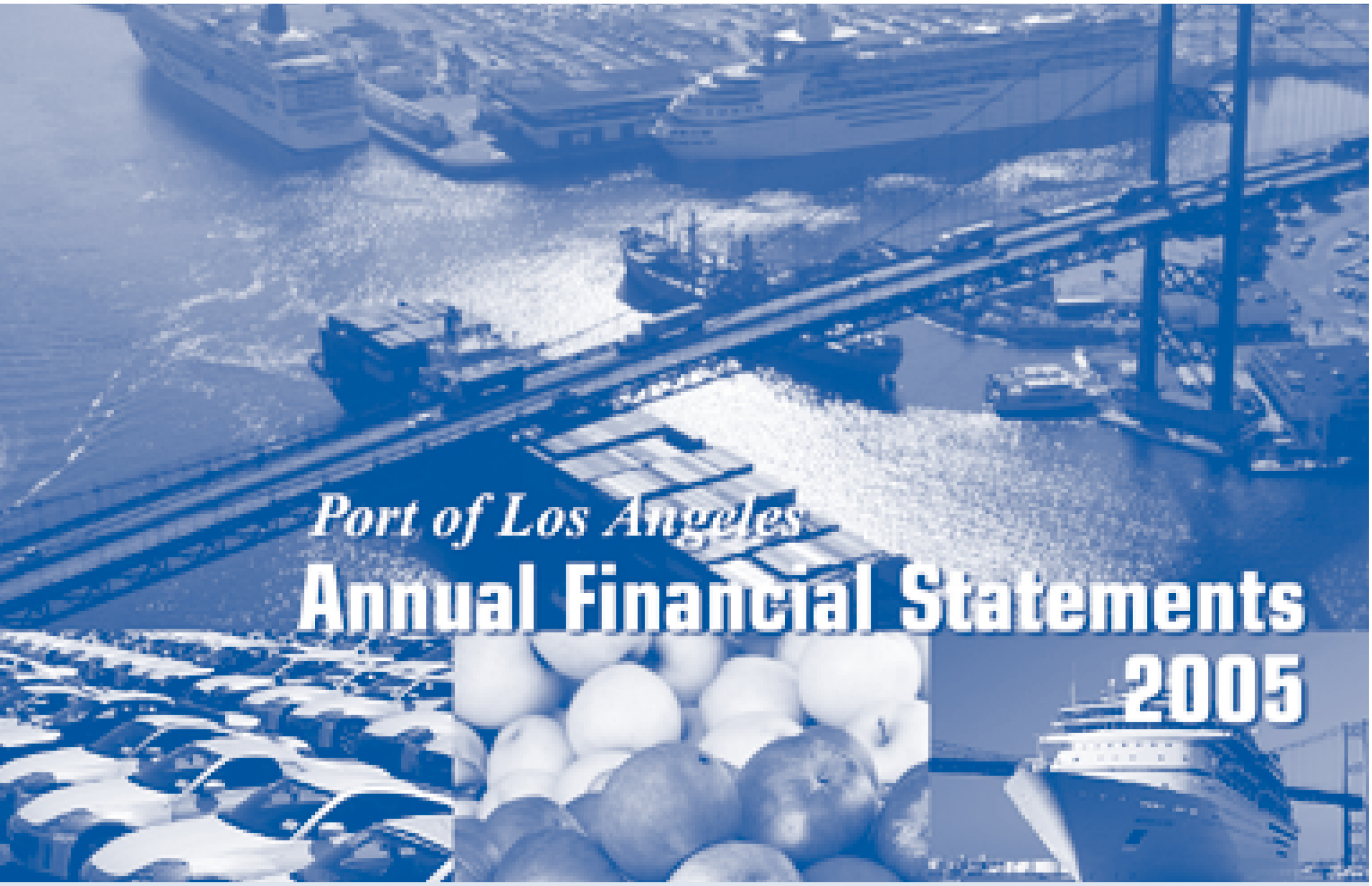

Fiscal Year
Ending
June 30, 2005

Annual Financial Statements

Fiscal Year Ending June 30, 2005

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

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August 30, 2005

Mr. Bruce Seaton
Interim Executive Director
Port of Los Angeles
San Pedro, California

This Component Unit Financial Report of the Harbor Department of the City of Los Angeles, California for the fiscal year ended June 30, 2005, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of the 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 results of operations 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 basic financial statements of the Port for the years ended June 30, 2005 and 2004, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The report is presented in four sections: introduction, management's discussion and analysis, the basic financial statements, and required supplementary information.

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

The management's discussion and analysis presents a comparative review of results of operations and changes in financial position for fiscal years 2005 and 2004. Also included in this section are a description of current and proposed capital development plans, a discussion of prospective revenue growth and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the basic financial statements prepared on an accrual basis and using an economic resources focus. These are accompanied by notes and the auditor's report on the basic financial statements. The basic financial statements are comprised of Statements of Net Assets that present the financial position of the Port as of June 30, 2005 and 2004; Statements of Revenues, Expenses and Changes in Net Assets depicting financial performance for Fiscal Years 2005 and 2004; and Statements of Cash Flows that present the source and application of funds from operations, financing and investment activities for Fiscal Years 2005 and 2004. The accompanying Notes to Basic Financial Statements explain some of the information in the basic financial statements and provide more detailed data.

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

The Port of Los Angeles

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

Also, based on the foregoing criteria of oversight responsibility and accountability of all Harbor related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying basic 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. The Port also participates in a shareholder agreement that was created to form the Los Angeles Export Terminal (LAXT). Additional information regarding these joint ventures and shareholders agreement may be found in the Notes to the 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 through the Chief Operating Officer. These groups fall under the responsibilities of the Director of Engineering Development, the Director of Planning & Environmental Affairs, the Director of Business Development, the Director of Maritime Services, the Director of Operations & Emergency Management, and the Chief Financial Officer. The Director of Public Affairs reports directly to the Executive Director.

The Director of Engineering Development is responsible for the Construction Management, Engineering and Contracts/Purchasing activities of the Port.

The Director of Planning and Environmental Affairs is responsible for the Environmental Management, Mitigation Coordination and Planning activities of the Port.

The Director of Business Development directs the Real Estate and Marketing divisions of the Port.

Reporting to the Director of Maritime Services are the Construction and Maintenance, Wharfinger and Information Systems divisions of the Port.

The Director of Operations & Emergency Management has responsibility for the Port Police, Port Pilot and Homeland Security functions of the Port.

The Chief Financial Officer oversees the financial affairs of the Port. Reporting to this position are the Accounting, Financial Management, Treasury Management and Risk Management divisions.

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

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

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

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, etc.), land rentals, and warehouse revenues. It currently serves over 80 shipping companies and agents with facilities that include approximately 200 berthing facilities along 43 miles of waterfront.

In terms of its size, the Port is one of the largest West Coast ports. Within its boundaries lie approximately 4,200 acres of land and 3,300 acres of water.

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

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

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

The economic impact of the Port touches not only the City and County of Los Angeles, but also the surrounding four counties: Orange, Ventura, Riverside, and San Bernardino. The Port directly and indirectly generates employment for approximately 260,000 people in Southern California and accounts for $1 out of every $23 in local income.

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

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

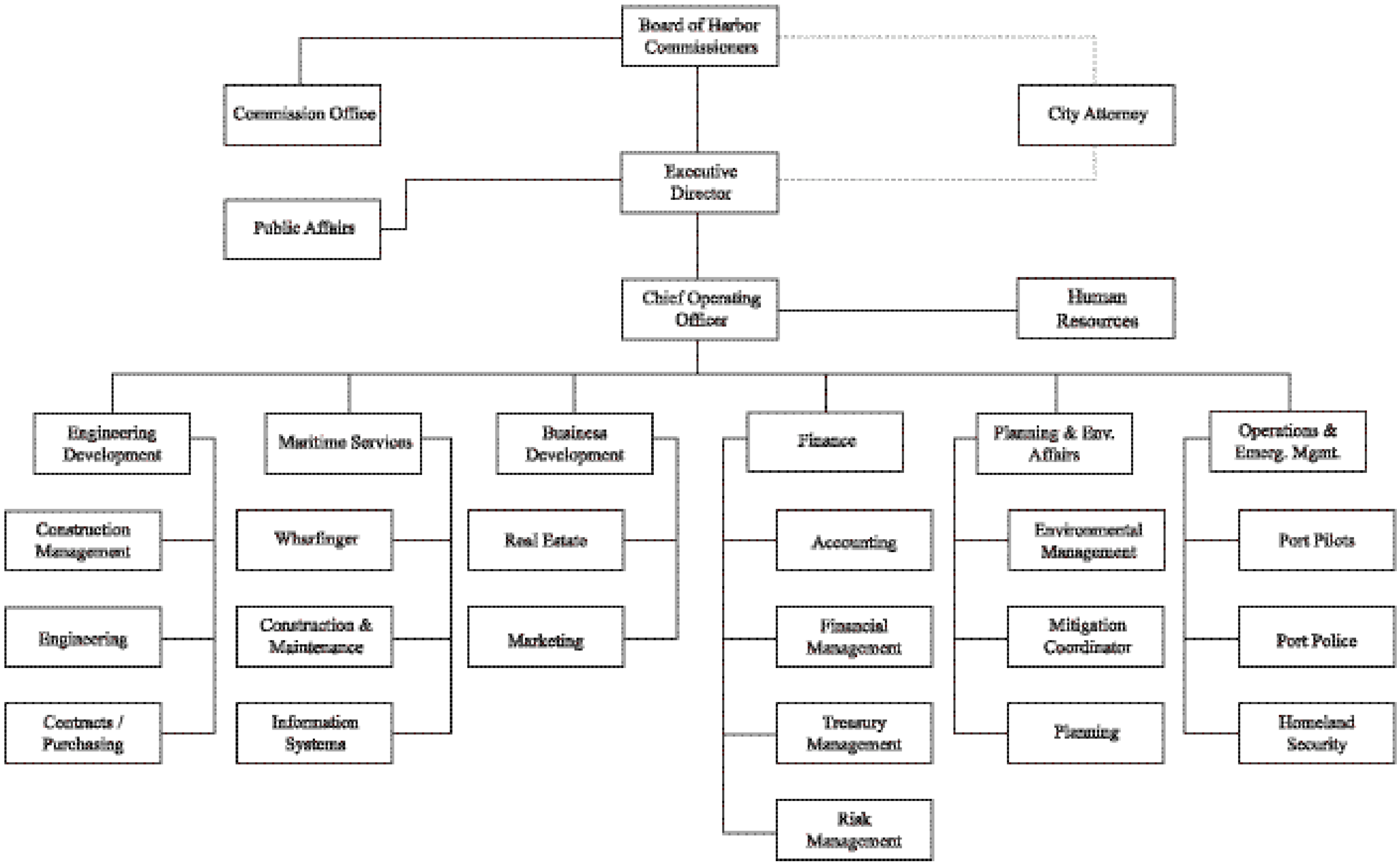
The Port continues to maintain an "AA" credit rating with Standard and Poor, Moody's and Fitch Investors Services. This is the highest credit rating for any U.S. port and reflects the confidence of the financial community in the strength, continuing financial performance and competitive position of the Port of Los Angeles.

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

Sincerely,

Jim Garrott
Controller

LOS ANGELES HARBOR DEPARTMENT
ORGANIZATION CHART
2005/2006



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

Administrative Staff

Board of Harbor Commissioners	S. David Freeman, President Jerilyn López Mendoza, Vice-President Kaylynn L. Kim, Commissioner Douglas P. Krause, Commissioner Joseph R. Radisich, Commissioner
Senior Management	Bruce E. Seaton, Interim Executive Director (Pending Appointment), Chief Operating Officer Stacey Jones, Director of Engineering Development (Pending Appointment), Director of Business Development Lonnie Tang, Director of Maritime Services Molly Campbell, Chief Financial Officer Noel Cunningham, Director of Operations and Emergency Management David Mathewson, Director of Planning and Environmental Affairs Arley Baker, Director of Public Affairs
Management Staff	Theresa Adams Lopez, Director of Media Relations Ralph Appy, Director of Environmental Management Angela Birkenbach, Chief Wharfinger Ron Boyd, Chief of Port Police Lou Colletta, Director of Finance George Cummings, Director of Homeland Security Michael Di Bernado, Director of Planning & Research Jim Garrott, Controller Tony Gioiello, Director of Engineering Bill Gonzales, Treasurer Margaret Hernandez, Director of Contracts/Purchasing Jim MacLellan, Director of Marketing Kathy Merkovsky, Director of Risk Management Capt. Jim Morgan, Pilot Service Manager Joannie Mukai, Director of Construction and Maintenance Julia Nagano, Director of Corporate Communications Shaun Shahrestani, Director of Construction Phil Tondreault, Director of Real Estate Rocki Walker, Director of Human Resources
Legal Staff	Thomas Russell, Senior Assistant City Attorney

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), a component unit of the City of Los Angeles, California, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Port of Los Angeles' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in Note 1, the financial statements referred to above include only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City of Los Angeles in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005, on our consideration of the Port of the Los Angeles' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audits.

The management's discussion and analysis on pages 11 to 26 and the pension supplementary information on page 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

September 16, 2005

This section of the Port of Los Angeles' annual financial report presents a discussion and analysis of the Port's financial performance during the fiscal years that ended June 30, 2005 and 2004. Please read it in conjunction with the transmittal letter at the front of this report and the Port's financial statements, which follow this section.

The Port is an enterprise fund, and the financial statements are prepared on an accrual basis using the economic measurement focus in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. Revenues are recognized when earned, not when received, and expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated over their useful lives (except land). See the notes to the financial statements for a description of the Port's significant accounting policies.

The following is a condensed summary of the Port's net assets as of June 30, 2005, 2004, and 2003:

Net Assets
(In thousands)

	June 30		
	2005	**2004**	**2003**
Current and other assets	$ 433,866	325,970	289,370
Capital assets	2,722,427	2,707,210	2,634,172
Total assets	3,156,293	3,033,180	2,923,542
Long-term debt outstanding	836,569	857,811	852,003
Other liabilities	213,028	163,743	140,743
Total liabilities	1,049,597	1,021,554	992,746
Net assets			
Invested in capital assets, net of related debt	1,885,858	1,849,398	1,782,169
Restricted	22,456	15,017	5,095
Unrestricted	198,382	162,211	148,532
Total net assets	$ 2,106,696	2,011,626	$1,930,796

Net assets of the Port increased 4.7% to $2.1 billion in fiscal year 2005. Approximately 1.1% of these net assets are restricted and are comprised of funds set aside for designated uses under the Natural Resources Defense Council settlement judgment and unspent bond proceeds reserved for cost of issuance. Net assets of the Port increased 4.2% to $2.0 billion in fiscal year 2004. Less than 1.1% of these net assets is restricted and is comprised of interest income and unspent bond proceeds reserved for cost of issuance. The remaining net assets are either unrestricted or are invested in capital assets (facilities, infrastructure, equipment, and the like), net of

(Continued)

related debt. These assets are under the control of the Port and must be used for the operation and maintenance of Port facilities and the acquisition and construction of improvements as provided under the State of California Tidelands Trust Act.

Liquidity
(In thousands)

	12 months ended June 30			
		2005	**2004**	**2003**
Working capital	$	183,848	122,512	116,485
Cash and cash equivalents, unrestricted		211,241	117,287	84,499
Cash and cash equivalents, current restricted		113,504	98,544	88,426
Net cash provided by operating activities		226,037	208,762	215,117
Net cash provided by investing activities		26,148	15,523	21,894
Net cash used in capital/financing activities		(143,271)	(181,379)	(217,089)

Fiscal 2005

Working capital at June 30, 2005 increased 50.0% from the close of the prior fiscal year to $183.8 million. The principal reason for the increase is the higher balances in cash and investments in FY 2005.

Net cash provided by operating activities increased $17.3 million from the prior year, reflecting the new $9.6 million proceeds from operating grants. Cash generated from investing activities increased $10.6 million due mainly to an increase of $8.1 million in the securities lending program.

The $38.1 million, or 21.0%, decline in net cash used in capital and related financing activities reflects reduced spending levels for capital construction.

Fiscal 2004

Working capital at June 30, 2004 increased 5.2% from the close of the prior fiscal year to $122.5 million. The principal reason for the increase is the higher balances in cash and investments in FY 2004.

Net cash provided by operating activities remained relatively unchanged from the prior year. Cash generated from investing activities decreased $6.4 million due to a decrease of $3.8 million in interest receipts and another $0.5 million reduction in cash distribution from the Intermodal Container Transfer Facility.

The $35.7 million, or 16.4%, decline in net cash used in capital and related financing activities reflects reduced spending levels for capital construction, decreased short-term borrowings, and reductions in proceeds from capital grants.

(Continued)

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2005, 2004, and 2003:

Changes in Net Assets
(In thousands)

	12 months ended June 30		
	2005	**2004**	**2003**
Operating revenues	$ 368,828	349,661	343,654
Income from investments in Joint Powers Authorities and other entities	3,543	2,795	3,717
Interest and investment income	7,266	2,298	11,430
Total revenues	379,637	354,754	358,801
Expenses:			
Operating and administrative expenses	153,768	139,304	124,046
Depreciation	70,040	67,934	59,365
Interest expense on bond indebtedness notes payable	42,279	43,034	44,293
Other income and expense, net	18,480	22,001	63,445
Total expenses	284,567	272,273	291,149
Income before contributions	95,070	82,481	67,652
Capital contributions	—	867	1,386
Deletions of capital contributions	—	(2,518)	—
Changes in net assets	$ 95,070	80,830	69,038

Fiscal 2005

Net assets for the Port increased $95.1 million in fiscal year 2005. Approximately 98.5% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense increased 10.3% over the prior fiscal year. The $14.5 million increase mainly reflects an additional $7.1 million in Port security expenses and an increase of $5.0 million in salaries and benefits. City services and allocations increased $3.6 million. Reserves for bad debts decreased $4.2 million in fiscal year 2005. Los Angeles Export Terminal (LAXT) accounts receivable are fully reserved and totaled $44.0 million as of June 30, 2005.

Other income and expense declined to $18.5 million in FY 2005 from $22.0 million recorded in the prior year. State and federal grants income increased $5.8 million in fiscal year 2005. The Port paid $22.2 million to China Shipping Holding Company, Ltd. in settlement costs for claimed damages and costs resulting from delays in timely delivery of premises and environmental mitigation costs.

(Continued)

The Port received no capital contributions in fiscal year 2005.

Income before capital contributions increased $12.6 million to $95.1 million; a 15.3% increase over fiscal year 2004 reported income before capital contributions of $82.5 million. This increase reflects the addition of $24.9 million in total revenues and a smaller increase of $12.3 million in total expenses.

Fiscal 2004

Net assets for the Port increased $80.8 million in fiscal year 2004. Approximately 98.6% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense increased 12.3% over the prior fiscal year. The $15.3 million increase mainly reflects an additional $5 million in Port security expenses, $5.8 million in environmental assessment expenditures plus an increase of $8.7 million in salaries and benefits. Reserves for bad debts increased $16.7 million in fiscal year 2004. Los Angeles Export Terminal (LAXT) accounts receivable are fully reserved and totaled $30.1 million as of June 30, 2004.

Other income and expense increased to $22.0 million in FY 2004 from $3.4 million recorded in the prior year. Prior year expense included a $40 million settlement with the Natural Resources Defense Council (NRDC) associated with a major Port container terminal development project. Also included in that amount is a provision to fully reserve the Port's $19.0 million equity investment in LAXT, a customer of the Port. The future for LAXT operations at the close of fiscal year 2004 was uncertain. The Port also provided an additional $7.3 million in litigation reserves for amendments to the settlement provisions with the Natural Resources Defense Council China Shipping Holding Company Litigation. Losses of $13.8 million from disposal and demolition of assets were incurred in fiscal year 2004.

Contributed capital totaling $0.9 million in grant proceeds was received from the South Coast Air Quality Management and the Federal Transportation Security Administration for vehicle purchases and studies relating to the Container Inspection Facility project.

Deletions in capital contributions during fiscal 2004 were related to the transfer of $2.5 million to the City of Los Angeles Department of Public Works for construction of the Port Access Demonstration projects. See note 13 to the basic financial statements for additional information.

(Continued)

Income before capital contributions increased $14.8 million to $82.5 million; a 21.9% increase over fiscal year 2003 reported income before capital contributions of $67.7 million. This increase was principally the product of reduced provisions to litigation and bad debt reserves.

Operating Revenues
(In thousands)

	12 months ended June 30		
	2005	**2004**	**2003**
Shipping services	$ 328,814	311,384	302,078
Percentage of total revenues	89.1%	89.1%	87.9%
Rentals	34,630	33,261	36,563
Percentage of total revenues	9.4%	9.5%	10.6%
Royalties, fees, other operating revenues	5,384	5,016	5,013
Percentage of total revenues	1.5%	1.4%	1.5%
Total	$ 368,828	349,661	343,654

Fiscal 2005

Operating revenues for fiscal year 2005 rose to $368.8 million, reflecting a 5.5% increase from prior year revenues of $349.7 million and is principally attributed to the 5% tariff increase effective January 1, 2004. A total of 7.3 million 20-foot equivalent units (TEUs) in container volume moved through Port facilities during fiscal year 2005, a 1.1% decline from the prior year. Revenue tons billed remained essentially unchanged from the prior year.

Fiscal 2004

Operating revenues for fiscal year 2004 rose to $349.7 million, reflecting a 1.7% increase from prior year revenues of $343.7 million and is principally attributed to cargo volume growth. A record 7.4 million TEUs in container volume moved through Port facilities during fiscal year 2004, a 9.7% increase from the 6.7 million units recorded in fiscal year 2003. Revenue tons billed grew 9.8% over the comparative period to 162.1 million tons.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel or cargo movement, merchandise storage, and use of Port facilities and cranes. Of these fees, wharfage is the most significant and comprised 87.7% and 86.9% of the total shipping service revenues in fiscal years 2005 and 2004, respectively. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

(Continued)

Income from shipping services in fiscal year 2005 rose to $328.8 million, reflecting a growth of $17.4 million, or 5.6%, over fiscal 2004. Increased tariff rates are the principal reason for the growth. Income from shipping services in fiscal year 2004 rose to $311.4 million, reflecting a growth of $9.3 million, or 3.1%, over fiscal 2003. Increased cargo volumes were the principal reason for the growth and reflect market share gained from other U.S. West Coast ports as well as continuing growth from China. Ongoing development of improved intermodal facilities, the addition of Pier 400 container terminal, and increasing strength of shipping alliances based in the Port all contributed to growth in market share.

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

Cargo Type in Metric Revenue Tons
(In thousands)

	12 months ended June 30		
	2005	**2004**	**2003**
Container/general cargo	144,998	146,296	131,949
Liquid bulk	12,798	11,925	11,356
Dry bulk	4,313	3,847	4,236
Total	162,109	162,068	147,541

Container Volume in TEUs
(In thousands)

	12 months ended June 30		
	2005	**2004**	**2003**
Import TEUs	3,868	4,053	3,646
Export TEUs	3,405	3,299	3,056
Total	7,273	7,352	6,702

Metric revenue tons are the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when this figure is available, or when cargo weight is not provided, the weight is closely approximated by calculation. A total of 162.1 million revenue tons were billed in fiscal year 2005, or no growth over fiscal year 2004 volume. The 162.1 million revenue tons billed in fiscal 2004 represented an increase of 14.5 million tons, or 9.8%, over fiscal year 2003 volume. Revenue tons from general cargo grew 10.9% or 14.4 million tons during fiscal 2004.

(Continued)

During fiscal 2005, tonnage from dry bulk increased 12.1%, or 0.5 million revenue tons, due principally to increased scrap metal exports. Petroleum increased 7.3%, or 0.8 million revenue tons. Tonnage for general cargo billed in fiscal year 2005 declined 1.3 million revenue tons compared to the prior year. During fiscal 2004, tonnage from dry bulk decreased 9.2%, or 0.4 million revenue tons, due principally to declining bulk petroleum coke exports. Petroleum increased 5.0%, or 0.6 million revenue tons. Additional information for volume by cargo type is presented in the Supplementary Information Section of this report in the schedule titled "Key Information on Revenue Statistics."

Rentals

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

During fiscal 2005, rental income at the Port increased $1.4 million, or 4.1%, over last year and represented 9.4% of fiscal year 2005 total operating revenues. This growth is principally attributable to the higher land rental received from the operator of the Intermodal Container Transfer Facility as a result of higher container throughput. During fiscal 2004, rental income at the Port decreased $3.3 million, or 9.0%, over last year and represented 9.5% of fiscal year 2004 total operating revenues. This decline was principally attributable to the lower land rental received from the operator of the Intermodal Container transfer Facility as a result of lower container throughput.

Royalties, Fees, and Other Operating Revenue

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

Revenues in this category totaled $5.4 million for fiscal year 2005, an increase of $0.4 million or 7.3% over the prior fiscal period. The growth mainly reflects the higher parking fees as a result of the 5% tariff rate increase effective January 1, 2004. Revenues in this category totaled $5.0 million for fiscal year 2004, and the change was insignificant over the prior fiscal period.

Operating and Administrative Expenses

The Port of Los Angeles is a landlord port. As such, the Port does not manage or participate in the operations of facilities, and expenses incurred are principally administrative and relatively fixed in nature.

(Continued)

During fiscal 2005, operating and administrative expenses rose $14.5 million to $153.8 million, a 10.4% increase from prior fiscal year expense of $139.3 million. During fiscal 2004, operating and administrative expenses rose $15.3 million to $139.3 million, a 12.3% increase from prior fiscal year expense of $124.0 million. Categories of expense reflecting more significant increases include salaries and benefits, outside services, and City services. Offsetting these increases were reductions in other operating expenses. Changes in other categories of expenses were less significant.

Operating and Administrative Expenses (O&A)
(In thousands)

	12 months ended June 30		
	2005	**2004**	**2003**
Salaries and benefits	$ 58,182	53,165	44,427
Percentage of total O&A	37.8%	38.2%	35.8%
Marketing and public relations	3,455	3,769	3,654
Percentage of total O&A	2.2%	2.7%	2.9%
Travel and entertainment	743	758	658
Percentage of total O&A	0.5%	0.5%	0.5%
Outside services	39,672	32,104	21,971
Percentage of total O&A	25.8%	23.0%	17.7%
Materials and supplies	5,320	4,682	3,771
Percentage of total O&A	3.5%	3.4%	3.0%
City services	22,361	18,729	18,525
Percentage of total O&A	14.5%	13.4%	14.9%
Other operating expenses	24,035	26,097	31,040
Percentage of total O&A	15.7%	18.7%	25.0%
Total O&A	$ 153,768	139,304	124,046

Fiscal 2005

Salaries and benefits expense rose $5.0 million from the prior fiscal year. The increase results from scheduled employee pay increases, a one-time $2.3 million retro pay adjustment for Port police, and expansion of the Port workforce in fiscal year 2005.

The $7.6 million increase in outside services mainly reflects the growth in Port security-related expenditures of $7.1 million.

City services, net of capitalized amount, increased $3.6 million during the comparative periods. The increase reflects the lower capitalized amount of $4.0 million in fiscal year 2005.

(Continued)

Other operating expenses for fiscal year 2005 decreased $2.1 million from the prior year. The decrease reflects a $4.2 million reduction in provisions to the bad debt reserve, a substantial portion of which relates to the LAXT. As future operations of the LAXT are uncertain at this time, the Port has elected to fully reserve all outstanding receivables due from this customer. Offsetting this $4.2 million reduction is the $0.7 million in higher insurance expense due to the premium increases and additional police liability coverage. Also, provisions for workers' compensation claims grew this year by $1.2 million, due to claim payments and additional reserves set aside to meet requirements at June 30, 2005, as determined in the most recent actuarial valuation.

Fiscal 2004

Salaries and benefits expense rose $8.7 million from the prior fiscal year. The increase results from scheduled employee pay increases, a one-time $1.3 million retro pay adjustment to certain union members and expansion of the Port workforce in fiscal 2004.

The $10.1 million increase in outside services was mainly the result of growth in facility maintenance costs of $1.7 million and increased professional service costs of $8.3 million. The increase in professional services reflects $5.0 million of cost increases for Port security projects and an additional $5.8 million in environmental assessment expenditures.

Other operating expenses for fiscal year 2004 decreased $4.9 million from the prior year. Of the $4.9 million decrease, $3.0 million can be attributed to reduced provisions to the bad debt reserve, a substantial portion of which relates to the LAXT. Provisions for workers' compensation claims declined this year by $1.0 million due to the reduction of the Port liability at June 30, 2004, as determined in the most recent actuarial valuation.

Nonoperating Income and Expense

Fiscal 2005

Net nonoperating expense for fiscal year 2005 decreased $10.0 million from the prior year to $49.9 million.

Provision for litigation, claims, and settlements increased $22.0 million to $30.3 million. The increase is attributable to the $22.2 million that the Port expensed in June 2005 for the China Shipping settlement case.

The receipts of $9.9 million in grant income in FY 2005 and losses of $14.0 million relating to assets disposals in FY 2004 account for the $25.6 million changes in net other income and expenses from prior year.

Income from the Port's investment in the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) increased 26.8% to $3.5 million for fiscal year 2005. The increase reflects the higher container throughput handled by ICTF in fiscal year 2005. Interest and investment income increased $5.0 million to $7.3 million for fiscal year 2005. The increase includes a $2.6 million in higher interest income and a $2.4 million change in fair value adjustment for the Port's share in the City of Los Angeles' investment pool.

(Continued)

Fiscal 2004

Net nonoperating expense for fiscal year 2004 decreased $32.7 million from the prior year to $59.9 million.

Provision for litigation, claims, and settlements increased $36.5 million to $8.3 million. Prior year net expense includes $50 million in settlement costs for the Natural Resources Defense Council lawsuit relating to the China Shipping Company Terminal development project. The Port increased the reserves for this settlement an additional $7.3 million in fiscal year 2004.

Net other expenses decreased $5 million from $18.7 million to $13.7 million. In fiscal 2004, the Port incurred losses of $8.2 million from the sale of properties and $5.8 million from disposal of other assets. Prior fiscal year comparative figures include $19.0 million that the Port set aside to fully reserve the investment in Los Angeles Export Terminal. Los Angeles Export Terminal ceased its coal operations in June 2003, and its business future is uncertain.

Income from the Port's investment in the ICTF decreased 24.8% to $2.8 million for fiscal year 2004. The decrease reflected the lower container throughput handled by ICTF in fiscal year 2004. Interest and investment income decreased $9.1 million to $2.3 million for fiscal year 2004. The decrease includes a $2.6 million in reduced interest income and a $6.5 million change in fair value adjustment for the Port's share in the City of Los Angles' investment pool.

Long-Term Debt and Capital Assets

Long-Term Debt

On June 30, 2005 and 2004, the Port's total of $836.6 million and $857.8 million, respectively, in long-term debt comprised senior debt in the form of Harbor Revenue Bonds, commercial paper, and subordinated debt in the form of loans.

On July 11, 2001, the Port issued $101.1 million in long-term bonds and entered into an agreement for the forward delivery of $63.5 million of additional bonds that were delivered on May 6, 2002, to refund $158.3 million of the Harbor Revenue Bonds of 1995. On June 30, 2002, a total of $99.8 million was available for advance refunding of the 1995 Series B Revenue Bonds. On August 2, 2002, the refunding was completed, achieving a present value savings of approximately $12.6 million. The Refunding Bonds received an underlying AA rating by the three major credit agencies.

On November 7, 2001, the Port issued its Offering Memorandum for the issuance of commercial paper notes (Notes) not to exceed $375 million in three series, Series A (Non-AMT), Series B (AMT), and Series C (Taxable). The purpose of the Notes is to provide interim financing for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. As of June 30, 2005 and 2004, the Port's commercial paper outstanding was $113,561,000 and $113,095,000, respectively, in Series B (AMT) Notes.

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained contractually under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). As of June 30, 2005, this capacity is approximately $1.57 billion, calculated using operating revenues and current interest rate assumptions.

Long-term debt consisted of the following as of June 30, 2005, 2004 and 2003 (in thousands):

	2005	2004	2003
Revenue bonds payable	$ 718,513	735,001	750,114
Notes payable	4,495	9,715	9,887
Commercial paper	113,561	113,095	92,002
Total	$ 836,569	857,811	852,003

Capital Assets

Capital assets, net of accumulated depreciation consisted of the following as of June 30, 2005, 2004, and 2003 (in thousands):

	2005	2004	2003
Land	$ 953,459	859,857	782,392
Harbor facilities and equipment, net	1,284,382	1,186,182	968,960
Construction in progress	269,520	448,719	635,257
Preliminary costs – capital projects	215,066	212,452	247,563
Total	$ 2,722,427	2,707,210	2,634,172

(Continued)

Capital expenditures for fiscal year 2005 decreased to $87.9 million, a decrease of 40% over the prior year. Capital expenditures for fiscal year 2004 decreased to $146.5 million, a decrease of 38% over the prior year. Spending fell substantially short of the $203.7 million and $288.8 million originally budgeted in fiscal 2005 and 2004, respectively, primarily due to projects that have been put on hold pending completion of environmental assessments. Over 36% of the fiscal year 2005 development funds were expended for commercial development alone, most of it related to the San Pedro Waterfront Development. Over 73% of the fiscal year 2004 development funds were expended for terminal development alone, most of it related to Pier 400 and Berth 100 developments. Other significant increases in spending were for Port security and transportation improvements during fiscal 2005 and dredging in fiscal 2004.

Capital Expenditure – Facilities and the Infrastructure*
(In thousands)

	12 months ended June 30		
	2005	**2004**	**2003**
Commercial development	$ 32,100	11,416	4,237
Dredging	22,735	23,652	62,886
Environmental studies and credits	1,773	2,229	2,048
Infrastructure improvements	445	1,097	5,667
Port security	1,064	242	—
Terminal development	27,236	106,198	160,660
Transportation improvements	2,574	1,623	1,934
Total	$ 87,927	146,457	237,432

* Source: Engineering Division of the Port of Los Angeles. Direct costs only. Does not include overhead and interest allocations.

Projected expenditures for the Port's FY 2006 Capital Improvement Program will increase significantly from the previous fiscal year. The more significant fiscal year 2006 expenditures will include the Waterfront Development Projects, Pier 400 Improvements, the West Basin Redevelopment, Pier 300 40-acre Landfill, California Maritime Studies Center, and the Main Channel Deepening Program.

The West Basin development at the China Shipping Terminal includes the development of approximately 140 acres of backland terminal, construction of 2,500 feet of wharf at Berths 100-102, a new gate complex, and two new access bridges between China Shipping and Yang Ming terminals. Phase I of the China Shipping Terminal was completed in January 2004. Berth 100 is the first Alternate Marine Power (AMP) container ship wharf and the first AMP-powered container ship docked at Berth 100 on May 17, 2004. Phase II of China Shipping is underway, including a 43-acre landfill that will become the Berth 102 backlands. Project completion is expected in August 2009.

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The Berth 121-131 Container Terminal program is a three-phase program to upgrade a container terminal with 3,500 feet of new wharves for 12 container cranes, 28-acres of additional backland, and terminal buildings. Project completion is expected in August 2012.

The Berth 131-148 terminal projected expansion program is being designed and will upgrade and incorporate an additional 147 acres to the existing 103-acre container terminal. The waterside elements of the project include 2,600 feet of wharf, new cranes, 100-foot gauge crane rail, dredging the water depth to -53 ft. mean lower low water (MLLW), and AMP capability. Other improvements include demolition of buildings, relocation of the Pier "A" Street Rail Yard, three new buildings, gate facilities, concrete transtainer runways, general container yard and infrastructure improvements, and a five-acre backland expansion at Berth 136. The estimated project completion date is June 2010.

The Berth 171-181 Terminal Redevelopment project will focus on the existing 44-acre Pasha break bulk terminal. Improvements include environmental soil remediation, construction of new terminal buildings, wharf upgrades and 525 feet of new wharf extension, a 12-acre expansion of terminal backland and relocation of existing railroad tracks, and construction of a new heavy lift rail spur. Project completion is expected in January 2009.

The Berth 206-209 Interim Container Development is a five-year interim reuse of the former 86-acre Matson/SSAT container terminal, and includes environmental measures designed to reduce environmental impacts. Improvements include crane power trench repair, Hitachi crane drive replacement, crane relocation, a renovated administration building, a renovated M&R building, gate facilities, demolition of buildings, pavement testing, AMP, and general container yard improvements. Project completion is expected in July 2006.

The Berth 212-224 Container Terminal Development proposes redevelopment of the existing terminal for optimal utilization and efficiency. The project scope includes existing wharf upgrades, construction and improvement of existing backland, new cranes, crane rails, lighting, utilities, buildings, new gate complex, relocation of parking facilities, and construction of a pedestrian bridge. The estimated project completion date is May 2011.

The Berth 226-236 Container Terminal Development also proposes the redevelopment of the existing terminal for optimal utilization and operational efficiencies. The project scope includes construction, reconstruction, and improvements to wharves, backland, new cranes, crane rails, lighting, utilities, buildings, new gate complex, grade crossings, and modification of adjacent roadways and railroad tracks. Project completion is expected in February 2012.

In order to accommodate deeper draft container vessels, the Port is working with the U.S. Army Corps of Engineers to dredge eight million cubic yards from the Main Channel Turning Basin, East Basin, West Basin, East Basin Channel, and Cerritos Channel. Existing design depth in the channel is currently -45 ft. MLLW. The dredging program will provide a depth of -53 ft. MLLW, plus two feet overdepth, and will be complete in September 2007.

The Transportation Program is comprised of the development of a port-wide transportation master plan and traffic improvements. The Transportation Master Plan will serve as a resource to meet existing and future demands of the Port's transportation network. Planning and design is moving forward for roadway and interchange improvements,

(Continued)

grade separation, and a new near-dock rail yard. Projects include: Harry Bridges Boulevard Improvement, I-110/SR47/Harbor Blvd., Ramps Interchange Improvement, Fries Avenue Grade Separation, "C" Street Ramps Improvement, Southern California International Gateway (SCIG), Navy Way Connector to Westbound Seaside Avenue, Advanced Transportation Management Information (ATMIS), and Port Incident Management System (PIMS).

The Port Police Headquarters Project consists of the design and construction of a new 50,000-square-foot Port Police Station at 320 S. Center Street. The project was issued a Notice to Proceed on February 5, 2004. The expected completion of the project is April 2008.

The Port Security Program consists of five projects: a waterside security surveillance system, facility security enhancements, passenger complex vehicle screening, passenger complex perimeter security, and a waterborne perimeter security barrier. For these projects, the Port is responsible for the design and installation of integrated surveillance systems including cameras, motion detectors, nonintrusive inspection for vehicles, and waterborne perimeter security barriers. Estimated project completion is April 2008.

To provide support for the inspection of special and high-risk maritime shipping containers passing through the Port of Los Angeles and Port of Long Beach, a Joint Agency Container Inspection Facility (JCIF) project is proposed to serve the needs of various enforcement agencies. The project will include 85,000 square feet of buildings, security access gates, and parking and queuing areas for vehicles and containers on an approximately 14-acre secure site. Estimated project completion is June 2008.

The San Pedro Waterfront Master Plan incorporates six unique districts along the 81/-mile project area. Each district is designed with its own flavor and flair, emulating the variety of waterfront locales and uses already in place at the Port of Los Angeles. This Master Plan was developed in concert with the community and Port stakeholders and took years of community-based planning to create. When complete, the waterfront will be revitalized with parks, plazas, beaches, harbors, cultural and recreational attractions – all linked by a continuous and generous promenade.

The Waterfront Gateway Program includes approximately 2.5 miles of pedestrian promenade, multiuse parkway, and open space including lighting, signage, landscaping, irrigation, and hardscaping from the Vincent Thomas Bridge to 5th Street in San Pedro. In addition, the program includes water features at the Gateway Plaza and 2nd Street. Project completion is expected in October 2005.

The San Pedro Waterfront Enhancements Program will improve existing and construct new pedestrian walks and plazas, create green open spaces, provide additional vehicular parking, and new landscaping between the Port and waterfront.

The Cruise Terminal Development Program includes a proposed upgrade of the existing cruise terminal facilities at Berth 91-93, AMP, a new cruise terminal in the outer harbor, Berth 46-47, relocation of Catalina Express/Island Express, and new multilevel/shared use parking structure. Environmental assessment completion is expected in early 2007.

(Continued)

The Wilmington Waterfront Development Program is a 95-acre development incorporating landscaping, commercial/retail/restaurant development, cultural/community facilities, and transportation improvements.

The Harbor Beautification Program continues to be a high-priority activity for the Port. The construction of the Pacific Avenue Beautification project will begin in Fall 2005. Terminal entrances and points of public access to port complexes will serve as a gateway to the Port and will include trees, shrubs, benches, and trash receptacles.

The programs described are being designed and constructed to meet the needs of the community and the Port's current container terminal customers. Every major terminal within the Port will be upgraded and expanded over the next three to five years to accommodate growth in container movements and increase cargo capacity.

Factors That May Affect the Port's Operations

The revenue growth and profitability of the Port's business depend upon changes in income, global industrial output, and the relative value of world currencies. Real increases in domestic consumer income tends to induce increases in foreign imports of goods, while growth of consumer spending power outside the United States fosters our export market. Expanding industrial production overseas generates more shipments of export raw materials and intermediate or semifinished goods. A rise in the value of the US dollar would typically adversely impact US exports while accelerating imports. Conversely, a significant drop in the value of the US dollar would reduce imports and strengthen the US export market. Changes in the world labor force and transportation costs can impact where goods are made and through which ports goods are shipped.

The Port is addressing a number of trends developing in the industry. Business alliances among shipping lines have created increasing demand for development of progressively larger container terminals, frequently exceeding 250 acres. The Port is working to expand existing terminals, upgrade wharves, as well as construct new facilities to meet the demand. Environmental mitigation is critical in that process. The Pier 400 container terminal, built for APM Terminals, is one such example, and construction at China Shipping's new Berth 100 (phase 2) continues. These Port developments will create larger cargo facilities with improved economies of scale, pending completion of environmental impact reports.

Efficient railyard operations represent another important requirement. In addition to the on-dock intermodal rail at Pier 400 and other existing on-dock/near-dock facilities that serve our customers, the Port is developing a new, general-use railyard. The Port is also initiating new programs to address environmental efficiencies for ships in Port and operating equipment on terminals.

Larger container vessels continue to be placed in service. These new generation container vessels require channel depths of more than 50 feet for safe navigation. The Port's Main Channel deepening project, which will lower the channel depth to -53 feet, will be complete in September 2007.

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Competitive Environment

In the fiscal year ended June 30, 2005, 99.4% of the entire U.S. West Coast containerized cargo market was controlled by six major containerports: the ports of Los Angeles, Long Beach, and Oakland in California; the Ports of Seattle and Tacoma in Washington State; and the Port of Portland in Oregon. The Ports of Los Angeles and Long Beach together controlled 70.0% of all U.S. West Coast market share.

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

West Coast Container Market Share *
(In thousands)

	12 months ended					
	June 30			June 30		
	2005	2004	2003	2005	2004	2003
	Loaded TEUs			Market Share		
	(In thousands)			Percentage		
Los Angeles	4,685	4,977	4,480	37.5%	42.6%	43.2%
Long Beach	4,061	3,449	2,944	32.5	29.5	28.4
Oakland	1,300	1,112	1,028	10.4	9.5	9.9
Tacoma	1,004	943	827	8.0	8.1	8.0
Seattle	1,223	881	844	9.8	7.5	8.1
Portland	145	231	193	1.2	2.0	1.9
All others	71	87	54	0.6	0.8	0.5
Total	12,489	11,680	10,370	100.0%	100.0%	100.0%

* Source: Port Import Export Reporting Service.

Contacting the Port's Financial Management

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

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

Statements of Net Assets

June 30, 2005 and 2004

(In thousands of dollars)

	2005	2004
Assets:		
Current assets:		
Cash and investments, unrestricted (Note 2)	$ 211,241	117,287
Cash and investments, restricted (Note 2)	113,504	98,544
Accounts receivable, less allowance for doubtful accounts of $50,781 and $38,025 in 2005 and 2004, respectively (Note 14)	33,184	25,966
Grants receivable (Note 13)	1,343	1,484
Materials and supplies inventories	1,622	1,675
Prepaid and deferred expenses	1,728	8,673
Accrued interest receivable	3,149	1,539
Current portion of notes receivable, less allowance for doubtful accounts of $2,000 in 2005 and 2004, respectively (Notes 10 and 14)	3,757	3,649
Total current assets	369,528	258,817
Noncurrent restricted assets (Note 2):		
Restricted investments – bond funds	15	17
Other restricted cash and investments	8,880	8,716
Accrued interest receivable	52	6
Total noncurrent restricted assets	8,947	8,739
Capital assets (Notes 3 and 8):		
Land	953,459	859,857
Harbor facilities and equipment, less accumulated depreciation of $833,694 and $764,197 in 2005 and 2004, respectively	1,284,383	1,186,182
Construction in progress	269,520	448,719
Preliminary costs – capital projects	215,065	212,452
Net capital assets	2,722,427	2,707,210
Notes receivable (Note 10)	45,075	48,878
Investment in Joint Powers Authorities and other entities, less allowance for investment loss of $19,000 for 2005 and 2004 (Notes 4, 10, and 14)	6,338	5,295
Other assets	3,978	4,241
Total assets	3,156,293	3,033,180

(Continued)

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

Statements of Net Assets

June 30, 2005 and 2004

(In thousands of dollars)

	2005	2004
Liabilities:		
Current liabilities:		
Accounts payable	$ 37,088	24,270
Current installments of notes payable and bond indebtedness (Note 5)	18,145	22,081
Accrued interest	13,495	13,640
Accrued employee benefits (Note 5)	1,522	418
Deferred revenue and other deferred credits (Note 5)	358	1,252
Liabilities under the City of Los Angeles' securities lending program (Note 2)	33,494	19,199
Accrued construction costs payable	9,278	17,833
Other current liabilities (Notes 5, 7, and 16)	72,300	37,612
Total current liabilities	185,680	136,305
Long-term liabilities (Note 5):		
Bonds payable, net of current portion and deferred amount on refunding and unamortized discount/premium of $25,112 and $24,589 in 2005 and 2004, respectively	700,758	718,141
Notes payable, net of current installments	4,105	4,494
Commercial paper to be refunded from bonds	113,561	113,095
Deferred revenue and other deferred credits	2,783	2,783
Accrued employee benefits	11,285	10,991
Other liabilities (Notes 7 and 16)	22,858	27,201
Liabilities payable from restricted assets – other liabilities (note 7)	8,567	8,544
Total long-term liabilities	863,917	885,249
Total liabilities	1,049,597	1,021,554
Commitments and contingencies (Notes 4, 5, 7, 8, 9, 11, 15, 16, and 17)		
Net assets:		
Invested in capital assets, net of related debt	1,885,858	1,849,398
Restricted, bond proceeds	22,456	15,017
Unrestricted	198,382	147,211
Total net assets	$ 2,106,696	2,011,626

See accompanying notes to financial statements.

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

(In thousands of dollars)

	2005	2004
Operating revenues (Note 8):		
Shipping services:		
Wharfage	$ 288,415 2	70,616
Dockage	7,577	7,150
Demurrage	310	361
Cranes	3,155	3,383
Pilotage	6,951	7,266
Assignment charges	22,283	22,509
Storage	123	99
Total shipping services	328,814	311,384
Rentals:		
Land	31,788	30,908
Buildings	255	268
Warehouses	1,514	1,307
Wharf and shed revenue	1,073	778
Total rentals	34,630	33,261
Royalties, fees, and other operating revenues:		
Fees, concessions, and royalties	3,388	2,790
Oil royalties	75	54
Other	1,921	2,172
Total royalties, fees, and other operating revenues	5,384	5,016
Total operating revenues	368,828	349,661
Operating and administrative expenses (Notes 1, 7, 9, and 12):		
Salaries and benefits	58,182	53,165
Marketing and public relations	3,455	3,769
Travel and entertainment	743	758
Outside services	39,672	32,104
Materials and supplies	5,320	4,682
City services, net of capitalized amounts of $6,679 and $10,700 in 2005 and 2004, respectively (Note 12)	22,361	18,729
Provision for bad debts (Notes 10, 14, and 15)	13,199	17,407
Other operating expenses	10,836	8,690
Total operating and administrative expenses	153,768	139,304
Income from operations before depreciation	215,060	210,357
Depreciation (Note 3)	70,040	67,934
Operating income	145,020	142,423

(Continued)

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

(In thousands of dollars)

	2005	2004
Nonoperating revenues (expenses):		
Income from investments in Joint Powers Authorities and other entities (Note 4)	$ 3,543	2,795
Interest and investment income	7,266	2,298
Interest expense on bond indebtedness and notes payable (Note 5)	(42,279)	(43,034)
Litigation, claims, and settlement expenses (Notes 7 and 16)	(30,322)	(8,277)
Other income and expenses, net (Note 2)	11,842	(13,724)
Net nonoperating expenses	(49,950)	(59,942)
Income before capital contributions	95,070	82,481
Capital contributions (Note 13)	—	867
Deletions of capital contribution (Note 13)	—	(2,518)
Changes in net assets	95,070	80,830
Total net assets – beginning of year	2,011,626	1,930,796
Total net assets – end of year	$ 2,106,696	2,011,626

See accompanying notes to financial statements.

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2005 and 2004

(In thousands of dollars)

	2005	2004
Cash flows from operating activities:		
Shipping service fees collected	$ 319,126	318,513
Rentals collected	34,077	35,571
Royalties, fees, and other operating revenues collected	7,536	4,110
Payments for employee salaries and benefits	(65,238)	(60,107)
Payments for goods and services	(80,537)	(79,496)
Proceeds from operating grants	9,582	—
Net cash used in other nonoperating income and expenses	1,491	(9,829)
Net cash provided by operating activities	226,037	208,762
Cash flows from capital and related financing activities:		
Payments for property acquisitions and construction	(78,062)	(149,111)
Proceeds from sales of capital assets	135	4,531
Proceeds from capital grant	423	2,314
Proceeds from new issuance of commercial paper	670,044	494,883
Payment of commercial paper	(669,578)	(473,790)
Principal repayment – bonds	(16,860)	(15,485)
Principal repayment – notes	(5,235)	(357)
Interest paid	(44,138)	(44,364)
Net cash used in capital and related financing activities	(143,271)	(181,379)
Cash flows from investing activities:		
Receipt of interest	6,881	5,788
Increase in liabilities under the City of Los Angeles' securities lending program	14,295	6,243
Increase (decrease) in fair value of investments	(1,223)	(3,524)
Payments received on notes receivable	3,695	3,516
Distribution from Joint Powers Authorities and other entities	2,500	3,500
Net cash provided by investing activities	26,148	15,523
Net increase in cash and cash equivalents	108,914	42,906
Cash and cash equivalents, beginning of year	215,831	172,925
Cash and cash equivalents, end of year (Note 2)	$ 324,745	215,831

(Continued)

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
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Statements of Cash Flows

Years ended June 30, 2005 and 2004

(In thousands of dollars)

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 145,020	142,423
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	70,040	67,934
Provision for doubtful accounts	12,756	16,745
Change in accounts receivable	(19,974)	(9,002)
Change in materials and supplies inventories	54	(111)
Change in prepaid and deferred expenses and other assets	7,207	(6,675)
Change in accounts payable	12,818	3,104
Change in accrued employee benefits	1,398	1,288
Change in other long-term operating liabilities	(4,343)	(12,442)
Change in deferred revenue and other deferred credits and other current operating liabilities	(430)	15,327
Net cash provided by used in other nonoperating income and expense	1,491	(9,829)
Total adjustments	81,017	66,339
Net cash provided by operating activities	$ 226,037	208,762

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

(a) Organization and Reporting Entity

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

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

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

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, The Financial Reporting Entity, (GASB Statement No. 14) which the Port adopted effective July 1, 1993.

The 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 City of Los Angeles by erecting, constructing, replacing, extending, or improving

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facilities and services that the Board of Harbor Commissioners deems necessary for the promotion and accommodation of commerce. From time to time, LAHIC has issued long-term indebtedness to finance specific capital facilities improvements on behalf of the Port's tenants. The nature of these financings is such that the long-term indebtedness will be that of the Port tenant and not LAHIC, the Port, or the City of Los Angeles. Therefore, for purposes of the accompanying financial statements, the long-term indebtedness of LAHIC and the corresponding lease receivable from the tenant are eliminated.

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the Board of Harbor Commissioners. At June 30, 2005, the newly appointed Board of Harbor Commissioners had not yet elected replacements for outgoing LAHIC directors as provisioned by the Bylaws of Los Angeles Harbor Improvements Corporation.

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

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

(b) Summary of Significant Accounting Policies

Method of Accounting – The Port is 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 liabilities are incurred without regard to receipt or disbursement of cash. The measurement focus is on determination of changes in net assets, financial position, and cash flows.

Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. In accordance with GASB Statement No. 20, the Port of Los Angeles has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

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

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

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

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

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

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

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

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately $3,281,000 and $3,751,000 of such indirect project costs were allocated to construction projects for the years 2005 and 2004, respectively.

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

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects. All of the $1,029,000 commercial paper interest paid in 2004 was capitalized. Of the $2,021,000 commercial paper interest paid in 2005, $1,713,000 was capitalized and the rest expensed as certain projects financed by the commercial paper proceeds have been completed.

Pooled Cash and Investments – In order to maximize investment return, the Port pools its available cash with that of the City of Los Angeles, California. Investment decisions are made by the City Treasurer.

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

(Continued)

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

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

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

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

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

Pension Plan – All full-time employees of the Port are eligible to participate in the City Employees' Retirement System of the City of Los Angeles, California (the System), a plan available to substantially all City of Los Angeles full-time employees. The Port's policy is to fund its entire share of System pension costs billed by the City. The costs to be funded are determined annually as of July 1 by the System's actuary and are incorporated into the payroll burden rate to reimburse the City for the Port's pro rata share of contributions made (see Note 9).

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

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

Reclassifications – Certain reclassifications have been made to the amounts reported in 2004 in order to conform to the 2005 presentation. Such reclassifications had no effect on previously reported results of operations.

(2) Cash and Investments

(a) Cash and Pooled Investments

Substantially all of the Port's operating cash is deposited with the City Treasurer under the City Treasurer's pooled investment program. The California Government Code authorizes the City to invest in obligations of the U.S. Treasury, federal agencies, municipalities, certain commercial paper, bankers' acceptances, and repurchase and reverse repurchase agreements, up to certain specified allowable percentages.

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

	2005	2004
Cash in bank and certificates of deposit	$ 1,928	2,903
Investment in U.S. Treasury money market fund	162	72
Equity in the City of Los Angeles Investment Pool	331,550	221,589
Total cash and investments	$ 333,640	224,564

(Continued)

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

	2005	2004
Unrestricted cash and investments	$ 211,241	117,287
Restricted cash and investments:		
Current:		
Earthquake/Disaster Fund	84,045	82,729
China Shipping Mitigation Fund	18,811	14,909
Community Aesthetics Mitigation Fund for Parks	3,476	—
Owner-Controlled Insurance Program	500	500
U.S. Customs House, Terminal Island	6,257	—
Other	415	406
	113,504	98,544
Noncurrent:		
Harbor Revenue Bond Fund	15	17
Commercial Paper Redemption Fund	147	55
Customer security deposits	1,621	1,686
Batiquitos Environmental Fund	5,066	5,000
Harbor Restoration Fund	475	467
Marinas Credit Fund	1,571	1,508
	8,895	8,733
Total restricted cash and investments	122,399	107,277
Total cash and investments	$ 333,640	224,564

(b) Deposits – Custodial Credit Risk

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to $1,928,412 and $2,903,040 at June 30, 2005 and 2004, respectively, with a corresponding bank balance of $1,686,179 and $2,665,939, respectively. The deposits are entirely covered by federal depository insurance or are collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

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

The Table below identifies the investment types that are authorized for the Port by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

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

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

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(d) City of Los Angeles Investment Pool

At June 30, 2005, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

			Investment Maturities			
Type of Investments		**Amount**	**1 to 30 Days**	**31 to 60 Days**	**61 to 365 Days**	**366 Days to 5 Years**
U.S. Treasury Notes	$	526,446	—	25,102	50,690	450,654
U.S. Agencies		3,446,885	244,830	113,766	373,801	2,714,488
Medium-Term Notes		878,328	5,004	24,974	121,815	726,535
Commercial Paper		861,293	844,318	16,500	475	—
State of California LAIF		40,703	40,703	—	—	—
Short-Term Investment Funds		9	9	—	—	—
Securities Lending Cash Collateral:						
U.S. Treasury Notes		478,756	—	26,219	52,812	399,725
U.S. Agencies		395,396	—	—	—	395,396
Total General and Special Pools	$	6,627,816	1,134,864	206,561	599,593	4,686,798

The Port has $331,550,000 invested in the City's Pool which represent approximately 5% the City Treasury's General and Special Investment Pool.

Interest Rate Risk. The City's investment policy limits the maturity of its investments to a maximum of five years for U.S. Treasury and Federal agency securities, medium term corporate notes, and bonds issued by local agencies; 270 days for commercial paper; and 32 days for repurchase agreements.

Credit Risk. The City's investment policy requires that for all classes of investments, except linked banking certificates of deposits, the issuers must have minimum credit ratings as follows: Standard and Poor's Corporation (S&P) A-1/A; Moody's Investor Services (Moody's) P-1/A2; Fitch Ratings (Fitch), if available, F1/A. The City's investments in medium term notes were rated A+ or better by S&P and A1 or better by Moody's, while investments in commercial paper were rated A-1+ by S&P, and P-1 by Moody's. As further required by the City's investment policy, corporations operating within the United States that have total assets in excess of $500 million issued the medium term notes, and the commercial paper issuers are corporations organized in the United States as a special purpose corporations, trust or limited liability companies having program-wide credit enhancements. The State of California Local Agency Investment Fund is not rated.

Concentration of Credit Risk. The City's investment policy does not allow more than 10% of its investment portfolio, except U.S. Treasury and Federal agencies, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments, the City does not have such investment..

(e) City of Los Angeles Securities Lending Program

The Port participates in the City of Los Angeles securities lending program. Under this program, the City lends investment securities to broker-dealers for collateral that will be returned for the same securities in the future. These activities are governed by a contractual agreement with the City's bank limiting the nature and amount of transactions subject to full collateralization. Collateral securities are initially pledged at 102% of the fair value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 101.5% of the fair value of the securities lent. Under the City's program, no more than 20% of the par value of the City's General Investment Pool shall be available for lending. Total cash collateral received by the City was $874,152,310 and $746,110,601 at June 30, 2005 and 2004, respectively. No noncash collateral was received by the City at June 30, 2005. Net revenues earned by the City on its securities lending program totaled $1,160,093 and $720,158 for the years ended June 30, 2005 and 2004, respectively. The Port's share of cash collateral received and corresponding liability aggregated approximately $33,494,500 and $19,199,450 at June 30, 2005 and 2004, respectively.

(f) Other Investments

Other investments of $161,651 and $71,816 at June 30, 2005 and 2004, respectively, consist of investments in a U.S. Treasury securities money market fund. At June 30, 2005, these investments were not required to be categorized.

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(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2005 and 2004 (in thousands of dollars):

	July 1, 2004	Increases	Decreases	June 30, 2005
Capital assets not being depreciated:				
Land	$ 859,857	93,602	—	953,459
Construction in progress	448,719	72,777	(251,976)	269,520
Preliminary costs – capital projects	212,452	34,205	(31,591)	215,066
Total capital assets not being depreciated	1,521,028	200,584	(283,567)	1,438,045
Capital assets being depreciated/ amortized:				
Wharves and sheds	570,347	72,347	—	642,694
Buildings/facilities	1,334,703	93,353	—	1,428,056
Equipment	45,329	2,553	(556)	47,326
Total capital assets being depreciated/amortized	1,950,379	168,253	(556)	2,118,076
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(211,803)	(16,428)	—	(228,231)
Buildings/facilities	(518,641)	(50,823)	—	(569,464)
Equipment	(33,753)	(2,789)	543	(35,999)
Total accumulated depreciation	(764,197)	(70,040)	543	(833,694)
Total capital assets being depreciated/ amortized, net	1,186,182	98,213	(13)	1,284,382
Total capital assets, net	$ 2,707,210	298,797	(283,580)	2,722,427

(Continued)

	July 1, 2003	Increases	Decreases	June 30, 2004
Capital assets not being depreciated:				
Land	$ 782,392	90,773	(13,308)	859,857
Construction in progress	635,257	149,293	(335,831)	448,719
Preliminary costs – capital projects	247,563	37,622	(72,733)	212,452
Total capital assets not being depreciated	1,665,212	277,688	(421,872)	1,521,028
Capital assets being depreciated/ amortized:				
Wharves and sheds	439,621	136,335	(5,609)	570,347
Buildings/facilities	1,197,383	219,811	(82,491)	1,334,703
Equipment	43,808	2,644	(1,123)	45,329
Total capital assets being depreciated/amortized	1,680,812	358,790	(89,223)	1,950,379
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(197,100)	(19,575)	4,872	(211,803)
Buildings/facilities	(482,983)	(45,279)	9,621	(518,641)
Equipment	(31,769)	(3,080)	1,096	(33,753)
Total accumulated depreciation	(711,852)	(67,934)	15,589	(764,197)
Total capital assets being depreciated/ amortized, net	968,960	290,856	(73,634)	1,186,182
Total capital assets, net	$ 2,634,172	568,544	(495,506)	2,707,210

Interest expense of $1,713,000 and $1,029,000 was capitalized for 2005 and 2004, respectively.

(4) Investment in Joint Powers Authorities and Other Entities

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

(a) Intermodal Container Transfer Facility Joint Powers Authority

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

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53,915,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52,315,000 in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42,915,000 of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, the Port of Los Angeles, or the Port of Long Beach.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those acts necessary for the development of its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's operations and assets, liabilities, and equity at June 30, 2005 and 2004 is $6,338,000 and $5,295,000, respectively.

Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

(b) Alameda Corridor Transportation Authority

In August 1989, the Port and the Port of Long Beach entered into a joint exercise of powers agreement and formed the Alameda Corridor Transportation Authority (ACTA) for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between

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the Santa Monica Freeway and the Ports of Los Angeles and Long Beach in San Pedro Bay linking the two ports to the central Los Angeles area. The Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

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

At June 30, 1998, the Port had advanced a total of $13,334,000 to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Port for all amounts advanced plus approximately $3.2 million of interest on such advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Port for approximately $81.7 million of capital assets directly related to the ACTA's mission, which the Port had previously included in construction in progress. Of the capital assets transferred, approximately $22.2 million had been funded by capital grants, which the Port had previously included in contributions/land valuation equity. The Port's share of the ACTA's operations, and assets, liabilities, and equity at June 30, 2005 and 2004 is immaterial to the accompanying financial statements.

Separate financial statements for ACTA may be obtained from the Controller, Alameda Corridor Transportation Authority, One Civic Plaza Drive, Suite 650, Carson, California 90745.

(c) Los Angeles Export Terminal, Inc.

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

The Port has contributed $19,000,000 to LAXT as part of the agreement. Such contribution represents a 13.2% share of the total committed capital of $143,174,231. This capital was raised from the shareholders through a purchase of stock in LAXT. The Port's investments totaled $19,000,000 at June 30, 2005 and 2004, respectively. The Port has the right to nominate two directors to a 19-member board of directors. As of June 30, 1998, the terminal began operating under a long-term lease agreement with a terminal manager/operator.

In June 2003, LAXT loaded the last coal vessel, thereby ceasing the coal operations at the facility. Due to these circumstances, the Port has set aside $19,000,000 as 100% investment loss reserve for its share of equity participation in the LAXT.

Separate financial statements for LAXT may be obtained from the General Manager of LAXT, Post Office Box 1769, San Pedro, California 90733.

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(5) Long-Term Liabilities

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

(a) Bonds Payable

1995 Bonds

The Revenue Bonds, Issue of 1995 Series A and Series B (the 1995 Bonds), were issued by the Harbor Department of the City of Los Angeles in the aggregate principal amount of $200,000,000 on January 1, 1995. Proceeds from the sale of these insured 1995 Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to redeem at maturity certain short-term revenue certificates previously issued by the Port, and to pay certain costs of issuance in connection with the 1995 Bonds.

In fiscal year 1997, the Port issued $21,350,000 of 1996 Revenue Bonds, Series C to defease the $19,750,000 of outstanding 1995 Series A bonds. On August 1, 2002, all remaining 1995 Series A Bonds were redeemed.

On July 11, 2001, the Port issued Harbor Revenue Bonds of $36,189,000, Series A Bonds (2001 A Refunding Bonds) to provide funds to advance refund, on a crossover basis, $33,330,000 of the 1995 B Bonds, and the Port also issued Harbor Revenue Bonds, of $64,925,000, Series B Bonds (2001B Refunding Bonds) to provide funds to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters. The Port issued The Harbor Revenue Bonds, of $63,520,000, Series A Bonds (2002 A Refunding Bonds) on May 6, 2002, on a crossover basis, to refund $64,110,000 of the outstanding 1995 Series B Bonds on a forward-delivery basis and to provide funds (together with the 2001 A Refunding Bonds) to currently refund the 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of the 1995 Series B Bonds maturing on August 1, 2002 and 2003. On August 1, 2003, the Port paid the matured principal of $3,300,000, and the 1995 Series B Bonds were fully redeemed.

1996 Series A Bonds

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

Interest on the 1996 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 1996, with principal payments commencing August 1, 1997. The 1996 Series A Bonds, which will mature in 2026, bear interest at rates ranging from 5% to 6.25%. The term

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bonds are subject to mandatory early redemption. The bonds maturing on or after August 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after August 1, 2008 are subject to optional redemption without an early redemption premium.

The 1996 Series A Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balances outstanding on the 1996 Series A Bonds, net of unamortized discount of $1,306,432 and $1,369,393, were $260,183,568 and $265,820,607 at June 30, 2005 and 2004, respectively.

Debt service of the Port's 1996 Series A Bonds is as follows (in thousands):

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2006	$ 6,000	15,650	21,650
2007	6,325	15,327	21,652
2008	6,675	14,975	21,650
2009	7,050	14,597	21,647
2010	7,460	14,190	21,650
2011 – 2015	44,680	63,566	108,246
2016 – 2020	60,375	47,872	108,247
2021 – 2025	82,205	26,049	108,254
2026 – 2027	40,720	2,580	43,300
Subtotal	261,490	214,806	476,296
Unamortized discount	(1,306)	—	(1,306)
Total	$ 260,184	214,806	474,990

1996 Series B and C Bonds

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

Interest on the 1996 Series B and C Bonds is payable semiannually on May 1 and November 1 of each year commencing May 1, 1997, with principal payments commencing November 1, 1997. The 1996 Series B and C Bonds consist of serial and term bonds maturing in amounts ranging from $340,000 to $21,960,000 at rates ranging from 4.875% to 6.25%. The 1996 Series B Bonds will mature on November 1, 2026, and the 1996 Series C Bonds will mature on November 1, 2025. The

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term bonds are subject to mandatory early redemption. The bonds maturing on or after November 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after November 1, 2008 are subject to optional redemption without an early redemption premium.

The $21,350,000 of 1996 Series C Bonds was issued to advance refund $19,750,000 of outstanding 1995 Series A Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series A Bonds of $1,175,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through 2025 using the straight-line method. The Port advance refunded the 1995 Series A Bonds to reduce its total debt service payments over the next 27 years by almost $1,755,000 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of $1,209,000.

The 1996 Series B and C Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles. The balances outstanding on the 1996 Series B and C Bonds, net of unamortized discount of $756,898 and $792,240, and unamortized deferred amount on refunding of $838,765 and $877,929, were $302,194,337 and $309,244,832 at June 30, 2005 and 2004, respectively.

Debt service of the Port's 1996 Series B and C Bonds is as follows (in thousands):

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2006	$ 7,500	16,583	24,083
2007	7,905	16,180	24,085
2008	8,325	15,757	24,082
2009	8,770	15,310	24,080
2010	9,245	14,839	24,084
2011 – 2015	54,290	66,109	120,399
2016 – 2020	70,945	49,420	120,365
2021 – 2025	92,850	27,461	120,311
2026 – 2027	43,960	2,740	46,700
Subtotal	303,790	224,399	528,189
Unamortized deferred amount on refunding of HRB 1995 Series A	(839)	—	(839)
Unamortized discount	(757)	—	(757)
Total	$ 302,194	224,399	526,593

(Continued)

2001 Series A Refunding Bonds

On July 11, 2001, the Department issued Harbor Revenue Bonds, of $36,180,000, Series A Refunding Bonds (2001 A Refunding Bonds) to provide funds to advance refund, on a crossover basis, $33,330,000 of the 1995 B Bonds. Interest on the 2001 A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2002, with principal payments commencing annually on August 1, 2022. The 2001 A Refunding Bonds, which will mature in 2025, bear interest at a rate of 5.0%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without an early redemption premium.

The balances outstanding on the 2001 A Refunding Bonds, net of unamortized discount of $1,024,196 and $1,075,405 and unamortized deferred amount on refunding of $933,137 and $979,794, were $34,222,668 and $34,124,801 at June 30, 2005 and 2004, respectively.

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

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2006	$ —	1,809	1,809
2007	—	1,809	1,809
2008	—	1,809	1,809
2009	—	1,809	1,809
2010	—	1,809	1,809
2011 – 2015	—	9,045	9,045
2016 – 2020	—	9,045	9,045
2021 – 2025	23,910	7,782	31,692
2026	12,270	307	12,577
Subtotal	36,180	35,224	71,404
Unamortized deferred amount on refunding of 1995 Series B	(933)	—	(933)
Unamortized discount	(1,024)	—	(1,024)
Total	$ 34,223	35,224	69,447

2001 Series B Bonds

The Department issued the Harbor Revenue Bonds, of $64,925,000, Series B Bonds (2001 B Refunding Bonds) to provide funds to purchase $60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters.

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

The balances outstanding on the 2001 B Refunding Bonds, net of unamortized premium of $880,876 and $932,692 and unamortized deferred amount on refunding of $3,636,052 and $3,849,937, were $62,169,824 and $62,007,755 at June 30, 2005 and 2004, respectively.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
2006	$ —	3,547	3,547
2007	—	3,547	3,547
2008	—	3,547	3,547
2009	—	3,547	3,547
2010	—	3,547	3,547
2011 – 2015	—	17,735	17,735
2016 – 2020	35,910	13,551	49,461
2021 – 2023	29,015	2,333	31,348
Subtotal	64,925	51,354	116,279
Unamortized deferred amount on refunding of 1995 Series B	(3,636)	—	(3,636)
Unamortized premium	881	—	881
Total	$ 62,170	51,354	113,524

2002 Series A Bonds

The Harbor Revenue Bonds, of $63,520,000, Series A Bonds (2002 A Refunding Bonds) were issued on May 6, 2002 on a crossover basis, to refund $64,110,000 of the outstanding 1995 Series B Bonds on a forward-delivery basis and to provide funds to currently refund the 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of 1995 Series B Bonds maturing on August 1, 2002 and 2003.

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Interest on the 2002 A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2002, with principal payments commencing August 1, 2004. The 2002 A Refunding Bonds, which will mature in 2015, bear interest at a rate of 5.50%. The bonds maturing on or after August 1, 2012 are subject to optional redemption without an early redemption premium.

The 2002 A Refunding Bonds are secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture. The balances outstanding on the 2002 A Refunding Bonds, net of unamortized premium of $1,817,957 and $1,998,251 and unamortized deferred amount on refunding of $1,560,799 and $1,715,589, were $59,742,159 and $63,802,662 at June 30, 2005 and 2004, respectively.

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

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2006	$ 4,255	3,155	7,410
2007	4,495	2,914	7,409
2008	4,740	2,660	7,400
2009	5,000	2,392	7,392
2010	5,275	2,110	7,385
2011 – 2015	31,050	5,737	36,787
2016	4,670	128	4,798
Subtotal	59,485	19,096	78,581
Unamortized deferred amount on refunding of 1995 Series B	(1,561)	—	(1,561)
Unamortized premium	1,818	—	1,818
Total	$ 59,742	19,096	78,838

On August 1, 2002, the refunding of 1995 B Bonds was completed and resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series B Bonds of $3,818,649. The difference is prorated to 2001 A Bonds, 2001 B Bonds, and 2002 A Bonds based on the face value. They are reported in the above accompanying financial statements as a deduction from bonds payable and charged to operations through 2025 using the straight-line method. As a result of the refunding, the Port in effect reduced its aggregate debt service payments by approximately $22,307,000 over the next 24 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $12,633,000.

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(b) Other Long-Term Debt

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes not to exceed $375,000,000 as a means of interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. The Port intends to refinance the commercial paper on a long-term basis by uninterrupted renewal of the commercial paper and future issuance of revenue bonds. Rates vary on the commercial paper from 1.05% to 2.43% during the fiscal year ended June 30, 2005. Due dates also vary, but within the limit of 270 days from the issue dates. As of June 30, 2005 and 2004, the Port's commercial paper outstanding was $113,561,000 and $113,095,000, respectively.

California Department of Boating and Waterways

The Port obtained two loans aggregating $8,000,000 from the California Department of Boating and Waterways. The notes currently bear interest at 4.5%. The Port makes annual payments of interest and principal and the notes will mature in 2014 and 2015, respectively. The notes are secured by the future revenues of the Port and do not constitute a general obligation of the City of Los Angeles. The balances outstanding on such notes were $4,494,898 and $4,868,292 at June 30, 2005 and 2004, respectively.

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

	Principal	Interest	Total
Fiscal year:			
2006	$ 390	202	592
2007	408	185	593
2008	426	166	592
2009	445	147	592
2010	465	127	592
2011 – 2015	2,361	303	2,664
Total	$ 4,495	1,130	5,625

Ports O' Call Restaurant Corporation

In May 1999, a judgment was rendered and settlement reached in a case involving the City of Los Angeles vs. the Ports O' Call Restaurant Corporation, whereby the City took back a portion of the Ports O' Call properties controlled by Ports O' Call Restaurant Corporation. The judgment provided that the City (Port of Los Angeles) pay the note balance of $3.8 million to Ports O' Call Restaurant Corporation for leasehold interests in one parcel at the note value on or before June 30, 2004.

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The $3.8 million face amount of the note is reduced by any increase in minimum annual guarantee over $346,000 per year. Any adjustment made at a date, other than the start of the compensation period (July 1 through June 30), will be prorated for the period effective. Simple interest is applied at 5.5% for the first three years of the term of the note and interest at prime rate applied for the last two years. Interest will be prorated for any partial year in which the note is retired. The leasehold interest purchased (deferred expenses) is amortized over the term of the note (five years).

At June 30, 2005 and 2004, the note payable totaled $0 and $4,847,495, respectively. The note payable was paid off in January 2005.

(c) Prior Years' Defeasance of Debt

In December 1989, June 1993, and December 1996, the Port defeased its outstanding Harbor Revenue Bond indebtedness issues of 1985, 1988, and 1995 Series A, aggregating $33,800,000, $131,960,000, and $19,750,000, respectively. Such debt was defeased through the establishment of irrevocable escrow funds with a major financial institution. Monies placed in trust, when considered with interest to be earned thereon, will be sufficient to make required debt service payments through the earliest possible debt retirement dates. Accordingly, the liability for those bonds has been removed from the accompanying financial statements. On August 1, 2002, all 1995 Series A Bonds were redeemed.

The remaining bonds to be redeemed by the trusts at June 30, 2005 and 2004 were as follows (in thousands):

	2005	2004
1988 Bonds	$ 98,250	102,160
Total	$ 98,250	102,160

(d) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2005 and 2004 was as follows (in thousands):

	July 1, 2004	Additions	Reductions	June 30, 2005	Due within one year
Revenue bonds payable	$ 742,730	—	(16,860)	725,870	17,755
Less unamortized discount/premium	(305)	—	(83)	(388)	—
Unamortized deferred amount on refunding	(7,424)	—	455	(6,969)	—
Total revenue bonds payable	735,001	—	(16,488)	718,513	17,755
Notes payable	9,715	14	(5,234)	4,495	390
Commercial paper	113,095	670,044	(669,578)	113,561	—
Deferred revenue and other deferred credit	4,035	—	(894)	3,141	358
Accrued employee benefits	11,409	1,398	—	12,807	1,522
Other liabilities (Note 7)	73,357	73,235	(42,867)	103,725	72,300
Total long-term liabilities	$ 946,612	744,691	(735,061)	956,242	92,325

	July 1, 2003	Additions	Reductions	June 30, 2004	Due within one year
Revenue bonds payable	$ 758,215	—	(15,485)	742,730	16,860
Less unamortized discount/premium	(224)	—	(81)	(305)	—
Unamortized deferred amount on refunding	(7,877)	—	453	(7,424)	—
Total revenue bonds payable	750,114	—	(15,113)	735,001	16,860
Notes payable	9,887	186	(358)	9,715	5,221
Commercial paper	92,002	494,883	(473,790)	113,095	—
Deferred revenue and other deferred credit	3,119	893	23	4,035	1,252
Accrued employee benefits	10,121	1,288	—	11,409	418
Other liabilities (Note 7)	70,477	59,713	(56,833)	73,357	37,612
Total long-term liabilities	$ 935,720	556,963	(546,071)	946,612	61,363

(6) Employee-Deferred Compensation Plan

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

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

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

(7) Risk Management

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

Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The Port utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities. At June 30, 2005 and 2004, approximately $18,736,000 and $9,356,000, respectively, were accrued for litigation claims and workers' compensation claims, which are included in other liabilities in the accompanying statements of net assets.

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Changes in the reported liability for the years ended June 30, 2005 and 2004 are as follows (in thousands):

		Beginning liability	Current year claims and estimate changes	Claim payments	Balance at fiscal year end
2004 – 2005:					
Workers' compensation	$	2,906	2,229	2,229	2,906
Litigation		6,450	12,008	2,628	15,830
2003 – 2004:					
Workers' compensation	$	3,932	(84)	942	2,906
Litigation		12,857	(5,910)	497	6,450

(8) Leases, Rentals, and Revenue Sharing Agreements

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

These lease agreements are intended to be long term in nature (as long as 30 years) and to provide the Port with a firm tenant commitment for a minimum fixed income stream. Many agreements also provide for additional payment beyond the fixed portion, based upon tenant usage, revenues, or volume. These agreements are also generally subject to periodic inflationary escalation of base amounts due the Port. For the years ended June 30, 2005 and 2004, revenues from such agreements aggregated approximately $235,185,285 and $208,433,779, respectively.

The property on lease at June 30, 2005 consists of the following (in thousands of dollars):

Wharves and sheds	$	642,695
Cranes and bulk facilities		63,818
Municipal warehouses		10,448
Port pilot facilities and equipment		5,522
Buildings and other facilities		632,467
Cabrillo Marina		35,440
		1,390,390
Less accumulated depreciation		(556,059)
Total	$	834,331

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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 of dollars):

Year ending June 30:		
2006	$	239,457
2007		239,604
2008		239,764
2009		240,499
2010		241,249
Total	$	1,200,573

(9) Retirement Plan

(a) Plan Description

All full-time employees of the Port are eligible to participate in the Los Angeles City Employees' Retirement System (the System), a single-employer defined benefit public employee retirement system (PERS). The System is under the management and control of the System's Board of Administration, whose authority is granted by the City Charter (Article XI). The System is an independent department of the City, and its financial statements are included in the City's Comprehensive Annual Financial Report as a retirement trust fund. The Port makes contributions to the System for it's pro rata share of retirement costs attributable to its employees. The total payroll for Port employees covered by the System for the years ended June 30, 2004, 2003, and 2002 was $45,457,000, $40,241,000, and $37,181,000, respectively (2.9%, 2.9%, and 2.9% of total System-covered payroll in 2004, 2003, and 2002, respectively); the Port's total payroll for 2004, 2003, and 2002 was $48,911,000, $43,975,000, and $41,199,000, respectively.

The System provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have 30 or more years of service and are age 55 or older. Employees age 70 or above may retire at any time with no required minimum period of service. The System does not have a mandatory retirement age and none of the Port's employees are required to contribute to the System under state statute.

Covered employees contribute to the System at a rate established through the collective bargaining process for those whose membership began prior to February 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after February 1, 1983. The City contributes the remaining amounts necessary to pay benefits when due, as determined by the actuarial consultant of

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the System. Amounts charged to the Port by the City for its pro rata share of actuarially determined contributions to the System were $4,582,000, $2,863,000, and $2,308,000, for the years ended June 30, 2004, 2003, and 2002, respectively, representing 10.1%, 7.1%, and 6.2% of the Port's covered payroll for the respective years and 2.9%, 5.5%, and 7.1% of total System employer contributions, respectively. The Port was charged $6,252,729 by the City for the year ended June 30, 2005, representing 12.9% of the Port's covered payroll for the year.

(b) Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the fund to which contributions are made on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used. The System does not make separate measurements of assets and pension benefit obligation for individual entities of the City.

The pension benefit obligation has been computed for the System as a whole as part of an actuarial valuation performed as of June 30, 2004, the date of the latest actuarial valuation of System pension benefits, but reflects all plan amendments adopted through June 30, 2004. The valuation was performed using the projected-unit-credit-cost method using the following significant actuarial assumptions:

- A rate of return on the investment of present and future assets of 8% per year compounded annually
- Annual cost-of-living increases of 3% for retirees
- Total annual payroll increases of 4%
- Annual salary increases for individuals that vary by age averaging 4% per year over a full 30-year career.

The total unfunded pension benefit obligation applicable to the System as a whole was $1,491,756,000 at June 30, 2004, as follows (in thousands):

Total pension benefit obligation	$	8,533,864
Actuarial value of available plan assets		7,042,108
Unfunded pension benefit obligation	$	1,491,756

(c) *Actuarially Determined Contribution Requirements and Contributions Made*

The System currently uses the projected-unit-credit-cost method to determine the required annual contribution amount. The required annual contribution amount is composed of two components, (1) normal cost, which is the cost of the portion of the benefit that is earned each year, and (2) the payment to amortize the unfounded actuarial accrued liability (UAAL). The components of the UAAL are amortized as a level percent of pay. Increases in the UAAL due to assumption changes over 30 years and gains and losses are amortized over 15 years.

The contributions to the System for the year ended June 30, 2004 were made in accordance with actuarially determined requirements computed through the actuarial valuation dated June 30, 2002. The amount of the contributions made for the Retirement Plan under the Required Contribution category were less than the Annual Required Contributions (ARC) of the employer, as defined by GASB Statement No. 25 and 27. The total contribution shortfall as computed by the City's new consulting actuary is $58,674,000, which creates a Net Pension Obligation (NPO) of the City. The shortfall is included in the gains and losses of the UAAL as of June 30, 2004 and will cause an incrementally higher contributing rate beginning in fiscal year 2006, and continuing during the 15-year amortization period of such gains and losses of the UAAL. The Port's allocated NPO (based on allocated pensions) was $1,854,000 as of June 30, 2004.

Total annual pension costs for the City were $159,083,000, $51,604,000, and $32,296,000, for the years ended June 30, 2004, 2003, and 2002, respectively, representing 63%, 100% and 100% of annual required contributions for each year.

Other contribution information and ten-year historical trend information can be found in the System's Comprehensive Annual Financial Report. This CAFR can be obtained from the Los Angeles City Employees' Retirement System (LACERS), 360 E. Second Street, 8th Floor, Los Angeles, California 90012.

(d) *Required Supplemental Information (Unaudited)*

The following represents the Los Angeles City Employees' Retirement System Schedule of Funding Progress, separate information for the Port of Los Angeles was not available (in thousands of dollars):

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded (overfunded) AAL	Funded ratio	Covered payroll	Overfunded AAL as a % of covered payroll
2004	$ 8,533,864	7,042,108	1,491,756	82.5	$ 1,575,285	94.7%
2003	7,659,846	6,999,647	660,199	91.4	1,405,058	47.0
2002	7,252,118	6,988,782	191,930	97.4	1,334,335	14.4

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(e) Other Postemployment Benefits

The Port, as a participant in the System, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. The contributions to the health care subsidy represent approximately 34% of total actuarially determined City contributions to the System for FY 2003/04. Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

At June 30, 2004, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total unfunded health benefit subsidy applicable to the System as a whole was approximately $560,816,000 as follows (in thousands):

Total health benefit liability	$	1,419,813
Reserve for health benefits		858,997
Unfunded benefit liability	$	560,816

(10) Notes Receivable

(a) City of Los Angeles Settlement

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

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

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

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

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

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

Accordingly, the Port of Los Angeles had recorded the amount due from the City of Los Angeles as a note receivable of $44,155,000 and $47,888,000 and a current portion of notes receivable of $3,733,000 and $3,623,000 as of June 30, 2005 and 2004, respectively.

(b) Note Receivable – LAXT

In August of 2001, LAXT issued a note to the Port to defer payment of $2.0 million of the minimum annual rent required in their lease. This note provides for quarterly interest payments to be made to the Port until such time as the note is fully repaid on or before July 1, 2004. As of June 30, 2005, this note remains unpaid and the Port has reserved for the full amount outstanding.

(c) Note Receivable – Yusen

In order to settle the then outstanding $2,350,867 terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of $106,857. To book accounting entries, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to $1,476,887, with the balance of $873,980 recognized as the Port's fixed assets in FY 1995. The note matures in October 2015. The balance outstanding on the Yusen note is $887,598 and $947,100 at June 30, 2005 and 2004, respectively.

(11) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately $236,294,000 as of June 30, 2005. Such open commitments do not lapse at the end of the Port's fiscal year and are carried forth to succeeding periods until fulfilled.

In 1985, the Port received a parcel of land, with an estimated value of $14,000,000 from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to $14,000,000 from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in 2005 or 2004.

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

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

Alameda Corridor Transportation Authority Agreement

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

Metropolitan Transportation Authority. In 2003, ACTA agreed to an expanded mission to develop and support projects that more effectively move cargo to points around Southern California, ease truck congestion, improve air quality, and make roads safer. If in the future ACTA becomes entitled to distribute income or make equity distributions, the Ports shall share any such income or equity distributions equally.

In October 1998, the Ports, ACTA, and the railroads which operate on the corridor entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroads to pay certain use fees and container charges (Use Fees) which ACTA will assess for the privilege of using the corridor to transport cargo into and out of the Ports. ACTA is currently negotiating with the railroads regarding certain types of cargo movements (transload movements) for which the railroads are not paying Use Fees. ACTA asserts that Use Fees are due for these cargo movements. No assurances can be given that these negotiations will conclude in a manner favorable to ACTA. These Use Fees are used to pay (a) the debt service which ACTA incurs on approximately $1.2 billion of bonds which ACTA issued in early 1999 and approximately $686 million of bonds issued in 2004 and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use Fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

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

In April 2004, it has been estimated by ACTA that the Port and POLB would be required to make Shortfall payments totaling approximately $20.5 million (the Port and POLB each being liable for their one-half share of $10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, the Department is obligated to include any forecasted Shortfall payments in its budget each Fiscal Year. No Shortfall payments were payable by the Port in Fiscal Years 2002-2003, 2003-2004, or 2004-05. Based upon the April 2004 estimate for Fiscal Year 2005-2006, ACTA has projected a Shortfall of $4.8 million; however, the Port and POLB are not required to fund this Shortfall because sufficient funds are available to ACTA from other sources.

Estimates of Shortfalls are prepared by ACTA and such Shortfalls could vary materially from the estimates. It is not possible to predict whether, when or how much the Port will be liable for Shortfall payments.

(Continued)

(12) Related Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City of Los Angeles, 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 $29,040,000 and $29,430,000 in fiscal years 2005 and 2004, respectively.

(13) Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During fiscal year 2004, the Port received $21,000 in grant reimbursement from South Coast Air Quality Management District for certain vehicle purchases. The Port also expended $846,000 during the year under the Container Inspection Facility grant project. Deletion in capital contributions occurred during the year by a transfer of $2,500,000 to the City's Department of Public Works for the construction of the Port Access Demonstration projects. During the year ended June 30, 2005, the Port reported no transactions in capital contribution or deletion of capital contribution. During the year ended June 30, 2004, the Port reported a net reduction in capital contributions of $1,651,000 and grants receivable of $1,484,000.

(14) Los Angeles Export Terminals

Los Angeles Export Terminal (LAXT) is an approximately 120-acre dry bulk facility that handles coal and petroleum coke destined for Asia and the Americas. When incorporated, LAXT's ownership was comprised of a coalition of 51% US firms involved in the coal chain and 49% Japanese utility, steel, and energy companies. Since LAXT's formation, the Port has made equity contributions of $19 million and total account receivables due the Port from LAXT at June 30, 2005 stand at $44 million. Beginning in fiscal year 2001, business conditions have been such that LAXT has been unable to meet its minimum rent guarantee to the Port. Accordingly, the Port has fully reserved for its $19 million investment in LAXT, a $2 million outstanding note receivable and $44 million in outstanding trade receivables due from LAXT as of June 30, 2005.

(15) Natural Resources Defense Council Settlement Judgment

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

The terms of the agreement require that the Port fund various mitigation activities in the amount of $10 million per year over a five-year term ending fiscal year 2007. To date, $30 million has been placed in the mitigation funds and $11 million disbursed as provided in accordance with the provisions of the settlement.

(Continued)

Pursuant to the settlement, the Port is also obligated to expend up to $5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2005, the Port has spent $2.5 million for this program.

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

(16) China Shipping Settlement Agreement

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

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

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

A lawsuit, captioned "The United States of America ex rel. State of California ex rel, Stanley D. Mosler v. City of Los Angeles, et al., United States District Court Case No. 02-02278-SJO (RNB)" has been filed under the Federal Civil False Claims Act by Stanley D. Mosler, an individual, against the Department, the City and the Department's Executive Director, challenging the use by the Department of certain federal funds obtained via the United States Army Corps of Engineers for the construction of Pier 400 at the Port, and seeking treble damages. The case was under seal from 2002 to 2005 while the federal government determined whether to join as a plaintiff. In 2005 the federal government decided not to join as a plaintiff and the plaintiff was granted leave to amend the complaint. An amended complaint would likely be sealed. The Department has been served with the lawsuit; however, the Department believes that any claims alleging misuse of federal funds are without merit.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
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Capital Development Program

Fiscal year 2005/2006 (As of 8/30/05)
(In thousands of dollars)

Project Description	Estimated Expenditure
Terminal Improvements, General	$ 2,067
Minor Capital Projects	2,335
POLA Administrative Building Modifications	1,413
West Channel Recreation Complex	124
Environmental Assessment & Remediation	10,369
Container Cranes – General	4,935
World Cruise Center – General Improvements	4,680
Berth 161 – Maintenance – Yard Improvements	384
Wilmington Waterfront	2,508
Berths 97-115 Redevelopment	26,404
T.I. Container Terminal Facility	561
Port Police Boat	176
West Channel Cabrillo Beach Recreation Complex – Phase II	3,762
Harry S. Bridges Blvd. Improvement	1,445
Berths 142-147 Terminal Redevelopment	3,283
Pier 300 – Wharf & Backland Improvements	22,436
Pier 400 – Dredging, Landfill and Terminal Development	13,697
Pier 400 – Environmental Mitigation Projects – Batiquitos/Others	571
Berths 225-236 Container Terminal Redevelopment	1,922
Berths 206-209 Terminal Upgrade	3,043
Berths 171-173 Facilities Improvements	460
Main Channel Deepening	37,848
Berths 115-131 Redevelopment	4,128
Waterfront Red Car Line	1,884
Future Port Development	10,198
Berths 212-225 Backland Development	826
New Derrick Barge	972
Harbor Wide Beautification Projects	3,347
San Pedro Waterfront Project – Cabrillo Beach Improvements	5,931
San Pedro Waterfront Project – San Pedro Waterfront	22,593
Berth 195-199 Container Terminal Development	148
Port-Wide Transportation Improvements	3,306
Berth 49-50 Sediment Removal	6,701
B. 206-211 Redevelopment	950
California Maritime Studies Center	6,875
Pacific Energy Liquid Bulk Terminal	1,232
Port Security	2,180
Port-Wide Wharf Upgrade Program	957
LA Port Police Headquarters	1,995
San Pedro Waterfront Project – B. 46-72 Warehouse District	264
San Pedro Waterfront Project – B. San Pedro Downtown Harbor	2,900
San Pedro Waterfront Project – B. 73 Fisherman's Wharf	115
San Pedro Waterfront Project – Ports-O-Call	1,223
Alternative Maritime Power Port-wide	2,366
B. 171-181 Terminal Redevelopment	2,308
B. 258 – 269 (Fish Harbor) Rehabilitation	447
Intermodal Container Transfer Facility (ICTF) South	2,649
B. 191-194 Improvements	120
East Wilmington Development	732
Port-Wide Facilities Plan	1,087
Other Misc. Projects	232
Supplemental Eng./Arch.Services	20,346
Total estimated capital improvement program cost	$ 253,435

See accompanying notes to financial statements.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
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Net Assets by Components

Last Ten Fiscal Years (Unaudited)
(In thousands of dollars)

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net assets:											
Invested in capital assets, net of related debt	$	1,150,363	1,234,427	1,359,253	1,295,476	1,343,059	1,441,989	1,676,314	1,782,169	1,849,398	1,885,858
Restricted		50,390	70,869	207	197	204	29	195	5,095	15,017	22,456
Unrestricted		120,089	123,242	115,845	310,682	242,527	303,402	185,189	143,532	147,211	198,382
Total net assets	$	1,320,842	1,428,538	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696

See accompanying independent auditors' report.

Key Information on Revenue Statistics

Last Ten Fiscal Years (Unaudited)

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Rates:											
General cargo tariff rate	$	5.15	5.15	5.15	5.15	5.67	5.67	5.67	5.67	5.95	5.95
Basic dockage (600')		2,033	2,033	2,033	2,033	2,236	2,236	2,236	2,236	2,348	2,348
Required rate of return		10.0%	10.0%	10.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Containerized cargo volume (in millions of TEUs)		2.49	2.89	2.89	3.51	4.37	4.99	5.63	6.70	7.35	7.27
Revenue tons (million):											
General cargo		46.9	57.7	60.0	66.8	81.9	97.6	107.1	151.9	146.5	145.0
Liquid bulk		17.3	14.1	13.3	10.2	12.5	10.9	12.9	11.4	11.9	12.8
Dry bulk		4.4	3.5	4.6	5.1	7.1	5.4	6.2	4.2	3.9	4.3
Total		68.6	75.3	77.9	82.1	101.5	113.9	126.2	147.5	162.1	162.1
Vessel arrivals		2,608	2,786	2,989	2,683	3,060	2,899	2,778	2,845	2,812	2,646
Cruise passengers		945,180	942,773	961,187	998,086	1,110,053	1,073,357	1,099,552	1,057,293	803,308	1,097,204
Vehicles		304,577	207,833	326,274	272,348	388,619	312,248	314,986	347,067	213,933	242,024

See accompanying independent auditors' report.

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

Summary of Revenues, Expenses, and Net Assets

Last Ten Fiscal Years (Unaudited)
(In thousands of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating revenues:										
Shipping services	$ 137,938	160,282	145,770	171,798	201,436	232,749	249,800	302,078	311,384	328,814
Rentals	45,974	43,837	39,655	37,494	33,594	36,554	34,691	36,563	33,261	34,630
Royalties, fees and other operating revenues	5,002	4,757	4,485	3,329	5,059	4,195	5,362	5,013	5,016	5,384
Total operating revenues	188,914	208,876	189,910	212,621	240,089	273,498	289,853	343,654	349,661	368,828
Operating and administrative expenses:										
Salaries and benefits	38,759	37,369	38,001	39,863	33,274	39,554	40,682	44,427	53,165	58,182
Marketing and public relations	2,019	1,999	2,459	1,648	2,329	2,385	3,064	3,654	3,769	3,455
Travel and entertainment	751	619	655	567	597	716	713	658	758	743
Outside services	10,360	11,152	10,125	13,339	12,715	16,383	21,468	21,971	32,104	39,672
Material and supplies	3,374	3,653	4,115	3,373	3,069	3,108	3,508	3,771	4,682	5,310
City services & payments	28,300	26,801	33,741	20,574	22,961	20,395	19,210	18,525	18,729	22,361
Other operating expenses	7,070	13,182	4,831	7,549	7,189	7,275	9,434	31,040	26,097	24,035
Total operating and administrative expenses	90,633	94,675	93,927	86,913	74,994	90,016	98,069	124,046	139,304	153,768
Income from operations before depreciation	98,281	114,201	95,983	125,708	165,095	183,482	191,784	219,608	210,357	215,060
Depreciation	33,250	34,664	46,356	56,081	56,205	63,187	59,680	59,365	67,934	70,040
Operating income	65,031	79,537	49,627	69,627	108,890	120,295	132,104	160,243	142,423	145,020
Non-operating revenues/(expenses):										
Income from investments in JPAs & other entities	3,979	3,329	4,182	1,662	2,146	4,485	4,912	3,717	2,795	3,545
Interest and investment income	5,139	5,114	7,206	11,041	12,452	20,092	11,003	11,490	2,208	7,266
Interest expense	(330)	(318)	(30,349)	(36,611)	(37,300)	(45,983)	(47,535)	(44,295)	(43,034)	(42,279)
Other income and expenses, net	(89)	(2,566)	(2,805)	(2,873)	(2,716)	(1,246)	(3,507)	(63,445)	(22,001)	(18,480)
Net non-operating expenses	8,699	5,459	(21,264)	(26,781)	(25,438)	(22,552)	(35,147)	(92,591)	(59,942)	(49,950)
Income before capital contributions	73,730	84,996	28,363	42,846	83,452	97,743	96,957	67,652	82,481	95,070
Capital contributions	771	22,700	18,404	5,582	2,809	7,500	17,203	1,386	867	—
Special item	—	—	—	—	—	61,752	2,178	—	—	—
Deletions of capital contribution	—	—	—	(17,278)	(6,846)	(7,345)	—	—	(2,518)	—
Changes in net assets	74,501	107,696	46,767	31,050	79,415	159,650	116,338	69,038	80,830	95,070
Total net assets – beginning of year	1,246,341	1,320,842	1,428,538	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626
Total net assets – end of year	$ 1,320,842	1,428,538	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696

See accompanying independent auditors' report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES),
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Revenue Tonnage by Trade Routes

Last Ten Fiscal Years (Unaudited)
(In thousands of metric revenue tons)

Trade routes		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Far East	$	43,381	37,943	57,294	61,140	73,707	85,727	102,482	131,304	143,005	142,385
Domestic		19,173	15,136	15,403	9,770	9,905	9,465	10,979	10,171	8,808	8,408
Australia & New Zealand		2,032	1,792	3,311	2,629	2,797	2,755	3,233	3,004	3,649	3,716
Western Mexico, Central & Western S. America		2,090	1,590	3,198	3,317	2,940	3,185	2,332	2,246	2,077	1,797
India, Persian Gulf and Red Sea		1,898	2,938	4,498	4,610	5,485	2,225	2,614	1,970	1,795	1,888
Eastern South America		495	483	944	722	1,665	1,009	1,665	988	754	1,099
Western Europe		1,799	1,762	1,885	1,727	1,486	1,955	1,671	882	960	1,128
Caribbean		839	803	968	853	930	860	676	612	1,102	1,369
Mediterranean		306	228	491	595	590	148	206	159	157	151
Africa		35	51	75	19	31	88	77	94	54	188
Advance Wharfage & Accruals		(3,434)	12,439	(10,141)	(3,252)	1,973	8,539	(2,523)	(3,887)	(292)	(20)
Total	$	68,577	75,178	77,938	85,128	101,509	113,954	123,412	147,543	162,069	162,139

Percentage of Total Volume

Trade routes	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Far East	63.3%	50.5%	73.5%	71.9%	72.6%	75.5%	83.0%	89.0%	88.2%	87.8%
Domestic	28.0	20.1	19.8	11.9	9.8	8.3	8.9	6.9	5.4	5.2
Australia & New Zealand	3.0	2.4	4.2	3.2	2.8	2.4	2.6	2.0	2.3	2.3
Western Mexico, Central & Western S. America	3.0	2.1	4.1	4.1	2.9	2.8	1.9	1.5	1.3	1.1
India, Persian Gulf and Red Sea	2.8	3.9	5.8	5.6	5.4	1.9	2.1	1.3	1.1	1.2
Eastern South America	0.7	0.6	1.2	0.9	1.6	0.9	1.3	0.7	0.5	0.7
Western Europe	2.6	2.3	2.4	2.1	1.5	1.7	1.4	0.6	0.6	0.7
Caribbean	1.2	1.1	1.3	1.0	0.9	0.8	0.5	0.4	0.7	0.8
Mediterranean	0.4	0.3	0.6	0.7	0.6	0.1	0.2	0.1	0.1	0.1
Africa	—	0.1	0.1	—	—	0.1	0.1	0.1	—	0.1
Advance Wharfage & Accruals	(5.0)	16.6	(13.0)	(4.0)	1.9	7.5	(2.0)	(2.6)	(0.2)	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

See accompanying independent auditors' report.

PORT OF LOS ANGELES
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Summary of Debt Service Coverage

Last Ten Fiscal Years (Unaudited)
(In thousands of dollars)

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating & other revenues (1)	$	198,032	217,219	201,798	225,324	263,667	298,075	305,768	358,801	354,754	391,479
Operating & other expenses (2)		90,722	97,241	96,730	89,786	86,710	91,162	101,576	187,491	161,305	184,090
Net revenue available for debt service (3) = (1) – (2)		107,310	119,978	105,068	135,538	176,957	206,913	204,192	171,310	193,449	207,389
Debt service (4)		15,458	37,961	53,943	53,935	53,926	53,925	54,902	54,689	58,386	59,307
Debt service coverage (5) = (3) / (4)		6.9	3.2	1.9	2.5	3.3	3.8	3.7	3.1	3.3	3.5
Bonding Capacity (5)		1,351,000	1,756,000	1,383,000	1,579,000	1,574,000	1,484,000	1,511,000	1,157,000	1,401,000	1,569,000

(1) Operating and other revenues includes total operating revenues, income from investment and other non-operating revenues.

(2) Depreciation expense not included.

(4) Debt service includes principal and interest payments on issued bonds, but not on commercial paper notes, which are expected to be issued but are not currently outstanding. Debt service also includes loans from the California Department of Boating and Waterways, which are subordinate to the Department's bonds.

(5) Assume 1.25 coverage ratio and prevailing interest rates for debt financing.

Highlights of Operating Information

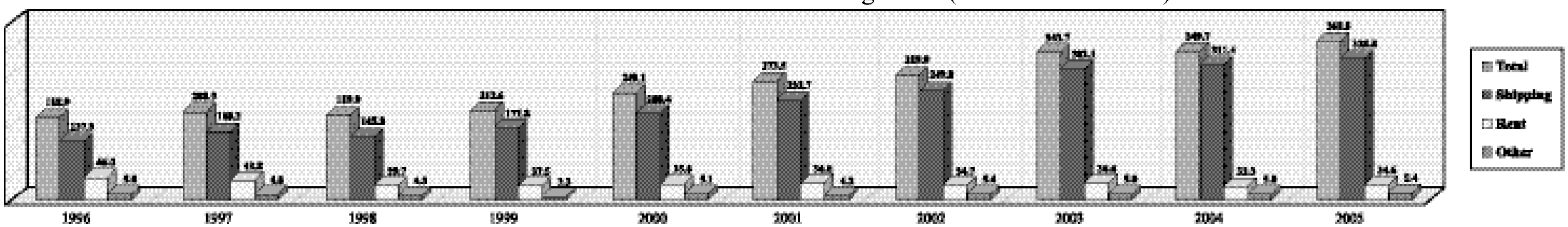
Last Ten Fiscal Years (Unaudited)
(In millions of dollars)

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cash:											
Cash Balance – Harbor Revenue Fund	$	27.0	55.8	29.7	142.9	166.5	201.2	60.2	65.2	95.5	176.9
Cash Balance – Restricted		117.8	133.8	69.9	73.5	77.3	82.7	87.2	97.1	107.3	122.4
Property:											
Total property	$	2,021.5	2,431.8	2,578.3	2,576.8	2,675.5	2,810.9	3,120.2	3,346.0	3,471.4	3,556.1
Allowance for depreciation		366.5	397.2	425.7	480.1	535.0	594.0	653.4	711.8	764.2	833.7
Net property		1,655.0	2,035	2,153	2,097	2,141	2,217	2,467	2,634	2,707	2,722
Construction and maintenance:											
Additions to properties		382.3	415.3	177.5	0.3	542.3	145.3	304.8	381.0	636.5	368.8
Maintenance expenses		9.5	8.4	9.4	12.3	13.1	12.4	13.4	15.2	17.4	18.4
Employees:											
Salaries		39.5	39.4	38.8	38.5	37.5	39.0	41.2	43.9	48.9	53.0
Number of Employees		706	664	611	577	541	562	557	594	634	659

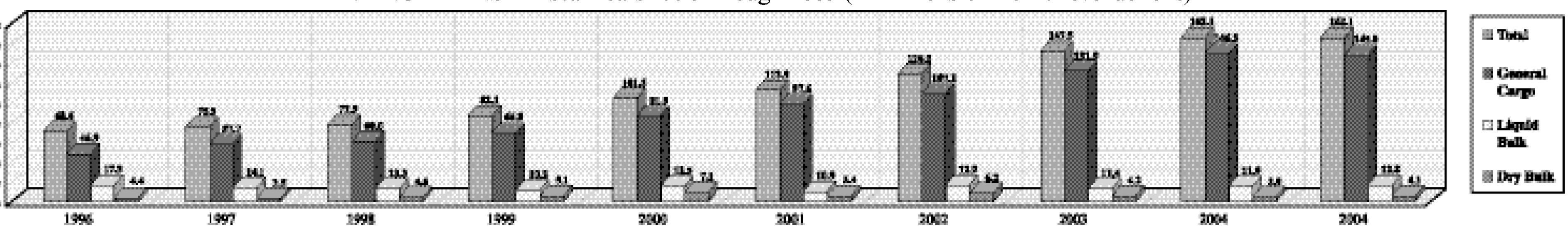
See accompanying independent auditors' report.

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

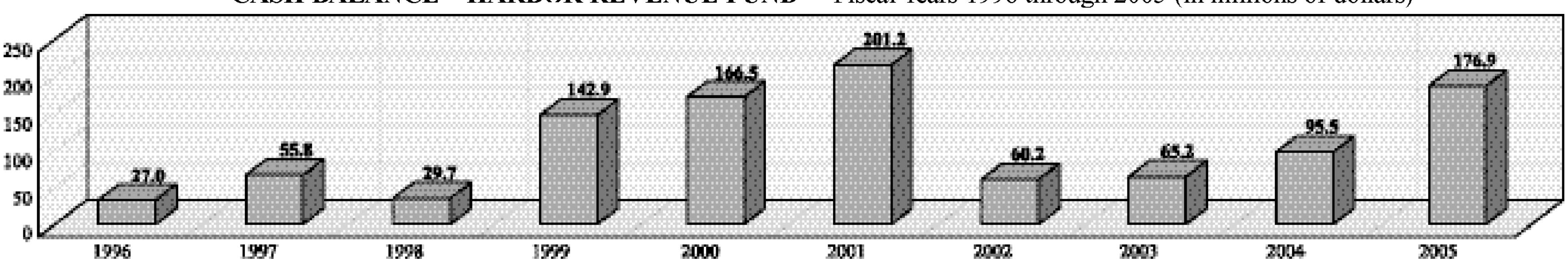
OPERATING REVENUE – Fiscal Years 1996 through 2005 (in millions of dollars)



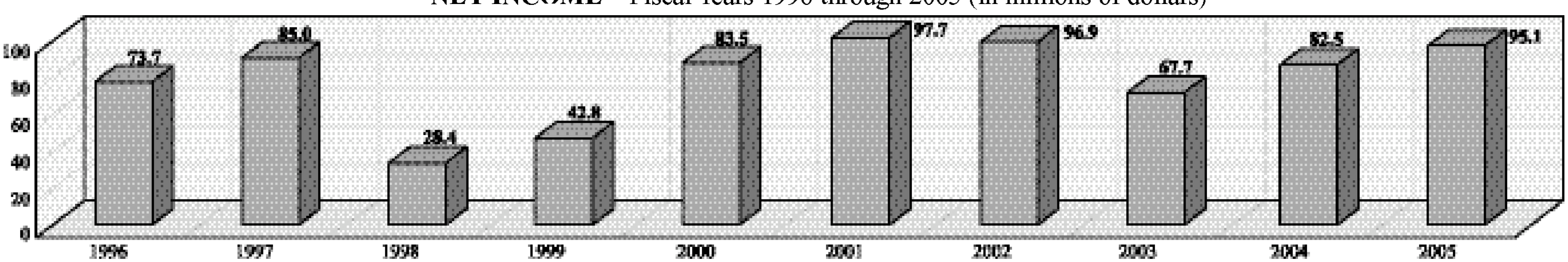
REVENUE TONS – Fiscal Years 1996 through 2005 (in millions of metric revenue tons)



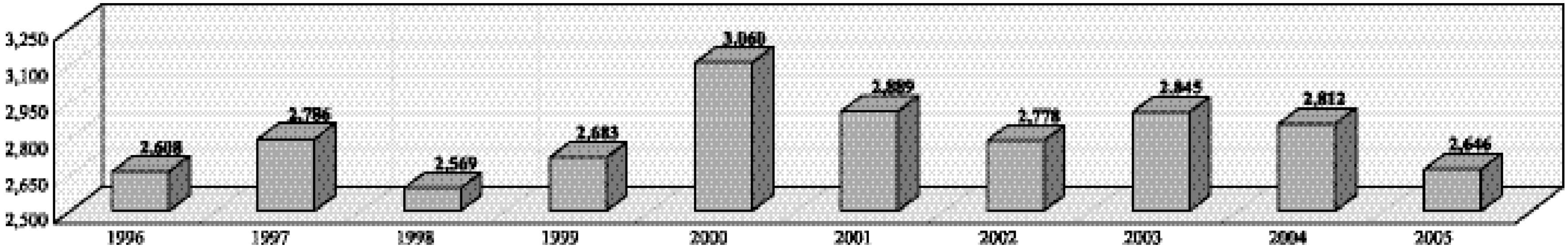
CASH BALANCE – HARBOR REVENUE FUND – Fiscal Years 1996 through 2005 (in millions of dollars)



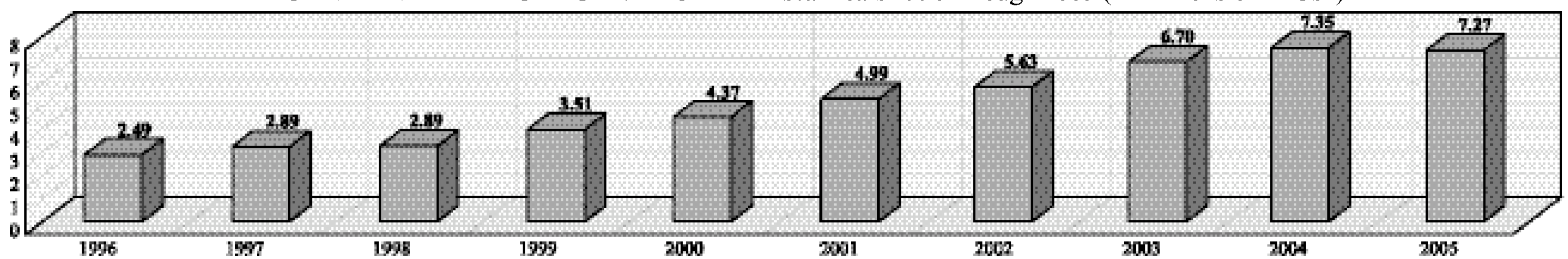
NET INCOME – Fiscal Years 1996 through 2005 (in millions of dollars)



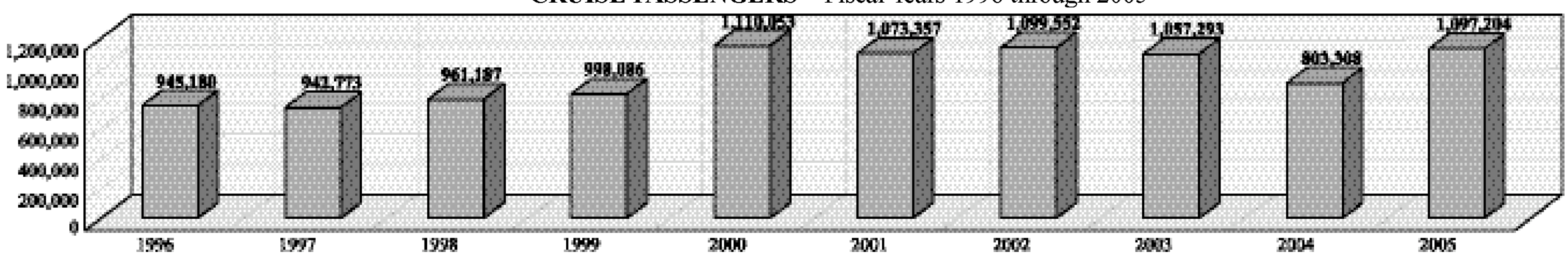
VESSEL ARRIVALS – Fiscal Years 1996 through 2005



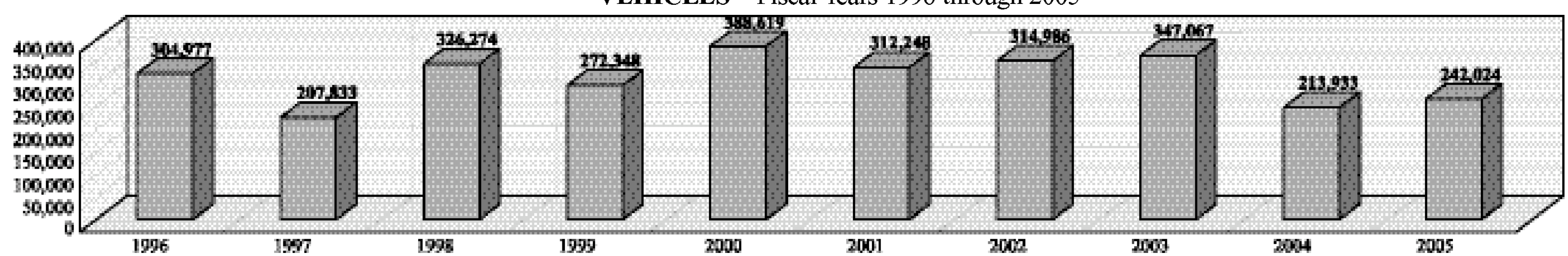
CONTAINERIZED CARGO VOLUME – Fiscal Years 1996 through 2005 (in millions of TEUs*)



CRUISE PASSENGERS – Fiscal Years 1996 through 2005



VEHICLES – Fiscal Years 1996 through 2005



*TEUs stands for twenty-foot equivalent units, the standard measurement used in the maritime industry when counting marine cargo containers.

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2005-1095-5M-0106