Los Angeles International Airport

LAX

Annual Financial Report

Fiscal years ended June 30, 2012 and 2011


LAX

Los Angeles World Airports

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

LOS ANGELES INTERNATIONAL AIRPORT

Annual Financial Report

Fiscal Years Ended June 30, 2012 and 2011

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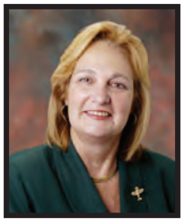

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and Insurance Compliance

Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal years ended June 30, 2012 and 2011.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unqualified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2012 and 2011, were fairly presented in conformity with generally accepted accounting principles (GAAP). MGO's report is on pages 1 and 2.

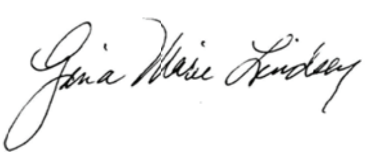
MGO conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2012. MGO's report is on pages 63 and 64.

MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, and concluded that LAX complied in all material respects with the requirements that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2012. MGO's report is on pages 69 and 70.

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

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

Passenger and cargo traffic at LAX has shown encouraging growth. Passenger traffic increased by 3.8% in fiscal year 2012 as compared to the prior fiscal year, while air cargo tonnage increased by 0.7% during the same comparative period. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.



Gina Marie Lindsey
Executive Director

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

Annual Financial Report
Fiscal Years Ended June 30, 2012 and 2011

Table of Contents

FINANCIAL SECTION

MGO Certified Public Accountants.

LA/Century City
2029 Century Park East, Suite 500
Los Angeles, CA 90067
310.277.3373

Sacramento

Walnut Creek

Oakland

Newport Beach

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of LAX's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2012 and 2011, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of LAX as of June 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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Independent Auditor’s Report
(continued)

Our audits were conducted for the purpose of forming opinions on the basic financial statements of LAX as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 65 to 68 and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 71 to 72 are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The accompanying Schedules of Funding Progress – Prorated Data for Los Angeles World Airports Defined Benefit Pension Plan and Other Postemployment Benefit Healthcare Plan (Non-GAAP Basis) on page 61 have not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Los Angeles, California
October 30, 2012

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

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2012 and 2011. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 23.

Using This Financial Report

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

The *Statements of Net Assets* present information on all of LAX's assets and liabilities at June 30, 2012 and 2011. The difference between the assets and liabilities was reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator whether LAX's financial position is improving or deteriorating.

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

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

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

Passenger and Other Traffic Activity Highlights

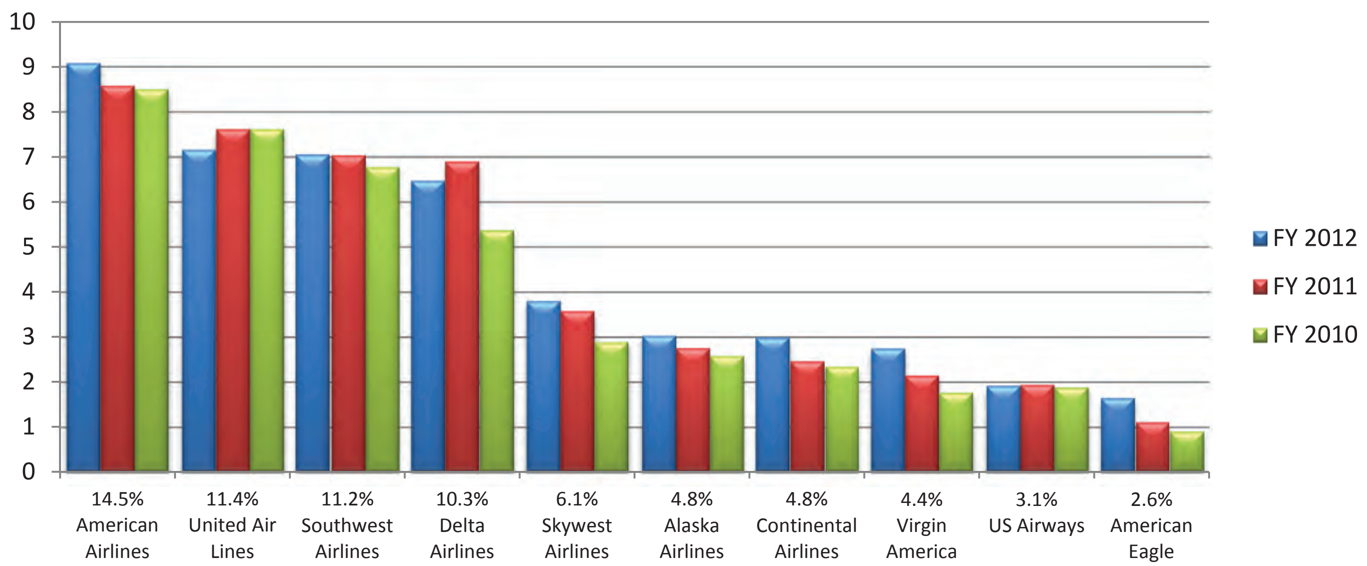
The following table presents a summary of passenger and other traffic for the last three fiscal years:

	FY 2012	FY 2011	FY 2010	% Change FY 2012	% Change FY 2011
Total passengers	62,930,683	60,606,560	57,897,845	3.8%	4.7%
Domestic passengers	45,957,270	44,352,850	42,145,783	3.6%	5.2%
International passengers	16,973,413	16,253,710	15,752,062	4.4%	3.2%
Departing passengers	31,519,124	30,280,539	29,003,142	4.1%	4.4%
Arriving passengers	31,411,559	30,326,021	28,894,703	3.6%	5.0%
Passenger flight operations					
Departures	276,980	265,110	256,335	4.5%	3.4%
Arrivals	277,083	265,212	255,999	4.5%	3.6%
Landing weight (thousand lbs)	49,997,632	48,422,352	47,336,942	3.3%	2.3%
Air cargo (tons)					
Mail	90,450	79,831	69,528	13.3%	14.8%
Freight	1,828,409	1,825,420	1,782,004	0.2%	2.4%

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2012 and the comparative passengers for fiscal years 2011 and 2010.

FY 2012 Top Ten Carriers and Percentage of Market Share (passengers in millions)



Passenger Traffic, Fiscal Year 2012

Passenger traffic increased by 3.8% in fiscal year 2012 as compared to fiscal year 2011. Of the 62.9 million passengers that moved in and out of LAX, domestic passengers accounted for 73%, while international passengers accounted for 27%. American Airlines ferried the most number of passengers at 9.1 million, an increase of 5.8% from the prior fiscal year. American Eagle, ranked tenth with 1.7 million passengers posted a 47.6% increase in passenger traffic. United Air Lines (7.2 million), Southwest Airlines (7.1 million), Delta Airlines (6.5 million), and Skywest Airlines (3.8 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked eleventh overall.

Passenger Traffic, Fiscal Year 2011

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

Flight Operations, Fiscal Year 2012

Landings and takeoffs, excluding cargo, had an increase of 23,741 flights or 4.5% during fiscal year 2012 when compared to fiscal year 2011. Scheduled and commuter flights were up 23,879, while charter flights were down 138. Revenue landing pounds were up 3.3%. The top three carriers in terms of landing pounds were American Airlines, United Air Lines, and Delta Airlines. In total, these three airlines contributed 31.4% of the total revenue pounds.

Flight Operations, Fiscal Year 2011

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

Air Cargo Operations, Fiscal Year 2012

Mail and freight cargo increased by 0.7% in fiscal year 2012 as compared to fiscal year 2011. Mail tonnage was up 10,619 tons while freight tonnage was up 2,989 tons. Domestic cargo was higher by 15,777 tons or 2% while international cargo was lower by 2,169 tons or 0.2%. Federal Express was the top air freight carrier accounting for 20.1% of total freight cargo, followed by Polar Air Cargo with 5.4%. United Air Lines was the top mail carrier accounting for 21.9% of total mail cargo.

Air Cargo Operations, Fiscal Year 2011

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

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2012

- Assets exceeded liabilities at June 30, 2012 by $3.8 billion.
- Bonded debt had a decrease of $48.6 million.
- Operating revenue totaled $822.1 million.
- Operating expenses (including depreciation and amortization of $123.9 million) totaled $704.1 million.
- Net nonoperating revenue (including passenger facility charges of $121.4 million) was $109.8 million.
- Federal and other grants totaled $59.9 million.
- Net assets increased by $291.2 million.

Financial Highlights, Fiscal Year 2011

- Assets exceeded liabilities at June 30, 2011 by $3.5 billion.
- Bonded debt had a net increase of $1 billion; new issuances totaled $1.1 billion.
- Operating revenue totaled $767.8 million.
- Operating expenses (including depreciation and amortization of $103.3 million) totaled $644.5 million.
- Net nonoperating revenue (including passenger facility charges of $117.8 million) was $103.9 million.
- Federal and other grants totaled $67.9 million.
- Net assets increased by $296 million.

Net Assets Summary

A condensed net assets summary for fiscal years 2012, 2011, and 2010 is presented below:

Condensed Net Assets
(amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Assets					
Unrestricted current assets	$ 824,597	$ 948,107	$ 774,448	$ (123,510)	$ 173,659
Restricted current assets	2,256,270	2,725,618	1,626,842	(469,348)	1,098,776
Capital assets, net	4,819,209	3,925,536	3,410,735	893,673	514,801
Other noncurrent assets	36,522	93,045	480,128	(56,523)	(387,083)
Total assets	7,936,598	7,692,306	6,292,153	244,292	1,400,153
Liabilities					
Current liabilities payable from unrestricted assets	363,612	318,080	341,430	45,532	(23,350)
Current liabilities payable from restricted assets	104,754	158,736	82,757	(53,982)	75,979
Noncurrent liabilities	3,639,852	3,678,263	2,626,690	(38,411)	1,051,573
Total liabilities	4,108,218	4,155,079	3,050,877	(46,861)	1,104,202
Net Assets					
Invested in capital assets, net of related debt	1,965,592	1,600,882	1,534,174	364,710	66,708
Restricted for debt service	379,603	478,067	336,264	(98,464)	141,803
Restricted for capital projects	861,505	771,180	730,468	90,325	40,712
Restricted for operations and maintenance reserve	159,424	137,684	137,684	21,740	--
Restricted for other purposes	919	565	5,641	354	(5,076)
Unrestricted	461,337	548,849	497,045	(87,512)	51,804
Total net assets	$ 3,828,380	$ 3,537,227	$ 3,241,276	$ 291,153	$ 295,951

Net Assets, Fiscal Year 2012

As noted earlier, net assets may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2012 and 2011, assets exceeded liabilities by $3.8 billion and $3.5 billion, respectively, representing an 8.2% increase or $291.2 million.

The largest portion of LAX's net assets ($2 billion or 51.3%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net assets ($1.4 billion or 36.6%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $461.3 million (12.1%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets decreased by 13%, from $948.1 million at June 30, 2011 to $824.6 million at June 30, 2012. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2011) held by the City Treasurer. Unrestricted cash inflows were from operating activities, interest income from investments, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for transfers to fiscal agents for debt service and capital asset acquisitions to be reimbursed by bond funds. In addition, the City temporarily suspended its securities lending program in May 2012 such that the cash collateral for securities lent were returned to the borrowers of securities. As discussed further in Note 3 of the notes to the financial statements (see page 38), LAX participates in the City's securities lending program through the pooled investment fund.

Restricted current assets include cash and investments (including reinvested cash collateral in 2011) held by the City Treasurer for capital projects funded by passenger facility charges (PFC) and customer facility charges (CFC). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFC and CFC capital expenditures were less than collections and interest earnings that resulted to a net incremental increase of approximately $104 million in fiscal year 2012. Drawdowns from the amounts held by fiscal agents were used for capital improvement expenditures and for bond principal and interest payments. As noted above, the City temporarily suspended its securities lending program.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 22.8%. Ongoing construction and improvements to modernize terminals and facilities were the primary reasons for the increase.

The decrease of $56.5 million in other noncurrent assets from $93 million in fiscal year 2011 to $36.5 million in fiscal year 2012 was due primarily to the sale of long-term securities held by fiscal agents to purchase short-term securities. As previously discussed, drawdowns from amounts held by fiscal agents were used for ongoing capital expenditures.

Current liabilities payable from unrestricted assets had a net increase of $45.5 million or 14.3%. This is mainly due to the issuance of commercial paper notes for interim financing of the construction activities, increased contract retentions for ongoing capital improvements, and LAX's allocated share of the City Treasury's year-end investment trade. The offsetting decrease in obligations under securities lending transactions resulted from the temporary suspension of the securities lending program as referred to above.

Current liabilities payable from restricted assets had a net decrease of $54 million or 34%. The current maturities for bonded debt increased by $6.8 million, the restricted portion of the allocated year-end pending investment trade was $28 million, and securities lending obligations decreased by $88.5 million. The City Treasury's year-end pending investment trade is discussed on page 38.

The net decrease in noncurrent liabilities was $38.4 million or 1%. Accounts with significant fluctuations were noncurrent portion of bonded debt with a decrease of $55.4 million for scheduled principal maturities, and estimated claims payable with an increase of $14.9 million due to the increase in the actuarially determined workers' compensation liability at June 30, 2012.

Net Assets, Fiscal Year 2011

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

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

Unrestricted current assets increased by 22.4%, from $774.4 million at June 30, 2010 to $948.1 million at June 30, 2011. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral) held by the City Treasurer. The increase of $173.7 million was due primarily to net cash provided by operating activities and LAX's allocated share of the reinvested cash collateral from loaned securities under the City's securities lending program.

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

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

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

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

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

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

Changes in Net Assets Summary

A condensed summary of LAX's changes in net assets for fiscal years ended 2012, 2011, and 2010 is presented below:

Condensed Changes in Net Assets
(amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Operating revenue	$ 822,090	$ 767,844	$ 655,701	$ 54,246	$ 112,143
Less- Operating expenses	580,160	541,228	529,552	38,932	11,676
Operating income before depreciation and amortization	241,930	226,616	126,149	15,314	100,467
Less- Depreciation and amortization	123,941	103,300	86,976	20,641	16,324
Operating income	117,989	123,316	39,173	(5,327)	84,143
Other nonoperating revenue, net	109,844	103,892	163,796	5,952	(59,904)
Federal and other grants	59,854	67,939	80,955	(8,085)	(13,016)
Interagency transfers	3,466	804	7,224	2,662	(6,420)
Changes in net assets	291,153	295,951	291,148	(4,798)	4,803
Net assets, beginning of year	3,537,227	3,241,276	2,950,128	295,951	291,148
Net assets, end of year	$ 3,828,380	$ 3,537,227	$ 3,241,276	$ 291,153	$ 295,951

Operating Revenue

LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2012, 2011, and 2010:

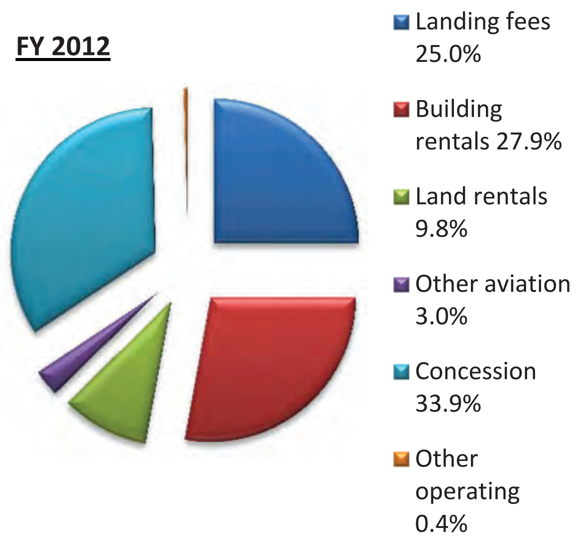
Summary of Operating Revenue
(amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Aviation revenue					
Landing fees, net of reliever fee	$ 205,568	$ 191,307	$ 169,683	$ 14,261	$ 21,624
Building rentals	229,160	204,525	185,138	24,635	19,387
Land rentals	80,629	87,225	52,555	(6,596)	34,670
Other aviation revenue	24,552	18,179	8,458	6,373	9,721
Total aviation revenue	539,909	501,236	415,834	38,673	85,402
Concession revenue	278,767	263,195	236,911	15,572	26,284
Other operating revenue	3,414	3,413	2,956	1	457
Total operating revenue	$ 822,090	$ 767,844	$ 655,701	$ 54,246	$ 112,143

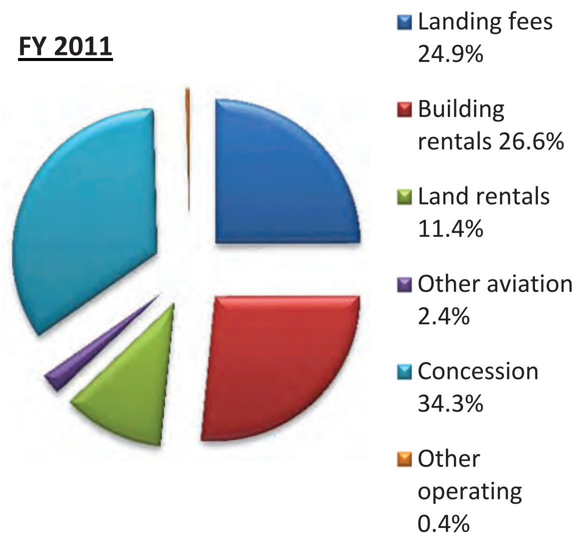
Operating Revenue, Fiscal Year 2012

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2012 and 2011.

FY 2012



FY 2011



For the fiscal year ended June 30, 2012, total operating revenue was $822.1 million, a $54.2 million or 7.1% increase from the prior fiscal year. The growth in aviation related revenue was $38.7 million. Non-aviation revenue grew by $15.6 million mostly from concessions.

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

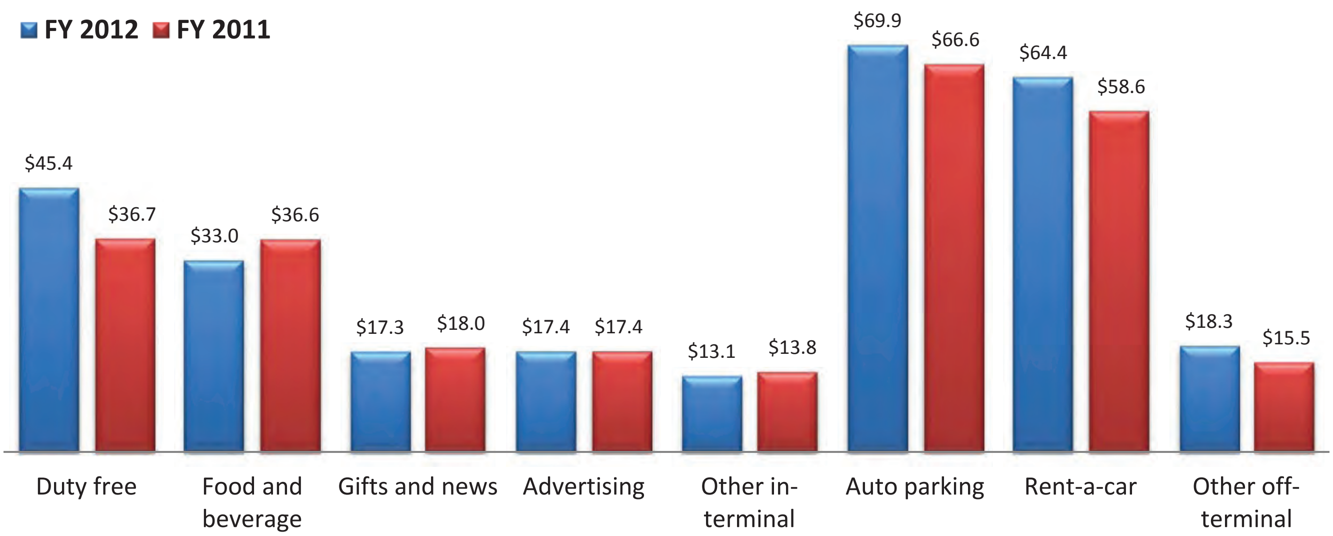
Landing fees for the fiscal years ended June 30, 2012 and 2011 were $208 million and $191.3 million, respectively, for an increase of $16.7 million or 8.7%. The offsetting airport reliever fee paid to VNY in fiscal year 2012 was $2.4 million. Of the $16.7 million, $7.5 million is attributable to increase in landed weight that resulted from gains in passenger and cargo traffic. Increase in landing rates contributed the remaining $9.2 million as passenger and cargo rates increased by 4.4% and 7.6%, respectively. Corollary to the improvements and refurbishments at the terminals, building rental revenue posted growth of $24.6 million as new leases and renegotiated leases were signed with the airlines and other tenants. Maintenance and operations charges as a component of the building rental also increased. Land rental rates increased 18% to 20% effective FY 2011, with a retroactive application covering the period November 2008 through June 30, 2010. Additionally, a 17% increase in rental rates for properties 20 acres or less was effective FY 2012. The decline in land rentals of $6.6 million was the result of offsetting the net retroactive payments of approximately $14.7 million against the actual year-to-year increase of $8.1 million. A major factor for the increase in other aviation revenue was related to the increase in terminal use fee from $5.37 to $6.56 for each arriving international passenger.

Revenue from concessions was $278.8 million in fiscal year 2012, a 5.9% growth from fiscal year 2011 figure of $263.2 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services.

In-terminal concession revenue during fiscal year 2012 had a net increase of $3.7 million or 3% as compared to fiscal year 2011. Duty free concessions benefited from the increased passenger traffic posting revenue growth of $8.7 million mostly from sales over the minimum annual guarantee (MAG). The offsetting decrease of $5 million was due primarily to MAG reductions and waiver credits given to certain food and beverage, retail merchants, and telecommunications concessionaires.

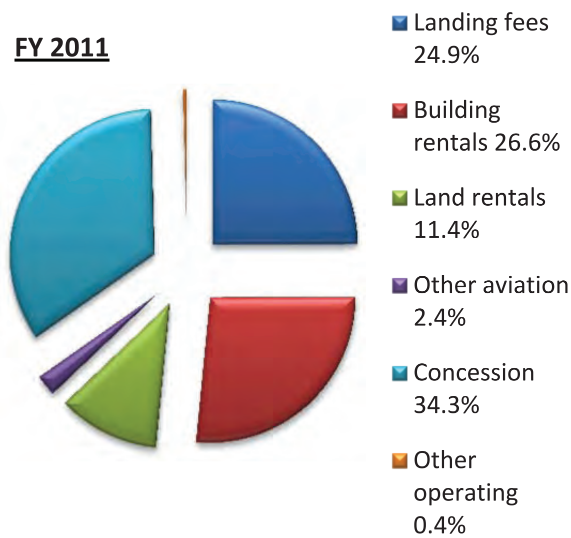
Off-terminal concession revenue in fiscal year 2012 was $152.6 million as compared to $140.7 million in fiscal year 2011, an increase of $11.9 million. Of the $11.9 million, $3.4 million was from auto parking and $5.7 million from rent-a-car (RAC). The increase in sales over MAG for RAC was $3.4 million, while the increase in MAG was $2.3 million. MAG for RAC is adjusted annually based on the prior year's activities.

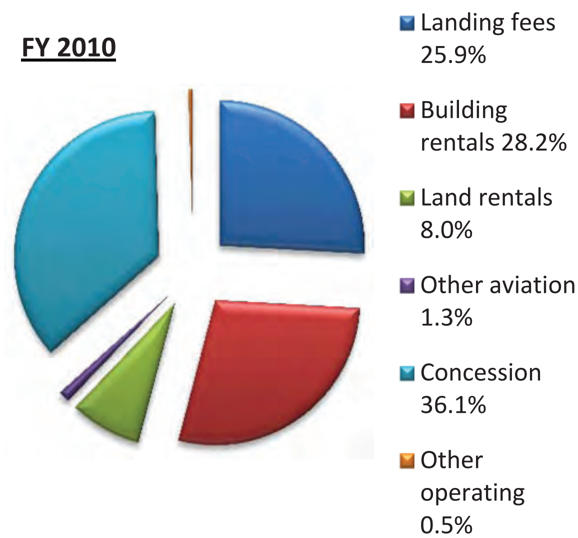
Comparative concession revenue by type for fiscal years 2012 and 2011 are presented in the following chart (amounts in millions).



Operating Revenue, Fiscal Year 2011

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





For the fiscal year ended June 30, 2011, total operating revenue was $767.8 million, a $112.1 million or 17.1% increase from the prior fiscal year. The growth in aviation related revenue was $85.4 million. Non-aviation revenue grew by $26.7 million mostly from concessions.

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

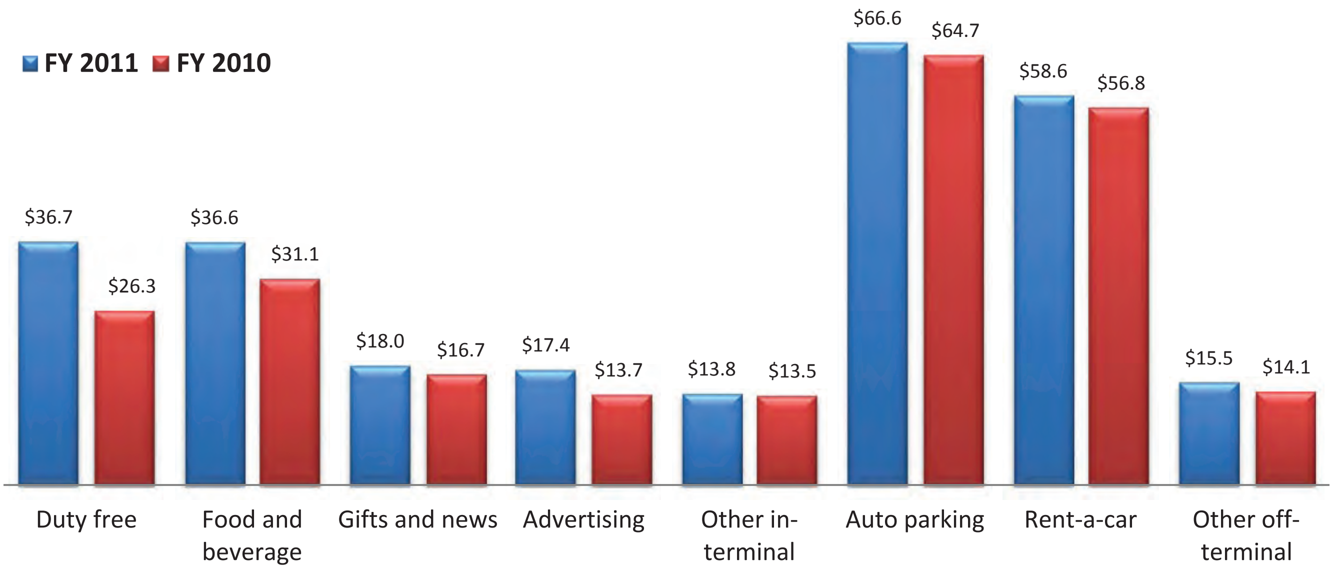
After the year-end adjustment described in the preceding paragraph, revenue from landing fees and building rentals had notable increases in fiscal year 2011 compared to fiscal year 2010. These two aviation-related revenue categories grew by 11% and 10.5%, respectively. Gains in passenger and cargo traffic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

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

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

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

Comparative concession revenue by type for fiscal years 2011 and 2010 are presented in the following chart (amounts in millions).



Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2012, 2011, and 2010. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

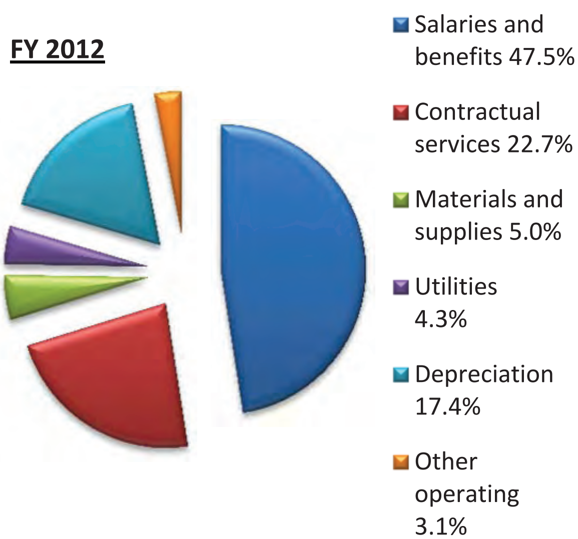
Summary of Operating Expenses (amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Salaries and benefits	$ 339,551	$ 323,522	$ 317,000	$ 16,029	$ 6,522
Contractual services	162,071	143,684	141,253	18,387	2,431
Materials and supplies	35,986	32,699	32,661	3,287	38
Utilities	30,664	29,606	28,832	1,058	774
Other operating expenses	22,023	21,712	21,213	311	499
Operating expenses before depreciation	590,295	551,223	540,959	39,072	10,264
Depreciation	123,941	103,300	86,976	20,641	16,324
Total operating expenses	714,236	654,523	627,935	59,713	26,588
Less- allocation to ONT, VNY and PMD	10,135	9,995	11,407	140	(1,412)
Net operating expenses	$ 704,101	$ 644,528	$ 616,528	$ 59,573	$ 28,000

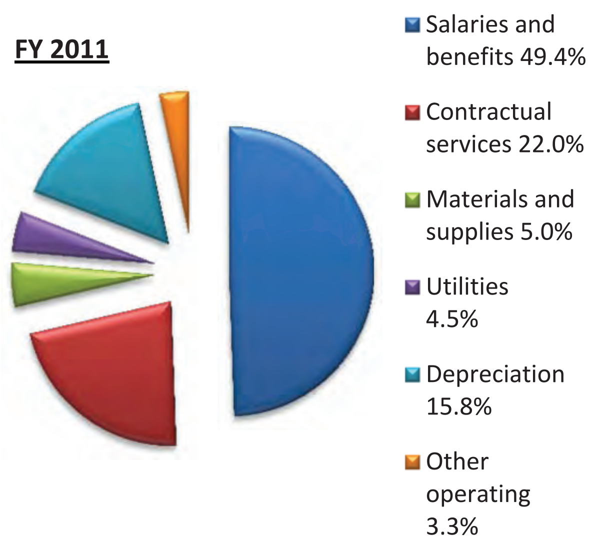
Operating Expenses, Fiscal Year 2012

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2012 and 2011. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

FY 2012



FY 2011

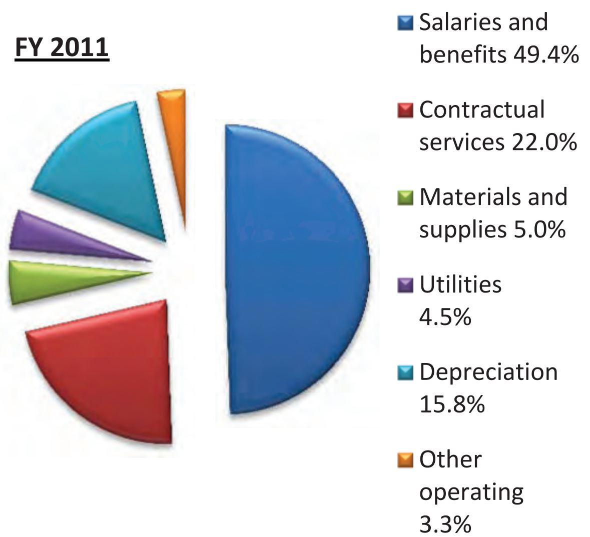


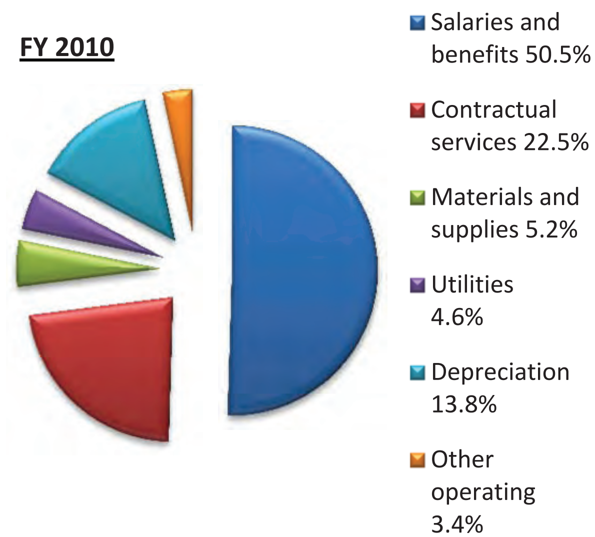
For the fiscal year ended June 30, 2012, operating expenses before allocation to other airports were $714.2 million, a $59.7 million or 9.1% increase from the prior fiscal year. Expense categories that posted significant fluctuations were salaries and benefits, up by $16 million; contractual services, up by $18.4 million; and depreciation, up by $20.6 million. The remaining expense accounts had an aggregate increase of $4.7 million. For salaries and benefits, the primary reason was the increase in the year-end accrual for workers’ compensation. The liability for workers’ compensation is actuarially determined and the difference over the prior year’s valuation is booked at the end of the year, net of claims payments during the year. The medical expense component of the estimated workers’ compensation liability had an increase of 59.6% over the prior year’s figure. The increase in consulting costs for planning, engineering, environmental, and systems services was the primary driver of the increase in contractual services. These additional operating costs were incurred as a consequence of the capital improvement and modernization projects at the airport. The increase in depreciation charges to $123.9 million from $103.3 million in the prior fiscal year was due to the completion of certain major projects at the terminals and airfield.

A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services. The current year’s allocation had a minimal increase over the prior year’s amount.

Operating Expenses, Fiscal Year 2011

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





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

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

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services and producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2012, 2011, and 2010.

Summary of Nonoperating Transactions
(amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 121,443	$ 117,821	$ 110,961	$ 3,622	$ 6,860
Customer facility charges	26,002	24,250	22,270	1,752	1,980
Interest and investment income	32,802	29,064	44,005	3,738	(14,941)
Other nonoperating revenue	13,910	13,380	22,898	530	(9,518)
	$ 194,157	$ 184,515	$ 200,134	$ 9,642	$ (15,619)
Nonoperating expenses					
Interest expense	$ 83,068	$ 78,740	$ 35,416	$ 4,328	$ 43,324
Other nonoperating expenses	1,245	1,883	922	(638)	961
	$ 84,313	$ 80,623	$ 36,338	$ 3,690	$ 44,285
Federal and other capital grants	$ 59,854	$ 67,939	$ 80,955	$ (8,085)	$ (13,016)
Interagency transfers	$ 3,466	$ 804	$ 7,224	$ 2,662	$ (6,420)

Nonoperating Transactions, Fiscal Year 2012

For fiscal year 2012, the increase of $3.6 million in passenger facility charges (PFCs) from the prior fiscal year represents a 3.1% improvement that is aligned with the encouraging gains in passenger traffic during the fiscal year. PFCs are imposed on enplaning passengers. Customer facility charges (CFCs) also posted an increase as rental car business is buoyed by passenger traffic. CFCs are imposed on each car rental transaction collected by rental car concessionaires and remitted to LAX. The increase in interest and investment income was reflective of the improving interest rates. While the annualized rates of return of the Treasury Pool reserve and core portfolios for fiscal year 2012 of 2.38% and 0.21% were down from the prior fiscal year rates of 2.57% and 0.22%, respectively, there was an improvement in investment indices for the quarter ended June 30, 2012. That improvement was translated to upward adjustment of the fair market valuation of investments securities. Other nonoperating revenue had a minimal increase from the prior year's figure. The increase in interest expense was corollary to the additional issuances of revenue bonds to finance capital improvement projects. Eligible expenditures for capital grant related projects were less in fiscal year 2012 as compared to fiscal year 2011.

Nonoperating Transactions, Fiscal Year 2011

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

Long-Term Debt

As of June 30, 2012, LAX's outstanding bonded debt was $3.51 billion. Scheduled principal maturities paid during the fiscal year reduced the June 30, 2011 balance by $45 million.

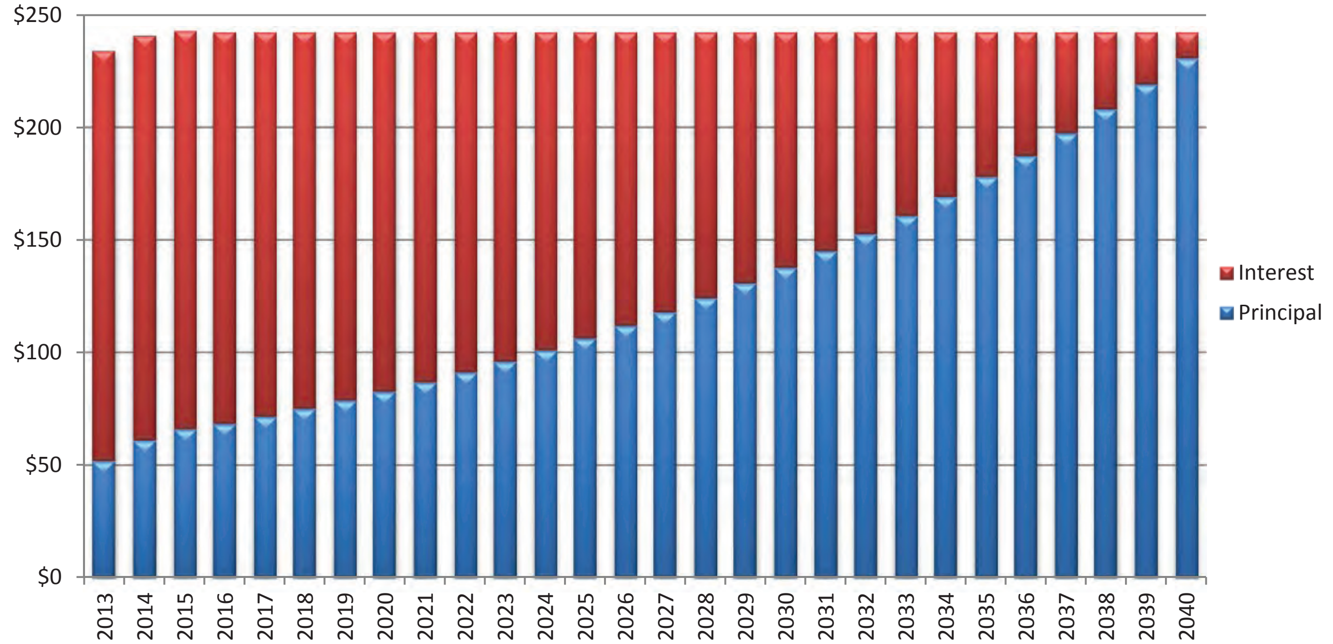
As of June 30, 2011, LAX's outstanding bonded debt was $3.55 billion. The increase of $1.03 billion from the June 30, 2010 balance resulted from the sale of $1.07 billion revenue bonds less scheduled maturities of $38.7 million.

As of June 30, 2012 and 2011, LAX had $402.5 million and $501.2 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2012, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA for Senior Bonds; AA-, A1, and AA- for Subordinate Bonds, respectively.

Additional information regarding LAX's bonded debt can be found in Note 6 of the Notes to the Financial Statements beginning on page 44.

Outstanding principal, plus scheduled interest as of June 20, 2012, is scheduled to mature as shown in the following chart (amounts in millions).



Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2012 and 2011 were $4.8 billion and $3.9 billion, respectively. This investment, which accounts for 60.7% and 51% of LAX's total assets as of June 2012 and 2011, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAWA's policy affecting capital assets can be found in Note 1(f) of the Notes to the Financial Statements on page 33. Additional information can be found on Note 4 on pages 41-42.

Capital Assets, Fiscal Year 2012

Major capital assets activities during fiscal year 2012 were as follows:

- $579.5 million improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- $98.2 million replacement of the Central Utility Plant and cogeneration facilities.
- $69.4 million renovations at Terminals 5 and 6.

- $41.4 million residential acquisition, soundproofing, and noise mitigation.
- $31.6 million security program-in-line baggage screening.
- $27.9 million various IT network and systems projects.
- $15.8 million repairs and improvements of elevators and escalators.
- $5.8 million construction of new north/south crossfield taxiway and apron for overnight parking.

At June 30, 2012, the amounts committed for capital expenditures were as follows: $6 million for airfield and runways, $6.5 million for noise mitigation program, $84.1 million for terminals and facilities, and $17.8 million for various other projects.

Capital Assets, Fiscal Year 2011

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

- $314.9 million interior improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- $35.2 million construction of new north/south crossfield taxiway and apron for overnight parking.
- $33.6 million replacement of Central Utility Plant and cogeneration facilities.
- $23.9 million repairs and improvements of elevators and escalators.
- $17.4 residential acquisition and soundproofing.
- $14.9 million security program-in-line baggage screening.
- $14.8 million acquisition of leased facilities.

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

Landing Fees, Fiscal Year 2013

The airline landing fees for fiscal year 2013, which became effective as of July 1, 2012 are as follows:

Permitted air carriers	Non-permitted air carriers	
$ 58.00	$ 73.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
112.00	140.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.77	4.71	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.46	5.58	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

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

Request for Information

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

FINANCIAL STATEMENTS

Los Angeles World Airports

(Department of Airports of the City of Los Angeles)

Los Angeles International Airport

Statements of Net Assets

June 30, 2012 and 2011

(amounts in thousands)

	2012	2011
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 627,556	$ 702,125
Investments with fiscal agents	61,764	116,310
Accounts receivable, net of allowance for uncollectible accounts: 2012 - $8,565; 2011 - $905	26,662	13,684
Unbilled receivables	30,071	39,394
Accrued interest receivable	3,387	3,055
Grants receivable	21,698	22,374
Receivable from City General Fund	793	769
Due from other agencies	48,285	48,349
Prepaid expenses	2,705	158
Inventories	1,676	1,889
Total unrestricted current assets	824,597	948,107
Restricted current assets		
Cash and pooled investments held in City Treasury	1,031,575	982,656
Investments with fiscal agents, includes cash and cash equivalents: 2012 - $1,144,798; 2011 - $1,533,810	1,199,535	1,719,665
Accrued interest receivable	2,894	2,345
Passenger facility charges receivable	19,954	18,410
Customer facility charges receivable	2,312	2,542
Total restricted current assets	2,256,270	2,725,618
Total current assets	3,080,867	3,673,725
Noncurrent Assets		
Capital assets		
Not depreciated	2,811,312	2,725,030
Depreciated, net	2,007,897	1,200,506
Total capital assets	4,819,209	3,925,536
Other noncurrent assets		
Restricted investments with fiscal agents	--	54,737
Receivable from City General Fund, net of current portion	14,657	15,449
Deferred bond issuance costs	21,865	22,859
Total other noncurrent assets	36,522	93,045
Total noncurrent assets	4,855,731	4,018,581
TOTAL ASSETS	$ 7,936,598	$ 7,692,306

Statements of Net Assets (continued)
June 30, 2012 and 2011
(amounts in thousands)

	2012	2011
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 154,169	$ 113,895
Accrued salaries	9,108	7,711
Accrued employee benefits	4,016	7,893
Estimated claims payable	5,854	4,331
Commercial paper	162,199	115,012
Unearned revenue	4,165	--
Obligations under securities lending transactions	--	64,729
Other current liabilities	24,101	4,509
Total current liabilities payable from unrestricted assets	363,612	318,080
Current liabilities payable from restricted assets		
Contracts and accounts payable	2,071	2,182
Current maturities of bonded debt	51,790	44,985
Accrued interest payable	22,873	23,096
Obligations under securities lending transactions	--	88,473
Other current liabilities	28,020	--
Total current liabilities payable from restricted assets	104,754	158,736
Total current liabilities	468,366	476,816
Noncurrent Liabilities		
Bonded debt, net of current portion	3,519,963	3,575,412
Accrued employee benefits, net of current portion	32,490	30,395
Estimated claims payable, net of current portion	59,480	44,561
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	9,474	10,013
Other long-term liabilities	5,662	5,099
Total noncurrent liabilities	3,639,852	3,678,263
TOTAL LIABILITIES	4,108,218	4,155,079
Net Assets		
Invested in capital assets, net of related debt	1,965,592	1,600,882
Restricted for:		
Debt service	379,603	478,067
Passenger facility charges funded projects	736,653	660,290
Customer facility charges funded projects	124,852	97,181
Central utility plant	--	13,709
Operations and maintenance reserve	159,424	137,684
Other purposes	919	565
Unrestricted	461,337	548,849
TOTAL NET ASSETS	$ 3,828,380	$ 3,537,227

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011
(amounts in thousands)

	2012	2011
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 207,988	$ 191,307
Reliever airport fee	(2,420)	--
Building rentals	229,160	204,525
Land rentals	80,629	87,225
Other aviation revenue	24,552	18,179
Total aviation revenue	539,909	501,236
Concession revenue	278,767	263,195
Other operating revenue	3,414	3,413
Total operating revenue	822,090	767,844
OPERATING EXPENSES		
Salaries and benefits	339,551	323,522
Contractual services	162,071	143,684
Materials and supplies	35,986	32,699
Utilities	30,664	29,606
Other operating expenses	22,023	21,712
Allocated administrative charges	(10,135)	(9,995)
Total operating expenses before depreciation and amortization	580,160	541,228
Operating income before depreciation and amortization	241,930	226,616
Depreciation and amortization	123,941	103,300
OPERATING INCOME	117,989	123,316
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	121,443	117,821
Customer facility charges	26,002	24,250
Interest and investment income	32,802	29,064
Interest expense	(83,068)	(78,740)
Other nonoperating revenue	13,910	13,380
Other nonoperating expenses	(1,245)	(1,883)
Total nonoperating revenue, net	109,844	103,892
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	227,833	227,208
Federal and other government grants	59,854	67,939
Inter-agency transfers	3,466	804
CHANGES IN NET ASSETS	291,153	295,951
NET ASSETS, BEGINNING OF YEAR	3,537,227	3,241,276
NET ASSETS, END OF YEAR	$ 3,828,380	$ 3,537,227

See accompanying notes to the financial statements.

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

Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011
(amounts in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 825,951	$ 747,780
Payments to suppliers	(116,668)	(144,770)
Payments for employee salaries and benefits	(326,599)	(321,563)
Payments for City services	(77,289)	(76,881)
Interagency payments, net	6,663	8,972
Net cash provided by operating activities	312,058	213,538
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	10,598	12,037
Inter-agency transfers in (out)	3,530	(229)
Net cash provided by noncapital financing activities	14,128	11,808
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	209,398	1,213,845
Principal paid on revenue bonds and commercial paper notes	(207,196)	(185,786)
Interest paid on revenue bonds and commercial paper notes	(184,717)	(162,270)
Revenue bonds and commercial paper notes issuance costs	--	(6,710)
Acquisition and construction of capital assets	(933,501)	(584,341)
Proceeds from passenger facility charges	119,899	115,596
Proceeds from customer facility charges	26,232	24,436
Capital contributed by federal agencies	63,468	64,262
Net cash provided by (used for) capital and related financing activities	(906,417)	479,032
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	33,642	31,829
Cash collateral received (paid) under securities lending transactions	(153,202)	117,056
Pending investment trade	44,728	--
Proceeds from maturities of investments held by fiscal agents	185,855	508,002
Net cash provided by investing activities	111,023	656,887
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(469,208)	1,361,265
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,334,901	1,973,636
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,865,693	$ 3,334,901

	2012	2011
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 627,556	$ 702,125
Investments with fiscal agents- unrestricted	61,764	116,310
Cash and pooled investments held in City Treasury- restricted	1,031,575	982,656
Investments with fiscal agents- restricted	1,144,798	1,533,810
Total cash and cash equivalents	$ 2,865,693	$ 3,334,901
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 117,989	$ 123,316
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	123,941	103,300
Change in provision for uncollectible accounts	7,660	520
Other nonoperating revenue, net	123	362
Changes in assets and liabilities		
Accounts receivable	(20,638)	4,293
Unbilled receivables	9,323	(26,220)
Prepaid expenses and inventories	(2,334)	885
Contracts and accounts payable	52,864	2,607
Accrued salaries	1,397	1,749
Accrued employee benefits	(1,782)	(46)
Other liabilities	23,515	2,772
Total adjustments	194,069	90,222
Net cash provided by operating activities	$ 312,058	$ 213,538
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 54,606	$ 66,058
Noncash portion of capital contributions	18,760	22,374

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

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

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1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

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

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

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

b. Basis of Accounting

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

c. Cash, Cash Equivalents, and Investments

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

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

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

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

d. Accounts Receivable and Unbilled Receivable

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

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

e. Inventory

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

f. Capital Assets

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

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

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of such proceeds). Net interest capitalized in fiscal years 2012 and 2011 were $95.6 million and $78.8 million, respectively.

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

g. Contracts Payable, Accounts Payable, and Other Liabilities

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

h. Operating and Nonoperating Revenues and Expenses

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

i. Landing Fees

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

j. Concession Revenue

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

k. Unearned Revenue

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

l. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves, and early retirement incentive. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave. The liability for early retirement is recognized for the separation payment to LAX employees who qualified and elected to participate in the City's Early Retirement Incentive Program. Accrued employee benefits as of June 30, 2012 and 2011 are as follows (amounts in thousands):

Type of benefit	2012	2011
Accrued vacation leave	$ 19,503	$ 19,389
Accrued sick leave	17,003	16,799
Early retirement incentive	--	2,100
Total	$ 36,506	$ 38,288

m. Federal Grants

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

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

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

o. Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* **–** This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2012 and 2011, net assets of $861.5 million and $757.5 million, respectively, are restricted by enabling legislation.

- *Unrestricted Net Assets* – This category represents net assets of LAX that are not restricted for any project or other purpose.

p. Use of Restricted/Unrestricted Net Assets

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

q. Use of Estimates

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

r. Reclassifications

Certain reclassifications have been made to fiscal 2011 amounts in order to conform to the fiscal year 2012 presentation. Such reclassifications had no effect on the previously reported change in net assets.

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2012.

Issued in December 2009, GASB Statement No. 57, "*OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*," establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. It also clarifies requirements of previously issued GASB Statements. This statement has no impact on LAX's financial statements.

Issued in June 2011, GASB Statement No. 64, "*Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53,*" clarifies the existing requirements for the termination of hedge accounting and amends certain provisions of a previously issued GASB Statement. This statement has no impact on LAX's financial statements.

LAWA is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in November 2010, GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements,*" addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement requires disclosures about SCAs including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Implementation of this statement is effective fiscal year 2013.

Issued in December 2010, GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,*" incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989 and does not conflict with or contradict GASB pronouncements: (a) Financial Accounting Standards Board (FASB) Statements and Interpretations, (b) Accounting Principles Board Opinions, and (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Implementation of this statement is effective fiscal year 2013.

Issued in June 2011, GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,*" provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting requirements in GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Implementation of this statement is effective fiscal year 2013.

Issued in March 2012, GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities,*" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of this statement is effective fiscal year 2014.

Issued in March 2012, GASB Statement No. 66, "*Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62,*" resolves conflicting guidance that resulted from the issuance of previously issued pronouncements. Implementation of this statement is effective fiscal year 2014.

Issued in June 2012, GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions,*" replaces the requirements of previously issued statements as they relate to governments that provide pensions through pension plans administered by trusts or similar arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. Governments will report in their financial statements a net pension liability that represents the difference between the total pension liability and the pension assets set aside in a trust. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including descriptive information about the types of benefits available, how to determine the amount of pension plan contributions, and assumptions and methods used in calculating the pension liability. This statement requires cost-sharing employers, such as LAX, to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost sharing plan. Implementation of this statement is effective fiscal year 2015.

3. Cash and Investments

a. Pooled Investments

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

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

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). As of June 30, 2012 and 2011, LAX's share of the Pool was $1.659 billion and $1.685 billion, which represent approximately 24% and 26%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool at June 30, 2012 is the allocated investment agreement traded on June 29, 2012 that was subsequently settled on July 2, 2012. LAX's allocated share was $44.7 million. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

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

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

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

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. The City temporarily suspended its securities lending program on May 30, 2012. At June 30, 2011, LAX's portion of the cash collateral and the related obligation in the City's program was $153.2 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2011 was $153.2 million. Such securities are stated at fair value.

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

c. Investments with Fiscal Agents

The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar investment objectives. LAX's investments held by fiscal agents are for the following purposes (amounts in thousands):

	2012	2011
Unrestricted, current		
Commercial paper	$ 61,764	$ 115,094
Revocable trust accounts for lease termination	--	1,216
Subtotal	61,764	116,310
Restricted, current and noncurrent		
Bond security funds	402,476	501,164
Construction funds	797,059	1,273,238
Subtotal	1,199,535	1,774,402
Total	$ 1,261,299	$ 1,890,712

The revocable trust accounts were established and used by LAX to buy-back rights on certain leased facilities. Such buy-back rights allowed LAX to purchase the leased facilities by retiring third party debt used to finance improvements on such facilities. The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments. The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.

At June 30, 2012, the investments with fiscal agents and their maturities are as follows (amounts in thousands):

		Investment maturities		
	Amount	1 to 30 days	31 to 60 days	61 to 365 days
U.S. Treasury notes	$ 54,737	$ --	$ --	$ 54,737
Money market mutual funds	1,140,396	276,741	863,655	--
Subtotal	1,195,133	$ 276,741	$ 863,655	$ 54,737
Bank deposit accounts	66,166			
Total	$ 1,261,299			

At June 30, 2011, the investments with fiscal agents and their maturities are as follows (amounts in thousands):

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

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

Credit Risk. At June 30, 2012 and 2011, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's. The collateralized investment contract is not rated. In August 2011, Standard and Poor's lowered its long-term credit rating on U.S. government debt from AAA to AA+. This downgrade relates to the credit risk associated with LAX's investments in U.S. Treasury notes held by the fiscal agents.

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

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2012 (amounts in thousands):

	Balance at July 1, 2011	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2012
Capital assets not depreciated					
Land and land clearance	$ 703,664	$ --	$ --	$ 37,933	$ 741,597
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	1,971,102	984,415	--	(936,066)	2,019,451
Total capital assets not depreciated	2,725,030	984,415	--	(898,133)	2,811,312
Capital assets depreciated					
Buildings	574,217	--	--	--	574,217
Improvements	1,765,362	31,299	--	890,524	2,687,185
Equipment and vehicles	178,429	2,490	(6,090)	7,609	182,438
Total capital assets depreciated	2,518,008	33,789	(6,090)	898,133	3,443,840
Less accumulated depreciation					
Buildings	(350,335)	(13,883)	--	--	(364,218)
Improvements	(834,044)	(103,764)	--	2,593	(935,215)
Equipment and vehicles	(133,123)	(6,294)	5,500	(2,593)	(136,510)
Total accumulated depreciation	(1,317,502)	(123,941)	5,500	--	(1,435,943)
Capital assets depreciated, net	1,200,506	(90,152)	(590)	898,133	2,007,897
Total capital assets	$ 3,925,536	$ 894,263	$ (590)	$ --	$ 4,819,209

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

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

5. Commercial Paper

As of June 30, 2012 and 2011, LAX had outstanding commercial paper notes (CP) of $162.2 million and $115 million, respectively. The respective average interest rates in effect as of June 30, 2012 and 2011 were 0.1720% and 0.2542%. The CP matures no more than 270 days from the date of issuance. The notes were issued as a means of interim financing for certain capital expenditures.

LAX entered into a letter of credit and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Bank of America for $54.5 million to expire on March 6, 2015; Barclays Bank for $54.5 million to expire on March 7, 2014; Citibank for $109 million to expire on March 8, 2015; and Wells Fargo Bank for $163.5 million to expire on March 6, 2015.

LAX had the following CP activity for the fiscal years ended June 30, 2012 and 2011 (amounts in thousands):

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Series B	$ --	$ 115,012	$ --	$ 115,012	$ --	$ (115,012)	$ --
Subseries B	--	--	--	--	47,199	--	47,199
Series C	147,116	--	(147,116)	--	47,199	(47,199)	--
Subseries D	--	--	--	--	115,000	--	115,000
Total	$ 147,116	$ 115,012	$ (147,116)	$ 115,012	$ 209,398	$ (162,211)	$ 162,199

6. Bonded Debt

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

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2012 and 2011 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal 2012	Outstanding principal 2011
Issue of 2002, Series A	12/19/02	4.100% - 5.250%	2019	$ 32,450	$ 32,450	$ 32,450
Issue of 2003, Series B	5/07/03	4.000% - 5.000%	2015	103,625	31,775	45,690
Issue of 2008, Series A	8/06/08	3.750% - 5.500%	2038	602,075	551,545	561,840
Issue of 2008, Series B	8/06/08	3.000% - 5.000%	2015	7,875	3,905	5,085
Issue of 2008, Series C	8/06/08	3.000% - 5.250%	2038	243,350	227,080	231,570
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	310,410	303,260	306,385
Issue of 2009, Series C	12/03/09	5.175% - 6.582%	2039	307,350	307,350	307,350
Issue of 2009, Series D	12/03/09	2.500% - 5.000%	2015	31,815	22,755	27,410
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	39,750	31,325	34,580
Issue of 2010, Series A	4/08/10	3.000% - 5.000%	2040	930,155	930,155	930,155
Issue of 2010, Series B	11/04/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/04/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	871,735	875,805
Total principal amount				$ 3,678,700	3,507,375	3,552,360
Unamortized premium					73,924	78,094
Unamortized discount					(8,377)	(8,700)
Unamortized deferred amount on refunding					(1,169)	(1,357)
Net revenue bonds					3,571,753	3,620,397
Less current debt					(51,790)	(44,985)
Net noncurrent debt					$ 3,519,963	$ 3,575,412

b. Pledged Revenue

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

LAX has received approval from the Federal Aviation Administration to collect and use passenger facility charges (PFC) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal years 2012 and 2011, the Board authorized the use of PFC funds not to exceed $25.2 million and $34.5 million for this purpose, respectively. Of the authorized amounts, $25.2 million and $19 million were used for debt service in fiscal years 2012 and 2011, respectively.

The total principal and interest remaining to be paid on the bonds is $6.8 billion. Principal and interest paid during fiscal year 2012 and the net pledged revenues (as defined and including the $25.2 million PFC funds discussed in the preceding paragraph), were $229.4 million and $302.4 million, respectively. Principal and interest paid during fiscal year 2011 and the net pledged revenues, (as defined and including the $19 million PFC funds discussed in the preceding paragraph), were $200.5 million and $275.3 million, respectively.

c. Fiscal Year 2011 Issuances

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

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

d. Principal Maturities and Interest

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

Fiscal year(s) ending	Principal	Interest	Total
2013	$ 51,790	$ 182,483	$ 234,273
2014	60,960	180,138	241,098
2015	65,990	177,245	243,235
2016	68,305	174,267	242,572
2017	71,500	171,072	242,572
2018 - 2022	414,165	798,691	1,212,856
2023 - 2027	533,130	679,738	1,212,868
2028 - 2032	690,525	522,332	1,212,857
2033 - 2037	892,955	319,906	1,212,861
2038 - 2040	658,055	69,666	727,721
Total	$ 3,507,375	$ 3,275,538	$ 6,782,913

e. Build America Bonds

LAX Subordinate Revenue Bonds 2009 Series C and 2010 Series C with par amounts of $307.4 million and $59.4 million, respectively, were issued as federally taxable Build America Bonds (BABs) under the American Recovery and Reinvestment Act of 2009. LAX will receive a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The interest subsidy on the BABs was $8.3 million in FY 2012 and $7.6 million in FY 2011. The subsidy is recorded as a noncapital grant, a component of other nonoperating revenue.

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activity for the fiscal year ended June 30, 2012 (amounts in thousands):

	Balance at July 1, 2011	Additions	Reduction	Balance at June 30, 2012	Current Portion
Revenue bonds	$ 3,552,360	$ --	$ (44,985)	$ 3,507,375	$ 51,790
Add unamortized premium	78,094	--	(4,170)	73,924	--
Less unamortized discount	(8,700)	--	323	(8,377)	--
Less unamortized deferred amount on refunding	(1,357)	--	188	(1,169)	--
Net revenue bonds	3,620,397	--	(48,644)	3,571,753	51,790
Accrued employee benefits	38,288	6,111	(7,893)	36,506	4,016
Estimated claims payable	48,892	20,773	(4,331)	65,334	5,854
Unearned revenue	--	4,165	--	4,165	4,165
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	10,013	--	(539)	9,474	--
Other long-term liabilities	5,099	563	--	5,662	--
Total long-term liabilities	$ 3,735,472	$ 31,612	$ (61,407)	$ 3,705,677	$ 65,825

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

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

8. Leases

a. Operating Leases

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

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the years ended June 30, 2012 and 2011, revenues from such agreements were approximately $199.1 million and $187.7 million, respectively. The respective amounts over MAG were $53.1 million and $37.8 million.

Minimum future rents under these agreements over the next five years, assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2013	$ 114,928
2014	69,715
2015	42,640
2016	4,365
2017	4,354
Total	$ 236,002

On March 1, 2012, LAWA and Westfield Concession Management, LLC (Westfield) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT), Terminal 2, and Theme Building for a term of 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $81.9 million in initial improvements and $16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval.

Under the 3-1-12 Agreement, Westfield shall pay LAX the minimum annual guaranteed rent (MAG) of $17.7 million ($210 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) $210 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and Westfield entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $78.6 million in initial improvements and $15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval.

Under the 6-22-12 Agreement, Westfield shall pay LAX the minimum annual guaranteed rent (MAG) of over $17 million ($240 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) $240 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

Minimum future rents under these two agreements with Westfield over the next five years are estimated as follows (amounts in thousands):

Fiscal year ending	Amount
2013	$ 1,475
2014	17,872
2015	26,794
2016	35,894
2017	36,612
Total	$ 118,647

LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from 35 to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the years ended June 30, 2012 and 2011, revenues from these leases were approximately $309.8 million and $291.8 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the following assumptions: (a) current agreements are carried to contractual termination, (b) airline agreements with no definitive expiry dates are carried over for the next five years, and (c) non-airline agreements with no definitive expiry dates are carried over for the next three years. The future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2013	$ 315,977
2014	308,687
2015	301,656
2016	290,882
2017	272,922
Total	$ 1,490,124

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2012 and 2011 are as follows (amounts in thousands):

	2012	2011
Buildings and facilities	$ 1,532,645	$ 852,585
Less- Accumulated depreciation	(424,620)	(387,760)
Net	1,108,025	464,825
Land	489,742	475,977
Total	$ 1,597,767	$ 940,802

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2012 and 2011 were $4.2 million and $4 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2013	$ 4,528
2014	4,528
2015	4,528
2016	4,528
2017	4,528
2018 - 2022	15,656
2023 - 2027	8,191
2028 - 2032	8,190
Total	$ 54,677

9. Passenger Facility Charges

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

As previously discussed, LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal years 2012 and 2011, the Board authorized the use of PFC funds not to exceed $25.2million and $34.5 million, respectively. Of the authorized amounts, $25.2 million and $19 million were used for debt service in fiscal years 2012 and 2011, respectively.

The following project summary has been approved by FAA as of June 30, 2012 (amounts in thousands):

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

PFCs collected and the related interest earnings through June 30, 2012 and 2011 were as follows (amounts in thousands):

	2012	2011
Amount collected	$ 1,552,868	$ 1,431,567
Interest earnings	165,902	155,102
FAA approved transfer to ONT	(126,090)	(126,090)
Total	$ 1,592,680	$ 1,460,579

As of June 30, 2012 and 2011, cumulative expenditures to date on approved PFC projects, net of the related expenditures on the transfer to ONT, totaled $857.9 million and $799.9 million, respectively.

10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charge (CFC) from car rental agencies serving LAX. State law allows airports to collect a fee of $10 per on-airport rental car agency transaction to fund the development of consolidated car rental facility and common-use transportation system. CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2012 and 2011 were as follows (amounts in thousands):

	2012	2011
Amount collected	$ 117,260	$ 91,029
Interest earnings	6,318	4,945
Total	$ 123,578	$ 95,974

As of June 30, 2012 and 2011, cumulative expenditures to date on approved CFC projects totaled $3 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $59.9 million and $67.9 million in fiscal years 2012 and 2011, respectively. Capital grant funds are used for the Airport Improvement Program and Transportation Security Administration capital projects.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for the years ended June 30, 2012 and 2011 were $78.3 million and $79.6 million. The capitalized portion of these costs was $1.5 million in fiscal year 2011.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2012 and 2011 were $7 million and $6.7 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD such as legal, human services, and financial services. In addition, LAX pays reliever airport fee to VNY. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent for fiscal years 2012 and 2011 was $1.052 million and $1.023 million, respectively. The details are as follows (amounts in thousands):

	FY 2012	FY 2011
Allocated administrative costs		
ONT	$ 7,908	$ 8,129
VNY	1,847	1,504
PMD	380	362
Total	10,135	9,995
Reliever airport fee	(2,420)	--
Land rental	(1,052)	(1,023)
Net	$ 6,663	$ 8,972

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of $43 million out of approximately $58 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway.

The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling $17.7 million plus a 3% interest for a total of $21.3 million. To effect payment, the installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2012 and 2011, the respective outstanding principal amount of $14.7 million and $15.4 million payable beyond one year were reported under Other Noncurrent Assets while the balance of $0.79 million and $0.77 million payable within one year were reported under Unrestricted Current Assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer substantive other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328.

As a City department, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City. Pension and other postemployment benefits are established pursuant to City ordinance. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for health premium subsidy with City-approved health carrier.

b. Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 27.66% in fiscal year 2012, 24.49% in fiscal year 2011, and 19.43% in fiscal year 2010. The required contribution rates were based on the June 30, 2010, June 30, 2009 and June 30, 2008 actuarial valuations, respectively. LAWA paid 100% of its annual contributions of which LAX's portions for fiscal years 2012, 2011 and 2010 were $50.2 million, $49.2 million and $40.4 million, respectively.

Starting November 8, 2009, the contribution rate of all members regardless of their entry date is 6% of their salaries. In addition, effective July 1, 2011, members contribute an additional 1% of their pay for a period of 15 years or until the Early Retirement Incentive Program (ERIP) cost obligation is fully paid, whichever comes first. Further, members represented by certain bargaining groups are required to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, members' contribution rates effective July 1, 2011 are 7%, 9% or 11% of pay, depending upon the bargaining group they belong. The City Charter and related ordinances define member contributions.

c. Net Pension Obligation

The City allocated a portion of its net pension obligation to LAWA based upon its percentage of payroll benefit costs for all City employees. The amounts recorded at June 30, 2012 and 2011 were $9.5 million and $10 million, respectively. For administrative purpose, the allocated amounts were presented as part of LAX's liabilities and were not allocated to all four airport agencies.

d. Funded Status of the Plans

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

e. Early Retirement Incentive Program

In October 2009, the City adopted the ERIP by providing incentives for eligible members of the LACERS. Such incentives are in the form of retirement benefit enhancement and/or separation pay. The ERIP enrollment period started on November 2, 2009 and ended 45 days thereafter. Under terms of the program, an ERIP filer may withdraw his or her enrollment. Eligible ERIP participants shall receive a "separation payment" whereby additional service and/or age credit is added to qualify an employee for an unreduced or standard retirement. Depending on the length of service credit, ERIP retirees received a separation payment of $1,000 for each year of service or $15,000. The separation payment is being paid over two separate calendar years, 2011 and 2012. There were 2,400 ERIP filers Citywide. Of the Citywide ERIP participants, 209 were LAX employees. As of June 30, 2012, LAX's total early retirement liability was fully liquidated; as of June 30, 2011, the early retirement liability was $2.1 million.

The ERIP resulted in additional actuarial accrued liability for pension benefits and postemployment healthcare benefits of $300.2 million and $54.7 million, respectively, with a 15-year amortization period. The ERIP cost obligation shall be borne by members of LACERS and cost-neutral to the City. To this end, the retirement benefits of employees retiring under ERIP were reduced by 1%. In addition, as previously discussed, active members contribute an additional 1% of their pay beginning July 1, 2011 for a period of 15 years or until the ERIP cost obligation is fully paid, whichever comes first.

14. Risk Management

The Risk Management Division (RMD) administers LAX's risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAX's ability to meet its business goals and objectives.

LAX maintains insurance coverage of $1.3 billion for general liability and $1 billion for war and terrorism. Additional insurance coverage is carried for general property for $1.5 billion, boiler and machinery for $250 million, and earthquake for $25 million. Deductibles for these policies are $10,000 per claim with a $400,000 annual aggregate for general liability, and $100,000 per occurrence and annual aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAX also maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2012, 2011, and 2010, no claims were in excess of LAX's insurance coverage.

A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities to be probable of occurring from these lawsuits. The liability for litigation and other claims at June 30, 2012 and 2011 was $11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liability at June 30, 2012 and 2011 were $53.6 million and $37.2 million, respectively.

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

	June 30		
	2012	2011	2010
Balance at beginning of year	$ 48,892	$ 47,877	$ 46,422
Provision for current year's events and changes in provision for prior years' events	20,773	6,038	5,672
Claims payments	(4,331)	(5,023)	(4,217)
Balance at end of year	$ 65,334	$ 48,892	$ 47,877
Current portion	$ 5,854	$ 4,331	$ 5,023

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $121.8 million and $136.3 million as of June 30, 2012 and 2011, respectively. Significant amounts were committed for the following projects: inspection, testing, and surveying for the center taxiway; in-line baggage screening; runway projects; interior improvements at TBIT; noise mitigation; elevator and escalator system upgrade; central utility plant replacement; and information technology network expansion.

b. LAX Master Plan

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

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

c. Aviation Security

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

d. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy.

As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2012 and 2011 was $12.8 million. LAX does not expect any recoveries reducing this obligation.

The State Water Resources Control Board (SWRCB) issued a Notice of Violation (NOV) to LAWA generally alleging violations of underground storage tank (UST) construction, monitoring, and testing laws at facilities where LAWA owns and operates USTs. LAWA owns and/or operates 8 USTs at LAX. The NOV is unclear as to the allege violation. The SWRCB's investigation is continuing.

e. Terminal Leases

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

In January 2008, the Board approved interim settlement agreements with the Plaintiffs. Thereafter, a joint stipulation for dismissal of the entire action filed by the parties was granted by the Court without prejudice to renew. United Air Lines and Continental Airlines have since settled their claims with LAX relating to this matter. The interim settlement with American Airlines (AA) was subsequently extended until December 31, 2010 and the action has not been reinitiated as of October 30, 2012. AA continued to pay M&O charges, based on the already expired interim settlement agreement, that is lower than LAX's interpretation of the lease.

In November 2011, AA filed for Chapter 11 bankruptcy protection. Pursuant to bankruptcy laws, AA has a certain period of time to assume or reject the lease. If AA assumes the lease, it must cure existing defaults as LAX views the underpayment as a default under the lease. If AA rejects the lease, the lease is deemed terminated.

f. AMR Corporation Bankruptcy Filing

On November 29, 2011, AMR Corporation, the parent company of AA, filed for Chapter 11 bankruptcy protection. AA is one of the top ten airlines, by number of passengers, operating at LAX. As of October 30, 2012, LAX's prepetition receivable from AA was $7.8 million. AA has provided LAWA with a $15 million faithful performance guarantee (FPG); however, management and AA have agreed to not draw from the FPG to settle the prepetition receivable. Although AA's operations at the airport remain as usual, LAX cannot predict the outcome of the bankruptcy filing.

16. Other Matters

City Financial Challenges

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

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

17. Subsequent Events

a. New Rates and Charges Methodology

On September 17, 2012, the Board approved a new methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The new rates that will recover from the airlines costs of acquiring, constructing, operating and maintaining terminal facilities are as follows: (i) terminal building rate, (ii) federal inspection services area (FIS) rate, (iii) common use holdroom rate, (iv) common use baggage claim rate, (v) common use outbound baggage system rate, (vi) common use ticket counter rate, and (vii) terminal special charges for custodial services, outbound baggage system maintenance, terminal airline support systems, and loading bridge capital and maintenance.

The new rates shall apply beginning January 1, 2013 to airlines and airline consortia agreeing to the new methodology and executing a rate agreement with LAWA (signatory airlines) by December 15, 2012. Agreements executed after December 15, 2012 shall commence on the first day of the next month beginning no less than sixty days after the execution of the agreement. Agreements with signatory airlines terminate on December 31, 2022. The new rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period. In addition, signatory airlines will share in the concession revenue derived from the terminals based on prescribed two-tiered formulae. Tier One Revenue Sharing will have the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing will be distributed to signatory airlines in the form of a credit at the end of each calendar year beginning in 2014, subject to certain conditions.

Airlines with existing leases that opt not to sign an agreement under the new methodology (non-signatory tenant airlines) will continue to pay rates and charges based on their current leases until they sign the new rate agreement. Airlines with no existing leases that opt not to sign the new rate agreement (non-signatory tariff airlines) will be charged with the new rates effective January 1, 2013. Non-signatory airlines are not eligible to participate in the STP and revenue sharing programs.

b. Revenue Bonds Issuance and Refunding

On September 24, 2012, the Board authorized the following: (a) Issuance of LAX revenue bonds in one or more series in an aggregate principal amount not to exceed $1 billion. The bond proceeds will be used to finance various airfield and terminal capital projects, and refinance outstanding commercial paper notes. (b) Refunding and defeasance of LAX Revenue Bonds Issue of 2002, Series A; and Issue of 2003, Series B with outstanding principal balance of $32.5 million and $31.8 million, respectively.

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SUPPLEMENTAL INFORMATION

Los Angeles City Retirement System
Schedules of Funding Progress

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

Defined Benefit Pension Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2009	$ 1,174,324	$ 1,476,463	$ 302,139	80%	$ 222,680	136%
6/30/2010	1,248,131	1,645,405	397,274	76%	237,458	167%
6/30/2011	1,186,475	1,639,552	453,077	72%	224,463	202%

Other Postemployment Benefit Healthcare Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2009	$ 164,603	$ 252,352	$ 87,749	65%	$ 222,680	39%
6/30/2010	186,256	291,832	105,576	64%	237,458	44%
6/30/2011	189,386	241,030	51,644	79%	224,463	23%

Notes to the Schedules

1. LAWA's portions of the actuarial assets and liabilities were prorated based on covered payroll. Such prorated data is not indicative of the results of an actuarial valuation of LAWA on a stand-alone basis.

2. The multiyear trend information presented above is those of LAWA and is not allocated to LAWA's four airports.

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COMPLIANCE SECTION

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

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of LAX's management. Our responsibility is to express an opinion on LAX's compliance based on our audit.

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

In our opinion, LAX complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

(continued)

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

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

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

Macias Gini & O'Connell LLP

Los Angeles, California
October 30, 2012

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

Schedule of Passenger Facility Charge Revenues and Expenditures
For the Years Ended June 30, 2012 and 2011
(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of June 30, 2010	$ 1,316,991	$ 142,747	$ 1,459,738	$ 813,040	$ 646,698
Fiscal year 2010-11 transactions					
Quarter ended September 30, 2010	28,830	1,513	30,343	1,567	28,776
Quarter ended December 31, 2010	28,057	1,666	29,723	10,734	18,989
Quarter ended March 31, 2011	25,719	4,563	30,282	78,292	(48,010)
Quarter ended June 30, 2011	31,970	4,613	36,583	24,241	12,342
Program to date as of June 30, 2011	1,431,567	155,102	1,586,669	927,874	658,795
Fiscal year 2011-12 transactions					
Quarter ended September 30, 2011	30,383	1,599	31,982	2,248	29,734
Quarter ended December 31, 2011	29,731	1,551	31,282	16,745	14,537
Quarter ended March 31, 2012	27,476	4,237	31,713	11,909	19,804
Quarter ended June 30, 2012	33,711	3,413	37,124	27,116	10,008
Unexpended passenger facility charge revenues and interest earned June 30, 2012	$ 1,552,868	$ 165,902	$ 1,718,770	$ 985,892	$ 732,878

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

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
June 30, 2012 and 2011

1. General

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

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

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

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

In April 2008, FAA approved LAWA's amendment request that increased application number 05-05-C-01-LAX to $468 million to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Project. The amounts used for this purpose were $25.2 million and $19 million in fiscal years 2012 and 2011, respectively.

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

Approved projects	Amount approved for collection	Expenditures to date June 30 2012	2011
ONT- Terminal Development Program	$ 116,371	$ 116,371	$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	--	--
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	44,176	19,000
Implementation of IT Security Master Plan	56,573	28,790	18,961
Noise Mitigation - Land Acquisitions	485,000	360,292	359,265
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	25,575	20,893
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	34,091	26,787
Bradley West	855,000	--	--
Lennox Schools Soundproofing Program	34,089	11,215	1,215
Total	$ 2,538,463	$ 985,892	$ 927,874

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

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

3. Excess Project Expenditures

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

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

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, with the compliance requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, for its customer facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its customer facility charge program is the responsibility of LAX's management. Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1936, as amended by SB 1192*. Those standards and the *California Civil Code Section 1936, as amended by SB 1192* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the customer facility charge program occurred. An audit also includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

In our opinion, LAX complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of LAX is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the customer facility charge program. In planning and performing our audit, we considered LAX's internal control over compliance with the requirements that could have a direct and material effect on the customer facility charge program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *California Civil Code Section 1936, as amended by SB 1192*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

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

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

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

This report is intended solely for the information and use of the Board of Airport Commissioners, LAX management, others within the entity, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
October 30, 2012

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

Schedule of Customer Facility Charge Revenues and Expenditures
For the Years Ended June 30, 2012 and 2011
(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under expenditures on approved projects
Program to date as of June 30, 2010	$ 66,593	$ 3,623	$ 70,216	$ 2,828	$ 67,388
Fiscal year 2010-11 transactions					
Quarter ended September 30, 2010	6,225	160	6,385	61	6,324
Quarter ended December 31, 2010	6,348	385	6,733	47	6,686
Quarter ended March 31, 2011	5,499	427	5,926	90	5,836
Quarter ended June 30, 2011	6,364	350	6,714	--	6,714
Program to date as of June 30, 2011	91,029	4,945	95,974	3,026	92,948
Fiscal year 2011-12 transactions					
Quarter ended September 30, 2011	6,750	392	7,142	--	7,142
Quarter ended December 31, 2011	6,579	407	6,986	--	6,986
Quarter ended March 31, 2012	6,002	391	6,393	--	6,393
Quarter ended June 30, 2012	6,900	183	7,083	--	7,083
Unexpended customer facility charge revenues and interest earned June 30, 2012	$ 117,260	$ 6,318	$ 123,578	$ 3,026	$ 120,552

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

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures
June 30, 2012 and 2011

1. General

Assembly Bill 491 of the 2001-2002 California Legislature (codified in California Civil Code Section 1936 et seq.) (Code) authorized the imposition of Customer Facility Charges (CFC) and use of CFC revenue to plan, finance, design, and construct on-airport consolidated rental car facilities (CRCF).

On March 5, 2007, the Board found that the CRCF proposed by Management was sufficiently definitive and authorized the collection of CFC of $10 on each car rental transaction at LAX. The authorization included a two-year collection period of July 1, 2007 through June 30, 2009. On June 22, 2009, the Board resolved to extend the collection period until a determination is made that the project will not proceed.

The proposed CRCF at LAX will enhance efforts to reduce traffic congestion while also providing an efficient, secure, safe, and reliable transportation system.

CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	2012	2011
Amount collected	$ 117,260	$ 91,029
Interest earnings	6,318	4,945
Subtotal	123,578	95,974
Expenditures		
CRCF planning and development costs	3,026	3,026
Unexpended CFC revenue and interest earnings	$ 120,552	$ 92,948

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

The accompanying Schedule of Customer Facility Charge Revenues and Expenditures was prepared using the cash basis of accounting.

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