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

Comprehensive Annual Financial Report

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

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INTRODUCTION

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

February 17, 2012

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

This Annual Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2011 and 2010, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the years ended June 30, 2011 and 2010, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The report is presented in three sections: Introduction, Financial Statements, and Supplemental Information.

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

The management's discussion and analysis presents a comparative review of financial position and changes in financial position for fiscal years 2011, 2010, and 2009. Also included in this section are a description of current and proposed capital development plans, a discussion of revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the financial statements prepared on an accrual basis and using an economic resources measurement focus. Management's discussion and analysis and the auditors' report accompany these financial statements. The financial statements comprise statements of net assets that present the financial position of the Port as of June 30, 2011 and 2010 statements of revenues, expenses, and changes in net assets depicting financial performance for fiscal years 2011 and 2010 statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2011 and 2010 and the notes to the financial statements. The accompanying notes to the financial statements explain some of the information in the financial statements and provide more detailed information, generally presented on a multiyear basis that further explain and support the information in the statements.

The Port of Los Angeles

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

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

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

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

The Deputy Executive Director of Finance & Administration oversees the financial affairs as well as administrative side of the Port. Reporting to this position are the Contracts and Purchasing, Finance, Human Resources, and Information Technology divisions. The Finance Division is made up of the Chief Financial Officer and the following sections: Accounting, Debt and Treasury Management, Financial Management, Management/Internal Audit, and Risk Management.

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

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

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

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

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

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

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, assignment charges, etc.), land rentals, and fees, concessions, and royalties. It currently serves over 80 shipping companies and agents with facilities that include 270 berthing facilities along 43 miles of waterfront.

In terms of its size and volume, the Port is one of the largest and busiest West Coast ports. The Port encompasses approximately 4,300 acres of land and 3,200 acres of water. The majority of the main channel has at least a minimum depth of 53 feet below the mean low water mark.

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

The Port provides leases to more than 300 tenants, ranging from individual stalls at the fish market to a 484-acre container terminal. The Port encompasses container and automobile terminals, dry bulk, liquid bulk and break-bulk facilities, and omni terminals. The Intermodal Container Transfer Facility (ICTF) and other intermodal facilities are also on Port property. The Port also provides slips for pleasure craft, sport fishing boats, and charter vessels.

The Port currently handles the largest volume of containerized cargo of all U.S. ports, leading the nation for the past nine years 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, Japan, Taiwan, Thailand, and South Korea. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port.

The Port has maintained its financial strength through self-generated revenues. The Port continues to maintain an AA/Aa2/AA credit ratings with Standard & Poor's, Moody's, and Fitch, respectively. These are the highest credit rating for any stand-alone U.S. port and reflect the confidence of the rating agencies in the financial strength of the Port.

Sincerely,

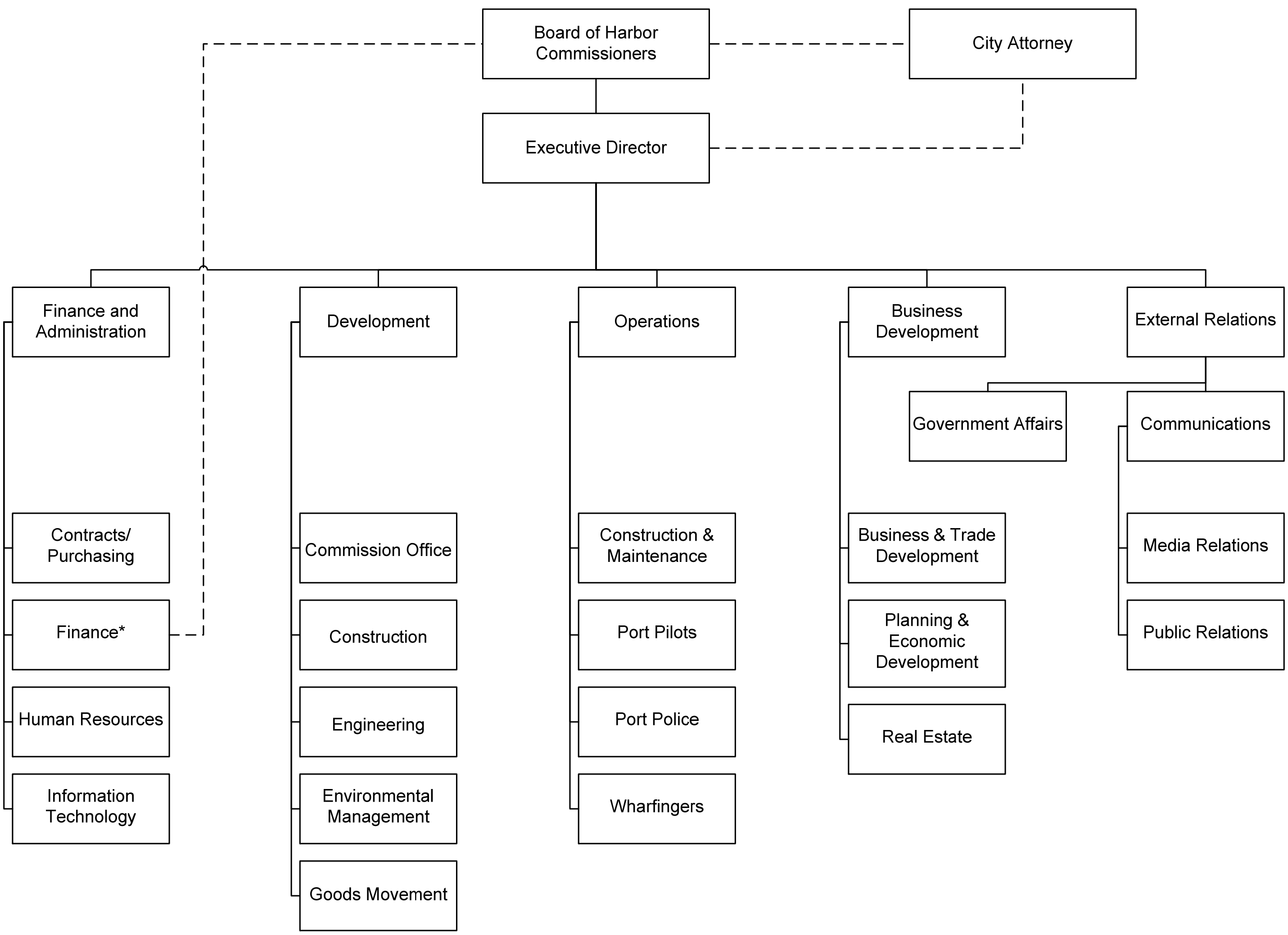
Karl Y. Pan

KARL K.Y. PAN
Chief Financial Officer

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

Organizational Chart

Fiscal Year 2011/2012



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

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

Administrative Staff

Board of Harbor Commissioners	Cindy Miscikowski, President David Arian, Vice President Robin Kramer, Commissioner Dr. Sung Won Sohn, Commissioner Douglas P. Krause, Commissioner
Senior Management	Geraldine Knatz, Ph.D., Executive Director Michael Christensen, Deputy Executive Director – Development Molly Campbell, Deputy Executive Director – Finance & Administration Capt. John M. Holmes, Deputy Executive Director – Operation Kathryn McDermott, Deputy Executive Director – Business Development Cynthia Ruiz, Deputy Executive Director of External Relations Arley Baker, Senior Director of Communications David Libatique, Senior Director of Governmental Affairs
Management Staff	Theresa Adams-Lopez, Director of Public Relations Diane Boskovich, Chief Wharfinger Ronald Boyd, Chief of Port Police Kerry Cartwright, Director of Goods Movement Capt. Bent Christiansen and Capt. Mike Rubino, Pilot Service Tony Gioiello, Chief Harbor Engineer of Design Kraig Jondle, Director of Business & Trade Development Lance Kaneshiro, Director of Information Technology Tish Lorenzana, Director of Human Resources David Mathewson, Director of Planning & Economic Development Jim Morgan, Director of Construction & Maintenance Karl K.Y. Pan, Chief Financial Officer/Interim Director of Real Estate Glenn Robison, Director of Contracts & Purchasing Phillip Sanfield, Director of Media Relations Shaun Shahrestani, Chief Harbor Engineer of Construction Julie Wichmann-Huerta, Commission Office Christopher Cannon, Director of Environmental Management
Legal Staff	Thomas Russell, General Counsel

FINANCIAL SECTION

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an Enterprise Fund of the City of Los Angeles (the City), California, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1 to the financial statements, the financial statements of the Port are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City of Los Angeles, California that is attributable to the transactions of the Port. They do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California as of June 30, 2011 and 2010, and the changes in its financial position or its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles (Harbor Department of the City of Los Angeles) as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2012 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, grant agreements, and other matters for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 8 to 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

February 17, 2012

This section of the Port of Los Angeles' (the Port) annual financial report presents a discussion and analysis of the Port's financial performance during the years ended June 30, 2011 and 2010. We encourage readers to consider information presented here in conjunction with the transmittal letter at the front of this report and the Port's financial statements, which follow this section.

The Port uses enterprise fund accounting and the financial statements are prepared on an accrual basis using the economic resources measurement focus in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). Revenues are recognized when services are rendered, and expenses are recognized when incurred. Capital assets are depreciated over their useful lives (except land and intangible assets). See the notes to the financial statements for a description of the Port's significant accounting policies.

The following is a condensed summary of the Port's net assets as of June 30, 2011, 2010, and 2009:

Schedule of Net Assets

		June 30	
	2011	**2010**	**2009**
		(In thousands)	
Current and other assets	$ 657,535	669,593	639,444
Capital assets, net	3,278,907	3,087,544	2,850,568
Total assets	3,936,442	3,757,137	3,490,012
Current and long-term bonds and notes payable	1,000,855	931,562	757,535
Other liabilities	292,702	290,821	302,890
Total liabilities	1,293,557	1,222,383	1,060,425
Net assets:			
Invested in capital assets, net of related debt	2,286,360	2,164,885	2,101,396
Restricted	67,341	67,844	61,608
Unrestricted	289,184	302,025	266,583
Total net assets	$ 2,642,885	2,534,754	2,429,587

Net assets of the Port increased $108.1 million to $2.6 billion in fiscal year 2011. Of these net assets, restricted assets made up 2.5% for fiscal year 2011 and 2.7% in 2010. The remaining net assets were either unrestricted or were invested in capital assets such as land, facilities, infrastructure, equipment, and the like, net of related debt. These assets are under the management of the Port and must be used for the operation and maintenance of Port facilities and the acquisition and construction of improvements as provided under the State of California Tidelands Trust Act.

(Continued)

Current and other assets of the Port decreased 1.8% to $657.5 million in fiscal year 2011, mainly due to the increased disbursements in restricted funds. In comparison, the increase of 4.7% to $669.6 million in fiscal year 2010 was mainly due to the increase of cash from the lower operating and administrative expenses.

Current and long-term debt outstanding of the Port increased 7.4% to $1.0 billion in fiscal year 2011 due to the issuance of $100.0 million in commercial paper. The increase of 23.0% to $931.6 million in fiscal year 2010 was due to the addition of new bonds, series 2009A, B, and C.

Other liabilities of the Port increased 0.7% to $292.7 million in fiscal year 2011 and decreased 4.0% to $290.8 million in fiscal year 2010. The increase of $1.9 million in fiscal year 2011 mainly reflected the increase of $29.7 million in the liabilities under the City's Security Lending Program, offset by the decrease of $28.3 million in accounts payable. The decrease of $12 million in fiscal year 2010 was mainly due to the decrease in accounts payable of $14 million as cost cutting measures reduced overall volume and dollars of expenditures, $11 million for China Shipping Mitigation and $10 million in facility revenue credit provided to Maersk, all offset by the increases in accrued interest $3 million, accrued benefits of $6 million, and the reinstatement of the City Securities Lending of $11.4 million.

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2011, 2010, and 2009:

Schedule of Changes in Net Assets

		Year ended June 30		
		2011	**2010** (in thousands)	**2009**
Total operating revenues	$	400,503	406,818	402,224
Income (loss) from investments in Joint Powers Authorities		(333)	2,270	2,980
Interest and investment income		6,436	15,233	18,824
Total revenues		406,606	424,321	424,028
Expenses:				
Operating and administrative expenses		209,695	210,235	254,143
Depreciation		90,468	87,255	83,413
Interest expense on bonds/notes payable		3,704	35,663	36,979
Other expenses, net		6,667	2,951	7,625
Total expenses		310,534	336,104	382,160
Income before capital contributions		96,072	88,217	41,868
Capital contributions		12,059	16,950	4,103
Changes in net assets		108,131	105,167	45,971
Total net assets – beginning of year [1]		2,534,754	2,429,587	2,383,616
Total net assets – end of year	$	2,642,885	2,534,754	2,429,587

[1] Total net assets – beginning of year for 2009 was restated to reflect the implementation of GASB 49 in that fiscal year.

Fiscal Year 2011

Net assets for the Port increased $108.1 million in fiscal year 2011. Approximately 97.1% 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 and administrative expense decreased $0.5 million, or 0.2% from prior fiscal year.

Depreciation expense increased $3.2 million to $90.5 million in fiscal year 2011 primarily due to the net addition of $20.8 million in depreciable equipments in fiscal year 2010. The Port's policy is to start depreciation of depreciable assets placed in service in a fiscal year at the beginning of the next fiscal year.

Other expenses increased $3.7 million to $6.7 million in fiscal year 2011, from $3.0 million in fiscal year 2010 as a first time shortfall payment to the Alameda Corridor Transportation Authority (ACTA) was accrued for $3.0 million in 2011 fiscal year.

As a result, income before capital contributions increased $7.9 million to $96.1 million, a 8.9% increase over the fiscal year 2010 amount of $88.2 million. This increase reflected the combined effect of greater levels of capitalized interest expense offset by lower interest income and reduced revenue from clean truck fees.

Capital contributions of $12.1 million represented funds for capital grants obtained in fiscal year 2011, or a reduction of $4.9 million compared to the $17 million received in fiscal year 2010.

Fiscal Year 2010

Net assets for the Port increased $105.2 million in fiscal year 2010. Approximately 91.1% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Operating and administrative expense decreased $43.9 million, or 17.3% from the prior fiscal year. The decrease was mainly from the Clean Truck Program (CTP) expense being lower by $33.3 million, as the amount of incentives provided were sharply reduced as greater number of trucks going through the port were environmentally compliant, and $9.9 million in reduced litigation, claims, and settlement expenses.

Depreciation expense increased $3.8 million to $87.3 million in fiscal year 2010 primarily due to the net addition of depreciable assets of $27.8 million in fiscal year 2009.

Other income, net of other expense, improved $4.7 million to negative $3.0 million in fiscal year 2010, from negative $7.6 million in fiscal year 2009 as fewer discontinued projects were recorded in 2010 fiscal year.

As a result, income before capital contributions increased $46.3 million to $88.2 million, a 110.5% increase over the fiscal year 2009 amount of $41.9 million. This increase reflected the combined effect of greater revenue generation despite weak trade volumes given higher clean truck fees and control of operating expenses.

Capital contributions of $17 million represented funds from capital grants earned in fiscal year 2010 and $4.1 million in fiscal year 2009. The increase of capital grants earned was due to proactive and successful efforts on part of the Port in applying for and obtaining more capital grants for its projects.

Schedule of Operating Revenues

		Year ended June 30		
		2011	**2010**	**2009**
			(In thousands)	
Shipping services	$	343,498	327,630	329,347
Percentage of total operating revenues		85.8%	80.5%	81.9%
Rentals		45,428	43,141	42,368
Percentage of total operating revenues		11.3%	10.6%	10.5%
Royalties, fees, other operating revenues		11,577	36,047	30,509
Percentage of total operating revenues		2.9%	8.9%	7.6%
Total	$	400,503	406,818	402,224

Fiscal Year 2011

Operating revenues for fiscal year 2011 decreased to $400.5 million, reflecting a 1.6% decline from the prior year revenues of $406.8 million. The decrease was principally attributed to $24.1 million drop in CTP revenues as non-EPA trucks compliant subject to a fee were replaced with conforming ones. Revenues from shipping services grew $15.9 million, or a 4.8% increase from prior year as the number of twenty-foot equivalent units (TEUs) moved in the Port during fiscal years 2011 and 2010 grew to 7.9 million from 7.2 million TEUs.

Fiscal Year 2010

Operating revenues for fiscal year 2010 increased to $406.8 million, reflecting a 1.1% improvement from the prior year revenues of $402.2 million. The increase was principally attributed to $5.7 million increase in CTP revenues. Revenues from shipping services declined slightly but still formed 80.5% of total operating revenues as incentives to customers and recovering trade volumes in the first half of calendar year 2010 helped to offset the weakness in trade experienced in the latter part of calendar year 2009.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 92.5% and 93.0% of the total shipping service revenues in fiscal years 2011 and 2010, respectively. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

Shipping services revenue in fiscal year 2011 was $343.5 million, $15.9 million, or 4.8% higher than fiscal year 2010. The growth mainly came from increase of $13 million in wharfage and $3.5 million in space assignment and small positive growth in demurrage and pilotage charges, but offset by $0.9 million in reduced crane rentals as older Port-owned cranes were replaced by new cranes owned by the terminal operators. The number of vessel calls was 5.3% higher than fiscal year 2010 contributing to these revenue improvements.

Shipping services revenue in fiscal year 2010 was $327.6 million, $1.7 million or 0.5% less than fiscal year 2009. The decline in space assignment charges, pilotage charges, dockage charges, and crane rentals accounted for the lower shipping services revenue in 2010. The number of vessel calls was 8.5% lower than fiscal year 2009.

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

Cargo Type in Metric Revenue Tons

	Year ended June 30		
	2011	**2010**	**2009**
		(In thousands)	
Container/general cargo	146,427	145,760	144,344
Liquid bulk	10,644	10,661	11,127
Dry bulk	1,166	1,354	2,023
Total	158,237	157,775	157,494

Container Volume in TEUs

	Year ended June 30		
	2011	**2010**	**2009**
		(In thousands)	
Import TEUs	4,186	3,786	3,866
Export TEUs	3,749	3,442	3,395
Total	7,935	7,228	7,261

Metric revenue tons is the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, or the weight is closely approximated by calculation when cargo weight is not provided. The total metric revenue tons billed in fiscal year 2011 was 158.2 million metric revenue tons, or 1.0% above fiscal year 2010. The total metric revenue tons billed in fiscal year 2010 was 157.8 million metric revenue tons, or 0.2% above fiscal year 2009.

In fiscal year 2011, tonnage from dry bulk dropped 13.9% or 0.2 million metric revenue tons compared to prior fiscal year. Liquid bulk metric revenue tonnage in fiscal year 2011 was flat at 10.6 million metric revenue tons compared to the prior year. Revenue tonnage for general cargo billed in 2011 went up slightly, 0.5%, or 0.7 million metric revenue tonnage above fiscal year 2010.

In fiscal year 2010, tonnage from dry bulk dropped 33.1% or 0.7 million metric revenue tons compared to prior fiscal year. Liquid bulk metric revenue tonnage was also down by 0.5 million metric revenue tons or 4.2% compared to the prior year. Revenue tonnage for general cargo billed in 2010 went up slightly, 1.0%, or 1.4 million metric revenue tonnage above fiscal year 2009.

Additional information for volume by cargo type is presented in the supplementary information section of this report in the schedule titled "Key Information on Revenue Statistics."

Rentals

The Port makes available to customers various types of rental properties on Port-controlled lands. These properties include land, buildings, warehouses, wharves, and sheds. Rates are set for these properties using various methodologies and are broken down into two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these broad land classifications. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set through negotiations and will further take into account the condition, location, utility, and other aspects of the property. In all cases, the Port currently seeks to achieve the 12% rate of return on improvements and 10% of land that has been set by the Board of Harbor Commissioners (the Board) policy.

During fiscal year 2011, rental income at the Port increased $2.3 million, or 5.3%, over last year and represented 11.3% of fiscal year 2011 total operating revenues. Land rental was up $3.0 million compared to prior year. The increase in land rentals was primarily from additional billing to Exxon-Mobil, offset by $0.7 million decrease in other rentals, as weakness in the market value of land carried through in rent settings.

During fiscal year 2010, rental income at the Port increased $0.8 million, or 1.8%, over last year and represented 10.6% of fiscal year 2010 total operating revenues. Land rental was up $0.9 million compared to prior year. In fiscal year 2010, there were two compensation resets plus several tenants requested more acreage for use that resulted in additional land rental income of $3.8 million. The increase in land rental income, however, was offset by a $3.0 million decrease from a substantial reduction in land use by one vehicle distribution and service tenant. In addition, warehouse 9 and 10 were vacated in December 2009, reducing warehouse revenue rental by $0.2 million in fiscal year 2010.

Royalties, Fees, and Other Operating Revenue

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

Revenues from royalties, fees, and other operating revenues in 2011 was $11.6 million, 2.9% of the total revenue. This represented a 67.8% decline or $24.4 million less in this revenue category compared with fiscal year 2010. The decline was mainly due to decrease in the collection of fees from noncompliant trucks under the CTP as trucks coming to the Port met the emission standard established under the Program.

Revenues in this category totaled $36.0 million for fiscal year 2010, $5.5 million or 18.2% above fiscal year 2009. Collections from CTP fees increased to $30.5 million, $5.7 million more than fiscal year 2009. Wharf damage repairs increased reimbursable costs of maintenance jobs performed by the Port by $0.8 million. Decrease in parking fees offset the increases royalties, fees, and other operating revenue.

Operating and Administrative Expenses

In fiscal year 2011, operating and administrative expenses decreased $0.5 million to $209.7 million, a 0.2% decrease from prior fiscal year expense of $210.2 million. The lower expenses was attributable to the increases of $6.9 million in salaries and benefits expense and $6.2 million in outside services expense, offset by the decreases of $8.7 million in City services and $5.4 million in other operating expenses.

In fiscal year 2010, operating and administrative expenses decreased $43.9 million to $210.2 million, a 17.3% decrease from prior fiscal year expense of $254.1 million. The decline was attributable to decreases in other operating expenses of $36.1 million, outside services of $5.1 million, and salaries and benefits of $2.5 million.

Operating and Administrative Expenses (O&A)

	Year ended June 30		
	2011	2010 (In thousands)	2009
Salaries and benefits	$ 103,693	96,838	99,350
Percentage of total O&A	49.4%	46.1%	47.3%
Marketing and public relations	3,055	2,594	3,676
Percentage of total O&A	1.5%	1.2%	1.8%
Travel and entertainment	843	569	635
Percentage of total O&A	0.4%	0.3%	0.3%
Outside services	30,601	24,428	29,498
Percentage of total O&A	14.6%	11.6%	14.0%
Materials and supplies	6,556	6,634	8,121
Percentage of total O&A	3.1%	3.2%	3.9%
City services	22,353	31,142	28,704
Percentage of total O&A	10.7%	14.8%	13.7%
Other operating expenses	42,594	48,030	84,159
Percentage of total O&A	20.3%	22.8%	40.0%
Total O&A	$ 209,695	210,235	254,143

Fiscal Year 2011

Salaries and benefits expense increased $6.9 million to $103.7 million, or 7.1% higher than prior year of $96.8 million. This increase was primarily attributable to an average 4.9% increase in pension rates and an average $760 per position increase in health benefits that in turn was offset by higher allocation to such expenses to capital and reasonable control of headcount to an average of 950.

Outside services increased $6.2 million to $30.6 million or 25.3% from prior year of $24.4 million due to an increase in expenses for the hiring facility (Hiring Hall) of $1.8 million, accommodation work projects closed to expense of $1.3 million, and Port's facility security enhancement of $1.1 million plus increases in other projects.

City services, net of capitalized amount and overhead allocation, decreased $8.7 million to $22.4 million or 28.0% lower than previous year of $31.1 million mainly due to lower costs incurred from City's Fire Department and Recreation & Parks Department, resulting from lower overhead allocation costs as the City reduced its work force costs.

Other operating expenses for fiscal year 2011 decreased $5.4 million to $42.6 million or 11.3% from prior year of $48.0 million primarily due to the decline in CTP's subsidy payments and administrative costs of $15.2 million, and a $4 million reduction in contribution to the Community Mitigation Fund. Offsetting these decreases were the $6.9 million increase in estimated pollution remediation expenses, a $3.2 million increase in China Shipping Mitigation expense, and $2.7 million increase in provision for bad debts and workers compensation costs.

Fiscal Year 2010

Salaries and benefits expense decreased $2.5 million to $96.8 million, or 2.5% lower than prior year of $99.4 million. The decline in salaries and benefits were attributable to lower overtime usage mainly in Port Police and Construction and Maintenance, and lower headcount of full-time employees. Full-time employees dropped from 975 to 948 mainly due to the Early Retirement Incentive Program offered by the City of Los Angeles (City) in fiscal year 2010.

Outside services decreased $5.1 million to $24.4 million or 17.3% from prior year of $29.5 million due to a decline in professional services of $7.0 million and financial and legal services of $1.9 million. Offsetting these decreases were $3.8 million expenses caused by maintenance and data processing services and dredging fees paid to the U.S. Army Corps.

City services, net of capitalized amount increased $2.4 million to $31.1 million or 8.4% higher over the previous year of $28.7 million mainly due to cost allocation plan (CAP) rate increases.

Other operating expenses for fiscal year 2010 decreased $36.1 million to $48.0 million or 43.0% from prior year of $84.2 million due to the decline in CTP's subsidy payments and administrative costs of $33.3 million, workers' compensation claims, litigation, and settlements of $10.7 million. Offsetting these decreases was the $7.8 million increase in estimated pollution remediation expenses per GASB 49.

Nonoperating Income and Expense

Fiscal Year 2011

Net nonoperating expenses for fiscal year 2011 decreased $16.8 million or 79.6% to $4.3 million from prior year of $21.1 million.

Interest and investment income decreased $8.8 million or 57.9% to $6.4 million from prior fiscal year of $15.2 million. The interest income decrease of $3.9 million was mainly due to the 21.3% drop in average yields in fiscal year 2011 from 2010. In addition, there was a loss of $1.3 million in the fair value of the investment pool in fiscal year 2011 as compared to a gain of $3.6 million in fiscal year 2010.

Interest expense decreased $32.0 million or 89.6% to $3.7 million from prior fiscal year of $35.7 million due to increase in capitalized interest expense in fiscal year 2011. In the past, the computation of interest to be capitalized was based only on certain ongoing capital projects that were identified as directly financed by the external debts. Beginning fiscal year 2011, the Port adopted the computation of interest to be capitalized based on the average accumulated expenditures for all ongoing capital projects. The Port capitalized a total of $40.1 million in interest expense out of a gross interest expense of 43.8 million in fiscal year 2011.

Other income, net of other expense, declined $3.7 million to negative $6.7 million in fiscal year 2011, from negative $3.0 million in prior year.

Other income increased $3.4 million from $2.6 million to $6.0 million mainly due to the increase of $3.3 million in Federal pass-through grants.

Other expenses increased $7.1 million from $5.6 million to $12.7 million primarily due to the estimated ACTA shortfall charge of about $3 million as well as the Federal pass-through grant expense of $3.3 million.

Fiscal Year 2010

Net nonoperating expenses for fiscal year 2010 decreased $1.7 million or 7.5% to $21.1 million from prior year of $22.8 million.

Interest and investment income decreased $3.6 million or 19.1% to $15.2 million from prior fiscal year of $18.8 million. The interest income decrease of $7.2 million was mainly due to the lower average yields of 2.0% in fiscal year 2010 from 2009. It was offset by the gain in investment pool of $3.6 million.

Interest expense decreased $1.3 million or 3.5% to $35.7 million from prior fiscal year of $37 million due to the increase of capitalized interest expense in fiscal year 2010.

Other income, net of other expense, increased $4.7 million to negative $3.0 million in fiscal year 2010, from negative $7.6 million in prior year.

Other income increased $0.6 million from $1.9 million to $2.5 million mainly due to the increase of $0.6 in gain on sales of fixed asset and $0.5 million in miscellaneous nonoperating revenue partially offset by the decrease of $0.5 million in Federal operating grant received.

Other Expenses decreased $4.0 million from $9.6 million to $5.6 million primarily due to the decrease of $6.4 million in abandoned projects charged to expense. The decrease was partially offset by the increase of $0.8 million in loss on sale of fixed assets and $1.6 million in commercial paper issuance cost.

Long-Term Debt and Capital Assets

Long-Term Debt

The Port's long-term debt comprises of senior debt in the form of Harbor Revenue Bonds, commercial paper, and subordinated debt in the form of loans. As of June 30, 2011 and 2010, the Port's outstanding long-term debt was $1 billion and $931.6 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA, and AA credit ratings from Moody's, Standard & Poor's, and Fitch Ratings, respectively.

Bonded Debt

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). The Port's financial policy requires that a minimum of 2.0 x debt service coverage ratio be maintained at all times.

Long-term debt consisted of the following as of June 30, 2011, 2010, and 2009 (in thousands):

		2011	2010	2009
Revenue bonds payable	$	898,981	929,202	754,709
Notes payable		1,874	2,360	2,826
Commercial paper		100,000	—	—
Total	$	1,000,855	931,562	757,535

Capital Assets

Capital assets, net of accumulated depreciation consisted of the following as of June 30, 2011, 2010, and 2009 (in thousands):

		2011	2010	2009
Land	$	1,058,404	1,042,081	1,040,942
Harbor facilities and equipment, net		1,468,867	1,324,063	1,320,643
Intangible assets		12,900	12,800	12,800
Construction in progress		524,158	500,129	309,599
Preliminary costs – capital projects		214,578	208,471	166,584
Total	$	3,278,907	3,087,544	2,850,568

Capital expenditures for fiscal year 2011 decreased to $233 million from $325 million in the prior year. Spending was significantly higher in commercial development, environmental studies and credits, and terminal development. Approximately 39% of the fiscal year 2011 funds were expended on terminal improvements, 35%

on commercial development, 7% on dredging, and 8% on transportation improvements. The remaining 11% was primarily used for environmental studies, minor terminal improvements, and Port security.

Budgeted expenditures for the Port's fiscal year 2012 Capital Improvement Program has been established at $229.7 million, a slight decrease from the previous fiscal year. The more significant fiscal year 2012 expenditures include various terminal improvements, the Cabrillo Marina Development, Harry Bridges Boulevard Improvement, Port Security projects, Alternative Maritime Power™ (AMP), Main Channel Deepening Program, B. 200 Rail Yard, and the San Pedro Waterfront – S.P. Slip.

The West Basin project at Berth 100-102 includes the development of approximately 142 acres of backland terminal, construction of 2,500 feet of wharf, two building, and two new access bridges. Phase I of China Shipping Terminal was completed in January 2004. Phase II of China Shipping includes a 925-foot Berth 102 wharf, 35 acres of backland on the Southwest Slip Fill, construction of a Marine Building, AMP, and Access Bridge No. 2. The wharf, 18 of 35 acre backland, AMP and Access Bridge No. 2 was completed in December 2010. The remainder of Phase II is scheduled for completion by November 2013. Phase III consists of a 375-foot Berth 100 South wharf extension, AMP, and an additional 24 acres of container yard. Project completion is expected in March 2015.

Construction began on the Berth 135-147 (TraPac) terminal expansion program which will redevelop 110 acres of existing container terminal and develop an additional 50+/- acre of container terminal. Improvements include the construction of 705 feet of new wharf and upgrade of 1,022 feet of existing wharf, five new cranes (purchased by TraPac), 100 foot gauge crane rail, AMP, dredging to -53 ft., new buildings (including administration building, yard operations, crane maintenance/marine building, longshore toilet, and driver service buildings), new main gate, the Intermodal Container Transfer Facility (ICTF), and general container yard and infrastructure improvements. The wharf improvements and AMP at Berth 136-139 and B. 144 & 145-147 is scheduled for construction completion by December 2011. The estimated total program completion date is February 2015.

The Port Police Headquarters Project consists of the design and construction of a new 51,000-square-foot three-story Port police station at 320 S. Center Street with subterranean parking and an adjacent two-level parking structure. Construction was completed in April 2011.

The Homeland Security Program is an ongoing effort. Projects include a waterside security surveillance system, facility security enhancements, passenger complex perimeter security, port police integrated command and control system, law enforcement resource tracking system, port police interoperable communication system, mass notification system, fiber optic network program, etc. Estimated project completion is January 2015.

The Los Angeles Waterfront is envisioned as a catalyst to provide public access waterfront and includes specific development projects and associated infrastructure improvements. The plan has five major programs: 1) Gateway, 2) Enhancements, 3) Waterfront, 4) Cabrillo Way Marina, and 5) Cruise Terminal.

The Waterfront Gateway Program includes approximately 2.5 miles of pedestrian promenade, multiuse parkway, and open space including lighting, signage, landscaping, irrigation, and landscaping. In addition, the program includes water features at the Gateway Plaza and 2nd Street, and automatic restrooms. Program was completed in November of 2009.

The San Pedro Waterfront Enhancements Program will improve existing, and construct new, pedestrian walks and plazas, create green open spaces, provide additional vehicular parking, construct Angel's Walk LA stanchions, and design new landscaping between the Port and waterfront. Program completion is expected in December 2015.

The San Pedro Waterfront will construct new promenades along the water's edge, water cuts, parks and open space, museum and maintenance facilities for the Red Car, roadway improvement, urban marine research center, and clean-up and development of the former Westway property at Berth 70-71. Estimated program completion date is undetermined at this time.

Cabrillo Way Marina Phase II will include new floating docks with boat slips, boater restrooms, shower facilities, public restrooms, boater and public parking lots, trailer boat and dry storage, and hoist launching facilities. Construction was completed in November 2011.

The Cruise Terminal Program includes a proposed upgrade of the existing cruise terminal facilities at Berth 91-93, which includes a temporary cruise terminal baggage building, 2 AMP projects, fender improvements, gangways, solar power, and numerous other improvements as a result of the Disney Cruise Line. Work was completed in February 2012.

The Wilmington Waterfront Development Program is a 95-acre development incorporating landscaping, commercial/retail/restaurant development, cultural/community facilities, and transportation improvements. Projects include the Avalon Triangle Park, Catalina Freight Relocation, Harry Bridges Boulevard Buffer, and Avalon Boulevard Corridor – Phase I & II. Harry Bridges Boulevard Buffer was completed in June 2011. The other projects remain undetermined at this time.

The efficient movement of traffic is essential to the operation of the port and its customers. A comprehensive series of improvements have been identified to improve the Port's transportation system. Planning and design is moving forward for roadway and interchange improvements, grade separations, and a new near-dock rail yard. Specifically, the South Wilmington Grade Separation, John S. Gibson Intersection & NB I-110 Ramp Access Improvements, I-110 Fwy/SR 47 Connector Improvements, and the Berth 200 Rail Yard projects are slated in begin construction in mid 2012.

The Berth 301-306 Terminal Improvements Program consists of multiple projects to expand the container terminal and to modify some existing terminal elements. The new terminal will be approximately 346 acres. New improvements include construction of 53 acres of new backland, 1,250 Linear Feet (LF) of wharf at Berth 306 that will accommodate 100' gauge crane rail; redeveloping 11 acres of backland, AMP, expansion of approximately 10,000 sq. ft. of the shop area and 10,000 sq. ft. of office space to exiting Power Shop Building, two new roadability canopies and a maintenance building. Improvements to the existing terminal include relocating and modifying the main gate, modifying the terminal entrance, relocating light poles, new reefers, and providing utility infrastructure. Design is scheduled for completed in early 2013.

Factors That May Affect the Port's Operations

In November 2006, the governing boards of the Ports of Los Angeles and Long Beach voted to approve the landmark $2 billion San Pedro Bay Ports Clean Air Action Plan (CAAP), the most comprehensive plan that addresses emissions from the trucks, oceangoing vessels, trains, terminal equipment, and harbor craft that serve the Port.

The major component of this plan is the CTP. This program establishes a progressive ban on polluting trucks, improves regional air quality, establishes a Concession Program and facilitates the replacement of old trucks with low-emission vehicles.

The Vessel Speed Reduction Program (VSRP) provides incentives to vessel operators to reduce vessel speeds from 20 knots or more to 12 knots on approach to and departure from the Port.

New data released in August 2011 shows that the Port has significantly cut emissions from cargo-handling operations between 2005 and 2010, including a 69% reduction in diesel particulate matter (DPM) even as cargo volumes rose by 5% during the same period.

An economic relief program with an estimated value of more than $28.9 million aimed at helping Port of Los Angeles container terminal operators emerge from the recession was approved by the Los Angeles Harbor Commission on December 10, 2009. The program includes a temporary 6% rate reduction for container terminal operators as well as an empty container and Inland Points Intermodal Incentive discounts. The benefits of the program are spread out over calendar years 2009 through 2011 and beyond.

Competitive Environment

In the year ended June 30, 2011, 99.5% of the entire U.S. West Coast containerized cargo market was controlled by six major container ports: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 71.9% of all U.S. West Coast market share.

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

West Coast Container Market Share*

	Year ended June 30					
	2011	2010	2009	2011	2010	2009
		Loaded TEUs (In thousands)			Market share Percentage	
Los Angeles	5,701	5,287	5,179	40.0%	40.2%	41.1%
Long Beach	4,543	4,071	3,956	31.9	30.9	31.4
Oakland	1,559	1,463	1,313	10.9	11.1	10.4
Seattle	1,392	1,299	939	9.8	9.9	7.4
Tacoma	839	815	965	5.9	6.2	7.7
Portland	144	141	176	1.0	1.1	1.4
All others	83	81	75	0.5	0.6	0.6
Total	14,261	13,157	12,603	100.0%	100.0%	100.0%

* Source: Port Import Export Reporting Service

Contacting the Port's Financial Management

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

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

Statements of Net Assets

June 30, 2011 and 2010

(In thousands of dollars)

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents, unrestricted (note 2)	$	441,411	443,034
Cash and cash equivalents, restricted (note 2)		51,412	57,703
Accounts receivable, less allowance for doubtful accounts of $5,173 and $8,310 in 2011 and 2010, respectively		27,363	24,552
Grants receivable (note 14)		16,596	14,013
Materials and supplies inventories		2,223	2,292
Prepaid and deferred expenses		2,136	1,659
Accrued interest receivable		965	2,018
Current portion of notes receivable (note 11)		4,528	4,393
Total current assets		546,634	549,664
Noncurrent restricted assets:			
Restricted investments – bond funds (notes 2 and 17)		67,341	67,844
Other restricted cash and investments (note 2)		9,773	9,752
Accrued interest receivable		5	5
Total noncurrent restricted assets		77,119	77,601
Capital assets (notes 3 and 9):			
Land		1,058,404	1,042,081
Harbor facilities and equipment, less accumulated depreciation of $1,292,186 and $1,203,442 in 2011 and 2010, respectively		1,468,867	1,324,063
Intangible assets		12,900	12,800
Construction in progress		524,158	500,129
Preliminary costs – capital projects		214,578	208,471
Net capital assets		3,278,907	3,087,544
Notes receivable (note 11)		19,659	24,208
Investment in Joint Powers Authorities (note 4)		6,186	9,520
Other assets		7,937	8,600
Total assets		3,936,442	3,757,137

(Continued)

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

Statements of Net Assets

June 30, 2011 and 2010

(In thousands of dollars)

Liabilities		2011	2010
Current liabilities:			
Accounts payable	$	31,928	60,226
Current installments of notes payable and bond indebtedness (note 5)		30,958	29,686
Accrued interest		16,440	19,188
Accrued employee benefits (note 5)		13,149	17,591
Unearned revenue and other deferred credits (note 5)		1,532	1,503
Liabilities under the City of Los Angeles’ securities lending program (note 2)		41,077	11,440
Accrued construction cost payable		1,985	3,909
Other current liabilities (notes 5, 6, and 8)		60,869	62,306
Total current liabilities		197,938	205,849
Long-term liabilities (note 5):			
Bond payable, net of deferred amount on refunding and unamortized discount/premium of $19,051 and $20,071 in 2011 and 2010, respectively		868,531	900,002
Notes payable, net of current installments		1,366	1,874
Commercial paper		100,000	—
Accrued employee benefits		10,854	9,701
Other liabilities (notes 6 and 8)		105,263	95,370
Liabilities payable from restricted assets – other liabilities		9,605	9,587
Total long-term liabilities		1,095,619	1,016,534
Total liabilities		1,293,557	1,222,383
Net assets:			
Invested in capital assets, net of related debt		2,286,360	2,164,885
Restricted, bond reserve funds		67,341	67,844
Unrestricted		289,184	302,025
Total net assets	$	2,642,885	2,534,754

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(In thousands of dollars)

		2011	2010
Operating revenues (note 9):			
Shipping services:			
Wharfage	$	317,621	304,653
Dockage		5,848	5,943
Demurrage		238	212
Cranes		—	913
Pilotage		7,417	7,025
Assignment charges		12,374	8,883
Storage		—	1
Total shipping services		343,498	327,630
Rentals:			
Land		42,693	39,741
Buildings		494	538
Warehouses		1,454	1,592
Wharf and shed revenue		787	1,270
Total rentals		45,428	43,141
Royalties, fees, and other operating revenues:			
Fees, concessions, and royalties		2,333	2,561
Clean truck program fees		6,376	30,505
Oil royalties		159	124
Other		2,709	2,857
Total royalties, fee, and other operating revenue		11,577	36,047
Total operating revenues		400,503	406,818
Operating and administrative expenses:			
Salaries and benefits, net of capitalized amounts of $19,411 and $16,879 in 2011 and 2010, respectively (note 10)		103,693	96,838
Marketing and public relations		3,055	2,594
Travel and entertainment		843	569
Outside services		30,601	24,428
Materials and supplies		6,556	6,634
City services, net of capitalized amounts of $15,716 and $14,836 in 2011 and 2010, respectively		22,353	31,142
Provision for workers' compensation claims		1,593	264
Litigation, claims, and settlement expenses (notes 8 and 15)		3,040	3,964
Clean truck program expenses		5,445	20,692
Pollution remediation expenses		14,968	7,767
Other operating expenses		17,548	15,343
Total operating and administrative expenses		209,695	210,235
Income from operations before depreciation		190,808	196,583
Depreciation (note 3)		90,468	87,255
Operating income		100,340	109,328

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(In thousands of dollars)

		2011	2010
Nonoperating revenues (expenses):			
Income (loss) from investments in Joint Powers Authorities (note 4)	$	(333)	2,270
Interest and investment income		6,436	15,233
Interest expense on bond indebtedness and notes payable (notes 3 and 5)		(3,704)	(35,663)
Other expense, net		(6,667)	(2,951)
Net nonoperating expenses		(4,268)	(21,111)
Income before capital contributions		96,072	88,217
Capital contributions (note 14)		12,059	16,950
Change in net assets		108,131	105,167
Total net assets – beginning of year		2,534,754	2,429,587
Total net assets – end of year	$	2,642,885	2,534,754

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands of dollars)

		2011	2010
Cash flows from operating activities:			
Shipping service fees collected	$	340,811	335,981
Rentals collected		45,331	43,205
Royalties, fees, and other operating revenues collected		11,550	37,166
Payments for employee salaries and benefits, net of capitalized amounts of $19,411 and $16,879 in 2011 and 2010, respectively		(106,982)	(90,460)
Payments for goods and services		(122,970)	(136,461)
Net cash used in other nonoperating income and expenses		(9,472)	(4,015)
Net cash provided by operating activities		158,268	185,416
Cash flows from noncapital and related financing activity:			
Proceeds from noncapital grants		5,695	606
Net cash provided by noncapital and related financing activity		5,695	606
Cash flows from capital and related financing activities:			
Payments for property acquisitions and construction		(249,954)	(327,964)
Proceeds from sales of capital assets		184	122
Proceeds from capital grant		9,475	7,245
Net proceeds from issuance of bonds		—	430,160
Net proceeds from issuance of commercial paper		100,000	—
Principal repayment, redemption, and defeasance – bonds		(29,200)	(265,070)
Principal repayment – notes		(487)	(465)
Payments from (to) bond sinking fund		503	(6,236)
Interest paid		(47,580)	(31,960)
Net cash used in capital and related financing activities		(217,059)	(194,168)
Cash flows from investing activities:			
Receipt of interest		8,783	16,240
Increase in liabilities under the City of Los Angeles' securities lending program		29,637	11,440
Increase (decrease) in fair value of investments		(1,319)	3,562
Net payments received on notes receivable		4,414	4,283
Distribution from Joint Powers Authorities		3,667	4,000
Net cash provided by investing activities		45,182	39,525
Net increase (decrease) in cash and cash equivalents		(7,914)	31,379
Cash and cash equivalents, at beginning of year		500,737	469,358
Cash and cash equivalents, at end of year	$	492,823	500,737
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	100,340	109,328
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		90,468	87,255
Provision for doubtful accounts		—	15
Change in accounts receivable		(2,811)	9,534
Change in materials and supplies inventories		69	(387)
Change in prepaid and deferred expenses and other assets		186	1,027
Change in accounts payable		(25,216)	(3,617)
Change in accrued employee benefits		(3,799)	6,378
Change in deferred revenue and other deferred credits and other operating liabilities		(969)	(24,117)
Total adjustments		57,928	76,088
Net cash provided by operating activities	$	158,268	185,416

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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands of dollars)

		2011	2010
Noncash investing, capital, and financing activities:			
Acquisition of capital assets with construction payable	$	1,985	3,909
Acquisition of capital assets with accounts payable		3,778	6,860
Write-off of discontinued construction projects		3,159	2,398
Capitalized interest expense, net		40,109	9,148

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

(a) Organization and Reporting Entity

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

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

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

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the GASB. The financial statements present only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City in conformity with GAAP.

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port by constructing, replacing, extending, or improving facilities and services that the Board of Harbor Commissioners deems necessary for the promotion and accommodation of commerce. From time to time, LAHIC has issued long-term indebtedness to finance specific capital facilities improvements on behalf of the Port's tenants.

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

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

(b) Summary of Significant Accounting Policies

Method of Accounting – The Port activities are accounted for as enterprise fund, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The measurement focus is on determination of changes in net assets, financial position, and cash flows.

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

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

Capital Assets – Capital assets are carried at cost or at appraised fair value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation. Capital assets include intangible assets for the Port's radio frequency and emission mitigation credits.

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

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

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

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

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

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately $7,253,000 and $5,943,000 of other indirect project costs were allocated to construction projects for the years 2011 and 2010, respectively.

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

Interest Costs – The Port used to capitalize interest paid during development and construction of its capital projects, net of any investment income earned during the temporary investment of project-related borrowings. Beginning fiscal year 2011, the Port adopted the computation of interest to be capitalized based on the average accumulated expenditures for all ongoing qualified capital projects. During the years ended June 30, 2011 and 2010, the Port capitalized net interest expense of $40,109,000 and $9,148,000, respectively.

Pooled Cash and Investments – In order to maximize investment return, the Port pools its available cash with that of the City. The City Treasurer makes investment decisions.

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

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

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

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

Operating Leases – A substantial portion of the Port lands and facilities is leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property at the expiration of the agreement; accordingly, no leases are considered capital leases for purposes of financial reporting (note 9).

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

Pension and OPEB Plans – All full-time employees of the Port are eligible to participate in the City Employees' Retirement System of the City (the System), a plan available to substantially all City full-time employees. Also, starting fiscal year 2007, all full-time Port Police Officers are eligible to participate in the Los Angeles Fire and Police Pension System (LAFPP), a defined benefit single-employer pension plan available to all full-time active sworn firefighters and police officers (except Airport Police) of the City of Los Angeles. The Port's policy is to fund its entire share of the System and LAFPP pensions and the respective other postemployment benefit (OPEB) costs billed by the City. The costs to be funded are determined annually as of July 1 by the System's actuary and are incorporated into the payroll burden rate to reimburse the City for the Port's pro rata share of contributions made (note 10).

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

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

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

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

Operating Revenues and Expenses – Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Port. Operating revenues consist primarily of charges for services and rentals of properties. Nonoperating revenues and expenses consist of those revenues and expenses that relate to financing and investing activities and result from ancillary activities.

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

Reclassifications – Certain reclassifications have been made to the amounts reported in 2010 in order to conform to the 2011 presentation. Such reclassifications had no effect on the previously reported change in net assets.

(2) Cash and Investments

(a) Cash and 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; however, safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund of the City of Los Angeles. Investments 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.

All investment transactions and the entire portfolio must comply with the California State Government Code (Code) Sections 53600 and 53635 et seq. and the City's Investment Policy.

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

		2011	2010
Cash in bank and certificates of deposit	$	374	374
Investment in U.S. Treasury money market fund		67,354	67,844
Equity in the City of Los Angeles Investment Pool		502,209	510,116
Total cash and investments	$	569,937	578,333

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

		2011	2010
Unrestricted cash and cash equivalents:	$	441,411	443,034
Restricted cash and cash equivalents:			
Current:			
China Shipping Mitigation Fund		36,473	37,815
Community Aesthetics Mitigation Fund for Parks		3,468	3,474
Community Mitigation Trust Fund – Trapac		10,385	15,734
Customs Enforcement Forfeiture Fund		39	20
Clean Truck Fee Fund		399	72
Other		648	588
Subtotal – Current		51,412	57,703
Noncurrent:			
Harbor Revenue Bond Funds		67,341	67,844
Commercial Paper Redemption Fund		14	—
Customer Security Deposits		3,217	3,222
Batiquitos Environmental Fund		5,985	5,974
Harbor Restoration Fund		557	556
Subtotal – Noncurrent		77,114	77,596
Total restricted cash and investments		128,526	135,299
Total cash and investments	$	569,937	578,333

(b) Deposits – Custodial Credit Risk

The Port had cash deposits and certificates of deposit with several major financial institutions amounting to $373,787 and $373,787 at June 30, 2011 and 2010, respectively, with corresponding bank balances of $184,221 and $178,560, respectively. The deposits were entirely covered by federal depository insurance or collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

(c) Investments Authorized by the City's Investment Policy

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

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government-sponsored enterprises) securities. In August 2011, Standard & Poor's lowered the long-term U.S. debt credit rating from AAA to AA+. This downgrade affects the credit risk associated with the City's investments in certain U.S. Sponsored Agencies securities.

Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term notes must have at least an "A" rating.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of $500 million.

Concentration of Credit Risk. The investment policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, 30% in bankers' acceptances of any one commercial bank, 30% in certificates of deposit and medium-term notes, and 20% in mutual funds, money market mutual funds, and mortgage pass-through securities. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements.

(Continued)

The table below identifies the investment types that are authorized by the investment policy for the City of Los Angeles's General Pool, effective September 30, 2011:

Allowable Investment Instruments

Per State Government Code[1]

	Maximum maturities	**Maximum specified percentage of portfolio**	**Minimum quality requirements**
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agencies	5 years	None	None
Bankers' Acceptances	180 days	40 percent[2]	None
Commercial Paper	270 days	40 percent of the agency's money[3]	A-1 or equivalent; if the issuer has issued long-term debt, it must be rated "A" without regard to modifiers
Negotiable Certificates of Deposit	5 years	30 percent	None
CD Placement Service	5 years	30 percent	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20 percent of the base value of the portfolio	None
Medium Term Notes	5 years	30 percent	"A" rating
Mutual Funds and Money Market Mutual Funds	N/A	20 percent[4]	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20 percent	"AA" Rating[5]
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None

(1) Sources: Government Code Sections 16429.1, 53601,53601.8, 53635, and 53638.

(2) No more than 30 percent of the agency's funds may be in Bankers' Acceptances of any one commercial bank.

(3) No more than 10 percent of the City's funds may be invested in the Commercial Paper of any one issuer.

(4) No more than 10 percent of the City's money may be invested in any one mutual fund.

(5) Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.

The Port had $502,209,000 and $510,116,000 invested in the City's General Pool and three Special Investment Programs, representing approximately 6.9% and 8.9% of the City Treasury's General Pool and Special Pool at June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, the investments held in the City Treasury's General Pool and Special investment Pool Program and their maturities are as follows (in thousands):

		Investment maturities June 30 2011					
Type of Investments		Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U. S. Treasury Notes	$	3,541,794	—	—	38,482	3,490,201	13,111
U.S. Treasury Bills		92,789	5,984	15,864	70,941	—	—
U.S. sponsored agency issues		2,563,178	455,933	110,660	782,630	1,212,938	1,017
Medium-term notes		1,126,648	—	—	148,980	977,668	—
Commercial paper		607,177	388,945	130,749	87,483	—	—
Certificates of deposit		8,000	—	—	8,000	—	—
Short-term investment funds		22,425	22,425	—	—	—	—
Securities lending cash collateral:							
U.S. Treasury notes		406,157	—	—	—	406,157	—
U.S. sponsored agency issues		259,335	—	—	—	259,335	—
Total general and special pools	$	8,627,503	873,287	257,273	1,136,516	6,346,299	14,128

		Investment maturities June 30 2010				
Type of Investments		Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years
U. S. Treasury notes	$	1,977,346	—	—	—	1,977,346
U.S. Treasury bills		1,002,601	474,965	288,831	238,805	—
U.S. sponsored agency issues		2,830,258	474,135	590,834	693,595	1,071,694
Medium-term notes		735,133	—	—	20,036	715,097
Commercial paper		594,181	322,519	117,918	153,744	—
Certificates of deposit		9,000	—	—	9,000	—
Short-term investment funds		41,770	41,770	—	—	—
Securities lending cash collateral:						
U.S. Treasury notes		54,031	—	—	—	54,031
U.S. sponsored agency issues		111,068	—	—	—	111,068
Total general and special pools	$	7,355,388	1,313,389	997,583	1,115,180	3,929,236

(d) Special Pool Investments

The Port currently has three funds that are invested in the City's Special Investment Pool. They are Emergency/ACTA Reserve Fund 751, Restoration Fund 70L, and Batiquitos Long-term Investment Fund 72W. Investments in the Special Investment Pool are managed in accordance with the pool's policy. If none exists, the pool's policy will be deemed to be the California State Government Code

Sections 53600-53635 et seq. Funds in the three funds were solely invested in government agency securities with maturities of 182 days or less per Port instruction.

(e) City of Los Angeles Securities Lending Program

The Port participates in the City of Los Angeles securities lending program. Under this program, the City lends investment securities to broker-dealers for collateral that will be returned for the same securities in the future. These activities are governed by a contractual agreement with the City's bank limiting the nature and amount of transactions subject to full collateralization. Collateral securities are initially pledged at 102.0% of the fair value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 101.5% of the fair value of the securities lent. Under the City's program, no more than 20.0% of the par value of the City's General Investment Pool (the Pool) shall be available for lending. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk. Net revenues earned by the City on its securities lending program totaled $194,936 and $10,277 for the years ended June 30, 2011 and 2010, respectively.

The Securities Lending Program (the SLP) is permitted and limited under provision of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP are safety of loaned securities and prudent investment of cash collateral to enhance revenues from the investment program. The SLP is governed by a separate policy and guidelines.

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

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy.

In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans which either party can terminate a lending contract on demand, term loans shall have a maximum life of 92 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

Due to the extreme volatility in the financial markets, the City's SLP was temporarily suspended in November 2008 and resumed in April 2010. The Port's share of cash collateral received and corresponding liability aggregated approximately $41.1 million at June 30, 2011.

(f) Other Investments

In each issuance of a parity obligation, the Department is required to establish a reserve fund with the 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.

As a result of the semiannual evaluation of the reserve funds in accordance with the Indenture of Trust (Indenture), the common reserve decreased to $67,109,275 at June 30, 2011 from $67,836,807 at June 30, 2010. The majority of the reserve funds were invested at Federal Agency Securities rated "Aaa" by Moody's and "AAA" by Standard & Poor's (S&P).

Proceeds from any new money bonds should be invested in the "Permitted Investments" specified as follow: (1) direct obligations of the United 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-a" 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-a" or "A3" or better by Moody's and "A-1" or "A" or better by S&P; and (10) repurchase agreements between the department and a dealer bank and securities firm. The term of the repurchase agreement may be up to 30 days and the value of the collateral must be equal to 104% of the amount of cash transferred to the dealer bank plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the department, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) then the value of collateral must equal to 105%.

(3) Capital Assets

The Port's capital assets consist of the following activities for the years ended June 30, 2011 and 2010 (in thousands):

	July 1, 2010	Increases	Decreases	June 30, 2011
Capital assets not being depreciated:				
Land	$ 1,042,081	16,541	(218)	1,058,404
Construction	500,129	242,117	(218,088)	524,158
Preliminary costs – capital projects	208,471	35,100	(28,993)	214,578
Intangible asset – radio frequency/mitigation credits	12,800	100	—	12,900
Total capital assets not being depreciated	1,763,481	293,858	(247,299)	1,810,040
Capital assets being depreciated/ amortized:				
Wharves and sheds	691,154	63,357	—	754,511
Buildings/facilities	1,741,923	165,940	—	1,907,863
Equipment	94,428	6,002	(1,751)	98,679
Total capital assets being depreciated/ amortized	2,527,505	235,299	(1,751)	2,761,053
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(321,323)	(18,676)	—	(339,999)
Buildings/facilities	(837,037)	(61,702)	—	(898,739)
Equipment	(45,082)	(10,090)	1,724	(53,448)
	(1,203,442)	(90,468)	1,724	(1,292,186)
Total capital assets being depreciated/ amortized net	1,324,063	144,831	(27)	1,468,867
Total capital assets, net	$ 3,087,544	438,689	(247,326)	3,278,907

	July 1, 2009	Increases	Decreases	June 30, 2010
Capital assets not being depreciated:				
Land	$ 1,040,942	1,139	—	1,042,081
Construction	309,599	258,764	(68,234)	500,129
Preliminary costs – capital projects	166,584	41,974	(87)	208,471
Intangible asset – radio frequency/mitigation credits	12,800	—	—	12,800
Total capital assets not being depreciated	1,529,925	301,877	(68,321)	1,763,481
Capital assets being depreciated/ amortized:				
Wharves and sheds	685,430	5,724	—	691,154
Buildings/facilities	1,692,931	64,235	(15,243)	1,741,923
Equipment	73,664	21,582	(818)	94,428
Total capital assets being depreciated/ amortized	2,452,025	91,541	(16,061)	2,527,505
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(302,464)	(18,859)	—	(321,323)
Buildings/facilities	(790,725)	(60,690)	14,378	(837,037)
Equipment	(38,193)	(7,706)	817	(45,082)
	(1,131,382)	(87,255)	15,195	(1,203,442)
Total capital assets being depreciated/ amortized net	1,320,643	4,286	(866)	1,324,063
Total capital assets, net	$ 2,850,568	306,163	(69,187)	3,087,544

Net interest expense of $40,109,000 and $9,148,000 was capitalized for 2011 and 2010, respectively.

(4) Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint exercise of powers agreements as follows:

(a) Intermodal Container Transfer Facility Joint Powers Authority

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

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53,915,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52,315,000 in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42,915,000 of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, nor the Port of Los Angeles, nor the Port of Long Beach.

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 its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's share of net assets at June 30, 2011 and 2010 is $6,186,000 and $9,520,000, respectively. Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

(b) Alameda Corridor Transportation Authority

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

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

At June 30, 1998, the Port had advanced a total of $13,334,000 to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Port for all amounts advanced plus approximately $3.2 million of interest on such advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Port for approximately $81.7 million of capital assets directly related to the ACTA's mission, which the Port had previously included in construction in progress. Of the capital assets transferred, approximately $22.2 million had been funded by capital grants, which the Port had previously included in contributions/land valuation equity. The Port has no share of the ACTA's net assets and income at June 30, 2011 and 2010, and accordingly, they have not been recorded in the accompanying financial statements.

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

(5) Long-Term Liabilities

Long-term debt consists of the following at June 30, 2011 and 2010:

Parity bonds	Call provisions	Interest rate	Fiscal maturity year	Original amount	Beginning balance, July 1, 2010	Additions	Deductions	Ending balance, June 30, 2011	Principal due within one year
Harbor Revenue bonds, Issue 2001, Series A	8/1/2011 @ 100%	5.00%	2026	$ 36,180	36,180	—	—	36,180	—
Harbor Revenue bonds, Issue 2001, Series B	8/1/2011 @ 100%	5.25% – 5.50%	2023	64,925	64,925	—	—	64,925	—
Harbor Revenue bonds, Issue 2002, Series A	8/1/2012 @ 100%	5.50%	2016	63,520	35,720	—	(5,565)	30,155	5,865
Harbor Revenue bonds, Issue 2005, Series A	8/1/2015 @ 102%	3.25% – 5.00%	2027	29,930	29,930	—	(275)	29,655	1,285
Harbor Revenue bonds, Issue 2005, Series B	8/1/2015 @ 102%	3.00% – 5.00%	2027	30,110	29,135	—	(1,200)	27,935	1,215
Harbor Revenue bonds, Issue 2005, Series C-1	8/1/2015 @ 102%	4.00% – 5.00%	2018	43,730	30,295	—	(7,125)	23,170	15,290
Harbor Revenue bonds, Issue 2006, Series A	8/1/2016 @ 102%	5.00%	2027	200,710	52,200	—	(1,270)	50,930	800
Harbor Revenue bonds, Issue 2006, Series B	8/1/2016 @ 102%	5.00%	2027	209,815	101,310	—	(7,885)	93,425	—
Harbor Revenue bonds, Issue 2006, Series C	8/1/2016 @ 102%	5.00%	2026	16,545	15,675	—	(665)	15,010	700
Harbor Revenue bonds, Issue 2006, Series D	8/1/2016 @ 102%	4.50% – 5.00%	2037	111,300	83,600	—	(1,915)	81,685	1,410
Harbor Revenue bonds, Issue 2009, Series A	8/1/2019 @ 100%	2.00% – 5.25%	2029	100,000	100,000	—	(3,300)	96,700	3,365
Harbor Revenue bonds, Issue 2009, Series B	8/1/2019 @ 100%	5.25%	2040	100,000	100,000	—	—	100,000	—
Harbor Revenue bonds, Issue 2009, Series C	8/1/2019 @ 100%	4.00% – 5.25%	2032	230,160	230,160	—	—	230,160	520
Total parity bonds				$ 1,236,925	909,130	—	(29,200)	879,930	30,450
Commercial paper notes				$ —	—	100,000	—	100,000	—
Dept. of Boating and Waterways (DBW) Loans:									
C#82-21-148		4.50%	2014	$ 4,000	1,077	—	(252)	825	263
C#83-21-147		4.50	2015	4,000	1,284	—	(235)	1,049	245
Total loan				$ 8,000	2,361	—	(487)	1,874	508
Unamortized bond (discount) premium					$ 27,261	—	(1,740)	25,521	—
Unamortized deferred amount on refunding					(7,190)	—	720	(6,470)	—
Current maturities of long-term debt					(29,686)	(30,958)	29,686	(30,958)	—
Total long-term debt					$ 901,876	69,042	(1,021)	969,897	30,958

Long-term debt consists of the following at June 30, 2010 and 2009:

Parity bonds	Call provisions	Interest rate	Fiscal maturity year	Original amount	Beginning balance, July 1, 2009	Additions	Deductions	Ending balance, June 30, 2010	Principal due within one year
Harbor Revenue bonds, Issue 2001, Series A	8/1/2011 @ 100%	5.00%	2026	$ 36,180	36,180	—	—	36,180	—
Harbor Revenue bonds, Issue 2001, Series B	8/1/2011 @ 100%	5.25% – 5.50%	2023	64,925	64,925	—	—	64,925	—
Harbor Revenue bonds, Issue 2002, Series A	8/1/2012 @ 100%	5.50%	2016	63,520	40,995	—	(5,275)	35,720	5,565
Harbor Revenue bonds, Issue 2005, Series A	8/1/2015 @ 102%	3.25% – 5.00%	2027	29,930	29,930	—	—	29,930	275
Harbor Revenue bonds, Issue 2005, Series B	8/1/2015 @ 102%	3.00% – 5.00%	2027	30,110	29,985	—	(850)	29,135	1,200
Harbor Revenue bonds, Issue 2005, Series C-1	8/1/2015 @ 102%	4.00% – 5.00%	2018	43,730	34,540	—	(4,245)	30,295	7,125
Harbor Revenue bonds, Issue 2006, Series A	8/1/2016 @ 102%	5.00%	2027	200,710	181,855	—	(129,655)	52,200	1,270
Harbor Revenue bonds, Issue 2006, Series B	8/1/2016 @ 102%	5.00%	2027	209,815	201,395	—	(100,085)	101,310	7,885
Harbor Revenue bonds, Issue 2006, Series C	8/1/2016 @ 102%	5.00%	2026	16,545	16,310	—	(635)	15,675	665
Harbor Revenue bonds, Issue 2006, Series D	8/1/2016 @ 102%	4.50% – 5.00%	2037	111,300	107,925	—	(24,325)	83,600	1,915
Harbor Revenue bonds, Issue 2009, Series A	8/1/2019 @ 100%	2.00% – 5.25%	2029	100,000	—	100,000	—	100,000	3,300
Harbor Revenue bonds, Issue 2009, Series B	8/1/2019 @ 100%	5.25%	2040	100,000	—	100,000	—	100,000	—
Harbor Revenue bonds, Issue 2009, Series C	8/1/2019 @ 100%	4.00% – 5.25%	2032	230,160	—	230,160	—	230,160	—
Total parity bonds				$ 1,236,925	744,040	430,160	(265,070)	909,130	29,200
Commercial paper notes				$ —	—	—	—	—	—
Dept. of Boating and Waterways (DBW) Loans:									
C#82-21-148		4.50%	2014	$ 4,000	1,317	—	(240)	1,077	251
C#83-21-147		4.50	2015	4,000	1,509	—	(225)	1,284	235
Total loan				$ 8,000	2,826	—	(465)	2,361	486
Unamortized bond (discount) premium					$ 24,672	13,342	(10,753)	27,261	—
Unamortized deferred amount on refunding					(14,003)	—	6,813	(7,190)	—
Current maturities of long-term debt					(25,075)	(29,686)	25,075	(29,686)	—
Total long-term debt					$ 732,460	413,816	(244,400)	901,876	29,686

Bond Premium and Discount

The original issue discount or premium is amortized over the life of each bond issue. At the time of refunding, the unamortized bond discount or premium is amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. The unamortized amount for each Port issue is listed as follows:

Bond issue		2011 (Discount) premium	2010 (Discount) premium
2001A	$	(717)	(768)
2001B		570	622
2002A		735	915
2005A		1,453	1,549
2005B		1,484	1,582
2005C-1		1,234	1,437
2006A		2,151	2,293
2006B		3,357	3,580
2006C		757	811
2006D		2,432	2,529
2009A		2,643	2,789
2009B		(2,180)	(2,258)
2009C		11,602	12,180
Total	$	25,521	27,261

The Port's required debt service payments for long-term debt for years ending June 30, 2011 are as follows:

		Principal	Interest	Total
Fiscal year:				
2012	$	30,958	43,801	74,759
2013		31,816	42,315	74,131
2014		33,325	40,776	74,101
2015		34,445	39,106	73,551
2016		36,640	37,308	73,948
2017 – 2021		214,905	156,195	371,100
2022 – 2026		273,315	94,060	367,375
2027 – 2031		97,435	41,893	139,328
2032 – 2036		75,815	23,906	99,721
2037 – 2041		53,150	5,168	58,318
Subtotal		881,804	524,528	1,406,332
Unamortized bond premium (discount), net		25,521	—	25,521
Unamortized deferred amount on refunding		(6,470)	—	(6,470)
Current maturities of long-term debt		(30,958)	—	(30,958)
Total per financial statement	$	869,897	524,528	1,394,425

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

(a) Bonds Payable

2001 Series A Refunding Bonds

The 2001 Series A Refunding Bonds were issued on July 11, 2001 in the aggregate principal amount of $36,180,000 to advance refund, on a crossover basis, $33,330,000 of the 1995 Series B Bonds. Interest on the 2001 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2002.

The 2001 Series A Refunding Bonds with stated maturity dates ranging from August 1, 2022 to 2025 bear interest at a rate of 5.0%. The bonds are subject to optional redemption prior to their stated maturities on or after August 1, 2011 without early redemption premium.

The outstanding balances of the 2001 Series A Refunding Bonds, net of unamortized discount of $717,000 and $768,000 and unamortized deferred amount on refunding of $653,000 and $700,000, were $34,810,000 and $34,712,000 at June 30, 2011 and 2010, respectively.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
2012	$ —	1,809	1,809
2013	—	1,809	1,809
2014	—	1,809	1,809
2015	—	1,809	1,809
2016	—	1,809	1,809
2017 – 2021	—	9,045	9,045
2022 – 2026	36,180	6,280	42,460
Subtotal	36,180	24,370	60,550
Unamortized deferred amount on refunding of 1995 Series B	(653)	—	(653)
Unamortized discount	(717)	—	(717)
Total	$ 34,810	24,370	59,180

2001 Series B Refunding Bonds

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

Interest on the 2001 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2002. The 2001 Series B Refunding Bonds with maturity dates ranging from August 1, 2015 to 2022 bear interest at rates from 5.25% to 5.50%. The bonds with stated maturities on or after August 1, 2012 are subject to optional redemption prior to maturity without premium.

The outstanding balances of the 2001 Series B Refunding Bonds, plus unamortized premium of $570,000 and $622,000 and unamortized deferred amount on refunding of $2,353,000 and $2,567,000, were $63,142,000 and $62,980,000 at June 30, 2011 and 2010, respectively.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
2012	$ —	3,547	3,547
2013	—	3,547	3,547
2014	—	3,547	3,547
2015	—	3,547	3,547
2016	2,600	3,476	6,076
2017 – 2021	42,815	11,386	54,201
2022 – 2023	19,510	1,023	20,533
Subtotal	64,925	30,073	94,998
Unamortized deferred amount on refunding of 1995 Series B	(2,353)	—	(2,353)
Unamortized premium	570	—	570
Total	$ 63,142	30,073	93,215

2002 Series A Refunding Bonds

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

Interest on the 2002 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 2002. The 2002 Series A Refunding Bonds with maturity ranging from August 1, 2004 to 2015 bear interest rates from 5.25% to 5.50%.

The 2002 Series A Bonds maturing on or before August 1, 2012 are not subject to optional redemption prior to maturity. The bonds with stated maturity dates on or after August 1, 2013 can be refunded on or after August 1, 2012 without early redemption premium.

Prior to the Crossover Date, interest on the 2002 Series A Refunding Bonds was secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture.

The outstanding balances of the 2002 Series A Refunding Bonds, net of unamortized premium of $736,000 and $916,000 and unamortized deferred amount on refunding of $632,000 and $787,000, were $30,259,000 and $35,850,000 at June 30, 2011 and 2010, respectively.

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

		Annual debt service requirement		
		Principal	Interest	Total
Fiscal year:				
2012	$	5,865	1,497	7,362
2013		6,190	1,166	7,356
2014		6,535	816	7,351
2015		6,895	446	7,341
2016		4,670	128	4,798
Subtotal		30,155	4,053	34,208
Unamortized deferred amount on refunding of 1995 Series B		(632)	—	(632)
Unamortized premium		736	—	736
Total	$	30,259	4,053	34,312

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

2005 Series A Refunding Bonds

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

Interest on the 2005 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006. The 2005 Series A Bonds with maturity dates ranging from August 1, 2010 to 2026 bear interest at rates from 3.25% to 5.00%.

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

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

The outstanding balances of the 2005 Series A Bonds, plus the unamortized premium of $1,453,000 and $1,549,000 and unamortized deferred amount on refunding of $440,000 and $469,000, were $30,668,000 and $31,010,000 at June 30, 2011 and 2010, respectively.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2012	$	1,285	1,401	2,686
2013		1,315	1,358	2,673
2014		1,370	1,310	2,680
2015		1,435	1,248	2,683
2016		1,510	1,175	2,685
2017 – 2021		8,805	4,628	13,433
2022 – 2026		11,310	2,127	13,437
2027		2,625	66	2,691
Subtotal		29,655	13,313	42,968
Unamortized deferred amount on refunding of 1996 Series B		(440)	—	(440)
Unamortized premium		1,453	—	1,453
Total	$	30,668	13,313	43,981

2005 Series B Refunding Bonds

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

Interest on the 2005 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series B Bonds with maturity dates ranging from August 1, 2008 to 2026 bear interest at rates from 3.00% to 5.00%.

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

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

The outstanding balances of the 2005 Series B Bonds, plus the unamortized premium of $1,484,000 and $1,582,000 and unamortized deferred amount on refunding of $424,000 and $452,000, were $28,995,000 and $30,265,000 at June 30, 2011 and 2010, respectively.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2012	$	1,215	1,334	2,549
2013		1,280	1,284	2,564
2014		1,345	1,232	2,577
2015		1,415	1,169	2,584
2016		1,490	1,097	2,587
2017 – 2021		8,660	4,259	12,919
2022 – 2026		11,130	1,797	12,927
2027		1,400	35	1,435
Subtotal		27,935	12,207	40,142
Unamortized deferred amount on refunding of 1996 Series B		(424)	—	(424)
Unamortized premium		1,484	—	1,484
Total	$	28,995	12,207	41,202

2005 Series C Refunding Bonds

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

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

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

The 2005 Series C-2 Bonds were issued for $4,090,000 to pay certain issuance costs. The 2005 Series C-2 Bonds were sold at rate of 4.75%.

To take advantage of the American Recovery and Reinvestment Act (ARRA) of 2009, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds in an aggregate amount of $230,160,000 on

July 9, 2009. A portion of the Refunding bond proceeds was to provide funds to refund $2,705,000 of the 2005 Series C-1 AMT Bonds.

The outstanding balances of the 2005 Series C-1 Refunding Bonds, net of unamortized premium of $1,234,000 and $1,437,000 and unamortized deferred amount on refunding of $860,000 and $1,001,000, were $23,545,000 and $30,731,000 at June 30, 2011 and 2010, respectively.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
2012	$ 15,290	772	16,062
2013	—	389	389
2014	—	389	389
2015	470	380	850
2016	—	371	371
2017 – 2018	7,410	556	7,966
Subtotal	23,170	2,857	26,027
Unamortized deferred amount on refunding of 1996 Series A and 1996 Series B	(860)	—	(860)
Unamortized premium	1,234	—	1,234
Total	$ 23,544	2,857	26,401

The 2005 Series A, B, and C refunding transactions resulted in an economic gain of $4,049,353 and a reduction of $6,103,824 in future debt service payments.

2006 Series A Refunding Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of $200,710,000, on a forward-delivery basis, to currently refund $202,705,000 of the 1996A Bonds. The 2006 Series A refunding transactions resulted in an economic gain of $27,665,368 and a reduction of $44,824,990 in future debt service payments.

Interest on the 2006 Series A Bonds is payable semiannually on February 1 and August 1 of each year. Principal and interest are payable commencing August 1, 2006. The 2006 Series A Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2006 to August 1, 2026.

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

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund $121,140,000 of the 2006 Series A AMT Bonds.

The outstanding balances of the 2006 Series A Bonds, net of unamortized premium of $2,151,000 and $2,293,000 and unamortized deferred amount on refunding of $942,000 and $1,005,000, were $52,138,000 and $53,488,000 at June 30, 2011 and 2010, respectively.

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

		Annual debt service requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2012	$	800	2,527	3,327
2013		—	2,507	2,507
2014		—	2,507	2,507
2015		1,370	2,472	3,842
2016		—	2,438	2,438
2017 – 2021		29,305	9,080	38,385
2021 – 2026		19,455	3,131	22,586
Subtotal		50,930	24,662	75,592
Unamortized deferred amount on refunding of 1996 Series A		(942)	—	(942)
Unamortized premium		2,151	—	2,151
Total	$	52,139	24,662	76,801

2006 Series B Refunding Bonds

The 2006 Series B Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $209,815,000, on a forward-delivery basis, to currently refund $211,895,000 of the 1996 Series B Bonds. The 2006 Series B refunding transactions resulted in an economic gain of $18,879,238 and a reduction of $34,739,094 in future debt service payments.

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

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

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund $94,110,000 of the 2006 Series B AMT Bonds.

The outstanding balances of the 2006 Series B Bonds, net of unamortized premium of $3,357,000 and $3,580,000 and unamortized deferred amount on refunding of $1,796,000 and $1,915,000, were $94,986,000 and $102,975,000 at June 30, 2011 and 2010, respectively.

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

Fiscal Year		Annual debt service requirement		
		Principal	Interest	Total
2012	$	—	4,671	4,671
2013		3,325	4,588	7,913
2014		6,000	4,355	10,355
2015		—	4,205	4,205
2016		11,540	3,917	15,457
2017 – 2021		56,570	11,874	68,444
2021 – 2026		15,990	446	16,436
Subtotal		93,425	34,056	127,481
Unamortized deferred amount on refunding of 1996 Series B		(1,796)	—	(1,796)
Unamortized premium		3,357	—	3,357
Total	$	94,986	34,056	129,042

2006 Series C Refunding Bonds

The 2006 Series C Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of $16,545,000, on a forward-delivery basis, to currently refund $17,065,000 of the 1996 Series C Bonds. The refunding transactions resulted in an economic gain of $1,217,279 and a reduction of $1,552,163 in future debt service payments.

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

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

The outstanding balances of the 2006 Series C Bonds, net of unamortized premium of $757,000 and $811,000 and unamortized deferred amount on refunding of $264,000 and $283,000, were $15,503,000 and $16,203,000 at June 30, 2011 and 2010, respectively.

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

		Annual debt service requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2012	$	700	733	1,433
2013		730	697	1,427
2014		765	660	1,425
2015		810	621	1,431
2016		850	579	1,429
2017 – 2021		4,920	2,198	7,118
2021 – 2026		6,235	808	7,043
Subtotal		15,010	6,296	21,306
Unamortized deferred amount on refunding of 1996 Series C		(264)	—	(264)
Unamortized Premium		757	—	757
Total	$	15,503	6,296	21,799

2006 Series D Refunding Bonds

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

Interest on the 2006 Series D Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series D Bonds bear interest at rates ranging from 4.5% to 5.00% with maturity dates from August 1, 2007 to August 1, 2036.

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

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the Refunding Bonds was to provide funds to refund $22,505,000 of the 2006 Series D AMT Bonds.

The outstanding balances of the 2006 Series D Bonds, plus the unamortized premium of $2,432,000 and $2,529,000, were $84,117,000 and $86,129,000 at June 30, 2011 and 2010, respectively.

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

Fiscal Year		Annual debt service requirement Principal	Interest	Total
2012	$	1,410	3,980	5,390
2013		2,115	3,892	6,007
2014		2,225	3,783	6,008
2015		2,335	3,669	6,004
2016		400	3,601	4,001
2017 – 2021		13,080	16,504	29,584
2022 – 2026		10,465	12,871	23,336
2027 – 2031		14,275	10,700	24,975
2032 – 2036		28,440	5,464	33,904
2037		6,940	160	7,100
Subtotal		81,685	64,624	146,309
Unamortized premium		2,432	—	2,432
Total	$	84,117	64,624	148,741

2009 Series A New Money Bonds

The 2009 Series A New Money Bonds were issued on July 9, 2009 in the aggregate principal amount of $100,000,000, in accordance with the American Recovery and Reinvestment Tax Act of 2009, enacted on February 19, 2009 (ARRA). The Bonds were issued to (i) finance certain Private Activity Projects; (ii) fund a debt service reserve fund with respect to the 2009A Bonds; and (iii) pay the costs incidental to the issuance of the 2009A Bonds.

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

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

The outstanding balances of the 2009 Series A Bonds, net of unamortized premium of $2,643,000 and $2,789,000, were $99,343,000 and $102,789,000 at June 30, 2011 and 2010, respectively.

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

		Annual debt service requirement		
Fiscal year		Principal	Interest	Total
2012	$	3,365	4,554	7,919
2013		3,465	4,667	8,132
2014		3,580	4,319	7,899
2015		3,720	4,154	7,874
2016		3,905	3,969	7,874
2017 – 2021		22,215	17,138	39,353
2022 – 2026		28,190	10,917	39,107
2027 – 2030		28,260	2,912	31,172
Subtotal		96,700	52,630	149,330
Unamortized premium		2,643	—	2,643
Total	$	99,343	52,630	151,973

2009 Series B New Money Bonds

Along with the issuance of the 2009 Series A New Money Bonds, the Port issued its 2009 Series B Bonds in the aggregate principal amount of $100,000,000 in accordance with the "ARRA" of 2009. The Bonds were issued to (i) finance certain Governmental Projects in Fiscal Years 2009 and 2010; (ii) fund a debt service reserve fund with respect to the 2009B Bonds; and (iii) pay the costs incidental to the issuance of the 2009B Bonds.

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

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

The outstanding balance of the 2009 Series B Bonds, net of unamortized discount of $2,180,000 and $2,258,000, were $97,820,000 and $97,742,000 at June 30, 2011 and 2010, respectively.

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

	Annual debt service requirement		
Fiscal year	**Principal**	**Interest**	**Total**
2012	$ —	5,250	5,250
2013	—	5,250	5,250
2014	—	5,250	5,250
2015	—	5,250	5,250
2016	—	5,250	5,250
2017 – 2021	—	26,250	26,250
2022 – 2026	—	26,250	26,250
2027 – 2031	7,860	26,044	33,904
2032 – 2036	45,930	18,405	64,335
2037 – 2040	46,210	5,007	51,217
Subtotal	100,000	128,206	228,206
Unamortized premium	(2,180)	—	(2,180)
Total	$ 97,820	128,206	226,026

2009 Series C Refunding Bonds

Contemporaneously with the issuance of the 2009 Series A and Series B New Money Bonds, the Port issued the 2009 Series C Refunding Bonds in the aggregate principal amount of $230,160,000. The Bonds were issued to provide funds for the purchase of certain maturities of the Department's outstanding (i) Refunding Revenue Bonds 2005 Series C-1 (AMT) of $2,705,000, (ii) Refunding Revenue Bonds 2006 Series A (AMT) of $121,140,000, (iii) Refunding Revenue Bonds 2006 Series B (AMT) of $94,110,000, and (iv) Revenue Bonds 2006 Series D (AMT) of $22,505,000. The refunding transactions resulted in a reduction of $12,668,078 in future debt service payments and the net present value benefits of $8,202,056.

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

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

The outstanding balances of the 2009 Series C Bonds, plus the unamortized premium of $11,602,000 and $12,180,000 and unamortized deferred amount on refunding of $1,894,000 and $1,988,000, were $243,656,000 and $244,328,000 at June 30, 2011 and 2010, respectively.

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

Fiscal year		Annual debt service requirement Principal	Interest	Total
2012	$	520	11,643	12,163
2013		12,865	11,320	24,185
2014		10,950	10,762	21,712
2015		15,715	10,122	25,837
2016		9,675	9,500	19,175
2017 – 2021		21,125	43,278	64,403
2022 – 2026		114,850	28,412	143,262
2027 – 2031		43,015	2,137	45,152
2032 – 2036		1,445	36	1,481
Subtotal		230,160	127,210	357,370
Unamortized deferred amount on refunding		1,894		1,894
Unamortized premium		11,602	—	11,602
Total	$	243,656	127,210	370,866

(b) Other Debt

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes (Notes) not to exceed $375,000,000. The Commercial Paper Program is used as a means of interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment.

On August 31, 2006, the outstanding Commercial Paper of $113,561,000 was fully refunded through the issuance of the 2006 Series D Refunding Bonds in the aggregate principal amount of $111,300,000.

In June 2009, the Port reinstated its Commercial Paper Notes Program at an aggregate amount of $100,000,000. The Program was amended in June 2010 to increase the credit limit to $200,000,000 and extended the term to July 29, 2012. As of June 30, 2011, total amount of Commercial Paper outstanding was $100,000,000. Funds were used to finance the China Shipping and Trapac Container Terminal Projects. The Commercial Paper issued is being remarketed upon maturity and eventually it will be refunded through the issuance of new Harbor refunding bonds.

California Department of Boating and Waterways

The Port obtained two loans aggregating $8,000,000 from the California Department of Boating and Waterways. The notes currently bear interest at 4.5%. The Port makes annual payments of interest and principal and the notes will mature in 2014 and 2015, respectively. The Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's parity obligations on the

Harbor Revenue Funds. The outstanding principal balances on such notes were $1,874,000 and $2,360,000 at June 30, 2011 and 2010, respectively.

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

Fiscal year		**Principal**	**Interest**	**Total**
2012	$	508	84	592
2013		531	61	592
2014		555	38	593
2015		280	13	293
Total	$	1,874	196	2,070

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

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

The remaining outstanding bonds in the defeasance escrows held by the trustee at June 30, 2011 and 2010 were as follows (in thousands):

		2011	**2010**
1988 Bonds	$	67,830	73,825
Total	$	67,830	73,825

(d) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2011 and 2010 was as follows (in thousands):

	July 1, 2010	Additions	Reductions	June 30, 2011	Due within one year
Revenue bonds payable	$ 909,130	—	(29,200)	879,930	30,450
Less unamortized discount/ premium	27,261	—	(1,740)	25,521	—
Unamortized deferred amount on refunding	(7,190)	—	720	(6,470)	—
Total revenue bonds payable	929,201	—	(30,220)	898,981	30,450
Commercial paper	—	100,000	—	100,000	—
Notes payable	2,361	—	(487)	1,874	508
Accrued employee benefits	27,292	155,919	(159,208)	24,003	13,149
Other liabilities	167,263	9,970	(1,496)	175,737	60,869
Total long-term liabilities	$ 1,126,117	265,889	(191,411)	1,200,595	104,976

	July 1, 2009	Additions	Reductions	June 30, 2010	Due within one year
Revenue bonds payable	$ 744,040	430,160	(265,070)	909,130	29,199
Less unamortized discount/ premium	24,672	13,342	(10,753)	27,261	—
Unamortized deferred amount on refunding	(14,003)	—	6,813	(7,190)	—
Total revenue bonds payable	754,709	443,502	(269,010)	929,201	29,199
Notes payable	2,826	—	(465)	2,361	487
Accrued employee benefits	20,914	211,801	(205,423)	27,292	17,591
Other liabilities	187,219	3,977	(23,933)	167,263	62,306
Total long-term liabilities	$ 965,668	659,280	(498,831)	1,126,117	109,583

(6) GASB 49 Pollution Remediation Obligations

The Port has identified obligating events under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and the estimated remediation liability totaled $101,922,000 and $91,836,000 as of June 30, 2011 and 2010, respectively, and is recorded under other liabilities in the statements of net assets. These are mostly soil and ground water contamination on sites within the Port premises. Regulators involved include the Los Angeles County Fire Department, the

California Department of Toxic Substances Control, and the Los Angeles Water Control Board. As sites are formally used for industrial purposes, there would always be legacy contamination or environment impairment associated with the parcel. However, environmental risks can be managed and the presence of contamination on the parcel does not necessarily mean that an extensive cleanup is required. For this reason, the Port adopts 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 such estimates. These are current best estimates of potential liability. Certain remediation project contracts are included in the site development contracts, as defined final uses for the sites have been identified.

Since all of these obligating events existed in prior years, the Port recorded the full liability in fiscal year 2009. The Port does not have objective and verifiable information to apply the provisions of GASB Statement No. 49 to periods prior to fiscal year 2009.

	Pollution remediation obligations rollforward schedule				
	Beginning liability	Estimate changes	Remediation payments	Ending liability	Due within one year
Fiscal year 2011	$ 91,836	13,969	(3,883)	101,922	3,681
Fiscal year 2010	93,427	7,768	(9,359)	91,836	3,531
Fiscal year 2009	—	93,427	—	93,427	9,807

(7) Employee-Deferred Compensation Plan

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

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

(8) Risk Management

The Port purchases insurance on certain risk exposures such as property, railroad, automobiles, fleet, pilotage, and public official. The Port is, however, self-insured for general liability/litigation-type claims and workers' compensation of the Port's employees. In addition, during fiscal years 2011 and 2010, the Port carried excess insurance on certain claims over $1,000,000. There have been no settlements related to these programs that exceeded insurance coverage in the last three years.

Claims expenses and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The Port utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities. At June 30, 2011 and 2010, approximately $8,333,000 and $7,963,000, respectively, were accrued for litigation claims and workers' compensation claims, which are included in other liabilities in the accompanying statements of net assets.

Changes in the reported liability for the years ended June 30, 2011 and 2010 are as follows (in thousands):

	Beginning liability	Current year claims and estimate changes	Claims payments	Balance at fiscal year-end
2010 – 2011:				
Workers' compensation	$ 7,858	1,653	(1,653)	7,858
General liability/litigation	105	395	(25)	475
2009 – 2010:				
Workers' compensation	$ 8,633	264	(1,039)	7,858
General liability/litigation	100	5	—	105
2008 – 2009:				
Workers' compensation	$ 8,633	1,220	(1,220)	8,633
General liability/litigation	100	10	(10)	100

(9) Leases, Rentals, and Minimum Annual Guarantee (MAG) Agreements

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

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

These agreements are intended to be long term in nature (as long as 30 years) and to provide the Port with a firm tenant commitment for a minimum fixed-income stream. In addition, these agreements are generally subject to periodic inflationary escalation of base amounts due to the Port. For the years ended June 30, 2011 and 2010, the minimum rental income from such lease agreements was approximately $45,428,000 and $43,141,000, respectively. For the years ended June 30, 2011 and 2010, the MAG payments approximated $228,943,000 and $225,401,000, respectively, and were reported under shipping services revenue.

The property on lease at June 30, 2011 consists of the following (in thousands):

Wharves and sheds	$	754,511
Cranes and bulk facilities		52,427
Municipal warehouses		11,639
Port pilot facilities and equipment		6,059
Buildings another facilities		758,690
Cabrillo Marina		98,162
		1,681,488
Less accumulated depreciation		(830,853)
Total	$	850,635

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):

		Rental income	MAG income
Year ending June 30:			
2012	$	45,882	228,942
2013		46,341	228,942
2014		46,804	228,942
2015		47,272	246,128
2016		47,745	246,128
Total	$	234,044	1,179,082

(10) Retirement Plan

Los Angeles City Employees Retirement System

(a) Retirement Plan Description

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

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

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. The Port's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS were approximately $17,826,000 (100% of ARC), $11,625,000 (100% of ARC), and $13,040,000 (100% of ARC) for the years ended June 30, 2011, 2010, and 2009, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for fiscal year 2010 and the two preceding years for the plan are as follows (in thousands):

	Year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
LACERS	06/30/11	$ 300,329	100%	$ (71,873)
	06/30/10	255,999	100	(75,105)
	06/30/09	272,332	100	(77,749)

The City allocated a pro rata share of its net pension obligation to the Port and the amounts recorded at June 30, 2011 and 2010 were $3,039,000 and $2,529,000, respectively.

(c) Funded Status of LACERS

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future (dollar amounts in thousands).

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial valuation date	Valuation value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded/ (overfunded) AAL (UAAL) (b) – (a)	Funded ratio (a)/(b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b) – (a)]/(c)
06/30/2011	$ 9,691,011,496	13,391,704,000	3,700,692,504	72.37%	$ 1,833,392,381	201.85%
06/30/2010	9,554,027,411	12,595,025,119	3,040,997,708	75.86	1,817,662,284	167.30
06/30/2009	9,577,747,421	12,041,983,936	2,464,236,515	79.54	1,816,171,212	135.68

For complete information related to the funded status of LACERS and contribution information, refer to LACERS' basic financial statements. The LACERS' basic financial statements can be obtained from LACERS, 360 East Second Street, 2nd Floor, Los Angeles, CA 90012. Separate information for the Port is not available.

(d) Other Postemployment Benefits (OPEB)

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

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2010 and the two preceding years for the plan are as follows (dollars in thousands):

	Year ended		Annual OPEB cost (AOC)	Percentage of OPEB cost contributed		Net OPEB asset (obligation)
LACERS	06/30/11	$	107,396	100%	$	—
	06/30/10		96,511	100		—
	06/30/09		95,122	100		—

City of Los Angeles City Fire and Police Pension

(a) Retirement Plan Description

The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Department (Port Police Officers) the option to transfer from LACERS to Tier 5 of Los Angeles Fire and Police Pensions (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 Harbor Department is transferable to LAFPP. Other "nonsworn" service with other City Departments is not eligible for transfer. All new employees hired by the Harbor Department after the effective date of the Ordinance automatically go into Tier 5 of LAFPP.

LACERS transferred $6.1 million of allocated discounted Harbor Port Police assets to LAFPP in October 2007 for fiscal year 2007

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration/Commissioners of LAFPP establishes and may amend the contribution requirements of members and the City. The City's annual cost for the plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions. The Port's pro rata share of the combined actuarially required contribution (ARC) for pension and postemployment healthcare benefits and actual contributions made to LAFPP was approximately $3,069,000 (100% of ARC), $2,008,000 (100% of ARC) and $1,485,000 (100% of ARC) for the years ended June 30, 2011, 2010 and 2009, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

The City's annual pension cost and the percentage of annual pension cost contributed to the plan for fiscal year 2011 and the two preceding years for the plan are as follows (dollars in thousands):

	Year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset (obligation)
LAFPP	6/30/11	$ 277,092	100%	—
	6/30/10	250,517	100	—
	6/30/09	238,698	100	—

(c) Funded Status of LAFPP

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future (dollar amounts in thousands).

Schedule of Funding Progress

Actuarial valuation date	Valuation value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded/ (overfunded) AAL (UAAL) (b) – (a)	Funded ratio (a)/(b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b) – (a)]/(c)
06/30/2011	$ 14,337,669	16,616,476	2,278,807	86.3%	$ 1,343,963	169.6%
06/30/2010	14,219,581	15,520,625	1,301,044	91.6	1,356,986	95.9
06/30/2009	14,256,611	14,817,146	560,535	96.2	1,357,249	41.3

For complete information related to the funded status of LAFPP and contribution information, refer to LAFPP's basic financial statements. The LAFPP's basic financial statements can be obtained from LAFPP, 360 East Second Street, Suite 400, Los Angeles, CA 90012. Separate information for the Port is not available.

(d) Other Postemployment Benefits (OPEB)

The City Charter, the Administrative Code, and related ordinance define the postemployment healthcare benefits. There are no member contributions for healthcare benefits. The Port, as a participant in LAFPP, also provides a Retiree Health Insurance Premium Subsidy.

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2011 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)
LAFPP	06/30/11	$ 173,645	69%	$ 99,351
	06/30/10	127,604	90	45,682
	06/30/09	106,453	89	32,894

From the most recent data made available by the City, as of June 30, 2011, LAFPP membership consists of 13,432 active plan participants, 59 vested terminated members, and 12,392 retired members and beneficiaries. Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

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

For complete information related to the funded status of LAFPP and contribution information, refer to LAFPP's basic financial statements. The LAFPP's basic financial statements can be obtained from LAFPP, 360 East Second Street, Suite 400, Los Angeles, CA 90012.

(11) Notes Receivable

(a) City of Los Angeles Settlement

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

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

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

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

The settlement agreement also provides that the City reimburse the Port for the payment differential, that amount representing the difference between the actual payments and the amount to which the City would have been entitled to reimbursement during fiscal year 1994 – 95 through fiscal year 2000 – 2001, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at $8,352,000. Payment for this period is to be reimbursed to the Port over 15 years, including 3% simple interest. The agreement also states that at any time after five years from January 19, 2001, the City, the Port, and California State Lands Commission may negotiate to amend this agreement to account for new or changed circumstances.

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

Accordingly, the Port of Los Angeles had recorded the amount due from the City as a long-term note receivable of $19,259,000 and $23,725,000 and a current portion of notes receivable of $4,466,000 and $4,334,000 as of June 30, 2011 and 2010, respectively.

(b) Note Receivable – Yusen

In order to settle the then-outstanding $2,351,000 terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of $107,000. To record the transaction, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1,477,000, with the balance of $874,000 recognized as the Port's capital assets in fiscal year 1995. The note matures in October 2015. The long-term note receivable balance outstanding on the Yusen note is $400,000 and $483,000 and the current portion is $62,000 and $59,000 at June 30, 2011 and 2010, respectively.

(12) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $185,331,052 as of June 30, 2011. Such open commitments do not lapse at the end of the Port's fiscal year and are carried forth to succeeding periods until fulfilled.

In 1985, the Port received a parcel of land, with an estimated value of $14,000,000 from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to $14,000,000 from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in 2011 or 2010.

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.

(a) Alameda Corridor Transportation Authority Agreement (ACTA)

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

In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the privilege of using the corridor to transport cargo into and out of the Ports. ACTA negotiated with BNSF Railway Company (BNSF) and Union Pacific (UP) regarding certain types of cargo movements (transload movements) for which BNSF and UP are not paying use fees. In the Settlement and Release Agreement (the Agreement), dated as July 5, 2006, ACTA, BNSF, and UP agreed to resolve the "Transloading Dispute." ACTA, the Ports, the City of Los Angeles, and the City of Long Beach (the ACTA Releasing Parties) each release, acquit, and discharge BNSF and UP of all liability and costs, as stated in the Agreement, arising from or relating to the Transloading Dispute. BNSF and UP (the Railroad Releasing Parties) each release, acquit, and discharge the ACTA Releasing Parties from any and all liability and costs, as stated in the Agreement, arising from or relating to any claim by the Railroad Releasing Parties. These use fees are used to pay (a) the debt service that ACTA incurs on approximately $1.2 billion of bonds, which ACTA issued in early 1999 and approximately $686 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

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

In April 2004, it was estimated by ACTA that the Ports would be required to make Shortfall payments totaling approximately $20.5 million (the Port and POLB each being liable for their one-half share of $10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, the Port is obligated to include any forecasted Shortfall payments in its budget each fiscal year. No Shortfall payments were payable by the Port in the prior years.

In ACTA's Notice of Port Shortfall Advance dated August 8, 2011, a revised Shortfall Advance of $2,950,000 from each Port is due no later than September 22, 2011. The Port charged this shortfall amount to nonoperating expense and it was recorded as a current liability at June 30, 2011.

(b) Community Redevelopment Agency Agreement

On September 20, 2007, the Los Angeles Board of Harbor Commissioners approved the agreement between the City of Los Angeles and the Community Redevelopment Agency of the City of Los Angeles (CRALA) for the purpose of readying the underutilized and contaminated industrial properties within the Wilmington Industrial Park, the project area for development.

CRALA may execute note(s) in an aggregate amount not to exceed $25 million. The note(s) will accrue interest at the General Pool Rate compounded monthly. All notes will become due and payable sixty months from the date of the first executed note pursuant to this agreement unless the term of the note(s) is otherwise extended and approved in writing by CRALA and the Port. The CRALA and the Port may agree in writing to no more than two options to extend the term of this agreement and the notes granted hereunder, each option period not to exceed five additional years.

CRALA shall pay down the line of credit by applying proceeds generated from the periodic sale and disposition of acquired properties. Repayment of each draw (principal and accruing interest) is deferred until such time as the property that was acquired with the funds at issue is disposed of. CRALA shall repay any outstanding draw (principal and interest) at the end of the term of the line of credit. The line of credit will be frozen if any fund draws are outstanding for longer than sixty months. CRALA shall repay the then outstanding principal together with the interest, promptly upon selling a property, provided that the amount shall be repaid in one balloon payment no later than the 72nd month.

As of June 30, 2011 and 2010, there has been no drawdown made by CRALA from this line of credit.

(c) Trapac Project and Environmental Impact Report

On December 6, 2007, the Board of Harbor Commissioners certified the Final Environmental Impact Report (FEIR) for Trapac and approved the Trapac project. The project involves the development of the various 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 Board of Harbor Commissioners approved an MOU between the City and the Appellants of the Trapac EIR. The term of the MOU is five years, and after the first five years, the agreement may be renewed for a successive five-year period by mutual agreement of the Port and a majority of the Appellants. The MOU provides for the revocation of the appeals and the establishment of a Port Community Mitigation Trust Fund.

The Port has provided the first two years funding of $12,040,000 and $4,017,000 in the Community Mitigation Trust Fund geared towards the identified Trapac projects in the MOU. Based on the volume of cargo processed in the third year, no additional funding was necessary. A total of $6,506,000 was disbursed in fiscal year 2011. At June 30, 2011, total fund balance, including interest earned, was $10,206,000. Contributions from the Port to the fund over the subsequent two years of the initial MOU term may vary based on the volume of cargo processed at the Port.

(13) 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 $38,070,000 and $45,978,000 in fiscal years 2011 and 2010, respectively.

(14) 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, 2011 and 2010, the Port reported capital contributions of $12,059,000 and $16,950,000, respectively, for certain capital construction and grant projects.

(15) Natural Resources Defense Council Settlement Judgment

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

The terms of the agreement require that the Port fund various mitigation activities in the amount of $10 million per year over a five-year term ended 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.

Pursuant to the settlement, the Port is also obligated to expend up to $5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2009, the Port has spent $5.0 million for this program.

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

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar years 2008, 2007, 2006, and 2005 were $1,770,000, $6,931,000, $5,767,000, and $3,862,000, and the Port charged to nonoperating expense and deposited in the restricted mitigation funds the said amounts in June 2009, June 2008, May 2007, and April 2006, respectively. Total deposits for the four years were $18,330,000, with the June 2009 deposit for calendar year 2008 being the last payment for excess throughput required under the settlement agreement.

As of June 30, 2011, the Port has disbursed a total of $43.1 million from the mitigation funds, of which $2.5 million was made in fiscal year 2011, as provided in accordance with the provisions of the settlement.

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

An individual has brought a lawsuit under the Federal Civil False Claims Act against the Port, the City, and the Port’s former Executive Director, challenging the use by the Port of certain federal funds obtained from the United States under the Water Resources Development Act of 1986 and State funds in the form of Tidelands Revenues for the construction of Pier 400 at the Port. The plaintiff alleges that the federal contribution amount to the construction of Pier 400 was $108 million and the State contribution was approximately $1 billion. The case was under seal from 2002 to 2005 while the federal government determined whether to join as a plaintiff. In 2005, the federal government decided not to join as a plaintiff. An amended complaint was served on the Port in August 2005 requesting treble damages. The Port believes that any claims alleging misuse of federal funds and State funds are without merit. After an initial dismissal for failure to have counsel and an appeal by the Relator to the Ninth Circuit, on remand all of the defendants, including the City, filed motions for Summary Judgment. The trial court granted motions for summary judgment on behalf of all defendants. The Relator appealed to the Ninth Circuit. On December 22, 2010, the United States Court of Appeals for the Ninth Circuit issued a judgment affirming the trial court dismissal of the action. The Relator filed a petition for Writ of Certiorari with the United States Supreme Court, which the City opposed. On October 3, 2011 the Supreme Court denied the Petition for Writ of Certiorari.

(Continued)

(17) Cash Funding of Reserve Fund

As of June 30, 2011, the Port had $879.9 million of outstanding parity bonds. Each Indenture for the outstanding bonds requires the Port to establish a reserve fund and authorizes the Port to obtain one or more reserve sureties in lieu of fully funding the reserve fund with cash. Three bond insurers (Ambac, FGIC, and MBIA) provide the reserve sureties for the Port's outstanding bonds. Until December 2007, these bond insurers maintained "AAA" ratings from the three rating agencies: Fitch, Moody's, and S&P. Starting in January 2008, the rating agencies began downgrading the bond insurers. The Port filed material event notices as part of its continuing disclosure undertakings subsequent to each of the related downgrades or placements on negative outlook.

The downgrade of MBIA by S&P on June 5, 2008 triggered certain specific requirements in compliance with the 2005/2006 Indenture. The Port opted to cash fund its reserve funds in order to comply with its bond covenants. In doing so, the Board of Harbor Commissioners, on September 18, 2008, approved the one-time cash funding of the entire reserve requirement of $61.5 million and transferred from the Harbor Emergency Fund (Fund 751) to the Port's bond trustee in December 2008.

Subsequent to the refunding and new money borrowing in July 2009, the total reserve fund balance increased to $67.1 million. To be consistent with the bond covenants in the Indenture, the required amount for the individual reserve fund will be reevaluated on a yearly basis. The excess amounts in the Common Reserve will be transferred to the interest fund and/or the redemption fund to be used to pay interest and redeem bonds.

(18) Subsequent Event

On July 7, 2011, the Port refunded $36,180,000 in 2001 Series A Bonds and $64,925,000 of 2001 Series B Bonds outstanding on their ten-year call date through the issuance of 2011A Bonds for $58,930,000 and 2011 B Bonds for $32,820,000, total of $91,750,000 via a negotiated sale. Interest on the Series 2011 Bonds will be payable on February 1 and August 1, commencing on February 1, 2012. The Series 2011 Bonds are subject to optional redemption prior to maturity. Interest rate ranges from 3% to 5% for 2011 A Bonds and 4% to 5% for 2011 B Bonds. The refunding activity resulted in a present value savings of $12.6 million in debt service.

On December 29, 2012, the California Supreme Court issued a ruling concerning the constitutionality of AB1X 26 and AB1X 27. The Court upheld AB1X 26, which dissolved redevelopment agencies and invalidated AB1X 27, which would have allowed redevelopment agencies to continue to exist if the agencies made a payment to the State. The Court's ruling directed that redevelopment agencies throughout California, including the Community Redevelopment Agency of the City of Los Angeles (CRALA) would cease to exist as of February 1, 2012. On January 24, 2012 the Los Angeles City Council adopted a resolution that the City supports SB659 (Padilla) which would extend the dissolution and wind up dates for redevelopment agencies from February 1, 2012 to April 15, 2012.

There has been no drawdown made by CRALA from the $25 million line of credit that the Port made available to CRALA in September 2007.

SUPPLEMENTAL INFORMATION

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

Capital Development Program Budget

Fiscal year 2011/2012

(Unaudited)

(In thousands of dollars)

Project description		Estimated expenditure
Terminal Improvements, General	$	1,854,789
Minor Capital Projects		2,756,464
POLA Administrative Building Modifications		4,122,265
Environmental Assessment & Remediation		7,521,942
World Cruise Center – General Improvements		1,385,181
Berth 161 – Maintenance Yard Improvements		1,489,248
Wilmington Waterfront		8,308,341
Berths 97-115 – Redevelopment		6,074,061
West Channel Cabrillo Beach Recreation Complex – Phase II		15,524,350
Harry S. Bridges Blvd. Improvement		17,519,502
Berths 135-147 – Terminal Redevelopment		9,198,272
Pier 300 – Wharf & Backland Improvements		4,141,321
Pier 400 – Dredging, Landfill and Terminal Development		4,021,083
Berths 225-236 – Container Terminal Redevelopment		577,373
Main Channel Deepening Program		24,903,512
Pier A Street Yard Redevelopment		412,791
B. 212-225 Improvements		1,000,000
Harbor Wide Beautification Projects		185,434
San Pedro Waterfront Project – Cabrillo Beach Improvements		5,748,985
San Pedro Waterfront Project – Promenade, Parks and Public Space		247,146
Port-Wide Transportation Improvements		25,957,568
B. 206-211 Redevelopment		50,847
Pacific Energy Liquid Bulk Terminal		38,770
Port Security		22,769,539
Portwide Wharf Upgrade Program		8,911
LA Port Police Headquarters		991,905
San Pedro Waterfront Project – City Dock No. 1		3,180,797
San Pedro Waterfront Project – San Pedro Downtown Harbor		5,691,970
San Pedro Waterfront Project – San Pedro Slip		6,304,395
Alternative Maritime Power Port-wide		6,365,767
B. 171-181 Terminal Redevelopment		199,707
B. 258 – 269 (Fish Harbor) Rehabilitation		74,713
Intermodal Container Transfer Facility (ICTF) South		717,891
San Pedro Slip Improvements		347,008
Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS)		1,954,357
Port-Wide Solar Panel Program		30,220
LEED Program		71,872
Enterprise Resource Planning Program		6,476,792
Port-Wide Capital Contingency Projects		31,495,344
Total	$	229,720,433

See accompanying independent auditors' report.

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

Schedule of Net Assets by Components

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net assets:										
Invested in capital assets, net of related debt	$ 1,682,470	1,786,780	1,853,776	1,890,002	1,854,468	1,931,037	1,985,653	2,101,396	2,164,885	2,286,360
Restricted	195	95	17	16	63,917	62	9	61,608	67,844	67,341
Unrestricted	179,093	143,921	157,883	216,678	282,922	406,770	491,381	266,583	302,025	289,184
Total net assets	$ 1,861,758	1,930,796	2,011,676	2,106,696	2,201,307	2,337,869	2,477,043	2,429,587	2,534,754	2,642,885

See accompanying independent auditors’ report.

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

Schedule of Key Information on Revenue Statistics

Last Ten Fiscal Years

(Unaudited)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Rates:										
General cargo tariff rate	$ 5.67	5.95	5.95	5.95	6.25	6.25	6.25	6.25	6.25	6.25
Basic dockage (600’)	2,236	2,236	2,348	2,348	2,465	2,465	2,465	2,465	2,465	2,465
Required rate of return	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Containerized cargo volume (in millions of TEUs)	5.63	6.70	7.35	7.27	7.80	8.66	8.08	7.26	7.23	7.94
Revenue tons (million):										
General cargo	107.1	131.9	146.3	145.0	155.2	171.9	161.9	144.3	145.7	146.4
Liquid bulk	12.9	11.4	11.9	12.8	22.8	15.4	6.2	11.1	10.7	10.6
Dry bulk	6.2	4.2	3.9	4.3	3.6	2.8	1.9	2.0	1.4	1.2
Total	126.2	147.5	162.1	162.1	181.6	190.1	170.0	157.4	157.8	158.2
Vessel arrivals	2,778	2,845	2,812	2,646	2,771	2,920	2,467	2,322	2,124	2,236
Cruise passengers	1,099,552	1,057,293	803,308	1,097,204	1,205,947	1,194,984	1,191,449	990,965	802,899	667,434
Vehicles	314,986	347,067	213,933	242,024	232,149	144,068	185,978	109,634	147,935	183,126

See accompanying independent auditors’ report.

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

Summary of Revenues, Expenses, and Changes in Net Assets

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating revenues:										
Shipping services	$ 248,624	281,700	293,977	315,615	353,390	369,972	374,878	329,347	327,630	343,498
Rentals	34,691	36,563	33,261	34,630	33,876	40,322	45,524	42,368	43,141	45,428
Royalties, fees, and other operating revenues	5,362	5,013	5,016	5,384	4,893	6,867	5,943	30,509	36,047	11,577
Total operating revenues	288,677	323,276	332,254	355,629	392,159	417,161	426,345	402,224	406,818	400,503
Operating and administrative expenses:										
Salaries and benefits	40,682	44,427	53,165	58,182	65,705	74,313	95,444	99,350	96,838	103,693
Marketing and public relations	3,064	3,654	3,769	3,455	3,333	4,521	5,274	3,676	2,594	3,055
Travel and entertainment	713	658	758	743	822	604	1,128	635	569	843
Outside services	21,468	21,971	32,104	39,672	33,673	33,277	37,937	29,498	24,428	30,601
Materials and supplies	3,508	3,771	4,682	5,320	5,400	5,813	8,950	8,121	6,634	6,556
City services and payments	19,210	18,525	18,729	22,361	20,821	28,640	27,101	28,704	31,142	22,353
Other operating expenses	10,632	55,409	16,967	41,158	54,378	16,607	45,918	84,159	48,030	42,594
Total operating and administrative expenses	99,277	148,415	130,174	170,891	184,132	163,775	221,752	254,143	210,235	209,695
Income from operations before depreciation	189,400	174,861	202,080	184,738	208,027	253,386	204,593	148,081	196,583	190,808
Depreciation	59,680	59,365	67,934	70,040	98,779	88,106	78,295	83,413	87,255	90,468
Operating income	129,720	115,496	134,146	114,698	109,248	165,280	126,298	64,668	109,328	100,340
Nonoperating revenues (expenses):										
Income from investments in Joint Powers Authorities	4,912	3,717	2,795	3,543	4,302	4,675	4,440	2,980	2,270	(333)
Interest and investment income	11,003	11,430	2,298	7,266	9,582	23,773	34,863	18,824	15,233	6,436
Interest expense	(47,555)	(44,293)	(43,034)	(42,279)	(37,787)	(50,038)	(38,052)	(36,979)	(35,663)	(3,704)
Other income (expenses), net	(1,123)	(18,698)	(13,724)	11,842	7,222	11,018	(2,536)	(7,625)	(2,951)	(6,667)
Net nonoperating revenues	(32,763)	(47,844)	(51,665)	(19,628)	(16,681)	(10,572)	(1,285)	(22,800)	(21,111)	(4,268)
Income before capital contributions	96,957	67,652	82,481	95,070	92,567	154,708	125,013	41,868	88,217	96,072
Capital contributions	17,203	1,386	867	—	2,044	4,145	14,161	4,103	16,950	12,059
Special item	2,178	—	—	—	—	(22,291)	—	—	—	—
Deletions of capital contribution	—	—	(2,518)	—	—	—	—	—	—	—
Changes in net assets	116,338	69,038	80,830	95,070	94,611	136,562	139,174	45,971	105,167	108,131
Total net assets – beginning of year	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,383,616	2,429,587	2,534,754
Total net assets – end of year	$ 1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,477,043	2,429,587	2,534,754	2,642,885

See accompanying independent auditors' report.

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

Summary of Debt Service Coverage (Pledged Revenue)

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

Trade routes		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating revenues (including investment/interest income) (1)	$	304,592	338,423	337,347	366,438	406,043	445,609	465,648	424,028	424,306	406,606
Operating expenses (2)		99,277	148,415	130,174	170,891	184,132	163,775	221,752	254,143	210,235	209,695
Net available revenue (3) = (+1) – (2)	$	205,315	190,008	207,173	195,547	221,911	281,834	243,896	169,885	214,071	196,911
Debt service, revenue bonds	$	54,310	54,097	57,994	58,515	58,143	58,293	61,318	61,298	66,851	72,736
Debt services, commercial papers		—	988	1,029	2,021	3,431	792	—	—	—	191
Total debt service (4)	$	54,310	55,085	59,023	60,536	61,574	59,085	61,318	61,298	66,851	72,927
Coverage (5) = (3)/(4)		3.8	3.4	3.5	3.2	3.6	4.8	4.0	2.8	3.2	2.7
Net cash flow from operations (6)	$	176,083	215,117	208,762	226,037	201,575	246,665	252,898	151,264	185,416	158,268
Coverage (7) = (6)/(4)		3.2	3.9	3.5	3.7	3.3	4.2	4.1	2.5	2.8	2.2

(1) Operating revenues include pledged pooled investment and interest income.
(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.
(4) Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged revenue.

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

See accompanying independent auditors' report.

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

Highlights of Operating Information

Last Ten Fiscal Years

(Unaudited)

(In millions of dollars)

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cash:											
Cash balance – Harbor revenue fund	$	74.2	84.5	117.3	211.2	256.3	380.1	488.9	363.7	443.0	441.4
Cash balance – Restricted		87.2	97.1	107.3	122.4	201.3	158.3	168.3	115.3	135.3	128.5
Property:											
Total property	$	3,120.2	3,346.0	3,471.4	3,556.1	3,664.0	3,720.4	3,816.7	3,982.0	4,290.9	4,571.1
Allowance for depreciation		653.4	711.8	764.2	833.7	931.3	994.0	1,058.2	1,131.4	1,203.4	1,292.2
Net property	$	2,466.8	2,634.2	2,707.2	2,722.4	2,732.7	2,726.4	2,758.5	2,850.6	3,087.5	3,278.9
Construction and maintenance:											
Additions to properties	$	330.4	227.8	208.0	85.3	109.3	104.2	117.7	175.6	325.1	281.9
Maintenance expenses		13.4	15.2	17.4	18.4	21.0	23.5	28.1	30.5	25.0	25.9
Employees:											
Salaries	$	41.2	43.9	48.9	53.0	56.9	64.9	75.9	85.7	85.6	88.3
Number of employees		557	594	634	659	706	737	850	975	948	959

See accompanying independent auditors' report.