

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Annual Financial Report

For the Years Ended June 30, 2006 and 2005



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Annual Financial Report
For the Years Ended June 30, 2006 and 2005

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MACIAS GINI & O'CONNELL LLP

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of LAWA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of LAWA as of and for the year ended June 30, 2005, were audited by other auditors whose report dated November 10, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 LAWA'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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAWA as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2006 on our consideration of LAWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2006. 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.

The Management's Discussion and Analysis on pages 3 through 17 and the pension supplementary information on page 40 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on LAWA's financial statements. The combining financial statements on pages 48 through 50 listed in the accompanying table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
October 24, 2006

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Management's Discussion and Analysis

(Unaudited)

June 30, 2006 and 2005

Los Angeles World Airports (LAWA) is an independent and financially 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), Ontario International Airport (ONT), Van Nuys Airport (VNY), and Palmdale Regional Airport (PMD). The information presented in this "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of LAWA's financial statements as of and for the years ended June 30, 2006 and 2005. We encourage readers to consider this information in conjunction with the accompanying financial statements.

The financial statements contained in this report are prepared in accordance with generally accepted accounting principles using the accrual basis of accounting. LAWA applies Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict or contradict GASB pronouncements. LAWA recognizes the financial reporting model set forth in GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and its related GASB pronouncements and interpretations, and hereby presents its financial statements in conformance with such pronouncements.

Financial Highlights of Airport Activities

For fiscal year 2006, LAWA increased its net assets position by 7.0% to \$2.6 billion. The change in net assets of \$172.9 million is 24.5%, or \$34.0 million, greater than the change in net assets for prior fiscal year. This increase was the result of a combination of factors. Capital grant contributions increased by \$60.8 million to \$62.6 million from \$1.8 million, which consisted primarily of increases of \$31.3 million at LAX and \$26.2 million at ONT. Capital grant contributions consists of two categories. Capital grant funds, which were used for projects under the Airport Improvement Program, and receipts from Transportation Security Administration (TSA), which were used for security-related capital reimbursements from the federal government. LAWA's income from operations, excluding depreciation and amortization, was \$73.1 million, representing \$1.2 million, or 2.7%, less than fiscal year 2005. Net nonoperating revenues at LAWA of \$121.1 million decreased \$17.0 million, primarily because of a \$14.5 million decrease in the fair market value of investments.

At June 30, 2006, total assets at LAWA of \$3.4 billion increased \$151.5 million over fiscal year 2005. A \$139.9 million increase, or 8.0%, in buildings, improvements, and equipment to \$1.9 billion caused most of the increase. During fiscal year 2006, there were significant construction in progress (CIP) expenditures made for capital projects currently underway: LAX noise mitigation projects for \$42.6 million; a new Southside airfield at LAX for \$28.8 million; interior improvements at the Tom Bradley International Terminal at LAX for \$17.6 million; in-line baggage screening systems for \$15.5 million; and the reconstruction of Runway 26R ONT for \$32.5 million.

LAWA depends primarily on passenger traffic to generate the majority of its aviation and related revenue. During fiscal year 2006, passenger traffic at LAWA increased slightly by 0.3 million, or 0.5%, over fiscal year 2005 levels to 68.6 million. During fiscal year 2005, passenger traffic at LAWA increased by 3.5 million, or 5.4%, over fiscal year 2004 levels to 68.3 million. Although passenger traffic has been slowly returning and operating revenues are anticipated to continue to recover, security expenses associated with the post-September 11th operating environment are anticipated to remain at increased levels for an indefinite period of time. The long-term results of this restructuring, however, remain unknown.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2006 and 2005

Financial Highlights of Airport Activities (continued)

LAWA continues to invest in the residential sound insulation program. Funding for this program, in which noise mitigation features impact affected homes, comes primarily from Passenger Facility Charges (PFC), which are collected from enplaned passengers at LAWA. As of June 30, 2006 and 2005, the PFC collection rate is \$4.50 per airline ticket at LAX and \$3.00 at ONT. At the end of fiscal year 2006, cumulative PFC collections were \$1.1 billion, which consists of \$964.4 million in collections and \$108.3 million in interest. At the end of fiscal year 2005, cumulative PFC collections amounted to \$945.1 million, of which \$845.4 million were collections while \$99.7 million was interest.

Income from Operations

Fiscal Year 2006 Compared to 2005. For the year ended June 30, 2006, LAWA had a \$10.8 million loss from operations, net of depreciation and amortization, which is \$9.8 million greater than the prior fiscal year's loss from operations of \$1.0 million. Aviation revenues of \$376.4 million increased \$34.4 million, or 10.1%, and concession revenues grew by \$11.7 million, or 5.1%, to \$239.9 million. Partly offsetting this revenue improvement was growth in the two major operating expense categories: salaries and benefits and contractual services. Salaries and benefits of \$275.0 million increased \$37.4 million, or 15.8%, while contractual services of \$172.5 million grew by \$15.9 million, or 10.2%.

Fiscal Year 2005 Compared to 2004. For the year ended June 30, 2005, LAWA had a loss from operations – including depreciation and amortization – of \$1.0 million, which is \$11.0 million, or 110.2%, lower than the prior fiscal year's income from operations of \$9.9 million. Contributing to this decrease was growth in operating and administrative expenses of \$39.4 million, or 8.6%, ending the year at \$499.1 million as compared to \$459.7 million for the prior fiscal year. The most substantial component of growth in operating expenses came from salaries and benefits with a 12.4% increase, or \$26.2 million, to \$237.6 million. Also, contractual services of \$156.6 million represent an increase of \$13.8 million, or 9.7%, over the prior fiscal year.

Changes in Net Assets

Fiscal Year 2006 Compared to 2005. The change in net assets for the year ended June 30, 2006 is \$172.9 million, which is 24.5%, or \$34.0 million, higher than the prior fiscal year results of \$138.9 million. Contributing significantly to this increase is a \$60.8 million increase in capital grant contributions to \$62.6 million.

During fiscal year 2006, net nonoperating revenues of \$121.1 million were \$17.0 million, or 12.3%, below the prior fiscal year results of \$138.1 million.

Fiscal Year 2005 Compared to 2004. The change in net assets for the year ended June 30, 2005 is \$138.9 million, which is 13.3%, or \$16.3 million, higher than the prior fiscal year results of \$122.5 million. Contributing to this increase is a \$28.8 million, or 21.6%, increase in nonoperating revenues to \$162.3 million. Nonoperating expenses declined by \$4.3 million, or 15%, to \$24.2 million. Income before capital grant contributions was \$137.1 million, which is \$22.1 million, or 19.2%, higher than the \$114.9 million earned in the previous fiscal year.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2006 and 2005

Net Asset Summary

Net assets serve as an indicator of LAWA's financial position. As of June 30, 2006, LAWA's assets exceed liabilities by \$2.6 billion for an increase of \$172.9 million, or 7.0%, over June 30, 2005. As of June 30, 2005, LAWA's assets exceed liabilities by \$2.5 billion for an increase of \$138.9 million, or 6.0%, over June 30, 2004.

A summary of LAWA's net assets for fiscal years (FY) 2006, 2005, and 2004 is shown below (in thousands):

Summary Statement of Net Assets

(Dollars in thousands)

Assets:	FY2006	FY2005	FY2004
Current assets	\$ 629,052	\$ 670,497	\$ 620,600
Restricted assets	705,584	634,227	657,841
Capital assets, net	2,034,536	1,912,508	1,791,753
Deferred bond issuance expenses	3,947	4,371	4,731
Total assets	<u>3,373,119</u>	<u>3,221,603</u>	<u>3,074,925</u>
Liabilities:			
Current liabilities payable from			
unrestricted assets	78,495	88,122	73,556
Current liabilities payable from restricted			
assets	229,441	232,864	212,279
Long-term liabilities	431,281	439,607	466,930
Total liabilities	<u>739,217</u>	<u>760,593</u>	<u>752,765</u>
Net assets:			
Invested in capital assets, net of related debt	1,637,147	1,489,630	1,362,032
Restricted:			
Capital projects	16,040	16,288	16,160
Debt service	35,472	36,069	36,979
Special purpose	439,963	267,802	294,143
Unrestricted	505,280	651,221	612,846
Total net assets	<u>\$ 2,633,902</u>	<u>\$ 2,461,010</u>	<u>\$ 2,322,160</u>

Current Assets

Fiscal Year 2006 Compared to 2005. For fiscal year 2006, LAWA's current assets decreased by \$41.4 million, or 6.2%, largely due to a \$45.6 million, or 7.5%, decrease in cash and pooled investments held by the City Treasurer to \$566.1 million. The primary reason for the cash and pooled investments decline is that net cash provided by operating activities declined by \$66.4 million to \$71.5 million. Although LAWA's receipts from customers increased by \$20.6 million, or 3.6% to \$618.3 million, the gain was offset by increases in payments for goods and services and payments to employees of \$51.4 million, or 23.1%, and \$31.3 million, or 13.2%, respectively.

LOS ANGELES WORLD AIRPORTS
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Management's Discussion and Analysis (Continued)
(Unaudited)
June 30, 2006 and 2005

Current Assets (continued)

Fiscal Year 2005 Compared to 2004. For fiscal year 2005, LAWA's current assets increased by \$49.9 million, or 8.0%, largely due to an increase in cash and pooled investments held by the City Treasurer of \$79.8 million to \$611.7 million. A growth of \$85.2 million, or 16.6%, in receipts from customers of \$597.7 million caused the increase in cash. However, there was a decline in unbilled receivables of \$18.2 million, or 42.7%, to \$24.4 million and, federal grants receivable declined by \$6.4 million. A decrease in net accounts receivable of \$6.6 million, or 20.6%, to \$25.3 million also offsets the growth in current assets.

Restricted Assets

Fiscal Year 2006 Compared to 2005. Restricted assets of \$705.6 million increased by \$71.4 million, or 11.3%, resulting from growth in the portion of investable cash and pooled investments held by the City Treasurer (excluding securities lending collateral and fair value adjustment) of \$71.8 million, or 17.2%, to \$487.9 million. A \$17.8 million increase in the reserve for market valuation partially counterbalanced the growth. Additionally, PFC receivables increased \$5.3 million, or 33.4% to \$21.0 million.

Fiscal Year 2005 Compared to 2004. At the end of fiscal year 2005, restricted assets of \$634.2 million declined by \$23.6 million, or 3.6%, from the prior fiscal year. The main reason for this decline is a \$17.3 million decline in the portion of investable cash and pooled investments held by the City Treasurer of \$416.1 million. In addition, \$6.4 million in federal grants receivable were recorded in fiscal year 2004, when no such funds were recorded in fiscal year 2005.

Capital Assets

Fiscal Year 2006 Compared to 2005. Net capital assets at LAWA of \$2.0 billion reflect an increase of \$122.0 million, or 6.4%, due primarily to a \$139.9 million increase in buildings, improvements, and equipment and a \$63.4 million increase in construction work in process. Significant capital expenditures were made for LAX noise mitigation projects, the new Southside airfield at LAX, interior improvements at the Tom Bradley International Terminal at LAX, and in-line baggage screening systems. Most of the growth was offset by the increase in accumulated depreciation of \$83.9 million, or 8.6%, to \$1.1 billion.

The table on the following page lists fiscal year 2006 expenditures of major capital improvement projects. Commitments for the major capital projects listed on this table are included in the total commitment amount of \$50.9 million, as shown in footnote 10 (c) of the accompanying notes to the financial statements.

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 Management's Discussion and Analysis (Continued)
 (Unaudited)
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Capital Assets (continued)

MAJOR CAPITAL EXPENDITURES		
FISCAL YEAR 2006		
(Dollars in millions)		
<u>Project Name</u>	<u>Expenditure</u>	<u>Purpose</u>
LAX		
Tom Bradley International Terminal	\$17.6	Interior improvements and security upgrades.
Noise Mitigation	42.6	Residential acquisition and soundproofing.
Security Program	16.7	Perimeter/cargo upgrades, passenger checkpoint modifications.
In-Line Baggage Screening	15.5	Screening of check-in baggage prior to passenger boarding.
Southside Airfield Improvement	28.8	Move southern-most runway 50 feet to allow greater distance between aircraft.
Total	<u>\$121.2</u>	
ONT		
Runway 26R	\$32.5	Reconstruction of the runway.
In-Line Baggage Screening	1.3	Screening of check-in baggage prior to passenger boarding.
Total	<u>\$33.8</u>	
VNY		
Flyaway Bus Terminal	\$3.1	Upgrade terminal that shuttles passengers between VNY and LAX airports.
Other Capital Expenditures	<u>\$31.1</u>	
LAWA TOTAL	<u><u>\$189.2</u></u>	

Fiscal Year 2005 Compared to 2004. Net capital assets at LAWA of \$1.9 billion reflect an increase of \$120.8 million, or 6.7%, due primarily to a \$118.4 million increase in the acquisition of residential property. Significant capital expenditures were also made for security capital projects of \$26.2 million, the Flyaway Bus Terminal of \$19.6 million, and noise mitigation of \$22.0 million. Noise mitigation expenditures are deferred when paid, and then amortized over five-years. Most of the growth was offset by the increase in accumulated depreciation of \$76.2 million, or 8.4%, to \$981.6 million.

Total Liabilities

Fiscal Year 2006 Compared to 2005. At June 30, 2006, total liabilities of \$739.2 million decreased by \$21.4 million, or 2.8%. The factors contributing to this decrease are decreases in both current and long-term liabilities.

LOS ANGELES WORLD AIRPORTS
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Management's Discussion and Analysis (Continued)
(Unaudited)
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Total Liabilities (continued)

Current liabilities payable from unrestricted assets decreased by \$9.6 million, or 10.9%, due to the retirement of \$15.5 million in commercial paper notes and a \$3.1 million decrease in the current portion of employee benefits. Changes in the procedures used to prepay LAWA's contribution to retirement benefits is the reason for the decline in employee benefit liabilities. During fiscal year 2006, LAWA was required to prepay its contribution, while it was not required to do so in fiscal year 2005. The procedural change caused this reduction to fiscal year 2006. Partly offsetting these decreases was a \$10.2 million, or 21.2% increase in contracts and accounts payable to \$58.6 million. Current liabilities payable from restricted assets also decreased by \$3.4 million, or 1.5%, consisting of a \$9.4 million retirement of bonded debt and a \$5.9 million decrease in contracts and accounts payable. These decreases were partially offset by a \$12.0 million, or 7.2%, increase in obligations under securities lending transactions.

Long-term liabilities of \$431.3 million decreased by \$8.3 million, or 1.9%, due primarily to a \$14.6 million transfer of the current portion of the bonded indebtedness to end the fiscal year at \$322.6 million. LAWA's bonds are rated periodically by the three major credit agencies: Standard & Poor's, Moody's, and Fitch. For LAX, the ratings at June 30, 2006 are AA, Aa3, and AA, respectively. For ONT, the ratings are A, A2, and A, respectively. For both LAX and ONT, the ratings have not changed from the prior fiscal year. The decrease in long-term liabilities was offset by a \$7.5 million, or 33.0%, increase in employee benefits and insurance claims to \$30.2 million.

Fiscal Year 2005 Compared to 2004. At June 30, 2005, current liabilities payable from unrestricted assets increased by \$14.6 million, or 19.8%, due largely to an increase in year-end accounting adjustments to fixed asset accruals, which are the result of payment date timing differences at fiscal year-end. Contracts and accounts payable increased \$11.7 million, or 31.8%, to \$48.3 million. Current liabilities payable from restricted assets increased by \$20.6 million, or 9.7%. This increase is the result of an increase of \$19.3 million in contracts and accounts payable accruals at year-end and a \$3.2 million increase in obligations under the City's securities lending program.

Long-term liabilities of \$439.6 million decreased by \$27.3 million, or 5.9%, due primarily to a \$23.9 million decrease in the current portion of the bonded indebtedness to end the fiscal year at \$337.2 million.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
 Management's Discussion and Analysis (Continued)
 (Unaudited)
 June 30, 2006 and 2005

Highlights of Changes in Net Assets

The following table illustrates a condensed summary of changes in net assets for FY 2006, 2005, and 2004:

Summary Statement of Changes in Net Assets
 (Dollars in thousands)

	FY2006	FY2005	FY2004
Operating revenue	\$ 620,699	\$ 574,233	\$ 545,567
Operating expenses excluding depreciation and amortization	(547,529)	(499,057)	(459,647)
Income from operations before depreciation and amortization	73,170	75,176	85,920
Depreciation and amortization	(83,945)	(76,189)	(75,973)
Operating (loss) income	(10,775)	(1,013)	9,947
Other nonoperating revenue, net	121,077	138,065	104,985
Income before capital grant contributions	110,302	137,052	114,932
Capital grant contributions	62,590	1,798	7,593
Change in net assets	172,892	138,850	122,525
Net assets at beginning of year	2,461,010	2,322,160	2,199,635
Net assets at end of year	<u>\$ 2,633,902</u>	<u>\$ 2,461,010</u>	<u>\$ 2,322,160</u>

Passengers

Fiscal Year 2006 Compared to 2005. When compared to the previous year, total passengers at LAWA increased by approximately 0.5%, or 349,000 in fiscal year 2006 to 68.6 million annual passengers. Slight passenger growth was seen at LAWA's two major airports, LAX and ONT. LAX passengers grew by about 171,000, or 0.3% to 61.4 million, while ONT passengers grew by about 179,000, or 2.6% to 7.2 million. Offsetting this growth was a 1,000 decline in passengers at PMD to 1,800.

Fiscal Year 2005 Compared to 2004. When compared to the previous year, total passengers at LAWA increased by approximately 5.4% in fiscal year 2005 to 68.3 million annual passengers. Immediately after September 11th, LAWA experienced a significant reduction in passenger traffic that extended through the second quarter of fiscal year 2002. Passenger traffic levels began to recover during the last half of fiscal year 2002 and have continued to slowly regain during fiscal year 2005. Prior to the significant fluctuations experienced during fiscal year 2002, passenger traffic levels had remained relatively flat for several years due to the downturn in the local as well as the national economy. Future restructuring of the airlines industry could materially affect passenger traffic levels at LAWA.

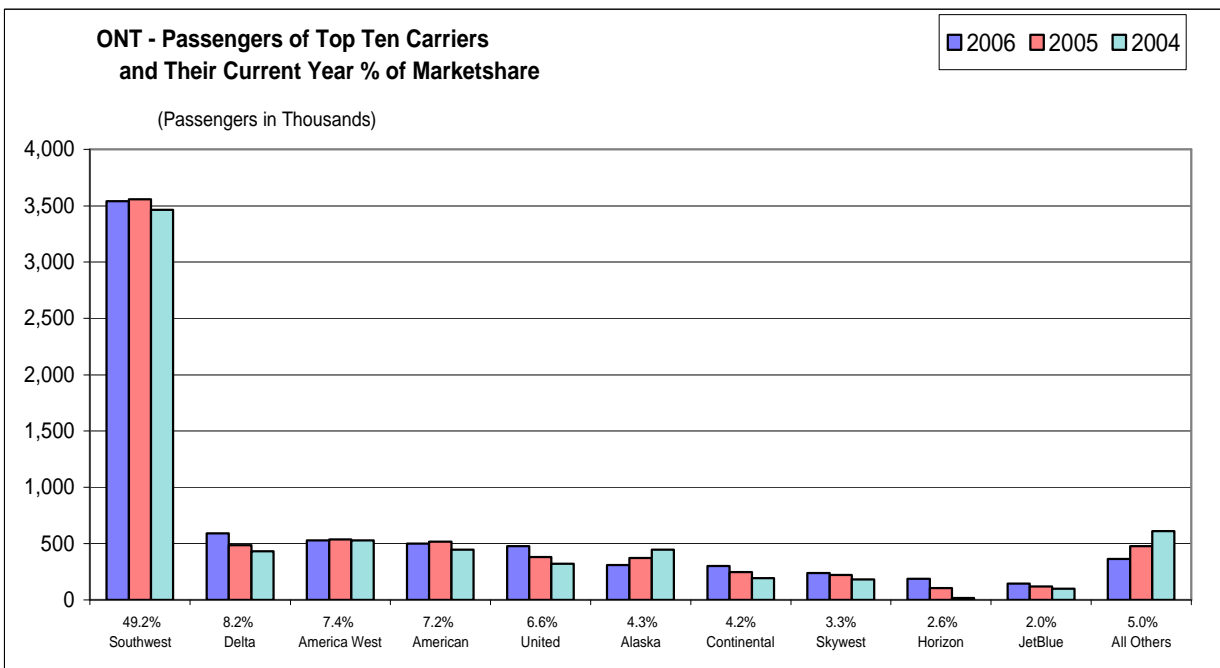
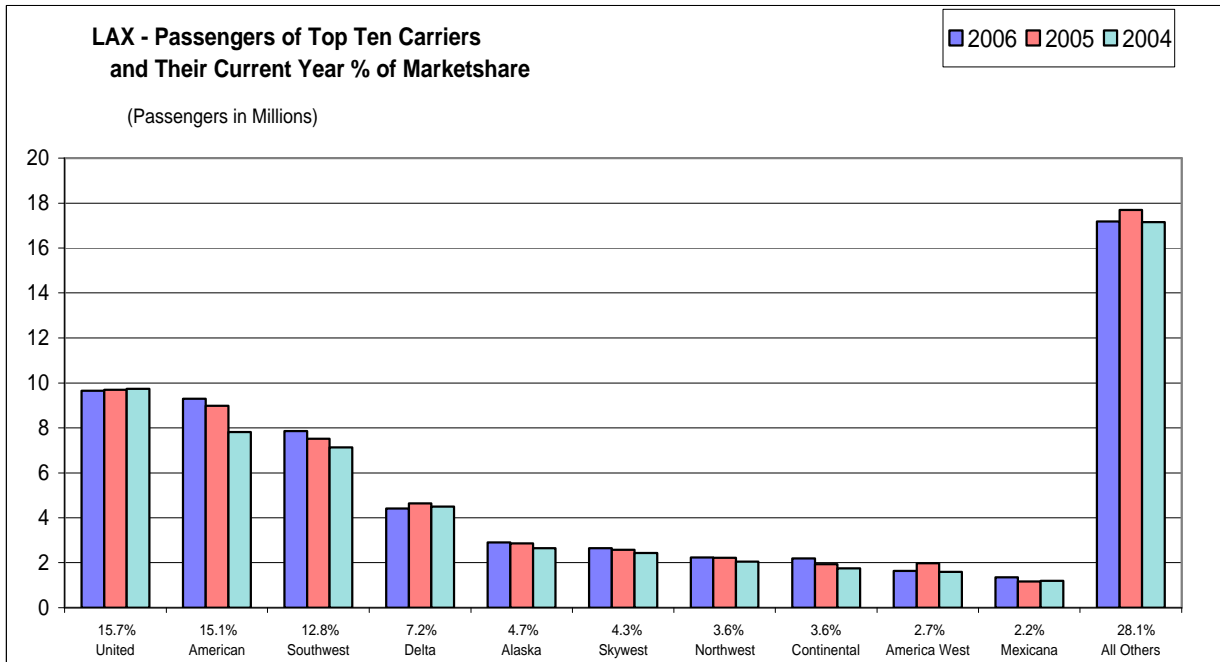
LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)

Management's Discussion and Analysis (Continued)
 (Unaudited)

June 30, 2006 and 2005

Passengers (continued)

The following charts illustrate the top ten airlines at LAX and ONT by number of passengers for FY2006, FY2005, and FY2004:



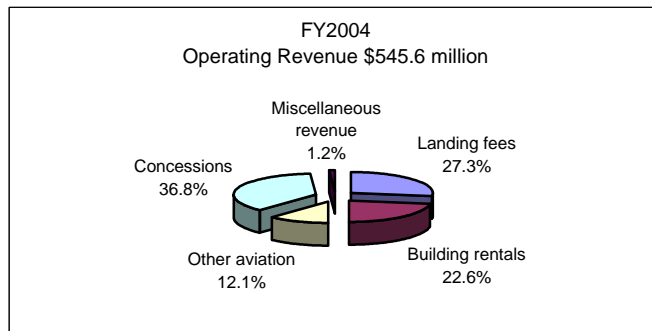
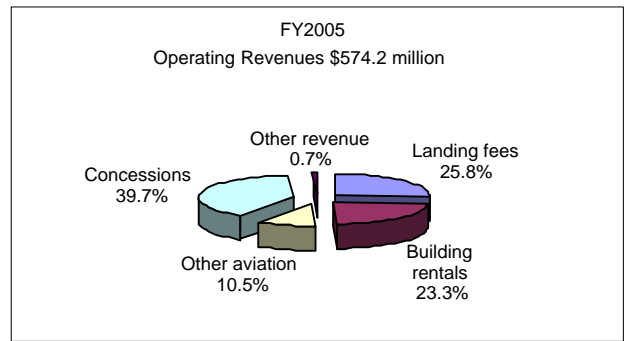
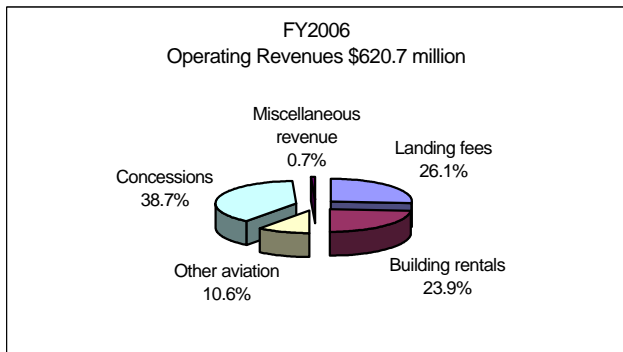
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Operating Revenues

LAWA derives its operating revenues from several major airport business activities. The following table illustrates a comparative summary of the major operating revenue categories in FY 2006, 2005, and 2004:

	FY2006	FY2005	FY2004
Landing fees	\$ 162,037	\$ 147,990	\$ 149,176
Building rentals	148,320	133,635	123,163
Other aviation revenue	66,024	60,336	66,108
Concession revenue	239,936	228,230	200,789
Airport sales and services	2,463	2,575	2,655
Miscellaneous revenue	1,919	1,467	3,676
Total operating revenue	<u>\$ 620,699</u>	<u>\$ 574,233</u>	<u>\$ 545,567</u>

The following charts illustrate the distribution of the major sources of operating revenues for fiscal years 2006, 2005, and 2004:



LOS ANGELES WORLD AIRPORTS
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Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2006 and 2005

Operating Revenues (continued)

Fiscal Year 2006 Compared to 2005. During fiscal year 2006, total operating revenue increased by \$47.4 million, or 8.3%, to \$620.7 million, due primarily to increased activity in two categories of aviation revenues: building revenues and landing fees. LAX contributed to LAWA's \$14.7 million increase in building rentals by growing \$18.1 million, or 17.9%, to \$119.3 million. The growth in building rentals at LAX was due to an increase in rental rates. Offsetting the LAX increase was a decline in building revenues at ONT by \$4.8 million, or 16.0% to \$25.2 million.

And finally, LAWA's landing fees of \$162.0 million reflect a growth of \$14.0 million, or 9.5%. LAX contributed substantially to this increase by growing \$12.0 million, or 9.0%, to \$146.0 million. This growth is due to its landing rate per thousand pounds of maximum gross landed weight increasing by 5.6% to \$2.84 due primarily to increases in airfield maintenance operating expenses.

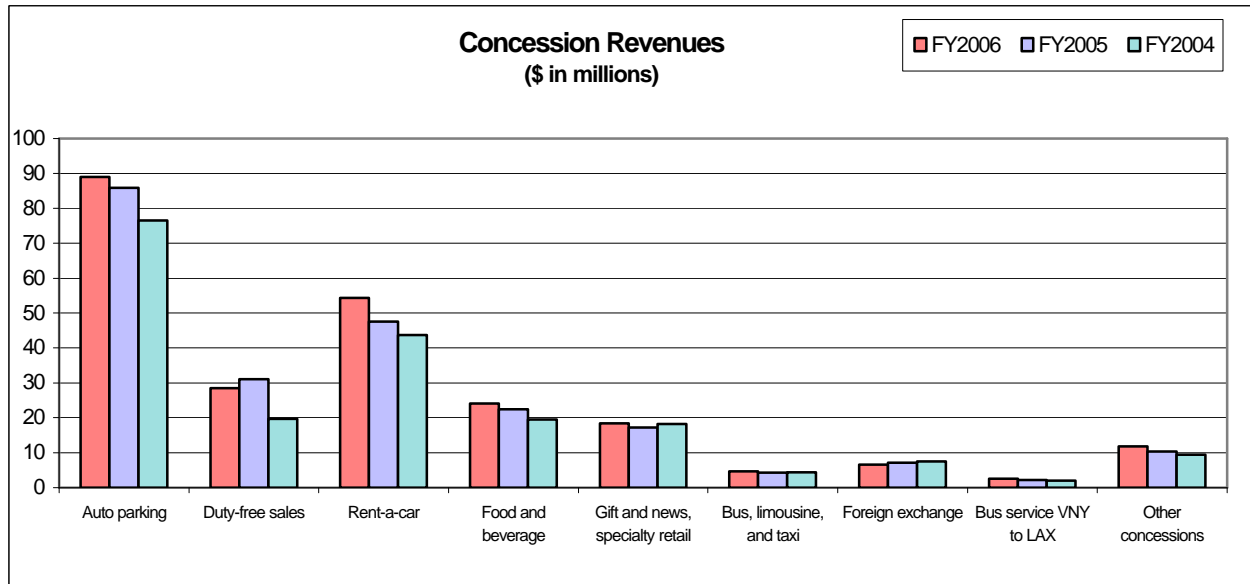
Fiscal Year 2005 Compared to 2004. During fiscal year 2005, total operating revenue increased by \$27.7 million, or 5.1%, to \$573.2 million, due primarily to increased activity over fiscal year 2004 in concession revenues. The general increase in passenger traffic at the airports contributed to this concession revenue increase, which was \$27.4 million, or 13.7%, to \$228.2 million. Almost every category of concession business increased. Duty free sales led the way by increasing \$11.4 million, or 58.2%, to \$31.1 million and auto parking increased by \$9.3 million, or 12.1%, to \$85.8 million. In addition, there were smaller increases of more than \$3.0 million each in rent-a-car revenues, luggage carts, as well as food and beverage. A \$1.5 million decrease in gift and news offset the increases in concession revenue.

Aviation revenues increased \$2.5 million, or 1.0%, to \$341.0 million, primarily because of increases in building and land rentals. Negotiated building rental revenue grew by \$10.5 million, or 8.5%, to \$133.6 million. Land rentals increased \$3.0 million, or 5.9%, to \$54.8 million. However, there was a \$6.8 million decline in other aviation revenue.

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 Management's Discussion and Analysis (Continued)
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Operating Revenues (continued)

The following chart illustrates the categories of concession revenues by type for FY2006, 2005, and 2004:



The table on the following page shows that concession revenues per enplanement has steadily increased at both LAX and ONT from 2004 through 2006. Between fiscal year 2004 to 2005, enplanements at LAX grew 5.3%, while growth in concession revenues per enplanement was 7.8%. At fiscal year 2006, enplanements at LAX were 0.5% over 2005, while concession revenues per enplanement grew 2.7%. At ONT, enplanements in 2005 were 2.8% over 2004, and concession revenues per enplanement increased 11.0% over the same period. ONT enplanements in 2006 were 1.5% above 2005, while concession revenues per enplanement grew 14.0%. This table indicates that passengers were spending more money at LAX and ONT concessions.

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 (Unaudited)
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Operating Revenues (continued)

LOS ANGELES WORLD AIRPORTS CONCESSION REVENUES PER ENPLANEMENT FOR FISCAL YEARS 2006, 2005, AND 2004			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Los Angeles International Airport</u>			
Enplanements	28,777,160	28,639,329	27,190,026
Concession Revenues Per Enplanement	\$6.97	\$6.79	\$6.30
<u>Ontario International Airport</u>			
Enplanements	3,424,025	3,374,445	3,283,726
Concession Revenues Per Enplanement	\$11.02	\$9.67	\$8.71

Operating Expenses

The following table illustrates a comparative summary of operating expenses in FY2006, 2005, and 2004:

Summary of Operating Expenses
 (Dollars in thousands)

	<u>FY2006</u>	<u>FY2005</u>	<u>FY2004</u>
Salaries and benefits	\$ 275,031	\$ 237,588	\$ 211,373
Contractual services	172,510	156,576	142,736
Administrative expenses	2,103	4,057	3,412
Utilities	28,282	29,023	24,173
Materials and supplies	41,261	45,967	43,127
Advertising and public relations	10,493	9,613	7,199
Other operating expenses	17,849	16,233	27,627
Total operating expenses before depreciation and amortization	<u>547,529</u>	<u>499,057</u>	<u>459,647</u>
Depreciation and amortization	83,945	76,189	75,973
Total operating expenses	<u>\$ 631,474</u>	<u>\$ 575,246</u>	<u>\$ 535,620</u>

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
Management's Discussion and Analysis (Continued)
(Unaudited)
June 30, 2006 and 2005

Operating Expenses (continued)

Fiscal Year 2006 Compared to 2005. For fiscal year 2006, LAWA's operating expenses before depreciation increased by \$48.5 million, or 9.7%, over fiscal year 2005 to \$547.5 million. The expense category showing the largest increase is LAWA's salaries and benefits of \$275.0 million, which grew \$37.4 million, or 15.8%, over the previous fiscal year. This growth stems from two factors. Salaries of \$205.0 million grew \$17.8 million, or 9.5%, to \$205.0 million. Also, retirement contributions increased \$18.8 million, or 71.4%, to \$45.1 million. Both of these factors are the result of a 138, or 4.1%, increase in full-time equivalent staff to 3,481, annual salary increases, and retro-active pay for certain employee groups. Also of note is contractual services expense, which grew by \$15.9 million, or 10.2%, due mainly to increases in security services of \$16.4 million and information technology services for \$4.5 million, partially offset by reduction in legal services for \$2.4 million and environmental and engineering consulting services of \$3.7 million.

Incremental security costs are associated with post-September 11th security measures. Virtually each expense category is represented in these costs, which grew \$16.0 million, or 30.0%, above the prior year to \$71.3 million. In view of heightened security measures that have significantly impacted all areas of the travel and cargo handling industry, the complex business of running a major airport system more safely and securely, while effectively managing related costs, continues to be of paramount importance to LAWA.

Fiscal Year 2005 Compared to 2004. For fiscal year 2005, LAWA's operating expenses before depreciation increased by \$39.4 million, or 8.6%, over fiscal year 2004 to \$499.1 million. The expense category showing the largest increase is LAWA's salaries and benefits, which grew \$26.2 million, or 12.4%, over the previous fiscal year. There are several reasons for these increases. First, salaries grew \$4.3 million, or 2.7%, to \$164.1 million due to a 227, or 7.3%, increase in full-time equivalent staff to 3,343. Second, retirement contributions increased \$9.4 million, or 55.6%, to \$26.3 million. Additionally, City contributions to its health subsidy increased \$5.3 million. Finally, contractual services expense grew by \$13.8 million, or 9.7%, due mainly to increased security costs at LAWA from the City of Los Angeles, added surveillance equipment, and other third-party sources. Incremental security costs amounted to \$58.2 million, which is \$8.0 million, or 15.9%, more than fiscal year 2004. A decrease of \$11.4 million, or 41.2%, in other operating expenses, stems primarily from an \$11.6 million reduction in FAA/FAR Program costs.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)

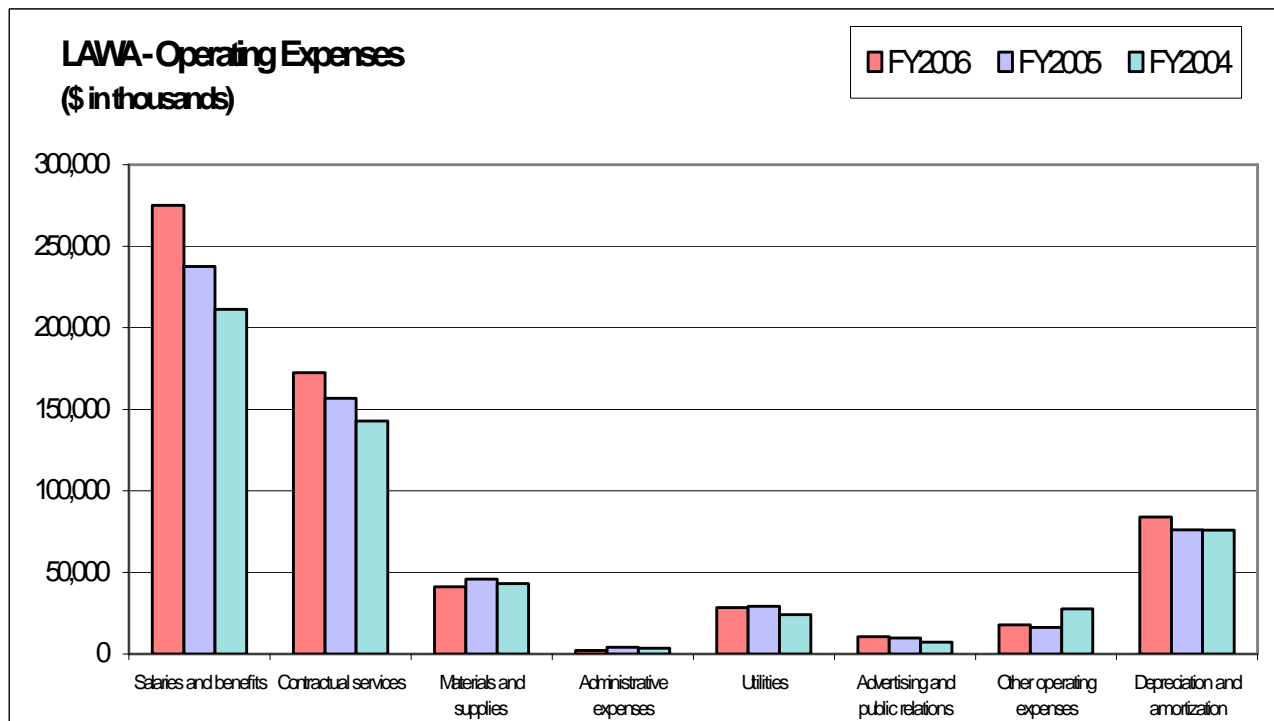
Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2006 and 2005

Operating Expenses (continued)

The following chart illustrates comparative growth in LAWA's operating expenses by category for fiscal years 2006, 2005, and 2004:



Nonoperating Revenue and Expenses

Nonoperating revenue and expense consist of transactions that are not normally associated with ongoing operations of LAWA, but can be significant to the total change in net assets for the fiscal year. A substantial impact comes from collecting FAA-approved Passenger Facilities Charges (PFC), payment of debt-related interest, and receipt of interest from the investment of cash.

Fiscal Year 2006 Compared to 2005. For fiscal year 2006, LAWA recorded a decrease in net nonoperating revenues of \$17.0 million to \$121.1 million, compared to \$138.1 million for the prior fiscal period due to a decrease in nonoperating revenues and a slight increase in nonoperating expenses. Fiscal year 2006 gross nonoperating revenues of \$147.0 million represented a \$15.3 million, or 9.4% decrease from fiscal year 2005. The reason for this decrease was a \$14.5 million decline in the fair value of LAWA's pooled investments. PFC revenue, which accounted for \$124.2 million of LAWA's \$147.0 million in nonoperating revenue, increased by \$1.9 million, or 1.6%, from the prior fiscal year amount of \$122.3 million. This small increase over the prior fiscal year is merely the result of a very slight growth – 0.5% – in LAWA passenger traffic. Interest income grew by \$6.0 million, or 18.3%, to \$39.2 million.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2006 and 2005

Nonoperating Revenue and Expenses (continued)

Gross nonoperating expenses increased by \$1.6 million, or 6.8%, to \$25.9 million. A number of factors contributed to the increase. Interest expense of \$18.9 million was \$5.0 million less than the prior fiscal year because of the advanced refunding of bonds. Counterbalancing this decline was a \$4.8 million write-off of construction costs incurred in prior periods for abandoned projects and a \$1.4 million increase in litigation expense.

Fiscal Year 2005 Compared to 2004. For fiscal year 2005, LAWA recorded net nonoperating revenues of \$138.1 million, compared to \$105.0 million for the prior fiscal period. Of the total amount recorded, \$122.3 million came from PFC revenue, which is an increase of \$6.3 million, or 5.4%, from the prior fiscal year amount of \$116.0 million. Additionally, during fiscal year 2005, the fair value of LAWA's investments increased by \$14.9 million. Other improvements in the current fiscal year include an increase in the gain on sale of securities of \$2.9 million and a decrease in interest expense of \$2.1 million.

Income before Capital Grant Contributions

Fiscal Year 2006 Compared to 2005. Income before capital grant contributions was \$110.3 million for fiscal year 2006, which is 19.5%, or \$26.8 million, below the prior fiscal year amount of \$137.1 million. During fiscal year 2006, LAWA received grant contributions for approved capital grant projects in the amount of \$62.6 million, which is a substantial increase over the prior year's \$1.8 million. TSA capital reimbursements, which are an important component of capital grants, of \$23.4 million grew by \$21.7 million to \$22.4 million at LAX, and by \$3.6 million to \$3.9 million at ONT. The resulting change in net assets was \$172.9 million, reflecting an increase of \$34.0 million, or 24.5%, over the prior fiscal year change amount of \$138.9 million. Net assets increased by 7.0% to \$2.6 billion at end of fiscal year 2006.

Fiscal Year 2005 Compared to 2004. Income before capital grants is \$137.1 million for fiscal year 2005, 19.2% above the prior fiscal year amount of \$114.9 million. During fiscal year 2005, LAWA received \$1.8 million in grant contributions for approved capital grant projects. However, \$7.6 million was recorded in fiscal year 2004 for capital grants reflecting a \$5.8 million, or 76.3%, decrease below the year ended June 30, 2004. LAWA had a change in net assets of \$138.9 million. This is an increase of \$16.3 million, or 13.3%, over the prior fiscal year amount of \$122.5 million. Net assets increased by 6.0% to \$2.5 billion as a result of this change.

Additional Information

As of the date of the auditors' report, there did not exist any known facts, decisions, or conditions that are expected to have a significant effect on LAWA's financial statements.

Further information on the results of LAWA is provided in the accompanying audited financial statements and notes thereto for the years ended June 30, 2006 and 2005. This financial report is designed to provide LAWA and its customers, investors, and creditors with a general overview of LAWA's financial condition and to present information about the money that it receives and spends for the fiscal years reported. If you have questions about this report or need additional financial information, please contact the Los Angeles World Airports Financial Reporting Division at 7301 World Way West, 6th Floor, Los Angeles, California 90045. Also, you may find historical and other useful information regarding LAWA and the other LAWA airports from our website at www.lawa.org.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
 Statements of Net Assets
 June 30, 2006 and 2005
 (Dollars in thousands)

	2006	2005
ASSETS		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 566,107	\$ 611,717
Accounts receivable, net of allowance for uncollectible accounts of \$4,063 and \$4,236 in 2006 and 2005, respectively	25,131	25,347
Unbilled receivables	27,228	24,449
Accrued interest receivable	7,330	6,354
Prepaid expenses and inventories	3,256	2,630
Total current assets	629,052	670,497
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	642,826	576,859
Investments with fiscal agents (Note 3)	37,190	37,948
Accrued interest receivable	4,602	3,704
Passenger facility charges receivable (Note 12)	20,966	15,716
Total restricted assets	705,584	634,227
Capital assets (Note 4):		
Land, land clearance, and air easements	732,643	729,981
Buildings, improvements, and equipment	1,896,023	1,756,132
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(1,065,538)	(981,593)
Construction work in process	286,985	223,565
Net capital assets	2,034,536	1,912,508
Deferred bond issuance expense	3,947	4,371
Total noncurrent assets	2,744,067	2,551,106
Total assets	\$ 3,373,119	\$ 3,221,603

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
 Statements of Net Assets (Continued)
 June 30, 2006 and 2005
 (Dollars in thousands)

	2006	2005
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Contracts and accounts payable	\$ 58,560	\$ 48,326
Employee benefits and insurance claims payable (Notes 6 and 9)	7,481	10,543
Salaries payable	4,495	2,976
Commercial paper notes payable (Note 5)	-	15,500
Current obligations under capital leases (Notes 6 and 11)	1,026	912
Deferred revenue (Note 6)	50	50
Other liabilities (Note 6)	6,883	9,815
Current liabilities payable from unrestricted assets	78,495	88,122
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions (Note 3)	179,986	167,953
Bonds payable, plus net deferred charges and credits of \$717 and \$804 in 2006 and 2005, respectively (Note 5)	15,332	24,689
Contracts and accounts payable	32,277	38,216
Accrued bond interest payable	1,846	2,006
Current liabilities payable from restricted assets	229,441	232,864
Total current liabilities	307,936	320,986
Long-term liabilities:		
Bonds payable, plus net deferred charges and credits of \$6,621 and \$7,228 in 2006 and 2005, respectively (Note 5)	329,176	344,398
Obligations under capital leases - less current portion (Notes 6 and 11)	51,855	52,881
Employee benefits and insurance claims payable (Notes 6 and 9)	30,246	22,741
Deferred revenue (Note 6)	1,171	1,221
Other liabilities (Note 6)	18,833	18,366
Total long-term liabilities	431,281	439,607
Total liabilities	739,217	760,593
Net assets:		
Invested in capital assets, net of related debt	1,637,147	1,489,630
Restricted:		
Capital projects	16,040	16,288
Debt service	35,472	36,069
Special purpose	439,963	267,802
Unrestricted	505,280	651,221
Total net assets	\$ 2,633,902	\$ 2,461,010

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
Operating revenue:		
Aviation revenue:		
Landing fees	\$ 162,037	\$ 147,990
Building rentals	148,320	133,635
Other aviation revenue	66,024	60,336
Concession revenue	239,936	228,230
Airports sales and services	2,463	2,575
Miscellaneous revenue	1,919	1,467
Total operating revenue	620,699	574,233
Operating expenses:		
Salaries and benefits	275,031	237,588
Contractual services	172,510	156,576
Material and supplies	41,261	45,967
Administrative expense	2,103	4,057
Utilities	28,282	29,023
Advertising and public relations	10,493	9,613
Other operating expenses	17,849	16,233
Total operating expenses before depreciation and amortization	547,529	499,057
Income from operations before depreciation and amortization	73,170	75,176
Depreciation and amortization	(83,945)	(76,189)
Operating loss	(10,775)	(1,013)
Nonoperating revenue (expenses):		
Passenger facility charges (Note 12)	124,223	122,283
Interest income	39,150	33,103
Change in fair value of investments	(17,847)	(3,376)
Interest expense	(18,861)	(23,847)
Bond expense	(423)	(361)
Gain on sale of securities	217	3,867
Other nonoperating expenses	(6,600)	(29)
Other nonoperating revenue	1,218	6,425
Total nonoperating revenue, net	121,077	138,065
Income before capital grants	110,302	137,052
Capital grant contributions (Note 13)	62,590	1,798
Change in net assets	172,892	138,850
Net assets, beginning of year	2,461,010	2,322,160
Net assets, end of year	\$ 2,633,902	\$ 2,461,010

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
 Statements of Cash Flows
 For the Years Ended June 30, 2006 and 2005
 (Dollars in thousands)

	2006	2005
Cash flows from operating activities:		
Receipts from customers	\$ 618,309	\$ 597,668
Payments for goods and services	(273,811)	(222,432)
Payments to employees	(269,069)	(237,788)
Other (payments) receipts from operating activities	(3,898)	450
Net cash provided by operating activities	71,531	137,898
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(205,973)	(196,944)
Receipts from passenger facility charges	118,973	122,626
Principal paid on bonds	(23,885)	(24,886)
Interest paid on bonds	(17,913)	(24,385)
Bond payment liability returned as escheated funds	467	-
Principal paid on capital leases	(912)	(855)
Interest paid on capital leases	(1,802)	(1,212)
Commercial paper and issuance costs paid	(15,500)	-
Cash transferred to fiscal agent	758	1,845
Federal grants received	62,590	12,551
Net cash used in capital and related financing activities	(83,197)	(111,260)
Cash flows from investing activities:		
Decrease in fair value of pooled investments	(17,503)	(3,376)
Investment income received	37,493	35,866
Securities lending cash collateral received	12,033	3,237
Net cash provided by investing activities	32,023	35,727
Net increase in cash and cash equivalents	20,357	62,365
Cash and cash equivalents, beginning of year	1,188,576	1,126,211
Cash and cash equivalents, end of year	\$ 1,208,933	\$ 1,188,576
The following is a reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and pooled investments held by the City		
Treasurer - Unrestricted	\$ 566,107	\$ 611,717
Cash and pooled investments held by the City		
Treasurer - Restricted	642,826	576,859
Total	\$ 1,208,933	\$ 1,188,576

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
 Statements of Cash Flows (Continued)
 For the Years Ended June 30, 2006 and 2005
 (Dollars in thousands)

	2006	2005
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating loss	\$ (10,775)	\$ (1,013)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	83,945	76,189
Change in provision for uncollectible accounts	(173)	1,323
Other revenues (expenses), net	(5,725)	6,409
Changes in assets and liabilities:		
Accounts receivable	389	5,262
Unbilled receivables	(2,779)	18,173
Prepaid expenses and inventories	(626)	(513)
Contracts and accounts payable	4,295	30,951
Employee benefits and insurance claims payable	4,443	(1,298)
Salaries payable	1,519	1,099
Deferred revenue	(50)	(50)
Other liabilities	(2,932)	1,366
Total adjustments	82,306	138,911
Net cash provided by operating activities	\$ 71,531	\$ 137,898

Schedule of noncash investing, capital and financing activities:

- LAWA acquired \$27,820 of capital assets by incurring outstanding payables as of June 30, 2006.

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements
June 30, 2006 and 2005

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The financial statements of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 Los Angeles International Airport (LAX), Ontario International Airport (Ontario), Van Nuys Airport and Palmdale Regional Airport (collectively, 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 use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The financial statements presented herein represent the financial position and changes in financial position and cash flows of LAWA only and are not intended to present fairly the financial position, changes in financial position, or cash flows of the City in conformity with GAAP.

(b) Basis of Accounting

LAWA is reported as an enterprise fund and maintains its records on the accrual basis of accounting. 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. Only the funds of LAWA are included in the reporting entity. Bonds issued by LAWA are payable solely from revenues of LAWA and are not general obligations of the City. LAWA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

(c) Cash and Pooled Investments

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAWA's outstanding

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(c) Cash and Pooled Investments (continued)

bonds. In order to maximize investment return, LAWA pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAWA's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost. The calculation of realized gains (losses) is independent of the calculation of the net increase (decrease) in the fair value of investments.

Interest income arising from such cash and pooled investments is apportioned to LAWA based on the relationship of LAWA's respective daily cash balances to aggregate cash and pooled investments.

(d) Accounts Receivable and Unbilled Receivables

LAWA recognizes revenue in the period earned. Receivables aged 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 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 period might not get processed through the billing system for up to sixty days into the next fiscal year.

(e) Contracts Payable, Accounts Payable and Other Liabilities

All transactions for goods and services obtained by LAWA from City-approved contractors and vendors get 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, then an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAWA makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities. Reserves for claims and litigation are recorded as other long-term liabilities.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(f) *Securities Lending*

The City Treasurer engages in securities lending activities. LAWA's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the accompanying financial statements (see Note 3).

(g) *Investments with Fiscal Agents*

LAWA has funds that are held by fiscal agents and pledged to the payment or security of the 1995, 1996, 2002, and 2003 bonds (see Note 3).

(h) *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.

(i) *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. Such cost includes, where appropriate, interest capitalized as part of the cost of construction of capital assets. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAWA has a capitalization threshold of \$5,000 for all capital assets.

(j) *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 either LAX or ONT. These fees are calculated using complex and unique allocation methods of relevant operating costs attributable to operational activities approved by the airlines. Two types of landing fee methods are applied by LAWA: compensatory and residual. Under a compensatory fee methodology, the fees charged by LAX for a facility or service are 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 LAWA's actual costs of operating the airfield and apron. Under a residual fee methodology, ONT sets the airlines' landing fees so that those fees provide the revenue needed to offset the difference between ONT's total expenses and the revenues collected by the airport from other sources, such as concession revenues and persons using its parking lots. For control purposes, the landing fees at LAX and ONT airports are calculated twice each fiscal year.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(k) Concessions Revenue

Concession revenue is generated through LAWA 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 LAWA 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 LAWA 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.

(l) Depreciation and Amortization

Depreciation expense includes amortization of assets under capital leases. 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; and equipment, 5 to 20 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

(m) Preliminary Costs of Capital Projects

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.

(n) Operating and Nonoperating Revenue and Expenses

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

(o) Interest Expense

LAWA capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest expense was \$18,861,000 for the year ended June 30, 2006 and \$23,847,000 for the year ended June 30, 2005. There was no capitalized interest in 2006 and 2005.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(p) *Deferred Revenue*

Deferred 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.

(q) *Employee Benefits*

LAWA employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave is recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave.

(r) *Statements of Cash Flows*

Cash and cash equivalents as reported in the statements of cash flows include short-term, highly liquid investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase. Cash and investments (both restricted and unrestricted) held by the City Treasurer are, in effect, demand deposits and are, therefore, considered to be cash equivalents.

(s) *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 the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

(t) *Reclassifications*

Certain reclassifications have been made to fiscal year 2005 amounts in order to conform to the fiscal year 2006 presentation.

(u) *Inventory*

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

(v) *Bond Premiums, Discounts, 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 are 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.

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Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(w) 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, 2006 and 2005, net assets of \$365.7 million and \$267.8 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAWA, not restricted for any project or other purpose.

(2) Accounting Changes and Recent Accounting Pronouncements

(a) Accounting Changes

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal periods beginning after December 15, 2004. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. LAWA implemented the new reporting requirements for the years ended June 30, 2006 and 2005, with no fiscal impacts.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB No. 34*. This statement clarifies a legally enforceable enabling legislation restriction is one that a party external to a government, such as its citizens, public interest groups, or the judiciary, can compel a government to honor. This statement requires governments to disclose the portions of total net assets that are restricted by enabling legislation. Disclosing the amount of net assets restricted by enabling legislation will allow users of the financial statements to distinguish qualifying restrictions on resource use imposed through a government's own action from other types of net asset restrictions. The requirements of this statement are effective for the financial statements for the period beginning after June 15, 2005. LAWA has implemented the new statement for the years ended June 30, 2006 and 2005 and has disclosed net assets restricted by enabling legislation. The implementation of this statement had no fiscal impacts.

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Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(2) Accounting Changes and Recent Accounting Pronouncements (continued)

(a) Accounting Changes (continued)

In June 2005, GASB issued Statement No. 47, “*Accounting for Termination Benefits.*” This statement provides guidance on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations, such as early retirement window programs and involuntary termination benefits, such as severance payments. The statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of GASB Statement No. 45. As noted in the GASB Statement No. 45 discussion which is detailed below, LAWA intends to implement this statement in the year ending June 30, 2008. For all other termination benefits, this statement is effective for fiscal period beginning after June 15, 2005. LAWA implemented GASB Statement No. 47 for the years ended June 30, 2006 and 2005 financial statements, with no fiscal impacts.

(b) Recent Accounting Pronouncements

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other non-pension benefits (OPEB) and is effective for fiscal period beginning after December 15, 2006. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement’s provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. LAWA is currently studying the impact to the financial statements that implementing GASB Statement No. 45 will impose. LAWA intends to implement the new reporting requirements as required by the year ending June 30, 2008 financial statements.

(3) Cash and Investments

(a) Cash and Pooled Investments

Cash is deposited with the City Treasurer and generally invested in short-term investments under the City Treasurer’s pooled investment program. The Los Angeles City Treasury Investment Procedures and Guidelines, established pursuant to the California Government Code and Los Angeles City Council action, govern the City’s investment practices. The primary objectives of the City’s investment policy are the safety of capital, the liquidity of the

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Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(3) Cash and Investments (continued)

(a) Cash and Pooled Investments (continued)

portfolio and the yield on the investments. Investments permitted by the City's investment policy include obligations of the U.S. Government and agencies, certain commercial paper, bankers' acceptances, medium-term corporate notes, negotiable certificates of deposit, repurchase agreements and state and local government pools (e.g., Local Agency Investment Fund) up to certain specified allowable percentages.

LAWA's equity in the City Treasurer's pooled investment and securities lending programs consists of the following cash and investments, based on the relative percentages of such equity to the total of the City Treasurer's pooled funds and is not necessarily indicative of LAWA's actual investments in the pooled funds (in thousands):

<u>Description</u>	<u>2006</u>	<u>2005</u>
Deposits	\$ 6,045	\$ 24,960
U.S. Treasury securities	169,251	118,857
Federal agency securities	575,452	663,225
Commercial paper	217,608	173,532
Medium-term corporate notes	240,577	198,492
State Local Agency Investment Fund	-	9,510
Total	<u>1,208,933</u>	<u>1,188,576</u>
Less restricted portion	<u>(642,826)</u>	<u>(576,859)</u>
Unrestricted portion	<u>\$ 566,107</u>	<u>\$ 611,717</u>

The restricted portion represents cash and investments that are restricted as to use either by bond indenture requirements or the Federal Aviation Administration.

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

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

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Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(3) Cash and Investments (continued)

(b) Investments Authorized by the City's Investment Policy (continued)

	<u>Maximum maturities</u>	<u>Maximum concentration</u>
U.S. Treasury and federal agency securities	5 years	100%
Bonds issued by local agencies	5 years	100
Registered state warrants and municipal notes	5 years	100
Bankers' acceptances	180 days	40
Commercial paper	270 days	40
Negotiable certificates of deposit or time deposits		
Yankee certificates of deposit		
CRA certificates of deposit or time deposits	180 days	30
Repurchase agreements	32 days	15
Reverse repurchase agreements	92 days	5*
Medium-term corporate notes	5 years	30
Shares of a money market mutual fund	N/A	20
Securities lending program	N/A	20
Asset-backed securities	5 years	20**
Collateralized mortgage obligations	5 years	20**
Local agency investment fund (LAIF)		(per state limit)***

* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.

** Combined total for mortgage-backed and asset-backed securities.

*** Current account limit is \$40 million.

At June 30, 2006 and 2005, LAWA has \$1,208,933,000 and \$1,188,576,000, respectively, invested with the City Pools, which represents approximately 15.97% and 17.93%, respectively, of the City Treasury's General and Special Investment Pool.

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Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(3) Cash and Investments (continued)

(c) City of Los Angeles Investment Pool

At June 30, 2006, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

<u>Type of Investments</u>	<u>Amount</u>	<u>Investment Maturities</u>			
		<u>1 to 30 Days</u>	<u>31 to 60 Days</u>	<u>61 to 365 Days</u>	<u>366 Days To 5 Years</u>
U.S. Treasury Notes	\$ 750,633	\$ -	\$ -	\$ -	\$ 750,633
U.S. Treasury Bills	7,193	7,193	-	-	-
U.S. Government Agencies	3,483,994	229,854	259,964	519,398	2,474,778
Medium Term Notes	1,077,004	-	-	125,689	951,315
Commercial Paper	1,298,356	1,173,459	52,464	72,433	-
State of California LAIF	2,204	2,204	-	-	-
Short Term Investment Funds	13	13	-	-	-
Securities Lending Cash Collateral					
U.S. Treasury Notes	607,597	-	-	-	607,597
U.S. Agencies	344,340	-	-	-	344,340
Total General and Special Pools	\$ 7,571,334	\$ 1,412,723	\$ 312,428	\$ 717,520	\$ 5,128,663

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

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

Interest Rate Risk. The City's pooled investment policy limits the maturity of its investments to a maximum of five years for U.S. Treasury and federal agency securities, medium term corporate notes, and bonds issued by local agencies; 270 days for commercial paper; and 32 days for repurchase agreements. See footnote 3 (b).

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Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(3) Cash and Investments (continued)

(c) *City of Los Angeles Investment Pool (continued)*

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

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

(d) *City of Los Angeles Securities Lending Program*

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

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

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Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(3) Cash and Investments (continued)

(d) City of Los Angeles Securities Lending Program (continued)

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

LAWA's share of cash collateral received and corresponding liability aggregated approximately \$179,986,000 and \$167,953,000 at June 30, 2006 and 2005, respectively. During the fiscal year, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(e) Investments with Fiscal Agents

LAWA also maintains investments with fiscal agents that are pledged to the payment or security of LAW A's 1995, 1996, 2002, and 2003 bonds. These investments are also generally invested in short-term investments under the control of the fiscal agents.

The investment practices of the fiscal agents are these same as those of the City Treasurer, and have similar investment objectives. These investments are restricted as to their use and have maturities designed to coincide with required bond retirement payments.

These investments are uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAW A's name.

LAW A's investments with fiscal agents were as follows (in thousands):

<u>Description</u>	<u>2006</u>	<u>2005</u>
Money Market Funds	\$ 16,875	\$ 14,489
U.S. Treasury Securities	20,315	23,459
Total	<u>\$ 37,190</u>	<u>\$ 37,948</u>

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Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(4) Changes in Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2006</u>
Capital assets, not depreciated:				
Land	\$ 683,006	\$ 4,929	\$ (2,267)	\$ 685,668
Air easements	46,975	-	-	46,975
Construction in progress	<u>223,565</u>	<u>147,535</u>	<u>(84,115) *</u>	<u>286,985</u>
Total capital assets, not depreciated	<u>953,546</u>	<u>152,464</u>	<u>(86,382)</u>	<u>1,019,628</u>
Capital assets, depreciated:				
Buildings	765,903	2,047	-	767,950
Improvements	837,305	129,031	-	966,336
Equipment and vehicles	152,924	8,813	-	161,737
Leased property	<u>184,423</u>	<u>-</u>	<u>-</u>	<u>184,423</u>
Total capital assets, depreciated	<u>1,940,555</u>	<u>139,891</u>	<u>-</u>	<u>2,080,446</u>
Less accumulated depreciation:				
Buildings	(314,058)	(19,562)	-	(333,620)
Improvements	(463,174)	(52,687)	-	(515,861)
Equipment and vehicles	(118,580)	(6,663)	-	(125,243)
Leased property	<u>(85,781)</u>	<u>(5,033)</u>	<u>-</u>	<u>(90,814)</u>
Total accumulated depreciation	<u>(981,593)</u>	<u>(83,945)</u>	<u>-</u>	<u>(1,065,538)</u>
Total capital assets depreciated, net	<u>958,962</u>	<u>55,946</u>	<u>-</u>	<u>1,014,908</u>
Total capital assets, net	<u>\$ 1,912,508</u>	<u>\$ 208,410</u>	<u>\$ (86,382)</u>	<u>\$ 2,034,536</u>

* Includes write-off of \$4,829 of costs incurred in prior periods for abandoned projects.

LOS ANGELES WORLD AIRPORTS
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Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(4) Changes in Capital Assets (continued)

Capital asset activity for the year ended June 30, 2005 was as follows (in thousands):

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2005</u>
Capital assets, not depreciated:				
Land	\$ 564,604	\$ 118,402	\$ -	\$ 683,006
Air easements	46,975	-	-	46,975
Construction in progress	194,101	166,203	(136,739)	223,565
Total capital assets, not depreciated	<u>805,680</u>	<u>284,605</u>	<u>(136,739)</u>	<u>953,546</u>
Capital assets, depreciated:				
Buildings	765,903	-	-	765,903
Improvements	797,089	40,216	-	837,305
Equipment and vehicles	144,062	8,862	-	152,924
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>1,891,477</u>	<u>49,078</u>	<u>-</u>	<u>1,940,555</u>
Less accumulated depreciation:				
Buildings	(294,746)	(19,312)	-	(314,058)
Improvements	(422,736)	(40,438)	-	(463,174)
Equipment and vehicles	(112,012)	(6,568)	-	(118,580)
Leased property	(75,910)	(9,871)	-	(85,781)
Total accumulated depreciation	<u>(905,404)</u>	<u>(76,189)</u>	<u>-</u>	<u>(981,593)</u>
Total capital assets depreciated, net	<u>986,073</u>	<u>(27,111)</u>	<u>-</u>	<u>958,962</u>
Total capital assets, net	<u>\$ 1,791,753</u>	<u>\$ 257,494</u>	<u>\$ (136,739)</u>	<u>\$ 1,912,508</u>

LOS ANGELES WORLD AIRPORTS
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Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(5) Bonds and Commercial Notes Payable

LAWA issued revenue bonds in 1995, 1996, 2002, and 2003 for various airport improvement projects. LAWA's revenues are pledged as security for the bonds. In fiscal year 2003, LAWA issued \$217,175,000 of revenue bonds to fund LAX airport improvement projects and advance refund a portion of the 1995 bonds.

The 1995 Revenue Bonds were issued in the amount of \$365,855,000 to finance capital improvements and repay certain indebtedness. The bonds are limited obligations of the Department payable from and secured by a pledge of LAX revenues.

Outstanding revenue bonds at June 30, 2006 mature in varying amounts through 2026. Bond and commercial paper notes activity for the year ended June 30, 2006 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2006</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 33,935	\$ -	\$ (21,240)	\$ 12,695	\$ 2,500
Issue of 1996	5.60 to 7.90	109,945	-	(2,645)	107,300	2,795
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	2.93*	57,400	-	-	57,400	-
Issues of 2003 Series A	2.92*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	103,625	-	-	103,625	9,320
Subtotal		361,055	-	(23,885)	337,170	14,615
Commercial paper	2.65*	15,500	-	(15,500)	-	-
Deferred charges and credits, net	N/A	8,032	-	(694)	7,338	717
Total		<u>\$ 384,587</u>	<u>\$ -</u>	<u>\$ (40,079)</u>	<u>\$ 344,508</u>	<u>\$ 15,332</u>

Bonds and commercial paper notes activity for the year ended June 30, 2005 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2005</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 56,325	\$ -	\$ (22,390)	\$ 33,935	\$ 21,240
Issue of 1996	5.60 to 7.90	112,441	-	(2,496)	109,945	2,645
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	1.75*	57,400	-	-	57,400	-
Issues of 2003 Series A	1.77*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	103,625	-	-	103,625	-
Subtotal		385,941	-	(24,886)	361,055	23,885
Commercial paper	1.80*	15,500	-	-	15,500	15,500
Deferred charges and credits, net	N/A	8,835	-	(803)	8,032	804
Total		<u>\$ 410,276</u>	<u>\$ -</u>	<u>\$ (25,689)</u>	<u>\$ 384,587</u>	<u>\$ 40,189</u>

* Average variable rate.

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Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(5) Bonds and Commercial Notes Payable (continued)

Future annual debt service requirements as of June 30, 2006, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u> ⁽¹⁾	<u>Total</u>
Fiscal year ending June 30:			
2007	\$ 14,615	\$ 17,223	\$ 31,838
2008	15,385	16,469	31,854
2009	16,200	15,658	31,858
2010	17,040	14,820	31,860
2011	17,960	13,931	31,891
2012 – 2016	105,345	54,613	159,958
2017 – 2021	110,100	26,506	136,606
2022 – 2026	40,525	7,786	48,311
Total	<u>\$ 337,170</u>	<u>\$ 167,006</u>	<u>\$ 504,176</u>

⁽¹⁾Interest requirements for variable-rate bonds were determined using 3.94%, 3.92%, and 4.02% for 2002 C1, 2002 C2, and 2003 A, respectively, the rates in effect at June 30, 2006.

(6) Other Long-Term Liabilities

Other long-term liabilities' activity for the year ended June 30, 2006 was as follows (in thousands):

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2006</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 33,284	\$ 14,986	\$ (10,543)	\$ 37,727	\$ 7,481
Deferred revenue	1,271	-	(50)	1,221	50
Obligations under capital leases	53,793	-	(912)	52,881	1,026
Other liabilities	28,181	7,350	(9,815)	25,716	6,883
Total	<u>\$ 116,529</u>	<u>\$ 22,336</u>	<u>\$ (21,320)</u>	<u>\$ 117,545</u>	<u>\$ 15,440</u>

Other long-term liabilities' activity for the year ended June 30, 2005 was as follows (in thousands):

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2005</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 34,583	\$ 8,519	\$ (9,818)	\$ 33,284	\$ 10,543
Deferred revenue	1,321	-	(50)	1,271	50
Obligations under capital leases	54,648	-	(855)	53,793	912
Other liabilities	26,814	17,241	(15,874)	28,181	9,815
Total	<u>\$ 117,366</u>	<u>\$ 25,760</u>	<u>\$ (26,597)</u>	<u>\$ 116,529</u>	<u>\$ 21,320</u>

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Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(7) Related Party Transactions

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAWA. The payments for these services, included in operating expenses for the years ended June 30, 2006 and 2005, were \$50,955,000 and \$46,338,000, respectively. In addition, LAWA collects parking taxes at LAX and ONT on behalf of the cities of Los Angeles and Ontario. Parking taxes collected and remitted to the cities of Los Angeles and Ontario were as follows (in thousands):

	2006	2005
City of Los Angeles	\$ 6,913	\$ 6,781
City of Ontario	4,866	4,454
Total	\$ 11,779	\$ 11,235

(8) Retirement System

(a) Retirement Plan Description

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

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

The Board of Administration of the System establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to the System at a rate (8.20% to 11.34%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of the System. LAWA's actuarially required and actual contributions made to the System were approximately \$39,600,000, \$25,900,000 and \$12,300,000 for the years ended June 30, 2006, 2005, and 2004, respectively.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(8) Retirement System (continued)

(b) Actuarially Determined Contribution Requirements and Contributions Made

The System's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined by using the projected-unit-credit-cost method, assuming a closed group, to amortize the unfunded actuarial accrued liability over multiple layers for various periods. The current year actuarially determined contribution requirement was determined based on the June 30, 2004 actuarial valuation, using the following actuarial assumptions:

- Assumed rate of return on the valuation value of assets is 8.00%
- Inflation rate of 4.00%
- Projected salary increases range from 8.00% to 5.50% for members with less than 5 years of service. For members with 5 or more years of service, the increase is 5.00% per year
- Cost of living adjustments of 3.00%

Total annual pension costs for the City were approximately \$183,200,000, \$159,100,000 and \$51,600,000 for the years ended June 30, 2005, 2004, and 2003, respectively, representing 86.3%, 63.1%, and 100% of annual required contributions for each year, respectively.

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

(c) Required Supplemental Information (Unaudited)

Based upon available data, the following represents the Los Angeles City Employees' Retirement System Schedule of Funding Progress, separate information for LAWA is not available (in thousands):

<u>Valuation date (June 30)</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Actuarial value of assets</u>	<u>Unfunded AAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded AAL as a % of covered payroll</u>
2005	\$ 9,321,525	\$ 7,193,142	\$2,128,383	77.2%	\$ 1,589,306	133.9%
2004	8,533,864	7,042,108	1,491,756	82.5%	1,575,285	94.7%
2003	7,659,846	6,999,647	660,199	91.4%	1,405,058	47.0%

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(8) Retirement System (continued)

(d) Other Post-employment Benefits

LAWA, as a participant in the System, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. The System is advance funding the retiree health benefits on an actuarial-determined basis. Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by LAWA alone are not available.

From the most recent data made available by the City, as of June 30, 2005, LACERS membership consists of 27,333 active plan participants and 14,322 retired members. Also as of June 30, 2005, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total unfunded health benefit subsidy applicable to the System as a whole was approximately \$826,000,000 as follows (in thousands):

Total health benefit liability	\$ 1,719,000
Reserved for health benefits	<u>(893,000)</u>
Unfunded benefit liability	<u><u>\$ 826,000</u></u>

(9) Self-Insurance

LAWA is part of the City's self-administered and self-funded workers' compensation system. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The liability for workers' compensation claims includes a provision for incurred but not reported claims and loss adjustment expenses. Payment to the Workers' Compensation Division of the City Personnel Department has been made based on cash payments for workers' compensation claims. LAWA's accrued total liability for workers' compensation has been based on the results of an actuarial study. A reconciliation of the accrued workers' compensation liability (included in employee benefits and insurance claims payable) is as follows (in thousands):

Liability at June 30, 2004	\$	29,137
Provisions for claims		4,012
Claim payments		<u>(5,571)</u>
Liability at June 30, 2005		27,578
Provisions for claims		14,701
Claim payments		<u>(7,171)</u>
Liability at June 30, 2006		35,108
Current portion		<u>(4,862)</u>
Long-term liability at June 30, 2006, net of current portion	\$	<u><u>30,246</u></u>

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(9) Self-Insurance (continued)

The LAWA Risk Management Division oversees a sophisticated, self-administered Risk and Claims Management program. Claims are administered in-house by a dedicated team of Analysts who will manage and direct a claim/ lawsuit until resolved. LAWA Risk Management (in cooperation with its contracted broker of record) is responsible for placing General Liability insurance policies (including a War & Terrorism policy) up to the policy limits of \$1 billion. Additional lines of insurance include General Property Insurance, with policy limits of \$1,500,000, Boiler and Machinery coverage and Earthquake insurance. These insurance limits are in excess of LAWA's self-insured retention (deductible) which for general liability insurance is \$10,000/ claim with a \$300,000 annual aggregate and \$100,000/ per occurrence and annual aggregate on Property insurance. The self-insured retention for both Property and Liability insurance as well as the purchase of all insurance policies is budgeted and funded annually by the Risk Management Division. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAWA also continues to maintain a catastrophic loss fund that is held in reserve to fund claims or losses that may conceivably exceed insurance policy limits. The transference of risk exposure through the procurement of liability and property insurance has proven to be a very effective program for LAWA.

For other types of claims, commercial insurance is used when it is either legally or contractually required, or judged to be the most effective way to finance risk. LAWA's Risk Management Division estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2006, 2005, and 2004, no claims were in excess of LAWA's insurance coverage. LAWA maintains approximately \$2.5 billion coverage of property, casualty and other insurance. LAWA also maintains an insurance trust fund to pay the deductible for property damage and any claims in excess of the insurance coverage.

(10) Commitments and Contingencies

As of June 30, 2006, a number of claims and lawsuits are pending against LAWA that arose in the normal course of operations. LAWA 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 loss can be reasonably estimated. The following is a summary of certain matters related to LAWA's operations.

(a) Inverse Condemnation

On the basis of current inverse condemnation and nuisance litigation at Ontario, the contingent liability is currently estimated to be approximately \$600,000.

Amounts that may be paid in inverse condemnation actions would result in the acquisition of air easements, which would be capitalized and, therefore, would not materially affect the change in net assets or equity of LAWA. The amounts that may be paid pursuant to noise tort actions would be charged against revenues as an expense.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(10) Commitments and Contingencies (continued)

(b) *Environmental Issues*

Through the normal course of operations, LAWA and its facilities are subject to potential environmental contamination and other environmental concerns. Accordingly, LAWA has established a comprehensive hazardous materials management plan for all facilities under its control. This plan calls for the evaluation of all property utilized by LAWA and the environmental cleanup of any sites found to be contaminated. This evaluation has not been completed to date.

LAWA bears the financial responsibility for the cleanup of environmental contamination on property owned by it. However, LAWA believes that if the contamination originated based on contractual arrangements, the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. LAWA, as property owner, however, assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution. As a result of the hazardous materials management plan noted above, LAWA has already begun cleanup on several sites, is in the process of implementing additional safeguards to prevent additional hazardous substance contamination and is completing the environmental evaluation of LAWA's facilities. However, the extent of the cleanup and/or the ability of the original tenants to reimburse LAWA for such cleanup cannot be determined at the present time. Therefore, under the circumstances, it is reasonably possible that losses could be incurred; however, until such matters are resolved, the range of loss, if any, cannot be reasonably estimated.

(c) *Other*

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$50,900,000 and \$29,000,000 as of June 30, 2006 and 2005, respectively. The change in commitments is due to the following projects: \$16,000,000 for inspection testing, and surveying for the center taxiway and runway projects; and, \$19,500,000 million for land acquisition.

(d) *High-Security Environment*

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the September 11 Events). Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues, and parking revenue. During fiscal year 2006, LAWA's passenger volume was 3.2%, or 2.2 million, below its pre-September 11th Events level.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(10) Commitments and Contingencies (continued)

(d) *High-Security Environment (continued)*

As part of its program of proactively addressing heightened security concerns and requirements, LAWA has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. LAWA's capital improvement program was also reevaluated and several planned expenditures were suspended, except where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at LAWA from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAWA will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service. A number of airlines are recovering from the economic difficulties they experienced immediately following the September 11 Events.

LAWA is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAWA, (iii) the future financial condition of the airlines using LAWA's airports, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

(11) Capital Lease Agreements

LAWA has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amounted to \$184,423,000 at June 30, 2006 and 2005. Accumulated depreciation with respect to such property for the respective years was \$90.8 million and \$85.8 million, respectively.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)
June 30, 2006 and 2005

(11) Capital Lease Agreements (continued)

Estimated future minimum lease payments under these agreements are as follows (in thousands):

Fiscal year ending June 30,		
2007	\$	2,985
2008		3,061
2009		3,076
2010		3,146
2011		3,268
2012 – 2016		17,694
2017 – 2021		21,112
2022 – 2026		24,175
		78,517
Total minimum lease payments		78,517
Less interest portion		(25,636)
		52,881
Present value of minimum lease payments	\$	52,881

LAWA currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to LAWA by such airlines for terminal leases and landing fees.

(12) Passenger Facility Charges

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFC's. PFC's may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers.

Since 1990, the following activities have taken place:

- In April 1993, the FAA granted LAWA's authority to collect PFC's at LAX and ONT in the amount of \$360,000,000 for 5 years for specifically approved airport improvement projects. Effective July 1, 1993, LAWA began collecting PFC's in the amount of \$3 per passenger.
- In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at Ontario. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(12) Passenger Facility Charges (continued)

- In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at ONT. Accordingly, PFC charges totaling \$126,100,000 collected at LAX were transferred.
- In November 1997 and April 1998, the FAA approved LAWA's application to impose \$3 per passenger PFC's at LAX and Ontario, respectively, for noise mitigation projects. Approved collections of \$150,000,000 at LAX were to be used for the soundproofing of City of Los Angeles residences and sound insulation of nearby city residences. Approved collections of \$45,700,000 at ONT were to be used for land acquisition and sound insulation of the City of Ontario residences.
- On October 2, 1998, the FAA approved LAWA's application to amend PFC's at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000.
- Effective August 1, 2003, the FAA approved an increase to the PFC charge at LAX from \$3.00 to \$4.50.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used only on specifically approved projects. Due to their restricted use, PFC's are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to disbursement. Cumulative PFC collections and the related interest earned as reported to the FAA were as follows (in thousands):

	2006	2005
Amount collected	\$ 964,356	\$ 845,383
Interest received	108,267	99,668
Cumulative PFC collections	\$ 1,072,623	\$ 945,051

Collected but unexpended PFC revenue is included on the statement of net assets as restricted cash and pooled investments held by the City Treasurer. Related accrued interest income and PFC receivables are also reported as restricted assets.

(13) Capital Grant Contributions

Contributed capital related to governmental grants and other aid increased by \$59.8 million to \$62.6 million during the year ended June 30, 2006. Capital grant funds were used for projects under the Airport Improvement Program and Transportation Security Administration security-related capital projects. During fiscal year 2005, capital grant contributions decreased from fiscal year 2004 by \$4.8 million to \$2.8 million, due to accounting adjustments of grant accruals made in prior years.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2006 and 2005

(14) Subsequent Events

Subsequent to the end of fiscal year 2006, LAWA began the process of refunding the outstanding \$107.3 million Department of Airports of the City of Los Angeles, California, Ontario International Airport Revenue Bonds, Series 1996A and 1996B (collectively the "1996 Bonds"). This refunding is being performed due to favorable interest rates available in the market and will result in material annual debt service savings to LAWA. The 1996 Bonds will be redeemed using proceeds from the issuance of \$90.2 million par value of Department of Airports of the City of Los Angeles, California, Ontario International Airport Refunding Revenue Bonds, Series 2006A and 2006B and available excess construction funds and debt service reserve funds from the 1996 Bonds. LAWA expects to complete the bond refunding on October 31, 2006.

SUPPLEMENTAL INFORMATION

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
 Combining Statement of Net Assets
 June 30, 2006
 (With comparative totals at June 30, 2005)
 (Dollars in thousands)

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport	Palmdale Regional Airport	Eliminations	Totals	
						2006	2005
ASSETS							
Current assets:							
Cash and pooled investments held by the City Treasurer	\$ 501,393	\$ 64,714	\$ -	\$ -	\$ -	\$ 566,107	\$ 611,717
Accounts receivable, net of allowance for uncollectible accounts	19,139	2,048	3,903	41	-	25,131	25,347
Unbilled receivable	27,227	-	-	1	-	27,228	24,449
Accrued interest receivable	6,384	946	-	-	-	7,330	6,354
Due from other agencies	119,890	-	-	-	(119,890)	-	-
Prepaid expenses and inventories	2,973	243	40	-	-	3,256	2,630
Total current assets	<u>677,006</u>	<u>67,951</u>	<u>3,943</u>	<u>42</u>	<u>(119,890)</u>	<u>629,052</u>	<u>670,497</u>
Noncurrent assets:							
Restricted assets:							
Cash and pooled investments held by the City Treasurer	531,535	107,929	3,360	2	-	642,826	576,859
Investments with fiscal agents	27,374	9,816	-	-	-	37,190	37,948
Accrued interest receivable	3,894	708	-	-	-	4,602	3,704
Passenger facility charges receivable	19,387	1,579	-	-	-	20,966	15,716
Total restricted assets	<u>582,190</u>	<u>120,032</u>	<u>3,360</u>	<u>2</u>	<u>-</u>	<u>705,584</u>	<u>634,227</u>
Capital assets:							
Land, land clearance, and air easements	600,417	28,291	12,615	91,320	-	732,643	729,981
Buildings, facilities and equipment	1,383,920	391,811	98,961	21,331	-	1,896,023	1,756,132
Leased property	184,423	-	-	-	-	184,423	184,423
Less accumulated depreciation	(894,564)	(137,163)	(27,023)	(6,788)	-	(1,065,538)	(981,593)
Construction work in process	221,758	58,547	6,460	220	-	286,985	223,565
Net capital assets	<u>1,495,954</u>	<u>341,486</u>	<u>91,013</u>	<u>106,083</u>	<u>-</u>	<u>2,034,536</u>	<u>1,912,508</u>
Deferred bond issuance expenses	2,774	1,173	-	-	-	3,947	4,371
Total noncurrent assets	<u>2,080,918</u>	<u>462,691</u>	<u>94,373</u>	<u>106,085</u>	<u>-</u>	<u>2,744,067</u>	<u>2,551,106</u>
Total assets	<u>\$ 2,757,924</u>	<u>\$ 530,642</u>	<u>\$ 98,316</u>	<u>\$ 106,127</u>	<u>\$ (119,890)</u>	<u>\$ 3,373,119</u>	<u>\$ 3,221,603</u>

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
Combining Statement of Net Assets (Continued)
June 30, 2006
(With comparative totals at June 30, 2005)
(Dollars in thousands)

	Los Angeles	Ontario	Van Nuys	Palmdale	Eliminations	Totals	
	International Airport	International Airport	Airport	Regional Airport		2006	2005
LIABILITIES AND NET ASSETS							
Current liabilities:							
Current liabilities payable from unrestricted assets:							
Contracts and accounts payable	\$ 45,003	\$ 10,430	\$ 2,477	\$ 650	\$ -	\$ 58,560	\$ 48,326
Employee benefits and insurance claims payable	5,761	1,432	266	22	-	7,481	10,543
Salaries payable	3,624	541	305	25	-	4,495	2,976
Commercial paper notes payable	-	-	-	-	-	-	15,500
Due to other agencies	-	-	90,566	29,324	(119,890)	-	-
Current obligations under capital leases	1,026	-	-	-	-	1,026	912
Deferred revenue	-	50	-	-	-	50	50
Other liabilities	4,436	598	1,703	146	-	6,883	9,815
	<u>59,850</u>	<u>13,051</u>	<u>95,317</u>	<u>30,167</u>	<u>(119,890)</u>	<u>78,495</u>	<u>88,122</u>
Current liabilities payable from restricted assets:							
Obligations under securities lending transactions	154,013	25,973	-	-	-	179,986	167,953
Bonds payable, plus net deferred charges and credits	12,583	2,749	-	-	-	15,332	24,689
Contracts and accounts payable	32,259	18	-	-	-	32,277	38,216
Accrued bond interest payable	1,030	816	-	-	-	1,846	2,006
	<u>199,885</u>	<u>29,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,441</u>	<u>232,864</u>
Total current liabilities	<u>259,735</u>	<u>42,607</u>	<u>95,317</u>	<u>30,167</u>	<u>(119,890)</u>	<u>307,936</u>	<u>320,986</u>
Long-term liabilities:							
Bonds payable, plus net deferred charges and credits	225,548	103,628	-	-	-	329,176	344,398
Obligations under capital leases	51,855	-	-	-	-	51,855	52,881
Employee benefits and insurance claims payable	24,870	4,276	650	450	-	30,246	22,741
Deferred revenue	-	1,171	-	-	-	1,171	1,221
Other liabilities	18,833	-	-	-	-	18,833	18,366
	<u>321,106</u>	<u>109,075</u>	<u>650</u>	<u>450</u>	<u>-</u>	<u>431,281</u>	<u>439,607</u>
Total long-term liabilities	<u>321,106</u>	<u>109,075</u>	<u>650</u>	<u>450</u>	<u>-</u>	<u>431,281</u>	<u>439,607</u>
Total liabilities	<u>580,841</u>	<u>151,682</u>	<u>95,967</u>	<u>30,617</u>	<u>(119,890)</u>	<u>739,217</u>	<u>760,593</u>
Net assets:							
Invested in capital assets, net of related debt	1,204,942	235,109	91,013	106,083	-	1,637,147	1,489,630
Restricted:							
Capital projects	158	15,882	-	-	-	16,040	16,288
Debt service	26,438	9,034	-	-	-	35,472	36,069
Special purpose	368,292	68,309	3,360	2	-	439,963	267,802
Unrestricted	577,253	50,626	(92,024)	(30,575)	-	505,280	651,221
Total net assets	<u>\$ 2,177,083</u>	<u>\$ 378,960</u>	<u>\$ 2,349</u>	<u>\$ 75,510</u>	<u>\$ -</u>	<u>\$ 2,633,902</u>	<u>\$ 2,461,010</u>

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
Combining Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollars in thousands)

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport	Palmdale Regional Airport	Totals	
					2006	2005
Operating revenue:						
Aviation revenue:						
Landing fees	\$ 146,019	\$ 15,976	\$ 42	\$ -	\$ 162,037	\$ 147,990
Building rentals	119,271	25,198	3,346	505	148,320	133,635
Other aviation revenue	51,428	4,036	10,162	398	66,024	60,336
Concession revenue	200,564	37,729	1,643	-	239,936	228,230
Airport sales and services	2,034	217	153	59	2,463	2,575
Miscellaneous revenue	1,451	252	210	6	1,919	1,467
Total operating revenue	<u>520,767</u>	<u>83,408</u>	<u>15,556</u>	<u>968</u>	<u>620,699</u>	<u>574,233</u>
Operating expenses:						
Salaries and benefits	231,313	35,376	7,752	590	275,031	237,588
Contractual services	148,606	16,423	5,661	1,820	172,510	156,576
Materials and supplies	34,043	5,971	969	278	41,261	45,967
Administrative expenses	1,787	214	91	11	2,103	4,057
Utilities	23,633	3,838	536	275	28,282	29,023
Advertising and public relations	9,843	249	342	59	10,493	9,613
Other operating expenses	2,099	11,226	2,983	1,541	17,849	16,233
Total operating expenses before depreciation and amortization	<u>451,324</u>	<u>73,297</u>	<u>18,334</u>	<u>4,574</u>	<u>547,529</u>	<u>499,057</u>
Income (loss) from operations before depreciation and amortization	69,443	10,111	(2,778)	(3,606)	73,170	75,176
Depreciation and amortization	<u>(64,571)</u>	<u>(14,900)</u>	<u>(3,524)</u>	<u>(950)</u>	<u>(83,945)</u>	<u>(76,189)</u>
Operating income (loss)	<u>4,872</u>	<u>(4,789)</u>	<u>(6,302)</u>	<u>(4,556)</u>	<u>(10,775)</u>	<u>(1,013)</u>
Nonoperating revenue (expenses):						
Passenger facility charges	114,694	9,529	-	-	124,223	122,283
Interest income	33,902	5,248	-	-	39,150	33,103
Change in fair value of investments	(15,292)	(2,555)	-	-	(17,847)	(3,376)
Interest expense	(12,155)	(6,706)	-	-	(18,861)	(23,847)
Bond expense	(364)	(59)	-	-	(423)	(361)
Gain on sale of securities	217	-	-	-	217	3,867
Other nonoperating expenses	(6,600)	-	-	-	(6,600)	(29)
Other nonoperating revenue	1,209	9	-	-	1,218	6,425
Total nonoperating revenue, net	<u>115,611</u>	<u>5,466</u>	<u>-</u>	<u>-</u>	<u>121,077</u>	<u>138,065</u>
Income before capital grants	120,483	677	(6,302)	(4,556)	110,302	137,052
Capital grant contributions	<u>32,064</u>	<u>26,872</u>	<u>3,316</u>	<u>338</u>	<u>62,590</u>	<u>1,798</u>
Change in net assets	152,547	27,549	(2,986)	(4,218)	172,892	138,850
Net assets, beginning of year	2,024,536	351,411	5,335	79,728	2,461,010	2,322,160
Net assets, end of year	<u>\$ 2,177,083</u>	<u>\$ 378,960</u>	<u>\$ 2,349</u>	<u>\$ 75,510</u>	<u>\$ 2,633,902</u>	<u>\$ 2,461,010</u>

COMPLIANCE SECTION



MACIAS GINI & O'CONNELL LLP

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 24, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LAWA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we have reported to management of LAWA in a separate letter dated October 24, 2006. This report is intended solely for the information and use of LAWA's Board of Airport Commissioners, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California

October 24, 2006