PORT OF LOS ANGELES

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA

Comprehensive Annual Financial Report
June 30, 2017 and 2016

THE PORT OF LOS ANGELES

CITY OF LOS ANGELES FOUNDED 1781

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

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016

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

INTRODUCTORY SECTION

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

December 18, 2017

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

This Comprehensive Annual Financial Report (CAFR) of the Port of Los Angeles(the Port), Harbor Department of the City of Los Angeles, California (the City), for the years ended June 30, 2017 and 2016, is hereby submitted.

Introduction

The management of the Port has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the fiscal years ended June 30, 2017 and 2016, which have received an unmodified opinion from the Port's independent auditors and are presented in accordance with generally accepted accounting principles (GAAP). The report is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section outlines the relationship of the Port to the City and describes the organization and reporting entity. It additionally provides an overview of Port properties, operations, and key personnel.

The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis, Basic Financial Statements, and Required Supplementary Information. Management's Discussion and Analysis presents a comparative review of financial position and changes in financial position for fiscal years 2017, 2016, and 2015. Also included in this section are a description of current and proposed capital development plans, a discussion of revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The basic financial statements are prepared on an accrual basis and use an economic resources measurement focus. The basic financial statements comprise the statements of net position that present the financial position as of June 30, 2017 and 2016, statements of revenues, expenses, and changes in net position depicting financial performance for fiscal years 2017 and 2016, statements of cash flows that present the source and application of funds from operations, financing (noncapital and capital related), and investment activities for fiscal years 2017 and 2016, and notes to the basic financial statements. The accompanying notes to the basic financial statements further explain and support the information in the statements.

The Port of Los Angeles

The Port is a proprietary department of the City and is held in trust by the City for the people of the State of California (the State) pursuant to a series of tidelands grants. The Port is operated independently from the City, generating its own revenues, and administering and controlling its own expenses and fiscal activities. The Port is governed by the Board of Harbor Commissioners (the Board) which consists of five commissioners, approved by the Mayor and confirmed by the City Council (the Council).

Most of the properties on which the Port's land, docks, wharves, transit sheds, terminals and other facilities are located is owned by the State and administered by the City through the Port, pursuant to certain tidelands grants from the State. The Port has the duty to provide for the needs of maritime commerce, navigation, fishing and recreation and environmental activities that are water-related and are intended to be of statewide benefit. In accordance with GAAP, the accompanying financial statements are included as an Enterprise Fund of the City.

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

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups or bureaus. These bureaus each consist of multiple divisions and fall under the responsibilities of five senior executives who report directly to the Executive Director. The Port's management structure is described in more detail below.

- The Deputy Executive Director of External Affairs leads the External Affairs Bureau, which consists of the Communications (including Community Relations and Media Relations), Government Affairs, Trade Development, and Commission Office divisions.

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

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

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

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

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

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

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

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

The Port lies at the terminus of two major freeways within the Los Angeles freeway system. Subsurface pipelines link the Port to major refineries and petroleum distribution terminals within the Los Angeles Basin.

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

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

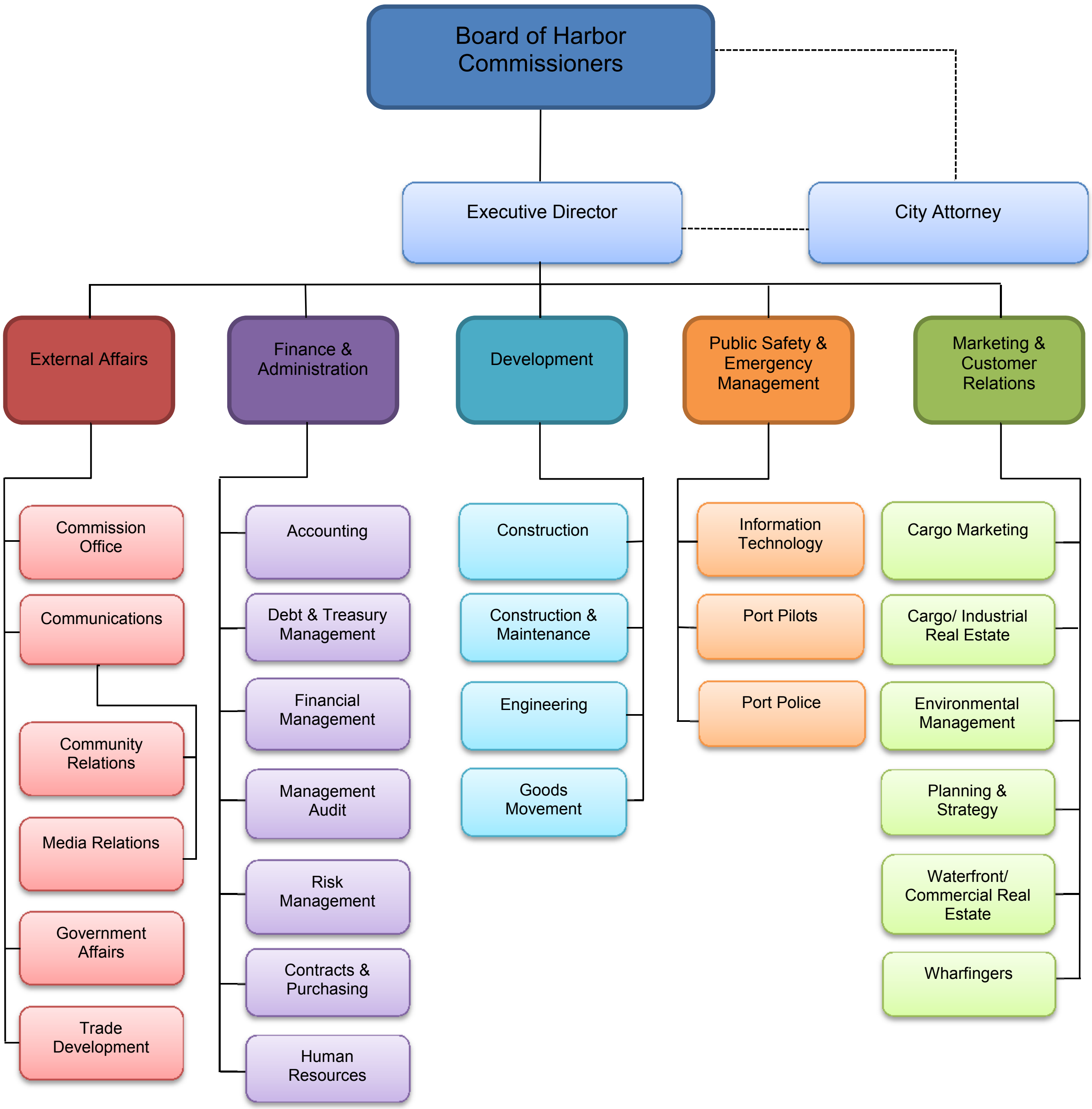
Publication of this CAFR is a reflection of the excellence and professionalism of the Port's entire staff. The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance and Administration Bureau. We wish to thank all Port's divisions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

Sincerely,

Marla Bleavins

MARLA BLEAVINS
Deputy Executive Director and Chief Financial Officer

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)
Organizational Chart
Fiscal Year 2016-2017



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

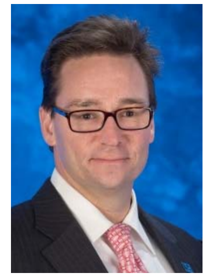
BOARD OF HARBOR COMMISSIONERS

Ambassador Vilma S. Martinez
President

David Arian
Vice President

Lucia Moreno-Linares
Commissioner

Anthony Pirozzi, Jr.
Commissioner



Edward R. Renwick
Commissioner

SENIOR MANAGEMENT

Eugene D. Seroka
Executive Director

Vacant
Deputy Executive Director
External Relations

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

Thomas Gazsi
Chief of Public Safety &
Emergency Management

Michael Di Bernardo
Deputy Executive Director
Marketing & Customer Relations

Tony Gioiello
Deputy Executive Director
Development

MANAGEMENT STAFF

Theresa Adams Lopez
Director of Community Relations

Arley Baker
Senior Director of Communications

Christopher Cannon
Director of Environmental Management

Tricia Carey
Director of Contracts & Purchasing

Eric Caris
Director of Cargo Marketing

Kerry Cartwright
Director of Goods Movement

Capt. John Dwyer
Pilot Service

Capt. David Craig Flinn
Pilot Service

Michael Galvin
Director of Waterfront & Commercial Real Estate

Jack Hedge
Director of Cargo/Industrial Real Estate

Julie Huerta
Commission Office

Lance Kaneshiro
Director of Information Technology

Michael Keenan
Director of Planning & Economic Development

David Libatique
Senior Director of Governmental Affairs

Frank Liu
Director of Accounting

Tish Lorenzana
Director of Human Resources

James MacLellan
Director of Business & Trade Development

Tim Clark
Director of Construction & Maintenance

Kathy Merkovsky
Director of Risk Management

Jim Olds
Director of Management Audits

Timothy Riley
Assistant Chief of Port Police

Soheila Sajadian
Director of Debt & Treasury Management

Phillip Sanfield
Director of Media Relations

Shaun Shahrestani
Chief Harbor Engineer of Construction

Jeffrey Strafford
Director of Financial Management

Dave Walsh
Chief Harbor Engineer of Design

Damien Young
Interim Chief Wharfinger

CITY ATTORNEY STAFF

Janna Sidley
General Counsel

FINANCIAL SECTION

MGO Certified Public Accountants

Independent Auditor's Report

Honorable Members of the Board of Harbor Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles)

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (Port), an enterprise fund of the City of Los Angeles, California, as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
777 S. Figueroa Street, Suite 2500
Los Angeles, CA 90017

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Port and do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California, as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
December 18, 2017

Using This Financial Report

The management of the Port of Los Angeles (the Port) presents an overview of the Port's financial performance during the years ended June 30, 2017 and 2016. This discussion and analysis should be read in conjunction with the transmittal letter on pages 1-3 and the Port's basic financial statements starting from page 40.

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

- *Statements of Net Position* – present information of all of the Port's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of June 30, 2017 and 2016. The sum of assets and deferred outflows of resources minus the sum of liabilities and deferred inflows of resources is reported as net position, which over time may increase or decrease and, serves as an indicator of the Port's financial position.

- *Statements of Revenues, Expenses, and Changes in Net Position* – present the results of operations during the current and prior fiscal year. These show the sources of the Port's revenues and its expenses. Revenues and expenses are recorded and reported for some items that will result in cash flows in future periods. Changes in net position are reported when the underlying events occurred, regardless of the timing of the related cash flows.

- *Statements of Cash Flows* – present the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. A reconciliation is also provided to assist in understanding the difference between operating income and cash flows from operating activities.

- *Notes to the Basic Financial Statements* – present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of the Port's financial activities.

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Overview of the Port's Financial Statements

The Port is a fiscally independent department and an enterprise fund of the City of Los Angeles, California (the City). The Port's financial statements are prepared on an accrual basis using the economic resources measurement focus in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The notes to the basic financial statements on pages 47 to 103 provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights for Fiscal Year 2017

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

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Financial Highlights for Fiscal Year 2016

- Current assets exceeded current liabilities by $358.6 million.
- Capital assets, net of accumulated depreciation and amortization of $1.9 billion amounted to $4.0 billion.
- Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $3.2 billion.
- Bonded debt net of unamortized discounts/premiums of $57.2 million, totaled $1.0 billion.
- Operating revenue amounted to $436.1 million.
- Net operating expenses excluding depreciation of $163.9 million amounted to $226.3 million.
- Capital contributions amounted to $40.5 million.

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Analysis of Net Position

Net position is the sum of assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as an indicator of whether the Port's financial position is improving or deteriorating. The following is a condensed summary of the Port's net position as of June 30, 2017, 2016, and 2015 (in thousands):

Condensed Net Position

				Increase (Decrease) Over Prior Year	
	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016
Assets					
Current and other assets	$ 753,106	$ 634,124	$ 637,824	$ 118,982	$ (3,700)
Capital assets, net	3,925,084	3,950,902	3,912,136	(25,818)	38,766
Total assets	4,678,190	4,585,026	4,549,960	93,164	35,066
Deferred outflows of resources	79,575	44,857	50,714	34,718	(5,857)
Liabilities					
Current liabilities	180,120	164,471	176,498	15,649	(12,027)
Long-term liabilities	1,282,205	1,281,576	1,317,027	629	(35,451)
Total liabilities	1,462,325	1,446,047	1,493,525	16,278	(47,478)
Deferred inflows of resources	30,042	21,881	44,250	8,161	(22,369)
Net position					
Net investment in capital assets	2,972,442	2,945,412	2,856,561	27,030	88,851
Restricted for debt service	62,255	66,599	68,373	(4,344)	(1,774)
Unrestricted	230,701	149,944	137,965	80,757	11,979
Total net position	$ 3,265,398	$ 3,161,955	$ 3,062,899	$ 103,443	$ 99,056

Net Position, Fiscal Year 2017

The largest portion of the Port's net position ($3.0 billion or 91.0%) reflects its net investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets). These assets are used for the construction, operation and maintenance of Port facilities. An additional portion of the Port's net position ($62.3 million or 1.9%) represents resources that are restricted for the debt service reserve fund. The remaining balance of $230.7 million or 7.1% are unrestricted resources that may be used to meet the Port's ongoing obligations.

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

Continued…..

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

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

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

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

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

Net Position, Fiscal Year 2016

The largest portion of the Port's net position ($2.9 billion or 93.2%) reflects its net investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets). These assets are used for the construction, operation and maintenance of Port facilities. An additional portion of the Port's net position ($66.6 million or 2.1%) represents resources that are restricted for the debt service reserve fund. The remaining balance of $150.0 million or 4.7% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Current and other assets decreased by $3.7 million or 0.6% from $637.8 million in fiscal year 2015 to $634.1 million in fiscal year 2016. Fluctuations in current and other assets resulted from a decrease in notes receivable of $5.1 million as the notes matured in fiscal year 2016.

Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasury on behalf of the Port. The decrease of $1.7 million from $574.1 million at June 30, 2015 to $572.4 million at June 30, 2016 was due to the decrease in the debt service reserve fund resulting from the early redemption of bonds during fiscal year 2016. At June 30, 2016, the Port's share in the fair value measurement of the City's pooled investments totaled $4.5 million. The Port reported additional investments of $8.6 million from its share in the City's investment purchases on June 30, 2016, and $7.9 million in securities lending transactions.

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Grants receivable increased by $5.1 million mainly because more eligible projects were completed and reimbursed by grantors at fiscal year-end relative to prior fiscal year.

Capital assets, net of depreciation increased by $38.8 million due to continued commercial and terminal development, various building and facilities improvements, and acquisition of equipment.

Current liabilities decreased by $12.0 million or 6.8% mainly due to a decrease in accounts payable as invoices were paid more quickly relative to prior fiscal year.

Long-term liabilities decreased by $35.5 million primarily due to customary repayment of principal in conjunction with the Port's annual servicing of its debt, as well as an early redemption of debt in September 2015.

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Analysis of the Port's Activities

The following table presents condensed information showing how the Port's net position changed during fiscal years 2017, 2016 and 2015 (in thousands):

Condensed Changes in Net Position

				Increase (Decrease) Over Prior Year	
	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016
Operating revenue	$ 474,532	$ 436,126	$ 446,895	$ 38,406	$ (10,769)
Less: Operating expenses	227,675	226,261	234,249	1,414	(7,988)
Operating income before depreciation and amortization	246,857	209,865	212,646	36,992	(2,781)
Less: Depreciation and amortization	172,895	163,933	137,384	8,962	26,549
Operating income	73,962	45,932	75,262	28,030	(29,330)
Net nonoperating revenue (expenses)	1,530	7,512	5,293	(5,982)	2,219
Income before capital contributions	75,492	53,444	80,555	22,048	(27,111)
Capital contributions	18,801	40,489	111,852	(21,688)	(71,363)
Extraordinary Item	9,150	5,123	--	4,027	5,123
Changes in net position	103,443	99,056	192,407	4,387	(93,351)
Net position, July 1	3,161,955	3,062,899	3,064,554	99,056	(1,655)
Cumulative effect of change in accounting principles	--	--	(194,062)	--	194,062
Net position, July 1, restated	3,161,955	3,062,899	2,870,492	99,056	192,407
Net position, June 30	$ 3,265,398	$ 3,161,955	$ 3,062,899	$ 103,443	$ 99,056

Changes in Net Position, Fiscal Year 2017

Net position for the Port posted a $103.4 million or 3.3% increase in fiscal year 2017. Approximately $449.5 million or 94.7% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating expenses were higher by $1.4 million in fiscal year 2017 compared to the previous fiscal year.

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

Nonoperating revenues for fiscal year 2017 totaled $13.2 million, while nonoperating expenses were $11.7 million, thereby resulting in net nonoperating revenue of $1.5 million. Nonoperating revenues of $13.2 million include: $2.2 million of income from an investment in the Intermodal Container Transfer Facility Joint Powers Authority, $1.1 million from interest and investment income from the Port's cash in the City's pooled investments, $1.2 million from noncapital grants, $7.9 million from pass through grant revenue, as well as $0.8 million from various rebates, reimbursements, and miscellaneous other receipts. Nonoperating

Continued…..

expenses of $11.7 million include $0.6 million of interest on indebtedness, $7.9 million from pass through grant expenditures, $0.8 million of expenses resulting from certain capitalized projects being discontinued during the fiscal year, and $2.4 million related to the costs of issuing debt and maintaining liquidity support for the commercial paper program during the fiscal year.

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

Capital contributions of $18.8 million represented funds for capital grants obtained in fiscal year 2017, and decreased by $21.7 million compared to the $40.5 million received in fiscal year 2016. Capital grant reimbursements in fiscal year 2017 funded initiatives such as the Yusen Terminal Efficiency Enhancements and Truck Trip Redesign Program ($7.7 million), I-110/C-Street Access Ramp Improvements ($4.5 million), I-110/SR-47/Harbor Boulevard Connectors ($2.3 million), Trapac Terminal Construction ($1.5 million), the South Wilmington Grade Separation ($1.4 million), San Pedro Waterfront Development ($0.7 million) and Rail Yard Track Connections at Berth 200 ($0.7 million).

Insurance recovery for the fire damage to Berths 177-178 and a portion of Berth 179 in 2014 in the amount of $9.2 million was received in fiscal year 2017 and reflected as Extraordinary Item. See page 103 of this report for additional information.

Changes in Net Position, Fiscal Year 2016

Net position for the Port posted a $99.1 million or 3.2% increase in fiscal year 2016. Approximately $415.0 million or 95.2% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating expenses were lower by $8.0 million in fiscal year 2016 compared to the previous fiscal year.

Depreciation expense increased by $26.5 million to $163.9 million in fiscal year 2016 from $137.4 million in fiscal year 2015, primarily due to the completion of capital projects that have been put into service in recent years.

Nonoperating revenues for fiscal year 2016 totaled $16.3 million, while nonoperating expenses were $8.8 million, thereby resulting in net nonoperating revenue of $7.5 million. Nonoperating revenues of $16.3 million include: $2.5 million of income from an investment in the Intermodal Container Transfer Facility Joint Powers Authority, $9.3 million from interest and investment income from the Port's cash in the City's pooled investments, $0.7 million from noncapital grants, $1.6 million from pass through grant revenue, as well as $2.2 million from various rebates, reimbursements, and miscellaneous other receipts. Nonoperating expenses of $8.8 million include $0.5 million of interest on indebtedness, $1.6 million from pass through grant expenditures, $5.3 million of expenses resulting from certain capitalized projects being discontinued during the fiscal year, and $1.4 million related to the costs of issuing debt and maintaining liquidity support for the commercial paper program during the fiscal year.

As a result, income before capital contributions decreased by $27.1 million or 33.7% to $53.4 million in fiscal year 2016 from $80.6 million in fiscal year 2015.

Capital contributions of $40.5 million represented funds for capital grants obtained in fiscal year 2016, and decreased by $71.4 million compared to the $111.9 million received in fiscal year 2015. Capital grant reimbursements in fiscal year 2016 came from the California Transportation Commission for the Proposition 1B transportation projects ($23.1 million), Metropolitan Transit Authority for the Trade Corridor Improvement project ($7.1 million), U.S. Department of Homeland Security for the Information Technology Cyber Security projects ($1.4 million), U.S. Environmental Protection Agency for various clean diesel programs ($1.6 million), and U.S. Department of Transportation for various transportation projects ($7.3 million).

Insurance recovery for the fire damage to Berths 177-178 and a portion of Berth 179 in 2014 in the amount of $5.1 million was received in fiscal year 2016 and reflected as Extraordinary Item. See page 103 of this report for additional information.

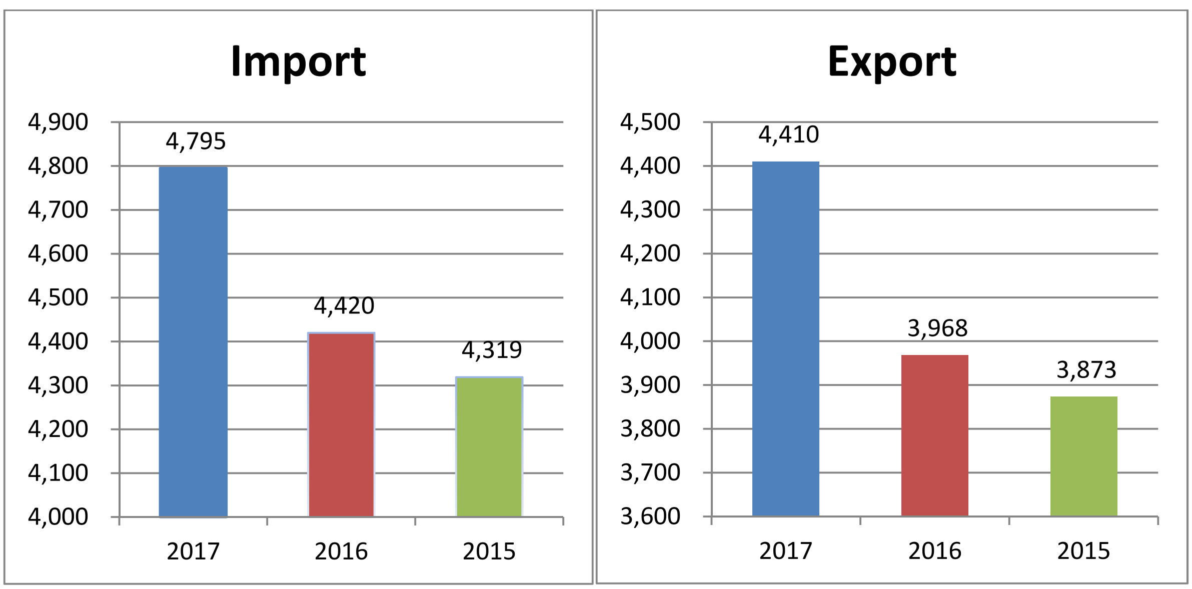
Continued…..

Operating Revenue

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

	In TEUs			% Change Over Prior Year	
Container Volume	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016
Import	4,795	4,420	4,319	8.5%	2.3%
Export	4,410	3,968	3,873	11.1%	2.5%
Total	9,205	8,388	8,192	9.7%	2.4%

Following is the graphical presentation of the Port's container counts (in thousands TEUs) for fiscal years 2015 to 2017:



In Thousand TEUs

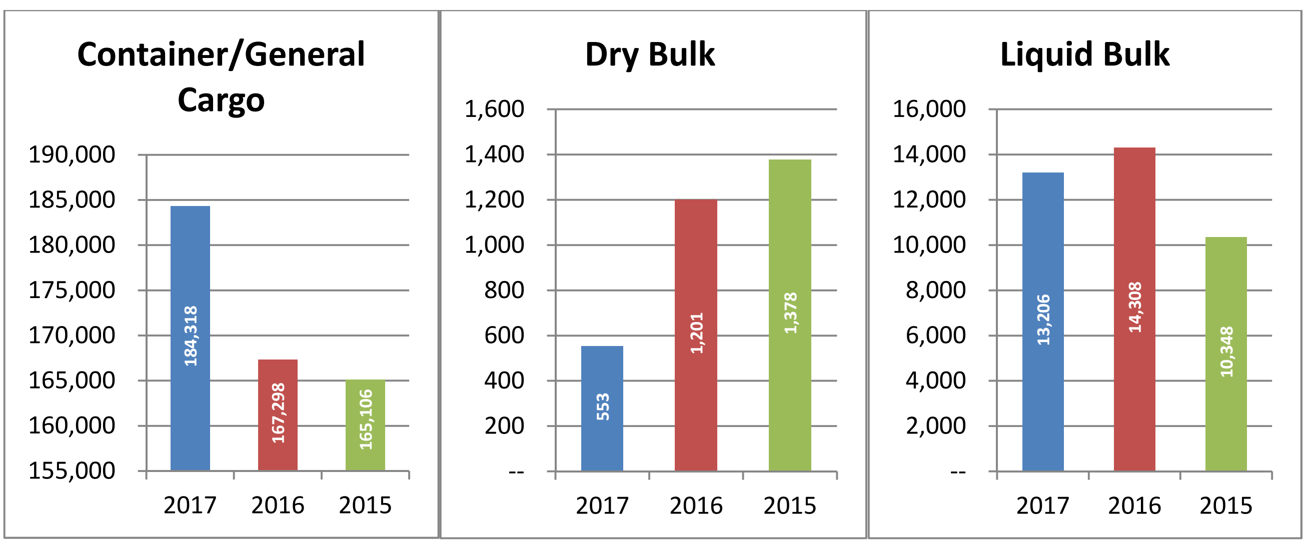
Continued…..

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

	In Metric Revenue Tons			% Change Over Prior Year	
Cargo Type	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016
Container/general cargo	184,318	167,298	165,106	10.2%	1.3%
Dry bulk	553	1,201	1,378	-54.0%	-12.8%
Liquid bulk	13,206	14,308	10,348	-7.7%	38.3%
Total	198,077	182,807	176,832		

Information for the cargo volume that moved through the Port for the last ten fiscal years may be found in the Statistical Section on page 107.

Following is the graphical presentation of the Port's cargo volumes for fiscal years 2015 to 2017 in thousand metric tons:



In Thousand Metric Tons

Continued…..

The Port is the number one port by container volume in North America. Fiscal Year 2017 cargo volumes of 9.2 million TEUs represented a 9.7% increase relative to the prior fiscal year. Total loaded containers of 6.6 million represented a 9.9% increase relative to the prior fiscal year, and this increase was driven by an 8.5% increase in loaded imports. Empty containers totaling 2.6 million TEUs represented a year-over-year increase of 9.2%.

Many of the largest global container shipping lines, such as Maersk, China-COSCO Shipping, CMA CGM/APL, Evergreen, NYK, MOL, and Yang Ming have interests in the Port's major container leaseholds. While their collective efforts drove the success of the Port's TEU results, a significant contributor to the increase in container volumes was the shift of cargo from the Port of Long Beach to the Eagle Marine Services facility at the Port of Los Angeles following the acquisition of APL by CMA CGM.

Ultimately, the Port closed its fiscal year 2017 with total cargo volumes of 9.2 million TEUs, a new annual record for most container throughput for a Western Hemisphere port and the busiest year in the Port's 110-year history.

Continued…..

The Port's major sources of its operating revenue are derived from shipping services, rental fees, royalties and other concession fees. The following table presents a summary of the Port's operating revenues during fiscal years 2017, 2016 and 2015 (in thousands):

Summary of Operating Revenues

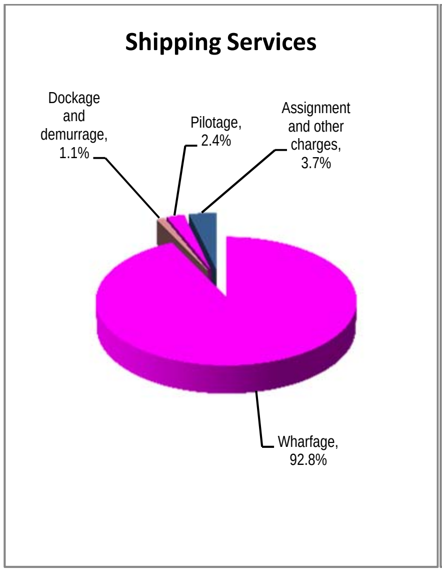
				Increase (Decrease) Over Prior Year	
	FY 2017	FY 2016*	FY 2015	FY 2017	FY 2016
Shipping services					
Wharfage	$ 369,459	$ 341,765	$ 336,090	$ 27,694	$ 5,675
Dockage and demurrage	4,326	5,845	6,426	(1,519)	(581)
Pilotage	9,558	7,064	7,110	2,494	(46)
Assignment and other charges	14,912	13,796	15,273	1,116	(1,477)
Total shipping services	398,255	368,470	364,899	29,785	3,571
Rentals					
Land	50,554	45,763	45,255	4,791	508
Other	704	808	978	(104)	(170)
Total rentals	51,258	46,571	46,233	4,687	338
Royalties and other fees					
Fees, concession and royalties	10,436	10,655	14,968	(219)	(4,313)
Clean truck program fees	2,340	2,384	3,520	(44)	(1,136)
Other	12,243	8,046	17,275	4,197	(9,229)
Total royalties and other fees	25,019	21,085	35,763	3,934	(14,678)
Total operating revenues	$ 474,532	$ 436,126	$ 446,895	$ 38,406	$ (10,769)

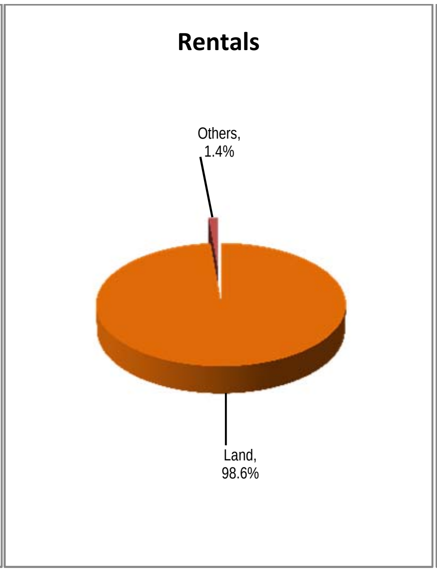
* Certain information was reclassified to conform to current year's presentation.

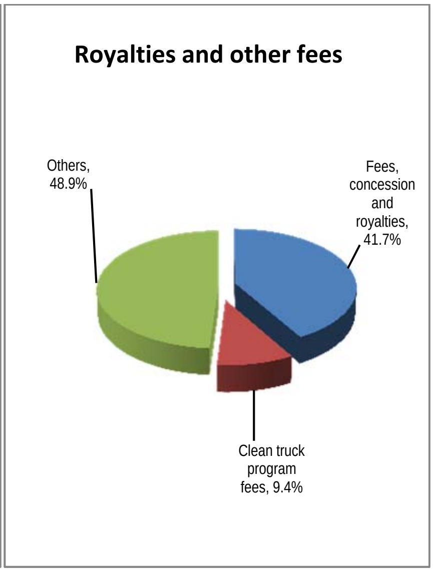
Continued…..

The following charts show the major components of the Port's sources of operating revenue for fiscal years 2017 and 2016:

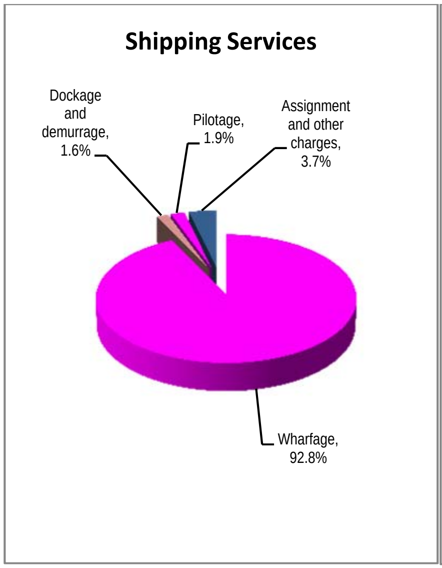
Fiscal Year 2017

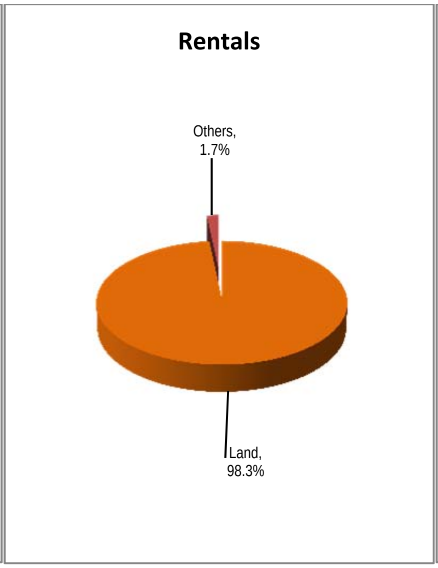


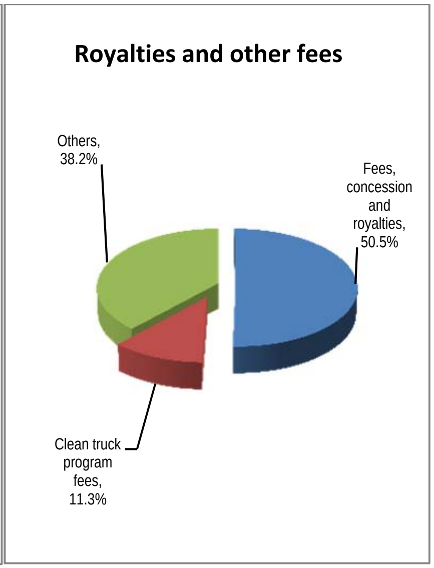




Fiscal Year 2016







Continued…..

Operating Revenue, Fiscal Year 2017

Operating revenue for fiscal year 2017 increased to $474.5 million, reflecting an 8.8% increase from the prior year revenue of $436.1 million. As stated earlier, the Port derives its operating revenues primarily from shipping services, rentals, and fees from royalties, concessions and other fees.

Shipping Services

Shipping services revenues represented 83.9% of fiscal year 2017 total operating revenues and consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 92.8% of the total shipping service revenues in fiscal year 2017. Wharfage is the fee charged against merchandise for passage over wharf premises, to and from vessels, and barges. Wharfage was $27.7 million higher compared to fiscal year 2016 mainly due to higher cargo volumes moved through terminals. Net other shipping services revenues were $2.1 million higher as pilotage revenue and assignment revenue increased by $2.5 million and $1.1 million, respectively, while dockage and demurrage revenues decreased by $1.5 million.

Rentals

The Port generates revenues from making available various types of rental properties such as land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set taking into account the condition, location, utility, and other aspects of the property.

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

Royalties, Fees, and Other Operating Revenue

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

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

Continued…..

Operating Revenue, Fiscal Year 2016

Operating revenue for fiscal year 2016 decreased to $436.1 million, reflecting a 2.4% decrease from the prior year revenue of $446.9 million. As stated earlier, the Port derives its operating revenues primarily from shipping services, rentals, and fees from royalties, concessions and other fees.

Shipping Services

Shipping services revenues represented 84.5% of the fiscal year 2016 total operating revenues and consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 92.8% of the total shipping service revenues in fiscal year 2016. Wharfage is the fee charged against merchandise for passage over wharf premises, to and from vessels, and barges. Wharfage was $5.7 million higher compared to fiscal year 2015 mainly due to higher cargo volumes moved through terminals. Net other shipping revenues were $2.1 million lower as dockage and demurrage revenues and assignment revenue decreased by $0.6 million and $1.5 million, respectively.

Rentals

The Port generates revenues from making available various types of rental properties such as land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set taking into account the condition, location, utility, and other aspects of the property.

During fiscal year 2016, rental income at the Port, which represented 10.7% of fiscal year 2016 total operating revenues, increased by $0.3 million, or 0.7%, over the prior fiscal year. The increase was due to $5.9 million in higher compensation resets, CPI increases and new leases offset by $5.6 million in catch-up payments related to the Intermodal Container Transfer Facility in the prior fiscal year.

Royalties, Fees, and Other Operating Revenue

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

Revenues from royalties, fees, and other operating revenues in fiscal year 2016 was $21.1 million or 4.8% of the total operating revenues. This represented a decrease of $14.7 million in this revenue category compared with fiscal year 2015 mainly due to $4.7 million in lower license fees related to the BNSF/SCIG facility, $4.5 million in lower utility reimbursements, $3.9 million in lower one-time settlement receipts, $1.1 million in lower clean truck program revenues, and $0.5 million in lower miscellaneous other operating revenues.

Continued…..

Operating Expenses

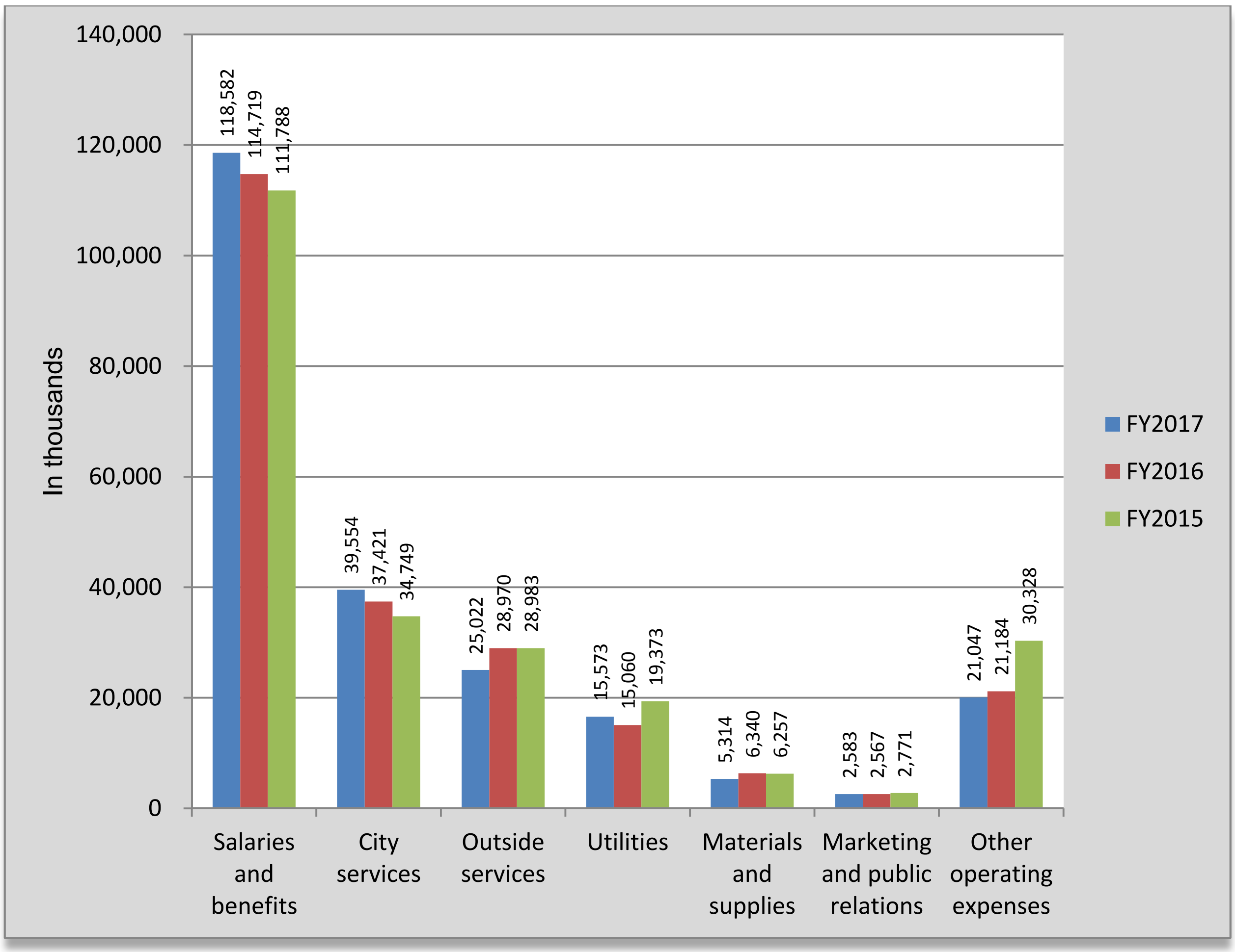
The following table presents a summary of the Port's operating expenses, net of direct and indirect costs allocated to capitalized construction projects for fiscal years 2017, 2016 and 2015. Included in other operating expenses are expenses for workers' compensation, clean truck program, pollution remediation, insurance premiums, travel and entertainment, customer incentive payouts, and miscellaneous other items.

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

				Increase(Decrease) Over Prior Year	
	FY2017	FY2016	FY2015	FY2017	FY2016
Salaries and benefits	$ 118,582	$ 114,719	$ 111,788	$ 3,863	$ 2,931
City services	39,554	37,421	34,749	2,133	2,672
Outside services	25,022	28,970	28,983	(3,948)	(13)
Utilities	15,573	15,060	19,373	513	(4,313)
Materials and supplies	5,314	6,340	6,257	(1,026)	83
Marketing and public relations	2,583	2,567	2,771	16	(204)
Other operating expenses	21,047	21,184	30,328	(137)	(9,144)
Total Operating Expenses	$ 227,675	$ 226,261	$ 234,249	$ 1,414	$ (7,988)

Continued…..

The following chart shows the graphical comparison of the Port's operating expenses, net of direct and indirect costs, for fiscal years 2017, 2016 and 2015:



Continued…..

Operating Expenses, Fiscal Year 2017

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

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

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

Total payments for City services increased by $2.1 million due to higher cost allocation plan rates and MOU mandated salary increases.

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

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

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

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

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

Continued…..

Operating Expenses, Fiscal Year 2016

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

In fiscal year 2016, operating expenses decreased by $8.0 million to $226.3 million, a 3.4% decrease from prior fiscal year expenses of $234.2 million. Major components of operating expenses are salaries and benefits, city services, outside services, utilities, materials and supplies, and other operating expenses that are further discussed and analyzed below.

Salaries and benefits expense including pension expense increased by $2.9 million to $114.7 million, or 2.6% higher than the prior year expense of $111.8 million due to Memorandum of Understanding (MOU) salary increases for employees throughout the Port.

Total payments for City services increased by $2.7 million due to higher cost allocation plan rates and MOU mandated salary increases.

Outside services expenses of $29.0 million was approximately unchanged relative to the prior fiscal year with $6.1 million in spending declines offset by spending increases totaling $6.0 million across various divisions throughout the Port. These decreases in outside services expenses was primarily attributable to the following: higher capitalization of construction costs of $3.9 million, lower spending for environmental assessment services of $1.2 million, lower red car project spending by $0.8 million, and lower spending on cargo forecast costs by $0.2 million. Increases in outside services expenses were comprised of: higher spending on computer aided dispatch, port security and various police technology by $2.8 million, higher demolition expenses of a transit shed by $2.4 million, and higher spending on environmental legal services by $0.7 million.

Utilities decreased by $4.3 million to $15.1 million or 22.3% from the prior fiscal year expense of $19.4 million mainly due to lower Alternative Maritime Power (AMP) electricity consumption as ships were loaded and unloaded more efficiently relative to fiscal year 2015.

Materials and supplies expenses of $6.3 million was approximately unchanged relative to the prior fiscal year.

Other operating expenses of $21.2 million represented a decrease of $9.1 million, or 30.2%, relative to prior fiscal year expenses of $30.3 million. This decrease in other operating expenses was primarily attributable to lower provisions for bad debt of $4.1 million for possible non-collection of BNSF/SCIG license fees and $10.5 million in lower payouts related to the Ocean Common Carrier Incentive Program in fiscal year 2015 offset by an increase in pollution remediation obligations of $5.5 million.

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

Continued…..

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses include income from investment in a joint powers authority, interest income, and expenses along with receipts and expenses related with noncapital grant as well as pass through grant awards. The following table presents a summary of the Port's nonoperating revenues and expenses for fiscal years 2017, 2016 and 2015:

Summary of Nonoperating Revenues and Expenses
(amounts in thousands)

				Increase (Decrease) Over Prior Year	
	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016
Nonoperating revenues					
Income from investments in					
Joint Powers Authorities	$ 2,162	$ 2,544	$ 2,811	$ (382)	$ (267)
Interest and investment income	1,118	9,326	5,039	(8,208)	4,287
Other nonoperating revenue	9,994	4,402	5,619	5,592	(1,217)
Total nonoperating revenues	13,274	16,272	13,469	(2,998)	2,803
Nonoperating expenses					
Interest expense	604	507	331	97	176
Other nonoperating expenses	11,140	8,253	7,845	2,887	408
Total nonoperating expenses	11,744	8,760	8,176	2,984	584
Net nonoperating revenues (expenses)	$ 1,530	$ 7,512	$ 5,293	$ (5,982)	$ 2,219

Nonoperating Revenues and Expenses, Fiscal Year 2017

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

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

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

Continued…..

Nonoperating Revenues and Expenses, Fiscal Year 2016

Net nonoperating revenues (expenses) for fiscal year 2016 of $7.5 million increased by $2.2 million relative to net nonoperating revenues of $5.3 million in fiscal year 2015.

Nonoperating revenues increased by $2.8 million due to primarily higher interest and investment income by $4.3 million, higher pass-through grant revenue by $1.0 million and higher other nonoperating revenues by $0.9 million offset by lower grant receipts of $3.4 million.

Nonoperating expenses increased by $0.6 million in fiscal year 2016 primarily due to higher discontinued capital projects.

Long-Term Debt

The Port's long-term debt is comprised of senior lien debt in the form of Harbor Revenue Bonds. As of June 30, 2017 and 2016, the Port's outstanding long-term debt was $891.7 million and $951.1 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA, and AA credit ratings from Moody's Investor Services (Moody's), Standard & Poor's Rating Service (S&P), and Fitch Ratings (Fitch), respectively. See Note 7 on page 65 of this report for additional information.

Bonded Debt

Under Section 609 of the City Charter and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). The Port's financial policy requires that a minimum of 2.0x debt service coverage ratio be maintained at all times. At June 30, 2017, the Port's debt service coverage ratio was 3.0x debt service using the additional bond test method as defined in its bond indentures.

The Port's long-term debt consisted of the following as of June 30, 2017, 2016, and 2015 (in thousands):

	FY 2017	FY 2016	FY 2015
Revenue bonds payable	$ 891,740	$ 951,120	$ 1,000,910
Net unamortized premiums	77,603	57,202	58,693
Total	$ 969,343	$ 1,008,322	$ 1,059,603

Capital Assets

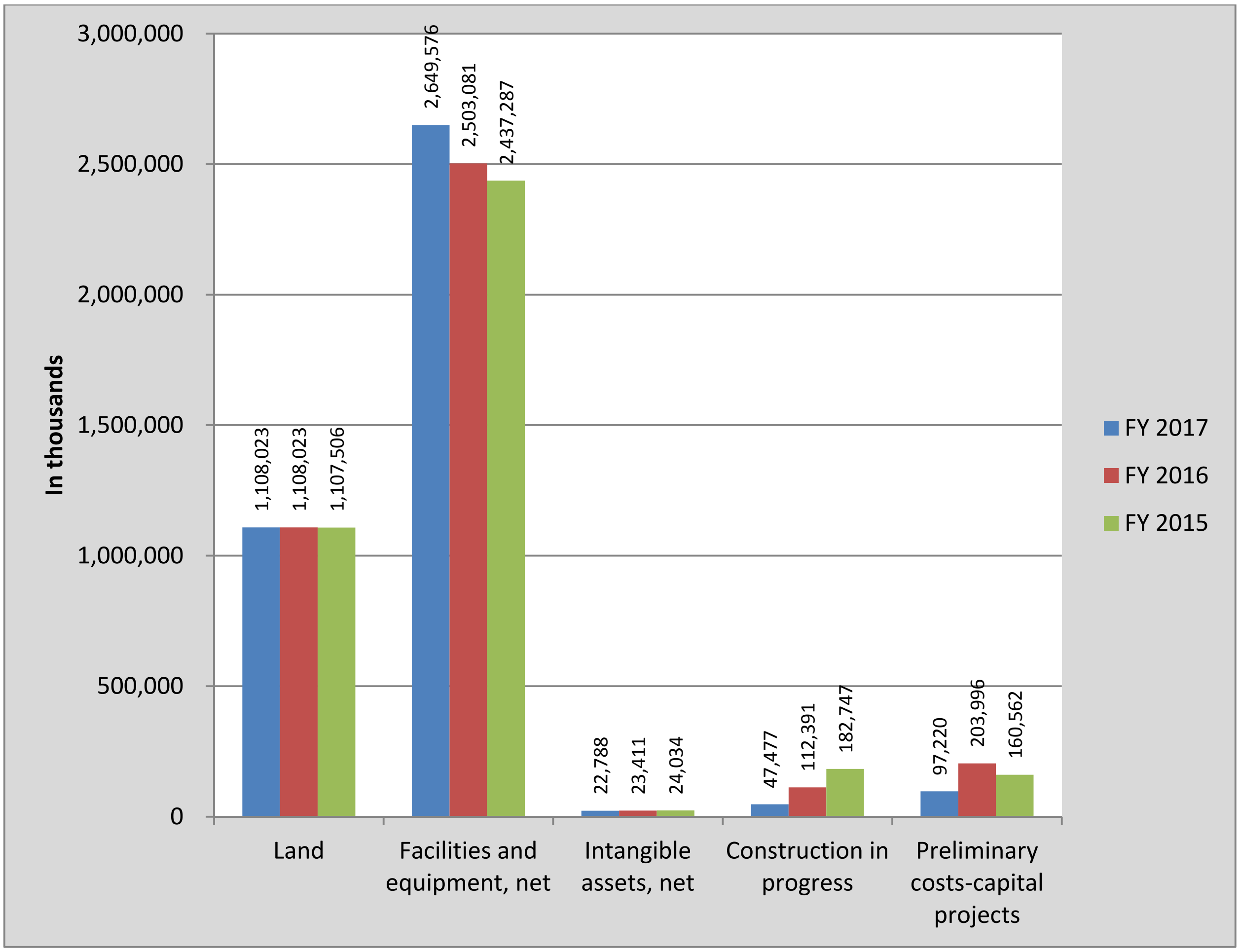
The Port's investment in capital assets, net of accumulated depreciation and amortization as of June 30, 2017, 2016 and 2015 amounted to $3.9 billion, $4.0 billion, and $3.9 billion, respectively. These accounted for 83.9%, 86.2%, and 86.0%, of total assets, respectively. The following table presents the Port's capital assets, net of accumulated depreciation for fiscal years 2017, 2016 and 2015 (in thousands):

Summary of Capital Assets

				Increase(Decrease) Over Prior Year	
	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016
Land	$ 1,108,023	$ 1,108,023	$ 1,107,506	$ --	$ 517
Facilities and equipment, net	2,649,576	2,503,081	2,437,287	146,495	65,794
Intangible assets, net	22,788	23,411	24,034	(623)	(623)
Construction in progress	47,477	112,391	182,747	(64,914)	(70,356)
Preliminary costs-capital projects	97,220	203,996	160,562	(106,776)	43,434
Total	$ 3,925,084	$ 3,950,902	$ 3,912,136	$ (25,818)	$ 38,766

See Note 5 on pages 62 – 63 of this report for additional information.

The following chart shows the graphical presentation of the Port's capital assets for the fiscal years 2017, 2016 and 2015:



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Capital Assets, Fiscal Year 2017

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

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

Continued…..

Capital Assets, Fiscal Year 2016

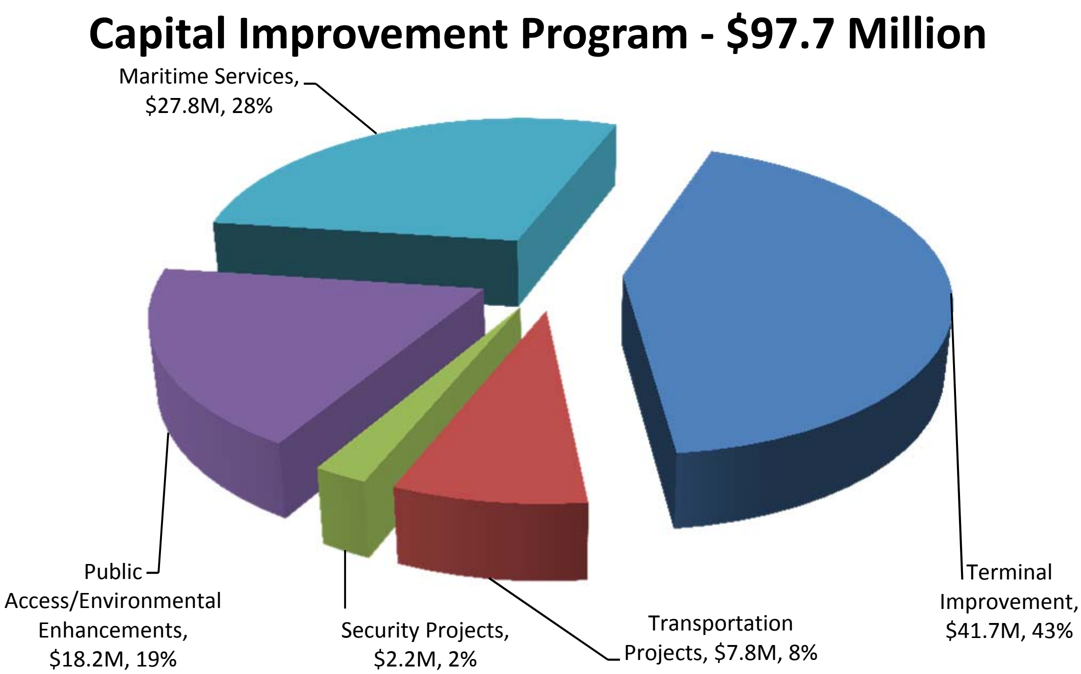
Major capital assets activities during fiscal year 2016 are as follows:

- $74.0 million – continued construction of backland improvements at the TraPac (Berths 135-147) including terminal buildings, main gate, and intermodal facility expansion.
- $24.5 million – continued construction of terminal redevelopment and AMP improvements at Yusen Terminals Inc. (YTI) contain terminal.
- $13.7 million – design and continued construction of C-Street/I-110 access ramp improvements.
- $19.6 million – various transportation projects including South Wilmington grade separation, John S. Gibson Intersection/North I-110 access ramp improvements, Berth 200 rail yard track connections, and I-110/SR-47 connector improvements.

Continued…..

Capital Improvement Expenditures (CIP) for Fiscal Year 2018

The Port aims to continue to maintain its competitive edge by developing infrastructure that supports growth and efficiency, secure, and sustainable port operations. As such, the Port has adopted a capital budget of $160.5 million in fiscal year 2018. Comprising 13.7% of its total budget of $1.2 billion, the adopted capital expenditures include $97.7 million for direct costs of capital improvement projects, indirect costs of $45.9 million in allocated capitalized overhead and interest costs, $1.0 million for land and property acquisition, and $16.0 million for capital equipment. The adopted capital expenditures of $97.7 million include $41.7 million for terminal improvement projects, $7.8 million for transportation and infrastructure projects, $18.2 million for public access/environmental enhancement projects, $2.2 million for security projects, and $27.8 million for maritime services. Below is the graphical presentation of the fiscal year 2018 adopted capital improvement projects budget:



Continued…..

The components of the CIP are as follows:

Terminal Development Projects

Approximately $41.7 million or 42.6% of the total CIP direct cost budget of $97.7 million is dedicated to development projects at various Port terminals.

- $11.2 million for the upgrade and retrofit of an AMP installation and security improvements at the World Cruise Center.
- $8.2 million for various wharf rehabilitation, bollard repair, and seawall improvements projects throughout the Port.
- $8.1 million for redevelopment at the YTI Terminal, including wharf upgrades, berth dredging, crane rail extensions, electrical improvements, expansion of the terminal, backland improvements, and construction of loading track and modifications of utilities within the backland area.
- $7.9 million for projects at berths with liquid bulk oil cargo handling facilities to be in compliance with Marine Oil Terminal Engineering Maintenance Standards (MOTEMS).
- $2.6 million for the construction of the final phase of projects at TraPac Terminal.
- $1.9 million for the preparation of environmental documents, planning, and initial design of new development at the Everport container terminal.
- $1.4 million for the preparation of supplemental environmental and other planning documents at the Yang Ming and China Shipping container terminals.

Transportation and Infrastructure Projects

Approximately $7.8 million or 8.0% of the total CIP direct cost budget of $97.7 million is designated for transportation improvement projects.

- $4.2 million for various transportation projects such as preparation of the interchange reconfiguration at SR-47/Vincent Thomas Bridge and Front Street/Harbor Boulevard, 4,951 linear feet of rail road track extensions at the Trapac terminal, and resurfacing project on Water Street, Reeves Avenues, Miner Street, Pier A Street, and Swinford Street.
- $2.0 million for the construction of a drainage collection system and relocation of waterline underneath railroad tracks to adhere to industry standards.
- $1.6 million for the construction of the I-110 access ramp which will accommodate heavy truck volumes by providing free-flowing right turn lanes, while also allowing for improved connectivity to Harry Bridges Boulevard.

Continued…..

Public Access and Environmental Enhancement Projects

Approximately $18.2 million or 18.6% of the total CIP direct cost budget of $97.7 million is designated for public access and environmental enhancement projects.

- $8.7 million for the construction of the Harbor Boulevard Roadway Improvement project which will allow for organized traffic flow into the San Pedro Public Market (Market).
- $3.0 million for various construction projects at the Wilmington Waterfront Promenade, including reconstruction of sites and facilities, planning and design of a new pedestrian bridge, and refurbishment of signs and landscaping.
- $2.0 million for the design and construction of the Market's Promenade and Town Square.
- $1.9 million for demolition, clean-up, wharf retrofit, and roadway and waterway improvements at San Pedro Waterfront.
- $1.9 million for the construction of multi-use concrete walkway along Front Street from the Vincent Thomas Bridge to Pacific Avenue.
- $0.7 million for environmental assessments at the AltaSea site.

Port Security Projects

$2.2 million or 2.3% of the total CIP direct cost budget of $97.7 million is designated for the finalization of Phase 2 of the Port Fiber Optic Program and the new radio system for the Port Police.

Maritime Services

$27.8 million or 28.5% of the total CIP direct cost budget of $97.7 million is designated for miscellaneous purchases and projects including the Badger Avenue Bridge, the Maritime Museum, Ports O' Call, the Municipal Fish Market, the Harbor Administrative Building, and other future projects.

Continued…..

Factors That May Affect the Port's Operations

There is significant competition for container traffic among North American ports. The availability of alternate port facilities at competitive prices affects the use of the Port's facilities and therefore the revenues of the Port. Formation of shipping alliances adds to the complexity as shipping lines which have ownership in terminals route cargo to terminals that are not owned by them, but by their Alliance partners. While the shipping industry remains volatile in 2017, shipping lines are searching for the best terminal handling rates and even looking to the Port to provide incentives. The Port cannot predict the scope of such impact.

All of the ports on the West Coast of the U.S. compete for discretionary intermodal cargo destined for locations across the U.S. and Canada. Discretionary cargo makes up approximately 33% of cargo arriving at the Port. Currently, this discretionary cargo moves eastward both by rail and through the Panama Canal or through the Suez Canal. The use of all-water routes primarily through the Panama and Suez Canal to the East and Gulf Coasts of the U.S. is an alternative to Asian intermodal cargo moving through U.S. West Coast ports. Routing cargo via all water service has a longer transit time and is usually less expensive to the beneficial cargo owner vs. routing via West Coast Ports and loading via rail. The newly completed Panama Canal Expansion Program added a new set of locks, which allows ships of greater size (up to 12,500 TEU) to transit the Canal. The expansion creates a route to the East and Gulf Coast for ships of greater capacity than the current "Panamax" ships. While the effects of an expanded Canal are unknown, the Port has an existing ability to handle the New Panamax and Super Post-Panamax ships and continues to maintain and improve its strong infrastructure and intermodal capabilities.

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

Competitive Environment

As of fiscal year ended June 30, 2017, six major container ports controlled 99.6% of the entire U.S. West Coast containerized cargo market: the ports of Los Angeles, Long Beach, Oakland, San Diego in California, and the ports of Seattle and Tacoma in Washington State. The ports of Los Angeles and Long Beach together had 72.8% of all U.S. West Coast market share based on a loaded TEU basis.

The industry is capital intensive and requires long lead times to plan and develop new facilities and infrastructure. Resources are typically allocated and facilities developed upon the commitment of customers to long-term permits at the Port that currently range from 15 to 30 years before expiration. Occupancy remains high and West Coast ports have limited land areas for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but also the most attractive point of origin for trans-shipments to points east as the Port has extensive on-dock rail facilities creating intermodal connections that provide for time-to-market advantages.

Continued…..

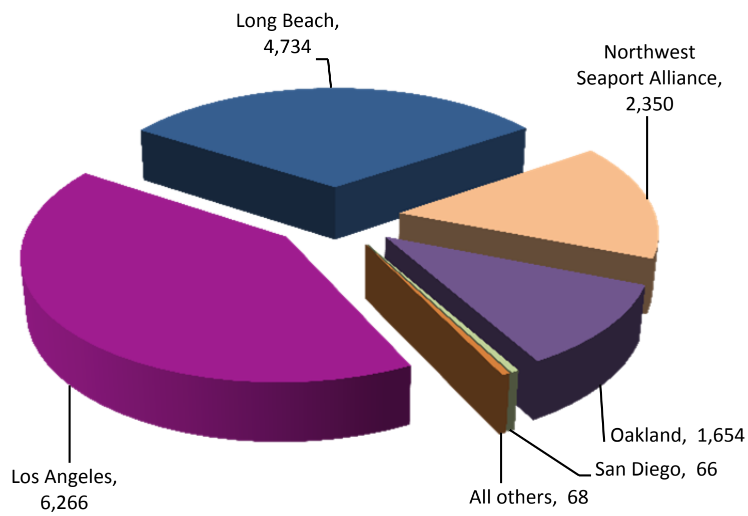
The following presents a summary of the West Coast container market share for fiscal years 2015 to 2017:

	Loaded TEUs (in thousands)*			Percentage Market Share		
Ports	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016	FY 2015
Los Angeles	6,266	5,727	5,601	41.5%	39.4%	39.2%
Long Beach	4,734	4,852	4,858	31.3%	33.3%	34.1%
Northwest Seaport Alliance**	2,350	2,233	2,075	15.5%	15.3%	14.6%
Oakland	1,654	1,622	1,522	10.9%	11.1%	10.7%
San Diego	66	67	57	0.4%	0.5%	0.4%
All others	68	60	143	0.4%	0.4%	1.0%
	15,138	14,561	14,256	100.0%	100.0%	100.0%

* Source: PIERS

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

Following is the graphical presentation of the West Coast container market share for fiscal year 2017:



Loaded TEUs (in thousands)

Continued…..

Request for Information

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

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

Statements of Net Position
June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents, unrestricted	$ 619,413	$ 445,289
Cash and cash equivalents, restricted	15,915	21,581
Accounts receivable, net of allowance for doubtful accounts:		
2017 - $26,503; 2016 - $20,493	34,324	42,226
Grants receivable	920	10,098
Materials and supplies inventories	2,561	2,777
Prepaid expenses	132	227
Accrued interest receivable	1,986	828
Total current assets	675,251	523,026
Noncurrent Restricted Assets		
Restricted investments – bond funds	62,283	95,769
Other restricted cash and investments	9,840	9,759
Total noncurrent restricted assets	72,123	105,528
Capital assets		
Land	1,108,023	1,108,023
Facilities and equipment net of accumulated depreciation:		
2017 - $2,049,121; 2016 - $1,905,179	2,649,576	2,503,081
Intangible assets, net of amortization:		
2017 - $2,572; 2016 - $1,949	22,788	23,411
Construction in progress	47,477	112,391
Preliminary costs – capital projects	97,220	203,996
Total capital assets	3,925,084	3,950,902
Investment in Joint Powers Authorities	5,732	5,570
TOTAL ASSETS	4,678,190	4,585,026
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	16,700	2,832
Deferred outflows of resources - pensions	62,875	42,025
TOTAL DEFERRED OUTFLOWS OF RESOURCES	79,575	44,857

continued…..

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

Statements of Net Position
June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
LIABILITIES		
Current Liabilities		
Accounts payable	$ 31,617	$ 30,569
Current maturities of notes payable and bonded debt	37,615	41,695
Accrued interest payable	18,023	19,806
Accrued salaries and employee benefits	17,542	16,859
Obligations under securities lending transactions	4,384	7,929
Accrued construction cost payable	3,060	3,239
Other current liabilities	67,879	44,374
Total current liabilities	180,120	164,471
Long-term liabilities		
Long-term liabilities payable from unrestricted assets		
Bonds payable, net of unamortized discount/premium:		
2017 - $77,603; 2016 - $57,202	931,728	966,627
Accrued salaries and employee benefits	7,537	8,114
Net pension liabilities	231,325	215,829
Other liabilities	101,316	80,931
Total long-term liabilities payable from unrestricted assets	1,271,906	1,271,501
Long-term liabilities payable from restricted assets	10,299	10,075
Total long-term liabilities	1,282,205	1,281,576
TOTAL LIABILITIES	1,462,325	1,446,047
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	30,042	21,881
TOTAL DEFERRED INFLOWS OF RESOURCES	30,042	21,881
NET POSITION		
Net investment in capital assets	2,972,442	2,945,412
Restricted for debt service	62,255	66,599
Unrestricted	230,701	149,944
TOTAL NET POSITION	$ 3,265,398	$ 3,161,955

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
OPERATING REVENUE		
Shipping services		
Wharfage	$ 369,459	$ 341,765
Dockage	4,113	5,629
Demurrage	213	216
Lay day fees	255	938
Pilotage	9,558	7,064
Assignment charges	14,657	12,858
Total shipping services	398,255	368,470
Rentals		
Land	50,554	45,763
Buildings	206	221
Warehouses	85	88
Wharf and shed	413	499
Total rentals	51,258	46,571
Royalties, fees, and other operating revenues		
Fees, concessions, and royalties	10,436	10,655
Clean truck program fees	2,340	2,384
Other	12,243	8,046
Total royalties, fees, and other operating revenues	25,019	21,085
Total operating revenue	474,532	436,126
OPERATING EXPENSES		
Salaries and other benefits	94,677	94,281
Pension expense	23,905	20,438
City services	39,554	37,421
Outside services	25,022	28,970
Utilities	15,573	15,060
Materials and supplies	5,314	6,340
Marketing and public relations	2,583	2,567
Workers' compensation, claims and settlement	4,977	245
Clean truck program expenses	704	897
Travel and entertainment	536	611
Other operating expenses	14,830	19,431
Total operating expenses before depreciation and amortization	227,675	226,261
Operating Income before depreciation and amortization	246,857	209,865

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
Operating Income before depreciation and amortization	$ 246,857	$ 209,865
Depreciation and amortization	172,895	163,933
OPERATING INCOME	73,962	45,932
NONOPERATING REVENUE (EXPENSES)		
Nonoperating revenue		
Income from investments in Joint Powers Authorities	2,162	2,544
Interest and investment income	1,118	9,326
Noncapital grant revenue	1,199	662
Pass through grant revenue	7,931	1,566
Other nonoperating revenue	864	2,174
Total nonoperating revenue	13,274	16,272
Nonoperating expenses		
Interest expense	(604)	(507)
Pass through grant expenses	(7,931)	(1,566)
Discontinued capital projects	(773)	(5,279)
Other nonoperating expenses	(2,436)	(1,408)
Total nonoperating expenses	(11,744)	(8,760)
Net nonoperating revenue (expenses)	1,530	7,512
INCOME BEFORE CAPITAL CONTRIBUTIONS	75,492	53,444
Capital contributions	18,801	40,489
Extraordinary item	9,150	5,123
CHANGES IN NET POSITION	103,443	99,056
NET POSITION, JULY 1	3,161,955	3,062,899
NET POSITION, JUNE 30	$ 3,265,398	$ 3,161,955

See accompanying notes to basic financial statements.

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

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Shipping service fees collected	$ 404,886	$ 369,753
Rentals collected	52,111	46,733
Royalties, fees, and other operating revenues collected	25,435	21,177
Payments for employee salaries and benefits, net of capitalized amounts: 2017 - $23,563; 2016 - $22,832	(115,671)	(115,548)
Payments for goods and services	(92,180)	(137,246)
Net cash provided by operating activities	274,581	184,869
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY		
Proceeds from noncapital grants	1,199	662
Net cash provided by noncapital financing activity	1,199	662
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for property acquisitions and construction	(111,717)	(162,874)
Proceeds from sale of capital assets	76	1,750
Proceeds from capital grants and contributions	27,980	35,416
Proceeds from insurance recovery for damage of capital assets	9,150	5,123
Principal repayment and redemption – bonds	(30,434)	(43,193)
Receipts from (payments to) bond reserve fund	33,486	1,692
Interest and issuance costs paid	(60,340)	(49,643)
Net cash used in capital and related financing activities	(131,799)	(211,729)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	5,784	5,364
(Decrease) increase in cash collateral received under the securities lending transactions	(3,545)	5,064
(Decrease) increase in fair value of investments	(5,904)	3,927
Net sale of investments	26,142	3,749
Net payments received on notes receivable	--	5,095
Distribution from Joint Powers Authorities	2,000	3,000
Net cash provided by investing activities	24,477	26,199
NET INCREASE IN CASH AND CASH EQUIVALENTS	168,458	1
CASH AND CASH EQUIVALENTS, JULY 1	466,870	466,869
CASH AND CASH EQUIVALENTS, JUNE 30	$ 635,328	$ 466,870

continued….

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

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and cash equivalents, unrestricted	$ 619,413	$ 445,289
Cash and cash equivalents, restricted	15,915	21,581
Total cash and cash equivalents	$ 635,328	$ 466,870
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 73,962	$ 45,932
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	172,895	163,933
Provision for doubtful accounts	6,010	6,742
Changes in assets, liabilities, and deferred outflows and inflows of resources		
Accounts receivable	1,892	(5,206)
Materials and supplies inventories	216	(136)
Prepaid expenses	95	166
Deferred outflows of resources - pensions	(20,850)	4,662
Accounts payable	1,048	(16,688)
Net pension liabilities	15,496	17,067
Accrued salaries and employee benefits	106	(189)
Other liabilities	15,550	(9,045)
Deferred inflows of resources - pensions	8,161	(22,369)
Total adjustments to reconcile operating income to net cash provided by operation activities	200,619	138,937
Net cash provided by operating activities	$ 274,581	184,869
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets with construction payable	$ 3,060	$ 3,239
Acquisition of capital assets with accounts payable	2,106	624
Write-off of discontinued construction projects	773	5,279
Capitalized interest expense, net	35,589	41,216
Revenue bond proceeds received in escrow trust fund	230,506	43,647
Debt defeased and related costs paid through escrow trust fund	(230,506)	(43,647)

See accompanying notes to basic financial statements.

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

Notes to the Basic Financial Statements

June 30, 2017 and 2016

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

Continued…..

1. Organization and Summary of Significant Accounting Policies

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

A. Organization and Reporting Entity

The Port of Los Angeles is a proprietary 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 California. The Port is under the control of a five-member Board of Harbor Commissioners (BHC), who are appointed by the Mayor and approved by the City Council. The Port is administered by an Executive Director and subject to the State of California Tidelands Trust Act.

Most of the properties of the Port including land, docks, wharves, transit sheds, terminals, and other facilities are owned by the City and administered by the Port, subject to a trust created pursuant to certain tideland grants from the State. All monies arising out of the operation of the Port are limited as to use for the operation and maintenance of Port facilities, the acquisition and construction of improvements, and other such trust considerations under the Tidelands Trust and the Charter of the City.

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

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

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

Continued…..

Reporting Entity

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port in undertaking financing third party capital expenditures at potentially advantageous terms that the BHC deems necessary for the promotion and accommodation of commerce.

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

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

B. Summary of Significant Accounting Policies

Method of Accounting – The Port's activities are accounted for as an enterprise fund, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when the related liabilities are incurred.

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

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

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

Continued…..

Securities Lending – As a participant in the City's Investment Pool, the Port's funds are also part of the City's securities lending program (SLP). The investment collateral received by the City together with the corresponding liability is allocated among the City's participating funds based on the aggregate respective cash balances at fiscal year-end.

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

Capital Assets – Capital assets are carried at cost or at acquisition value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation. The Port has a capitalization threshold of $5,000. Capital assets include intangible assets for the Port's radio frequency and emission mitigation credits, and capitalized costs of the Port's integrated financial accounting system, the Enterprise Resource Planning System.

Development costs for proposed capital projects that are incurred prior to the finalization of formal construction contracts are capitalized. Upon completion of capital projects, such preliminary costs are transferred to the appropriate property account. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment. Preliminary costs - capital projects for fiscal years 2017 and 2016 are $97.2 million and $204.0 million, respectively.

The Port capitalizes interest costs incurred on indebtedness issued in connection with the acquisition, construction or improvement of capital assets, net of interest revenue on reinvested debt proceeds. Interest capitalized in fiscal years 2017 and 2016 were $35.5 million and $41.2 million, respectively.

The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects. Indirect project costs allocated to construction projects for fiscal years 2017 and 2016 were $18.3 million and $16.2 million, respectively.

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

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

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

Continued…..

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

Deferred Outflows and Inflows of Resources – In addition to assets, the Port reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Port has two items that qualified for reporting in this category. They are deferred charges on debt refunding and deferred outflows of resources related to pensions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

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

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

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

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

Continued…..

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

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

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

Operating Leases – The Port leases a substantial portion of lands and facilities to others. Leases relating to terminal operations tend to be long-term in nature (as long as 50 years), which generate 84.7% of the Port's operating revenues. Leases relating to revocable permits and space assignments that are short-term in nature provide for cancellation on a 30-day notice by either party. Majority of the Port's leases provide retention of ownership by the Port or restoration of the property to pre-leased conditions at the expiration of the agreement; accordingly, no leases are considered capital leases.

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

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

Capital Contributions – The Port may receive grants for the purpose of acquisition or construction of property and equipment. These grants are generally structured as reimbursements against expenditures. Grants and similar items are recognized as capital contributions as soon as all eligibility requirements imposed by the provider have been met.

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

- *Net investment in capital assets* – This category consists of capital assets, reduced by accumulated depreciation and by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this category.
- *Restricted* – This category consists of restrictions placed on net position through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments. Constraints may also be imposed by law or constitutional provisions or enabling legislation.
- *Unrestricted* – This category consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Port's policy to use unrestricted resources as needed and restricted resources for the purpose for which the restriction exists first.

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

Reclassifications – Certain reclassifications have been made to amounts reported in fiscal year 2016 to conform to the fiscal year 2017 presentation. Such reclassification had no impact on the change in net position previously reported. See Note 20 on page 103 of this report for additional information.

2. Adoption of New GASB Pronouncements

GASB Statement No. 74, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."* Issued in June 2015, this statement establishes new accounting and financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement is effective for financial statements of applicable OPEB plans in fiscal year 2017. The statement has no impact on the Port's financial statements because the Port does not administer an OPEB plan. The Port's two retirement plans are implementing the statement in the plans' separately issued financial reports.

GASB Statement No. 77, *"Tax Abatement Disclosures."* Issued in August 2015, this statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The statement has no impact on the Port's financial statements because the Port does not have transactions related to tax abatements.

GASB Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans."* Issued in December 2015, this statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state and local government employers through certain cost-sharing multiple-employer defined benefit pension plans. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described in the statement. The statement has no impact on the Port's financial statements because the pension plans for the Port employees do not have the characteristics described in the statement.

GASB Statement No. 80, *"Blending Requirements for Certain Component Units-an Amendment of GASB Statement No. 14."* Issued in January 2016, this statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Port implemented this statement in fiscal year 2017. The statement has no material impact on the Port's financial statements.

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3. Recent GASB Pronouncements for Future Adoption

GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* Issued in June 2015, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This statement will be effective beginning fiscal year 2018.

GASB Statement No. 81, *"Irrevocable Split-Interest Agreements."* Issued in March 2016, this statement requires that a government that receives resources pursuant to an irrevocable split interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. This statement will be effective beginning fiscal year 2018.

GASB Statement No. 82, *"Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No. 73."* Issued in March 2016, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. For items (1) and (3), the statement will be effective beginning fiscal year 2017. For item (2), the statement will be effective for actuarial valuations with the measurement date of June 30, 2017 for the Port's financial statements as of June 30, 2018.

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

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

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

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GASB Statement No. 86, *"Certain Debt Extinguishment Issues."* Issued in May 2017, this statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The statement will be effective beginning fiscal year 2018.

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

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4. Cash and Investments

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

	2017	2016
Cash in bank and certificates of deposit	$ 229	$ 332
Investment in U.S. Treasury and money market fund	62,283	95,769
Equity in the City of Los Angeles Investment Pool	644,939	476,297
Total cash and investments	$ 707,451	$ 572,398

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

	2017	2016
Unrestricted cash and cash equivalents	$ 619,413	$ 445,289
Restricted cash and cash equivalents		
Current		
China Shipping Mitigation Fund	13,439	19,168
Community Mitigation Trust Fund – Trapac	112	112
Narcotics/Customs Enforcement Forfeiture Fund	611	531
Clean Truck Program and Fee Fund	5	30
Other	1,748	1,740
Subtotal – Current	15,915	21,581
Noncurrent		
Harbor Revenue Bond Funds	62,283	95,769
Customer Security Deposits	3,023	3,166
Batiquitos Environmental Fund	6,250	6,032
Harbor Restoration Fund	567	561
Subtotal – Noncurrent	72,123	105,528
Total restricted cash and investments	88,038	127,109
Total cash and investments	$ 707,451	$ 572,398

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A. Deposits

The Port had cash deposits and certificates of deposit with several major financial institutions amounting to $0.2 million and $0.3 million for fiscal years ended June 30, 2017 and 2016, respectively. The deposits were entirely covered by federal depository insurance or collateralized by securities held by the financial institutions in the Port's name in conformance with the California Government Code.

B. Pooled Investments

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to and recorded in certain participating funds, as authorized by the Los Angeles City Council (City Council) and permitted by the City Charter and the California Government Code, based on each fund's average daily deposit balance. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 (State Code) and the City Council File No. 94-2160, the City Treasury provides the City Council a statement of investment policy (the Policy) annually. City Council File No. 11-1740 was adopted on February 12, 2014, as the City's investment policy. This Policy shall remain in effect until the City Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the City Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53638, 16340 and 16429.1. The City Treasury further reports that the current policy allows for the purchase of investments with maturities up to thirty (30) years.

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

The Port had $644.9 million and $476.3 million invested in the City's General Pool and three Special Investment Pools, representing approximately 7.2% and 4.8% of the City Treasury's General Pool and Special Investment Pools at June 30, 2017 and 2016, respectively.

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

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C. Special Investment Pools

Out of $644.9 million and $476.3 million invested in the City's pooled investments, $54.7 million and $54.2 million were invested in the City's Special Investment Pools. They are Emergency/ACTA Reserve Fund 751, Restoration Fund 70L, and Batiquitos Long-term Investment Fund 72W. Investments in the Special Investment Pools are managed in accordance with the California Government Code Sections 53600-53635 and the City's Policy.

At June 30, 2017 and 2016, investments held in the City's Special Investment Pools and their maturities are as follows (in thousands):

Fiscal Year 2017

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

Fiscal Year 2016

		Investment Maturities			
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 180 Days	Over 180 Days
U.S. Agencies Securities	$ 54,200	$ 7,660	$ 37,541	$ 8,999	$ --
Short Term Investment Funds	1	1	--	--	--
Total investments in special pools	$ 54,201	$ 7,661	$ 37,541	$ 8,999	$ --

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, negotiable certificates of deposit, collateralized bank deposits, mortgage pass-through securities, supranational obligations, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; 92 days for reverse repurchase agreements; and no maturity for mutual funds. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. Investments in U.S. Agencies securities were not rated individually by S&P nor Moody's (issuers of these securities are rated "AA+/A-1+" by S&P and "Aaa/P-1" by Moody's). Investment in supranational obligations must have a minimum of AA rating. The Port's investments in supranational obligations of $3.0 million were not rated.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio to be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds or mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that

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can be invested in the U.S. Treasury and government agencies. The City's pooled investments comply with these requirements.

D. Other Investments

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

The Port evaluates the value of the reserve funds on or at August 1 of each year, in accordance with the Indenture of Trust (Indenture). The common reserve was $62.3 million at June 30, 2017 versus $66.6 million at June 30, 2016. The reserve funds were invested in money market funds and U.S. Treasuries.

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

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E. City of Los Angeles Securities Lending Program

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

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

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) is available for lending. The City loans out U.S. Treasury Notes, U.S. Agencies securities (e.g., Fannie Mae, Freddie Mac, Federal Home Loan Bank, Farmer Mac, Federal Farm Credit Bank and Tennessee Valley Authority), Medium-term Notes, and Supranational Obligations. The City receives cash as collateral on the loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 60 days. Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants.

During the fiscal years 2017 and 2016, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

The Port's share in the assets and liabilities from the reinvested cash collateral amounted to $4.4 million and $7.9 million as of June 30, 2017 and 2016, respectively.

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

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F. Fair Value Measurement

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

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

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

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

The Port has the following recurring fair value measurements as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 66,292	$ 66,292	$ --	$ --
Money market fund	29,477	--	29,477	--
Total investments - bond funds	$ 95,769	$ 66,292	$ 29,477	$ --
U.S. Agencies Securities	$ 54,200	$ --	$ 54,200	$ --
Total investments - special pools	$ 54,200	$ --	$ 54,200	$ --

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

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5. Capital Assets

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

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

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The Port's capital assets consist of the following activities for fiscal year ended June 30, 2016 (in thousands):

	Balance July 1, 2015	Increase	Decrease	Adjustments and Transfers	Balance June 30, 2016
Capital assets not depreciated					
Land	$ 1,107,506	$ 1,211	$ (900)	$ 206	$ 1,108,023
Construction in progress	182,747	153,153	--	(223,509)	112,391
Preliminary costs – capital projects	160,562	47,662	--	(4,228)	203,996
Intangible assets	12,900	--	--	--	12,900
Total capital assets not depreciated	1,463,715	202,026	(900)	(227,531)	1,437,310
Capital assets depreciated/amortized					
Wharves and sheds	1,163,742	--	--	14,550	1,178,292
Buildings/facilities	2,857,903	116	(404)	210,605	3,068,220
Equipment	158,125	1,464	(589)	2,748	161,748
Intangible assets	12,460	--	--	--	12,460
Total capital assets depreciated/amortized	4,192,230	1,580	(993)	227,903	4,420,720
Less accumulated depreciation/ amortization					
Wharves and sheds	(437,206)	(35,305)	--	--	(472,511)
Buildings/facilities	(1,213,414)	(108,556)	404	--	(1,321,566)
Equipment	(91,863)	(19,449)	582	(372)	(111,102)
Intangible assets	(1,326)	(623)	--	--	(1,949)
Total accumulated depreciation/amortization	(1,743,809)	(163,933)	986	(372)	(1,907,128)
Total capital assets depreciated/ amortized, net	2,448,421	(162,353)	(7)	227,531	2,513,592
Capital assets, net	$ 3,912,136	$ 39,673	$ (907)	$ --	$ 3,950,902

Net interest expense of $35.5 million and $41.2 million was capitalized for fiscal years 2017 and 2016, respectively.

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6. Investment in Joint Powers Authorities and Other Entities

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

A. Intermodal Container Transfer Facility Joint Powers Authority

The Port of Los Angeles (POLA) and the Harbor Department of the City of Long Beach, California (POLB) entered into a joint powers agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purpose of financing and constructing a facility to transfer cargo containers between trucks and railroad cars. The POLA contributed $2.5 million to the ICTF as part of the agreement. The facility, which began operations in December 1986, was developed and operated by Southern Pacific Transportation Company (SPTC) under a long-term lease agreement. SPTC was subsequently merged and continues operations as Union Pacific Corporation (UPC). The POLA appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the POLA and POLB share income and equity distributions equally.

ICTF has issued bonds in prior years. At June 30, 2017 and 2016, there were no outstanding bonds.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those actions necessary for the development of the facility, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's net position at June 30, 2017 and 2016 totaled $5.7 million and $5.6 million, respectively. Separate financial statements for ICTF may be obtained from the Executive Director, Intermodal Container Transfer Facility Joint Powers Authority, 4801 Airport Plaza Drive, Long Beach, California 90815 or the ICTF's website at http://ictf-jpa.org/document_library.php.

B. Alameda Corridor Transportation Authority

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

The POLA has no share of the ACTA's net position and income at June 30, 2017 and 2016, and accordingly, they have not been recorded in the accompanying basic financial statements. If in the future, ACTA is entitled to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally.

Separate financial statements for ACTA may be obtained from the Chief Financial Officer, Alameda Corridor Transportation Authority, One Civic Plaza Drive, Suite 350, Carson, California 90745 or the ACTA's website http://www.acta.org/revenue_finance/financial_statement.asp.

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7. Long-Term Debt

A. Bonded Debt, Commercial Paper and Other Indebtedness

Bonds issued by the Port are payable solely from the Port's revenues pledged under indentures and are not general obligations of the City. The Port has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that the Port's revenues, as defined under indentures, will be sufficient to pay future bond interest and principal maturities.

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

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2016	Additions	Deductions	Ending Balance June 30, 2017	Principal Due Within One Year
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2025	$ 200,710	$ 48,760	$ --	$ (48,760)	$ --	$ --
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2026	209,815	72,560	--	(72,560)	--	--
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	11,155	--	(11,155)	--	--
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% – 5.25%	2030	100,000	78,665	--	(4,095)	74,570	4,255
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	(100,000)	--	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% – 5.25%	2032	230,160	180,435	--	(8,860)	171,575	2,265
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% – 5.00%	2023	58,930	56,795	--	(7,130)	49,665	7,490
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% – 5.00%	2026	32,820	32,820	--	--	32,820	--
Issue 2014, Series A	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	203,280	201,005	--	(3,420)	197,585	4,595
Issue 2014, Series B	8/1/2024 @ 100%	9/18/2014	3.00% – 5.00%	2045	89,105	87,745	--	(1,425)	86,320	1,480
Issue 2014, Series C	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	44,890	44,130	--	(780)	43,350	805
Issue 2015, Series A	8/1/2025 @ 100%	9/18/2014	2.00% – 5.00%	2027	37,050	37,050	--	(2,755)	34,295	2,835
Issue 2016, Series A	8/1/2026 @ 100%	10/13/2016	3.00% – 5.00%	2025	97,970	--	97,970	--	97,970	13,055
Issue 2016, Series B	8/1/2026 @ 100%	10/13/2016	2.00% – 5.00%	2037	68,385	--	68,385	--	68,385	835
Issue 2016, Series C	8/1/2026 @ 100%	10/13/2016	4.00%	2040	35,205	--	35,205	--	35,205	--
Total parity bonds					$ 1,524,865	951,120	201,560	(260,940)	891,740	37,615
Unamortized bond premium						57,202	28,946	(8,545)	77,603	--
Net parity bonds						1,008,322	230,506	(269,485)	969,343	37,615
Less: current maturities of long-term debt						(41,695)	(50,570)	54,650	(37,615)	--
Total long-term debt net of current maturities						$ 966,627	$ 179,936	$ (214,835)	$ 931,728	$ 37,615

Continued…..

The Port's activities for bonded debt and other indebtedness for fiscal year 2016 are as follows (in thousands):

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2015	Additions	Deductions	Ending Balance June 30, 2016	Principal Due Within One Year
Issue 2005, Series A	8/1/2015 @ 102%	10/13/2005	3.25% – 5.00%	2027	$ 29,930	$ 24,250	$ --	$ (24,250)	$ --	$ --
Issue 2005, Series B	8/1/2015 @ 102%	10/13/2005	3.00% – 5.00%	2027	30,110	22,680	--	(22,680)	--	--
Issue 2005, Series C-1	8/1/2015 @ 102%	10/13/2005	4.00% – 5.00%	2016	43,730	7,410	--	(7,410)	--	--
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2025	200,710	48,760	--	--	48,760	195
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2026	209,815	84,100	--	(11,540)	72,560	12,140
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	12,005	--	(850)	11,155	895
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% – 5.25%	2030	100,000	82,570	--	(3,905)	78,665	4,095
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	--	100,000	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% – 5.25%	2032	230,160	190,110	--	(9,675)	180,435	8,860
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% – 5.00%	2023	58,930	58,930	--	(2,135)	56,795	7,130
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% – 5.00%	2026	32,820	32,820	--	--	32,820	--
Issue 2014, Series A	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	203,280	203,280	--	(2,275)	201,005	3,420
Issue 2014, Series B	8/1/2024 @ 100%	9/18/2014	3.00% – 5.00%	2045	89,105	89,105	--	(1,360)	87,745	1,425
Issue 2014, Series C	8/1/2024 @ 100%	9/18/2014	2.00% – 5.00%	2045	44,890	44,890	--	(760)	44,130	780
Issue 2015, Series A	8/1/2025 @ 100%	9/18/2014	2.00% – 5.00%	2026	37,050	--	37,050	--	37,050	2,755
Total parity bonds					$ 1,427,075	1,000,910	37,050	(86,840)	951,120	41,695
Unamortized bond (discount) premium						58,693	6,597	(8,088)	57,202	--
Net parity bonds						1,059,603	43,647	(94,928)	1,008,322	41,695
Less: current maturities of long-term debt						(42,910)	(41,695)	42,910	(41,695)	--
Total long-term debt net of current maturities						$ 1,016,693	$ 1,952	$ (52,018)	$ 966,627	$ 41,695

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B. Bond Premium and Discount

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

The unamortized discount or premium for the outstanding bonds for fiscal years 2017 and 2016 are as follows (in thousands):

Harbor Revenue Bonds	2017 Premium (Discount)	2016 Premium (Discount)
Issue of 2006, Series A	$ --	$ 740
Issue of 2006, Series B	--	816
Issue of 2006, Series C	--	236
Issue of 2009, Series A	643	799
Issue of 2009, Series B	--	(1,984)
Issue of 2009, Series C	2,597	3,062
Issue of 2011, Series A	1,584	2,311
Issue of 2011, Series B	2,188	2,460
Issue of 2014, Series A	22,478	24,491
Issue of 2014, Series B	11,565	12,414
Issue of 2014, Series C	5,657	6,018
Issue of 2015, Series A	4,815	5,839
Issue of 2016, Series A	9,417	--
Issue of 2016, Series B	12,645	--
Issue of 2016, Series C	4,014	--
Total	$ 77,603	$ 57,202

Continued…..

C. Principal Maturities and Interest

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

Fiscal Year	Principal	Interest	Total
2018	$ 37,615	$ 42,531	$ 80,146
2019	44,015	40,868	84,883
2020	46,515	38,836	85,351
2021	48,295	36,547	84,842
2022	51,280	34,069	85,349
2023 – 2027	290,210	127,383	417,593
2028 – 2032	99,985	78,115	178,100
2033 – 2037	127,065	50,399	177,464
2038 – 2042	98,525	22,619	121,144
2043 – 2045	48,235	3,698	51,933
Total	$ 891,740	$ 475,065	$ 1,366,805

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D. New Issuances

Fiscal Year 2017

2016 Series A Refunding Bonds

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

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

2016 Series B Refunding Bonds

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

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

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

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2016 Series C Refunding Green Bonds

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

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

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

Fiscal Year 2016

2015 Series A Refunding Bonds

The 2015 Series A Refunding Bonds were issued in October 2015 in the aggregate principal amount of $37.1 million to refund the outstanding principal of $22.7 million of the 2005 Series A Refunding Bonds and $21.2 million of the 2005 Series B Refunding Bonds. The refunding transaction resulted in cash flow savings of $9.3 million and economic gain of $8.4 million over the life of the bonds.

Interest on the 2015 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from February 1, 2016. The bonds bear interest at coupon rates from 2.00% to 5.00% with maturity dates ranging from August 2016 to August 2026.

Bonds maturing on August 1, 2026 total of $3.2 million are subject to optional redemption on or after August 1, 2025 without early redemption premium.

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E. Commercial Paper

The Port has established a Commercial Paper program (Program) supported by bank credit lines to issue commercial paper notes (Notes) to provide interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment needs. The total credit available under the current credit facilities that support the Program is at $200.0 million. The term of the Program will expire in August 2018.

There was no outstanding commercial paper as of June 30, 2017 and 2016.

F. Prior Years' Defeasance of Debt

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

At June 30, 2017 and 2016, $20.8 million and $30.1 million, respectively, of defeased 1988 bonds remain outstanding.

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

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8. Changes in Long-Term Liabilities

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due within one year
Revenue bonds	$ 951,120	$ 201,560	$ (260,940)	$ 891,740	$ 37,615
Unamortized (discount)/ premium	57,202	28,946	(8,545)	77,603	--
Net revenue bonds	1,008,322	230,506	(269,485)	969,343	37,615
Accrued employee benefits	8,663	133,757	(134,173)	8,247	710
Litigation	1,524	531	(146)	1,909	1,909
Workers compensation	12,508	4,353	(2,106)	14,755	1,820
Pollution remediation	74,826	50,100	(29,865)	95,061	11,776
Deposits	13,342	440	(235)	13,547	--
Net pension liabilities	215,829	15,496		231,325	--
Others	23,043	8,726	(13,836)	17,933	16,084
Total long-term liabilities	$ 1,358,057	$ 443,909	$ (449,846)	$ 1,352,120	$ 69,914

Continued…..

The changes in the Port's long-term liabilities for the year ended June 30, 2016 are as follows (in thousands):

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due within one year
Revenue bonds	$ 1,000,910	$ 37,050	$ (86,840)	$ 951,120	$ 41,695
Unamortized (discount)/ premium	58,693	6,597	(8,088)	57,202	--
Net revenue bonds	1,059,603	43,647	(94,928)	1,008,322	41,695
Accrued employee benefits	9,345	147,690	(148,372)	8,663	550
Litigation	1,601	621	(698)	1,524	1,524
Workers compensation	15,335	--	(2,827)	12,508	1,504
Pollution remediation	73,403	5,194	(3,771)	74,826	10,002
Deposits	12,751	739	(148)	13,342	--
Net pension liabilities	198,762	18,858	(1,791)	215,829	--
Others	24,446	4,994	(6,397)	23,043	21,209
Total long-term liabilities	$ 1,395,246	$ 221,743	$ (258,932)	$ 1,358,057	$ 76,484

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9. Pollution Remediation Obligations

The Port's estimated pollution remediation liability as of June 30, 2017 and 2016 totaled $95.1 million and $74.8 million, respectively. These costs relate mostly to soil and ground water contamination on sites within the Port premises. As certain sites were formerly used for a variety of industrial purposes, legacy contamination or environmental impairments exist. As environmental risks may be managed, the Port has adopted the "Managed Environmental Risk" approach in estimating the remediation liability. The Port uses a combination of in-house specialists as well as outside consultants to perform estimates of potential liability. Certain remediation contracts are included in site development plans as final uses for the sites have been identified.

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
Obligating Event					
Violation of pollution prevention related permit or license	$ --	$ 1,130	$ --	$ 1,130	$ 600
Named by regulator as a potential party to remediation	69,635	27,899	(9,095)	$ 88,439	$ 10,493
Voluntary commencement	5,191	684	(383)	5,492	683
Total	$ 74,826	$ 29,713	$ (9,478)	$ 95,061	$ 11,776
Pollution Type					
Soil and/or groundwater remediation	$ 74,826	$ 29,713	$ (9,478)	$ 95,061	$ 11,776

The changes in the Port's pollution remediation obligations for fiscal year 2016 are as follows (in thousands):

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Obligating Event					
Named by regulator as a potential party to remediation	$ 68,250	$ 4,594	$ (3,209)	$ 69,635	$ 9,117
Voluntary commencement	5,153	600	(562)	5,191	885
Total	$ 73,403	$ 5,194	$ (3,771)	$ 74,826	$ 10,002
Pollution Type					
Soil and/or groundwater remediation	$ 73,403	$ 5,194	$ (3,771)	$ 74,826	$ 10,002

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10. Employee Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which Port employees participate, allowing them to defer receipt of income. All amounts deferred by the Port's employees are paid to the City, which in turn pays them to the deferred compensation plan administrator. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such custodial account for the exclusive benefit of the employee participants and their beneficiaries. Information on the Port employees' share of plan assets is not available and is not recorded in the Port's financial statements.

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

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11. Risk Management

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

The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The Port's accrued workers' compensation liability at June 30, 2017 and 2016 were $14.8 million and $12.5 million, respectively.

A number of lawsuits were pending against the Port that arose in the normal course of operations. The Port recognizes a liability for claims and when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities to be probable of occurring from lawsuits. The Port's liability for litigation and other claims at June 30, 2017 and 2016 were $1.9 million and $1.5 million, respectively.

Continued…..

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

	2017	2016	2015
Unpaid claims, July 1			
Workers compensation	$ 12,508	$ 15,335	$ 15,826
General liability/litigation	1,524	1,601	333
Total unpaid claims, July 1	14,032	16,936	16,159
Provision for current year's events and changes in provision for prior year's events			
Workers compensation	4,353	(1,167)	936
General liability/litigation	624	621	1,567
Total provision	4,977	(546)	2,503
Claims payments			
Workers compensation	(2,106)	(1,660)	(1,427)
General liability/litigation	(239)	(698)	(299)
Total claims payments	(2,345)	(2,358)	(1,726)
Unpaid claims, June 30			
Workers' compensation	14,755	12,508	15,335
General liability/litigation	1,909	1,524	1,601
Total unpaid claims, June 30	$ 16,664	$ 14,032	$ 16,936
Current portion			
Workers compensation	$ 1,820	$ 1,504	$ 1,783
General liability/litigation	1,909	1,524	1,601
Total current portion	$ 3,729	$ 3,028	$ 3,384

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

The Port leases a substantial portion of lands and facilities to others. Leases relating to terminal operations tend to be long-term in nature (as long as 50 years), which generate 84.7% of the Port's operating revenues. Leases relating to revocable permits and space assignments that are short-term in nature provide for cancellation on a 30-day notice by either party. Majority of the Port's leases provide retention of ownership by the Port or restoration of the property to pre-leased conditions at the expiration of the agreement; accordingly, no leases are considered capital leases.

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

Agreements relating to terminal operations tend to be long-term in nature (as long as 50 years) and are made to provide the Port with a firm tenant commitment. These agreements are subject to periodic review and reset of base amounts. For the years ended June 30, 2017 and 2016, the minimum rental income from such lease agreements was approximately $51.3 million and $46.6 million, respectively. For the years ended June 30, 2017 and 2016, the MAG payments were approximately $269.5 million and $248.6 million, respectively, and were reported under shipping services revenue. Assuming that current agreements are carried to contractual termination, minimum tenant commitments due to the Port over the next five years are as follows (in thousands):

Fiscal Year	Rental income	MAG income
2018	$ 51,770	$ 275,205
2019	52,288	282,039
2020	52,810	283,130
2021	53,339	283,063
2022	53,872	283,083
Total	$ 264,079	$ 1,406,520

The carrying cost and related accumulated depreciation of property held for operating leases as of June 30, 2017 and 2016 are as follows (in thousands):

	2017	2016
Wharves and sheds	$ 1,181,381	$ 1,178,292
Cranes and bulk facilities	29,879	52,441
Municipal warehouses	13,766	13,578
Port pilot facilities and equipment	9,512	7,386
Buildings and other facilities	1,046,651	1,024,378
Cabrillo Marina	179,942	179,791
Total	2,461,131	2,455,866
Less accumulated depreciation	(1,201,865)	(1,146,489)
Net	$ 1,259,266	$ 1,309,377

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13. Los Angeles City Employees' Retirement System

A. General Information about the Plan

Plan description. All full-time employees of the Port are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a single-employer defined benefit pension plan (the Plan). LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS. LACERS is under the exclusive management and control of its Board of Administration whose authority is granted by statutes in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. Changes to the benefit terms require approval of the City Council.

LACERS issues a publicly available financial report that may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012, (800) 779-8328 or LACERS' website http://lacers.org/aboutlacers/reports/index.html. As of the completion date of the Port's financial statements, LACERS' financial statements and the plan's actuarial valuation study for fiscal year 2017 are not yet available.

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

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

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Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are the change in the Consumer Price Index, to a maximum increase in retirement allowance of 3% per year, excess banked, for Tier 1 members and 2% per year, excess not banked, for Tier 3 members.

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

Contributions. The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City in accordance with Article XI Sections 1158 and 1160 of the Los Angeles City Charter provides for periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due. For fiscal year 2017, the employer contribution rate as calculated by LACERS' actuary is 28.16% for Tier 1 members (i.e., all LACERS members hired prior to February 21, 2016) and 24.96% Tier 3 members (i.e., all City employees who became members of LACERS on or after February 21, 2016). For fiscal year 2016, the employer contribution rate as calculated by LACERS' actuary is 28.75% for Tier 1 members and 22.62% for Tier 2 members.

Based on the Port's reported covered payroll of $79.9 million for fiscal year 2017, $79.1 million is subject to the 28.16% rate and $0.8 million is subject to the 24.96% rate. The Port's actual contribution to LACERS, including family death benefit, excess benefit, and limited term plans is $21.8 million (100% of the actuarially determined contribution) and $21.9 million (100% of actuarially determined contribution) for the fiscal years ended June 30, 2017 and 2016, respectively.

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

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

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

At June 30, 2017 and 2016, the Port reported a liability of $221.3 million and $207.2 million, respectively, for its proportionate shares of the net pension liability of LACERS. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port's proportion of the net pension liability was based on a projection of the Port's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Port's proportionate share was determined to be 3.940% and 4.152% for fiscal years June 30, 2016 and 2015.

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Fiscal Year 2017

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,582	$ --
Changes of assumptions or other inputs	14,428	--
Differences between expected and actual experience in the total pension liability	--	15,941
Changes in proportion and differences between employer's contributions and proportionate share of contributions	--	10,980
Net difference between projected and actual earnings on pension plan investments	25,325	--
Total	$ 57,335	$ 26,921

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

Year ended June 30	
2018	$ 1,805
2019	1,805
2020	8,240
2021	1,994
2022	(1,012)
Thereafter	--

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

Continued…..

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

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

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

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

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

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

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

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

Continued…..

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

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

Fiscal Year 2016

For the year ended June 30, 2016, the Port recognized pension expense of $18.4 million. At June 30, 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,557	$ --
Changes of assumptions or other inputs	21,006	--
Differences between expected and actual experience in the total pension liability	--	8,928
Changes in proportion and differences between employer's contributions and proportionate share of contributions	--	3,522
Net difference between projected and actual earnings on pension plan investments	--	5,968
Total	$ 38,563	$ 18,418

Continued…..

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

Year ended June 30		
2017	$	(872)
2018		(872)
2019		(872)
2020		5,906
2021		(702)
Thereafter		--

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

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Projected salary increases	Ranges from 4.40% to 10.50% based on years of service
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Cost-of-living adjustments	Tier 1: 3.00%, Tier 2: 2.00%, actuarial increases are contingent upon Consumer Price Index (CPI) increases with a 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.

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

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

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

Continued…..

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

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

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

Continued…..

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

	1% Decrease (6.50%)	Discount rate (7.50%)	1% Increase (8.50%)
Port's proportionate share of the net pension liability	$300,730	$207,158	$129,286

C. Other Postemployment Benefits (OPEB)

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

During fiscal year 2011, the City adopted an ordinance to freeze the maximum medical subsidy at $1,190 for LACERS members who retire on or after July 1, 2011. However, LACERS members who at any time prior to retirement contribute the additional 2% or 4% of pay are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2016, all non-retired Tier 1 and Tier 3 LACERS members were making the additional contributions, and therefore are not subject to the medical subsidy freeze.

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

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The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2016 and the two preceding years for the plan are as follows (in thousands):

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

D. Funded Status of LACERS OPEB

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Following is the funded status information of the plan for fiscal years ended June 30, 2016, 2015, and 2014 (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)]/(c)
06/30/2016	$ 2,248,753	$ 2,793,689	$ 544,936	80.5%	$ 1,968,703	27.7%
06/30/2015	2,108,925	2,646,989	538,064	79.7%	1,907,665	28.2%
06/30/2014	1,941,225	2,662,853	721,628	72.9%	1,816,171	39.7%

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

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

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14. City of Los Angeles Fire and Police Pension System

A. General Information about the Plan

Plan description. The Los Angeles Fire and Police Pension System (LAFPP) operates under the City of Los Angeles Charter and Administrative Code provisions as a single-employer defined benefit pension plan covering all full-time active sworn firefighters, police officers, and certain Harbor Port Police officers of the City of Los Angeles. LAFPP is composed of six tiers.

Tier 6 is the current tier for all Harbor Port Police Officers hired on or after July 1, 2011. Tier 5 was the tier for all Harbor Port Police officers hired on or after January 8, 2006 through June 30, 2012. The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Port Police Officers the option to transfer from LACERS to Tier 5 of LAFPP. The election period was from January 8, 2006 to January 5, 2007 and the decision to transfer is irrevocable.

Only "sworn" service with the Port is transferable to LAFPP. Other "non-sworn" services with other City Departments are not eligible for transfer. All new employees hired by the Port after the effective date of the Ordinance automatically go into either Tier 5 or Tier 6 of LAFPP.

Under provisions of the City Charter, the City Administrative Code and the State Constitution, the Board has the responsibility to administer the plan. Changes to the benefit terms require approval by the City Council.

LAFPP issues a publicly available financial report that may be obtained by writing or calling: Los Angeles Fire and Police Pension system, 360 E. Second Street, Suite 400, Los Angeles, CA 90012, (213) 978-4545 or LAFPP's website https://www.lafpp.com/about/financial-reports. As of the completion date of the Port's financial statements, the LAFPP's financial statements and the plan's actuarial valuation study for fiscal year 2017 are not yet available.

Benefits provided. Information about benefits for Tiers 1 through 4 members is available in the separately issued LAFPP financial report. Tier 5 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 50% of their one-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 5 provides for postemployment COLAs based on the Consumer Price Index (CPI) to a maximum of 3% per year. However, any increase in CPI greater than 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Tier 6 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for postemployment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a

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discretionary ad-hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

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

All members are required to make contributions to LAFPP regardless of tier in which they are included. However, members are exempt from making contributions when their continuous service exceeds 30 years for Tier 1 through 4, and 33 years for Tier 5 and Tier 6. The average member contribution rates for fiscal year 2015-16 (based on the June 30, 2014 valuation) was 9.60% of compensation paid biweekly.

In fiscal year 2017, the Port's contribution rate for sworn employees that are members of the Harbor Tier 5 plan, as determined by the actuary is 33.92% of covered payroll. The Harbor Tier 6 rate is 29.51%. Based on the Port's reported sworn covered payroll of $12.5 million for Tier 5, and $1.0 million for Tier 6, the Port's pro rata share of the combined actuarially determined contribution for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was $4.5 million (100% of actuarially determined contribution) and $4.2 million (100% of actuarially determined contribution) for the years ended June 30, 2017 and 2016, respectively.

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

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

At June 30, 2017 and 2016, the Port reported a liability of $10.1 million and $8.7 million, respectively, for its proportionate shares of the net pension liability of LAFPP. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port's proportion of the net pension liability was based on a projection of the Port's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Port's proportionate share was determined to be 0.408% and 0.425% for fiscal years June 30, 2017 and 2016.

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Fiscal Year 2017

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,716	$ --
Changes of assumptions or other inputs	--	228
Differences between expected and actual experience in the total pension liability	--	2,891
Net difference between projected and actual earnings on pension plan investments	1,825	--
Total	$ 5,541	$ 3,119

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

Year ended June 30	
2018	$ (614)
2019	(614)
2020	105
2021	28
2022	(199)
Thereafter	--

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

Continued…..

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

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

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

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

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

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

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

Continued…..

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

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

Fiscal Year 2016

For the year ended June 30, 2016, the Port recognized pension expense of $2.7 million. At June 30, 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,462	$ --
Changes of assumptions or other inputs	--	312
Differences between expected and actual experience in the total pension liability	--	2,020
Net difference between projected and actual earnings on pension plan investments	--	1,131
Total	$ 3,462	$ 3,463

Continued…..

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

Year ended June 30		
2017	$	(965)
2018		(965)
2019		(965)
2020		(246)
2021		(322)
Thereafter		--

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

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

Continued…..

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

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

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

Continued…..

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

	1% Decrease (6.50%)	Discount rate (7.50%)	1% Increase (8.50%)
Port's proportionate share of the net pension liability	$18,490	$8,671	$810

C. Other Postemployment Benefits (OPEB)

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the LAFPP plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2016, 2015, and 2014 are as follows (in thousands):

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

Continued…..

D. Funded Status of LAFPP OPEB

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to expectations and new estimates are made about the future. Following is the funded status information for the LAFPP OPEB plan for fiscal years ended June 30, 2016, 2015, and 2014 (in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)]/(c)
06/30/2016	$ 1,480,810	$ 3,079,670	$ 1,598,860	48.08%	$ 1,400,808	114.14%
06/30/2015	1,344,333	2,962,703	1,618,370	45.38%	1,405,171	115.17%
06/30/2014	1,200,874	2,783,283	1,582,409	43.15%	1,402,715	112.81%

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

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

Continued…..

15. Commitments, Litigation and Contingencies

A. Commitments

Open purchase orders and uncompleted construction contracts amounted to approximately $26.0 million as of June 30, 2017. Such open commitments do not lapse at the end of the Port's fiscal year and are carried forth to succeeding periods until fulfilled.

In 1985, the Port received a parcel of land, with an estimated value of $14.0 million from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to $14.0 million from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in fiscal years 2017 and 2016.

B. Litigation

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

C. Alameda Corridor Transportation Authority (ACTA) Agreement

In August 1989, the Port and the POLB (the Ports) entered into a joint exercise of powers agreement and formed ACTA for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports in San Pedro Bay, linking the Ports to the central Los Angeles area. The Alameda Corridor began operating on April 15, 2002. ACTA is governed by a seven-member board, which is comprised of two members from each Port, one each from the Cities of Los Angeles and Long Beach and one from the Metropolitan Transportation Authority. If in the future, ACTA is able to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally.

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

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

Continued…..

Corridor is available to maintain continued cargo movement through the Ports. The Ports are required to include expected Shortfall payments in their budgets, but Shortfall payments are subordinate to other obligations of the Port, including the bonds and commercial paper currently outstanding. The Port does not and is not required to take Shortfall payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under the respective bond indentures and resolutions related to each Port bond or indebtedness.

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

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

D. TraPac Project and Environmental Impact Report

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

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

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

Continued…..

On October 26, 2010, the BHC approved the Operating Agreement of the TraPac MOU (Operating Agreement) which provided for more detailed procedures for the implementation of the MOU. The Operating Agreement also provided for the management of the PCMTF by an independent financial manager. In accordance with the Operating Agreement, in 2011 the Port transferred the unspent balance of PCMTF funding from its CMTF to the PCMTF, an escrow account maintained by an independent financial manager, which is currently J.P. Morgan.

While the five-year MOU expired in April 2013, the Operating Agreement provided that the Port shall continue to fund the PCMTF with contributions on account of a list of specific expansion projects that have environmental impact reports certified within five years after the first HCBF Board of Directors meeting (said certification deadline established as May 19, 2016). The Operating Agreement provides that if the listed MOU expansion projects have EIRs certified by the May 2016 deadline and proceeds with construction; the Port will make a one-time additional contribution at a rate of $3.50 per TEU (or $1.50 per cruise passenger, and $0.15 per ton of bulk cargo) per project for growth associated with such expansion projects. Funds will be transferred to the PCMTF within 21 days following award of a construction contract or commencement of construction of each project that had an EIR certified prior to May 19, 2016. In fiscal year 2016, $0.8 million was contributed to the PCMTF based upon the Yusen container terminal project contract award. There were no contributions made during fiscal year 2017.

As of June 30, 2017, a total of $17.5 million has been disbursed from the Port's CMTF. The remaining fund balance including interest earned as of June 30, 2017 is $0.1 million.

Continued…..

16. Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate $39.6 million and $37.4 million in fiscal years 2017 and 2016, respectively. In addition, the amounts charged by the City for water and electricity usage approximate $14.8 million and $14.0 million in fiscal years 2017 and 2016, respectively.

17. Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During the years ended June 30, 2017 and 2016, the Port reported capital contributions of $18.8 million and $40.5 million, respectively, for certain capital construction and grant projects.

18. Natural Resources Defense Council Settlement Judgment

In March 2003, the Port settled a lawsuit entitled: Natural Resources Defense Council, Inc., et al. v. City of Los Angeles, et al., regarding the environmental review of a Port project at the China Shipping Terminal. The settlement called for a total of $50.0 million in mitigation measures to be undertaken by the Port. This $50.0 million charge was recorded as an expense in fiscal year 2003.

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

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

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

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar years 2008, 2007, 2006, and 2005, and payments of $1.8 million, $6.9 million, $5.8 million, and $3.9 million, respectively, were made for having exceeded the caps. The Port charged to nonoperating expense and deposited in the restricted mitigation fund the said amounts in June 2009, June 2008, May 2007, and April 2006, respectively. Total deposits for the four years were $18.4 million, with the June 2009 deposit for calendar year 2008 being the last payment for excess throughput required under the settlement agreement.

Continued…..

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

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

As of June 30, 2017, the Port has contributed a total of $75.0 million to the restricted mitigation funds in accordance with the provisions of the settlement.

19. Cash Funding of Reserve Fund

As of June 30, 2017 and 2016, the Port had $969.3 million and $1.0 billion of outstanding parity bonds (including net unamortized premiums). The Port holds cash reserves for each Indenture of the outstanding bonds as the BHC, on September 18, 2008, approved the full cash funding of the entire reserve requirement of $61.5 million and transferred it to the Port's bond trustee in December 2008. The cash funding of the reserve took place to reassure bond holders of the strong commitment of the Port to its financial wherewithal as rating agencies had reduced the AAA ratings of the surety companies that had provided insurance for the bonds that the Port had issued.

As of June 30, 2017, the balance in the Common Reserve fund totaled $62.3 million. Any excess amounts in the Common Reserve resulting from principal repayments will be transferred to the interest fund and/or redemption fund to be used to pay interest and redeem bonds. The required amount for the reserve fund will be reevaluated on a yearly basis. The funds in the reserve are invested in the U.S. Treasury securities and money market funds.

20. Extraordinary Item

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

Continued…..

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

and Related Ratios – Last Ten Fiscal Years*

(In Thousands)

(Unaudited)

Los Angeles City Employees' Retirement System (LACERS)

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll (1)	Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2015	4.224%	$ 188,299	$ 76,040	247.60%	72.57%
2016	4.152%	$ 207,158	$ 75,963	272.71%	70.49%
2017	3.940%	$ 221,275	$ 75,092	294.67%	67.77%

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

Los Angeles Fire and Police Pension Plan (LAFPP)

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll (2)	Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2015	0.559%	$ 10,463	$ 11,619	90.05%	79.16%
2016	0.425%	$ 8,671	$ 12,301	70.49%	83.98%
2017	0.408%	$ 10,050	$ 12,148	82.49%	83.02%

(2) Covered payroll represents the collective total of the LAFPP eligible wages of all LAFPP membership tiers.

* Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

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

Required Supplementary Information

Schedule of Contributions – Last Ten Fiscal Years*

(In Thousands)

(Unaudited)

Los Angeles City Employees' Retirement System (LACERS)

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

Los Angeles Fire and Police Pension Plan (LAFPP)

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

* Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

See Note to Schedule on the following page.

Required Supplementary Information

Schedule of Contributions – Last Ten Fiscal Years*

(In Thousands)

(Unaudited)

Notes to Schedule:

	LACERS	LAFPP
Valuation date	As of June 30, two years prior to the end of the fiscal year in which contributions are reported	As of June 30, two years prior to the end of the fiscal year in which contributions are reported
Actuarial cost method	Entry age, level percentage of salary	Entry age, level percentage of salary
Amortization cost method	Level percentage of payroll	Level percentage of payroll
Amortization period	15 years for actuarial gains/losses, 20 years for assumption changes, and 15 years for plan changes, 30 years for actuarial surplus	20 years for actuarial gains/losses, 25 years for assumption changes, and 15 years for plan changes
Asset valuation method	Market value less unrecognized returns	Market value less unrecognized returns
Investment rate of return	7.50%	7.50%
Inflation	3.25%	3.25%
Project salary increases	Ranges from 10.50% to 4.40%, based on years of service	Ranges from 4.75% to 11.50% based on years of service
Mortality	RP-2000 Combined Healthy Mortality Table	RP-2000 Combined Healthy Mortality Table

STATISTICAL SECTION

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating revenues										
Shipping services	$ 374,878	$ 329,347	$ 327,630	$ 343,498	$ 357,716	$ 347,876	$ 377,213	$ 364,899	$ 368,470	$ 398,255
Rentals	45,524	42,368	43,141	45,428	43,143	42,890	40,156	46,233	46,571	51,258
Royalties, fees, and other operating revenues	5,943	30,509	36,047	11,577	8,928	6,602	8,582	35,763	21,085	25,019
Total operating revenues	426,345	402,224	406,818	400,503	409,787	397,368	425,951	446,895	436,126	474,532
Operating expenses										
Salaries and benefits	92,979	95,429	92,930	98,837	98,614	101,861	112,053	111,788	114,719	118,582
Marketing and public relations	5,137	3,531	2,490	2,912	3,177	2,877	2,711	2,771	2,567	2,583
Travel and entertainment	1,099	609	546	804	932	1,139	548	512	611	536
Outside services	36,957	34,977	25,776	29,367	27,660	29,690	26,331	28,983	28,970	25,022
Materials and supplies	8,719	7,800	6,366	6,249	6,314	5,989	6,883	6,257	6,340	5,314
City services	32,129	30,680	37,147	29,964	32,014	31,074	33,633	34,749	37,421	39,554
Other operating expenses	44,732	81,117	44,980	41,562	31,095	32,539	23,195	49,189	35,633	36,084
Total operating expenses before depreciation	221,752	254,143	210,235	209,695	199,806	205,169	205,354	234,249	226,261	227,675
Operating Income before depreciation	204,593	148,081	196,583	190,808	209,981	192,199	220,597	212,646	209,865	246,857
Depreciation	78,295	83,413	87,255	90,468	100,485	108,037	124,221	137,384	163,933	172,895
Operating Income	126,298	64,668	109,328	100,340	109,496	84,162	96,376	75,262	45,932	73,962
Nonoperating revenues (expenses)										
Income from investments in Joint Powers Authorities	4,440	2,980	2,270	(333)	1,851	2,049	2,129	2,811	2,544	2,162
Interest and investment income	34,863	18,824	15,233	6,436	9,486	826	4,654	5,039	9,326	1,118
Interest expense	(38,052)	(36,979)	(35,663)	(3,704)	(10,538)	(2,473)	(1,530)	(331)	(507)	(604)
Other income and expenses, net	(2,536)	(7,625)	(2,951)	(6,667)	(8,359)	784	(27,364)	(2,226)	(3,851)	(1,146)
Net nonoperating revenues (expenses)	(1,285)	(22,800)	(21,111)	(4,268)	(7,560)	1,186	(22,111)	5,293	7,512	1,530
Income before capital contributions	125,013	41,868	88,217	96,072	101,936	85,348	74,265	80,555	53,444	75,492
Capital contributions	14,161	4,103	16,950	12,059	31,307	17,630	80,374	111,852	40,489	18,801
Special and extraordinary items	--	--	--	--	--	13,387	15,002	--	5,123	9,150
Changes in net position	139,174	45,971	105,167	108,131	133,243	116,365	169,641	192,407	99,056	103,443
Total net position – beginning of year	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885	2,776,128	2,884,351	3,064,554	3,062,899	3,161,955
Cumulative effect of change in accounting principle	--	--	--	--	--	--	--	(194,062)	--	--
Net adjustment for write off prior period bond issues costs	--	--	--	--	--	(8,142)	10,562	--	--	--
Net position July 1, restated	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885	2,767,986	2,894,913	2,870,492	3,062,899	3,161,955
Total net position – end of year	$ 2,477,043	$ 2,429,587	$ 2,534,754	$ 2,642,885	$ 2,776,128	$ 2,884,351	$ 3,064,554	$ 3,062,899	$ 3,161,955	$ 3,265,398
Net position:										
Net investment in capital assets	1,985,653	2,101,396	2,164,885	2,286,360	2,397,744	2,634,840	2,863,795	2,856,561	2,945,412	2,972,442
Restricted	9	61,608	67,844	67,341	67,796	57,913	58,054	68,373	66,599	62,255
Unrestricted	491,381	266,583	302,025	289,184	310,588	191,598	142,705	137,965	149,944	230,701
Total net position	$ 2,477,043	$ 2,429,587	$ 2,534,754	$ 2,642,885	$ 2,776,128	$ 2,884,351	$ 3,064,554	$ 3,062,899	$ 3,161,955	$ 3,265,398

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

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating revenues (including investment/interest income and noncapital grant revenues) (1)	$ 465,648	$ 424,028	$ 424,306	$ 412,962	$ 435,291	$ 416,974	$ 446,910	$ 460,364	$ 452,398	$ 487,806
Operating expenses (2)	221,752	254,143	210,235	209,695	199,806	205,169	205,354	234,249	226,261	227,675
Net available revenue	$ 243,896	$ 169,885	$ 214,071	$ 203,267	$ 235,485	$ 211,805	$ 241,556	$ 226,115	$ 226,137	$ 260,131
Debt service, revenue bonds	$ 61,318	$ 61,298	$ 66,851	$ 72,736	$ 71,382	$ 72,204	$ 65,323	$ 69,916	$ 91,831	$ 87,570
Debt service, commercial papers	—	—	—	191	227	194	165	187	—	—
Total debt service (3)	$ 61,318	$ 61,298	$ 66,851	$ 72,927	$ 71,609	$ 72,398	$ 65,488	$ 70,103	$ 91,831	$ 87,570
Net available revenue coverage	4.0	2.8	3.2	2.8	3.3	2.9	3.7	3.2	2.5	3.0
Net cash flow from operations	$ 252,898	$ 151,264	$ 185,416	$ 158,268	$ 217,113	$ 234,234	$ 131,284	$ 213,184	$ 184,869	$ 274,581
Net operating cash flow coverage	4.1	2.5	2.8	2.2	3.0	3.2	2.0	3.0	2.0	3.1

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

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

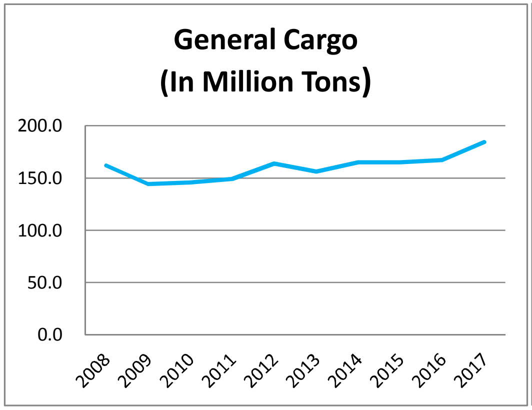
(3) Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are senior debt backed by pledged-revenue. Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged-revenue.

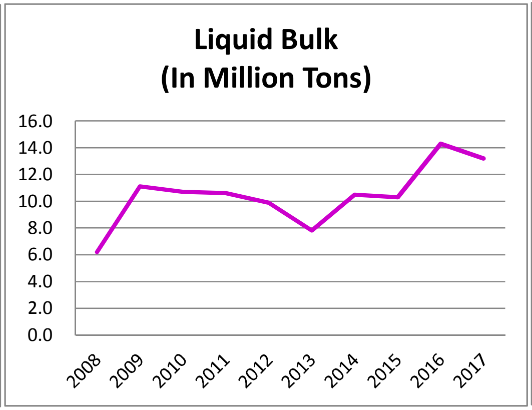
Note: Details regarding the Port of Los Angeles' outstanding debt can be found in the notes to the basic financial statements.

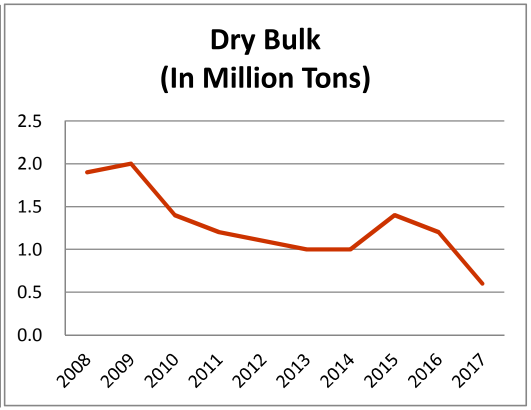
PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)

Revenue Statistics
Last Ten Fiscal Years
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue Information										
Revenue Rates										
General cargo tariff rate	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25	$ 6.25
Basic dockage (600')	2,465	2,465	2,465	2,465	2,465	2,465	2,465	2,465	2,465	2,465
Required rate of return on improvements	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Required rate of return on land	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Containerized cargo volume										
(in millions of TEUs)	8.1	7.3	7.2	7.9	8.2	7.8	8.2	8.2	8.4	9.2
Inbound tonnage (million tons)	105.2	94.4	88.2	93.7	98.3	93.1	99.1	102.9	105.6	105.8
Outbound tonnage (million tons)	65.1	66.1	66.7	67.8	74.6	71.5	74.3	74.6	79.3	92.4
Revenue tons (million)										
General cargo	161.9	144.3	145.8	149.1	163.9	156.3	165.0	165.1	167.3	184.3
Liquid bulk	6.2	11.1	10.7	10.6	9.9	7.8	10.5	10.3	14.3	13.2
Dry bulk	1.9	2.0	1.4	1.2	1.1	1.0	1.0	1.4	1.2	0.6
Total revenue tons (million)	170.0	157.4	157.9	160.9	174.9	165.1	176.5	176.8	182.8	198.1



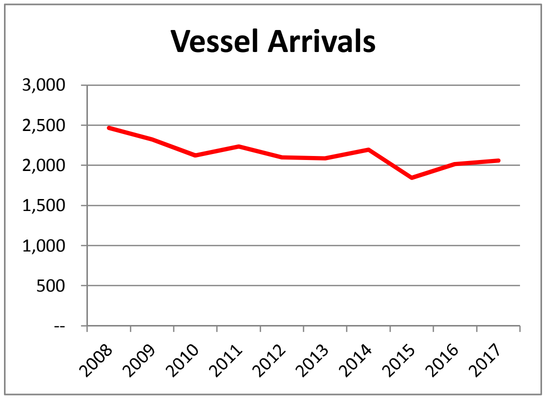


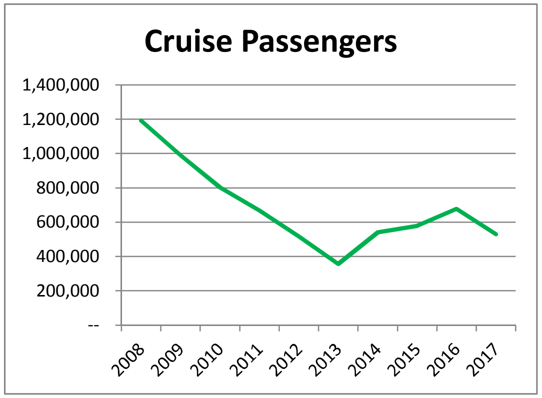


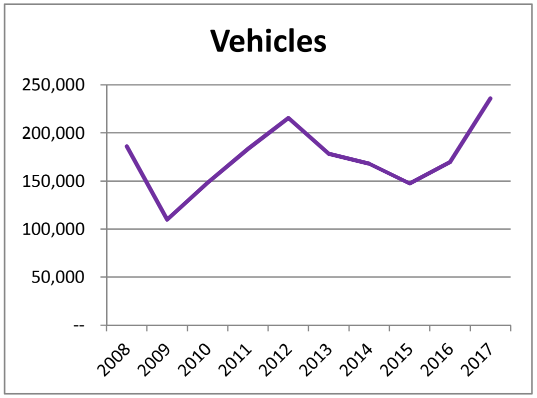
PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)

Other Operating Information
Last Ten Fiscal Years
(Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Miles of waterfront	43	43	43	43	43	43	43	43	43	43
Number of major container terminals	8	8	8	8	8	8	8	8	8	8
Number of cargo terminals	25	25	24	24	24	24	23	23	23	23
Vessel arrivals	2,467	2,322	2,124	2,236	2,100	2,089	2,196	1,846	2,014	2,060
Cruise passengers	1,191,449	990,965	802,899	667,434	515,827	355,875	541,418	578,902	676,644	529,031
Vehicles	185,978	109,634	147,935	183,126	215,374	178,252	167,826	147,457	169,561	235,862
Full time employees	935	971	948	959	958	947	949	885	906	883







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

Operating Expenses Net of Direct and Indirect Costs
Fiscal Year Ended June 30, 2017
(In Thousands)
(Unaudited)

	Expenses Before Allocation of Direct and Indirect Costs	Direct Costs Allocated to Projects	Expenses After Allocation of Direct Costs	Indirect Overhead Costs Allocated to Capital Projects	Net Operating Expenses
Salaries and benefits	$ 142,053	$ (13,337)	$ 128,716	$ (10,134)	$ 118,582
City services	53,388	(10,240)	43,148	(3,594)	39,554
Outside services	92,808	(66,199)	26,609	(1,587)	25,022
Utilities	17,114	(557)	16,557	(984)	15,573
Materials and supplies	7,681	(1,555)	6,126	(812)	5,314
Marketing and public relations	2,894	(15)	2,879	(296)	2,583
Workers' compensation, claims and settlements	4,977	—	4,977	—	4,977
Clean truck program expenses	704	—	704	—	704
Travel and entertainment	614	(3)	611	(75)	536
Other operating expenses	16,318	(645)	15,673	(843)	14,830
Total operating expenses	$ 338,551	$ (92,551)	$ 246,000	$ (18,325)	$ 227,675

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

Operating Expenses Net of Direct and Indirect Costs
Fiscal Year Ended June 30, 2016
(In Thousands)
(Unaudited)

	Expenses Before Allocation of Direct and Indirect Costs	Direct Costs Allocated to Projects	Expenses After Allocation of Direct Costs	Indirect Overhead Costs Allocated to Capital Projects	Net Operating Expenses
Salaries and benefits	$ 137,382	$ (13,773)	$ 123,609	$ (8,890)	$ 114,719
City services	45,492	(4,884)	40,608	(3,187)	37,421
Outside services	157,765	(126,847)	30,918	(1,948)	28,970
Utilities	15,834	(64)	15,770	(710)	15,060
Materials and supplies	9,191	(2,362)	6,829	(489)	6,340
Marketing and public relations	2,830	(21)	2,809	(242)	2,567
Workers’ compensation, claims and settlements	245	—	245	—	245
Clean truck program expenses	897	—	897	—	897
Travel and entertainment	707	(5)	702	(91)	611
Other operating expenses	20,475	(373)	20,102	(671)	19,431
Total operating expenses	$ 390,818	$ (148,329)	$ 242,489	$ (16,228)	$ 226,261

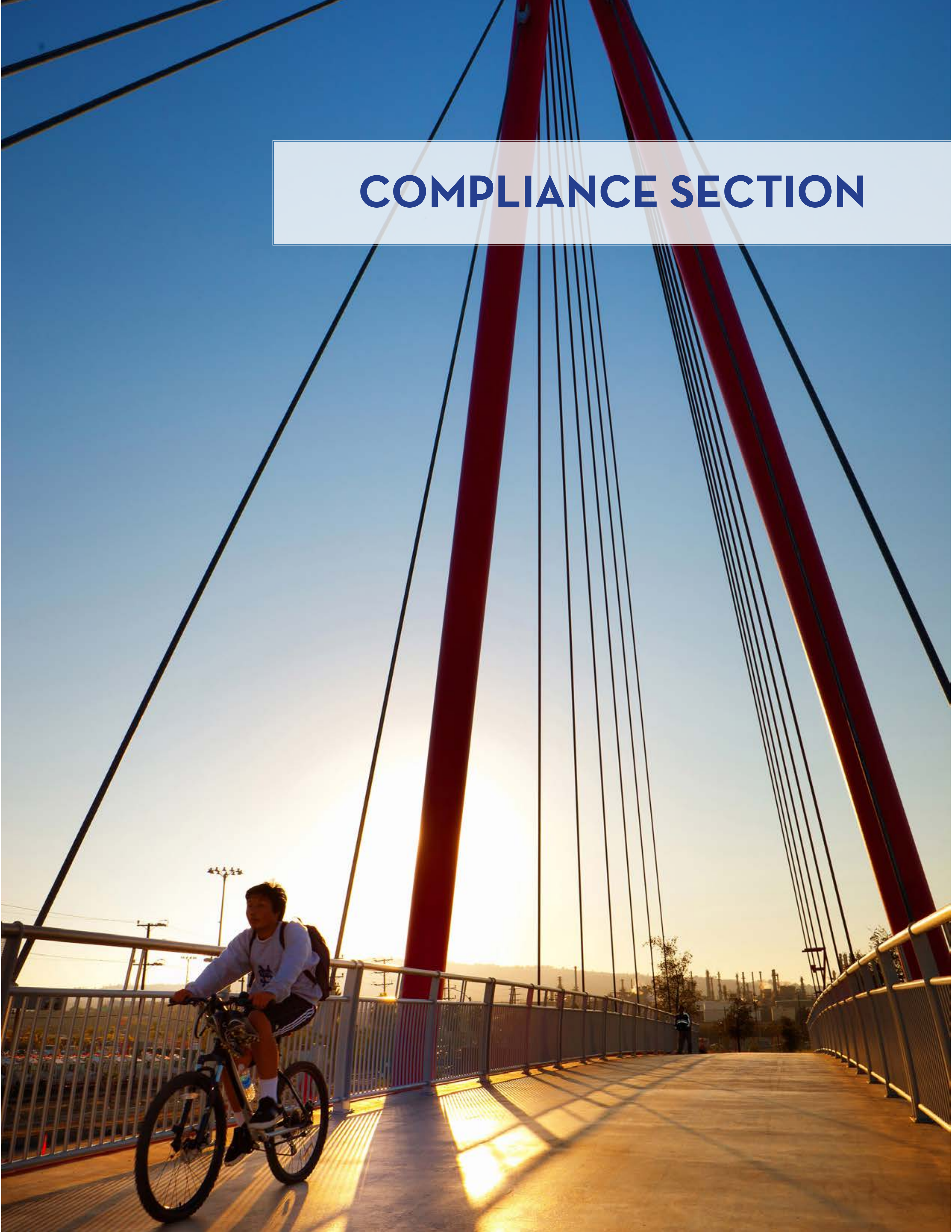
PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES, CALIFORNIA)

Capital Development Program Expenditures Per Adopted Budget
For Fiscal Year 2017-2018
(In Thousands)
(Unaudited)

Project Description		Expenditures per Adopted Budget
Berth 90-93 World Cruise Center	$	11,159
Berth 100-102 Development - China Shipping Container Terminal		393
Berth 121-131 Development - Yang Ming Container Terminal		1,124
Berth 135-147 Development - TraPac Container Terminal		2,563
Berth 212-224 Development - YTI Container Terminal		8,058
Berth 222-236 Development - Everport Container Terminal		1,975
Berth 400-409 Development - Maersk/Cut		313
Motems (Marine Oil Terminal Engineering and Maintenance Standards)		7,853
Miscellaneous Terminal Improvements		8,199
Transportation Improvement		7,809
Security Projects		2,219
Port-wide Public Enhancements - Community		1,926
Los Angeles Waterfront		16,248
Harbor Department Facilities		749
Miscellaneous Projects		12,081
Unallocated Capital Improvement Program Fund		15,000
Total	$	97,669

Note: Schedule above excludes capital equipment.

COMPLIANCE SECTION



MGO Certified Public Accountants

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

Honorable Members of the Board of Harbor Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (Port), an enterprise fund of the City of Los Angeles (City), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Macias Gini & O'Connell LLP
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Los Angeles, CA 90017

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Purpose of this Report

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

Macias Gini & O'Connell LLP

Los Angeles, California
December 18, 2017