



Los Angeles International Airport

Annual Financial Report
Fiscal Years Ended June 30, 2011 & 2010



LAX

*Los Angeles
World Airports*



The background of the cover is a photograph of a modern airport terminal building. The building features a large, curved, white overhang that frames the text. Below the overhang, there is a white wall with a grid of circular perforations. The sky is blue with some light clouds, and there are green trees visible in the lower right and bottom left corners.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)

LOS ANGELES INTERNATIONAL AIRPORT

ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

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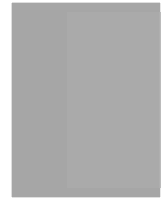
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Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal years ended June 30, 2011 and 2010.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unqualified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2011 and 2010, were fairly presented in conformity with generally accepted accounting principles (GAAP). MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAX's compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*. MGO's audit concluded that LAX complied in all material respects, with the requirements that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2011. MGO's report is on pages 65 and 66.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 3 through 22.

The financial condition of LAX is primarily dependent upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX. The Air Trade Area is comprised of the following five counties: Los Angeles, Orange, Ventura, Riverside, and San Bernardino. Passenger and cargo traffic at LAX depends on the demographic characteristics and economic activity of the Air Trade Area. LAX is the dominant airport in the Air Trade Area, is the sixth busiest airport in the world, and offers more than 565 daily flights to 81 destinations in the U.S. and over 1,000 weekly nonstop flights to 66 international destinations on over 75 carriers.

Passenger and cargo traffic at LAX has shown encouraging growth. Passenger traffic increased by 4.7% in fiscal year 2011 as compared to the prior fiscal year, while air cargo tonnage increased by 2.9% during the same comparative period. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

A handwritten signature in black ink that reads "Gina Marie Lindsey". The signature is written in a cursive, flowing style.

Gina Marie Lindsey
Executive Director

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Annual Financial Report
Fiscal Years Ended June 30, 2011 and 2010

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

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

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

As discussed in Note 1, the financial statements present only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2011 and 2010, and the changes in their financial position and their cash flows for the years then ended 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 LAX as of June 30, 2011 and 2010, 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 November 8, 2011, on our consideration of LAX's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report (continued)

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

Our audits were conducted for the purpose of forming opinions on the basic financial statements of LAX as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures on pages 59 to 62 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The accompanying Schedules of Funding Progress – Prorated Data for Los Angeles World Airports Defined Benefit Pension Plan and Other Postemployment Benefit Healthcare Plan (Non-GAAP Basis) on page 63 have not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Macias Fini & O'Connell LLP

Los Angeles, California
November 8, 2011

Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Management's Discussion and Analysis (Unaudited)

June 30, 2011 and 2010

Los Angeles World Airports (LAWA) is an independent, fiscally self-sufficient department of the City of Los Angeles, California (City) and is an enterprise fund comprised of four separate airports. LAWA owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA maintains LA/Palmdale Regional Airport (PMD); however, PMD is not currently certificated by the Federal Aviation Administration.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2011 and 2010. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 23.

Using This Financial Report

LAX's financial report consists of this management's discussion and analysis (MD&A), and the financial statements that follow after the MD&A. The financial statements include:

The *Statements of Net Assets* present information on all of LAX's assets and liabilities at June 30, 2011 and 2010. The difference between the assets and liabilities was reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator whether LAX's financial position is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Assets* present the results of LAX's operations and information showing the change in net assets during the two fiscal years. These statements can be useful indicator of how LAX recovered its costs through rates and charges. All changes in net assets were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

The *Statements of Cash Flows* relate to the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. Consequently, only transactions that affect LAX's cash and cash equivalents accounts were recorded in these statements. At the end of the statements, a reconciliation is provided to assist in understanding the difference between operating income and cash flows from operating activities.

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

Management's Discussion and Analysis (Unaudited)
June 30, 2011 and 2010
(continued)

Passenger and Other Traffic Activity Highlights

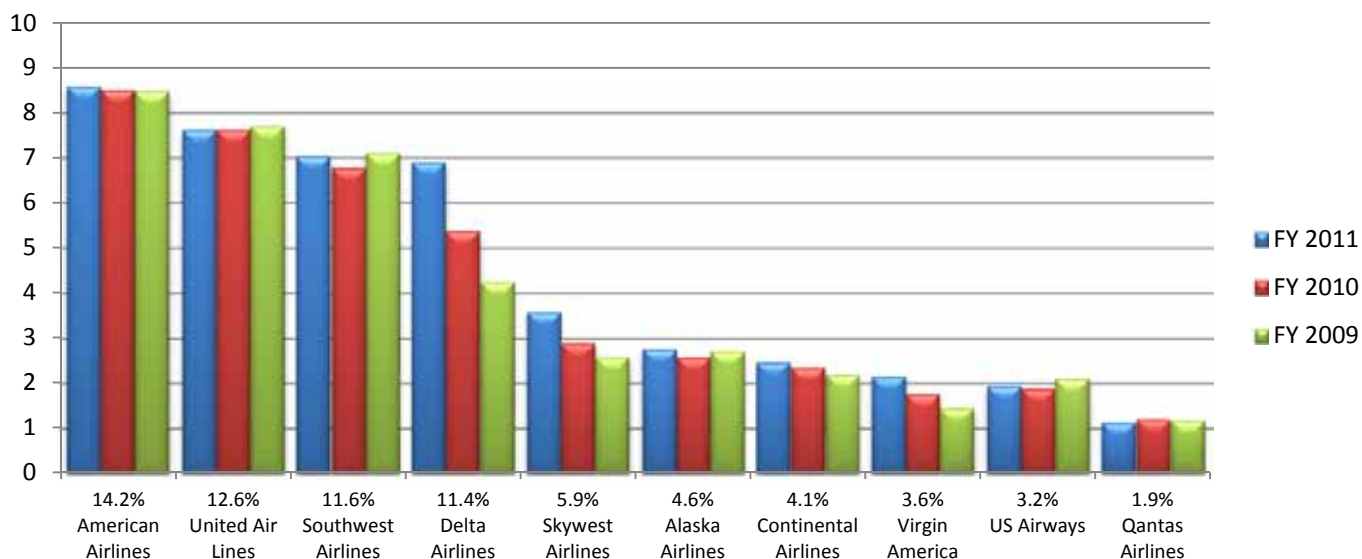
The following table presents a summary of passenger and other traffic for the last three fiscal years:

	FY 2011	FY 2010	FY 2009	% Change	
				FY 2011	FY 2010
Total passengers	60,606,560	57,897,845	56,547,039	4.7%	2.4%
Domestic passengers	44,352,850	42,145,783	41,245,222	5.2%	2.2%
International passengers	16,253,710	15,752,062	15,301,817	3.2%	2.9%
Departing passengers	30,280,539	29,003,142	28,328,978	4.4%	2.4%
Arriving passengers	30,326,021	28,894,703	28,218,061	5.0%	2.4%
Passenger flight operations					
Departures	265,110	256,335	257,653	3.4%	-0.5%
Arrivals	265,212	255,999	257,198	3.6%	-0.5%
Landing weight (thousand lbs)	48,422,352	47,336,942	46,699,033	2.3%	1.4%
Air cargo (tons)					
Mail	79,831	69,528	62,731	14.8%	10.8%
Freight	1,825,420	1,782,004	1,552,583	2.4%	14.8%

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2011 and the comparative passengers for fiscal years 2010 and 2009.

**FY 2011 Top Ten Carriers and Percentage of Market Share
(passengers in millions)**



Passenger Traffic, Fiscal Year 2011

Passenger traffic increased by 4.7% in fiscal year 2011 as compared to fiscal year 2010. Of the 60.6 million passengers that moved in and out of LAX, domestic passengers accounted for 73.2%, while international passengers accounted for 26.8%. American Airlines ferried the most number of passengers at 8.6 million, a minimal increase of less than one percent from the prior fiscal year. Delta Airlines, ranked fourth with 6.9 million passengers posted the most increase in passenger traffic of 1.5 million or 28.4%. Skywest Airlines, ranked fifth with 3.6 million passengers also posted an increase of 23.8%. United Air Lines (7.6 million), and Southwest Airlines (7.0 million), were ranked second and third, respectively. Qantas Airlines was the top foreign flag carrier with 1.1 million passengers and was ranked tenth overall.

Passenger Traffic, Fiscal Year 2010

Passenger traffic increased by 2.4% in fiscal year 2010 as compared to fiscal year 2009. Of the 57.9 million passengers that moved in and out of LAX, domestic passengers accounted for 72.8%, while international passengers accounted for 27.2%. American Airlines ferried the most number of passengers at 8.5 million, a minimal increase from the prior fiscal year. Delta Airlines, ranked fourth with 5.4 million passengers posted a 26.3% increase in passenger traffic. United Air Lines (7.6 million), Southwest Airlines (6.8 million), and Skywest Airlines (2.9 million) complete the top five air carriers. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers.

Flight Operations, Fiscal Year 2011

Landings and takeoffs, excluding cargo, had an increase of 17,988 flights or 3.5% during fiscal year 2011 when compared to fiscal year 2010. Scheduled and commuter flights were up 5,583 and 13,028, respectively, offset by a decrease of 623 charter flights. Revenue landing pounds were higher by 2.3%. The top three carriers in terms of landing pounds were United Air Lines, American Airlines, and Southwest Airlines. In aggregate, these three airlines contributed 32.8% of the total revenue pounds.

Flight Operations, Fiscal Year 2010

Landings and takeoffs, excluding cargo, had a decrease of 2,517 flights or 0.5% during fiscal year 2010 when compared to fiscal year 2009. Charter and commuter were up 5,078 flights, while scheduled flights were down 7,595. Revenue landing pounds were up 1.4%. The top three carriers in terms of landing pounds were American Airlines, United Air Lines, and Southwest Airlines. In total, these three airlines contributed 33.7% of the total revenue pounds.

Air Cargo Operations, Fiscal Year 2011

Mail and freight cargo increased by 2.9% in fiscal year 2011 as compared to fiscal year 2010. Mail tonnage was up 10,303 tons while freight tonnage was up 43,416 tons. Domestic cargo was lower by 1,048 tons or 0.1% while international cargo was higher by 54,767 tons or 5.2%. Federal Express was the top air freight carrier accounting for 20.2% of total freight cargo, followed by Korean Airlines with 5.2%. United Air Lines was the top mail carrier accounting for 22.8% of total mail cargo.

Management's Discussion and Analysis (Unaudited)

June 30, 2011 and 2010

(continued)

Air Cargo Operations, Fiscal Year 2010

Mail and freight cargo increased by 14.6% in fiscal year 2010 as compared to fiscal year 2009. Mail tonnage was up 6,797 tons while freight tonnage was up 229,421 tons. Domestic cargo was higher by 63,757 tons or 8.7% while international cargo was higher by 172,461 tons or 19.5%. Federal Express was the top air freight carrier accounting for 20% of total freight cargo, followed by Korean Airlines with 5.8%. United Air Lines was the top mail carrier accounting for 25% of total mail cargo.

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2011

- Assets exceeded liabilities at June 30, 2011 by \$3.5 billion.
- Bonded debt had a net increase of \$1 billion; new issuances totaled \$1.1 billion.
- Operating revenue totaled \$771.9 million.
- Operating expenses (including depreciation and amortization of \$103.3 million) totaled \$644.5 million.
- Net nonoperating revenue (including passenger facility charges of \$117.8 million) was \$99.9 million.
- Federal and other grants totaled \$67.9 million.
- Net assets increased by \$296 million.

Financial Highlights, Fiscal Year 2010

- Assets exceeded liabilities at June 30, 2010 by \$3.2 billion.
- Bonded debt had a net increase of \$1.5 billion; new issuances totaled \$1.6 billion.
- Operating revenue totaled \$658.9 million.
- Operating expenses (including depreciation and amortization of \$87 million) totaled \$616.5 million.
- Net nonoperating revenue (including passenger facility charges of \$111 million) was \$160.6 million.
- Federal grants totaled \$81 million.
- Net assets increased by \$291.1 million.

Net Assets Summary

A condensed net assets summary for fiscal years 2011, 2010, and 2009 is presented below:

Condensed Net Assets (amounts in thousands)

	FY 2011	FY 2010	FY 2009	FY 2011 increase (decrease)	FY 2010 increase (decrease)
Assets					
Unrestricted current assets	\$ 948,107	\$ 774,448	\$ 684,077	\$ 173,659	\$ 90,371
Restricted current assets	2,725,618	1,626,842	982,941	1,098,776	643,901
Capital assets, net	3,925,536	3,410,735	2,681,138	514,801	729,597
Other noncurrent assets	93,045	480,128	7,001	(387,083)	473,127
Total assets	<u>7,692,306</u>	<u>6,292,153</u>	<u>4,355,157</u>	<u>1,400,153</u>	<u>1,936,996</u>
Liabilities					
Current liabilities payable from unrestricted assets	318,080	341,430	204,414	(23,350)	137,016
Current liabilities payable from restricted assets	158,736	82,757	106,729	75,979	(23,972)
Noncurrent liabilities	3,678,263	2,626,690	1,093,886	1,051,573	1,532,804
Total liabilities	<u>4,155,079</u>	<u>3,050,877</u>	<u>1,405,029</u>	<u>1,104,202</u>	<u>1,645,848</u>
Net Assets					
Invested in capital assets, net of related debt	1,600,882	1,534,174	1,584,180	66,708	(50,006)
Restricted for debt service	478,067	336,264	106,750	141,803	229,514
Restricted for capital projects	771,180	730,468	623,718	40,712	106,750
Restricted for operations and maintenance reserve	137,684	137,684	137,684	--	--
Restricted for other purposes	565	5,641	33,958	(5,076)	(28,317)
Unrestricted	548,849	497,045	463,838	51,804	33,207
Total net assets	<u>\$ 3,537,227</u>	<u>\$ 3,241,276</u>	<u>\$ 2,950,128</u>	<u>\$ 295,951</u>	<u>\$ 291,148</u>

Management's Discussion and Analysis (Unaudited)

June 30, 2011 and 2010

(continued)

Net Assets, Fiscal Year 2011

As noted earlier, net assets may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2011 and 2010, assets exceeded liabilities by \$3.5 billion and \$3.2 billion, respectively, representing a 9.1% increase or \$296 million.

The largest portion of LAX's net assets (\$1.6 billion or 45.3%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net assets (\$1.4 billion or 39.2%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of \$548.8 million (15.5%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral) held by the City Treasurer. Unrestricted current assets increased by 22.4%, from \$774.4 million at June 30, 2010 to \$948.1 million at June 30, 2011, due primarily to net cash provided by operating activities and LAX's allocated share of the reinvested cash collateral from loaned securities under the City's securities lending program.

Restricted current assets include cash and investments (including reinvested cash collateral) held by the City Treasurer for capital projects funded by passenger facility charges (PFC) and customer facility charges (CFC). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFC and CFC capital expenditures were less than collections and interest earnings that resulted to a net incremental increase of approximately \$40.7 million in fiscal year 2011. Revenue bonds were issued during fiscal year 2011 and the amounts held by fiscal agents, invested in short-term securities, to be used for LAX capital expenditures and bond debt service funds increased from \$727.7 million to \$1.72 billion.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 15.1%. Ongoing construction and improvements at terminals and facilities were the primary reasons for the increase.

The decrease of \$387.1 million in other noncurrent assets from \$480.1 million in fiscal year 2010 to \$93 million in fiscal year 2011 was due primarily to the sale of long-term securities held by fiscal agents to purchase short-term securities.

Current liabilities payable from unrestricted assets had a net decrease of \$23.4 million or 6.8%. Accounts that had significant fluctuations were: contracts and accounts payable, increase of \$44.3 million mainly for timing of payment for construction contracts; commercial paper, sale of \$115 million and redemption of \$147.1 million; obligations under the securities lending program, increase of \$50.2 million; and other current liabilities, payment of prior year's accrual of \$88.7 million to retire third party bonds as part of the LAX2 settlement agreement.

Current liabilities payable from restricted assets increased by \$76 million or 91.8% due primarily to the increases in current maturities of outstanding bonds, accrued bond interest expense, and obligations under the securities lending program.

The net increase in noncurrent liabilities of \$1.052 billion or 40% was due mainly to the issuance of long-term debt to finance ongoing capital projects.

Net Assets, Fiscal Year 2010

As noted earlier, net assets may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2010 and 2009, assets exceeded liabilities by \$3.2 billion and \$3 billion, respectively, representing a 9.9% increase or \$291.1 million.

The largest portion of LAX's net assets (\$1.5 billion or 47.3%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net assets (\$1.2 billion or 37.3%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of \$497 million (15.4%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral) held by the City Treasurer. Unrestricted current assets increased by 13.2%, from \$684.1 million at June 30, 2009 to \$774.4 million at June 30, 2010, due primarily to net cash provided by operating activities.

Restricted current assets include cash and investments (including reinvested cash collateral) held by the City Treasurer for capital projects funded by passenger facility charges (PFC) and customer facility charges (CFC). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFC and CFC capital expenditures were less than collections and interest earnings that resulted to a net incremental increase of approximately \$132.8 million in fiscal year 2010. Revenue bonds were issued during fiscal year 2010 and the amounts held by fiscal agents to be used for LAX capital expenditures and bond debt service funds increased from \$186 million to \$727.7 million.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 27.2%. Ongoing construction and improvements at the terminals and facilities, and purchase of land and leased facilities were the primary reasons for the increase.

The increase in other noncurrent assets from \$7 million in fiscal year 2009 to \$480.1 million in fiscal year 2010 was due to the following: (a) bond proceeds invested by fiscal agents, (b) recognition of receivable from the City's General Fund that resulted from an FAA audit, and (c) increase in deferred bond issuance cost that resulted from bond issuances during fiscal year 2010.

Current liabilities payable from unrestricted assets increased by \$137 million or 67%. Issuance of commercial paper notes for interim financing of the increased construction activities, re-entry of the City in the securities lending market, and the timing of payment for termination premium for certain lease were the primary reasons for the increase.

Current liabilities payable from restricted assets decreased by \$24 million or 22.5% due primarily to the decrease in current maturities of outstanding bonds offset by increase in accrued interest and obligations under securities lending transactions.

Management's Discussion and Analysis (Unaudited)

June 30, 2011 and 2010

(continued)

The net increase in noncurrent liabilities of \$1.5 billion or 140.1% was due mainly to the following reasons: (a) issuance of long-term debt to fund increased construction activities, (b) adjustment to accrued employee benefits for accumulated sick leave, (c) recognition of early retirement incentive, and (d) termination of lease that resulted in the charge-off of the outstanding capital lease obligation.

Changes in Net Assets Summary

A condensed summary of LAX's changes in net assets for fiscal years ended 2011, 2010, and 2009 is presented below:

Condensed Changes in Net Assets (amounts in thousands)

	FY 2011	FY 2010	FY 2009	FY 2011 increase (decrease)	FY 2010 increase (decrease)
Operating revenue	\$ 771,881	\$ 658,907	\$ 657,165	\$ 112,974	\$ 1,742
Less- Operating expenses	<u>541,228</u>	<u>529,552</u>	<u>522,911</u>	<u>11,676</u>	<u>6,641</u>
Operating income before depreciation and amortization	230,653	129,355	134,254	101,298	(4,899)
Less- Depreciation and amortization	<u>103,300</u>	<u>86,976</u>	<u>86,927</u>	<u>16,324</u>	<u>49</u>
Operating income	127,353	42,379	47,327	84,974	(4,948)
Other nonoperating revenue, net	99,855	160,590	136,794	(60,735)	23,796
Federal and other grants	67,939	80,955	88,241	(13,016)	(7,286)
Interagency transfers	<u>804</u>	<u>7,224</u>	<u>(470)</u>	<u>(6,420)</u>	<u>7,694</u>
Changes in net assets	295,951	291,148	271,892	4,803	19,256
Net assets, beginning of year	<u>3,241,276</u>	<u>2,950,128</u>	<u>2,678,236</u>	<u>291,148</u>	<u>271,892</u>
Net assets, end of year	<u><u>\$ 3,537,227</u></u>	<u><u>\$ 3,241,276</u></u>	<u><u>\$ 2,950,128</u></u>	<u><u>\$ 295,951</u></u>	<u><u>\$ 291,148</u></u>

Operating Revenue

LAX derives its operating revenue from several major airports business activities. The following table presents a summary of these business activities during fiscal years 2011, 2010, and 2009:

Summary of Operating Revenue (amounts in thousands)

	FY 2011	FY 2010	FY 2009	FY 2011 increase (decrease)	FY 2010 increase (decrease)
Aviation revenue					
Landing fees, net of reliever fee	\$ 191,307	\$ 169,683	\$ 164,489	\$ 21,624	\$ 5,194
Building rentals	204,525	185,138	185,457	19,387	(319)
Land rentals	87,225	52,555	45,186	34,670	7,369
Other aviation revenue	22,216	11,664	14,342	10,552	(2,678)
Total aviation revenue	505,273	419,040	409,474	86,233	9,566
Concession revenue	263,195	236,911	243,096	26,284	(6,185)
Other operating revenue	3,413	2,956	4,595	457	(1,639)
Total operating revenue	<u>\$ 771,881</u>	<u>\$ 658,907</u>	<u>\$ 657,165</u>	<u>\$ 112,974</u>	<u>\$ 1,742</u>

Operating Revenue, Fiscal Year 2011

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2011 and 2010.



Management's Discussion and Analysis (Unaudited)

June 30, 2011 and 2010

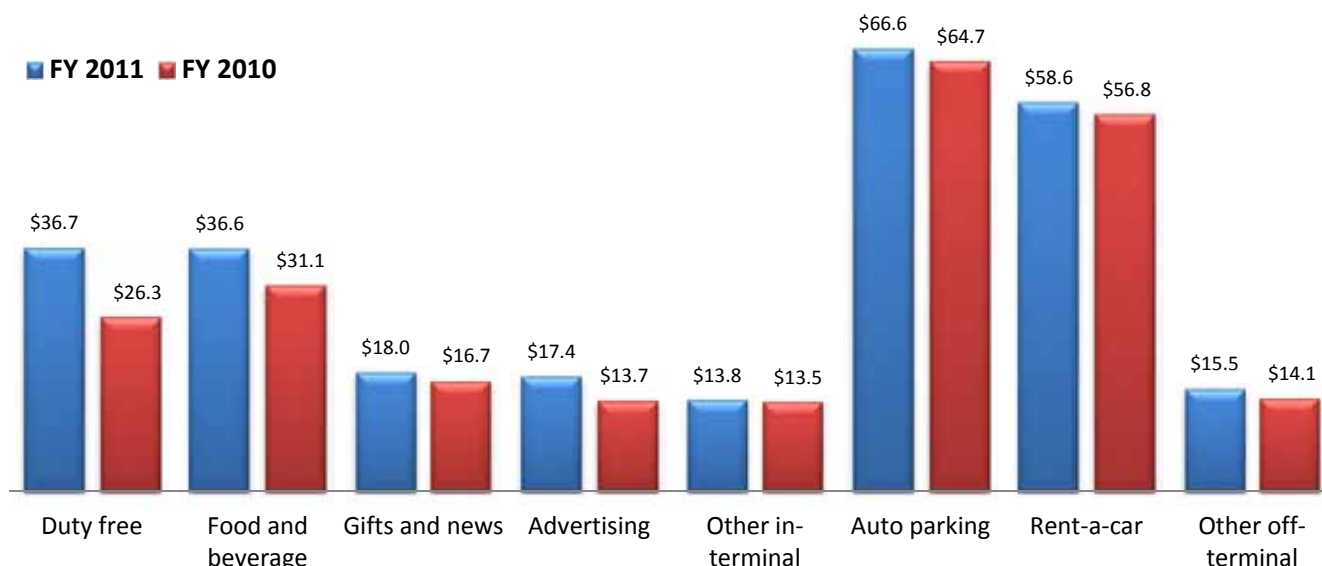
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For the fiscal year ended June 30, 2011, total operating revenue was \$771.9 million, a \$113 million or 17.1% increase from the prior fiscal year. The growth in aviation related revenue was \$86.2 million. Non-aviation revenue grew by \$26.7 million of which \$26.3 million was from concessions.

As described in the Notes to the Financial Statements (see page 34), landing fees assessed air carriers are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

After the year-end adjustment described in the preceding paragraph, revenue from landing fees and building rentals had notable increases in fiscal year 2011 compared to fiscal year 2010. These two aviation-related revenue categories grew by 11% and 10.5%, respectively. Gains in passenger and cargo traffic resulted to an increase in revenue landed weight, in addition, landing rates increased by 8.6% for passenger and 9.6% for cargo. There was no airport reliever fee paid to VNY during the fiscal year. The prior year's airport reliever fee paid to VNY was \$2.6 million. Building rental base rates at the international terminal increased from \$20.01 to \$47.06 per square foot, while at the other terminals base rates increased from 2% to 12%. Revenue from land rentals increased to \$87.2 million in fiscal year 2011 from \$52.6 million in fiscal year 2010 mainly from the 18% to 20% increase in rates. Also, land area leased by American Airlines increased. Increase in terminal use fee was the major factor for the increase in other aviation revenue.

Revenue from concessions was \$263.2 million in fiscal year 2011, an 11.1% growth from fiscal year 2010 figure of \$236.9 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services. Comparative concession revenue by type for fiscal years 2011 and 2010 are presented in the following chart (amounts in millions).



The increase in passenger traffic had a favorable impact on businesses based at the terminals. In-terminal concession revenue during fiscal year 2011 increased by \$21.2 million or 20.9% as compared to fiscal year 2010, with duty free concessions posting the most increase of \$10.4 million. Of the \$21.2 million increase, approximately \$6.8 million was due to increase in the minimum annual guarantee (MAG) and the remainder of \$14.4 million was due to sales over MAG.

Off-terminal concession revenue in fiscal year 2011 was \$140.7 million as compared to \$135.6 million in fiscal year 2010, an increase of \$5.1 million. Of the \$5.1 million, \$1.9 million was from auto parking and another \$1.9 million from rent-a-car (RAC). Increase in sales over MAG for RAC was \$6.8 million but was offset by a \$4.9 million reduction in MAG and other adjustments. MAG for RAC is adjusted annually based on the prior year's activities.

Operating Revenue, Fiscal Year 2010

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2010 and 2009.



For the fiscal year ended June 30, 2010, total operating revenue was \$658.9 million, a \$1.7 million or 0.3% increase from the prior fiscal year. The growth in aviation related revenue of \$9.6 million was offset by the decline in non-aviation revenue particularly concessions, which was down \$6.2 million. Other operating revenue also decreased by \$1.7 million.

Management's Discussion and Analysis (Unaudited)

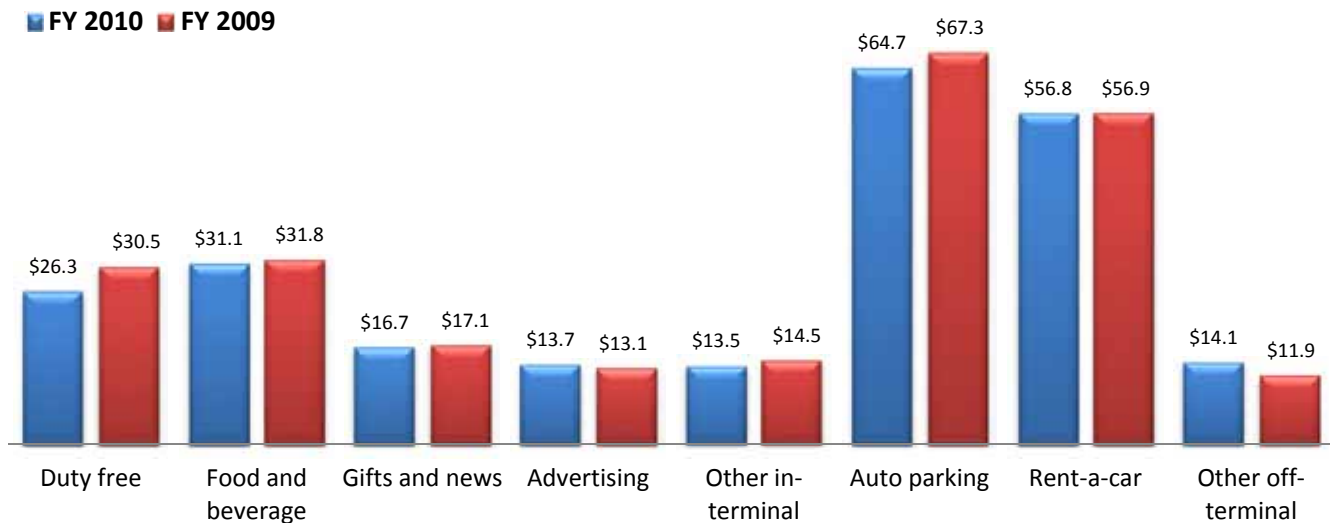
June 30, 2011 and 2010

(continued)

As described in the Notes to the Financial Statements (see page 34), landing fees assessed air carriers are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Gross landing fees for the fiscal years ended June 30, 2010 and 2009 were \$172.3 million and \$171.6 million, respectively. The offsetting airport reliever fees paid to VNY for the respective fiscal years were \$2.6 million and \$7.1 million. Gains in passenger traffic and cargo traffic results to a minimal but encouraging increase in revenue landed weight. The airport reliever fees declined as a consequence of decreased operating costs at VNY. The decrease in other aviation revenue of \$2.7 million was mainly due to decrease in TSA reimbursements for security costs offset by increase in terminal use fee.

Revenue from concessions was \$236.9 million in fiscal year 2010, a 2.5% decline from fiscal year 2009 figure of \$243.1 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services. Comparative concession revenue by type for fiscal years 2010 and 2009 are presented in the following chart (amounts in millions).



In-terminal concession revenue during fiscal year 2010 decreased by \$5.7 million or 5.3% as compared to fiscal year 2009. The decrease was mainly due to credits of approximately \$3.7 million given to the duty free concessionaire that resulted from the reconciliation of prior year's sales. Because of construction activities at the international terminal, minimum annual guarantee (MAG) waiver credits were given to certain food and beverage concessionaires that contributed in the decrease of this revenue category by \$0.7 million. The MAG reduction of \$0.7 million for a telecommunications concessionaire also contributed to the decrease in concession revenue.

Off-terminal concession revenue in fiscal year 2010 was \$135.6 million as compared to \$136.1 million in fiscal year 2009. Auto parking decreased by \$2.6 million but an offsetting increase of \$2.2 million was realized from the fly-away bus service network servicing LAX. Although the fly-away bus service experienced a decrease in ridership, the service fare was increased to help support the related service costs.

Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2011, 2010, and 2009. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

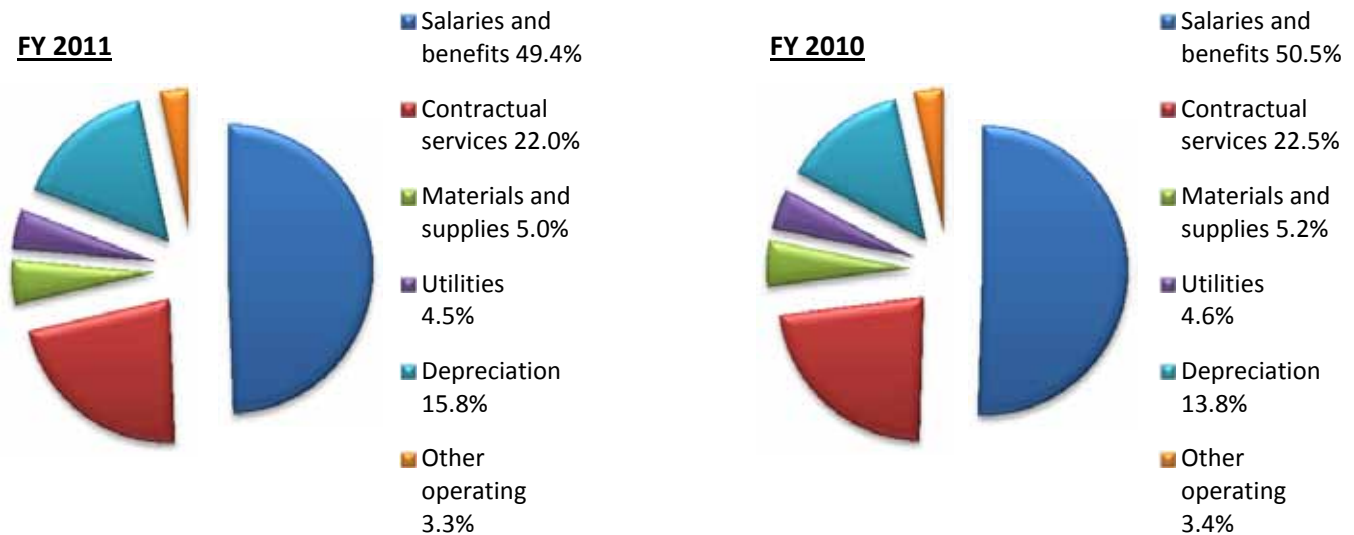
Summary of Operating Expenses (amounts in thousands)

	FY 2011	FY 2010	FY 2009	FY 2011 increase (decrease)	FY 2010 increase (decrease)
Salaries and benefits	\$ 323,522	\$ 317,000	\$ 298,612	\$ 6,522	\$ 18,388
Contractual services	143,684	141,253	148,627	2,431	(7,374)
Materials and supplies	32,699	32,661	38,738	38	(6,077)
Utilities	29,606	28,832	29,018	774	(186)
Other operating expenses	21,712	21,213	20,841	499	372
Operating expenses before depreciation	551,223	540,959	535,836	10,264	5,123
Depreciation	103,300	86,976	86,927	16,324	49
Total operating expenses	654,523	627,935	622,763	26,588	5,172
Less- allocation to ONT, VNY and PMD	9,995	11,407	12,925	(1,412)	(1,518)
Net operating expenses	<u>\$ 644,528</u>	<u>\$ 616,528</u>	<u>\$ 609,838</u>	<u>\$ 28,000</u>	<u>\$ 6,690</u>

Management’s Discussion and Analysis (Unaudited)
June 30, 2011 and 2010
 (continued)

Operating Expenses, Fiscal Year 2011

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2011 and 2010. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

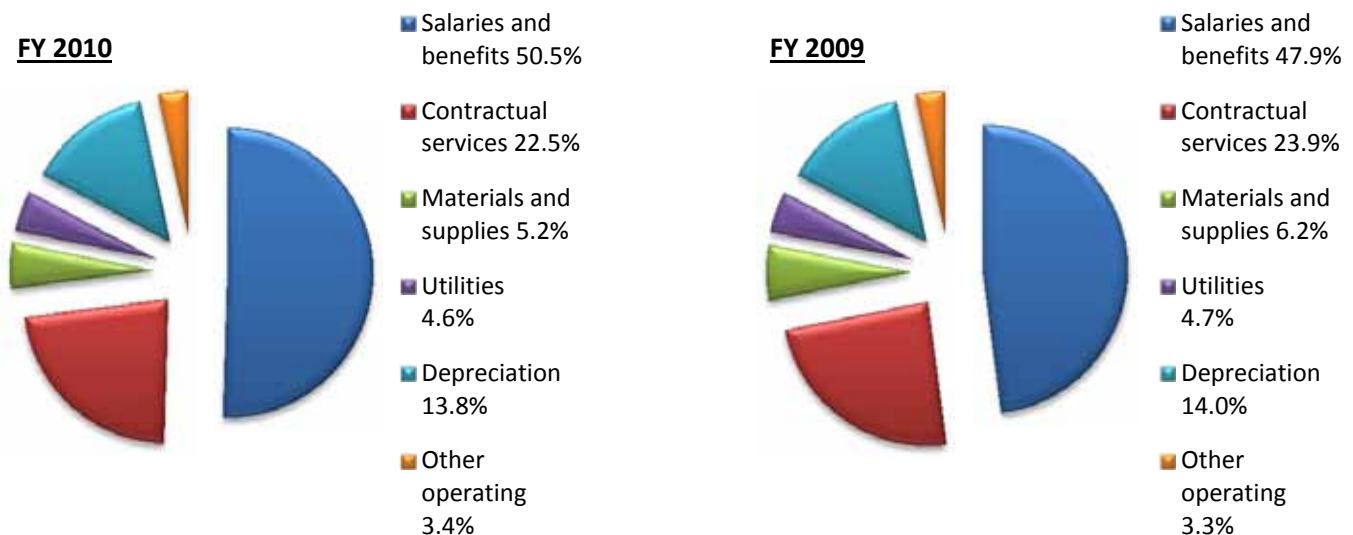


For the fiscal year ended June 30, 2011, operating expenses before allocation to other airports were \$654.5 million, a \$26.6 million or 4.2% increase from the prior fiscal year. Expense categories that posted significant fluctuations were salaries and benefits, up by \$6.5 million; contractual services, up by \$2.4 million; and depreciation, up by \$16.3 million. For salaries and benefits, the major factors for the increase were cost of living adjustment, health care benefits and workers’ compensations costs, retirement contributions, and airport police overtime charges. These upward adjustments totaled \$22.8 million and were offset by a \$16.3 million reduction in accrual for sick leave and early retirement incentive. An adjustment for accrued sick leave was made at the end of fiscal year 2010 to correct underaccruals of the prior years. In addition, early retirement expense was recognized in fiscal year 2010 for the separation payment to employees who participated in the City’s early retirement incentive program. For contractual services, operations contracts had an increase of \$9.7 million while non-capital City services costs had a decrease of \$7.3 million. Depreciation charges increased due to the completion of major construction projects at the terminals and airfield.

Because of the decreases in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also decreased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services.

Operating Expenses, Fiscal Year 2010

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2010 and 2009. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.



For the fiscal year ended June 30, 2010, operating expenses before allocation to other airports were \$627.9 million, a \$5.2 million or 0.8% increase from the prior fiscal year. Expense categories that posted significant fluctuations were salaries and benefits, up by \$18.4 million; contractual services, down by \$7.4 million; and materials and supplies, down by \$6.1 million. The remaining expense accounts, including depreciation, had a net decrease of \$0.3 million. For salaries and benefits, the major factors for the increase were the accruals for employee benefits for sick leave and early retirement incentive. An adjustment for accrued sick leave was made at the end of the fiscal year to correct prior years' underaccruals. In addition, a liability for early retirement was recognized for the separation payment to be paid to LAX employees who qualified and elected to participate in the City's early retirement program. For contractual services, Los Angeles Police Department overtime billings, charges for operations contracts, and costs for environmental consultant services all went down; however, cost for City services went up. A more rigorous budget monitoring was a primary factor in the decrease of expenses for materials and supplies. Depreciation charges were almost at the same level as the previous year's; however, it is expected that in the ensuing years, depreciation expense will increase as major construction projects at the terminals and airfield are completed and put into service.

Because of the decreases in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also decreased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services.

Management's Discussion and Analysis (Unaudited)

June 30, 2011 and 2010

(continued)

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services and producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2011, 2010, and 2009.

Summary of Nonoperating Transactions (amounts in thousands)

	FY 2011	FY 2010	FY 2009	FY 2011 increase (decrease)	FY 2010 increase (decrease)
Nonoperating revenue					
Passenger facility charges	\$ 117,821	\$ 110,961	\$ 103,982	\$ 6,860	\$ 6,979
Customer facility charges	24,250	22,270	22,086	1,980	184
Interest and investment income	29,064	44,005	56,325	(14,941)	(12,320)
Other nonoperating revenue	9,343	19,692	2,306	(10,349)	17,386
	<u>\$ 180,478</u>	<u>\$ 196,928</u>	<u>\$ 184,699</u>	<u>\$ (16,450)</u>	<u>\$ 12,229</u>
Nonoperating expenses					
Interest expense	\$ 78,740	\$ 35,416	\$ 20,483	\$ 43,324	\$ 14,933
Other nonoperating expenses	1,883	922	27,422	961	(26,500)
	<u>\$ 80,623</u>	<u>\$ 36,338</u>	<u>\$ 47,905</u>	<u>\$ 44,285</u>	<u>\$ (11,567)</u>
Federal and other capital grants	<u>\$ 67,939</u>	<u>\$ 80,955</u>	<u>\$ 88,241</u>	<u>\$ (13,016)</u>	<u>\$ (7,286)</u>
Interagency transfers	<u>\$ 804</u>	<u>\$ 7,224</u>	<u>\$ (470)</u>	<u>\$ (6,420)</u>	<u>\$ 7,694</u>

Nonoperating Transactions, Fiscal Year 2011

For fiscal year 2011, the increase of \$6.9 million in passenger facility charges (PFCs) from the prior fiscal year was a reflection of improved passenger traffic. PFCs are imposed on enplaning passengers. Enplanements increased by 4.4% from fiscal year 2010. The increase in customer facility charges followed the trend of rental car concession revenue. The decrease in interest and investment income was reflective of the decline in interest rates. The rates of return of the Treasury Pool reserve and core portfolios for the twelve months ended June 30, 2011 were 2.57% and 0.22%, respectively, down from the prior fiscal year rates of 5.31% and 0.23%, respectively. The decrease in other nonoperating revenue was mainly due to the recognition in FY 2010 of the receivable from the City's General Fund that resulted from an FAA audit. Build America Bonds subsidy, a component of other nonoperating revenue, was \$7.6 million in fiscal year 2011 compared to \$3.1 million in fiscal year 2010. The increase in interest expense was corollary to the additional issuances of revenue bonds to finance capital improvement projects. Eligible expenditures for capital grant related projects were less in fiscal year 2011 as compared to fiscal year 2010.

Nonoperating Transactions, Fiscal Year 2010

For fiscal year 2010, the increase of \$7 million in passenger facility charges (PFCs) from the prior fiscal year represents a 6.7% improvement that resulted from slight but encouraging gains in passenger traffic during the fiscal year. PFCs are imposed on enplaning passengers. Customer facility charges were almost at the same level as the previous year's following similar trend in rental car concession revenue. The decrease in interest and investment income was reflective of the decline in interest rates. The rates of return of the Treasury Pool reserve and core portfolios for the twelve months ended June 30, 2010 were 5.31% and 0.23%, respectively, down from the prior fiscal year rates of 5.87% and 2.22%, respectively. The increase in other nonoperating revenue was mainly due to the recognition of the receivable from the City's General Fund that resulted from an FAA audit.

Issuance of bonded debt caused increases in interest expense and other nonoperating expenses for bond issuance costs. The recognition pollution remediation liabilities that LAX began implementing in fiscal year 2009 and non-capitalizable charges related to a lease termination were the other factors for the \$27.4 million other nonoperating expenses in fiscal year 2009. Eligible expenditures for capital grant related projects were less in fiscal year 2010 as compared to fiscal year 2009.

Long-Term Debt

As of June 30, 2011, LAX's outstanding bonded debt was \$3.55 billion. The increase of \$1.03 billion from the June 30, 2010 balance resulted from the sale of \$1.07 billion revenue bonds less scheduled maturities of \$38.7 million.

As of June 30, 2010, LAX's outstanding bonded debt was \$2.52 billion. The increase of \$1.49 billion from the June 30, 2009 balance resulted from the sale of \$1.62 billion revenue bonds less the refunding of \$37.4 million revenue bonds, scheduled maturities of \$64.9 million, and redemption of \$30.4 million revenue bonds using LAX funds.

As of June 30, 2011 and 2010, LAX had \$501.2 million and \$357.4 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2011, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA for Senior Bonds; AA-, A1, and AA- for Subordinate Bonds, respectively.

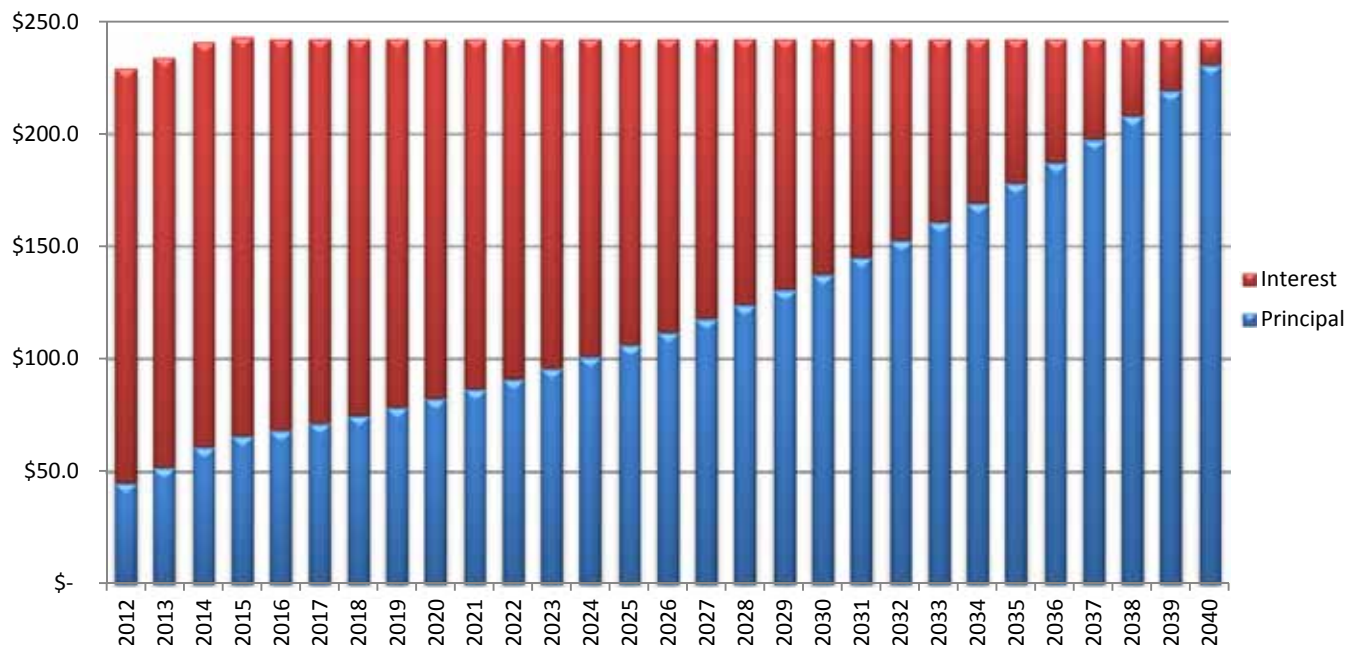
Additional information regarding LAX's bonded debt can be found in Note 6 of the Notes to the Financial Statements beginning on page 43.

Management's Discussion and Analysis (Unaudited)

June 30, 2011 and 2010

(continued)

Outstanding principal, plus scheduled interest as of June 20, 2011, is scheduled to mature as shown in the following chart (amounts in millions).



Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2011 and 2010 were \$3.9 billion and \$3.4 billion, respectively. This investment, which accounts for 51.1% and 54.2% of LAWA's total assets as of June 2011 and 2010, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAWA's policy affecting capital assets can be found in Note 1(f) of the Notes to the Financial Statements on page 33. Additional information can be found on Note 4 on pages 40-41.

Capital Assets, Fiscal Year 2011

Major capital assets activities during fiscal year 2011 were as follows:

- \$314.9 million interior improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- \$35.2 million construction of new north/south crossfield taxiway and apron for overnight parking.

-
- \$33.6 million replacement of Central Utility Plant and cogeneration facilities.
 - \$23.9 million repairs and improvements of elevators and escalators.
 - \$17.4 residential acquisition and soundproofing.
 - \$14.9 million security program-in-line baggage screening.
 - \$14.8 million acquisition of leased facilities.

At June 30, 2011, the amounts committed for capital expenditures were as follows: \$15.8 million for airfield and runways, \$22 million for noise mitigation program, \$88 million for terminals and facilities, and \$4.4 million for miscellaneous projects.

Capital Assets, Fiscal Year 2010

Major capital assets activities during fiscal year 2010 were as follows:

- \$133.6 million interior improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- \$133.3 million construction of new north/south crossfield taxiway and apron for overnight parking.
- \$124.9 million land acquisition.
- \$117 million acquisition of leased facilities.
- \$34.8 million security program-in-line baggage screening.
- \$16.8 million replacement of Central Utility Plant and cogeneration facilities.
- \$16.2 million residential acquisition and soundproofing.

At June 30, 2010, the amounts committed for capital expenditures were as follows: \$36.6 million for airfield and runways, \$31.7 million for noise mitigation program, \$43.5 million for terminals and facilities, and \$3.3 million for miscellaneous projects.

Management’s Discussion and Analysis (Unaudited)
June 30, 2011 and 2010
 (continued)

Landing Fees, Fiscal Year 2012

The airline landing fees for fiscal year 2012, which became effective as of July 1, 2011 are as follows:

<u>Permitted air carriers</u>	<u>Non-permitted air carriers</u>	
\$ 57.00	\$ 71.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
109.00	136.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.57	4.46	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.36	5.45	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

Landing fee rates were based on budgeted operating expenses and revenues. Reconciliation between actual revenues and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Request for Information

This report is designed to provide a general overview of the Los Angeles International Airport’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Wei Chi, Deputy Executive Director- Comptroller, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

FINANCIAL STATEMENTS



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Statements of Net Assets
June 30, 2011 and 2010
 (amounts in thousands)

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	\$ 702,125	\$ 566,993
Investments with fiscal agents	116,310	102,892
Accounts receivable, net of allowance for uncollectible accounts: 2011 - \$905; 2010 - \$385	13,684	18,497
Unbilled receivables	39,394	13,174
Accrued interest receivable	3,055	3,200
Grants receivable	22,374	18,697
Receivable from City General Fund	769	747
Due from other agencies	48,349	47,316
Prepaid expenses	158	1,262
Inventories	1,889	1,670
Total unrestricted current assets	<u>948,107</u>	<u>774,448</u>
Restricted current assets		
Cash and pooled investments held in City Treasury	982,656	877,800
Investments with fiscal agents, includes cash and cash equivalents: 2011 - \$1,533,810; 2010 - \$425,951	1,719,665	727,686
Accrued interest receivable	2,345	2,443
Passenger facility charges receivable	18,410	16,185
Customer facility charges receivable	2,542	2,728
Total restricted current assets	<u>2,725,618</u>	<u>1,626,842</u>
Total current assets	<u>3,673,725</u>	<u>2,401,290</u>
Noncurrent Assets		
Capital assets		
Not depreciated	2,725,030	2,375,797
Depreciated, net	1,200,506	1,034,938
Total capital assets	<u>3,925,536</u>	<u>3,410,735</u>
Other noncurrent assets		
Restricted investments with fiscal agents	54,737	446,859
Receivable from City General Fund, net of current portion	15,449	16,218
Deferred bond issuance costs	22,859	17,051
Total other noncurrent assets	<u>93,045</u>	<u>480,128</u>
Total noncurrent assets	<u>4,018,581</u>	<u>3,890,863</u>
TOTAL ASSETS	<u>\$ 7,692,306</u>	<u>\$ 6,292,153</u>

Statements of Net Assets (continued)
June 30, 2011 and 2010
(amounts in thousands)

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	\$ 113,895	\$ 69,635
Accrued salaries	7,711	5,962
Accrued employee benefits	7,893	8,002
Estimated claims payable	4,331	5,023
Commercial paper	115,012	147,116
Obligations under securities lending transactions	64,729	14,557
Other current liabilities	4,509	91,135
Total current liabilities payable from unrestricted assets	<u>318,080</u>	<u>341,430</u>
Current liabilities payable from restricted assets		
Contracts and accounts payable	2,182	1,376
Current maturities of bonded debt	44,985	38,670
Accrued interest payable	23,096	21,122
Obligations under securities lending transactions	88,473	21,589
Total current liabilities payable from restricted assets	<u>158,736</u>	<u>82,757</u>
Total current liabilities	<u>476,816</u>	<u>424,187</u>
Noncurrent Liabilities		
Bonded debt, net of current portion	3,575,412	2,524,819
Accrued employee benefits, net of current portion	30,395	30,332
Estimated claims payable, net of current portion	44,561	42,854
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	10,013	9,870
Other long-term liabilities	5,099	6,032
Total noncurrent liabilities	<u>3,678,263</u>	<u>2,626,690</u>
TOTAL LIABILITIES	<u>4,155,079</u>	<u>3,050,877</u>
Net Assets		
Invested in capital assets, net of related debt	1,600,882	1,534,174
Restricted for:		
Debt service	478,067	336,264
Passenger facility charges funded projects	660,290	645,130
Customer facility charges funded projects	97,181	71,629
Central utility plant	13,709	13,709
Operations and maintenance reserve	137,684	137,684
Other purposes	565	5,641
Unrestricted	548,849	497,045
TOTAL NET ASSETS	<u>\$ 3,537,227</u>	<u>\$ 3,241,276</u>

See accompanying notes to the financial statements.

Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010
 (amounts in thousands)

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Aviation revenue		
Landing fees	\$ 191,307	\$ 172,287
Reliever airport fee	--	(2,604)
Building rentals	204,525	185,138
Land rentals	87,225	52,555
Other aviation revenue	<u>22,216</u>	<u>11,664</u>
Total aviation revenue	505,273	419,040
Concession revenue	263,195	236,911
Other operating revenue	<u>3,413</u>	<u>2,956</u>
Total operating revenue	<u>771,881</u>	<u>658,907</u>
OPERATING EXPENSES		
Salaries and benefits	323,522	317,000
Contractual services	143,684	141,253
Materials and supplies	32,699	32,661
Utilities	29,606	28,832
Other operating expenses	21,712	21,213
Allocated administrative charges	<u>(9,995)</u>	<u>(11,407)</u>
Total operating expenses before depreciation and amortization	541,228	529,552
Operating income before depreciation and amortization	230,653	129,355
Depreciation and amortization	<u>103,300</u>	<u>86,976</u>
OPERATING INCOME	<u>127,353</u>	<u>42,379</u>
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	117,821	110,961
Customer facility charges	24,250	22,270
Interest and investment income	29,064	44,005
Interest expense	(78,740)	(35,416)
Other nonoperating revenue	9,343	19,692
Other nonoperating expenses	<u>(1,883)</u>	<u>(922)</u>
Total nonoperating revenue, net	<u>99,855</u>	<u>160,590</u>
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	227,208	202,969
Federal and other government grants	67,939	80,955
Inter-agency transfers	<u>804</u>	<u>7,224</u>
CHANGES IN NET ASSETS	295,951	291,148
NET ASSETS, BEGINNING OF YEAR	<u>3,241,276</u>	<u>2,950,128</u>
NET ASSETS, END OF YEAR	<u>\$ 3,537,227</u>	<u>\$ 3,241,276</u>

See accompanying notes to the financial statements.

Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010
 (amounts in thousands)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 751,711	\$ 642,591
Cash received in protest from customers	106	99
Payments to suppliers	(144,770)	(136,592)
Payments for employee salaries and benefits	(321,563)	(292,064)
Payments for City services	(76,881)	(82,760)
Interagency payments, net	8,972	8,803
Net cash provided by operating activities	<u>217,575</u>	<u>140,077</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	8,000	3,207
Inter-agency transfers in (out)	(229)	2,734
Net cash provided by noncapital financing activities	<u>7,771</u>	<u>5,941</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	1,213,845	1,649,548
Principal paid on revenue bonds and commercial paper notes	(185,786)	(64,905)
Interest paid on revenue bonds and commercial paper notes	(162,270)	(66,633)
Revenue bonds and commercial paper notes issuance costs	(6,710)	(12,457)
Interest paid on capital lease	--	(549)
Acquisition and construction of capital assets	(584,341)	(745,819)
Proceeds from passenger facility charges	115,596	112,872
Proceeds from customer facility charges	24,436	21,465
Capital contributed by federal agencies	64,262	62,258
Net cash provided by capital and related financing activities	<u>479,032</u>	<u>955,780</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	31,829	44,430
Cash collateral received under securities lending transactions	117,056	36,146
Proceeds from maturities (purchase) of investments held by fiscal agents	508,002	(704,894)
Net cash provided by (used for) investing activities	<u>656,887</u>	<u>(624,318)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,361,265	477,480
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,973,636</u>	<u>1,496,156</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,334,901</u>	<u>\$ 1,973,636</u>

	<u>2011</u>	<u>2010</u>
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	\$ 702,125	\$ 566,993
Investments with fiscal agents- unrestricted	116,310	102,892
Cash and pooled investments held in City Treasury- restricted	982,656	877,800
Investments with fiscal agents- restricted	<u>1,533,810</u>	<u>425,951</u>
Total cash and cash equivalents	<u>\$ 3,334,901</u>	<u>\$ 1,973,636</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	<u>\$ 127,353</u>	<u>\$ 42,379</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	103,300	86,976
Change in provision for uncollectible accounts	520	76
Other nonoperating revenue, net	362	506
Changes in assets and liabilities		
Accounts receivable	4,293	(12,051)
Unbilled receivables	(26,220)	19,289
Prepaid expenses and inventories	885	2,285
Contracts and accounts payable	2,607	4,560
Accrued salaries	1,749	841
Accrued employee benefits	(46)	20,188
Other liabilities	<u>2,772</u>	<u>(24,972)</u>
Total adjustments	<u>90,222</u>	<u>97,698</u>
Net cash provided by operating activities	<u>\$ 217,575</u>	<u>\$ 140,077</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	\$ 66,058	\$ 22,349
Net proceeds of revenue and refunding bonds deposited with escrow agent to refund or redeem outstanding commercial paper notes and revenue bonds	--	254,292

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

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

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Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Notes to the Financial Statements
June 30, 2011 and 2010

1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA maintains LA/Palmdale Regional Airport (PMD); however, PMD is not currently certificated by the Federal Aviation Administration. All four airports are collectively referred to as the Airport System.

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop, and operate all property, plant, and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated, or controlled by the City; and (c) fix, regulate, and collect rates and charges for the use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The accompanying financial statements present the net assets and changes in net assets and cash flows of LAX. These financial statements are not intended to present the financial position and the results of operations of LAWA or the City, or cash flows of LAWA or the City's enterprise funds.

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each airport in the Airport System. LAX applies all applicable GASB pronouncements as well as private sector pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, unless such FASB pronouncements conflict or contradict GASB pronouncements. LAX has elected not to follow private sector guidance issued after November 30, 1989.

Notes to the Financial Statements

June 30, 2011 and 2010

(continued)

c. Cash, Cash Equivalents, and Investments

LAX's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. LAX's portion of the pool is presented on the statements of net assets as "Cash and Pooled Investments Held in City Treasury." LAX's investments, including its share in the City's investment pool, are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code, the City engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net assets.

LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore reported as cash equivalents.

LAX has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

d. Accounts Receivable and Unbilled Receivable

LAX recognizes revenue in the period earned. Receivables outstanding beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

Unbilled receivable balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal year period might not get processed through the billing system for up to sixty days into the next fiscal year.

e. Inventory

LAX's inventory consists primarily of general office supplies and is recorded at cost on a first-in, first-out basis.

f. Capital Assets

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of \$5,000 for all capital assets other than internally generated computer software where the threshold is \$500,000.

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of such proceeds). Net interest capitalized in fiscal years 2011 and 2010 were \$78.8 million and \$46.8 million, respectively.

Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; landplane ports, 10 to 35 years; equipment, 5 to 20 years; and computer software, 5 to 10 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.

h. Operating and Nonoperating Revenues and Expenses

LAX distinguishes between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with LAX's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.

Notes to the Financial Statements

June 30, 2011 and 2010

(continued)

i. Landing Fees

Landing fee rates are used to determine what fees are to be charged to the airlines each time that a qualified aircraft lands at LAX. These fees are calculated using complex and unique allocation methods of relevant operating costs attributable to operational activities approved by the airlines. LAX applies the “*compensatory method*” in determining landing fees. Under this method, the fee charged for a facility or service is based on costs attributable only to that facility or service. For example, the landing fees charged for using the airfield and apron are based on LAX’s actual costs of operating the airfield and apron. For control purposes, the landing fees are calculated twice each year.

j. Concession Revenue

Concession revenue is generated through LAX concessionaires or tenants who pay monthly fees for using airport facilities to offer their goods and services to the general public and air traveling community. Payments to LAX are based on negotiated agreements with concessionaires to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to concession revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants’ operations report and payment are due to LAX in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when accruals are required for each tenant.

k. Unearned Revenue

Unearned revenue consists of concessionaire rentals and payments received in advance, which will be amortized to revenue on the straight-line basis over the applicable period.

l. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves, and early retirement incentive. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave. The liability for early retirement is recognized for the separation payment to LAX employees who qualified and elected to participate in the City’s Early Retirement Incentive Program.

Accrued employee benefits as of June 30, 2011 and 2010 are as follows (amounts in thousands):

Type of benefit	2011	2010
Accrued vacation leave	\$ 19,389	\$ 18,146
Accrued sick leave	16,799	16,013
Early retirement incentive	2,100	4,175
	\$ 38,288	\$ 38,334

m. Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as capital grant contributions in the statements of revenues, expenses, and changes in net assets.

n. Bond Premiums, Discounts, Deferred Amounts on Refundings, and Issuance Costs

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment are deferred and amortized over the life of the bonds. Bonds payable is reported net of the applicable bond premium or discount and deferred losses on extinguishment. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

o. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2011 and 2010, net assets of \$757.5 million and \$716.8 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAX that are not restricted for any project or other purpose.

Notes to the Financial Statements

June 30, 2011 and 2010

(continued)

p. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes of which both restricted and unrestricted net assets are available, LAX's policy is to apply restricted net assets first.

q. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

r. Reclassifications

Certain reclassifications have been made to fiscal 2010 amounts in order to conform to the fiscal year 2011 presentation.

2. New Accounting Standard

Issued in June 2010, GASB Statement No. 59, "*Financial Instruments Omnibus*," updates and improves the accounting and financial reporting requirements of certain pronouncements covering certain financial instruments. Implementation of this statement is effective fiscal year 2011; however, it has no impact on LAX's financial statements.

3. Cash and Investments

a. Pooled Investments

Pursuant to the California Government Code and the Los Angeles City Council File No. 94-2160, the City Treasurer provides an Annual Statement of Investment Policy (the Policy) to the City Council. The Policy governs the City's pooled investment practices with the following objectives, in order of priority, safety of capital, liquidity, and rate of return. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted under California law.

Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). As of June 30, 2011 and 2010, LAX's share of the Pool was \$1.685 billion and \$1.445 billion, which represent approximately 26% and 23%, respectively. There are no specific investments belonging to LAX. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

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

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

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 90 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. As of June 30, 2011 and 2010, LAX's portions of the cash collateral and the related obligation in the City's program were \$153.2 million and \$36.2 million, respectively. LAX's portions of the securities purchased from the reinvested cash collateral were \$153.2 million and \$36.2 million. Such securities are stated at fair value.

Notes to the Financial Statements
June 30, 2011 and 2010
(continued)

During the fiscal years, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the years. There was no credit risk exposure to the City as of June 30, 2011 and 2010, because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

c. Investments with Fiscal Agents

LAX's investments held by fiscal agents are for the following purposes (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Unrestricted, current		
Commercial paper	\$ 115,094	\$ 718
Revocable trust accounts for lease termination	<u>1,216</u>	<u>102,174</u>
Subtotal	<u>116,310</u>	<u>102,892</u>
Restricted, current and noncurrent		
Bond security funds	501,164	357,385
Construction funds	<u>1,273,238</u>	<u>817,160</u>
Subtotal	<u>1,774,402</u>	<u>1,174,545</u>
Total	<u>\$ 1,890,712</u>	<u>\$ 1,277,437</u>

The revocable trust accounts were established and used by LAX to buy-back rights on certain leased facilities. Such buy-back rights allowed LAX to purchase the leased facilities by retiring third party debt used to finance improvements on such facilities.

The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments.

The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.

The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar investment objectives. At June 30, 2011, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities			
		1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. Treasury notes	\$ 397,145	\$ 49,917	\$ 51,915	\$ 240,576	\$ 54,737
Money market mutual funds	1,377,258	310,000	1,067,258	--	--
Subtotal	1,774,403	\$ 359,917	\$ 1,119,173	\$ 240,576	\$ 54,737
Bank deposit accounts	116,309				
Total	\$ 1,890,712				

At June 30, 2010, the investments with fiscal agents and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities			
		1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. Treasury notes	\$ 554,644	\$ --	\$ --	\$ 107,785	\$ 446,859
U.S. Treasury certificates	237,926	12,636	14,409	210,881	--
Money market mutual funds	483,011	--	483,011	--	--
Subtotal	1,275,581	\$ 12,636	\$ 497,420	\$ 318,666	\$ 446,859
Bank deposit accounts	1,856				
Total	\$ 1,277,437				

Interest Rate Risk. LAX's investments with fiscal agents mature in less than one year except for certain securities that are held in connection with outstanding bonds.

Credit Risk. At June 30, 2011 and 2010, the money market mutual funds were rated AAAM by Standard and Poor's, and Aaa by Moody's. The collateralized investment contract is not rated. In August 2011, Standard and Poor's lowered its long-term credit rating on U.S. government debt from AAA to AA+. This downgrade relates to the credit risk associated with LAX's investments in U.S. Treasury notes held by the fiscal agents.

The bank deposit accounts are covered by Federal depository insurance up to a certain amount. Financial institutions are required under California law to collateralize the uninsured portion of the deposits by pledging government securities or first trust deed mortgage notes. The collateral is held by the pledging institution's trust department and is considered held in LAX's name.

Notes to the Financial Statements
June 30, 2011 and 2010
(continued)

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2011 (amounts in thousands):

	Balance at July 1, 2010	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2011
Capital assets not depreciated					
Land and land clearance	\$ 700,359	\$ --	\$ --	\$ 3,305	\$ 703,664
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	<u>1,625,174</u>	<u>591,534</u>	<u>--</u>	<u>(245,606)</u>	<u>1,971,102</u>
Total capital assets not depreciated	<u>2,375,797</u>	<u>591,534</u>	<u>--</u>	<u>(242,301)</u>	<u>2,725,030</u>
Capital assets depreciated					
Buildings	574,217	--	--	--	574,217
Improvements	1,504,133	20,377	--	240,852	1,765,362
Equipment and vehicles	<u>172,802</u>	<u>6,194</u>	<u>(2,016)</u>	<u>1,449</u>	<u>178,429</u>
Total capital assets depreciated	<u>2,251,152</u>	<u>26,571</u>	<u>(2,016)</u>	<u>242,301</u>	<u>2,518,008</u>
Less accumulated depreciation					
Buildings	(326,714)	(13,268)	--	(10,353)	(350,335)
Improvements	(762,616)	(81,781)	--	10,353	(834,044)
Equipment and vehicles	<u>(126,884)</u>	<u>(8,251)</u>	<u>2,012</u>	<u>--</u>	<u>(133,123)</u>
Total accumulated depreciation	<u>(1,216,214)</u>	<u>(103,300)</u>	<u>2,012</u>	<u>--</u>	<u>(1,317,502)</u>
Capital assets depreciated, net	<u>1,034,938</u>	<u>(76,729)</u>	<u>(4)</u>	<u>242,301</u>	<u>1,200,506</u>
Total capital assets	<u>\$ 3,410,735</u>	<u>\$ 514,805</u>	<u>\$ (4)</u>	<u>\$ --</u>	<u>\$ 3,925,536</u>

LAX had the following activities in capital assets during fiscal year 2010 (amounts in thousands):

	Balance at July 1, 2009	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2010
Capital assets not depreciated					
Land and land clearance	\$ 575,420	\$ 124,939	\$ --	\$ --	\$ 700,359
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	<u>1,223,321</u>	<u>580,090</u>	<u>(13,000)</u>	<u>(165,237)</u>	<u>1,625,174</u>
Total capital assets not depreciated	<u>1,849,005</u>	<u>705,029</u>	<u>(13,000)</u>	<u>(165,237)</u>	<u>2,375,797</u>
Capital assets depreciated					
Buildings	521,839	51,631	--	747	574,217
Improvements	1,081,064	120,853	(48,500)	350,716	1,504,133
Equipment and vehicles	172,267	560	(1,051)	1,026	172,802
Leased property	<u>184,423</u>	<u>--</u>	<u>--</u>	<u>(184,423)</u>	<u>--</u>
Total capital assets depreciated	<u>1,959,593</u>	<u>173,044</u>	<u>(49,551)</u>	<u>168,066</u>	<u>2,251,152</u>
Less accumulated depreciation					
Buildings	(313,926)	(12,788)	--	--	(326,714)
Improvements	(589,514)	(61,017)	--	(112,085)	(762,616)
Equipment and vehicles	(119,314)	(8,621)	1,051	--	(126,884)
Leased property	<u>(104,706)</u>	<u>(4,550)</u>	<u>--</u>	<u>109,256</u>	<u>--</u>
Total accumulated depreciation	<u>(1,127,460)</u>	<u>(86,976)</u>	<u>1,051</u>	<u>(2,829)</u>	<u>(1,216,214)</u>
Capital assets depreciated, net	<u>832,133</u>	<u>86,068</u>	<u>(48,500)</u>	<u>165,237</u>	<u>1,034,938</u>
Total capital assets	<u>\$ 2,681,138</u>	<u>\$ 791,097</u>	<u>\$ (61,500)</u>	<u>\$ --</u>	<u>\$ 3,410,735</u>

Notes to the Financial Statements
June 30, 2011 and 2010
(continued)

5. Commercial Paper

As of June 30, 2011 and 2010, LAX had outstanding commercial paper notes (CP) of \$115 million and \$147.1 million, respectively. The respective average interest rates in effect as of June 30, 2011 and 2010 were 0.2542% and 0.3326%. The CP matures no more than 270 days from the date of issuance. The notes were issued as a means of interim financing for certain capital expenditures.

LAX's \$500 million CP program is supported by an irrevocable transferable direct-pay letter of credit issued by Citibank, and State Street Bank and Trust Company. The letter of credit fee and commitment fee annual rates are 0.12% and 0.10%, respectively. In addition, LAX pays \$350 for each draw under the letter of credit. The letter of credit expires on April 1, 2012.

LAX had the following CP activity for the fiscal years ended June 30, 2011 and 2010 (amounts in thousands):

	Balance			Balance			Balance
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>
Series B	\$ --	\$ 185,000	\$ (185,000)	\$ --	\$ 115,012	\$ --	\$ 115,012
Series C	96,989	50,127	--	147,116	--	(147,116)	--
Total	<u>\$ 96,989</u>	<u>\$ 235,127</u>	<u>\$ (185,000)</u>	<u>\$ 147,116</u>	<u>\$ 115,012</u>	<u>\$ (147,116)</u>	<u>\$ 115,012</u>

6. Bonded Debt

Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City.

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2011 and 2010 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal	
					2011	2010
Issue of 2002, Series A	12/19/02	4.100% - 5.250%	2019	\$ 32,450	\$ 32,450	\$ 32,450
Issue of 2003, Series B	5/07/03	4.000% - 5.000%	2015	103,625	45,690	58,945
Issue of 2008, Series A	8/06/08	3.750% - 5.500%	2038	602,075	561,840	571,690
Issue of 2008, Series B	8/06/08	3.000% - 5.000%	2015	7,875	5,085	6,210
Issue of 2008, Series C	8/06/08	3.000% - 5.250%	2038	243,350	231,570	235,925
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	310,410	306,385	309,420
Issue of 2009, Series C	12/03/09	5.175% - 6.582%	2039	307,350	307,350	307,350
Issue of 2009, Series D	12/03/09	2.500% - 5.000%	2015	31,815	27,410	31,295
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	39,750	34,580	37,745
Issue of 2010, Series A	4/08/10	3.000% - 5.000%	2040	930,155	930,155	930,155
Issue of 2010, Series B	11/04/10	5.000%	2040	134,680	134,680	--
Issue of 2010, Series C	11/04/10	7.053%	2040	59,360	59,360	--
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	875,805	--
Total principal amount				<u>\$ 3,678,700</u>	3,552,360	2,521,185
Unamortized premium					78,094	52,872
Unamortized discount					(8,700)	(9,024)
Unamortized deferred amount on refunding					<u>(1,357)</u>	<u>(1,544)</u>
Net revenue bonds					3,620,397	2,563,489
Less current debt					<u>(44,985)</u>	<u>(38,670)</u>
Net noncurrent debt					<u>\$ 3,575,412</u>	<u>\$ 2,524,819</u>

Notes to the Financial Statements

June 30, 2011 and 2010

(continued)

b. Pledged Revenue

The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. LAX has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that LAX's pledged revenues, as defined, shall be the security and source of payment for the bonds.

LAX has received approval from the Federal Aviation Administration to collect and use passenger facility charges (PFC) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal year 2011, the Board authorized the use of PFC funds not to exceed \$34.5 million for this purpose. Of the \$34.5 million allocation, \$19 million was used for debt service.

The total principal and interest remaining to be paid on the bonds is \$7.012 billion. Principal and interest paid during fiscal year 2011 and the net pledged revenues (as defined and including the \$19 million PFC funds discussed in the preceding paragraph), were \$200.5 million and \$275.3 million, respectively. Principal and interest paid during fiscal year 2010 and the net pledged revenues, as defined, were \$131.5 million and \$152 million, respectively.

c. New Issuances

Fiscal Year 2011

On November 4, 2010, LAX issued the following bonds: \$134.7 million Subordinate Revenue Bonds, 2010 Series B; and \$59.4 million Subordinate Revenue Bonds, 2010 Series C. The premium for these issuances totaled \$2.2 million. The bonds were issued to finance a portion of the costs of certain capital projects including construction of the Bradley West Aprons Project and the Taxilane T Project.

On November 30, 2010, LAX issued \$875.8 million Senior Revenue Bonds, 2010 Series D. The premium for this issue totaled \$26.7 million. The bonds were issued to finance a portion of certain capital projects including construction of certain elements of the Bradley West Terminal Projects and the Central Utility Plant Project.

Fiscal Year 2010

In December 2009, LAX issued the following bonds: \$310.4 million Senior Revenue Bonds, 2009 Series A; \$307.4 million Subordinate Revenue Bonds, 2009 Series C; \$31.8 million Subordinate Revenue Bonds, 2009 Series D; and \$39.8 million Subordinate Refunding Revenue Bonds, 2009 Series E. The premium for these issuances totaled \$11.6 million.

The 2009 Series A, 2009 Series C, and 2009 Series D Bonds were issued to pay and reimburse LAX for certain capital expenditures incurred, and to refund \$85 million Subordinate Commercial Paper Notes issued for such purposes.

Additionally, a portion of the proceeds of the 2009 Series A Bonds were used to purchase \$30.4 million aggregate principal amount of Senior Revenue Bonds, 2008 Series A. This purchase was pursuant to a formal tender solicitation that LAX offered to all of the Series 2008 Senior Bonds (the Tender Bond Candidates) for cash at prices determined pursuant to such formal tender solicitation process. The owners of the Tender Bond Candidates had the opportunity to submit offers for LAX to purchase all or portion of their Tender Bond Candidates. The difference between the cash flows required to service the tendered bonds and the portion of the cash flows debt requirements of the new debt attributable to the tendered bonds was \$3.9 million. This transaction resulted in an \$831 thousand net present value savings and a net loss for accounting purposes of \$605 thousand which was deferred and is being amortized over the life of the new bonds.

The 2009 Series E Bonds were issued to refund \$37.4 million outstanding variable rate Subordinate Revenue Bonds Issue of 2002, Series C1. The purpose of the refunding is to convert the variable rate debt to a fixed rate debt to control costs, such as letter of credit fees, associated with the old debt. This transaction resulted in a net loss for accounting purposes of \$292 thousand which was deferred and is being amortized over the life of the new bonds.

In April 2010, LAX issued \$930.2 million Senior Revenue Bonds, 2010 Series A. The premium for this bond issue was \$36.6 million. The bonds were issued to pay or reimburse LAX for certain capital expenditures incurred including refunding of \$100 million Subordinate Commercial Paper Notes issued for such purposes.

d. Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

<u>Fiscal year(s) ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 44,985	\$ 184,460	\$ 229,445
2013	51,790	182,483	234,273
2014	60,960	180,138	241,098
2015	65,990	177,245	243,235
2016	68,305	174,267	242,572
2017 - 2021	394,515	818,340	1,212,855
2022 - 2026	506,385	706,484	1,212,869
2027 - 2031	655,685	557,174	1,212,859
2032 - 2036	848,215	364,644	1,212,859
2037 - 2040	855,530	114,764	970,294
Total	<u>\$ 3,552,360</u>	<u>\$ 3,459,999</u>	<u>\$ 7,012,359</u>

Notes to the Financial Statements
June 30, 2011 and 2010
(continued)

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activity for the fiscal years ended June 30, 2011 and 2010 (amounts in thousands):

	Balance at <u>July 1, 2010</u>	<u>Additions</u>	<u>Reduction</u>	Balance at <u>June 30, 2011</u>	Current <u>Portion</u>
Revenue bonds	\$ 2,521,185	\$ 1,069,845	\$ (38,670)	\$ 3,552,360	\$ 44,985
Add unamortized premium	52,872	28,988	(3,766)	78,094	--
Less unamortized discount	(9,024)	--	324	(8,700)	--
Less unamortized deferred amount on refunding	<u>(1,544)</u>	<u>--</u>	<u>187</u>	<u>(1,357)</u>	<u>--</u>
Net revenue bonds	2,563,489	1,098,833	(41,925)	3,620,397	44,985
Accrued employee benefits	38,334	7,956	(8,002)	38,288	7,893
Estimated claims payable	47,877	6,038	(5,023)	48,892	4,331
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,870	143	--	10,013	--
Other long-term liabilities	<u>6,032</u>	<u>161</u>	<u>(1,094)</u>	<u>5,099</u>	<u>--</u>
Total long-term liabilities	<u>\$ 2,678,385</u>	<u>\$ 1,113,131</u>	<u>\$ (56,044)</u>	<u>\$ 3,735,472</u>	<u>\$ 57,209</u>

	Balance at <u>July 1, 2009</u>	<u>Additions</u>	<u>Reduction</u>	Balance at <u>June 30, 2010</u>	Current <u>Portion</u>
Revenue bonds	\$ 1,034,395	\$ 1,619,480	\$ (132,690)	\$ 2,521,185	\$ 38,670
Add unamortized premium	6,538	48,202	(1,868)	52,872	--
Less unamortized discount	(9,774)	--	750	(9,024)	--
Less unamortized deferred amount on refunding	<u>(814)</u>	<u>(897)</u>	<u>167</u>	<u>(1,544)</u>	<u>--</u>
Net revenue bonds	1,030,345	1,666,785	(133,641)	2,563,489	38,670
Accrued employee benefits	18,146	23,817	(3,629)	38,334	8,002
Estimated claims payable	46,422	5,672	(4,217)	47,877	5,023
Obligations under capital lease	49,518	--	(49,518)	--	--
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	10,118	--	(248)	9,870	--
Other long-term liabilities	<u>34,501</u>	<u>874</u>	<u>(29,343)</u>	<u>6,032</u>	<u>--</u>
Total long-term liabilities	<u>\$ 1,201,833</u>	<u>\$ 1,697,148</u>	<u>\$ (220,596)</u>	<u>\$ 2,678,385</u>	<u>\$ 51,695</u>

8. Leases

a. Operating Leases

LAX has entered into numerous rental agreements with concessionaires for food and beverage, gift and news, duty-free, rental car facilities, and advertisements. In general, the agreements provide for cancellation on a 30-day notice by either party; however, they are intended to be long-term in nature with renewal options. Accordingly, these agreements are considered operating leases for purposes of financial reporting.

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the years ended June 30, 2011 and 2010, revenues from such agreements were approximately \$187.7 million and \$164 million, respectively. The respective amounts over MAG were \$39 million and \$18.9 million. Minimum future rents under these agreements over the next five years, assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

<u>Fiscal year ending</u>	<u>Amount</u>
2012	\$ 139,152
2013	97,248
2014	50,747
2015	29,586
2016	<u>1,312</u>
Total	<u>\$ 318,045</u>

LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from 35 to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30.

The land and terminal lease agreements are accounted for as operating leases. For the years ended June 30, 2011 and 2010, revenues from these leases were approximately \$291.8 million and \$237.7 million, respectively.

Notes to the Financial Statements
June 30, 2011 and 2010
(continued)

Future rents under these land and terminal lease agreements over the next five years, based on existing rates and assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

<u>Fiscal year ending</u>	<u>Amount</u>
2012	\$ 247,789
2013	230,602
2014	223,760
2015	215,596
2016	209,174
Total	<u><u>\$ 1,126,921</u></u>

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2011 and 2010 are as follows (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Buildings and facilities	\$ 852,585	\$ 625,469
Less- Accumulated depreciation	<u>(387,760)</u>	<u>(361,351)</u>
Net	464,825	264,118
Land	<u>475,977</u>	<u>472,671</u>
Total	<u><u>\$ 940,802</u></u>	<u><u>\$ 736,789</u></u>

In July 2009, LAX purchased a commercial real property being operated as a parking lot. The property of approximately 19.77 acres was purchased for \$124.9 million. LAX assumed existing leases with the current tenants on the property as a condition of the purchase.

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2011 and 2010 were \$4 million and \$3.7 million, respectively.

Future minimum lease payments under the agreements are as follows (amounts in thousands):

<u>Fiscal year(s) ending</u>	<u>Amount</u>
2012	\$ 4,553
2013	4,528
2014	4,528
2015	4,528
2016	4,528
2017 - 2021	18,546
2022 - 2026	8,191
2027 - 2031	8,191
2032	<u>1,638</u>
Total	<u>\$ 59,231</u>

LAX had lease agreements with certain airlines that were classified as capital leases. LAX used rental credits to finance its obligations on capital leases. The rental credits were applied as an offset to amounts owed to LAX by such airlines for terminal leases and landing fees. As part of the settlement agreement between LAX and the airlines, the lease agreements were terminated during fiscal year 2010. LAX exercised its buy-back right relative to the leased facilities. Such buy-back right allowed LAX to purchase the leased facilities by retiring third party debt used to finance improvements on such facilities. See Note 15(e) for additional discussion.

9. Passenger Facility Charges

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. LAX has received approvals from FAA to impose PFCs for various projects. The current PFC is \$4.50.

As previously discussed, LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal year 2011, the Board authorized the use of PFC funds not to exceed \$34.5 million for this purpose. Of the \$34.5 million allocation, \$19 million was used for debt service.

Notes to the Financial Statements
June 30, 2011 and 2010
(continued)

The following project summary has been approved by FAA as of June 30, 2011 (amounts in thousands):

Terminal development	\$ 1,632,304
Noise mitigation	822,539
Airfield development	82,645
Aircraft rescue and firefighting vehicles	<u>975</u>
Total	<u><u>\$ 2,538,463</u></u>

PFCs collected and the related interest earnings through June 30, 2011 and 2010 were as follows (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Amount collected	\$ 1,431,567	\$ 1,316,991
Interest earnings	155,102	142,747
FAA approved transfer to ONT	<u>(126,090)</u>	<u>(126,090)</u>
Total	<u><u>\$ 1,460,579</u></u>	<u><u>\$ 1,333,648</u></u>

As of June 30, 2011 and 2010, cumulative expenditures to date on approved PFC projects, net of the related expenditures on the transfer to ONT, totaled \$799.7 million and \$685.1 million, respectively.

10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charge (CFC) from car rental agencies serving LAX. State law allows airports to collect a fee of \$10 per on-airport rental car agency transaction to fund the development of consolidated car rental facility and common-use transportation system. CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements.

CFCs collected and the related interest earnings through June 30, 2011 and 2010 were as follows (amounts in thousands):

	<u>2011</u>	<u>2010</u>
Amount collected	\$ 93,570	\$ 69,321
Interest earnings	<u>4,932</u>	<u>3,422</u>
Total	<u><u>\$ 98,502</u></u>	<u><u>\$ 72,743</u></u>

As of June 30, 2011 and 2010, cumulative expenditures to date on approved CFC projects totaled \$3 million and \$2.8 million, respectively.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled \$67.9 million and \$81 million in fiscal years 2011 and 2010, respectively. Capital grant funds are used for the Airport Improvement Program and Transportation Security Administration capital projects.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The cost for these services for the years ended June 30, 2011 and 2010 were \$79.6 million and \$89.2 million, of which \$1.5 million and \$5.2 million were capitalized, respectively.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2011 and 2010 were \$6.7 million and \$6.8 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD such as legal, human services, and financial services. In addition, LAX pays reliever airport fee to VNY. Also, beginning fiscal year 2011, LAX pays VNY annual rent of \$1.023 million for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The details are as follows (amounts in thousands):

	<u>FY 2011</u>	<u>FY 2010</u>
Allocated administrative costs		
ONT	\$ 8,129	\$ 8,999
VNY	1,504	2,049
PMD	<u>362</u>	<u>359</u>
Total	9,995	11,407
Reliever airport fee	--	(2,604)
Land rental	<u>(1,023)</u>	<u>--</u>
Net	<u>\$ 8,972</u>	<u>\$ 8,803</u>

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of \$43 million out of approximately \$58 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway. The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling \$17.7 million plus a 3% interest for a total of \$21.3 million.

Notes to the Financial Statements

June 30, 2011 and 2010

(continued)

To effect payment, the installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2011 and 2010, the respective outstanding principal amount of \$15.4 million and \$16.2 million payable beyond one year were reported under Other Noncurrent Assets while the balance of \$0.77 million and \$0.75 million payable within one year were reported under Unrestricted Current Assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer substantive other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration.

The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 360 E. Second Street 2nd Floor, Los Angeles, CA 90012, (213) 473-7200. As a department of the City, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

Pension and other postemployment benefits are established pursuant to City ordinance. 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 more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age. 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 health premium subsidy with City-approved health carrier.

b. Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 24.49% in fiscal year 2011 and 19.43% in fiscal year 2010. The required contribution rates were based on the June 30, 2009 and June 30, 2008 actuarial valuations, respectively. LAWA paid 100% of its annual contributions of which LAX's portions for fiscal years 2011 and 2010 were \$49.2 million and \$40.4 million, respectively.

Plan members' contribution rates for the defined benefit pension plan were 8.22% to 13.33% of their salaries depending on their entry age with City subsidy for members who joined prior to February 1983. The contribution rate for members joining the plan subsequent to January 1983 is 6%. Prior to April 2011, plan members were not required to contribute to the OPEB plan; however, effective April 24, 2011, employees of certain bargaining units were required to contribute 2% of their pay to the OPEB plan and increasing to 4% effective July 1, 2011. The City Administrative Code and related ordinances define member contributions.

c. Net Pension Obligation

The City allocated a portion of its net pension obligation to LAWA based upon its percentage of payroll benefit costs for all City employees. The amounts recorded at June 30, 2011 and 2010 were \$10 million and \$9.9 million, respectively. For administrative purpose, the allocated amounts were presented as part of LAX's liabilities and were not allocated to all four airport agencies.

d. Funded Status of the Plans

The City issues a publicly available financial report that includes complete disclosures and required supplementary information on the funded status of the plans. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

e. Early Retirement Incentive Program

In October 2009, the City adopted an Early Retirement Incentive Program (ERIP) by providing incentives for eligible members of the LACERS. Such incentives are in the form of retirement benefit enhancement and/or separation pay. The ERIP enrollment period started on November 2, 2009 and ended 45 days thereafter. Under terms of the program, an ERIP filer may withdraw his or her enrollment. Eligible ERIP participants shall receive a "separation payment" whereby additional service and/or age credit is added to qualify an employee for an unreduced or standard retirement.

Depending on the length of service credit, ERIP retirees received a separation payment of \$1,000 for each year of service or \$15,000. The separation payment is being paid over two separate calendar years, 2010 and 2011. There were 2,400 ERIP filers Citywide.

Of the Citywide ERIP participants, 209 were LAX employees. At June 30, 2011 and 2010, LAX recorded early retirement liability of \$ 2.1 million and \$4.2 million, respectively. The current portion for each fiscal year was \$2.1 million.

Notes to the Financial Statements

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(continued)

The ERIP resulted in additional actuarial accrued liability for pension benefits and postemployment healthcare benefits of \$300.2 million and \$54.7 million, respectively, with a 15-year amortization period. The ERIP cost obligation shall be borne by members of LACERS and cost-neutral to the City. To this end, the retirement benefits of employees retiring under ERIP were reduced by 1%. In addition, the active employees' retirement contribution rate increased from 6% to 7% beginning July 1, 2011. Once the City has recouped the ERIP cost obligation, the contribution rate shall be adjusted to 6% for all employees who were LACERS members as of the ERIP beginning date. However, the City reserves the right to increase the retirement contribution rate for new hires.

14. Risk Management

The Risk Management Division (RMD) administers LAX's risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAX's ability to meet its business goals and objectives. LAX maintains insurance coverage of \$1.3 billion for general liability and \$1 billion for war and terrorism. Additional insurance coverage is carried for general property for \$1.5 billion, boiler and machinery for \$250 million, and earthquake for \$25 million. Deductibles for these policies are \$10,000 per claim with a \$400,000 annual aggregate for general liability, and \$100,000 per occurrence and annual aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAX also maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2011, 2010, and 2009, no claims were in excess of LAX's insurance coverage.

A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities to be probable of occurring from these lawsuits. The liability for litigation and other claims at June 30, 2011 and 2010 was \$11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 4% yield on investments. LAX's accrued workers' compensation liability at June 30, 2011 and 2010 were \$37.2 million and \$36.2 million, respectively.

The changes in LAX's estimated claims payable are as follows (amounts in thousands):

	June 30		
	2011	2010	2009
Balance at beginning of year	\$ 47,877	\$ 46,422	\$ 40,336
Provision for current year's events and changes in provision for prior years' events	6,038	5,672	9,246
Claims payments	<u>(5,023)</u>	<u>(4,217)</u>	<u>(3,160)</u>
Balance at end of year	<u>\$ 48,892</u>	<u>\$ 47,877</u>	<u>\$ 46,422</u>
Current portion	<u>\$ 4,331</u>	<u>\$ 5,023</u>	<u>\$ 4,217</u>

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were \$136.3 million and \$124.1 million as of June 30, 2011 and 2010, respectively. Significant amounts were committed for the following projects: inspection, testing, and surveying for the center taxiway; in-line baggage screening; runway projects; interior improvements at TBIT; noise mitigation; elevator and escalator system upgrade; central utility plant replacement; and information technology network expansion.

b. LAX Master Plan

The LAX Master Plan was adopted by the Board and approved by the City Council in 2004. It is a broad policy statement regarding the conceptual strategic framework for future improvements at LAX and describes how LAX can accommodate its appropriate share of the region's aviation demand, while balancing those needs with environmental concerns, safety and security, and the concerns of LAX's neighbors.

Settlement agreements were entered into by the City and several entities that filed lawsuits in connection with the LAX Master Plan. Among other things, the agreements require LAX to limit the number of terminal gates; involve the surrounding communities in project planning; provide funding for traffic and noise mitigation and abatement, job training and opportunities, street and street lighting improvements, and air quality and environmental programs; and develop a regional initiative to encourage passenger and cargo activity at other airports. These agreements are conditioned upon FAA's approval of expenditures and use of airport revenues for the specified purposes.

Notes to the Financial Statements

June 30, 2011 and 2010

(continued)

c. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns. Intensified security precautions have been instituted by government agencies, airlines, and airport operators since the September 11, 2001 terrorist attacks. Intelligence reports have indicated that LAX was a target of a terrorist bombing plot as well as a potential terrorist target. LAX is unable to predict: (a) the likelihood of future incidents of terrorism and other airline travel disruptions; (b) the impact of the aforementioned security issues on its operations and revenues; and (c) financial impact to the airlines operating at LAX.

d. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy. As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2011 and 2010 was \$12.8 million. LAX does not expect any recoveries reducing this obligation.

e. Terminal Leases

In January 2007, American Airlines, Continental Airlines, and United Air Lines (the Plaintiffs) filed a complaint in Federal District Court alleging that LAX has imposed new M&O charges in violation of their leases.

In January 2008, the Board approved interim settlement agreements with the Plaintiffs. Thereafter, a joint stipulation for dismissal of the entire action filed by the parties was granted by the Court without prejudice to renew. United Air Lines and Continental Airlines have since settled their claims with LAX relating to this matter. The interim settlement with American Airlines was subsequently extended until December 31, 2010 and the action has not been reinitiated as of November 8, 2011.

In fiscal year 2010, as a result of the settlement agreements, LAX exercised its buy-back rights relative to the facilities under capital lease. Such buy-back rights allowed LAX to purchase the leased facilities by retiring third party bonds used to finance improvement of such facilities. The net difference between the carrying amount of the capital lease obligation and the purchase price of the leased facilities (the cost to retire the debt) of \$39.2 million was recorded as an adjustment of the carrying amount of the leased asset. In addition, the lease termination premium of \$29.1 million was also capitalized.

During fiscal years 2011 and 2010, LAX also purchased certain facilities under operating lease by retiring third party bonds used to finance improvement on such facilities. The purchase price (the cost to retire the debt) on these transactions were \$14.8 million and \$48.7 million, respectively.

Delta Airlines (Delta) filed a complaint in bankruptcy court challenging LAX's increased M&O charges and LAX's right to defease third party bonds issued for leasehold improvements. In January 2008, the Board approved an interim settlement agreement and in May 2008, Delta dismissed the entire case without prejudice to renew. In August 2011, Delta entered into a settlement agreement with LAX that settled all claims relating to this matter.

On September 16, 2011, an Amended and Restated Terminal Facilities Lease and License Agreement (Amended Lease) was executed with Delta. Pursuant to the Amended Lease, Delta will make renovations in Terminal 5. The renovations are estimated to cost \$228.8 million broken down as follows: (a) \$77.8 million completed renovations, (b) \$11.8 million proprietary renovations, and (c) \$139.2 million non-proprietary renovations. LAX has agreed to purchase the completed and non-proprietary renovations with \$25 million partial funding from the TSA. LAX will lease back the improvements to Delta.

f. Terminal Tariff

In February 2007, a number of airlines operating at LAX filed a complaint with the United States Department of Transportation (USDOT). The complaint alleges that terminal rates and charges imposed under the Airport Terminal Tariff unreasonably and unjustly discriminated against these airlines by increasing their rates while other airlines with long-term leases were only partially affected by the new rates. The rental rate issues pertain to LAX's increased maintenance and operations (M&O) charges, and the use of rentable square feet methodology rather than the usable square feet methodology in determining the rates. The matter was heard by an Administrative Law Judge and ultimately a decision largely favoring LAX was made by the USDOT.

The USDOT's decision was subsequently petitioned for review by the involved parties in the D.C. Circuit Court of Appeals (D.C. Circuit). On August 7, 2009, the D.C. Circuit issued its decision in favor of LAX and upheld USDOT's decision that LAX's M&O charges are reasonable and not unjustly discriminatory. The Court also remanded a number of issues to USDOT.

In April 2011, LAX entered into a settlement agreement with Alaska Airlines (Alaska), one of the litigants, settling all of its claims in the litigation. In July 2011, the remaining litigants and LAX filed a joint motion with the USDOT requesting that the proceedings be stayed until December 2011 to allow the parties to continue negotiations.

Notes to the Financial Statements

June 30, 2011 and 2010

(continued)

On June 24, 2011, a Terminal Space Lease and License Agreement (Lease) was executed with Alaska. A key component of the Lease requires Alaska to make renovations in Terminal 6. The renovations are estimated to cost \$271 million broken down as follows: (a) \$161.8 million airline areas renovations, (b) \$77.9 million non-airline areas renovations, (c) \$12.7 million relocation cost, and (d) \$18.6 million proprietary renovations. LAX has agreed to purchase components of the airline areas renovations as they are completed. It is projected that funding of \$17.9 million will be received from the TSA. In addition, LAX exercised its option to purchase the non-airline areas renovations. LAX will lease back the improvements to Alaska and will also reimburse Alaska for the relocation cost through rental credits.

16. Other Matters

City Financial Challenges

Faced with a General Fund budgetary shortfall in the current fiscal year and projected gaps in the subsequent years, the City implemented various measures to attain a balanced budget. Such measures include hiring freeze for civilian positions, implementing an early retirement incentive program, mandating unpaid days off for certain employees, consolidating City departments, leasing of City parking facilities, and eliminating and laying off General Fund positions.

LAWA, as a proprietary department under the City Charter, is vested with the management and control of its assets. The budgetary challenges of the City's General Fund as well as the mitigating measures implemented by the Mayor and City Council do not directly affect LAX's operations. However, auxiliary services provided to LAX by other City departments may be impacted. In addition, the City's budget challenges may have an adverse effect on the trading value of LAX's outstanding and future bond issues.

SUPPLEMENTAL INFORMATION



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Schedule of Passenger Facility Charge Revenues and Expenditures
For the Years Ended June 30, 2011 and 2010
 (amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of June 30, 2009	\$ 1,206,532	\$ 129,147	\$ 1,335,679	\$ 794,603	\$ 541,076
Fiscal year 2009-10 transactions					
Quarter ended September 30, 2009	27,594	2,875	30,469	10,013	20,456
Quarter ended December 31, 2009	27,815	3,486	31,301	2,285	29,016
Quarter ended March 31, 2010	24,623	2,799	27,422	3,293	24,129
Quarter ended June 30, 2010	<u>30,427</u>	<u>4,440</u>	<u>34,867</u>	<u>2,846</u>	<u>32,021</u>
Program to date as of June 30, 2010	1,316,991	142,747	1,459,738	813,040	646,698
Fiscal year 2010-11 transactions					
Quarter ended September 30, 2010	28,830	1,513	30,343	1,567	28,776
Quarter ended December 31, 2010	28,057	1,666	29,723	10,734	18,989
Quarter ended March 31, 2011	25,719	4,563	30,282	78,292	(48,010)
Quarter ended June 30, 2011	<u>31,970</u>	<u>4,613</u>	<u>36,583</u>	<u>24,241</u>	<u>12,342</u>
Unexpended passenger facility charge revenues and interest earned, June 30, 2011	<u>\$ 1,431,567</u>	<u>\$ 155,102</u>	<u>\$ 1,586,669</u>	<u>\$ 927,874</u>	<u>\$ 658,795</u>

See accompanying notes to the schedule of passenger facility charge revenues and expenditures.

Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
June 30, 2011 and 2010

1. General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects.

The current PFC rate is \$4.50. The PFC collection authority approved to date by FAA is \$2.5 billion. The details are as follows (amounts in thousands):

Application number	Charge effective date	Approval of use date	Amount approved for use
96-02-U-00-LAX, closed 6/2/03	03/26/93	05/06/96	\$ 116,371
96-03-C-00-LAX, closed 10/1/08	05/10/96	05/10/96	50,223
97-04-C-02-LAX	11/28/97	11/28/97	610,000
97-04-C-02-LAX	10/31/98	10/31/98	90,000
05-05-C-00-LAX	12/01/05	12/01/05	229,750
05-05-C-01-LAX	12/01/05	12/01/05	468,030
07-06-C-00-LAX	01/01/08	01/01/08	85,000
10-07-C-00-LAX	06/01/12	06/01/12	855,000
11-08-C-00-LAX	03/01/19	03/01/19	34,089
Total			<u>\$ 2,538,463</u>

In May 1996, FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund certain projects at ONT. Accordingly, PFC revenues totaling \$126.1 million collected at LAX were transferred to ONT.

In April 2008, FAA approved LAWA's amendment request that increased application number 05-05-C-01-LAX to \$468 million to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Project.

The general description of the approved projects and the expenditures to date are as follows (amounts in thousands):

Approved projects	Amount approved for collection	Expenditures to date June 30	
		2011	2010
Los Angeles International Airport (LAX)			
ONT- Terminal Development Program	\$ 116,371	\$ 116,371	\$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	--
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	--	--
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	19,000	--
Implementation of IT Security Master Plan	56,573	18,961	16,748
Noise Mitigation - Land Acquisitions	485,000	359,265	348,337
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	20,893	14,599
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	26,787	26,786
Bradley West	855,000	--	--
Lennox Schools Soundproofing Program	34,089	1,215	--
Total	<u>\$ 2,538,463</u>	<u>\$ 927,874</u>	<u>\$ 813,040</u>

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
June 30, 2011 and 2010
(continued)

2. Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (Schedule) represents amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports. The Schedule was prepared using the cash basis of accounting.

3. Excess Project Expenditures

The expenditures of the following project are in excess of authorized amount- LAX– Aircraft Noise Monitoring and Management System. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFC application in which the authority was approved, the public agency may elect to increase the total approved PFC revenue in that application by 15% or less.

Los Angeles City Retirement System Schedules of Funding Progress

Prorated Data for Los Angeles World Airports (Non-GAAP Basis – Unaudited) (dollar amounts in thousands)

Defined Benefit Pension Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2008	\$ 982,000	\$ 1,163,878	\$ 181,878	84%	\$ 205,762	88%
6/30/2009	1,174,324	1,476,463	302,139	80%	222,680	136%
6/30/2010	1,248,131	1,645,405	397,274	76%	237,458	167%

Other Postemployment Benefit Healthcare Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2008	\$ 139,723	\$ 200,601	\$ 60,878	70%	\$ 205,762	30%
6/30/2009	164,603	252,352	87,749	65%	222,680	39%
6/30/2010	186,256	291,832	105,576	64%	237,458	44%

Notes to the Schedules

1. LAWA's portions of the actuarial assets and liabilities were prorated based on covered payroll. Such prorated data is not indicative of the results of an actuarial valuation of LAWA on a stand-alone basis.
2. The multiyear trend information presented above is those of LAWA and is not allocated to LAWA's four airports.

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COMPLIANCE SECTION

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FLIGHT INFORMATION

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BOARDING GATE
GATE 14-16
BOARDING GATE
GATE 17-19



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2011. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of LAX's management. Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit also includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

In our opinion, LAX complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of LAX is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered LAX's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Passenger Facility Charge Program and on Internal Control Over Compliance

(continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Airport Commissioners, LAX management, others within the entity, and the Federal Aviation Administration of the U.S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Los Angeles, California
November 8, 2011

**Los Angeles World Airports
Administrative Offices**
One World Way
Los Angeles, CA 90045
Mailing: PO Box 92216
Los Angeles, CA 90009-2216

Los Angeles International Airport
One World Way
Los Angeles, CA 90045
Mailing: PO Box 92216
Los Angeles, CA 90009-2216

Ontario International Airport
1940 East Moore Way
Room 200
Ontario, CA 91761

Palmdale Regional Airport
Administrative Offices
39516 North 25th Street, East
Palmdale, CA 93550-2158

Van Nuys Airport
16461 Sherman Way, Suite 300
Van Nuys, CA 91406