017

Net nonoperating revenues (expenses) for fiscal year 2017 of $1.5 million decreased by $6.0 million relative to net nonoperating revenues of $7.5 million in fiscal year 2016.

Nonoperating revenues decreased by $3.0 million due to lower interest and investment income by $8.2 million and lower other nonoperating revenues by $1.2 million offset by higher grant receipts by of $6.4 million.

Nonoperating expenses increased by $3.0 million in fiscal year 2017 primarily due to higher pass-through grant funding disbursements by $6.4 million and higher other nonoperating expenses by $1.1 million offset by lower discontinued capital projects by $4.5 million.

Long-Term Debt

The Port's long-term debt is comprised of senior lien debt in the form of Harbor Revenue Bonds. As of June 30, 2018 and 2017, the Port's outstanding long-term debt was $854.1 million and $891.7 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA, and AA credit ratings from Moody's Investor Services (Moody's), Standard & Poor's Rating Service (S&P), and Fitch Ratings (Fitch), respectively. See Note 7 on page 66 of this report for additional information.

Bonded Debt

Under Section 609 of the City Charter 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 be maintained at all times. At June 30, 2018, the Port's debt service coverage was 3.3x debt service.

The Port's long-term debt consisted of the following as of June 30, 2018, 2017, and 2016 (in thousands):

	FY 2018	FY 2017	FY 2016
Revenue bonds payable	$ 854,125	$ 891,740	$ 951,120
Net unamortized premiums	68,308	77,603	57,202
Total	$ 922,433	$ 969,343	$ 1,008,322

Capital Assets

The Port's investment in capital assets, net of accumulated depreciation and amortization as of June 30, 2018, 2017 and 2016 amounted to $3.9 billion, $3.9 billion, and $4.0 billion, respectively. These accounted for 82.5%, 83.9%, and 86.2%, of total assets, respectively. The following table presents the Port's capital assets, net of accumulated depreciation for fiscal years 2018, 2017 and 2016 (in thousands):

Summary of Capital Assets

				Increase(Decrease) Over Prior Year	
	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Land	$ 1,106,805	$ 1,108,023	$ 1,108,023	$ (1,218)	$ --
Facilities and equipment, net	2,564,113	2,649,576	2,503,081	(85,463)	146,495
Intangible assets, net	22,165	22,788	23,411	(623)	(623)
Construction in progress	55,338	47,477	112,391	7,861	(64,914)
Preliminary costs-capital projects	122,981	97,220	203,996	25,761	(106,776)
Total	$ 3,871,402	$ 3,925,084	$ 3,950,902	$ (53,682)	$ (25,818)

See Note 5 on pages 63 – 64 of this report for additional information.

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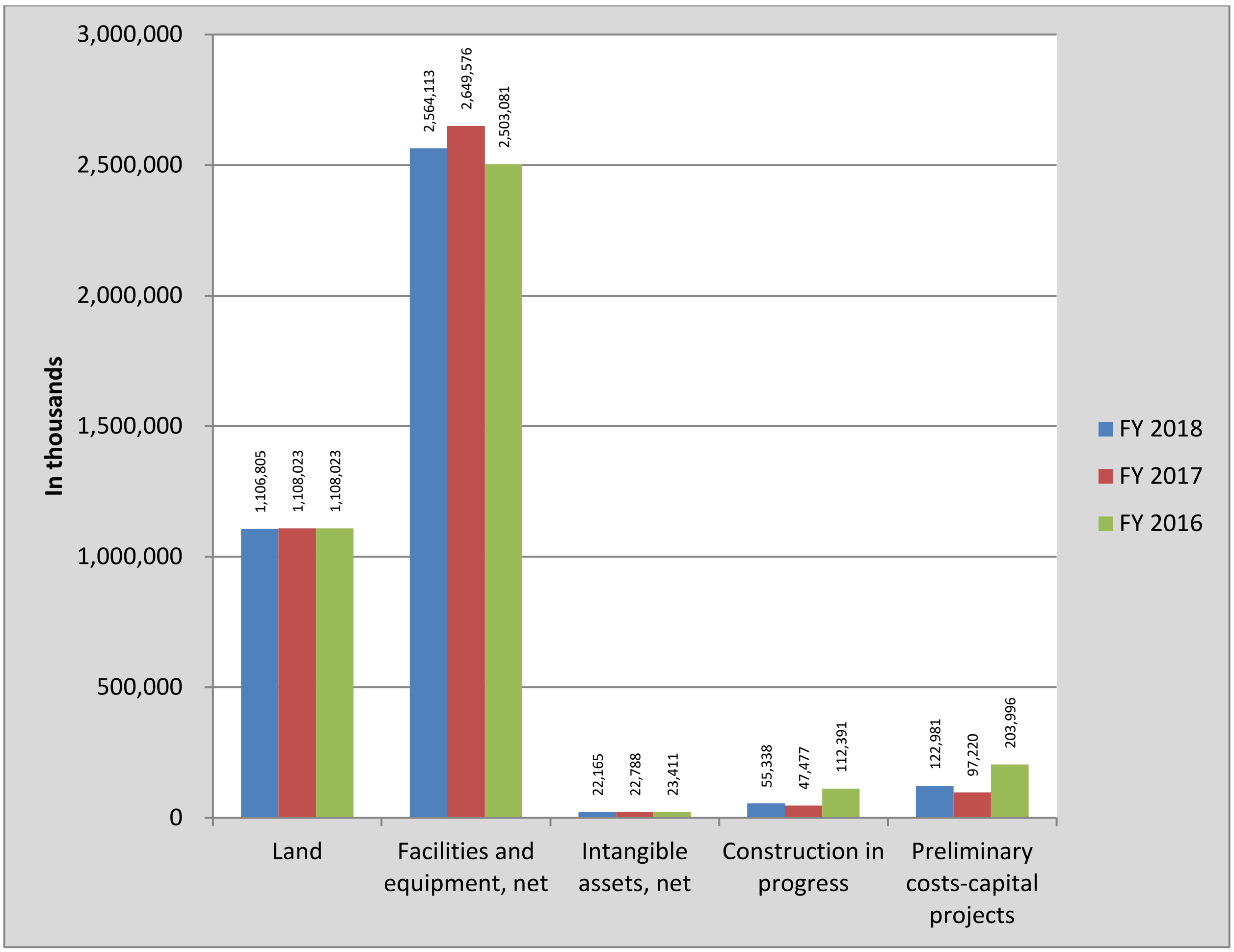
The following chart shows the graphical presentation of the Port's capital assets for the fiscal years 2018, 2017 and 2016:



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Capital Assets, Fiscal Year 2018

Major capital assets activities during fiscal year 2018 are as follows:

- $14.6 million – various projects at the Port's World Cruise Center including installation and upgrade of Alternative Maritime Power (AMP) system, design and construction of security improvements required at the U.S. Customs and Border Protection facility, and other miscellaneous improvements.
- $13.2 million – continued design and construction of San Pedro Waterfront and Wilmington Waterfront Development projects including, but not limited to Sampson Way roadway improvements, the Wilmington Waterfront Promenade, the Avalon Promenade and Gateway, and Ports O' Call Promenade and Town Square.
- $6.3 million – wharf rehabilitation at the WWL Vehicle Services Americas, Inc. terminal as well as bollard repair, and seawall improvement projects.
- $4.0 million – various transportation projects including preparation of the interchange reconfiguration project at SR-47/Vincent Thomas Bridge and Front Street/Harbor Boulevard, C Street/I110 Access Ramp Improvements, John S. Gibson Intersection/North I-110 Access Ramp Improvements, Alameda Street & Dispatch Hall Driveway traffic Signal, and construction of Berth 200 rail yard track connection enhancements.
- $3.5 million – redevelopment projects at the Yusen Terminals Inc. (YTI) terminal including wharf upgrades and expansion of the terminal facilities.
- $2.7 million – various projects at berths with liquid bulk oil cargo handling facilities to comply with Marine Oil Terminal Engineering Maintenance Standards (MOTEMS).
- $2.3 million – redevelopment projects at the TraPac Container Terminal including backland improvements and construction of terminal buildings and facilities.

Continued…..

Capital Assets, Fiscal Year 2017

Major capital assets activities during fiscal year 2017 are as follows:

- $25.6 million – completion of Phases 2-4 of backland improvements at Berths 142-143 as well as continued construction of the crane maintenance buildings, terminal buildings, main gate, and intermodal container transfer facility expansion at Berths 134-147 leased by TraPac.
- $24.3 million – completion of Berth 214-220 redevelopment which will enable the tenant, Yusen Terminals Inc. (YTI), to service larger ships as well as provide ships calling at the YTI terminal with better AMP service while docked.
- $8.5 million – completion of design and construction of C-Street/I-110 access ramp improvements which will realign the I-110 off-ramp to accommodate heavy truck volumes and provide improved connectivity to Harry Bridges Boulevard.
- $6.9 million – continued design and construction of San Pedro Waterfront and Wilmington Waterfront Development projects including, but not limited to Sampson Way roadway improvements, the Wilmington Waterfront Promenade, the Avalon Promenade and Gateway, Ports O' Call Promenade and Town Square, retrofitting the Berth 57 wharf and Signal Street improvements.
- $6.4 million – various transportation projects including construction completion of John S. Gibson Intersection/North I-110 access ramp improvements, close out of final construction payments related to the South Wilmington Grade Separation, construction of Berth 200 rail yard track connections, and construction completion of I-110/SR-47 connector improvements.

Continued…..

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. Formation of shipping alliances adds to the complexity as shipping lines which have ownership in terminals route cargo to terminals that are not owned by them, but by their Alliance partners. While the shipping industry remains volatile in 2018, shipping lines are searching for the best terminal handling rates and even looking to the Port to provide incentives. 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 33% of cargo arriving at the Port. Currently, this discretionary cargo moves eastward both by rail and through the Panama Canal or westward through the Suez Canal. The use of all-water routes primarily through the Panama and Suez 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. Routing cargo via all-water service has a longer transit time and is usually less expensive to the beneficial cargo owner vs. routing via West Coast Ports and loading via rail. The newly completed Panama Canal Expansion Program added a new set of locks, which allows ships of greater size (up to 12,500 TEU) 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.

Competitive Environment

As of the fiscal year ended June 30, 2018, four major container ports controlled 99.0% of the entire U.S. West Coast containerized cargo market: the ports of Los Angeles, Long Beach, and Oakland in California, and the ports of Seattle and Tacoma in Washington State. The ports of Los Angeles and Long Beach together had 73.6% 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 based upon the commitment of customers to long-term permits at the Port that currently range from 15 to 30 years before expiration. 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.

Continued…..

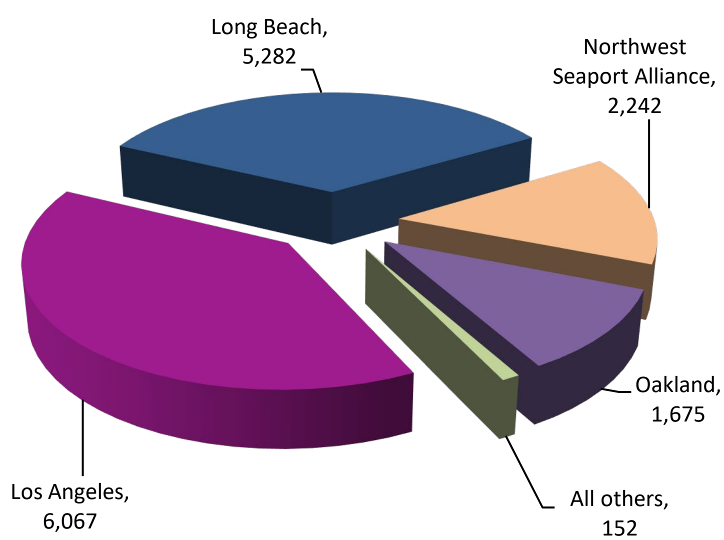
The following presents a summary of the West Coast container market share for fiscal years 2016 to 2018:

	Loaded TEUs (in thousands)*			Percentage Market Share		
Ports	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017	FY 2016
Los Angeles	6,067	6,266	5,727	39.3%	41.4%	39.4%
Long Beach	5,282	4,734	4,852	34.3%	31.3%	33.3%
Northwest Seaport Alliance**	2,242	2,350	2,233	14.5%	15.5%	15.3%
Oakland	1,675	1,654	1,622	10.9%	10.9%	11.1%
All others	152	134	127	1.0%	0.9%	0.9%
	15,418	15,138	14,561	100.0%	100.0%	100.0%

* Source: PIERS

** Northwest Seaport Alliance consists of Seattle and Tacoma, effective August 1, 2015.

Following is the graphical presentation of the West Coast container market share for fiscal year 2018:



Loaded TEUs (in thousands)

Continued…..

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 Marla Bleavins, Deputy Executive Director and Chief Financial Officer, Port of Los Angeles (Harbor Department of the City of Los Angeles), 425 S. Palos Verdes St., San Pedro, CA 90731.

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

Statements of Net Position
June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents, unrestricted	$ 672,166	$ 619,413
Cash and cash equivalents, restricted	14,218	15,915
Accounts receivable, net of allowance for doubtful accounts: 2018 - $32,780; 2017 - $26,503	49,400	34,324
Grants receivable	3,906	920
Materials and supplies inventories	2,464	2,561
Prepaid expenses	470	132
Accrued interest receivable	2,908	1,986
Total current assets	745,532	675,251
Noncurrent restricted assets		
Restricted investments – bond funds	62,230	62,283
Other restricted cash and investments	9,842	9,840
Total noncurrent restricted assets	72,072	72,123
Capital assets		
Land	1,106,805	1,108,023
Facilities and equipment net of accumulated depreciation: 2018 - $2,209,444; 2017 - $2,049,121	2,564,113	2,649,576
Intangible assets, net of amortization: 2018 - $3,195; 2017 - $2,572	22,165	22,788
Construction in progress	55,338	47,477
Preliminary costs – capital projects	122,981	97,220
Total capital assets	3,871,402	3,925,084
Investment in Joint Powers Authorities	5,733	5,732
TOTAL ASSETS	4,694,739	4,678,190
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	15,584	16,700
Deferred outflows of resources related to pensions	43,790	62,875
Deferred outflows of resources related to other postemployment benefits (OPEB)	6,939	--
TOTAL DEFERRED OUTFLOWS OF RESOURCES	66,313	79,575

continued…..

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

Statements of Net Position
June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
LIABILITIES		
Current liabilities		
Accounts payable	$ 34,055	$ 31,617
Current maturities of notes payable and bonded debt	44,015	37,615
Accrued interest payable	17,420	18,023
Accrued salaries and employee benefits	18,642	17,542
Obligations under securities lending transactions	11,535	4,384
Accrued construction cost payable	3,579	3,060
Other current liabilities	34,897	67,879
Total current liabilities	164,143	180,120
Long-term liabilities		
Long-term liabilities payable from unrestricted assets		
Bonds payable, net of unamortized discount/premium: 2018 - $68,308; 2017 - $77,603	878,418	931,728
Accrued salaries and employee benefits	8,135	7,537
Net pension liabilities	210,882	231,325
Net OPEB liabilities	24,416	--
Other liabilities	91,606	101,316
Total long-term liabilities payable from unrestricted assets	1,213,457	1,271,906
Long-term liabilities payable from restricted assets	11,198	10,299
Total long-term liabilities	1,224,655	1,282,205
TOTAL LIABILITIES	1,388,798	1,462,325
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	31,374	30,042
Deferred inflows of resources related to OPEB	6,009	--
TOTAL DEFERRED INFLOWS OF RESOURCES	37,383	30,042
NET POSITION		
Net investment in capital assets	2,964,553	2,972,442
Restricted for debt service	62,225	62,255
Unrestricted	308,093	230,701
TOTAL NET POSITION	$ 3,334,871	$ 3,265,398

See accompanying notes to the basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
OPERATING REVENUE		
Shipping services		
Wharfage	$ 376,127	$ 369,459
Dockage	4,532	4,113
Demurrage	219	213
Lay day fees	38	255
Pilotage	10,502	9,558
Assignment charges	13,861	14,657
Total shipping services	405,279	398,255
Rentals		
Land	60,746	50,554
Buildings	109	206
Warehouses	87	85
Wharf and shed	477	413
Total rentals	61,419	51,258
Royalties, fees, and other operating revenues		
Fees, concessions, and royalties	10,555	10,436
Clean truck program fees	2,186	2,340
Other	11,321	12,243
Total royalties, fees, and other operating revenues	24,062	25,019
Total operating revenue	490,760	474,532
OPERATING EXPENSES		
Salaries and other benefits	96,208	94,677
Pension expense	20,843	23,905
OPEB expense	4,482	--
City services	42,749	39,554
Outside services	29,904	25,022
Utilities	15,642	15,573
Materials and supplies	6,960	5,314
Marketing and public relations	2,784	2,583
Workers' compensation, claims and settlement	4,009	4,977
Clean truck program expenses	831	704
Travel and entertainment	749	536
Other operating expenses	11,794	14,830
Total operating expenses before depreciation and amortization	236,955	227,675
Operating income before depreciation and amortization	253,805	246,857

continued….

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
Operating Income before depreciation and amortization	$ 253,805	$ 246,857
Depreciation and amortization	167,984	172,895
OPERATING INCOME	85,821	73,962
NONOPERATING REVENUE (EXPENSES)		
Nonoperating revenue		
Income from investments in Joint Powers Authorities	2,001	2,162
Interest and investment income	618	1,118
Noncapital grant revenue	1,505	1,199
Pass through grant revenue	2,703	7,931
Other nonoperating revenue	4,076	864
Total nonoperating revenue	10,903	13,274
Nonoperating expenses		
Interest expense	(1,612)	(604)
Pass through grant expenses	(2,703)	(7,931)
Discontinued capital projects	(1,592)	(773)
Other nonoperating expenses	(1,990)	(2,436)
Total nonoperating expenses	(7,897)	(11,744)
Net nonoperating revenue (expenses)	3,006	1,530
INCOME BEFORE CAPITAL CONTRIBUTIONS	88,827	75,492
Capital contributions	4,524	18,801
Extraordinary item	--	9,150
CHANGES IN NET POSITION	93,351	103,443
NET POSITION, JULY 1	3,265,398	3,161,955
Cumulative effect of change in accounting principle	(23,878)	--
Net position, July 1, restated	3,241,520	3,161,955
NET POSITION, JUNE 30	$ 3,334,871	$ 3,265,398

See accompanying notes to the basic financial statements.

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

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Shipping service fees collected	$ 392,828	$ 404,886
Rentals collected	59,532	52,111
Royalties, fees, and other operating revenues collected	23,323	25,435
Payments for employee salaries and benefits, net of capitalized amounts: 2017 - $23,563; 2016 - $22,832	(120,253)	(115,671)
Payments for goods and services	(126,510)	(92,180)
Net cash provided by operating activities	228,920	274,581
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY		
Proceeds from noncapital grants	1,505	1,199
Net cash provided by noncapital financing activity	1,505	1,199
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for property acquisitions and construction	(81,644)	(111,717)
Proceeds from sale of capital assets	2,222	76
Proceeds from capital grants and contributions	1,537	27,980
Proceeds from insurance recovery for damage of capital assets	1,032	9,150
Principal repayment and redemption – bonds	(37,615)	(30,434)
Receipts from bond reserve fund	53	33,486
Interest and issuance costs paid	(42,532)	(60,340)
Net cash used in capital and related financing activities	(156,947)	(131,799)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	9,258	5,784
(Decrease) increase in cash collateral received under the securities lending transactions	7,151	(3,545)
Decrease in fair value of investments	(9,564)	(5,904)
Net (purchase) sale of investments	(31,267)	26,142
Distribution from Joint Powers Authorities	2,000	2,000
Net cash (used in) provided by investing activities	(22,422)	24,477
NET INCREASE IN CASH AND CASH EQUIVALENTS	51,056	168,458
CASH AND CASH EQUIVALENTS, JULY 1	635,328	466,870
CASH AND CASH EQUIVALENTS, JUNE 30	$ 686,384	$ 635,328

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

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and cash equivalents, unrestricted	$ 672,166	$ 619,413
Cash and cash equivalents, restricted	14,218	15,915
Total cash and cash equivalents	$ 686,384	$ 635,328
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 85,821	$ 73,962
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	167,984	172,895
Provision for doubtful accounts	6,276	6,010
Changes in assets, liabilities, and deferred outflows and inflows of resources		
Accounts receivable	(21,351)	1,892
Materials and supplies inventories	97	216
Prepaid expenses	(339)	95
Deferred outflows of resources related to pensions and OPEB	12,146	(20,850)
Accounts payable	2,438	1,048
Net pension liabilities	(20,443)	15,496
Net OPEB liabilities	538	--
Accrued salaries and employee benefits	1,698	106
Other liabilities	(13,286)	15,550
Deferred inflows of resources related to pensions and OPEB	7,341	8,161
Total adjustments to reconcile operating income to net cash provided by operation activities	143,099	200,619
Net cash provided by operating activities	$ 228,920	274,581
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	$ 9,594	$ 5,166
Write-off of discontinued construction projects	1,592	773
Revenue bond proceeds received in escrow trust fund	--	230,506
Debt defeased and related costs paid through escrow trust fund	--	(230,506)

See accompanying notes to the basic financial statements.

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

Notes to Financial Statements

June 30, 2018 and 2017

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

Continued…..

1. Organization and Summary of Significant Accounting Policies

The financial statements of the Harbor Department of the City of Los Angeles, California (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 Harbor Department is a proprietary department of the City of Los Angeles, California (the City), formed for the purpose of managing the tidelands property granted by the State of California commonly known as the Port of Los Angeles and operations thereon for specific maritime related purposes as explained below. The Port is under the control of a five-member Board of Harbor Commissioners (BHC), who are appointed by the Mayor and confirmed by the City Council. The Port is administered by an Executive Director and subject to the State public trust doctrine as described below.

The real property and related assets of the Port include land, waters, docks, wharves, transit sheds, terminals, and other facilities (i.e., Trust Assets), were granted to the City in tidelands grants from the State of California (State), with retained oversight by the State Lands Commission. The State’s statutory grants specify the granted tidelands are subject to the Trust Purposes, which require the Trust Assets to be used for maritime commerce, navigation, fisheries, and water-dependent activities for the benefit of the State. The Trust Purposes are also codified in the Charter of the City, which placed management and control of the Trust Assets under the Port. All revenues arising from the Trust Assets (Port operating revenues and proceeds of asset sales) are limited as to use for the Trust Purposes, including operation and maintenance of Port facilities, the acquisition and construction of improvements, and other similar Trust Purposes.

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, 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.

Continued…..

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.

B. Summary of Significant Accounting Policies

Method of Accounting – The Port's 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.

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/ask 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 amortized 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

Continued…..

together with the corresponding liability is allocated among the City's participating funds based on the aggregate respective cash balances at fiscal year-end.

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 acquisition 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 licenses, emission mitigation credits, and capitalized costs of the Port's integrated financial accounting system, the Enterprise Resource Planning System.

Preliminary costs for developing 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 as of June 30, 2018 and 2017 are $123.0 million and $97.2 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 2018 and 2017 were $32.1 million and $35.5 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 2018 and 2017 were $16.6 million and $18.3 million, respectively.

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 in accordance with the City policy.

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 (expense) until then. The Port has three items that qualified for reporting in this category. They are deferred charges on debt refunding, deferred outflows of resources related to pensions, and deferred outflows of resources related to postemployment benefits other than pensions (other postemployment benefits or OPEB). A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Port reports a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Port has two items that qualified for reporting in this category – deferred inflows of resources related to pensions and deferred inflows of resources related to OPEB.

Deferred inflows and outflows of resources related to pensions result from diverse pension related transactions and events including pension contributions subsequent to measurement date, changes of assumptions or other inputs, difference between expected and actual experience in the total pension liabilities, changes in proportionate share of contributions, and net differences between projected and actual pension plan investment earnings.

Deferred inflows and outflows of resources related to OPEB result from diverse OPEB related transactions and events including OPEB contributions subsequent to measurement date, changes of assumptions or other inputs, difference between expected and actual experience in the total OPEB liabilities, changes in proportionate share of contributions, and net differences between projected and actual plan investment earnings.

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

Continued…..

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 administrative expenses, maintenance salaries 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.

Operating Leases – The Port leases a substantial portion of land and facilities to others. Leases relating to terminal operations tend to be long-term in nature (as long as 50 years), which generate 95.1% of the Port's operating revenues. Leases relating to revocable permits and space assignments that are short-term in nature provide for cancellation on a 30-day notice by either party. Majority of the Port's leases provide 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. See note 12 on page 78 for additional information.

Pension and OPEB Plans – All full-time civilian Port employees are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a defined benefit single-employer retirement plan. All full-time Port police officers are eligible to participate in the City of Los Angeles Fire and Police Pension System (LAFPP), a defined benefit single-employer retirement plan. The Port funds fully its entire annual share of LACERS and LAFPP pensions and the respective OPEB contributions. The funding amounts 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.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expenses, information about the fiduciary net positions of LACERS and LAFPP, and additions to/deductions from LACERS and LAFPP's fiduciary net positions have been determined on the same basis as they are reported by LACERS and LAFPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For fiscal years ended June 30, 2018 and 2017, the Port reported total net pension liability, deferred outflows/inflows or resources related to pensions, and pension expenses as follows (in thousands):

	2018	2017
Net pension liability:		
LACERS - proportionate shares	$204,609	$221,275
LAFPP - proportionate shares	6,273	10,050
Total net pension liability	$210,882	$231,325
Deferred outflows of resources related to pensions:		
LACERS - proportionate shares	$ 38,968	$ 57,335
LAFPP - proportionate shares	4,822	5,540
Total deferred outflows of resources related to pensions	$ 43,790	$ 62,875
Deferred inflows of resources related to pensions:		
LACERS - proportionate shares	$ 26,708	$ 26,922
LAFPP - proportionate shares	4,666	3,120
Total deferred inflows of resources related to pensions	$ 31,374	$ 30,042
Pension expenses:		
LACERS - proportionate shares	$ 18,798	$ 21,233
LAFPP - proportionate shares	2,045	2,672
Total pension expenses	$ 20,843	$ 23,905

See note 13 starting on page 79 and note 14 starting on page 94, as well as required supplementary information on pages 114-116, for additional information.

For purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net positions of LACERS and LAFPP, and additions to/deductions from LACERS and LAFPP's OPEB fiduciary net positions have been determined on the same basis as they are reported by LACERS and LAFPP. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the fiscal year ended June 30, 2018, the Port reported total net OPEB liability, deferred outflows/inflows or resources related to OPEB, and OPEB expenses as follows (in thousands):

		2018
Net OPEB liability:		
LACERS - proportionate shares	$	21,910
LAFPP - proportionate shares		2,506
Total net OPEB liability	$	24,416
Deferred outflows of resources related to OPEB:		
LACERS - proportionate shares	$	5,590
LAFPP - proportionate shares		1,349
Total deferred outflows of resources related to OPEB	$	6,939
Deferred inflows of resources related to OPEB:		
LACERS - proportionate shares	$	5,658
LAFPP - proportionate shares		351
Total deferred inflows of resources related to OPEB	$	6,009
OPEB expenses:		
LACERS - proportionate shares	$	3,599
LAFPP - proportionate shares		883
Total OPEB expenses	$	4,482

See note 13 starting on page 79 and note 14 starting on page 94, as well as required supplementary information on pages 117-119, for additional information.

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 and similar items are recognized as capital contributions as soon as all eligibility requirements imposed by the provider have been met.

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, reduced by accumulated depreciation and by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this category.

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- *Restricted* – This category consists of restrictions placed on net position 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.
- *Unrestricted* – This category consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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 first.

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.

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2. Adoption of New GASB Pronouncements

GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* Issued in June 2015, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The Port implemented this statement in fiscal year 2018. See notes 13.C on page 88 and 14.C on page 103 for required note disclosures, as well as pages 117-119 for required supplementary information. The Port has also restated the beginning net position at July 1, 2017 by $23.4 million for the cumulative effect of change in accounting principle. See Note 21 on page 113 for additional information.

GASB Statement No. 81, *"Irrevocable Split-Interest Agreements."* Issued in March 2016, this statement requires that a government that receives resources pursuant to an irrevocable split interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The statement has no impact on the Port's financial statements because the Port does not receive resources pursuant to an irrevocable split interest agreement.

GASB Statement No. 82, *"Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No. 73."* Issued in March 2016, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Port implemented this statement in fiscal year 2018.

GASB Statement No. 85, *"Omnibus 2017."* Issued in March 2017, this statement addresses issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The Port implemented this statement in fiscal year 2018.

GASB Statement No. 86, *"Certain Debt Extinguishment Issues."* Issued in May 2017, this statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement has no impact on the Port's financial statements.

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3. Recent GASB Pronouncements for Future Adoption

The GASB has issued several pronouncements that have effective dates that may affect future presentations. The Port is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

GASB Statement No. 83, *"Certain Asset Retirement Obligations."* Issued in November 2016, this statement addresses accounting and financial reporting for certain assets retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital assets. The statement will enhance comparability and usefulness in governmental financial statements by establishing uniform criteria for governments to recognize and measure certain AROs and requiring disclosure related to those AROs. This statement will be effective beginning fiscal year 2019.

GASB Statement No. 84, *"Fiduciary Activities."* Issued in January 2017, this statement establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes and describes four fiduciary funds that should be reported, if applicable. The statement will be effective beginning fiscal year 2020.

GASB Statement No. 87, *"Leases."* Issued in June 2017, this statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The statement will be effective beginning fiscal year 2021.

GASB Statement No. 88, *"Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements."* Issued in April 2018, this statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement will be effective beginning fiscal year 2019.

GASB Statement No. 89, *"Accounting for Interest Cost Incurred before the End of a Construction Period."* Issued in June 2018, this statement (1) enhances the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and (2) simplifies accounting for interest cost incurred before the end of a construction period. The statement will be effective beginning fiscal year 2021.

GASB Statement No. 90, *"Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61."* Issued in August 2018, this statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The statement will be effective beginning fiscal year 2020.

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4. Cash and Investments

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

	2018	2017
Cash in bank and certificates of deposit	$ 239	$ 229
Investment in U.S. Treasury and money market fund	62,230	62,283
Equity in the City of Los Angeles Investment Pool	695,987	644,939
Total cash and investments	$ 758,456	$ 707,451

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):

	2018	2017
Unrestricted cash and cash equivalents	$ 672,166	$ 619,413
Restricted cash and cash equivalents		
Current		
China Shipping Mitigation Fund	11,927	13,439
Community Mitigation Trust Fund – Trapac	112	112
Narcotics/Customs Enforcement Forfeiture Fund	425	611
Clean Truck Program and Fee Fund	5	5
Other	1,749	1,748
Subtotal – Current	14,218	15,915
Noncurrent		
Harbor Revenue Bond Funds	62,230	62,283
Customer Security Deposits	2,990	3,023
Batiquitos Environmental Fund	6,277	6,250
Harbor Restoration Fund	575	567
Subtotal – Noncurrent	72,072	72,123
Total restricted cash and investments	86,290	88,038
Total cash and investments	$ 758,456	$ 707,451

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A. Deposits

The Port had cash deposits and certificates of deposit with several major financial institutions amounting to $0.2 million for both fiscal years ended June 30, 2018 and 2017. 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 California Government Code.

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 and recorded in certain participating funds, as authorized by the Los Angeles City Council (City Council) and permitted by the City Charter and the California Government Code, based on each fund's average daily deposit balance. 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 (State Code) and the City Council File No. 94-2160, the City Treasury provides 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 City Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53638, 16340 and 16429.1. The City Treasury further reports that the current policy allows for the purchase of investments with maturities up to thirty (30) years.

Examples of investments permitted by the Policy are obligations of the U.S. Treasury and 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 $696.0 million and $644.9 million invested in the City's General Pool and three Special Investment Pools, representing approximately 7.0% and 7.2% of the City Treasury's General Pool and Special Investment Pools at June 30, 2018 and 2017, respectively.

The complete disclosures for the entire cash and investment pool are included in a publicly available financial report issued by the City. The report may be obtained by writing or calling: City of Los Angeles Office of the City Controller, 200 N. Main Street, City Hall East Room 300, Los Angeles, CA 90012, (213) 978-7555 or the Los Angeles City Controller's website http://www.lacontroller.org/reports.

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C. Special Investment Pools

Out of $696.0 million and $644.9 million invested in the City's pooled investments, $55.3 million and $54.7 million were 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 Pools are managed in accordance with the California Government Code Sections 53600-53635 and the City's Policy.

At June 30, 2018 and 2017, investments held in the City's Special Investment Pools and their maturities are as follows (in thousands):

Fiscal Year 2018

		Investment Maturities			
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 180 Days	Over 180 Days
U.S. Treasury securities	$ 7,823	$ 7,823	$ --	$ --	$ --
U.S. Agencies securities	44,442	--	38,303	--	6,139
Commercial papers	3,029	--	--	3,029	--
Short term investment funds	1	1	--	--	--
Total investments in special pools	$ 55,295	$ 7,824	$ 38,303	$ 3,029	$ 6,139

Fiscal Year 2017

		Investment Maturities			
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 180 Days	Over 180 Days
U.S. Agencies securities	$ 51,755	$ 7,717	$ 37,788	$ --	$ 6,250
Supranational obligations	2,987	--	--	2,987	--
Short term investment funds	2	2	--	--	--
Total investments in special pools	$ 54,744	$ 7,719	$ 37,788	$ 2,987	$ 6,250

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 certificates of deposit, collateralized bank deposits, mortgage pass-through securities, supranational obligations, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; 92 days for reverse repurchase agreements; and no maturity for mutual funds. 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 rating requirements for investments. There are no credit quality requirements for U.S. Treasury securities and U.S. Agencies securities. Investments in U.S. Agencies securities 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).

Commercial paper issues must have the highest letter and number rating by nationally recognized statistical rating organization (NRSRO). The issuing corporation must be organized and operating within the United States and have assets in excess of $500.0 million. The Port's investments in commercial papers were rated A-1+ by S&P and P-1 by Moody's.

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Investment in supranational obligations must have a minimum of AA rating. The Port's investments in supranational obligations of $3.0 million were not rated.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio to 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 or 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. Treasury and government agencies. The City's pooled investments comply with these requirements.

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.

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 $62.2 million at June 30, 2018 versus $62.3 million at June 30, 2017. The reserve funds were invested in money market funds 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 Port 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

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securities held as collateral slips below 104% of the value of the cash transferred by the Port, 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 provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for 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 (the Pool) is available for lending. The City loans out U.S. Treasury Notes, U.S. Agencies securities (e.g., Fannie Mae, Freddie Mac, Federal Home Loan Bank, Farmer Mac, Federal Farm Credit Bank and Tennessee Valley Authority), Medium-term Notes, and Supranational Obligations. The City receives cash as collateral on the 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 where either party can terminate a lending contract on demand, term loans have a maximum life of 60 days. Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants.

During fiscal years 2018 and 2017, 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 $11.5 million and $4.4 million as of June 30, 2018 and 2017, respectively.

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F. Fair Value Measurement

The Port categorizes its fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

The Port has the following recurring fair value measurements as of June 30, 2018:

	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	$ 61,161	$ 61,161	$ --	$ --
Money market fund	1,069	--	1,069	--
Total investments - bond funds	$ 62,230	$ 61,161	$ 1,069	$ --
U.S. Treasury securities	$ 7,823	$ 7,823	$ --	$ --
U.S. Agencies securities	44,442	--	44,442	--
Commercial papers	3,029	--	3,029	--
Total investments - special pools	$ 55,294	$ 7,823	$ 47,471	$ --

The Port has the following recurring fair value measurements as of June 30, 2017:

	Total	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 61,965	$ 61,965	$ --	$ --
Money market fund	317	--	317	--
Total investments - bond funds	$ 62,282	$ 61,965	$ 317	$ --
U.S. Agencies Securities	$ 51,755	$ --	$ 51,755	$ --
Supranational obligations	2,987	--	2,987	--
Total investments - special pools	$ 54,742	$ --	$ 54,742	$ --

Investments in Short Term Investment Funds of the City's Special Investment Pools are considered cash equivalents due to their liquidity and are excluded from the fair value measurement.

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5. Capital Assets

The Port's capital assets consist of the following activities for the fiscal year ended June 30, 2018 (in thousands):

	Balance July 1, 2017	Increase	Decrease	Adjustments and Transfers	Balance June 30, 2018
Capital assets not depreciated					
Land	$ 1,108,023	$ --	$ (1,218)	$ --	$ 1,106,805
Construction in progress	47,477	75,978	--	(68,117)	55,338
Preliminary costs – capital projects	97,220	36,534	(6,682)	(4,091)	122,981
Intangible assets	12,900	--	--	--	12,900
Total capital assets not depreciated	1,265,620	112,512	(7,900)	(72,208)	1,298,024
Capital assets depreciated/amortized					
Wharves and sheds	1,181,381	--	--	14,575	1,195,956
Buildings/facilities	3,353,689	--	(5,253)	56,149	3,404,585
Equipment	163,627	10,940	(3,035)	1,484	173,016
Intangible assets	12,460	--	--	--	12,460
Total capital assets depreciated/amortized	4,711,157	10,940	(8,288)	72,208	4,786,017
Less accumulated depreciation/ amortization					
Wharves and sheds	(500,735)	(33,139)	--	--	(533,874)
Buildings/facilities	(1,417,200)	(118,991)	4,022	--	(1,532,169)
Equipment	(131,186)	(15,231)	3,016	--	(143,401)
Intangible assets	(2,572)	(623)	--	--	(3,195)
Total accumulated depreciation/amortization	(2,051,693)	(167,984)	7,038	--	(2,212,639)
Total capital assets depreciated/ amortized, net	2,659,464	(157,044)	(1,250)	72,208	2,573,378
Capital assets, net	$ 3,925,084	$ (44,532)	$ (9,150)	$ --	$ 3,871,402

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The Port's capital assets consist of the following activities for the fiscal year ended June 30, 2017 (in thousands):

	Balance July 1, 2016	Increase	Decrease	Adjustments and Transfers	Balance June 30, 2017
Capital assets not depreciated					
Land	$ 1,108,023	$ --	$ --	$ --	$ 1,108,023
Construction in progress	112,391	169,717	--	(234,631)	47,477
Preliminary costs – capital projects	203,996	--	(25,614)	(81,162)	97,220
Intangible assets	12,900	--	--	--	12,900
Total capital assets not depreciated	1,437,310	169,717	(25,614)	(315,793)	1,265,620
Capital assets depreciated/amortized					
Wharves and sheds	1,178,292	--	--	3,089	1,181,381
Buildings/facilities	3,068,220	--	(22,562)	308,031	3,353,689
Equipment	161,748	3,793	(6,587)	4,673	163,627
Intangible assets	12,460	--	--	--	12,460
Total capital assets depreciated/amortized	4,420,720	3,793	(29,149)	315,793	4,711,157
Less accumulated depreciation/ amortization					
Wharves and sheds	(472,511)	(28,224)	--	--	(500,735)
Buildings/facilities	(1,321,566)	(117,376)	21,742	--	(1,417,200)
Equipment	(111,102)	(26,671)	6,587	--	(131,186)
Intangible assets	(1,949)	(623)	--	--	(2,572)
Total accumulated depreciation/amortization	(1,907,128)	(172,894)	28,329	--	(2,051,693)
Total capital assets depreciated/ amortized, net	2,513,592	(169,101)	(820)	315,793	2,659,464
Capital assets, net	$ 3,950,902	$ 616	$ (26,434)	$ --	$ 3,925,084

Net interest expense of $32.1 million and $35.5 million was capitalized for fiscal years 2018 and 2017, respectively.

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6. Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint powers 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 and operated by Southern Pacific Transportation Company (SPTC) under a long-term lease agreement. SPTC was subsequently merged and continues operations as Union Pacific Corporation (UPC). 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.

ICTF has issued bonds in prior years. At June 30, 2018 and 2017, there were no outstanding bonds.

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 totaled $5.7 million at both June 30, 2018 and 2017. Separate financial statements for ICTF may be obtained from the Executive Director, Intermodal Container Transfer Facility Joint Powers Authority, 4801 Airport Plaza Drive, Long Beach, California 90815 or the ICTF's website at http://ictf-jpa.org/document_library.php.

B. Alameda Corridor Transportation Authority

In August 1989, the Alameda Corridor Transportation Authority (ACTA) was established through a Joint Exercise of Powers Agreement between the Cities of Los Angeles and Long Beach, California. The purpose of ACTA is to acquire, construct, finance, and operate a consolidated transportation corridor; including an improved railroad expressway between the POLA and the Port of Long Beach (the POLB and, together with the POLA, the Ports) and downtown Los Angeles.

The POLA has no share of the ACTA's net position and income at June 30, 2018 and 2017, and accordingly, they have not been recorded in the accompanying financial statements. If in the future, ACTA is entitled to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally.

Separate financial statements for ACTA may be obtained from the ACTA's website http://www.acta.org/revenue_finance/financial_statement.asp or the Chief Financial Officer, Alameda Corridor Transportation Authority, 3760 Kilroy Airport Way, Suite 200, Long Beach, California, 90806.

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7. Long-Term Debt

A. Bonded Debt, Commercial Paper and Other Indebtedness

Bonds issued by the Port are payable solely from the Port's revenues pledged under indentures and are not general obligations of the City. The Port has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that the Port's revenues, as defined under indentures, will be sufficient to pay future bond interest and principal maturities. Proceeds from sales of bonds are used to finance capital projects around the Port or refund prior issuances to generate debt service savings.

The Port's activities for bonded debt and other indebtedness for fiscal year 2018 are as follows (in thousands):

Bond Issues	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2017	Additions	Deductions	Ending Balance June 30, 2018	Principal Due Within One Year
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% – 5.25%	2030	$ 100,000	$ 74,570	$ --	$ (4,255)	$ 70,315	$ 4,425
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% – 5.25%	2032	230,160	171,575	--	(2,265)	169,310	--
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% – 5.00%	2023	58,930	49,665	--	(7,490)	42,175	7,855
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% – 5.00%	2026	32,820	32,820	--	--	32,820	--
Issue 2014, Series A	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	203,280	197,585	--	(4,595)	192,990	4,865
Issue 2014, Series B	8/1/2024 @ 100%	9/18/2014	3.00% – 5.00%	2045	89,105	86,320	--	(1,480)	84,840	1,545
Issue 2014, Series C	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	44,890	43,350	--	(805)	42,545	835
Issue 2015, Series A	8/1/2025 @ 100%	9/18/2014	2.00% – 5.00%	2027	37,050	34,295	--	(2,835)	31,460	2,950
Issue 2016, Series A	Not Applicable	10/13/2016	3.00% – 5.00%	2025	97,970	97,970	--	(13,055)	84,915	20,685
Issue 2016, Series B	8/1/2026 @ 100%	10/13/2016	2.00% – 5.00%	2037	68,385	68,385	--	(835)	67,550	855
Issue 2016, Series C	8/1/2026 @ 100%	10/13/2016	4.00%	2040	35,205	35,205	--	--	35,205	--
Total principal amount					$ 997,795	891,740	--	(37,615)	854,125	44,015
Unamortized bond premium						77,603	--	(9,295)	68,308	--
Net revenue bonds						969,343	--	(46,910)	922,433	44,015
Less: current maturities of long-term debt						(37,615)	(69,925)	63,525	(44,015)	--
Total long-term debt net of current maturities						$ 931,728	$ (69,925)	$ 16,615	$ 878,418	$ 44,015

Continued…..

The Port's activities for bonded debt and other indebtedness for fiscal year 2017 are as follows (in thousands):

Bond Issues	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2016	Additions	Deductions	Ending Balance June 30, 2017	Principal Due Within One Year
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2025	$ 200,710	$ 48,760	$ --	$ (48,760)	$ --	$ --
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2026	209,815	72,560	--	(72,560)	--	--
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	11,155	--	(11,155)	--	--
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% – 5.25%	2030	100,000	78,665	--	(4,095)	74,570	4,255
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	180,435	--	(8,860)	171,575	2,265
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% – 5.00%	2023	58,930	56,795	--	(7,130)	49,665	7,490
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% – 5.00%	2026	32,820	32,820	--	--	32,820	--
Issue 2014, Series A	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	203,280	201,005	--	(3,420)	197,585	4,595
Issue 2014, Series B	8/1/2024 @ 100%	9/18/2014	3.00% – 5.00%	2045	89,105	87,745	--	(1,425)	86,320	1,480
Issue 2014, Series C	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	44,890	44,130	--	(780)	43,350	805
Issue 2015, Series A	8/1/2025 @ 100%	9/18/2014	2.00% – 5.00%	2027	37,050	37,050	--	(2,755)	34,295	2,835
Issue 2016, Series A	Not applicable	10/13/2016	3.00% – 5.00%	2025	97,970	--	97,970	--	97,970	13,055
Issue 2016, Series B	8/1/2026 @ 100%	10/13/2016	2.00% – 5.00%	2037	68,385	--	68,385	--	68,385	835
Issue 2016, Series C	8/1/2026 @ 100%	10/13/2016	4.00%	2040	35,205	--	35,205	--	35,205	--
Total principal amount					$ 1,524,865	951,120	201,560	(260,940)	891,740	37,615
Unamortized bond premium						57,202	28,946	(8,545)	77,603	--
Net revenue bonds						1,008,322	230,506	(269,485)	969,343	37,615
Less: current maturities of long-term debt						(41,695)	(50,570)	54,650	(37,615)	--
Total long-term debt net of current maturities						$ 966,627	$ 179,936	$ (214,835)	$ 931,728	$ 37,615

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B. Bond Premium

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

The unamortized premium for the outstanding bonds for fiscal years 2018 and 2017 are as follows (in thousands):

Harbor Revenue Bonds	2018 Premium	2017 Premium
Issue of 2009, Series A	$ 490	$ 643
Issue of 2009, Series C	2,149	2,597
Issue of 2011, Series A	1,016	1,584
Issue of 2011, Series B	1,906	2,188
Issue of 2014, Series A	20,547	22,478
Issue of 2014, Series B	10,734	11,565
Issue of 2014, Series C	5,303	5,657
Issue of 2015, Series A	3,869	4,815
Issue of 2016, Series A	6,624	9,417
Issue of 2016, Series B	11,793	12,645
Issue of 2016, Series C	3,877	4,014
Total	$ 68,308	$ 77,603

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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
2019	$ 44,015	$ 40,868	$ 84,883
2020	46,515	38,836	85,351
2021	48,295	36,547	84,842
2022	51,280	34,069	85,349
2023	54,080	31,414	85,494
2024 – 2028	254,285	113,540	367,825
2029 – 2033	104,870	73,017	177,887
2034 – 2038	126,370	44,433	170,803
2039 – 2043	91,465	18,143	109,608
2044 – 2045	32,950	1,668	34,618
Total	$ 854,125	$ 432,535	$ 1,286,660

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D. New Issuances

Fiscal Year 2018

There were no new issuances in fiscal year 2018.

Fiscal Year 2017

2016 Series A Refunding Bonds

The 2016 Series A Refunding Bonds were issued in October 2016 in aggregate principal amount of $98.0 million to refund the outstanding principal of $48.6 million of the 2006 Series A Refunding Bonds and $60.4 million of 2006 Series B Refunding Bonds. The 2016 Series A Refunding transaction resulted in cash flow savings of $14.7 million and an economic gain of $11.8 million over the life of the bonds.

Interest on the 2016 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from February 1, 2017. The bonds bear interest at coupon rates from 3% to 5% with maturity dates ranging from August 2017 to August 2024.

2016 Series B Refunding Bonds

The 2016 Series B Refunding Bonds were issued in October 2016 in aggregate principal amount of $68.4 million to refund the outstanding principal of $10.2 million of the 2006 Series C Refunding Bonds and a portion of $100 million outstanding principal of 2009 Series B Bonds. The 2016 Series B Refunding transaction resulted in cash flow savings of $19.1 million and an economic gain of $13.6 million over the life of the bonds.

Interest on the 2016 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from February 1, 2017.The bonds bear interest at coupon rates from 2% to 5% with maturity dates ranging from August 2017 to August 2036.

The Bonds with stated maturities on or after August 1, 2030 shall be subject to optional redemption prior to their maturities on or after August 1, 2026 without early redemption premium.

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2016 Series C Refunding Green Bonds

The 2016 Series C Refunding Green Bonds were issued in October 2016 in aggregate principal amount of $35.2 million to refund a portion of $100 million outstanding principal of 2009 Series B Bonds. The 2016 Series C Refunding transaction resulted in cash flow savings of $7.8 million and an economic gain of $7.1 million over the life of the bonds.

Interest on the 2016 Series C Refunding Green Bonds is payable semiannually on February 1 and August 1 of each year starting from February 1, 2017. These bonds are term bonds bearing interest at coupon rate of 4% with maturity dates ranging from August 2036 to August 2039.

The Bonds with stated maturities on or after August 1, 2036 shall be subject to optional redemption prior to their maturities on or after August 1, 2026 without early redemption premium.

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 current credit facilities that support the Program is at $200.0 million. The term of the Program expired in August 2018. The Port is in the process of renewing the Program.

There was no outstanding commercial paper as of June 30, 2018 and 2017.

F. 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.

At June 30, 2018 and 2017, $10.8 million and $20.8 million, respectively, of defeased 1988 bonds remain outstanding.

An escrow for the advance refunding of 2009 Series B Bonds was established in October 2016 with remaining balance of $106.5 million and $110.8 million as June 30, 2018 and 2017, respectively.

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8. Changes in Long-Term Liabilities

The changes in the Port's long-term liabilities for the year ended June 30, 2018 are as follows (in thousands):

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due within one year
Revenue bonds	$ 891,740	$ --	$ (37,615)	$ 854,125	$ 44,015
Unamortized (discount)/ premium	77,603	--	(9,295)	68,308	--
Net revenue bonds	969,343	--	(46,910)	922,433	44,015
Accrued salaries and employee benefits	25,079	298,122	(296,424)	26,777	18,642
Net pension liabilities	231,325	--	(20,443)	210,882	--
Net OPEB liabilities	--	33,047	(8,631)	24,416	--
Litigation	1,909	1,957	(244)	3,622	3,622
Workers compensation	14,755	2,065	(1,511)	15,309	1,860
Pollution remediation	95,061	2,700	(14,860)	82,901	9,862
Deposits	10,299	1,381	(482)	11,198	--
Others	5,098	60	(40)	5,118	--
Total long-term liabilities	$ 1,352,869	$ 339,332	$ (389,545)	$ 1,302,656	$ 78,001

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The changes in the Port's long-term liabilities for the year ended June 30, 2017 are as follows (in thousands):

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due within one year
Revenue bonds	$ 951,120	$ 201,560	$ (260,940)	$ 891,740	$ 37,615
Unamortized (discount)/ premium	57,202	28,946	(8,545)	77,603	--
Net revenue bonds	1,008,322	230,506	(269,485)	969,343	37,615
Accrued salaries and employee benefits	24,974	296,144	(296,039)	25,079	17,542
Net pension liabilities	215,829	15,496	--	231,325	--
Litigation	1,524	531	(146)	1,909	1,909
Workers compensation	12,508	4,353	(2,106)	14,755	1,820
Pollution remediation	74,826	29,713	(9,478)	95,061	11,776
Deposits	10,075	404	(180)	10,299	--
Others	5,105	57	(64)	5,098	--
Total long-term liabilities	$ 1,353,163	$ 577,204	$ (577,498)	$ 1,352,869	$ 70,662

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9. Pollution Remediation Obligations

The Port's estimated pollution remediation liability as of June 30, 2018 and 2017 totaled $82.9 million and $95.1 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.

The changes in the Port's pollution remediation obligations for fiscal year 2018 are as follows (in thousands):

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Obligating Event					
Violation of pollution prevention related permit or license	$ 1,130	$ --	$ (80)	$ 1,050	$ 500
Named by regulator as a potential party to remediation	88,239	2,500	(13,128)	$ 77,611	$ 9,222
Voluntary commencement	5,692	200	(1,652)	4,240	140
Total	$ 95,061	$ 2,700	$ (14,860)	$ 82,901	$ 9,862
Pollution Type					
Soil and/or groundwater remediation	$ 95,061	$ 2,700	$ (14,860)	$ 82,901	$ 9,862

The changes in the Port's pollution remediation obligations for fiscal year 2017 are as follows (in thousands):

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
Obligating Event					
Violation of pollution prevention related permit or license	$ --	$ 1,130	$ --	$ 1,130	$ 600
Named by regulator as a potential party to remediation	69,635	27,699	(9,095)	$ 88,239	$ 10,493
Voluntary commencement	5,191	884	(383)	5,692	683
Total	$ 74,826	$ 29,713	$ (9,478)	$ 95,061	$ 11,776
Pollution Type					
Soil and/or groundwater remediation	$ 74,826	$ 29,713	$ (9,478)	$ 95,061	$ 11,776

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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.

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11. Risk Management

The Port purchases insurance for a variety of exposures associated with property, automobiles, vessels, employment practices, travel, police, pilotage, special events, and terrorism. The City is self-insured for workers' compensation, and the Port participates in the City's self-insurance program. Prior to October 1, 2017, third party general liability exposures were self-insured by the Port for $1.0 million and the excess liability is maintained over the self-insured retention. The Port has purchased a primary general liability insurance policy effective on October 1, 2017 to cover general liability up to $1 million with $500,000 deductible for indemnity defense. 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, 2018 and 2017 were $15.3 million and $14.8 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, 2018 and 2017 were $3.6 million and $1.9 million, respectively.

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

	2018	2017	2016
Unpaid claims, July 1			
Workers compensation	$ 14,755	$ 12,508	$ 15,335
General liability/litigation	1,909	1,524	1,601
Total unpaid claims, July 1	16,664	14,032	16,936
Provision for current year's events and changes in provision for prior year's events			
Workers compensation	2,066	4,353	(1,167)
General liability/litigation	1,943	624	621
Total provision	4,009	4,977	(546)
Claims payments			
Workers compensation	(1,512)	(2,106)	(1,660)
General liability/litigation	(230)	(239)	(698)
Total claims payments	(1,742)	(2,345)	(2,358)
Unpaid claims, June 30			
Workers' compensation	15,309	14,755	12,508
General liability/litigation	3,622	1,909	1,524
Total unpaid claims, June 30	$ 18,931	$ 16,664	$ 14,032
Current portion			
Workers compensation	$ 1,860	$ 1,820	$ 1,504
General liability/litigation	3,622	1,909	1,524
Total current portion	$ 5,482	$ 3,729	$ 3,028

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

The Port leases a substantial portion of lands and facilities to others. Leases relating to terminal operations tend to be long-term in nature (as long as 50 years), which generate 95.1% and 94.7% of the Port's operating revenues for the years ended June 30, 2018 and 2017, respectively. Leases relating to revocable permits and space assignments that are short-term in nature provide for cancellation on a 30-day notice by either party. Majority of the Port's leases provide 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.

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.

Agreements relating to terminal operations tend to be long-term in nature (as long as 50 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, 2018 and 2017, the minimum rental income from such lease agreements was approximately $61.4 million and $51.3 million, respectively. For the years ended June 30, 2018 and 2017, the MAG payments were approximately $274.6 million and $269.5 million, respectively, and were reported under shipping services revenue. 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):

Fiscal Year	Rental income	MAG income
2019	$ 62,033	$ 290,162
2020	62,653	295,239
2021	63,280	296,330
2022	63,912	296,263
2023	64,552	296,263
Total	$ 316,430	$ 1,474,257

The carrying cost and related accumulated depreciation of property held for operating leases as of June 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Wharves and sheds	$ 1,195,956	$ 1,181,381
Cranes and bulk facilities	27,028	29,879
Municipal warehouses	13,949	13,766
Port pilot facilities and equipment	9,691	9,512
Buildings and other facilities	1,082,969	1,046,651
Cabrillo Marina	180,015	179,942
Total	2,509,608	2,461,131
Less accumulated depreciation	(1,279,809)	(1,201,865)
Net	$ 1,229,799	$ 1,259,266

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13. Los Angeles City Employees' Retirement System (LACERS)

A. General Information about LACERS

Plan description. All full-time employees of the Port are eligible to participate in LACERS, a single-employer public employee retirement system (the System) whose main function is to provide pension benefits such as service and disability retirement benefits as well as death benefits to the civilian employees of the City of Los Angeles. LACERS also administers and provides other postemployment benefits (OPEB) to eligible retirees and their eligible spouses/domestic partners. Under the provisions of the City Charter and California State Constitution, the Board of Administration (LACERS Board) has the responsibility and authority to administer LACERS and to invest its assets. Consisting of seven members of retiree and active employee members, the LACERS Board serve as trustees and must act in the exclusive interest of the LACERS' members and beneficiaries. Changes to the benefit terms require approval of the City Council.

LACERS issues a publicly available financial report that 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 or LACERS' website http://lacers.org/aboutlacers/reports/index.html.

Plan Memberships. As June 30, 2017, pension and OPEB plan members consisted of the following:

	Pension	OPEB
Retired members of surviving spouses currently receiving benefits	18,805	14,652
Vested terminated members entitled to, but not yet receiving benefits	7,428	1,280
Active members	25,457	25,457
Total	51,690	41,389

Benefits provided – Pension. LACERS provides service retirement, disability, death and survivor benefits to eligible employees based on employees' years of service, age, and final compensation. There are two tiers of memberships. Under Tier 1, employees with 10 or more years of continuous service may retire if they are at age 60 or at least 30 years of service at age 55, or with any years of service at age 70 or older. Full-unreduced retirement benefits are determined as 2.16% per year of the employee's service credit (not greater than 100%), multiplied by the employee's average monthly pensionable salary during the employee's last 12 months of service, or during any other 12 consecutive months of service. Normal retirement allowances are reduced for employees who retire at age 55 with 10 or more years of continues service, or at any age with 30 or more years of service. Membership to Tier 1 is closed to new entrants. Eligible employees hired on or after July 1, 2013 become members of Tier 2. However, on July 9, 2015, the City and the Coalition of the Los Angeles City Unions representing more than half of the City's civilian workforce reached an agreement which rescinded Tier 2 and created a new tier of benefits. As a result, Ordinance 184134 was adopted on January 12, 2016, and all active Tier 2 members were transferred to Tier 1 as of February 21, 2016.

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On or after February 21, 2016, new members became Tier 3 members of LACERS. Under Tier 3, employees may retire at age 60 with at least 10 or more years of service (including 5 years of continuous service) to receive full-unreduced benefits with a 1.50% retirement factor, or at age 55 with at least 30 years of service (including 5 years of continuous service) to receive full-unreduced retirement benefits with a 2.0% retirement factor. In addition, the employee may retire at age 63 with at least 10 years of service to receive an enhanced retirement benefit with a 2.0% retirement factor, or at age 63 with 30 years of service with a 2.1% retirement factor. Full-unreduced retirement benefits are determined as the applicable retirement factor (1.5%, 2.0%, or 2.1%) per year of the employee's service credit (not greater than 80%), multiplied by the employee's last 36 months of final average compensation or any other 36 consecutive months of service. Normal retirement allowances are reduced for employees who retire prior to age 55. LACERS does not have a mandatory retirement age.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are made each July 1 based on the percentage change in the average Consumer Price Index for the Los Angeles-Long Beach-Anaheim Area – All Items For All Urban Consumers, to a maximum increase in retirement allowance of 3% per year, excess banked, for Tier 1 members and 2% per year, excess not banked, for Tier 3 members.

LACERS covers all full-time personnel and department-certified part-time employees of the Port, except for sworn employees of certain Port Police officers.

Benefits provided – OPEB. LACERS also provides postemployment health care benefits to eligible retirees and their eligible spouses/domestic partners who participate in the pension plan. These benefits may also extend to the coverage of other eligible dependent(s). Members 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 the benefits with an approved health carrier. The eligible employees earn 4% per year of service credit for their annual medical subsidy. Eligible spouse/domestic partners of plan members are entitled to the postemployment health care benefits after the retired member's death.

Contributions – Pension. The LACERS Board establishes and may amend the contribution requirements of the System members and the City in accordance with Article XI Sections 1158 and 1160 of the Los Angeles City Charter provides for periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For fiscal year 2018, the employer contribution rate for both pension and other postemployment benefits as calculated by LACERS' actuary is 27.22% for Tier 1 members (i.e., all LACERS members hired prior to February 21, 2016) and 24.64% for Tier 3 members (i.e., all City employees who became members of LACERS on or after February 21, 2016). For fiscal year 2017, the employer contribution rate as calculated by LACERS' actuary is 28.16% for Tier 1 members and 24.96% Tier 3 members.

Based on the Port's reported covered payroll of $82.3 million for fiscal year 2018, $80.7 million is subject to the 27.22% rate and $1.6 million is subject to the 24.64% rate. The Port's actual

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contribution to LACERS for both pension and other postemployment benefits, including family death benefit, excess benefit, and limited term plans is $21.2 million ($17.3 million for pension benefits and $3.9 million for other postemployment benefits) and $21.8 million ($17.6 million for pension benefits and $4.2 million for other postemployment benefits) for the fiscal years ended June 30, 2018 and 2017, respectively. The Port has made 100% of the actuarially determined contributions for both fiscal years.

All members are required to make contributions to LACERS regardless of the tier in which they are included. Currently, Tiers 1 and 3 members contribute at 11% of compensation.

Contributions – OPEB. The LACERS Board establishes and may amend the contribution requirements of the System members and the City in accordance with Article XI Sections 1158 and 1160 of the Los Angeles City Charter provides for periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. The employer contribution rate as calculated by LACERS' actuary is 4.94%.

Pension plan fiduciary net position and OPEB plan fiduciary net position. Detailed information about the pension and OPEB plans' fiduciary net positions are available in the separately issued LACERS financial report.

B. Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension

At June 30, 2018 and 2017, the Port reported a liability of $204.6 million and $221.3 million, respectively, for its proportionate shares of the net pension liability of LACERS. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port's proportion of the net pension liability was based on the Port's share of actual contributions to the pension plan relative to the actual contributions of all participating departments, actuarially determined. The Port's proportionate share was determined to be 3.877% and 3.940% for fiscal years ended June 30, 2018 and 2017, respectively.

Continued…..

Fiscal Year 2018

For the year ended June 30, 2018, the Port recognized pension expense of $18.8 million. At June 30, 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,317	$ --
Changes of assumptions or other inputs	19,432	--
Differences between expected and actual experience in the total pension liability	--	15,951
Changes in proportion and differences between employer's contributions and proportionate share of contributions	--	10,757
Net difference between projected and actual earnings on pension plan investments	2,219	--
Total	$ 38,968	$ 26,708

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30	
2019	$ (2,249)
2020	4,085
2021	(2,053)
2022	(4,983)
2023	143
Thereafter	--

The amortization table does not include pension contributions made after the measurement date.

Continued…..

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Projected salary increases	Ranges from 3.90% to 10.00% based on years of service
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Cost-of-living adjustments	3.00% maximum for Tier 1 and 2.00% maximum for Tier 3.

Postemployment mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Combined Healthy Mortality Table projected with scale BB to the year 2020, set back one year for males and with no setback for females. Postemployment mortality rates for disabled retirees were based on the RP-2000 Combined Healthy Mortality Table projected with scale BB to the year 2020, set forward seven years for males and set forward eight years for females.

For pre-retirement mortality, withdrawal rates, disability rates, and service retirement rates, the rates vary by age, gender, and/or service.

The actuarial assumptions used were based on the results of an actuarial experience study for the period from July 1, 2011 through June 30, 2014.

Certain actuarial assumptions were changed from the prior measurement. See page 86.

Long-term expected rate of return by asset class. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Larger Cap Equity	19.00%	5.61%
U.S. Small Cap Equity	5.00%	6.48%
Developed International Equity	19.00%	7.08%
Developed International Small Cap Equity	3.00%	7.32%
Emerging Market Equity	7.00%	9.35%
Core Bonds	19.00%	1.08%
Private Real Estate	5.00%	4.44%
Public Real Assets	5.00%	3.35%
Private Equity	12.00%	8.97%
Credit Opportunities	5.00%	3.75%
Cash	1.00%	-0.06%
Total	100.00%	

Discount rate. The discount rate used to measure the Total Pension Liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at rates equal to actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Continued…..

Sensitivity of the Port's proportionate share of net pension liability to change in the discount rate. The following presents the Port's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (in thousands):

	1% Decrease (6.25%)	Discount rate (7.25%)	1% Increase (8.25%)
Port's proportionate share of the net pension liability	$299,386	$204,609	$125,738

Fiscal Year 2017

For the year ended June 30, 2017, the Port recognized pension expense of $21.2 million. At June 30, 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,582	$ --
Changes of assumptions or other inputs	14,428	--
Differences between expected and actual experience in the total pension liability	--	15,942
Changes in proportion and differences between employer's contributions and proportionate share of contributions	--	10,980
Net difference between projected and actual earnings on pension plan investments	25,325	--
Total	$ 57,335	$ 26,922

Continued…..

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30		
2018	$	1,805
2019		1,805
2020		8,240
2021		1,994
2022		(1,013)
Thereafter		--

The amortization table does not include pension contributions made after the measurement date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Projected salary increases	Ranges from 4.40% to 10.50% based on years of service
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Cost-of-living adjustments	3.00% maximum for Tier 1 and 2.00% maximum for Tier 3.

Postemployment mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Combined Healthy Mortality Table projected with scale BB to the year 2020, set back one year for males and with no setback for females. Postemployment mortality rates for disabled retirees were based on the RP-2000 Combined Healthy Mortality Table projected with scale BB to the year 2020, set forward seven years for males and set forward eight years for females.

For pre-retirement mortality, withdrawal rates, disability rates, and service retirement rates, the rates vary by age, gender, and/or service.

The actuarial assumptions used were based on the results of an actuarial experience study for the period from July 1, 2011 through June 30, 2014.

Continued…..

Long-term expected rate of return by asset class. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Larger Cap Equity	20.40%	5.94%
U.S. Small Cap Equity	3.60%	6.64%
Developed International Equity	21.75%	6.98%
Emerging Market Equity	7.25%	8.48%
Core Bonds	16.53%	0.71%
High Yield Bonds	2.47%	2.89%
Private Real Estate	5.00%	4.69%
Public Real Assets	5.00%	3.41%
Private Equity	12.00%	10.51%
Credit Opportunities	5.00%	3.07%
Cash	1.00%	-0.46%
Total	100.00%	

Discount rate. The discount rate used to measure the Total Pension Liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at rates equal to actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Continued…..

Sensitivity of the Port's proportionate share of net pension liability to change in the discount rate. The following presents the Port's proportionate share of the net pension liability, calculated using the discount rate of 7.50%, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (in thousands):

	1% Decrease (6.50%)	Discount rate (7.50%)	1% Increase (8.50%)
Port's proportionate share of the net pension liability	$311,864	$221,275	$145,830

C. OPEB Liability, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources, and Funded Status Related to OPEB

Fiscal Year 2018

At June 30, 2018, the Port reported a liability of $21.9 million for its proportionate shares of the net OPEB liability of LACERS. The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Port's proportion of the net OPEB liability was based on the Port's share of actual contributions to the OPEB plan relative to the actual contributions of all participating departments, actuarially determined. The Port's proportionate share was determined to be 3.865% for the fiscal year ended June 30, 2018.

Continued…..

For the year ended June 30, 2018, the Port recognized OPEB expense of $3.6 million. At June 30, 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 3,857	$ --
Changes of assumptions or other inputs	1,092	--
Differences between expected and actual experience in the total OPEB liability	641	--
Changes in proportion and differences between employer's contributions and proportionate share of contributions	--	457
Net excess of actual over projected earnings on OPEB plan investments	--	5,201
Total	$ 5,590	$ 5,658

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ended June 30	
2019	$ (1,064)
2020	(1,064)
2021	(1,064)
2022	(1,064)
2023	237
Thereafter	94

The amortization table does not include OPEB contributions made after the measurement date.

Continued…..

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Projected salary increases	Ranges from 3.90% to 10.00% based on years of service
Investment rate of return	7.25%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	6.87% graded down to 4.50% over 10 years for non-Medicare medical plan costs; 6.37% graded down to 4.50% over 8 years for Medicare medical plan costs; and 4.50% for all years for dental and Medicare Part B costs.

Postemployment mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Combined Healthy Mortality Table projected with scale BB to the year 2020, set back one year for males and with no setback for females. Postemployment mortality rates for disabled retirees were based on the RP-2000 Combined Healthy Mortality Table projected with scale BB to the year 2020, set forward seven years for males and set forward eight years for females.

For pre-retirement mortality, withdrawal rates, disability rates, and service retirement rates, the rates vary by age, gender, and/or service.

The actuarial assumptions used were based on the results of an actuarial experience study for the period from July 1, 2011 through June 30, 2014.

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Long-term expected rate of return by asset class. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Larger Cap Equity	19.00%	5.61%
U.S. Small Cap Equity	5.00%	6.48%
Developed International Equity	19.00%	7.08%
Developed International Small Cap Equity	3.00%	7.32%
Emerging Market Equity	7.00%	9.35%
Core Bonds	19.00%	1.08%
Private Real Estate	5.00%	4.44%
Public Real Assets	5.00%	3.35%
Private Equity	12.00%	8.97%
Credit Opportunities	5.00%	3.75%
Cash	1.00%	-0.06%
Total	100.00%	

Discount rate. The discount rate used to measure the Total OPEB Liability were 7.25% and 7.50% as of June 30, 2017 and 2016, respectively. As contributions that are required to be made by the City to amortize the unfunded actuarial accrued liability in the funding valuation are determined on an actuarial basis, the future actuarially determined contributions are current plan assets, when projected in accordance with the method prescribed by GASBS 75, are expected to be sufficient to make all benefit payments to current members.

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Sensitivity of the Port's proportionate share of net OPEB liability to change in the discount rate. The following presents the Port's proportionate share of the net OPEB liability, calculated using the discount rate of 7.25%, as well as what the Port's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (in thousands):

	1% Decrease (6.25%)	Discount rate (7.25%)	1% Increase (8.25%)
Port's proportionate share of the net OPEB liability	$37,619	$21,910	$8,866

Sensitivity of the Port's proportionate share of net OPEB liability to change in the healthcare cost trend rate. The following presents the Port's proportionate share of the net OPEB liability, as well as what LACERS' net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current healthcare trend rate (in thousands):

	1% Decrease	Current healthcare trend rate*	1% Increase
Port's proportionate share of the net OPEB liability	$6,827	$21,910	$41,449

*See page 90 for current healthcare trend rate.

Fiscal Year 2017

Funded Status of LACERS OPEB. 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, 2016 and the two preceding years for the plan are as follows (in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/16	$ 105,983	100%	$ --
06/30/15	100,467	100%	--
06/30/14	97,841	100%	--

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, 2016, 2015, and 2014 (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)
06/30/2016	$ 2,248,753	$ 2,793,689	$ 544,936	80.5%	$ 1,968,703	27.7%
06/30/2015	2,108,925	2,646,989	538,064	79.7%	1,907,665	28.2%
06/30/2014	1,941,225	2,662,853	721,628	72.9%	1,816,171	39.7%

The actuarial valuation methods and assumptions used for LACERS OPEB as of June 30, 2016 were as follows: actuarial cost method used – entry age normal; amortization method - level percent of payroll; amortization period - multiple layers, closed not exceeding 30 years. Initial years range from 5 to 30 years; asset valuation method - 7-year fair value of assets less unrecognized return in each of the last 7 years; investment rate of return - 7.50%; projected salary increases – ranges from 10.50% to 4.40%; inflation rate - 3.25%; and healthcare cost trend rates – for medical, range from 2.22% to 8.39% depending on age groups and carrier in fiscal year 2017, 6.38% in fiscal year 2018 decreasing by 0.25% for each year until it reaches an ultimate rate of 5.00%, and dental premium trend rate – 5.00% for all years.

Note 13. A to C on LACERS retirement and OPEB plans were derived from information prepared by LACERS and the City.

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14. City of Los Angeles Fire and Police Pension System (LAFPP)

A. General Information about LAFPP

Plan description. LAFPP is a single-employer public employee retirement system whose main function is to provide defined benefit pension benefits to the safety members employed by the City of Los Angeles. Members of LAFPP are entitled to other postemployment benefits (OPEB) such as healthcare subsidy. LAFPP is administered by a Board of Commissioners (LAFPP Board) composed of five commissioners who are appointed by the Mayor, two commissioners elected by Police members of the plan and two commissioners elected by Fire members of the plan. Under provisions of the City Charter, the City Administrative Code and the State Constitution, the LAFPP Board has the responsibility to administer the plan. Changes to the benefit terms require approval by the City Council.

LAFPP is composed of six tiers. Tier 6 is the current tier for all Harbor Port Police Officers hired on or after July 1, 2011. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2011. The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Port Police Officers the option to transfer from LACERS to Tier 5 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 Port after the effective date of the Ordinance automatically go into either Tier 5 or Tier 6 of LAFPP.

LAFPP issues a publicly available financial report that 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 or LAFPP's website https://www.lafpp.com/about/financial-reports.

Plan Memberships. As June 30, 2017, pension and OPEB plan members consisted of the following:

	Pension	OPEB
Retired members of surviving spouses currently receiving benefits	12,836	17,034
Vested terminated members entitled to, but not yet receiving benefits	374	882
Active members	13,327	13,327
Total	26,537	31,243

Benefits provided – Pension. LAFPP provides service retirement, disability, death and survivor benefits to eligible sworn members. Sworn employees become members upon graduation from the Police Academy or Fire Drill Tower. Information about benefits for Tiers 1 through 4 members is available in the separately issued LAFPP financial report. Tier 5 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 5 provides for postemployment

Continued…..

COLAs based on the Consumer Price Index (CPI) to a maximum of 3% per year. However, any increase in CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 6 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for postemployment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Benefits Provided – OPEB. LAFPP provides the following other postemployment benefits (OPEB) to eligible members:

- Subsidy for members not eligible for Medicare A & B – 4% per year of service, to a maximum of 100%, times a monthly maximum subsidy amount, subject to a maximum of actual premium paid to the LAFPP Board's approved health carrier.
- Subsidy for members eligible for Medicare A & B – For retirees, the health subsidy is provided subject to the following vesting schedule. Surviving spouses/domestic partners are eligible for benefits upon the death of the member.

Completed Years of Services	Vested Percentage
10-14	75%
15-19	90%
20+	100%

- Medicare Part B Related Subsidy – For retired members enrolled in Medicare A & B who are receiving a subsidy, the LAFPP provides payment of Part B premiums.
- Dental Subsidy – 4% per year of service, to a maximum of 100%, times a monthly maximum subsidy amount, subject to a maximum of the single-party premium paid to the LAFPP Board approved dental carrier.

Contributions – Pension. The LAFPP Board establishes and may amend the contribution requirements of members and the City. The City's annual contribution for the LAFPP plan is actuarially determined and represents a level of funding that, if paid on an ongoing basis, is

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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.

All members are required to make contributions to LAFPP regardless of tier in which they are included. However, members are exempt from making contributions when their continuous service exceeds 30 years for Tier 1 through 4, and 33 years for Tier 5 and Tier 6.

In fiscal year 2018, the Port's contribution rate for sworn employees that are members of the Harbor Tier 5 plan, as determined by the actuary is 33.46% of covered payroll. The Harbor Tier 6 rate is 28.80%. Based on the Port's reported sworn covered payroll of $12.5 million for Tier 5, and $1.7 million for Tier 6, the Port's pro rata share of the combined actuarially determined contribution for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was $4.7 million ($3.7 million for pension benefits and $1.0 million for other postemployment benefits) and $4.5 million ($3.7 million for pension benefits and $0.8 million for other postemployment benefits) for the years ended June 30, 2018 and 2017, respectively. The Port has made 100% of the actuarially determined contributions for both fiscal years.

Contributions – OPEB. The LAFPP Board establishes and may amend the contribution requirements of members and the City. The City's annual contribution for the LAFPP plan is actuarially determined and represents a level of funding that, if paid on an ongoing basis, is expected to be sufficient to make all benefit payments to current members. The City Administrative Code and related ordinance define member contributions. The employer contribution rate as calculated by LAFPP's actuary is 11.82%.

Pension plan fiduciary net position and OPEB plan fiduciary net position. Detailed information about the LAFPP's pension and OPEB plans' fiduciary net position is available in the separately issued LAFPP financial report.

B. Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension

At June 30, 2018 and 2017, the Port reported a liability of $6.3 million and $10.1 million, respectively, for its proportionate shares of the net pension liability of LAFPP. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port's proportion of the net pension liability was based on the Port's share of actual contributions to the pension plan relative to the actual contributions of all participating employers, actuarially determined. The Port's proportionate share was determined to be 0.345% and 0.408% for fiscal years ended June 30, 2018 and 2017, respectively.

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Fiscal Year 2018

For the year ended June 30, 2018, the Port recognized pension expense of $2.0 million. At June 30, 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,646	$ --
Changes of assumptions or other inputs	1,176	145
Differences between expected and actual experience in the total pension liability	--	3,857
Net excess of actual over projected earnings on pension plan investments	--	664
Total	$ 4,822	$ 4,666

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30	
2019	$ (1,297)
2020	(578)
2021	(655)
2022	(884)
2023	(76)
Thereafter	--

The amortization table does not include pension contributions made after the measurement date.

Continued…..

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Projected salary increases	Ranges from 4.30% to 12.00% based on years of service
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Cost-of-living adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5 and 6 retirement income

Pre-retirement and postemployment mortality rates are based on the Headcount-Weighted RP-2014 Employee Mortality Table times 90%, projected 20 years with two-dimensional scale MP-2016.

The actuarial assumptions used were based on the results of an actuarial experience study for the period from July 1, 2013 through June 30, 2016.

Certain actuarial assumptions were changed from the prior measurement. See page 101.

Long-term expected rate of return by asset class. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	23.00%	5.61%
Small Cap U.S. Equity	6.00%	6.37%
Developed International Equity	16.00%	6.96%
Emerging Market Equity	5.00%	9.28%
U.S. Core Fixed Income	12.00%	1.06%
High Yield Bonds	3.00%	3.65%
Real Estate	10.00%	4.73%
TIPS	5.00%	0.94%
Commodities	5.00%	3.76%
Cash	1.00%	-0.17%
Unconstrained Fixed Income	2.00%	2.50%
Private Equity	12.00%	7.50%
Total	100.00%	5.11%

Discount rate. The discount rate used to measure the Total Pension Liability were 7.25% and 7.50% as of June 30, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate for each tier and that contributions from the employers will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Continued…..

Sensitivity of the Port's proportionate share of net pension liability to change in the discount rate. The following presents the Port's proportionate share of the net pension liability, calculated using the discount rate of 7.25%, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate what is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (in thousands):

	1% Decrease (6.25%)	Discount rate (7.25%)	1% Increase (8.25%)
Port's proportionate share of the net pension liability	$18,243	$6,273	$(3,269)

Fiscal Year 2017

For the year ended June 30, 2017, the Port recognized pension expense of $2.7 million. At June 30, 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,715	$ --
Changes of assumptions or other inputs	--	228
Differences between expected and actual experience in the total pension liability	--	2,892
Net difference between projected and actual earnings on pension plan investments	1,825	--
Total	$ 5,540	$ 3,120

Continued…..

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30		
2018	$	(614)
2019		(614)
2020		105
2021		27
2022		(199)
Thereafter		--

The amortization table does not include pension contributions made after the measurement date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Projected salary increases	Ranges from 4.75% to 11.50% based on years of service
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Cost-of-living adjustments	3.25% of Tiers 1 and 2 retirement income and 3.00% of Tiers 3, 4, 5 and 6 retirement income

Postemployment mortality rates were based on the RP-2000 Combined Healthy Mortality Table for Males or Females, as appropriate, projected to 2022 with scale BB with different age adjustment (i.e., set back or set forward) for healthy and disabled members, including beneficiaries. For pre-retirement mortality, withdrawal rates, disability rates, and service retirement rates, the rates vary by age, service, gender, membership classification and tier.

The actuarial assumptions used were based on the results of an actuarial experience study for the period from July 1, 2010 through June 30, 2013.

Continued…..

Long-term expected rate of return by asset class. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	23.00%	6.03%
Small Cap U.S. Equity	6.00%	6.71%
Developed International Equity	16.00%	6.71%
Emerging Market Equity	5.00%	8.02%
U.S. Core Fixed Income	14.00%	0.52%
High Yield Bonds	3.00%	2.81%
Real Estate	10.00%	4.73%
TIPS	5.00%	0.43%
Commodities	5.00%	4.67%
Cash	1.00%	-0.19%
Unconstrained Fixed Income	2.00%	2.50%
Private Equity	10.00%	9.25%
Total	100.00%	5.12%

Discount rate. The discount rate used to measure the Total Pension Liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate for each tier and that contributions from the employers will be made at rates equal to the actuarially determined contribution rates for each tier. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Continued…..

Sensitivity of the Port's proportionate share of net pension liability to change in the discount rate. The following presents the Port's proportionate share of the net pension liability, calculated using the discount rate of 7.50%, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate what is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (in thousands):

	1% Decrease (6.50%)	Discount rate (7.50%)	1% Increase (8.50%)
Port's proportionate share of the net pension liability	$20,648	$10,050	$1,550

C. OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources, and Funded Status Related to OPEB

Fiscal Year 2018

At June 30, 2018, the Port reported a liability of $2.5 million for its proportionate shares of the net OPEB liability of LAFPP. The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Port's proportion of the net OPEB liability was based on the Port's share of actual contributions to the OPEB plan relative to the actual contributions of all participating departments, actuarially determined. The Port's proportionate share was determined to be 0.148%% for the fiscal year June 30, 2018.

Continued…..

For the year ended June 30, 2018, the Port recognized OPEB expense of $0.9 million. At June 30, 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 1,018	$ --
Changes of assumptions or other inputs	--	33
Differences between expected and actual experience in the total OPEB liability	331	--
Changes in proportion and differences between employer's contributions and proportionate share of contributions	--	--
Net excess of actual over projected earnings on OPEB plan investments	--	318
Total	$ 1,349	$ 351

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ended June 30	
2019	$ (30)
2020	(30)
2021	(30)
2022	(30)
2023	49
Thereafter	51

The amortization table does not include OPEB contributions made after the measurement date.

Continued…..

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Projected salary increases	Ranges from 4.30% to 12.00% based on years of service
Investment rate of return	7.25%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	7.00% graded down to 4.50% over 10 years for non-Medicare medical plan costs; 6.50% graded down to 4.50% over 8 years for Medicare medical plan costs; and 4.50% for all years for dental and Medicare Part B costs.

Pre-retirement mortality rates are based on the Headcount-Weighted RP-2014 Employee Mortality Table times 90%, projected 20 years with two-dimensional scale MP-2016. Postemployment mortality rates are based on the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with two-dimensional scale MP-2016.

The actuarial assumptions used were based on the results of an actuarial experience study for the period from July 1, 2013 through June 30, 2016.

Continued…..

Long-term expected rate of return by asset class. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	23.00%	5.61%
Small Cap U.S. Equity	6.00%	6.37%
Developed International Equity	16.00%	6.96%
Emerging Market Equity	5.00%	9.28%
U.S. Core Fixed Income	12.00%	1.06%
High Yield Bonds	3.00%	3.65%
Real Estate	10.00%	4.73%
TIPS	5.00%	0.94%
Commodities	5.00%	3.76%
Cash	1.00%	-0.17%
Unconstrained Fixed Income	2.00%	2.50%
Private Equity	12.00%	7.50%
Total	100.00%	5.11%

Discount rate. The discount rate used to measure the Total OPEB Liability were 7.25% and 7.50% as of June 30, 2017 and 2016, respectively. As contributions that are required to be made by the City to amortize the unfunded actuarial accrued liability in the funding valuation are determined on an actuarial basis, the future actuarially determined contributions are current plan assets, when projected in accordance with the method prescribed by GASBS 75, are expected to be sufficient to make all benefit payments to current members.

Continued…..

Sensitivity of the Port's proportionate share of net OPEB liability to change in the discount rate. The following presents the Port's proportionate share of the net OPEB liability, calculated using the discount rate of 7.25%, as well as what the Port's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (in thousands):

	1% Decrease (6.25%)	Discount rate (7.25%)	1% Increase (8.25%)
Port's proportionate share of the net OPEB liability	$4,944	$2,506	$586

Sensitivity of the Port's proportionate share of net OPEB liability to change in the healthcare cost trend rate. The following presents the Port's proportionate share of the net OPEB liability, as well as what LAFPP net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current healthcare trend rate (in thousands):

	1% Decrease	Current healthcare trend rate*	1% Increase
Port's proportionate share of the net OPEB liability	$88	$2,506	$6,129

*See page 105 for current healthcare trend rate.

Fiscal Year 2017

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, 2016, 2015, and 2014 are as follows (in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/16	$ 161,911	99.50%	$ (132,506)
06/30/15	160,865	99.14%	(131,698)
06/30/14	149,877	98.97%	(130,319)

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, 2016, 2015, and 2014 (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)
06/30/2016	$ 1,480,810	$ 3,079,670	$ 1,598,860	48.08%	$ 1,400,808	114.14%
06/30/2015	1,344,333	2,962,703	1,618,370	45.38%	1,405,171	115.17%
06/30/2014	1,200,874	2,783,283	1,582,409	43.15%	1,402,715	112.81%

The actuarial valuation methods and assumptions used for LAFPP OPEB as of June 30, 2016 were as follows: actuarial cost method used - entry age normal; amortization method – closed amortization periods; remaining amortization period – multiple layers, range from 5 to 30 years; asset valuation method – market value of assets less unrecognized returns in each of the last seven years; investment rate of return - 7.50%; projected salary increases - 4.00%; inflation rate - 3.25%; medical healthcare cost trend rate of 7.00% in 2016-2017 and 2017-2018, decreasing by 0.25% for each year for eight years until it reaches an ultimate rate of 5.00%; and dental healthcare cost trend of 5.00% for all years.

Note 14. A to C on LAFPP retirement and OPEB plans were derived from information prepared by LAFPP and the City.

Continued…..

15. Commitments, Litigation and Contingencies

A. Commitments

Open purchase orders and uncompleted construction contracts amounted to approximately $22.8 million and $26.0 million as of June 30, 2018 and 2017, respectively. 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 2018 and 2017.

B. Litigation

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 (ACTA) Agreement

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 is comprised of two members from each Port, one each from the Cities of Los Angeles and Long Beach and one from the Metropolitan Transportation Authority. If in the future, ACTA is able to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally.

In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement provides for operation of the corridor to transport cargo into and out of the Ports. Payment of use fees and container charges, as defined in the Corridor Agreement are used to pay (a) the debt service that ACTA incurs on approximately $2.2 billion of outstanding bonds, (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, and (c) repayment and reimbursement obligations to the Ports, (collectively, ACTA Obligations). Use fees end in 2062 or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations outlined in (a) and (b) above, the Corridor Agreement obligates each Port to pay up to twenty percent (20%) of the shortfall (Shortfall) for each debt service payment date. If this event occurs, the Ports' payments to ACTA

Continued…..

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 the respective bond indentures and resolutions related to each Port bond or indebtedness.

An amended and restated Corridor Agreement became effective December 15, 2016, which (1) incorporated the July 5, 2006 First Amendment to the Corridor Agreement; (2) replaced the Operating Committee with an alternative decision making process for management of Alameda Corridor maintenance and operations; and (3) removed construction related provisions and updated certain other provisions to reflect current conditions and practices. The Los Angeles Board of Harbor Commissioners approved the amended and restated Corridor Agreement at a meeting held on October 24, 2016.

In 2016, ACTA issued Tax-Exempt First and Second Subordinate Lien Revenue Refunding Bonds, Series 2016A and Series 2016B (Series 2016 Bonds). The issuance of the Series 2016 Bonds advance refunded most of ACTA's Refunding Series 2004A Bonds and reduced potential future Shortfall payments. There were no Shortfall payments in both fiscal years 2018 and 2017.

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 fund grants selected by the nonprofit and approved by the Board of Harbor Commissioners, to address 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).

Pursuant to the MOU, the Port had provided the first two years PCMTF funding of \$12.0 million and \$4.0 million in a special Community Mitigation Trust Fund (CMTF) account maintained by the Port to meet its obligations in the MOU. The MOU required additional contributions of \$2.00 per TEU to be made in the event of incremental cargo increases over calendar year 2007 cargo levels during the term of the MOU. Based on the reduced volume of cargo processed in the applicable term due to the recession, no additional PCMTF funding has been necessary for incremental volume.

Continued…..

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 an independent financial manager. In accordance with the Operating Agreement, in 2011 the Port transferred the unspent balance of PCMTF funding from its CMTF to the PCMTF, an escrow account maintained by an independent financial manager, which is currently J.P. Morgan Bank.

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 a list of specific expansion projects that have environmental impact reports certified within five years after the first HCBF Board of Directors meeting (said certification deadline established as May 19, 2016). The Operating Agreement provides that if the listed MOU expansion projects have EIRs certified by the May 2016 deadline and proceeds with construction; the Port will make a one-time additional contribution at a rate of $3.50 per incremental increase in TEU (or $1.50 per cruise passenger increase, and $0.15 per ton of bulk cargo increase) 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. In fiscal year 2016, $0.8 million was contributed to the PCMTF based upon the Yusen container terminal project contract award. There were no contributions made during fiscal year 2018.

As of June 30, 2018, a total of $17.5 million has been disbursed from the Port's CMTF. The remaining fund balance including interest earned as of June 30, 2018 is $0.1 million.

Continued…..

16. Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate $42.7 million and $39.6 million in fiscal years 2018 and 2017, respectively. In addition, the amounts charged by the City for water and electricity usage approximate $14.7 million and $14.8 million in fiscal years 2018 and 2017, respectively.

17. 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, 2018 and 2017, the Port reported capital contributions of $4.5 million and $18.8 million, respectively, for certain capital construction and grant projects.

18. 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 an expense in fiscal year 2003.

The terms of the settlement 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.

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 $18.4 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.

Continued…..

In November 2015, two separate Memoranda of Agreements were approved and authorized to transfer $5.2 million to the Harbor Community Benefit Foundation (HCBF) to administer air quality improvement projects and $4 million to the South Coast Air Quality Management District to assist in funding the demonstration of a catenary zero emission truck project.

As of June 30, 2018, the Port has contributed a total of $75.0 million to the restricted mitigation funds in accordance with the provisions of the settlement.

19. Cash Funding of Reserve Fund

As of June 30, 2018 and 2017, the Port had $922.4 million and $969.3 million of outstanding parity bonds (including net unamortized premiums). The Port holds cash reserves for each Indenture of the outstanding bonds. On September 18, 2008, the BHC approved the full cash funding of the entire reserve requirement of $61.5 million that was transferred to the Port’s bond trustee in December 2008. The cash funding of the reserve took place to reassure bondholders 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, 2018 and 2017, the balance in the Common Reserve fund totaled $62.2 million and $62.3 million, respectively. 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. The required amount for the reserve fund will be reevaluated on a yearly basis. The funds in the reserve are invested in the U.S. Treasury securities and money market funds.

20. Extraordinary Item

On September 22, 2014, a fire caused extensive damage to Berth 177-178 and to a portion of Berth 179. The Port filed claims under its all-risk property insurance policy. Total insurance recovery of $14.3 million was received by the Port, out of which $9.2 million was received in fiscal year 2017. The remaining $5.1 million was received in 2016.

21. Restatement

The net position at July 1, 2017 was restated by $23.9 million to adjust for the cumulative effect of a change in accounting principle as a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:

	FY 2018
Net position, July 1, as previously reported	$ 3,265,398
Cumulative effect of change in accounting principle	(23,878)
Net position, July 1, as restated	$ 3,241,520

Financial statements for fiscal year 2017 were not restated due to the information to restate prior year amounts was not readily available.

Continued…..

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability – Last Ten Fiscal Years*

(In Thousands)

(Unaudited)

Los Angeles City Employees' Retirement System (LACERS)

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll (1)	Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2014	4.248%	$ 200,801	$ 73,746	272.29%	68.23%
2015	4.224%	$ 188,299	$ 76,040	247.60%	72.57%
2016	4.152%	$ 207,158	$ 75,963	272.71%	70.49%
2017	3.940%	$ 221,275	$ 75,092	294.67%	67.77%
2018	3.877%	$ 204,609	$ 76,204	268.50%	71.41%

(1) Covered payroll represents the collective total of the pensionable wages of all LACERS membership tiers.

Los Angeles Fire and Police Pension Plan (LAFPP)

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll (2)	Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2014	0.400%	$ 14,320	$ 10,302	139.00%	68.00%
2015	0.559%	$ 10,463	$ 11,619	90.05%	79.16%
2016	0.425%	$ 8,671	$ 12,301	70.49%	83.98%
2017	0.408%	$ 10,050	$ 12,148	82.49%	83.02%
2018	0.345%	$ 6,273	$ 13,541	46.33%	90.41%

(2) Covered payroll represents the collective total of the LAFPP eligible wages of all LAFPP member categories.

* This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, the schedule is presented for those years for which information is available.

See Note to Schedule on page 116.

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

Required Supplementary Information

Schedule of Pension Contributions – Last Ten Fiscal Years*

(In Thousands)

(Unaudited)

Los Angeles City Employees' Retirement System (LACERS)

(Amount in thousands)	2018	2017	2016	2015
Actuarially determined contribution	$ 17,317	$ 17,582	$ 17,557	$ 15,765
Contributions in relation to the actuarially determined contribution	17,317	17,582	17,557	15,765
Contribution deficiency (excess)	$ --	$ --	$ --	$ --
Port's covered payroll	$ 82,308	$ 79,924	$ 78,061	$ 77,126
Contributions as a percentage of covered payroll	21.04%	22.00%	22.49%	20.44%

Los Angeles Fire and Police Pension Plan (LAFPP)

(Amount in thousands)	2018	2017	2016	2015
Actuarially determined contribution	$ 3,645	$ 3,716	$ 3,462	$ 3,648
Contributions in relation to the actuarially determined contribution	3,645	3,716	3,462	3,648
Contribution deficiency (excess)	$ --	$ --	$ --	$ --
Port's covered payroll	$ 12,510	$ 12,514	$ 12,184	$ 12,301
Contributions as a percentage of covered payroll	29.14%	29.69%	28.41%	29.66%

* This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, the schedule is presented for those years for which information is available.

See Note to Schedule on page 116.

Los Angeles City Employees' Retirement System (LACERS)

Changes of benefit terms: There were no changes in benefits terms.

Changes of assumptions:

Assumptions	Fiscal Year 2018	Fiscal Year 2017
Investment rate of return	7.25%	7.50%
Inflation rate	3.00%	3.25%
Projected salary increases	Ranged from 3.90% to 10.00%	Ranged from 4.40% to 10.50%

Los Angeles Fire and Police Pension Plan (LAFPP)

Changes of benefit terms: There were no changes in benefits terms.

Changes of assumptions:

Assumptions	Fiscal Year 2018	Fiscal Year 2017
Investment rate of return	7.25%	7.50%
Inflation rate	3.00%	3.25%
Projected salary increases	Ranged from 4.30% to 12.00%	Ranged from 4.75% to 11.50%

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

Required Supplementary Information

Schedule of Proportionate Share of the Net OPEB Liability – Last Ten Fiscal Years*

(In Thousands)

(Unaudited)

Los Angeles City Employees' Retirement System (LACERS)

Fiscal Year	Proportion of the Net OPEB Liability	Proportionate Share of Net OPEB Liability	Covered Payroll	Proportionate Share of Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
2017	3.947%	$ 26,002	$ 75,092	34.63%	76.42%
2018	3.865%	$ 21,910	$ 76,204	28.75%	81.14%

Los Angeles Fire and Police Pension Plan (LAFPP)

Fiscal Year	Proportion of the Net OPEB Liability	Proportionate Share of Net OPEB Liability	Covered Payroll	Proportionate Share of Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
2017	0.156%	$ 2,563	$ 12,184	21.04%	74.45%
2018	0.148%	$ 2,506	$ 13,541	18.51%	78.65%

* This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, the schedule is presented for those years for which information is available.

See Note to Schedule on page 119.

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

Required Supplementary Information

Schedule of OPEB Contributions – Last Ten Fiscal Years*

(In Thousands)

(Unaudited)

Los Angeles City Employees' Retirement System (LACERS)

(Amount in thousands)	2018
Actuarially determined contribution	$ 3,857
Contributions in relation to the actuarially determined contribution	3,857
Contribution deficiency (excess)	$ --
Port's covered employee payroll	$ 82,308
Contributions as a percentage of covered employee payroll	4.69%

Los Angeles Fire and Police Pension Plan (LAFPP)

(Amount in thousands)	2018
Actuarially determined contribution	$ 1,018
Contributions in relation to the actuarially determined contribution	1,018
Contribution deficiency (excess)	$ --
Port's covered employee payroll	$ 12,510
Contributions as a percentage of covered employee payroll	8.14%

* This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, the schedule is presented for those years for which information is available.

See Note to Schedule on page 119.

Los Angeles City Employees' Retirement System (LACERS)

Changes of benefit terms: There were no changes in benefits terms.

Changes of assumptions:

Assumptions	Fiscal Year 2018	Fiscal Year 2017
Investment rate of return	7.25%	7.50%
Inflation rate	3.00%	3.25%
Projected salary increases	Ranged from 3.90% to 10.00%	Ranged from 4.40% to 10.50%

Los Angeles Fire and Police Pension Plan (LAFPP)

Changes of benefit terms: There were no changes in benefits terms.

Changes of assumptions:

Assumptions	Fiscal Year 2018	Fiscal Year 2017
Investment rate of return	7.25%	7.50%
Inflation rate	3.00%	3.25%
Projected salary increases	Ranged from 4.30% to 12.00%	Ranged from 4.75% to 11.50%

STATISTICAL SECTION

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating revenues										
Shipping services	$ 329,347	$ 327,630	$ 343,498	$ 357,716	$ 347,876	$ 377,213	$ 364,899	$ 368,470	$ 398,255	$ 405,279
Rentals	42,368	43,141	45,428	43,143	42,890	40,156	46,233	46,571	51,258	61,419
Royalties, fees, and other operating revenues	30,509	36,047	11,577	8,928	6,602	8,582	35,763	21,085	25,019	24,062
Total operating revenues	402,224	406,818	400,503	409,787	397,368	425,951	446,895	436,126	474,532	490,760
Operating expenses										
Salaries and benefits	95,429	92,930	98,837	98,614	101,861	112,053	111,788	114,719	118,582	121,533
Marketing and public relations	3,531	2,490	2,912	3,177	2,877	2,711	2,771	2,567	2,583	2,784
Travel and entertainment	609	546	804	932	1,139	548	512	611	536	749
Outside services	34,977	25,776	29,367	27,660	29,690	26,331	28,983	28,970	25,022	29,904
Materials and supplies	7,800	6,366	6,249	6,314	5,989	6,883	6,257	6,340	5,314	6,960
City services	30,680	37,147	29,964	32,014	31,074	33,633	34,749	37,421	39,554	42,749
Other operating expenses	81,117	44,980	41,562	31,095	32,539	23,195	49,189	35,633	36,084	32,276
Total operating expenses before depreciation	254,143	210,235	209,695	199,806	205,169	205,354	234,249	226,261	227,675	236,955
Operating Income before depreciation	148,081	196,583	190,808	209,981	192,199	220,597	212,646	209,865	246,857	253,805
Depreciation	83,413	87,255	90,468	100,485	108,037	124,221	137,384	163,933	172,895	167,984
Operating Income	64,668	109,328	100,340	109,496	84,162	96,376	75,262	45,932	73,962	85,821
Nonoperating revenues (expenses)										
Income from investments in Joint Powers Authorities	2,980	2,270	(333)	1,851	2,049	2,129	2,811	2,544	2,162	2,001
Interest and investment income	18,824	15,233	6,436	9,486	826	4,654	5,039	9,326	1,118	618
Interest expense	(36,979)	(35,663)	(3,704)	(10,538)	(2,473)	(1,530)	(331)	(507)	(604)	(1,612)
Other income and expenses, net	(7,625)	(2,951)	(6,667)	(8,359)	784	(27,364)	(2,226)	(3,851)	(1,146)	1,999
Net nonoperating revenues (expenses)	(22,800)	(21,111)	(4,268)	(7,560)	1,186	(22,111)	5,293	7,512	1,530	3,006
Income before capital contributions	41,868	88,217	96,072	101,936	85,348	74,265	80,555	53,444	75,492	88,827
Capital contributions	4,103	16,950	12,059	31,307	17,630	80,374	111,852	40,489	18,801	4,524
Special and extraordinary items	--	--	--	--	13,387	15,002	--	5,123	9,150	--
Changes in net position	45,971	105,167	108,131	133,243	116,365	169,641	192,407	99,056	103,443	93,351
Total net position – beginning of year	2,383,616	2,429,587	2,534,754	2,642,885	2,776,128	2,884,351	3,064,554	3,062,899	3,161,955	3,265,398
Cumulative effect of change in accounting principle	--	--	--	--	--	--	(194,062)	--	--	(23,878)
Net adjustment for write off prior period bond issues costs	--	--	--	--	(8,142)	10,562	--	--	--	--
Net position July 1, restated	2,383,616	2,429,587	2,534,754	2,642,885	2,767,986	2,894,913	2,870,492	3,062,899	3,161,955	3,241,520
Total net position – end of year	$ 2,429,587	$ 2,534,754	$ 2,642,885	$ 2,776,128	$ 2,884,351	$ 3,064,554	$ 3,062,899	$ 3,161,955	$ 3,265,398	$ 3,334,871
Net position:										
Net investment in capital assets	2,101,396	2,164,885	2,286,360	2,397,744	2,634,840	2,863,795	2,856,561	2,945,412	2,972,442	2,964,553
Restricted	61,608	67,844	67,341	67,796	57,913	58,054	68,373	66,599	62,255	62,225
Unrestricted	266,583	302,025	289,184	310,588	191,598	142,705	137,965	149,944	230,701	308,093
Total net position	$ 2,429,587	$ 2,534,754	$ 2,642,885	$ 2,776,128	$ 2,884,351	$ 3,064,554	$ 3,062,899	$ 3,161,955	$ 3,265,398	$ 3,334,871

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

Summary of Debt Service Coverage (Pledged Revenue)
Last Ten Fiscal Years
(In Thousands)
(Unaudited)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating revenues (including investment/interest income and noncapital grant revenues) (1)	$ 424,028	$ 424,306	$ 412,962	$ 435,291	$ 416,974	$ 446,910	$ 460,364	$ 452,398	$ 487,806	$ 501,663
Operating expenses (2)	254,143	210,235	209,695	199,806	205,169	205,354	234,249	226,261	227,675	236,955
Net available revenue	$ 169,885	$ 214,071	$ 203,267	$ 235,485	$ 211,805	$ 241,556	$ 226,115	$ 226,137	$ 260,131	$ 264,708
Debt service, revenue bonds	$ 61,298	$ 66,851	$ 72,736	$ 71,382	$ 72,204	$ 65,323	$ 69,916	$ 91,831	$ 87,570	$ 80,147
Debt service, commercial papers	—	—	191	227	194	165	187	—	—	—
Total debt service (3)	$ 61,298	$ 66,851	$ 72,927	$ 71,609	$ 72,398	$ 65,488	$ 70,103	$ 91,831	$ 87,570	$ 80,147
Net available revenue coverage	2.8	3.2	2.8	3.3	2.9	3.7	3.2	2.5	3.0	3.3
Net cash flow from operations	$ 151,264	$ 185,416	$ 158,268	$ 217,113	$ 234,234	$ 131,284	$ 213,184	$ 184,869	$ 274,581	$ 228,920
Net operating cash flow coverage	2.5	2.8	2.2	3.0	3.2	2.0	3.0	2.0	3.1	2.9

(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.

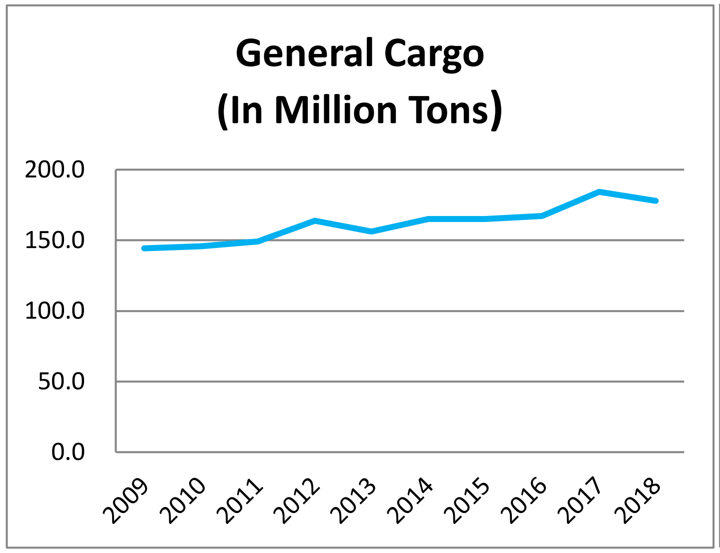
(3) Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are senior debt backed by pledged-revenue. Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged-revenue.

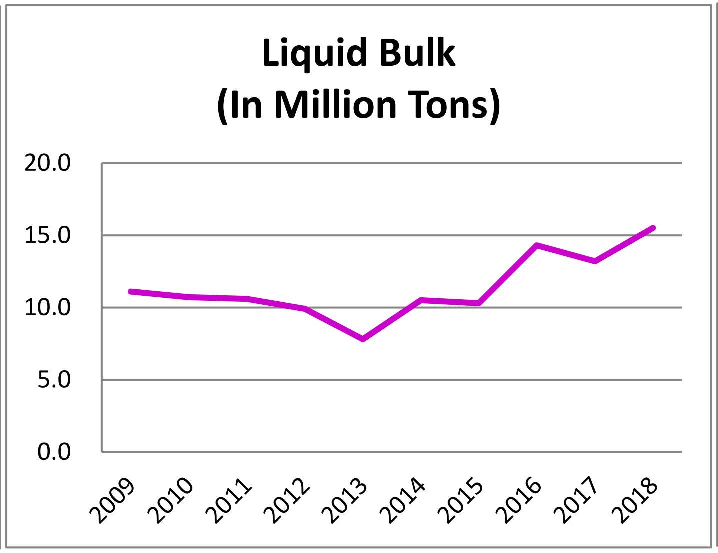
Note: Details regarding the Port of Los Angeles' outstanding debt can be found in the notes to the basic financial statements.

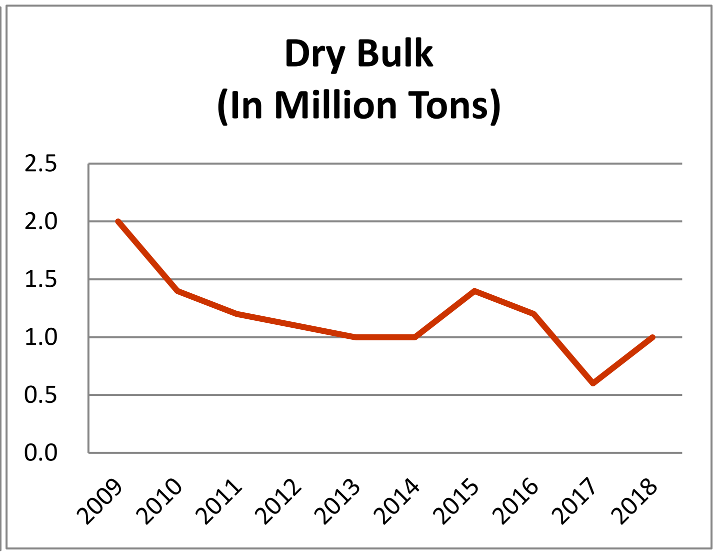
PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)

Revenue Statistics
Last Ten Fiscal Years
(Unaudited)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue Information										
Revenue Rates										
General cargo tariff rate	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25
Basic dockage (600')	2,465	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	7.2	7.9	8.2	7.8	8.2	8.2	8.4	9.2	9.2
Inbound tonnage (million tons)	94.4	88.2	93.7	98.3	93.1	99.1	102.9	105.6	105.8	103.0
Outbound tonnage (million tons)	66.1	66.7	67.8	74.6	71.5	74.3	74.6	79.3	92.4	88.3
Revenue tons (million)										
General cargo	144.3	145.8	149.1	163.9	156.3	165.0	165.1	167.3	184.3	178.0
Liquid bulk	11.1	10.7	10.6	9.9	7.8	10.5	10.3	14.3	13.2	15.5
Dry bulk	2.0	1.4	1.2	1.1	1.0	1.0	1.4	1.2	0.6	1.0
Total revenue tons (million)	157.4	157.9	160.9	174.9	165.1	176.5	176.8	182.8	198.1	194.5







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

Top Ten Individual Sources of Revenue by Alphabetical Order
Fiscal Year 2018 and Fiscal Year 2009
(Unaudited)

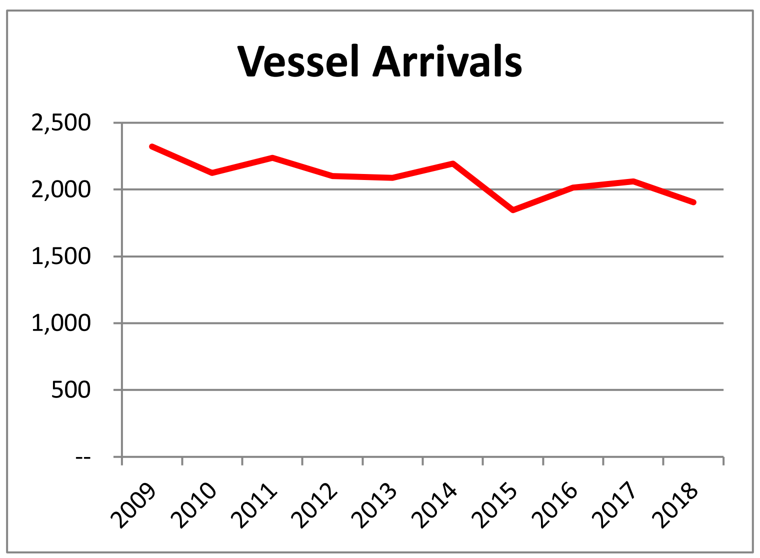
Fiscal Year 2018	Fiscal Year 2009
APM Terminals Pacific, Ltd.	APM Terminals Pacific, Ltd.
China Shipping Holding Company, Ltd.	China Shipping Holding Company, Ltd.
Eagle Marine Services, Ltd.	Eagle Marine Services, Ltd.
Everport Terminal Services, Inc.	Everport Terminal Services, Inc.
TraPac, LLC	Rio Doce Pasha Terminal, LP
Union Pacific Railroad Company	TraPac, LLC
Vopak Terminal Los Angeles, Inc.	Union Pacific Railroad Company
WWL Vehicle Services Americas, Inc.	WWL Vehicle Services Americas, Inc.
Yang Ming Marine Transport Corporation	Yang Ming Marine Transport Corporation
Yusen Terminal, Inc./N.Y.K. (North America), Inc.	Yusen Terminal, Inc./N.Y.K. (North America), Inc.

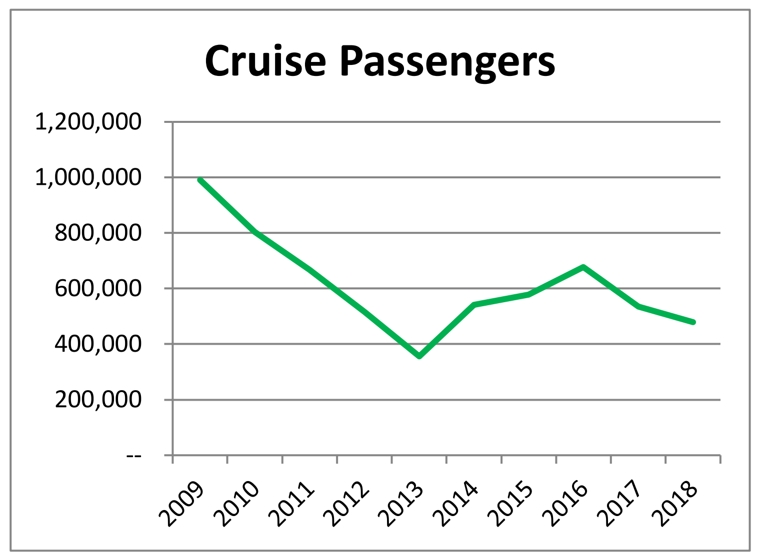
The Port of Los Angeles terminal tenants compete against each other for business. The Port feels disclosure of revenue by tenant would give advantages or disadvantages to certain tenants and therefore revenues and percentage of total revenue have been excluded from this report.

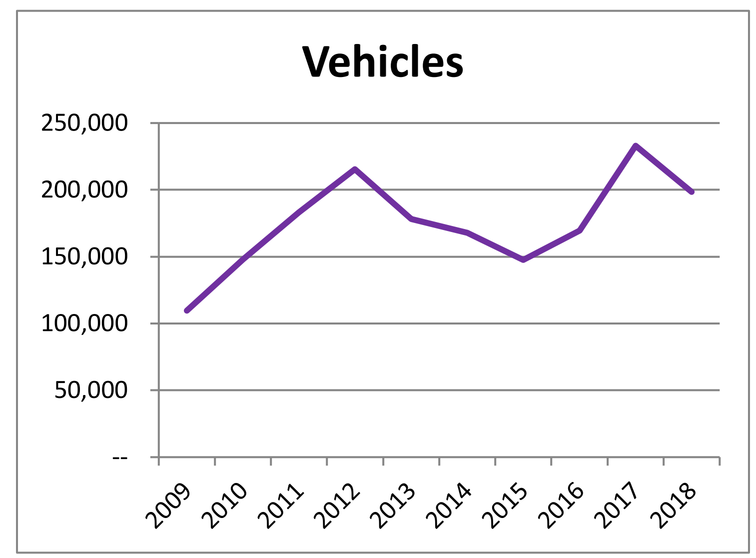
PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)

Other Operating Information
Last Ten Fiscal Years
(Unaudited)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	25	24	24	24	24	23	23	23	23	23
Vessel arrivals	2,322	2,124	2,236	2,100	2,089	2,196	1,846	2,014	2,060	1,904
Cruise passengers	990,965	802,899	667,434	515,827	355,875	541,418	578,902	676,644	534,484	479,388
Vehicles	109,634	147,935	183,126	215,374	178,252	167,826	147,457	169,561	233,013	198,326
Full time employees	971	948	959	958	947	949	885	906	883	884







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

Demographic and Economic Statistics for the City of Los Angeles
Last Ten Calendar Years
(Unaudited)

Year	Estimated Population (1)	Personal Income ($000s) (2)	Per Capita Personal Income (2)	Median Age (3)	Public School Enrollment (4)	Unemploy-ment Rate (5)
2009	3,781,951	$ 411,495,352	$ 42,043	33.3	784,457	12.8 %
2010	3,792,621	424,813,015	43,236	33.7	748,273	13.2
2011	3,818,120	454,935,533	46,007	33.9	738,113	12.9
2012	3,859,854	486,733,508	48,900	34.1	701,208	11.5
2013	3,901,412	483,578,594	48,283	34.3	598,020	10.3
2014	3,938,037	514,516,564	51,111	34.6	594,891	8.7
2015	3,972,348	549,073,019	54,298	34.9	582,430	7.0
2016	3,999,237	563,907,868	55,624	35.0	560,991	5.6
2017	4,041,707	N/A	N/A	35.8	547,246	4.4
2018	4,054,400	N/A	N/A	N/A	N/A	5.1

(1) Data was based on California Department of Finance report E-1 Population Estimates for Cities, Counties, and the State.

(2) U.S. Department of Commerce, Bureau of Economic Analysis - revised estimates of personal income for Los Angeles County updated on November 17, 2016 with revised estimates for 2007 to 2015.

(3) Data was obtained from the U.S. Census Bureau American Community Survey which is available at https://factfinder.census.gov.

(4) Enrollment data determined at the beginning of each school year (October). Data include the City and all or significant portions of a number of smaller cities and unincorporated territories.

(5) Data based on California Employment Development Department for City of Los Angeles, not seasonally adjusted.

N/A Data was not readily available at the time of issuance.

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

Principal Employers in the Los Angeles County
FY 2018 and FY 2009 (1)
(Unaudited)

	2018			2009		
Employer	**Employees**	**Rank**	**Percentage of Total County Employment**	**Employees**	**Rank**	**Percentage of Total County Employment**
Kaiser Permanente	37,468	1	0.8 %	34,179	1	0.8 %
University of Southern California	21,055	2	0.4	13,044	5	0.3
Northrop Grumman Corp.	16,600	3	0.3	19,137	2	0.5
Providence Health & Services Southern California	15,952	4	0.3	9,715	8	0.2
Target Corp.	15,000	5	0.3	13,000	6	0.3
Ralphs/Food 4 Less (Kroger Co. Division)	14,970	6	0.3	14,000	4	0.3
Cedars-Sinai Medical Center	14,903	7	0.3	9,300	10	0.2
Walt Disney Co.	13,000	8	0.3	—	—	—
Allied Universal	12,879	9	0.3	—	—	—
NBC Universal	12,000	10	0.3	—	—	—
Boeing Co.	—	—	—	14,400	3	0.3
Home Depot	—	—	—	10,000	7	0.2
Albertsons/Vons/Pavilions	—	—	—	9,688	9	0.2
All Others	4,709,773	—	96.4	4,198,737	—	96.7
Total (2)	4,883,600		100.0 %	4,345,200		100.0 %

(1) Data pertaining to principal employers was obtained from Los Angeles Business Journal (LABJ) dated August 2018. LABJ note: The information on this list was provided by representatives of the employers themselves. Companies are ranked by the current number of full-time employees in Los Angeles County. Several companies may have qualified for this list, but failed to submit information or do not break out local employment data.

(2) Total County employment amounts are obtained from California Employment Development Department labor force report which is available at https://www.labormarketinfo.edd.ca.gov.

OTHER REPORT

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*

Honorable Members of the Board of Harbor 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) (Port), an enterprise fund of the City of Los Angeles, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2018.

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 Port'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 Port'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 Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
December 4, 2018