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

Annual Financial Report

June 30, 2008 and 2007

(With Independent Auditor’s Report Thereon)

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

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THE PORT OF LOS ANGELES

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December 17, 2008

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

This Component Unit Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2008 and 2007, 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, 2008 and 2007, 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 four sections: Introduction, Management's Discussion and Analysis, Financial Statements, and Supplemental Information.

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

The management's discussion and analysis presents a comparative review of financial position and changes in financial position for fiscal years 2008 and 2007. Also included in this section are a description of current and proposed capital development plans, a discussion of prospective revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the financial statements prepared on an accrual basis and using an economic resources measurement focus. Management's discussion and analysis, notes and the auditor's report accompany these financial statements. The financial statements are comprised of statements of net assets that present the financial position of the Port as of June 30, 2008 and 2007; statements of revenues, expenses, and changes in net assets depicting financial performance for fiscal years 2008 and 2007; and statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2008 and 2007. The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data.

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

The Port of Los Angeles

The Port is 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 a component unit of the City, based upon the primary oversight responsibility that the City Council (the Council) and the City have on all matters affecting Port activities.

Also, based on the foregoing criteria of oversight responsibility and accountability of all Port related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying financial statements. Two joint ventures with the Port of Long Beach have been recorded as investments of the Port in accordance with the equity method of accounting. Until March 2007, the Port also participated in a shareholder agreement that was created to form the Los Angeles Export Terminal (LAXT). Additional information regarding these joint ventures and shareholders agreement may be found in the notes to the financial statements for the Port.

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

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

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

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

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

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

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

The Port operates primarily as a landlord, as opposed to an operating port. Its docks, wharves, transit sheds, and terminals are leased to shipping or terminal companies, agents, and to other private firms. Although the Port owns these facilities, it has no direct hand in managing the daily movement of 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 approximately 200 berthing facilities along 43 miles of waterfront.

In terms of its size, the Port is one of the largest West coast ports. The Port encompasses approximately 4,200 acres of land and 3,300 acres of water.

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

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

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

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

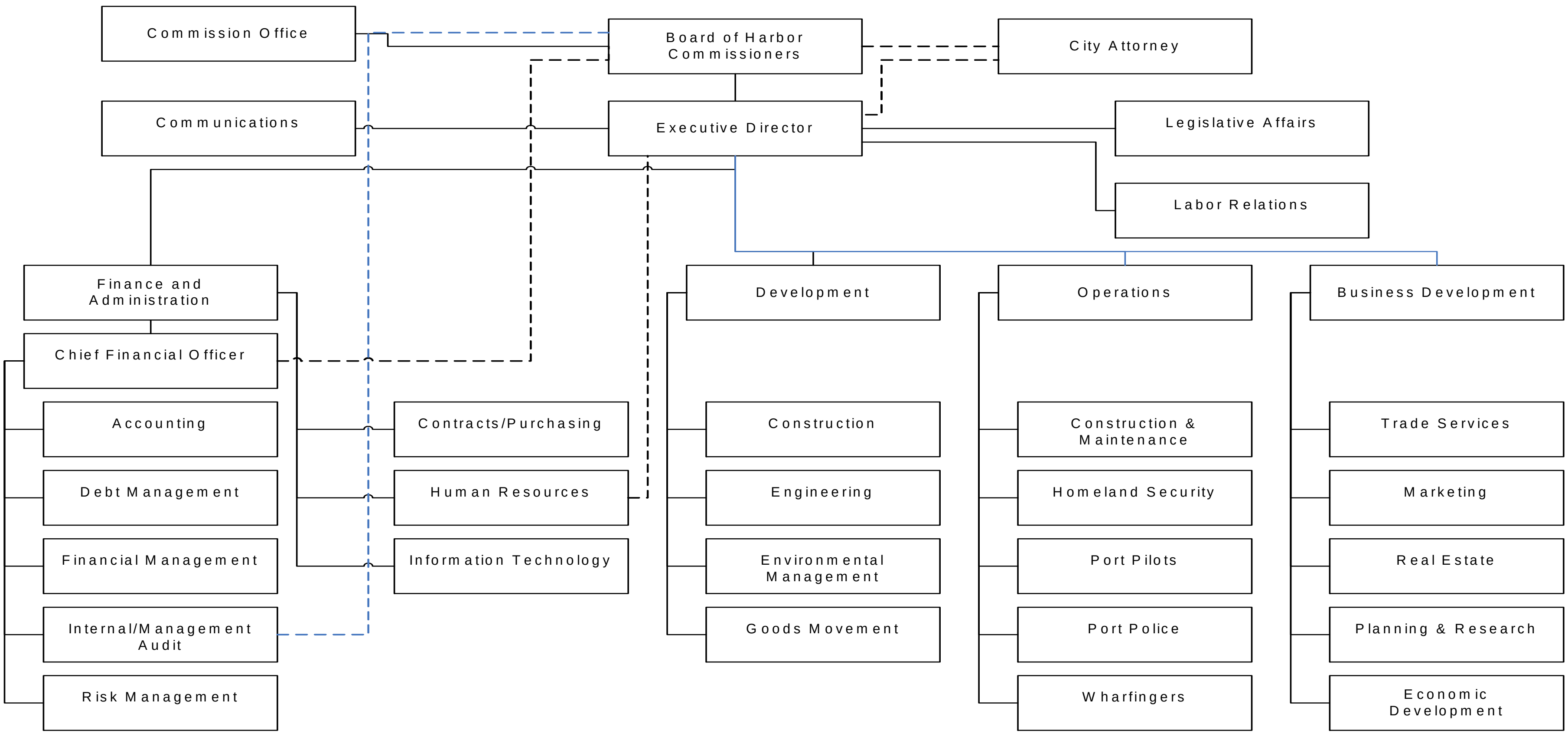
The Port continues to maintain an AA credit rating with Standard & Poor's, Moody's, and Fitch Ratings. This is the highest credit rating for any stand-alone U.S. port and reflects the confidence of the financial community in the strength, continuing financial performance, and competitive position of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

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

Sincerely,

CHUNGMIN CHU
Director of Accounting

LOS ANGELES HARBOR DEPARTMENT
ORGANIZATION CHART
2008/2009



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

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), a component unit of the City of Los Angeles, California, as of and for the year ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Port of Los Angeles' management. Our responsibility is to express an opinion on these financial statements based on our 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 of Los Angeles' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008 on our consideration of the Port of Los Angeles' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2008. 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 9 to 24 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introduction and supplemental information sections listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introduction and supplemental information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 17, 2008

This section of the Port of Los Angeles' (the Port) annual financial report presents a discussion and analysis of the Port's financial performance during the years that ended June 30, 2008 and 2007. Please read it in conjunction with the transmittal letter at the front of this report and the Port's financial statements, which follow this section.

The Port 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. Revenues are recognized when services are rendered, as opposed to when cash is received, and expenses are recognized when incurred, not when liability is paid. Capital assets are recognized as properties or fixed assets and are depreciated over their useful lives (except land and intangible asset). 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, 2008, 2007, and 2006:

Net Assets

(In thousands)

	June 30		
	2008	2007	2006
Current and other assets	$ 772,618	652,139	571,606
Capital assets	2,758,500	2,726,407	2,732,704
Total assets	3,531,118	3,378,546	3,304,310
Long-term debt outstanding	781,752	804,815	887,765
Other liabilities	272,323	235,862	215,238
Total liabilities	1,054,075	1,040,677	1,103,003
Net assets:			
Invested in capital assets, net of related debt	1,985,653	1,931,037	1,854,468
Restricted	9	62	63,917
Unrestricted	491,381	406,770	282,922
Total net assets	$ 2,477,043	2,337,869	2,201,307

(Continued)

Net assets of the Port increased 6.0% to $2.5 billion in fiscal year 2008. Of these net assets, restricted assets make up very negligible portions for fiscal years 2008 and 2007. The remaining net assets are either unrestricted or are 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.

Current and other assets of the Port increased 18.5% to $772.6 million in fiscal year 2008 and 14.1% to $652.1 million in fiscal year 2007. Increases in these assets are mainly from the continued growth of revenues generated from operations.

Other liabilities of the Port increased 15.5% to $272.3 in fiscal year 2008 and 9.6% to $235.9 million in fiscal year 2007. The Port recognized a $17.0 million liability for the Westway Oil settlement in fiscal year 2008. Trade payables also increased $18.5 million. In fiscal year 2007, liability under securities lending increased by $25.2 million or 57.3%.

(Continued)

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2008, 2007, and 2006:

Changes in Net Assets

(In thousands)

		Year ended June 30		
		2008	**2007**	**2006**
Net operating revenues	$	426,345	417,161	392,159
Income from investments in Joint Powers Authorities and other entities		4,440	4,675	4,302
Interest and investment income		34,863	23,773	9,582
Other income and expense, net		(2,536)	11,018	7,222
Total revenues		463,112	456,627	413,265
Expenses:				
Operating and administrative expenses		221,752	163,775	184,132
Depreciation		78,295	88,106	98,779
Interest expense on bonds/notes payable		38,052	50,038	37,787
Total expenses		338,099	301,919	320,698
Income before capital contributions		125,013	154,708	92,567
Capital contributions		14,161	4,145	2,044
Special item		—	(22,291)	—
Changes in net assets		139,174	136,562	94,611
Total net assets - beginning of year		2,337,869	2,201,307	2,106,696
Total net assets - end of year	$	2,477,043	2,337,869	2,201,307

Fiscal Year 2008

Net assets for the Port increased $139.2 million in fiscal year 2008. Approximately 90.8% of total revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense increased $58.0 million, or 35.4% over the prior fiscal year. The increase is mainly from salaries and benefits due as the Port continues to expand its human resources in fiscal year 2008 primarily in security and construction and maintenance services.

(Continued)

Depreciation expense decreased $9.8 million to $78.3 million in fiscal year 2008. About $3.0 million of the upward adjustment of the depreciation expense recorded in fiscal year 2008 pertains to periods prior to fiscal year 2007. A substantial amount of capital projects put in depreciable capital assets in fiscal year 2007 were actually completed and placed in service before 2007. Catch up in depreciation for these assets increased depreciation expense in fiscal year 2007. LAXT facilities were removed from the capital asset in fiscal year 2007 and further reduced depreciation by $2.0 million in fiscal year 2008.

Other income, net of other expense, decreased $13.6 million to negative $2.5 million in fiscal year 2008, from $11.0 million recorded in the prior year. Delinquent charges for late payments greatly dropped when outstanding LAXT accounts were reversed per settlement agreement with POLA. Also, funds deferred for Todd Shipyard were recognized as other income in fiscal year 2007.

Capital contributions of $14.2 million represent funds for capital grants received in fiscal year 2008 and $4.1 million in fiscal year 2007.

Income before capital contributions decreased $29.7 million to $125.0 million, a 19.2% decrease over the fiscal year 2007 amount of $154.7 million. This decrease reflects the combined effect of the $6.5 million increase in total revenues and the $36.2 million increase in total expenses.

Fiscal Year 2007

Net assets for the Port increased $136.6 million in fiscal year 2007. Approximately 91.1% of total revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense decreased $20.4 million, or 11.1% over the prior fiscal year. The decrease mainly reflects a reduction in litigation expense this year for LAXT.

Depreciation expense decreased $10.7 million to $88.1 million in fiscal year 2007. The decrease mainly reflects that some $14.8 million of the upward adjustment of the depreciation expense recorded in fiscal year 2006 that pertained to periods prior to fiscal year 2006. Certain capital projects that began depreciation in fiscal year 2006 were actually completed and placed in service before 2006.

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

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

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

(Continued)

Operating Revenues

(In thousands)

		Year ended June 30		
		2008	**2007**	**2006**
Shipping services	$	374,878	375,471	373,348
Percentage of total revenues		87.9%	88.8%	90.6%
Rentals		45,524	40,322	33,876
Percentage of total revenues		10.7%	9.6%	8.2%
Royalties, fees, other operating revenues		5,943	6,867	4,893
Percentage of total revenues		1.4%	1.6%	1.2%
Total	$	426,345	422,660	412,117

Fiscal Year 2008

Operating revenues for fiscal year 2008 rose to $426.3 million, reflecting a 0.9% increase from prior year revenues of $422.7 million and is principally attributed to the $3.3 million increase in wharfage revenue and the $4.4 million increase in land rental income. The Port moved 8.1 million 20-foot equivalent units (TEUs) in container volume during fiscal year 2008, or a 6.3% drop from the prior year.

Fiscal Year 2007

Operating revenues for fiscal year 2007 rose to $422.7 million, reflecting a 2.6% increase from prior year revenues of $412.1 million and is principally attributed to the $1.0 million increase in wharfage revenue and the $6.3 million increase in land rental income. The Port moved 8.7 million 20-foot equivalent units (TEUs) in container volume during fiscal year 2007, or 11.0% growth over the prior year.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel or cargo movement. Of these fees, wharfage is the most significant and comprised 89.4% and 88.4% of the total shipping service revenues in fiscal years 2008 and 2007, respectively. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

Revenue from shipping services in fiscal year 2008 diminished to $374.9 million, reflecting a decline of $0.6 million, or 0.2%, over fiscal year 2007. The decline in container volume from container terminals coupled with higher efficiency discounts given to the customers on revenue sharing agreements brought down shipping services income. Revenue from shipping services in fiscal year 2007 rose to $375.5 million, reflecting a growth of $2.1 million, or 0.6%, over fiscal year 2006. Increased cargo volumes and tariff rates were the principal reasons for the growth. Strong economic growth both domestically and in East Asia, ongoing development of improved intermodal facilities, the addition of Pier 400 container terminal, and increasing strength of shipping alliances based in the Port all contributed to growth in market share during fiscal year 2007.

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

Cargo Type in Metric Revenue Tons

(In thousands)

	Year ended June 30		
	2008	**2007**	**2006**
Container/general cargo	161,901	171,907	155,255
Liquid bulk	6,208	15,433	22,797
Dry bulk	1,862	2,766	3,583
Total	169,971	190,106	181,635

Container Volume in TEUs

(In thousands)

	Year ended June 30		
	2008	**2007**	**2006**
Import TEUs	4,325	4,628	4,150
Export TEUs	3,758	4,029	3,651
Total	8,083	8,657	7,801

Metric revenue tons are the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when the figure is available, or the weight is closely approximated by calculation when cargo weight is not provided. A total of 170.0 million metric revenue tons were billed in fiscal year 2008, or 10.6% below fiscal year 2007. A total of 190.1 million metric revenue tons were billed in fiscal year 2007, or a 4.7% growth over fiscal year 2006 volume. Decrease in revenue tonnage does not necessarily come with the same effect in revenue dollars. There are other factors such as revenue sharing, timing of billing and other increases that offset the effect of decline in revenue tonnage.

During fiscal year 2008, tonnage from dry bulk decreased 32.7%, or 0.9 million metric revenue tons, due principally to decrease in scrap metal export and bulk cement import. Petroleum, or mainly bulk oil, decreased 59.8%, or 9.2 million metric revenue tons. About 7.2 million revenue tons relating to fiscal years 2007, 2006 and 2005 wharfage statistics were adjusted in fiscal year 2008, hence, the drastic drop in petroleum for this year. Tonnage for general cargo billed in fiscal year 2008 was down 10.0 million metric revenue tons compared to the prior year. This represents the drop in equivalent revenue tons of container volume.

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

Rentals

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

During fiscal year 2008, rental income at the Port increased $5.2 million, or 12.9%, over last year and represented 10.7% of fiscal year 2008 total operating revenues. The growth is the result of the second year increase in land rental rates of the majority of the leases effective September 2007, as a result of the periodic review by the Port. During fiscal year 2007, rental income at the Port increased $6.4 million, or a 19.0% growth over the prior year and represented 9.7% of fiscal year 2007 total operating revenues. This growth is principally attributable to the fact that land rental rates of the majority of the leases were increased effective September 2006 as a result of the periodic review by the Port.

Royalties, Fees, and Other Operating Revenue

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

Revenues in this category totaled $5.9 million for fiscal year 2008, a decrease of $0.9 million or 13.5% behind the prior fiscal period. The catch up on prior years' reimbursable costs of maintenance jobs performed by the Port has diminished in fiscal year 2008. Movie permits declined $0.3 million in the current year.

(Continued)

In fiscal year 2007, revenues from royalties, fees, and other operating revenues totaled $6.9 million, an increase of $2.0 million or 40.3% over the prior fiscal period. The growth mainly reflects the catch up on prior years reimbursable costs of maintenance jobs performed by the Port.

Operating and Administrative Expenses

During fiscal year 2008, operating and administrative expenses increased $58.0 million to $221.8 million, a 35.4% increase from prior fiscal year expense of $163.8 million. During fiscal 2007, operating and administrative expenses fell $20.4 million to $163.8 million, or 11.0% decrease from fiscal year 2006 expense of $184.1 million. Categories of expense reflecting more significant increases include salaries and benefits, outside services, materials and supplies, and other operating expenses. Changes in other categories of expenses were less significant.

Operating and Administrative Expenses (O&A)

(In thousands)

		Year ended June 30		
		2008	**2007**	**2006**
Salaries and benefits	$	95,444	74,313	65,705
Percentage of total O&A		43.0%	45.4%	35.7%
Marketing and public relations		5,274	4,521	3,333
Percentage of total O&A		2.4%	2.8%	1.8%
Travel and entertainment		1,128	604	822
Percentage of total O&A		0.5%	0.4%	0.5%
Outside services		37,937	33,277	33,673
Percentage of total O&A		17.1%	20.3%	18.3%
Materials and supplies		8,950	5,813	5,400
Percentage of total O&A		4.1%	3.5%	2.9%
City services		27,101	28,640	20,821
Percentage of total O&A		12.2%	17.5%	11.3%
Other operating expenses		45,918	16,607	54,378
Percentage of total O&A		20.7%	10.1%	29.5%
Total O&A	$	221,752	163,775	184,132

Fiscal Year 2008

Salaries and benefits expense rose $21.1 million, or 28.4% over the prior fiscal year. The increase is the result of scheduled employee pay increases, a $1.1 million retro pay adjustment, a $2.0 million upward adjustment in benefit expense, a $5.2 million one-time payment of City Fire & Police pension for the transfer of Port Police pension from LACERS to LAFPP, and the continued expansion of the Port workforce mainly in Port Police and Construction & Maintenance in fiscal year 2008.

The $4.7 million increase in outside services reflects the combined outcome of the drop of $2.2 million in Port security-related expenditures, $0.8 million decrease in capital construction services, $2.1 million increase in environmental assessment cost (net of capitalized amount), $2.6 million increase in Public and Community Relations expenditures for its community outreach programs, $1.8 million increase in maintenance services, a collective increase of $1.5 million in data processing and financial and legal services.

Materials and supplies grew $3.1 million over the prior fiscal year due to $2.2 million surge in acquisitions of parts and materials made by Construction & Maintenance and the $0.9 million increase in administrative and operating supplies.

City services, net of capitalized amount, decreased $1.5 million during the comparative fiscal years. The decrease reflects the higher capitalized amount of $1.0 million in fiscal year 2008 because higher salary expenses were capitalized.

Other operating expenses for fiscal year 2008 increased $29.3 million over prior year due to $7.2 million increase in subsidy payment for Clean Truck Program (CTP), a $0.5 million increase in provision for workers' compensation claims, and a $20.7 million increase in litigation and settlement expenses. The net increase of $20.7 million in litigation and settlement expenses over prior year reflects the $17.0 million settlement to be paid by the Port to Westway Oil Terminal, a $1.2 million increase in China Shipping mitigation fund due to excess in TEU cap, and reduction in litigation reserve of $3.3 million for the settlement received by the Port from Santa Monica Baykeeper in fiscal year 2007.

Fiscal Year 2007

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

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

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

 (Continued)

Nonoperating Income and Expense

Fiscal Year 2008

Net nonoperating expense for fiscal year 2008 decreased $9.3 million from the prior year to $1.3 million.

Interest and investment income increased $11.1 million to $34.9 million for fiscal year 2008. The increase includes a $10.3 million increase in interest income from Harbor Revenue Fund and restricted funds. The average yields as well as the average investable balance were higher this fiscal year than prior year. Unrealized gain from the City of Los Angeles investment pool also went up by $5.6 million over prior year. Offsetting the increase is the $4.1 million interest income recorded in fiscal year 2007 from the refunded 1996 Harbor Revenue Bonds.

Interest expense showed a decrease of $12.0 million to $38.1 million in fiscal year 2008 due to a $13.5 million interest expense recognized in fiscal year 2007 for refunding of 1996 Harbor Revenue Bonds. In addition, Harbor Revenue Bonds principal balances are lower than last fiscal year.

Other income, net of other expense, decreased $13.6 million to negative $2.5 million in fiscal year 2008, from $11.0 million recorded in the prior year. The decrease reflects a $10.9 million decrease in other income and a $2.6 million increase in other expense. Income from delinquent charges for late payments was greatly reduced by $2.6 million, when outstanding LAXT accounts were reversed, per settlement agreement with the Port. Federal operating grants received in fiscal year 2008 were $5.6 million less than the grant receipts last year. A $2.9 million funds deferred for Todd Shipyard were recognized as other income in fiscal year 2007. Fiscal year 2008 also showed a $1.7 million increase in cost of abandoned projects charged to expense as well as a $0.7 million increase in loss on sale of assets.

Fiscal Year 2007

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

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

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

Long-Term Debt and Capital Assets

Long-Term Debt

The Port's long-term debt is comprised of senior debt in the form of Harbor Revenue Bonds and subordinated debt in the form of loans. As of June 30, 2008 and 2007, the Port's outstanding long-term debt was $781.8 million and $804.8 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA and AA credit ratings from Moody's, Standard & Poor's and Fitch Ratings.

Bonded Debt

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

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

On May 4, 2006, the Port issued the 2006A Bonds for $200.7 million on a forward delivery basis to currently refund the remaining $202.7 million of 1996A Bonds. All such 1996A Bonds were redeemed and cancelled on their call date of August 1, 2006.

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

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

Commercial Paper Notes

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

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

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained contractually under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). As of June 30, 2008, this capacity is approximately $2.1 billion, calculated by using available operating revenues and current interest rate assumptions of 6.0%. The Port's existing Debt Policy has set the maximum outstanding debt to be $2 billion.

No bonds were issued in fiscal year 2008.

Long-term debt consisted of the following as of June 30, 2008, 2007, and 2006 (in thousands):

		2008	2007	2006
Revenue bonds payable	$	778,481	801,118	770,099
Notes payable		3,271	3,697	4,105
Commercial paper		—	—	113,561
Total	$	781,752	804,815	887,765

Capital Assets

Capital assets, net of accumulated depreciation consisted of the following as of June 30, 2008, 2007, and 2006 (in thousands):

		2008	2007	2006
Land	$	1,012,297	991,153	955,824
Harbor facilities and equipment, net		1,366,028	1,400,854	1,448,659
Intangible assets		1,050	—	—
Construction in progress		239,291	211,329	232,412
Preliminary costs – capital projects		139,834	123,071	95,809
Total	$	2,758,500	2,726,407	2,732,704

Capital expenditures for fiscal year 2008 increased to $111.0 million from $108.2 million in the prior year. Spending was higher in commercial development, port security and other miscellaneous projects. Approximately 26% of the fiscal year 2008 funds were expended on terminal improvements, 25% on commercial development and 16% on Port security. The remaining 33% was primarily used for dredging, environmental enhancements, infrastructure improvements, and Port security.

Major Capital Expenditure – Facilities and Infrastructure

(In thousands)

		Year ended June 30		
		2008	**2007**	**2006**
Commercial development	$	27,981	13,147	33,913
Dredging		2,252	26,690	17,277
Environmental studies and credits		4,345	9,598	14,126
Infrastructure improvements		2,102	4,452	1,136
Port security		17,663	8,819	1,921
Terminal development		28,957	36,232	25,070
Transportation improvements		1,274	2,762	2,434
Others		26,443	6,546	21,172
Total	$	111,017	108,246	117,049

Budgeted expenditures for the Port's fiscal year 2009 Capital Improvement Program has increased from the previous fiscal year. The more significant fiscal year 2009 expenditures will include the San Pedro and Wilmington Waterfront Development Projects, Port Security, Cruise Terminal AMP, TraPac Development, and Pier 300 Improvements.

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

The Pier 300 development will construct approximately 1,250 linear feet of wharf, develop 40 acres of backland and improve infrastructure to existing terminal. The estimated completion date is fall of 2012.

The Port Police Headquarters Project consists of the design and construction of a new 51,000-square-foot three-story Port police station at 320 S. Center Street with subterranean parking and an adjacent two-level parking structure. The expected construction completion of the project is May 2011.

(Continued)

The Homeland Security Program consists of five projects: a waterside security surveillance system, facility security enhancements, passenger complex vehicle screening, passenger complex perimeter security, and a waterborne perimeter security barrier. For these projects, the Port is responsible for the design and installation of integrated surveillance systems including cameras, motion detectors, nonintrusive inspection for vehicles, and waterborne perimeter security barriers. Estimated project completion is February 2010.

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, multi-use 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. Project completion is expected by summer 2010.

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

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 and clean-up and development of the former Westway property at Berth 70-71. Estimated program completion date is summer of 2018.

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.

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. Estimated completion date is June 2011.

The Cruise Terminal Program includes a proposed upgrade of the existing cruise terminal facilities at Berth 91-93, a temporary cruise terminal baggage building at Berth 90-91, AMP, a proposed new cruise terminal in the outer harbor at Berth 46-47, and new multi-level/shared use parking structure. Estimated program completion is expected in summer of 2011.

Open purchase orders and uncompleted construction contracts amounted to approximately $290,152,000 as of June 30, 2008

Factors That May Affect the Port's Operations

In November 2006, the governing boards of the Ports of Los Angeles and Long Beach voted to approve the landmark San Pedro Bay Ports Clean Air Action Plan (CAAP), the most comprehensive plan that addresses emissions from the trucks, oceangoing vessels, trains, terminal equipment and harbor craft that serve the Port. The $2 billion CAAP is expected to reduce Port-related emissions by nearly 50% by 2011.

The major component of this plan is the Clean Truck Program (CTP). This program will replace or retrofit high polluting diesel trucks with ones that meet 2007 EPA emission standards.

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.

Competitive Environment

In the year ended June 30, 2008, 99.5% of the entire U.S. West Coast containerized cargo market was controlled by six major containerports: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 71.8% of all U.S. West Coast market share.

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

West Coast Container Market Share*

(In thousands)

	Year ended					
	June 30			June 30		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
	Loaded TEUs (In thousands)			Market share Percentage		
Los Angeles	5,698	5,705	5,309	38.6%	39.5%	37.3%
Long Beach	4,908	4,743	4,799	33.2%	32.8%	33.7%
Oakland	1,461	1,378	1,442	9.9%	9.6%	10.1%
Tacoma	1,178	1,135	1,163	8.0%	7.9%	8.2%
Seattle	1,246	1,218	1,318	8.4%	8.4%	9.3%
Portland	207	189	139	1.4%	1.3%	1.0%
All others	75	73	73	0.5%	0.5%	0.4%
Total	14,773	14,441	14,243	100.0%	100.0%	100.0%

* Source: Port Import Export Reporting Service.

Contacting the Port's Financial Management

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

BASIC FINANCIAL STATEMENTS

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

Statements of Net Assets

June 30, 2008 and 2007

(In thousands of dollars)

		2008	2007
Assets:			
Current assets:			
Cash and investments, unrestricted (note 2)	$	488,893	380,139
Cash and investments, restricted (note 2)		158,769	149,087
Accounts receivable, less allowance for doubtful accounts of $8,397 and $8,714 in 2008 and 2007, respectively (note 14)		38,012	46,890
Grants receivable (note 13)		8,340	1,521
Materials and supplies inventories		2,311	1,973
Prepaid and deferred expenses		3,525	1,192
Accrued interest receivable		5,148	3,863
Current portion of notes receivable, less allowance for doubtful accounts of $0 and $0 in 2008 and 2007, respectively (notes 10 and 14)		4,136	4,013
Total current assets		709,134	588,678
Noncurrent restricted assets (note 2):			
Restricted investments – bond funds		9	62
Other restricted cash and investments		9,545	9,180
Accrued interest receivable		61	110
Total noncurrent restricted assets		9,615	9,352
Capital assets (notes 3 and 8):			
Land		1,012,297	991,153
Harbor facilities and equipment, less accumulated depreciation of $1,058,157 and $993,988 in 2008 and 2007, respectively		1,366,028	1,400,854
Intangible assets		1,050	—
Construction in progress		239,291	211,329
Preliminary costs – capital projects		139,834	123,071
Net capital assets		2,758,500	2,726,407
Notes receivable (note 10)		32,902	37,056
Investment in Joint Powers Authorities and other entities, less allowance for investment loss of $0 and $0 for 2008 and 2007 (notes 4 and 14)		12,255	7,814
Other assets		8,712	9,239
Total assets		3,531,118	3,378,546

(Continued)

PORT OF LOS ANGELES
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Statements of Net Assets

June 30, 2008 and 2007

(In thousands of dollars)

		2008	**2007**
Liabilities:			
Current liabilities:			
Accounts payable	$	61,237	42,774
Current installments of notes payable and bond indebtedness (note 5)		23,655	22,501
Accrued interest		16,251	16,739
Accrued employee benefits (note 5)		10,626	13,438
Unearned revenue and other deferred credits (note 5)		1,865	358
Liabilities under the City of Los Angeles' securities lending program (note 2)		73,692	69,252
Accrued construction costs payable		1,376	1,228
Other current liabilities (notes 5, 7, 18 and 19)		82,004	62,391
Total current liabilities		270,706	228,681
Long-term liabilities (note 5):			
Bonds payable, net of deferred amount on refunding and unamortized discount/premium of $11,231 and $11,793 in 2008 and 2007, respectively		755,271	779,043
Notes payable, net of current installments		2,826	3,271
Accrued employee benefits		7,952	7,291
Other liabilities (notes 7 and 18)		7,857	13,110
Liabilities payable from restricted assets – other liabilities		9,463	9,281
Total long-term liabilities		783,369	811,996
Total liabilities		1,054,075	1,040,677
Commitments and contingencies (notes 11, 15, 17, and 19)			
Net assets:			
Invested in capital assets, net of related debt		1,985,653	1,931,037
Restricted, bond proceeds		9	62
Unrestricted		491,381	406,770
Total net assets	$	2,477,043	2,337,869

See accompanying notes to financial statements.

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

Years ended June 30, 2008 and 2007

(In thousands of dollars)

		2008	2007
Operating revenues (note 8):			
Shipping services:			
Wharfage	$	335,172	331,919
Dockage		6,957	8,201
Demurrage		276	246
Cranes		1,944	2,460
Pilotage		7,677	8,829
Assignment charges		22,750	23,687
Storage		102	129
Total shipping services		374,878	375,471
Rentals:			
Land		41,587	37,147
Buildings		501	457
Warehouses		2,169	1,528
Wharf and shed revenue		1,267	1,190
Total rentals		45,524	40,322
Royalties, fees, and other operating revenues:			
Fees, concessions, and royalties		3,701	3,994
Oil royalties		122	78
Other		2,120	2,795
Total royalties, fees, and other operating revenues		5,943	6,867
Total operating revenues		426,345	422,660
Provision for bad debts		—	(5,499)
Net operating revenues		426,345	417,161
Operating and administrative expenses (notes 1 and 9):			
Salaries and benefits		95,444	74,313
Marketing and public relations		5,274	4,521
Travel and entertainment		1,128	604
Outside services		37,937	33,277
Materials and supplies		8,950	5,813
City services, net of capitalized amounts of $8,342 and $6,097 in 2008 and 2007, respectively (note 12)		27,101	28,640
Provision for workers' compensation claims		1,347	860
Litigation, claims, and settlement expenses (note 7, 15, 18, and 19)		19,836	(912)
Other operating expenses		24,735	16,659
Total operating and administrative expenses		221,752	163,775
Income from operations before depreciation		204,593	253,386
Depreciation (note 3)		78,295	88,106
Operating income		126,298	165,280

(Continued)

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

(In thousands of dollars)

	2008	2007
Nonoperating revenues (expenses):		
Income from investments in Joint Powers Authorities and other entities (note 4)	$ 4,440	4,675
Interest and investment income	34,863	23,773
Interest expense on bond indebtedness and notes payable (notes 3 and 5)	(38,052)	(50,038)
Other income and expenses, net	(2,536)	11,018
Net nonoperating expenses	(1,285)	(10,572)
Income before capital contributions	125,013	154,708
Capital contributions (note 13)	14,161	4,145
Special item (note 14)	—	(22,291)
Changes in net assets	139,174	136,562
Total net assets – beginning of year	2,337,869	2,201,307
Total net assets – end of year	$ 2,477,043	2,337,869

See accompanying notes to financial statements.

**PORT OF LOS ANGELES
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Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands of dollars)

		2008	2007
Cash flows from operating activities:			
Shipping service fees collected	$	383,525	367,874
Rentals collected		45,627	40,720
Royalties, fees, and other operating revenues collected		6,072	6,205
Payments for employee salaries and benefits, net of capitalized amount of $12,254 and $10,051 in 2008 and 2007, respectively		(97,592)	(67,784)
Payments for goods and services		(89,903)	(103,787)
Net cash provided by other nonoperating income and expenses		5,169	3,437
Net cash provided by operating activities		252,898	246,665
Cash flows from noncapital financing activities:			
Proceeds from non-capital grants		1,990	7,506
Net cash provided by noncapital financing activities		1,990	7,506
Cash flows from capital and related financing activities:			
Payments for property acquisitions and construction		(124,720)	(107,928)
Proceeds from sales of capital assets		168	38
Proceeds from capital grant		7,353	3,625
Principal repayment – bonds		(22,075)	(27,470)
Payment to escrow agent for bond refunding		—	(54,166)
Principal repayment – notes		(426)	(408)
Interest paid		(38,849)	(44,606)
Net cash used in capital and related financing activities		(178,549)	(230,915)
Cash flows from investing activities:			
Receipt of interest		25,993	22,919
Increase in liabilities under the City of Los Angeles' securities lending program		4,440	25,238
Increase in fair value of pooled investments		7,633	2,043
Payments received on notes receivable		4,031	4,434
Distribution from Joint Powers Authorities and other entities		—	3,500
Net cash provided by investing activities		42,097	58,134
Net increase in cash and cash equivalents		118,436	81,390
Cash and cash equivalents, beginning of year		529,226	447,836
Cash and cash equivalents, end of year (note 2)	$	647,662	529,226

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Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands of dollars)

		2008	2007
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	126,298	165,280
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		78,295	88,106
Provision for doubtful accounts		—	5,499
Net cash provided by other nonoperating income and expense		5,169	3,437
Change in accounts receivable		8,878	(8,324)
Change in materials and supplies inventories		(338)	(211)
Change in prepaid and deferred expenses		(2,333)	2,633
Change in accounts payable		23,213	13,378
Change in accrued employee benefits		(2,151)	6,530
Change in other long-term operating liabilities		(5,253)	5
Change in unearned revenue and other deferred credits and other current operating liabilities		21,120	(29,668)
Total adjustments		126,600	81,385
Net cash provided by operating activities	$	252,898	246,665

		2008	2007
Noncash investing, capital, and financing activities:			
Contributions of capital assets from other government	$	—	520
Acquisition of capital assets with construction costs payable		1,376	1,228
Acquisition of capital assets with accounts payable		6,088	10,838
Write-off of discontinued construction projects		2,726	4,073
Bond proceeds deposited to escrow accounts for refundings		—	350,403
Capitalized interest expense, net		307	1,779

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

(a) Organization and Reporting Entity

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

The Port operates as principal landlord for the purpose of assigning or leasing port facilities and land areas. The Port's principal source of revenue is from shipping services under tariffs (dockage and wharfage, 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 in GASB Statement No. 14, *The Financial Reporting Entity*, (GASB Statement No. 14) which the Port adopted effective July 1, 1993. The financial statements include only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City in conformity with GAAP.

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port by constructing, replacing, extending, or improving facilities and services that the Board of Harbor Commissioners deems necessary for the promotion and accommodation of commerce. From time to time, LAHIC has issued long-term indebtedness to finance specific capital facilities improvements on behalf of the Port's tenants. The nature of these financings is such that the long-term indebtedness will be that of the Port tenant and not LAHIC, nor the Port, nor the City. Therefore, for purposes of the accompanying financial statements, the long-term indebtedness of LAHIC and the corresponding lease receivable from the tenant are eliminated.

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the Board of Harbor Commissioners.

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

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

(b) Summary of Significant Accounting Policies

Method of Accounting – The Port 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) prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The Port also has the option of following subsequent private-sector guidance subject to the same limitation. The Port has elected not to follow subsequent private-sector guidance.

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

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

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

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

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

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

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

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately $4,759,000 and $3,876,000 of such indirect project costs were allocated to construction projects for the years 2008 and 2007, respectively.

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

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects, net of any investment income earned during the temporary investment of project related borrowings. During the years ended June 30, 2008 and 2007, the Port capitalized net interest expense of $307,000 and $1,779,000, respectively. For 2008, gross interest expense of $309,000 related to Harbor Revenue Bonds 2006D was reduced by $2,000 of interest income. For fiscal year (FY) 2007, gross interest expense of $330,000 related to commercial paper and $1,453,000 related to Harbor Revenue Bonds 2006D were reduced by $4,000 of interest income. The remaining interest was expensed as certain projects financed by the commercial paper and Harbor Revenue Bond 2006D proceeds have been completed.

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 (see note 2). The change in the fair value of pooled investments is allocated to each participating City department/fund based on the aggregate respective cash balances at year-end.

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

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

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

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

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

Pension 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 FY 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 (see note 9).

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

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

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

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

Effects of Recent GASB Pronouncements –

The following GASB Statements will be implemented in future years.

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

The Port is required to implement the statement for the FY 2009 financial statements. The Environmental Management group of the Port has identified the obligating events and has estimated the amount that the Port needs to remedy the pollution. The group will continue to monitor and gather the information that will be needed in FY 2009 reporting.

GASB Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets."* Issued in June 2007, this statement establishes standards for accounting and financial reporting for intangible assets, for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. GASB Statement No. 51 will be effective for the Port beginning in FY 2010. Retroactive reporting is required. In FY 2008, the Port reported as an intangible asset the radio frequency that was acquired for the Port Police. The Port will continue to analyze and record the intangible assets that will be acquired in the future.

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

Reclassifications – Certain reclassifications have been made to the amounts reported in 2007 in order to conform to the 2008 presentation. Such reclassifications had no effect on 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 but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (the Policy) to the City Council. The policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53636 and 16429.1.

Examples of investments permitted by the City's pooled investment policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts (none was invested in the General Pool or three of the Port's Special Investment Programs), bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

The Investment Advisory Committee (IAC) reviews investment performance and strategy. The IAC is composed of the City Treasurer as chairperson, the Office of the Mayor, City Controller, Chief Legislative Analyst, City Administrative Officer, Director of Office of Finance, and an external investment advisor.

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

		2008	2007
Cash in bank and certificates of deposit	$	2,415	395
Investment in U.S. Treasury money market fund		9	62
Equity in the City of Los Angeles Investment Pool		654,792	538,011
Total cash and investments	$	657,216	538,468

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):

		2008	2007
Unrestricted cash and investments:	$	488,893	380,139
Restricted cash and investments:			
Current:			
Emergency Fund		96,839	91,775
China Shipping Mitigation Fund		51,539	46,652
Community Aesthetics Mitigation Fund for Parks		3,490	3,449
Owner-Controlled Insurance Program		-	500
U.S. Customs House, Terminal Island		6,349	6,230
Other		552	481
Sub-total- Current		158,769	149,087
Noncurrent:			
Harbor Revenue Bond Funds		9	62
Customer security deposits		3,206	3,154
Batiquitos Environmental Fund		5,796	5,508
Harbor Restoration Fund		543	518
Sub-total - Noncurrent		9,554	9,242
Total restricted cash and investments		168,323	158,329
Total cash and investments	$	657,216	538,468

(b) Deposits – Custodial Credit Risk

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to $2,414,846 and $395,160 at June 30, 2008 and 2007, respectively, with corresponding bank balances of $166,665 and $167,718, respectively. The deposits are entirely covered by federal depository insurance or are collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

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

General Pool Investments

The table below identifies the investment types that are authorized for the Port by the City's investment policy for its General Pool, which conforms to the State Government Code. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy is the same for 2008 and 2007.

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

* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.
** Combined total for mortgage-backed and asset-backed securities
*** Current account limit is $40 million.

Special Investment Programs

The Port has three restricted funds that are invested in the City's Special Investment Pools. These are Emergency Fund 751, Restoration Fund 70L, and Batiquitos Long-term Investment Fund 72W. Investments in the special pools are managed in accordance with the respective pool's policy. If none exists, the pool's policy will be deemed to be the California State Government Code Sections 53600-53636 et seq. Funds in the three restricted funds were solely invested in government agency securities with maturities of 182 days or less per Harbor department instruction, thus the lower rate of return.

(d) City of Los Angeles Investment Pool

At June 30, 2008 and 2007, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

		Investment Maturities June 30, 2008			
Type of Investments	Amount	1 to 30 Days	31 ot 60 Days	61 to 365 Days	366 Days To 5 Years
U.S. Treasury Notes	$ 1,619,055	—	—	—	1,619,055
U.S. Agencies	1,530,897	230,356	174,594	224,569	901,378
Medium-Term Notes	1,186,097	—	—	352,990	833,107
Commercial Paper	1,984,742	1,450,906	386,282	147,554	—
State of California LAIF	1	1	—	—	—
Certificates of Deposit	8,000	—	—	8,000	—
Guaranteed Investment Contracts	135,224	135,224	—	—	—
Short-Term Investment Funds	38	38	—	—	—
Securities Lending Cash Collateral:					
U.S. Treasury Notes	918,758	—	—	—	918,758
U.S. Agencies	10,721	—	—	—	10,721
Total General and Special Pools	$ 7,393,533	1,816,525	560,876	733,113	4,283,019

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

The City Treasurer manages a General Pool and various Special Investment Pools. The investment disclosure information by pool is not available. Accordingly, disclosures provided herein represent the combined General and Special Investment Pools.

The Port has $654,792,000 and $538,011,000 invested in the City's General Pool and three Special Investment Programs, which represent approximately 8.9% and 7.0% of the City Treasury's General Pool at June 30, 2008 and 2007, respectively.

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

Credit Risk: The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers' minimum credit ratings shall be by Standard and Poor's Corporation (S&P) A-1/A or Moody's Investor Services (Moody's) P-1/A2 and, if available Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating. The City Treasurer is granted the authority to specify approved California banks with a Fitch Ratings BankWatch of "C" or better and an A-2 rating where appropriate. In addition to a "AAA" rating for country risk, foreign banks with domestic licensed offices must be rated "B" or better and TBW-1 short-term rating by Fitch Ratings BankWatch. Domestic savings banks must be rated "B/C" or better and a TBW-1 short-term rating by Fitch Ratings BankWatch.

Medium term notes must be issued by corporations operating within the United States and having total assets in excess of $500 million. Commercial paper issuers must meet the preceding requirement or must be issued by corporations organized in the United States as a special purpose corporation, trust or limited liability company having program-wide credit enhancements.

The City's $1.53 billion investments in U.S. government-sponsored enterprises consist of securities issued by the Federal Home Loan Bank - $594.5 million, Federal National Mortgage Association - $293.8 million, Federal Home Loan Mortgage Corporation - $537.2 million, and Federal Farm Credit Bank - $105.5 million. As of June 30, 2008, these securities carried the highest ratings of AAA (S&P) and Aaa (Moody's).

The City's $1.19 billion investments in medium term notes consist of securities issued by banks and corporations that comply with the requirements discussed above and were rated "A" or better by S&P and "A3" or better by Moody's.

The City's $1.98 billion investments in commercial paper comply with the requirements discussed above and were rated AAA/A-1+ by S&P and Aaa/P-1 by Moody's.

The issuers of the guaranteed investment contracts (none was invested in the General Pool or three of Port's Special Investment Programs), certificate of deposits and the State of California Local Agency Investment Fund (LAIF) are not rated.

Concentration of Credit Risk: The City's investment policy does not allow more than 10.0% of its investments portfolio, except U.S. Treasury and U.S. sponsored agency issues, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2008, $594.5 million (8%) was invested in securities issued by the Federal Home Loan Bank and $537.2 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation.

(e) City of Los Angeles Securities Lending Program

The Securities Lending Program (the SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

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

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) 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 where either party can terminate a lending contract on demand, term loans shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

The Port's share of cash collateral received and corresponding liability aggregated approximately $73,692,000 and $69,252,000 at June 30, 2008 and 2007, respectively.

During the fiscal year, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(f) Other Investment

Other investments of $9,351 and $61,809 at June 30, 2008 and 2007, respectively, consist of investments in a money market mutual fund. With an objective of seeking maximum current income to the extent consistent with preservation of capital and maintenance of liquidity, these investments are made through the bond fund trustee bank and they may be invested, as specified in the indenture of trust, with a portfolio consisting of: (1) U.S. dollar denominated deposit account, certificates of deposit, federal funds and banker's acceptances with domestic commercial banks, which have a rating on their short term certificates of deposit on the date of purchase of the highest rating by Fitch, if Fitch rates such instruments, "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase; (2) commercial paper which is rated at the time of purchase in the single highest classification, by Fitch, if Fitch rates such instruments, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase; (3) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P and "Aaa" by Moody's; and (4) pre-refunded municipal obligations defined as any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of any such state; (5)

investment agreements approved in writing by each Insurer with a provider whose long-term unsecured debt is rated in not lower than the second highest rating category of at least two of the rating agencies and which will not adversely affect Fitch, Moody's or S&P's underlying rating on the Bonds; (6) municipal obligations rated Aaa/AAA or general obligations of states rated in not lower than the second highest rating category of at least two of the rating agencies; and, (7) other forms of investments (including repurchase agreements) approved in writing by each Insurer and which will not adversely affect Fitch, Moody's or S&P's underlying rating on the Bonds.

As of June 30, 2008, this money market fund was rated “Aaa” by Moody’s and “AAAm” by S&P.

(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2008 and 2007 (in thousands):

	July 1, 2007	Increases	Decreases	June 30, 2008
Capital assets not being depreciated:				
Land	$ 991,153	21,144	-	1,012,297
Construction in progress	211,329	85,895	(57,933)	239,291
Preliminary costs – capital projects	123,071	17,936	(1,173)	139,834
Intangible asset - radio frequency	-	1,050	-	1,050
Total capital assets not being depreciated	1,325,553	126,025	(59,106)	1,392,472
Capital assets being depreciated/amortized:				
Wharves and sheds	661,963	4,932	(6,587)	660,308
Buildings/facilities	1,669,330	33,712	(13,489)	1,689,553
Equipment	63,549	12,136	(1,361)	74,324
Total capital assets being depreciated/amortized	2,394,842	50,780	(21,437)	2,424,185
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(265,915)	(18,275)	-	(284,190)
Buildings/facilities	(689,588)	(54,959)	12,715	(731,832)
Equipment	(38,485)	(5,061)	1,411	(42,135)
Subtotal	(993,988)	(78,295)	14,126	(1,058,157)
Total capital assets being depreciated/amortized, net	1,400,854	(27,515)	(7,311)	1,366,028
Total capital assets, net	$ 2,726,407	98,510	(66,417)	2,758,500

	July 1, 2006	Increases	Decreases	June 30, 2007
Capital assets not being depreciated:				
Land	$ 955,824	35,336	(7)	991,153
Construction in progress	232,412	36,641	(57,724)	211,329
Preliminary costs – capital projects	95,809	27,398	(136)	123,071
Total capital assets not being depreciated	1,284,045	99,375	(57,867)	1,325,553
Capital assets being depreciated/ amortized:				
Wharves and sheds	656,696	5,267	-	661,963
Buildings/facilities	1,661,073	48,527	(40,270)	1,669,330
Equipment	62,203	8,871	(7,525)	63,549
Total capital assets being depreciated/amortized	2,379,972	62,665	(47,795)	2,394,842
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(247,251)	(18,664)	-	(265,915)
Buildings/facilities	(642,484)	(65,063)	17,959	(689,588)
Equipment	(41,578)	(4,379)	7,472	(38,485)
Total accumulated depreciation	(931,313)	(88,106)	25,431	(993,988)
Total capital assets being depreciated/ amortized, net	1,448,659	(25,441)	(22,364)	1,400,854
Total capital assets, net	$ 2,732,704	73,934	(80,231)	2,726,407

Net interest expense of $307,000 and $1,779,000 were capitalized for 2008 and 2007, respectively.

(4) Investment in Joint Powers Authorities and Other Entities

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

(a) Intermodal Container Transfer Facility Joint Powers Authority

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

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53,915,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52,315,000 in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42,915,000 of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, 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, 2008 and 2007 is $12,255,000 and $7,814,000, 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, 2008 and 2007 and, accordingly, they have not been recorded in the accompanying financial statements.

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

(c) Los Angeles Export Terminal, Inc.

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

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

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

(5) Long-Term Liabilities

(a) Long-term debt consists of the following at June 30, 2008 and 2007:

Parity Bonds	Call Provisions	Interest Rate %	Interest Rate %	Maturity Fiscal Year	Original Amount	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
HRB, Issue 2001, Series A	8/1/2011 @ 100%		5.00	2026	$ 36,180	36,180	-	-	36,180	-
HRB, Issue 2001, Series B	8/1/2011 @ 100%	5.25 -	5.50	2023	64,925	64,925	-	-	64,925	-
HRB, Issue 2002, Series A	8/1/2012 @ 100%		5.50	2016	63,520	50,735	-	4,740	45,995	5,000
HRB, Issue 2005, Series A	8/1/2015 @ 102%	3.25 -	5.00	2027	29,930	29,930	-	-	29,930	-
HRB, Issue 2005, Series B	8/1/2015 @ 102%	3.00 -	5.00	2027	30,110	30,110	-	-	30,110	125
HRB, Issue 2005, Series C-1	8/1/2015 @ 102%	3.50 -	5.00	2018	43,730	42,025	-	3,340	38,685	4,145
HRB, Issue 2006, Series A	8/1/2016 @ 102%		5.00	2027	200,710	197,760	-	8,360	189,400	7,545
HRB, Issue 2006, Series B	8/1/2016 @ 102%		5.00	2027	209,815	209,815	-	3,990	205,825	4,430
HRB, Issue 2006, Series C	8/1/2016 @ 102%		5.00	2026	16,545	16,545	-	-	16,545	235
HRB, Issue 2006, Series D	8/1/2016 @ 102%	4.50 -	5.00	2037	111,300	111,300	-	1,645	109,655	1,730
Total Parity Bonds					$ 806,765	789,325	-	22,075	767,250	23,210
Department of Boating and Waterways (DBW) Loans										
C#82-21-148			4.50	2014	$ 4,000	1,767	-	220	1,547	230
C#83-21-147			4.50	2015	4,000	1,930	-	206	1,724	215
Total DBW Loans					$ 8,000	3,697	-	426	3,271	445
Unamortized bond premium, net						27,906	-	1,616	26,290	
Deferred loss on refunding						(16,113)	-	(1,054)	(15,059)	
Current maturities of long-term debt						(22,501)	(24,248)	(23,094)	(23,655)	
Total long-term debt						$ 782,314	(24,248)	(31)	758,097	23,655

Long-term debt consists of the following at June 30, 2007 and 2006:

Parity Bonds	**Call Provisions**	**Interest Rate %**	**Interest Rate %**	**Maturity Fiscal Year**	**Original Amount**	**Balance July 1, 2006**	**Additions**	**Reductions**	**Balance June 30, 2007**	**Due Within One Year**
HRB, Issue 1996B	8/1/2006 @ 101%	5.25 -	6.25	2027	$ 300,000	37,260	-	37,260	-	-
HRB, Issue 1996B&C	11/1/2006 @ 101%	5.25 -	6.25	2027	320,000	268,555	-	268,555	-	-
HRB, Issue 2001, Series A	8/1/2011 @ 100%		5.00	2026	36,180	36,180	-	-	36,180	-
HRB, Issue 2001, Series B	8/1/2011 @ 100%	5.25 -	5.50	2023	64,925	64,925	-		64,925	-
HRB, Issue 2002, Series A	8/1/2012 @ 100%		5.50	2016	63,520	55,230	-	4,495	50,735	4,740
HRB, Issue 2005, Series A	8/1/2015 @ 102%	3.25 -	5.00	2027	29,930	29,930	-	-	29,930	-
HRB, Issue 2005, Series B	8/1/2015 @ 102%	3.00 -	5.00	2027	30,110	30,110	-	-	30,110	-
HRB, Issue 2005, Series C-1	8/1/2015 @ 102%	3.50 -	5.00	2018	43,730	43,730	-	1,705	42,025	3,340
HRB, Issue 2005, Series C-2	Non-callable		4.75	2007	4,090	4,090	-	4,090	-	-
HRB, Issue 2006, Series A	8/1/2016 @ 102%		5.00	2027	200,710	200,710	-	2,950	197,760	8,360
HRB, Issue 2006, Series B	8/1/2016 @ 102%		5.00	2027	-	-	209,815	-	209,815	3,990
HRB, Issue 2006, Series C	8/1/2016 @ 102%		5.00	2026	-	-	16,545	-	16,545	-
HRB, Issue 2006, Series D	8/1/2016 @ 102%	4.50 -	5.00	2037	-	-	111,300	-	111,300	1,645
Total Parity Bonds					$ 1,093,195	770,720	337,660	319,055	789,325	22,075
Commercial Paper Notes					$ 113,561	113,561	-	113,561	-	-
Department of Boating and Waterways (DBW) Loans										
C#82-21-148			4.50	2014	$ 4,000	1,978	-	211	1,767	220
C#83-21-147			4.50	2015	4,000	2,127	-	197	1,930	206
Total DBW Loans					$ 8,000	4,105	-	408	3,697	426
Unamortized bond premium, net						$ 15,587	13,033	714	27,906	
Deferred loss on refunding						(16,208)	(1,707)	(1,802)	(16,113)	
Current maturities of long-term debt						(90,503)	(22,501)	(90,503)	(22,501)	-
Total Debt						$ 797,262	326,485	341,433	782,314	22,501

(a) Bonds Payable

1996 Series A Bonds

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

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

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

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

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

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

1996 Series B and C Bonds

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

Interest on the 1996 Series B and C Bonds is payable semiannually on May 1 and November 1 of each year commencing May 1, 1997, with principal payments commencing November 1, 1997. The 1996 Series B and C Bonds consist of serial and term bonds maturing in amounts ranging from $340,000 to $21,960,000 at rates ranging from 4.875% to 6.25%.

The final maturity dates for 1996 Series B Bonds and 1996 Series C Bonds are November 1, 2026, and 2025, respectively. The term bonds are subject to mandatory early redemption. The bonds maturing on or after November 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after November 1, 2008 are subject to optional redemption without an early redemption premium. The 1996 Series B and C Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles.

The $21,350,000 of 1996 Series C Bonds was issued to advance refund $19,750,000 of outstanding 1995 Series A Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series A Bonds of $1,175,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through 2025 using the straight-line method.

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

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

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

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

2001 Series A Refunding Bonds

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

The outstanding balances on the 2001 Series A Refunding Bonds, net of unamortized discount of $870,566 and $921,776 and unamortized deferred amount on refunding of $793,166 and $839,823 were $34,516,268 and $34,418,401 at June 30, 2008 and 2007, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2009	$	-	1,809	1,809
2010		-	1,809	1,809
2011		-	1,809	1,809
2012		-	1,809	1,809
2013		-	1,809	1,809
2014-2018		-	9,045	9,045
2019-2023		-	9,018	9,018
2024-2026		36,180	2,689	38,869
Sub-total		36,180	29,797	65,977
Unamortized Deferred Amount on Refunding of 1995 Series B		(793)	-	(793)
Unamortized Discount		(871)	-	(871)
Total	$	34,516	29,797	64,313

2001 Series B Bonds

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

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

The outstanding balances on the 2001 Series B Refunding Bonds, net of unamortized premium of $725,427 and $777,243 and unamortized deferred amount on refunding of $2,994,396 and $3,208,281, were $62,656,031 and $62,493,962 at June 30, 2008 and 2007, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2009	$	-	3,547	3,547
2010		-	3,547	3,547
2011		-	3,547	3,547
2012		-	3,547	3,547
2013		-	3,547	3,547
2014-2018		18,365	16,523	34,888
2019-2023		46,560	6,456	53,016
Sub-total		64,925	40,714	105,639
Unamortized Deferred Amount on Refunding of 1995 Series B		(2,994)	-	(2,994)
Unamortized Premium		725	-	725
Total	$	62,656	40,714	103,370

2002 Series A 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 on August 1, 2002. The 2002 Series A Refunding Bonds with maturity ranging from August 1, 2004 to 2015, bear interest at a rate of 5.50%. The bonds maturing on or after August 1, 2012 are subject to optional redemption without an early redemption premium.

Prior to the Crossover Date, interest on the 2002 Series A Refunding Bonds were secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture. The outstanding balances on the 2002 Series A Refunding Bonds, net of unamortized premium of $1,277,077 and $1,457,371 and unamortized deferred amount on refunding of $1,096,429 and $1,251,219 were $46,175,648 and $50,941,152 at June 30, 2008 and 2007, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2009	$	5,000	2,392	7,392
2010		5,275	2,110	7,385
2011		5,565	1,812	7,377
2012		5,865	1,497	7,362
2013		6,190	1,166	7,356
2014-2016		18,100	1,391	19,491
Sub-total		45,995	10,368	56,363
Unamortized Deferred Amount on Refunding of 1995 Series B		(1,096)	-	(1,096)
Unamortized Premium		1,277	-	1,277
Total	$	46,176	10,368	56,544

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

2005 Series A Bonds

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

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

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

The outstanding balance on the 2005 Series A Bonds, plus the unamortized premium of $1,741,611 and $1,838,921 and unamortized deferred amount on refunding of $527,346 and $556,508 were $31,144,265 and $31,212,413 at June 30, 2008 and 2007, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2009	$	-	1,433	1,433
2010		-	1,433	1,433
2011		275	1,428	1,703
2012		1,285	1,401	2,686
2013		1,315	1,358	2,673
2014-2018		7,575	5,846	13,421
2019-2023		9,730	3,702	13,432
2024-2027		9,750	1,006	10,756
Sub-total		29,930	17,607	47,537
Unamortized Deferred Amount on Refunding of 1996 Series A		(527)	-	(527)
Unamortized Premium		1,742	-	1,742
Total	$	31,145	17,607	48,752

2005 Series B Bonds

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

Interest on the 2005 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series B Bonds with maturity dates ranging from August 1, 2008 to August 1, 2026, bear interest at rates from 3.00% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

Prior to the Crossover Date, interest on the 2005 Series B Bonds is payable from and secured solely by investment receipts from 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.

(Continued)

The outstanding balance on the 2005 Series B Bonds, plus the unamortized premium of $1,778,702 and $1,877,063 and unamortized deferred amount on refunding of $508,123 and $536,222 were $31,380,579 and $31,450,841 at June 30, 2008 and 2007, respectively.

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

	Annual Debt Service Requirement		
Fiscal Year	**Principal**	**Interest**	**Total**
2009	$ 125	1,434	1,559
2010	850	1,419	2,269
2011	1,200	1,382	2,582
2012	1,215	1,334	2,549
2013	1,280	1,284	2,564
2014-2018	7,455	5,458	12,913
2019-2023	9,575	3,347	12,922
2024-2027	8,410	783	9,193
Sub-total	30,110	16,441	46,551
Unamortized Deferred Amount on Refunding of 1996 Series B	(508)	-	(508)
Unamortized Premium	1,779	-	1,779
Total	$ 31,381	$ 16,441	47,822

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

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

The outstanding balances on the 2005 Series C Refunding Bonds, net of unamortized premium of $1,999,705 and $2,219,856 and unamortized deferred amount on refunding of $1,392,898 and $1,546,245, were $39,291,807 and $42,698,611 at June 30, 2008 and 2007, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2009	$	4,145	1,822	5,967
2010		1,540	1,680	3,220
2011		7,125	1,463	8,588
2012		15,290	903	16,193
2013		-	521	521
2014-2018		10,585	2,237	12,822
Sub-total		38,685	8,626	47,311
Unamortized Deferred Amount on Refunding of 1996 Series A & 1996 Series B		(1,393)	-	(1,393)
Unamortized Premium		2,000	-	2,000
Total	$	39,292	8,626	47,918

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.

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

The outstanding balance of the 2006 Series A Bonds, net of unamortized premium of $7,722,507 and $8,149,558 and unamortized deferred amount on refunding of $3,383,348 and $3,570,446 were $193,739,159 and $202,339,112 at June 30, 2008 and 2007, 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**
2009	$	7,545	9,281	16,826
2010		8,515	8,880	17,395
2011		1,270	8,635	9,905
2012		800	8,584	9,384
2013		7,015	8,388	15,403
2014-2018		43,835	35,643	79,478
2019-2023		55,125	23,597	78,722
2024-2027		65,295	7,001	72,296
Sub-total		189,400	110,009	299,409
Unamortized Deferred Amount on Refunding of 1996 Series A		(3,384)	-	(3,384)
Unamortized Premium		7,724	-	7,724
Total	$	193,740	110,009	303,749

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.

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 1996B Bonds.

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

The outstanding balance on the 2006 Series B Bonds, net of unamortized premium of $7,555,445 and $7,973,257 and unamortized deferred amount on refunding of $4,041,568 and $4,265,064 was $209,338,877 and $213,523,193 at June 30, 2008 and 2007, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2009	$	4,430	10,181	14,611
2010		5,975	9,920	15,895
2011		7,885	9,574	17,459
2012		-	9,377	9,377
2013		9,935	9,128	19,063
2014-2018		43,890	38,432	82,322
2019-2023		71,290	24,764	96,054
2024-2027		62,420	6,257	68,677
Sub-total		205,825	117,633	323,458
Unamortized Deferred Amount on Refunding of 1996 Series B		(4,042)	-	(4,042)
Unamortized Premium		7,556	-	7,556
Total	$	209,339	117,633	326,972

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.

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.

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

The outstanding balance on the 2006 Series C Bonds, net of unamortized premium of $918,253 and $972,005 and unamortized deferred amount on refunding of $320,205 and $338,949 was $17,143,048 and $17,178,056 at June 30, 2008 and 2007, 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**
2009	$ 235	821	1,056
2010	635	800	1,435
2011	665	767	1,432
2012	700	733	1,433
2013	730	697	1,427
2014-2018	4,250	2,885	7,135
2019-2023	5,415	1,681	7,096
2024-2026	3,915	299	4,214
Sub-total	16,545	8,683	25,228
Unamortized Deferred Amount on Refunding of 1996 Series C	(320)	-	(320)
Unamortized Premium	918	-	918
Total	$ 17,143	8,683	25,826

The 2006 Series C refunding transactions resulted in an economic gain of $1,217,279 and a reduction of $1,552,163 in future debt service payments.

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, 2014 are subject to optional redemption at the redemption price of 101%.

The outstanding balance on the 2006 Series D Bonds, net of unamortized premium of $3,440,453 and $3,562,962 was $113,095,453 and $114,862,962 at June 30, 2008 and 2007, respectively.

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

		Annual Debt Service Requirement		
Fiscal Year		**Principal**	**Interest**	**Total**
2009	$	1,730	5,368	7,098
2010		1,820	5,279	7,099
2011		1,915	5,186	7,101
2012		2,010	5,088	7,098
2013		2,115	4,984	7,099
2014-2018		12,310	23,180	35,490
2019-2023		15,810	19,683	35,493
2024-2028		20,295	15,202	35,497
2029-2033		25,825	9,670	35,495
2034-2037		25,825	2,571	28,396
Sub-total		109,655	96,211	205,866
Unamortized Premium		3,440	-	3,440
Total	$	113,095	96,211	209,306

Bond Premium and Discount

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

Bond Issue		2008 (Discount) Premium	2007 (Discount) Premium
2001A	$	(871)	(922)
2001B		725	777
2002A		1,277	1,457
2005A		1,742	1,838
2005B		1,779	1,877
2005C-1		2,000	2,220
2006A		7,724	8,151
2006B		7,556	7,973
2006C		918	972
2006D		3,440	3,563
Total	$	26,290	27,906

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

Fiscal Year Ending	Principal	Interest	Total
2009	$ 23,655	38,235	61,890
2010	25,075	37,004	62,079
2011	26,386	35,709	62,095
2012	27,673	34,357	62,030
2013	29,111	32,944	62,055
2014-2018	167,200	140,690	307,890
2019-2023	214,595	92,248	306,843
2024-2028	205,175	33,237	238,412
2029-2033	25,825	9,670	35,495
2034-2037	25,826	2,572	28,398
Subtotal	770,521	456,666	1,227,187
Unamortized bond (discount) premium, net	26,290	-	26,290
Deferred loss on refunding	(15,059)	-	(15,059)
Current maturities of long term debt	(23,655)	-	(23,655)
Total debt service payments	$ 758,097	456,666	1,214,763

(b) Other Debt

Commercial Paper

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

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

At June 30, 2008 and 2007, the outstanding Commercial Paper balance was zero.

California Department of Boating and Waterways

The Port obtained two loans aggregating $8,000,000 from the California Department of Boating and Waterways. The notes currently bear interest at 4.5%. The Port makes annual payments of interest and principal and the notes will mature in 2014 and 2015, respectively. The Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's Parity Obligations on the Harbor Revenue Funds. The outstanding balances on such notes were $3,270,841 and $3,696,946 at June 30, 2008 and 2007, respectively.

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

Fiscal year	Principal	Interest	Total
2009	$ 445	147	592
2010	465	127	592
2011	486	106	592
2012	508	84	592
2013	531	61	592
2014-2015	836	51	887
Total	$ 3,271	576	3,847

(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 bonds in the defeasance escrows held by the trustee at June 30, 2008 and 2007 were as follows (in thousands):

	2008	**2007**
1988 Bonds	$ 84,665	89,525

(d) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2008 and 2007 was as follows (in thousands):

	July 1, 2007	Additions	Reductions	June 30, 2008	Due within one year
Revenue bonds payable	$ 789,325	—	(22,075)	767,250	23,210
Less unamortized discount/premium	27,906	—	(1,616)	26,290	—
Unamortized deferred amount on refunding	(16,113)	—	1,054	(15,059)	—
Total revenue bonds payable	801,118	—	(22,637)	778,481	23,210
Notes payable	3,697	—	(426)	3,271	445
Unearned revenue and other deferred credit	358	1,507	—	1,865	1,865
Accrued employee benefits	20,729	—	(2,151)	18,578	10,626
Other liabilities (notes 7, 16, 18 and 19)	84,782	49,135	(34,593)	99,324	82,004
Total long-term liabilities	$ 910,684	50,642	(59,807)	901,519	118,150

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

(6) Employee-Deferred Compensation Plan

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

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

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

(7) Risk Management

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

Claims 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, 2008 and 2007, approximately $8,733,000 and $15,055,000, 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, 2008 and 2007 are as follows (in thousands):

		Beginning liability	Current year claims and Estimate changes	Claim payments	Balance at Fiscal year end
2007 – 2008:					
Workers' compensation	$	8,400	2,812	(2,579)	8,633
General liability/litigation		6,655	(6,459)	(96)	100
2006 – 2007:					
Workers' compensation	$	8,400	1,440	(1,440)	8,400
General liability/litigation		38,075	(3,377)	(28,043)	6,655

(8) Leases, Rentals, and Revenue Sharing Agreements

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

These lease agreements are intended to be long-term in nature (as long as 30 years) and to provide the Port with a firm tenant commitment for a minimum fixed-income stream. Many agreements also provide for additional payment beyond the fixed portion, based upon tenant usage, revenues, or volume. These agreements are also generally subject to periodic inflationary escalation of base amounts due the Port. For the years ended June 30, 2008 and 2007, the minimum rental income from such agreements aggregated approximately $259,495,000 and $248,278,000, respectively.

The property on lease at June 30, 2008 consists of the following (in thousands):

Wharves and sheds	$	660,308
Cranes and bulk facilities		56,640
Municipal warehouses		10,647
Port pilot facilities and equipment		6,116
Buildings and other facilities		740,359
Cabrillo Marina		41,772
		1,515,842
Less accumulated depreciation		(690,974)
Total	$	824,868

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

Year ended June 30:		
2009	$	260,406
2010		260,953
2011		261,901
2012		262,867
2013		263,852
Total	$	1,309,979

(9) 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 of Los Angeles, California, a single employer defined benefit pension plan. LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS. The Port makes contributions to LACERS for its pro rata share of retirement costs attributable to its employees. 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 $13,765,000 (100% of ARC), $10,908,000 (100% of ARC) and $8,577,000 (100% of ARC) for the years ended June 30, 2008, 2007, and 2006, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

(Continued)

LACERS's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The current year contribution requirement was determined based on the June 30, 2006 and prior year was determined based on June 30, 2005 actuarial valuation, using the following actuarial assumptions (same in both years):

	LACERS
Actuarial valuation date	June 30, 2006 and 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75% - 10%
Inflation rate	3.75%
Cost of living adjustments	3%

The City and member contribution rates for the year ended June 30, 2008 and 2007 are as follows:

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

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for fiscal year 2008 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	06/30/08	$ 286,368	100%	$ (79,972)
	06/30/07	276,190	100%	(81,723)
	06/30/06	227,006	100%	(83,049)

The City allocated a pro rata share of its net pension obligation to the Port and the amounts recorded at June 30, 2008 and 2007 were $2,367,000 and $2,172,000, respectively.

(c) Funded Status of LACERS

Based upon available data, the following is funded status information for the plan as of the most recent actuarial valuation dated June 30, 2008, separate information for the Port is not available (dollars in thousands):

	LACERS
Actuarial Accrued Liability (AAL)	$ 11,186,404
Actuarial Value of Assets	9,438,318
Underfunded AAL	1,748,086
Funded Ratio	84.4%
Covered Payroll	$ 1,977,645
Underfunded AAL as a percentage of covered payroll	88.4%

The funded status of the plan as of June 30, 2008 was based on the following actuarial assumptions:

	LACERS
Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75% - 12.25%
Inflation rate	3.75%
Cost of living adjustments	3%

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as Required Supplementary Information (RSI) on page 98, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

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

(d) Other Postemployment Benefits (OPEB)

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

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

The City's annual required contribution rate for OPEB was 5.5% and 6.1% of annual covered payroll for 2008 and 2007, and was determined based on the June 30, 2006 and 2005 actuarial valuations, respectively. Significant methods and assumptions are as follows (same in both years):

	LACERS OPEB
Actuarial valuation date	June 30, 2006 and 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	12% graded down over 7 years to ultimate rate of 5%
Dental	5%

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2008 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	06/30/08	$ 108,849	100%	-
	06/30/07	115,233	100%	-
	06/30/06	76,116	100%	-

From the most recent data made available by the City, as of June 30, 2008, LACERS membership consists of 30,236 active plan participants and 14,975 retired members. Also as of June 30, 2008, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total underfunded health benefit subsidy applicable to LACERS as a whole was approximately $585,123,000 as follows (dollars in thousands):

	LACERS OPEB
Actuarial Accrued Liability (AAL)	$ 1,928,043
Actuarial Value of Assets	1,342,920
Underfunded AAL	585,123
Funded Ratio	69.7%
Covered Payroll	$ 1,977,645
Underfunded AAL as a percentage of covered payroll	29.6%

The funded status of the OPEB plan as of June 30, 2008 was based on the following actuarial assumptions:

	LACERS OPEB
Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates	
Medical	8.75% graded down over 8 years to ultimate rate of 5%
Dental	5%

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as RSI on page 98, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

City of Los Angeles Fire and Police Pensions

(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 “non-sworn” 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 current year contribution requirement was determined based on the June 30, 2006 actuarial valuation, using the following actuarial assumptions:

	LAFPP
Actuarial valuation date	June 30, 2006
Actuarial cost method	Entry age Normal
Amortization method	Level dollar - Tier 1 Level percent of payroll- Tiers 2, 3, 4, & 5
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.90% - 10.09%
Inflation rate	3.75%
Cost of living adjustments	3.75% - Tiers 1 & 2 3% - Tiers 3, 4, & 5

The City and member contribution rates for the year ended June 30, 2008 are as follows:

Contribution rates:	LAFPP
City	21.7 % of covered payroll
Plan members	6% - Tier 1 7% - Tier 2 8% - Tier 3 & 4 9% - Tier 5

The City's annual pension cost and the percentage of annual pension cost contributed to the plan for fiscal year 2008 and the two preceding years for the plan are as follows (dollars in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
LAFPP	06/30/08	$ 261,635	100%
	06/30/07	224,946	100%
	06/30/06	143,946	100%

(Continued)

(c) Funded Status of LAFPP

Based upon available data, the following is funded status information for the plan as of June 30, 2008, separate information for the Port is not available (in thousands):

	LAFPP
Actuarial Accrued Liability (AAL)	$ 14,279,116
Actuarial Value of Assets	14,153,296
Underfunded AAL	125,820
Funded Ratio	99.1%
Covered Payroll	$ 1,206,589
Underfunded AAL as a percentage of covered payroll	10.43%

(Continued)

The funded status of the plan as of June 30, 2008 was based on the following actuarial assumptions:

	LAFPP
Actuarial valuation date	June 30, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar - Tier 1 Level percent of payroll- Tiers 2, 3, 4, & 5
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.9% - 10.09%
Inflation rate	3.75%
Cost of living adjustments	3.75% - Tiers 1 & 2 3% - Tiers 3, 4, &5

(Continued)

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as RSI on page 99, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Other contribution information and ten-year historical trend information can be found in LAFPP's Comprehensive Annual Financial Report. Copies of LAFPP's Comprehensive Annual Financial Report can be obtained from LAFPP, 360 East Second Street, Suite 400, Los Angeles, California 90012.

(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 required contribution rate for OPEB was 4.9% of annual covered payroll and was determined based on the June 30, 2006 actuarial valuation. Significant methods and assumptions are as follows:

	LAFPP OPEB
Actuarial valuation date	June 30, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization Period	29 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.25%
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	9% graded down by .5% per year for 8 years to ultimate rate of 5%
Dental	5%

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2008 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	06/30/08	$ 99,615	79%	(21,358)
	06/30/07	55,163	100%	-
	06/30/06	31,413	100%	-

From the most recent data made available by the City, as of June 30, 2008, LAFPP membership consists of 13,495 active plan participants, 81 vested terminated members, and 12,182 retired members and beneficiaries. Also as of June 30, 2008, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total underfunded health benefit subsidy applicable to LAFPP, as a whole was approximately $1,069,193,000 as follows (in thousands):

	LAFPP OPEB
Actuarial Accrued Liability (AAL)	$ 1,836,840
Actuarial Value of Assets	767,648
Underfunded AAL	1,069,193
Funded Ratio	41.8%
Covered Payroll	$ 1,206,589
Underfunded AAL as a percentage of covered payroll	88.6%

The funded status of the OPEB plan as of June 30, 2008 was based on the following actuarial assumptions:

	LAFPP OPEB
Actuarial valuation date	June 30, 2008
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization Period	29 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.25%
Inflation rate	3.75%
Healthcare cost trend rates Medical	9% graded down .5% per year over 8 years to ultimate rate of 5%
Dental	5%

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and

(Continued)

the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as RSI on page 99, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(10) Notes Receivable

(a) City of Los Angeles Settlement

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

It is and has been the policy of the Port to pay the City all of the amounts to which the City is entitled. In light of these studies, the Board of Harbor Commissioners adopted a resolution providing for the reimbursement to the City of certain expenditures incurred by the City on behalf of the Port, but which 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 with the City was executed on June 27, 1997 (1997 MOU).

The California State Lands Commission is responsible for oversight of the State's Tideland Trust Lands. This Commission, together with the State Office of Attorney General, has expressed concerns regarding the methodologies employed in the studies and whether such transfers of monies from the Port to the City comply with the criteria for compliance with applicable California State Tidelands Trust Land laws. Prior to the adoption of the above-referenced resolution, the California State Lands Commission officials and the Office of the Attorney General requested the Board of Harbor Commissioners to postpone any decision involving these trust funds until 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

(Continued)

reimbursement for payments made by the Port to the City for retroactive billings for City services provided during the period July 1, 1977 through June 30, 1994, inclusive, pay the Port $53,400,000 in principal plus 3% simple interest over a 15-year period.

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

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

Accordingly, the Port of Los Angeles had recorded the amount due from the City as a note receivable of $32,265,000 and $36,348,000 and a current portion of notes receivable of $4,083,000 and $3,962,000 as of June 30, 2008 and 2007, respectively.

(b) Note Receivable – LAXT

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

(c) Note Receivable – Yusen

In order to settle the then outstanding $2,350,867 terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of $106,857. To record the transaction, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1,476,887, with the balance of $873,980 recognized as the Port's capital assets in fiscal year 1995. The note matures in October 2015. The balance outstanding on the Yusen note is $690,639 and $759,520 at June 30, 2008 and 2007, respectively.

(11) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $290,152,000 as of June 30, 2008. 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 2008 or 2007.

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

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

Alameda Corridor Transportation Authority Agreement (ACTA)

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

In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroad companies to pay certain use fees and container charges (Use Fees), which ACTA will assess for the privilege of using the corridor to transport cargo into and out of the Ports. ACTA 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. ACTA notified the two ports in March 2008 that no Shortfall payment was required for the fiscal year ending June 30, 2008 due to transfers from other available sources and that the total amount of the Shortfall payment for FY 2007-08 is estimated to be zero.

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

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, 2008 there has been no drawdown made by CRALA from this line of credit.

Trapac Project and Environmental Impact Report

On December 6, 2007, the Board of Harbor Commissioners (Board) 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 approved a Memorandum of Understanding (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 MOU provides that the Port’s first year funding to be placed in the Community Mitigation Trust Fund is estimated at $11,240,000 geared towards the identified Trapac projects in the MOU. Contributions from the Port to the Fund over the subsequent four years of the initial MOU term may vary based on the volume of cargo processed at the Port.

(12) Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate $35,443,000 and $34,737,000 in fiscal years 2008 and 2007, respectively.

(13) Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During the years ended June 30, 2008 and 2007, the Port reported capital contributions of $14,161,000 and $4,145,000 respectively, for certain capital construction and grant projects.

(14) Los Angeles Export Terminal

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

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

As a result of this settlement, certain Port capital assets that are related to LAXT operations have suffered permanent impairment of their value and are due for demolition. The Port charged a total of $22,291,000 as a special item in fiscal year 2007 and reduced the book value of these impacted assets to zero.

(15) Natural Resources Defense Council Settlement Judgment

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

The terms of the agreement require that the Port fund various mitigation activities in the amount of $10 million per year over a five-year term ending fiscal year 2007. As of June 30, 2008, a total of $50.0 million has been transferred from Harbor Revenue Fund to the restricted mitigation funds.

Pursuant to the settlement, the Port is also obligated to expend up to $5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2008, 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.

(Continued)

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 2007 and 2006 and in May 2008 and in April 2007 the Port charged to non-operating expense and deposited in the restricted mitigation funds an additional $5,767,000 and $3,862,050, respectively.

As of June 30, 2008 the Port has disbursed a total of $22.3 million, $3.1 million of this amount was made in FY 2008, as provided in accordance with the provisions of the settlement.

(16) China Shipping Settlement Agreement

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

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

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

An individual has brought a lawsuit under the Federal Civil False Claims Act against the Port, the City, and the Port's former Executive Director, challenging the use by the Port of certain federal funds obtained 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. The defendants, including the City, filed motions to have the court dismiss the complaint or grant judgment in their favor. On August 11, 2006, the Court granted the City's and Port's motion to disqualify the plaintiff, on the grounds that the plaintiff is not an attorney and therefore cannot represent the interests of the United States or the State in the action, and dismissed the lawsuit. Subsequently the plaintiff brought motions to vacate the dismissal and to allow the substitution of an attorney. The trial court denied both of these motions. On October 13, 2006 the plaintiff in proper filed a notice of appeal seeking review of three court orders: the August 14, 2006 order granting defendant's motion to disqualify relator and dismiss his claims, the October 6, 2006 order denying relator's motion for substitution of counsel, and the October 6, 2006 order denying relator's motion to vacate order of dismissal. The relator Stanley Mosler appealed the dismissal of the action to the Ninth Circuit. While the appeal was pending, the trial court judge issued a memorandum indicating that he may not have given the relator adequate notice that dismissal would result from his failure to have counsel. While the matter was pending on appeal, the relator retained counsel. The Ninth Circuit allowed the trial court to reconsider and vacate its prior order of dismissal. Recently, the Ninth Circuit has issued rulings dismissing the pending appeals and granting remand to the trial court. The parties anticipate further proceedings on the merits of the case in the trial court that should lead to a final adjudication.

(18) Asbestos Removal Liabilities

The Port acquired the U.S. Customs House property on Terminal Island from the U.S. General Services Administration in 2005. The Port is aware of the fact that the U.S. Customs House facility is in need of asbestos abatement. The estimate for removal of asbestos materials and lead-based paint materials is $3,000,000. The Port would incur these asbestos removal costs if the Port's future use of the site requires demolition of the existing structure. Development of the site would require future Board action and approval. The Port has accrued the $3,000,000 asbestos removal liability in the financial statements as of June 30, 2008 and 2007.

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

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

Westway Terminal vacated the San Pedro premises effective September 15, 2008. In accordance with the terms of the Settlement Agreement, the Port wired the $17 million to the account of Westway Terminal on October 2, 2008, within 30 calendar days after the Vacate and Surrender Date. This amount was accrued as of June 30, 2008.

(20) Subsequent Events

(a) Cash Funding of Reserve Fund

As of June 30, 2008, the Department had $767,250,000 of outstanding parity bonds. Each Indenture for the outstanding bonds requires the Department to establish a reserve fund and authorizes the Department 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 Department's outstanding bonds.

Until December 2007, these three bond insurers maintained "AAA" ratings from the three rating agencies: Fitch, Moody's, and Standard & Poor's (S&P). Starting in January 2008, the rating agencies began downgrading the bond insurers. The Department 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 Department opted to cash fund its reserve funds in order to comply with its bond covenants. In so doing, the Board of Harbor Commissioners on September 18, 2008 approved the one-time cash funding of the entire reserve requirement of $61,519,938 to be transferred from the Harbor Emergency Fund (Fund 751) to the Department's bond trustee prior to December 2008.

(b) Financial Market Volatility

Subsequent to June 30, 2008, investment market conditions have resulted in an unusually high degree of volatility and increased risks associated with certain investments held by the City of Los Angeles that could impact the value of investments after the date of this financial statements. The Port has proportionate share in the City Treasurer's General Investment Pool, which is managed by the City Treasurer according to their investment policies. The future potential adverse impact of the economic downturn on the market value of these pool investments will be determined by the changes in the fair market value of the City Treasurer's General Investment Pool with the Port's proportionate share. The impact of these future events cannot be determined at this time.

Schedules of Funding Progress

June 30, 2008

(1) Los Angeles City Employees' Retirement System (LACERS)

a) Retirement Plan

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

**Retirement Plan
Schedule of Funding Progress
(in thousands)**

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	$9,870,662	$ 7,674,999	$(2,195,663)	77.8%	$1,733,340	(126.7)%
2007	10,526,874	8,599,700	(1,927,174)	81.7%	1,896,609	(101.6)%
2008	11,186,404	9,438,318	(1,748,086)	84.4%	1,977,645	(88.4)%

b) Other Postemployment Benefits (OPEB)

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

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

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	$ 1,730,799	$ 990,270	$ (740,529)	57.2%	$1,733,340	(42.7)%
2007	1,730,400	1,185,544	(544,856)	68.5%	1,896,609	(28.7)%
2008	1,928,043	1,342,920	(585,123)	69.7%	1,977,645	(29.6)%

(Continued)

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

Required Supplemental Information (Unaudited)

Schedules of Funding Progress

June 30, 2008

(2) Los Angeles Fire and Police Pensions (LAFPP)

a) Retirement Plan

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

Retirement Plan
Schedule of Funding Progress
(in thousands)

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	$ 12,811,384	$ 12,121,403	$ (689,981)	94.6%	$ 1,092,815	(63.1)%
2007	13,324,089	13,215,668	(108,421)	99.2%	1,135,592	(9.5)%
2008	14,279,116	14,153,296	(125,820)	99.1%	1,206,589	(10.4)%

b) Other Postemployment Benefits Healthcare Plans

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

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

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	$ 1,631,187	$ 613,782	$ (1,017,405)	37.6%	$ 1,092,814	(93.1)%
2007	1,656,653	687,096	(969,557)	41.5%	1,135,592	(85.4)%
2008	1,836,840	767,647	(1,069,193)	41.8%	1,206,589	(88.6)%

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

Capital Development Program Budget

Fiscal Year 2008/2009

(In thousands of dollars)

Project description		**Estimated expenditure**
Terminal Improvements, General	$	143
Minor Capital Projects		1,650
POLA Administrative Building Modifications		3,380
Environmental Assessment & Remediation		2,093
World Cruise Center - General Improvements		8,413
Berth 161 - Maintenance - Yard Improvements		2,682
Wilmington Waterfront		25,436
Berths 97-115 Redevelopment		1,955
West Channel Cabrillo Beach Recreation Complex - Phase II		14,076
Harry S. Bridges Blvd. Improvement		2,745
Berths 142-147 Terminal Redevelopment		18,119
Pier 300 - Wharf & Backland Improvements		12,451
Berths 225-236 Container Terminal Redevelopment		830
Main Channel Deepening		583
Pier A Street Yard Redevelopment		201
Berths 115-131 Redevelopment		2,146
Waterfront Red Car Line		698
Berths 212-225 Backland Development		3,353
Harbor Wide Beautification Projects		363
San Pedro Waterfront Project - San Pedro Waterfront		14,877
San Pedro Waterfront Project - Cabrillo Beach Improvements		8,330
Port-Wide Transportation Improvements		6,520
B. 206-211 Redevelopment		402
Pacific Energy Liquid Bulk Terminal		1,216
Port Security		18,059
LA Port Police Headquarters		23,599
San Pedro Waterfront Project - B. 46-72 Warehouse District		2,145
San Pedro Waterfront Project - B. San Pedro Downtown Harbor		2,562
San Pedro Waterfront Project - B. 73 Fisherman's Wharf		1,102
San Pedro Waterfront Project - Ports-O-Call		1,660
Alternative Maritime Power Port-wide		24,144
B. 258 - 269 (Fish Harbor) Rehabilitation		2,580
Intermodal Container Transfer Facility (ICTF) South		446
San Pedro Slip Improvements		1,971
B. 191-194 Improvements		915
Marine Oil Terminal Engineering		8,452
POLA Tree Planting Program		192
Port-Wide Solar Panel Program		13,506
B. 45-50 - Outer Harbor		2,165
Supplemental Eng./Arch.Services		28,343
Total Estimated Capital Improvement Program Cost	$	**264,503**

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
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Schedule of Net Assets by Components

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net assets:											
Invested in capital assets, net of related debt	$	1,299,889	1,347,288	1,446,072	1,682,470	1,786,780	1,853,776	1,890,002	1,854,468	1,931,037	1,985,653
Restricted		197	204	29	195	95	17	16	63,917	62	9
Unrestricted		206,269	238,278	299,319	179,093	143,921	157,833	216,678	282,922	406,770	491,381
Total net assets	$	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,477,043

PORT OF LOS ANGELES
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Schedule of Key Information on Revenue Statistics

Last Ten Fiscal Years

(Unaudited)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Rates:										
General cargo tariff rate	$ 5.15	5.67	5.67	5.67	5.95	5.95	5.95	6.25	6.25	6.25
Basic dockage (600')	2,033	2,236	2,236	2,236	2,236	2,348	2,348	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)	3.51	4.37	4.99	5.63	6.70	7.35	7.27	7.80	8.66	8.08
Revenue tons (million):										
General cargo	66.8	81.9	97.6	107.1	131.9	146.3	145.0	155.2	171.9	161.9
Liquid bulk	10.2	12.5	10.9	12.9	11.4	11.9	12.8	22.8	15.4	6.2
Dry bulk	5.1	7.1	5.4	6.2	4.2	3.9	4.3	3.6	2.8	1.9
Total	82.1	101.5	113.9	126.2	147.5	162.1	162.1	181.6	190.1	170.0
Vessel arrivals	2,683	3,060	2,899	2,778	2,845	2,812	2,646	2,771	2,920	2,467
Cruise passengers	998,086	1,110,053	1,073,357	1,099,552	1,057,293	803,308	1,097,204	1,205,947	1,194,984	1,191,449
Vehicles	272,348	388,619	312,248	314,986	347,067	213,933	242,024	232,149	144,068	185,978

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

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating revenues:										
Shipping services	$ 171,798	208,436	232,749	248,624	281,700	293,977	315,615	353,390	369,972	374,878
Rentals	37,494	35,594	36,554	34,691	36,563	33,261	34,630	33,876	40,322	45,524
Royalties, fees, and other operating revenues	3,329	5,059	4,195	5,362	5,013	5,016	5,384	4,893	6,867	5,943
Total operating revenues	212,621	249,089	273,498	288,677	323,276	332,254	355,629	392,159	417,161	426,345
Operating and administrative expenses:										
Salaries and benefits	39,863	35,274	39,554	40,682	44,427	53,165	58,182	65,705	74,313	95,444
Marketing and public relations	1,648	2,229	2,385	3,064	3,654	3,769	3,455	3,333	4,521	5,274
Travel and entertainment	567	557	716	713	658	758	743	822	604	1,128
Outside services	13,339	12,715	16,583	21,468	21,971	32,104	39,672	33,673	33,277	37,937
Material and supplies	3,373	3,069	3,108	3,508	3,771	4,682	5,320	5,400	5,813	8,950
City services and payments	20,574	22,961	20,395	19,210	18,525	18,729	22,361	20,821	28,640	27,101
Other operating expenses	7,549	7,189	7,275	10,632	55,409	16,967	41,158	54,378	16,607	45,918
Total operating and administrative expenses	86,913	83,994	90,016	99,277	148,415	130,174	170,891	184,132	163,775	221,752
Income from operations before depreciation	125,708	165,095	183,482	189,400	174,861	202,080	184,738	208,027	253,386	204,593
Depreciation	56,081	56,205	63,187	59,680	59,365	67,934	70,040	98,779	88,106	78,295
Operating income	69,627	108,890	120,295	129,720	115,496	134,146	114,698	109,248	165,280	126,298
Nonoperating revenues/(expenses):										
Income from investments in JPAs and other entities	1,662	2,146	4,485	4,912	3,717	2,795	3,543	4,302	4,675	4,440
Interest and investment income	11,041	12,432	20,092	11,003	11,430	2,298	7,266	9,582	23,773	34,863
Interest expense	(36,611)	(37,300)	(45,983)	(47,555)	(44,293)	(43,034)	(42,279)	(37,787)	(50,038)	(38,052)
Other income and expenses, net	(2,873)	(2,716)	(1,146)	(1,123)	(18,698)	(13,724)	11,842	7,222	11,018	(2,536)
Net nonoperating expenses	(26,781)	(25,438)	(22,552)	(32,763)	(47,844)	(51,665)	(19,628)	(16,681)	(10,572)	(1,285)
Income before capital contributions	42,846	83,452	97,743	96,957	67,652	82,481	95,070	92,567	154,708	125,013
Capital contributions	5,582	2,809	7,500	17,203	1,386	867	—	2,044	4,145	14,161
Special item	—	—	61,752	2,178	—	—	—	—	(22,291)	—
Deletions of capital contribution	(17,378)	(6,846)	(7,345)	—	—	(2,518)	—	—	—	—
Changes in net assets	31,050	79,415	159,650	116,338	69,038	80,830	95,070	94,611	136,562	139,174
Total net assets – beginning of year	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869
Total net assets – end of year	$ 1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,477,043

See accompanying independent auditors' report.

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

Schedule of Revenue Tonnage by Trade Routes

Last Ten Fiscal Years

(Unaudited)

(In thousands of metric revenue tons)

Trade routes	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Far East	61,140	73,707	83,727	102,482	131,304	143,005	142,385	151,971	166,277	158,442
Domestic	9,770	9,905	9,465	10,979	10,171	8,808	8,408	15,941	9,750	4,899
Australia and New Zealand	2,629	2,797	2,755	3,233	3,004	3,649	3,716	4,204	4,577	2,203
Western Mexico, Central and Western S. America	3,317	2,960	3,185	2,332	2,246	2,077	1,797	1,360	1,586	1,311
India, Persian Gulf, and Red Sea	4,610	5,485	2,225	2,614	1,970	1,795	1,888	2,502	2,258	1,455
Eastern South America	722	1,665	1,009	1,665	988	754	1,099	1,409	800	542
Western Europe	1,727	1,496	1,953	1,671	882	960	1,128	1,752	1,642	339
Caribbean	853	930	860	676	612	1,102	1,369	1,432	1,273	906
Mediterranean	593	560	148	206	159	157	151	227	165	208
Africa	19	31	88	77	94	54	188	25	28	37
Advance Wharfage and Accruals	(3,252)	1,973	8,539	(2,523)	(3,887)	(292)	(20)	811	1,749	(371)
Total	82,128	101,509	113,954	123,412	147,543	162,069	162,109	181,634	190,105	169,971

Percentage of total volume Trade routes	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Far East	74.4%	72.6%	73.5%	83.0%	89.0%	88.2%	87.8%	83.7%	87.5%	93.2%
Domestic	11.9%	9.8%	8.3%	8.9%	6.9%	5.4%	5.2%	8.8%	5.1%	2.9%
Australia and New Zealand	3.2%	2.8%	2.4%	2.6%	2.0%	2.3%	2.3%	2.3%	2.4%	1.3%
Western Mexico, Central and Western S. America	4.0%	2.9%	2.8%	1.9%	1.5%	1.3%	1.1%	0.7%	0.8%	0.8%
India, Persian Gulf, and Red Sea	5.6%	5.4%	2.0%	2.1%	1.3%	1.1%	1.2%	1.4%	1.2%	0.9%
Eastern South America	0.9%	1.6%	0.9%	1.3%	0.7%	0.5%	0.7%	0.8%	0.4%	0.3%
Western Europe	2.1%	1.5%	1.7%	1.4%	0.6%	0.6%	0.7%	1.0%	0.9%	0.2%
Caribbean	1.0%	0.9%	0.8%	0.5%	0.4%	0.7%	0.8%	0.8%	0.7%	0.5%
Mediterranean	0.7%	0.6%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Africa	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%
Advance Wharfage and Accruals	(4.0)%	1.9%	7.5%	(2.0)%	(2.6)%	(0.2)%	(0.0)%	0.4%	0.9%	(0.2)%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

See accompanying independent auditors' report.

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

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating revenues (1)	$	212,621	249,089	273,498	288,677	323,276	332,254	355,629	392,159	417,161	426,345
Operating expenses (2)		86,913	83,994	90,016	99,277	148,415	130,174	170,891	184,132	163,775	221,752
Net available revenue (3) = (1) – (2)		125,708	165,095	183,482	189,400	174,861	202,080	184,738	208,027	253,386	204,593
Debt service, revenue bonds		53,343	53,336	53,333	54,310	54,097	57,994	58,515	58,673	71,117	61,321
Debt service, commercial papers					—	988	1,029	2,021	3,431	792	—
Total debt service (4)	$	53,343	53,336	53,333	54,310	55,085	59,023	60,536	62,104	71,909	61,321
Coverage (5) = (3) / (4)		2.4	3.1	3.4	3.5	3.2	3.4	3.1	3.3	3.5	3.3
Net cash flow from operations (6)	$	136,803	167,228	200,342	176,083	215,117	208,762	226,037	201,575	246,665	252,898
Coverage (7) = (6) / (4)		2.6	3.1	3.8	3.2	3.9	3.5	3.7	3.2	3.4	4.1

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

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

PORT OF LOS ANGELES
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Highlights of Operating Information

Last Ten Fiscal Years

(Unaudited)

(In millions of dollars)

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cash:											
Cash balance – Harbor revenue fund	$	192.6	201.6	246.4	74.2	84.5	117.3	211.2	256.3	380.1	488.9
Cash balance – Restricted		73.5	73.5	82.7	87.2	97.1	107.3	122.4	201.3	158.3	168.3
Property:											
Total property	$	2,576.8	2,675.5	2,810.9	3,120.2	3,346.0	3,471.4	3,556.1	3,664.0	3,720.4	3,816.7
Allowance for depreciation		480.1	535.0	594.0	653.4	711.8	764.2	833.7	931.3	994.0	1,058.2
Net property	$	2,096.7	2,140.5	2,216.9	2,466.8	2,634.2	2,707.2	2,722.4	2,732.7	2,726.4	2,758.5
Construction and maintenance:											
Additions to properties	$	0.3	542.3	154.2	330.4	227.8	208.0	85.3	109.3	104.2	117.7
Maintenance expenses		12.3	13.1	12.4	13.4	15.2	17.4	18.4	21.0	23.5	28.1
Employees:											
Salaries	$	38.5	37.5	39.0	41.2	43.9	48.9	53.0	56.9	64.9	75.9
Number of employees		577	541	542	557	594	634	659	706	737	850