Annual Financial Report

Fiscal year ended June 30, 2013

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

Los Angeles International Airport

Annual Financial Report
Fiscal Year Ended June 30, 2013

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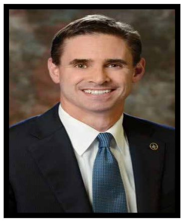
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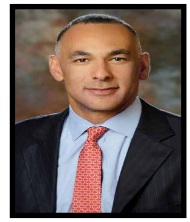
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Risk Management
Workers' Compensation, Safety
and Insurance Compliance

Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2013.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2013 and 2012, 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 material effect on its passenger facility charge program for the fiscal year ended June 30, 2013. MGO's report is on pages 65 and 66.

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 material effect on its customer facility charge program for the fiscal year ended June 30, 2013. MGO's report is on pages 71 and 72.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 3 through 24.

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 third busiest airport in the United States and sixth in the world offering 680 daily flights to 96 destinations in the U.S. and over 900 weekly nonstop flights to 59 international destinations on 63 carriers.

Passenger traffic and air freight at LAX have shown encouraging growth. Passenger traffic increased by 3.2% in fiscal year 2013 as compared to the prior fiscal year, while air freight tonnage increased by 1.9% 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

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 Year Ended June 30, 2013

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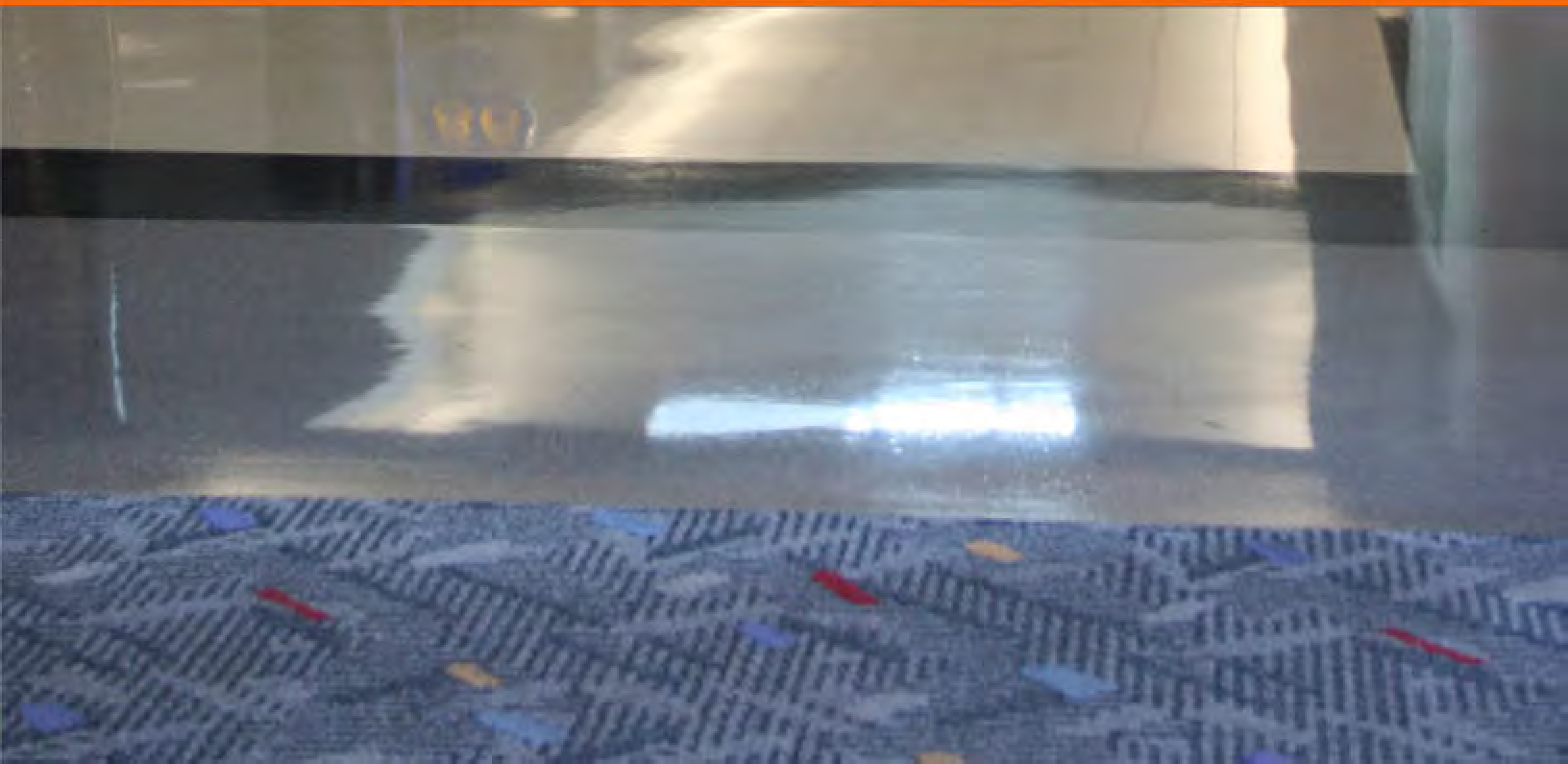
Financial Section



MGO Certified Public Accountants.

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Los Angeles, CA 90017
213.408.8700

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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 fiscal years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of LAX as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of LAX are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of LAX. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 24 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of LAX. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 67 to 70 and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 73 to 74 (collectively Information) 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 63 have not been subjected to the auditing procedures applied in the audits of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of LAWA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2013. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAWA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
October 28, 2013

2013 ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis

Los Angeles World Airports (LAWA) is an independent, fiscally self-sufficient department of the City of Los Angeles, California (City). LAWA is an enterprise fund that owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). Under a lease agreement, LAWA operated Palmdale Regional Airport (PMD) until February 2009. Subsequent to the discontinuance of operations of PMD, LAWA returned its certification to operate the airport to the Federal Aviation Administration. In March 2013, the Board of Airport Commissioners terminated the joint use agreement with the United States Air Force (USAF) and reassigned the lease to the City of Palmdale. LAWA owns approximately 17,750 acres of land located east of USAF Plant 42 in the City of Palmdale. LAWA retains the rights for future development of the Palmdale property.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 25.

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 Position* present information on all of LAX's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2013 and 2012. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. There were no deferred outflows of resources and deferred inflows of resources as of June 30, 2013 and 2012. Over time, increases and decreases in net position may serve as a useful indicator about whether LAX's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* present the results of LAX's operations and information showing the changes in net position 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 position 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

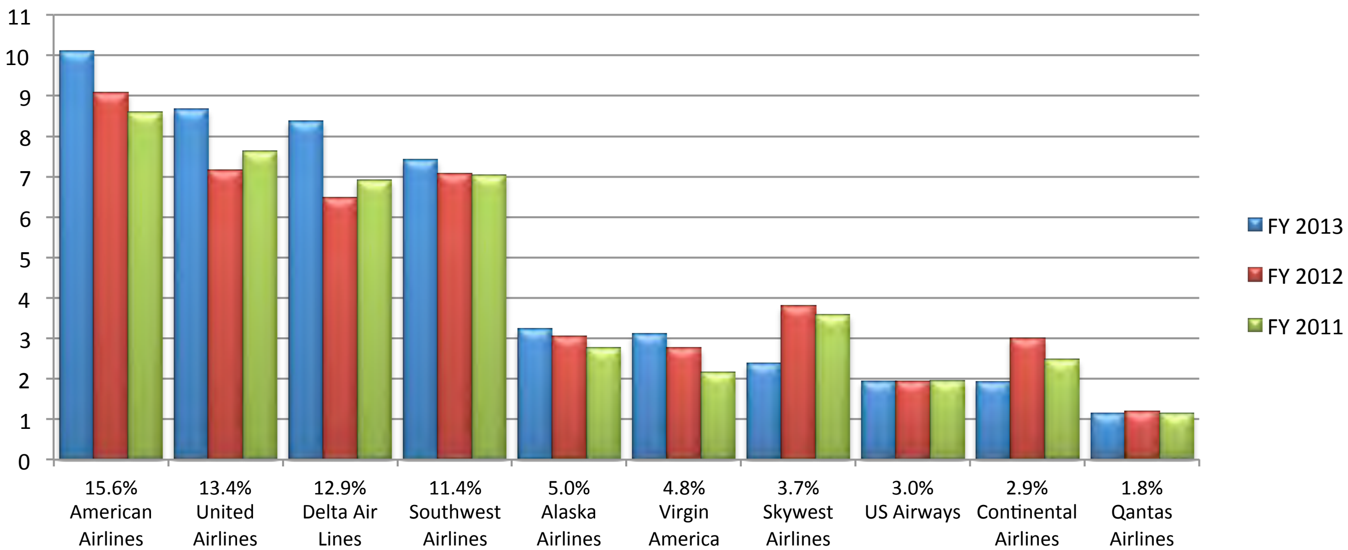
The following table presents a summary of passenger and other traffic for the last three fiscal years:

				% Change	
	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Total passengers	64,969,102	62,930,683	60,606,560	3.2%	3.8%
Domestic passengers	47,641,025	45,957,270	44,352,850	3.7%	3.6%
International passengers	17,328,077	16,973,413	16,253,710	2.1%	4.4%
Departing passengers	32,524,178	31,519,124	30,280,539	3.2%	4.1%
Arriving passengers	32,444,924	31,411,559	30,326,021	3.3%	3.6%
Passenger flight operations					
Departures	273,193	276,980	265,110	-1.4%	4.5%
Arrivals	273,297	277,083	265,212	-1.4%	4.5%
Landing weight					
(thousand lbs)	50,206,827	49,997,632	48,422,352	0.4%	3.3%
Air cargo (tons)					
Mail	81,953	90,450	79,831	-9.4%	13.3%
Freight	1,863,508	1,828,409	1,825,420	1.9%	0.2%

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2013 and the comparative passengers for fiscal years 2012 and 2011.

FY 2013 Top Ten Carriers and Percentage of Market Share (passengers in millions)



Passenger Traffic, Fiscal Year 2013

Passenger traffic increased by 3.2% in fiscal year 2013 as compared to fiscal year 2012. Of the 65 million passengers that moved in and out of LAX, domestic passengers accounted for 73.3%, while international passengers accounted for 26.7%. American Airlines ferried the most number of passengers at 10.1 million. Delta Air Lines, ranked third with 8.4 million passengers posted a 29.2% increase in passenger traffic. United Airlines (8.7 million), Southwest Airlines (7.4 million), and Alaska Airlines (3.2 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 tenth overall.

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 Airlines (7.2 million), Southwest Airlines (7.1 million), Delta Air Lines (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.

Flight Operations, Fiscal Year 2013

Departures and arrivals had a decrease of 7,573 flights or 1.4% during fiscal year 2013 when compared to fiscal year 2012. Scheduled and charter were up 40,004 flights, while commuter flights were down 47,577. Revenue landing pounds were slightly up 0.4%. The top three carriers in terms of landing pounds were American Airlines, Delta Air Lines, and United Airlines. In total, these three airlines contributed 34.9% of the total revenue pounds.

Flight Operations, Fiscal Year 2012

Departures and arrivals 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 Airlines, and Delta Air Lines. In total, these three airlines contributed 31.4% of the total revenue pounds.

Air Cargo Operations, Fiscal Year 2013

Mail and freight cargo increased by 1.4% in fiscal year 2013 as compared to fiscal year 2012. Freight was up 35,099 tons while mail was down 8,497 tons. Domestic cargo was higher by 7,047 tons or 0.9% while international cargo was higher by 19,555 tons or 1.8%. Federal Express was the top air freight carrier accounting for 20% of total freight cargo, followed by American Airlines with 4.8%. Delta Air Lines was the top mail carrier accounting for 25.3% of total mail cargo.

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 was up 10,619 tons while freight 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 Airlines was the top mail carrier accounting for 21.9% of total mail cargo.

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2013

- Assets exceeded liabilities at June 30, 2013 by $4.1 billion.
- Bonded debt had a net increase of $216.3 million.
- Operating revenue totaled $865.5 million.
- Operating expenses (including depreciation and amortization of $134.5 million) totaled $723.9 million.
- Net nonoperating revenue (including passenger facility charges of $124.6 million) was $71.2 million.
- Federal and other grants totaled $12.3 million.
- Net position increased by $222.9 million.

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 position increased by $291.2 million.

Net Position Summary

A condensed net position summary for fiscal years 2013, 2012, and 2011 is presented below:

Condensed Net Position
(amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Assets					
Unrestricted current assets	$ 742,825	$ 824,597	$ 948,107	$ (81,772)	$ (123,510)
Restricted current assets	1,597,470	2,256,270	2,725,618	(658,800)	(469,348)
Capital assets, net	5,888,002	4,819,209	3,925,536	1,068,793	893,673
Other noncurrent assets	36,176	36,522	93,045	(346)	(56,523)
Total assets	8,264,473	7,936,598	7,692,306	327,875	244,292
Liabilities					
Current liabilities payable from unrestricted assets	259,121	363,612	318,080	(104,491)	45,532
Current liabilities payable from restricted assets	97,108	104,754	158,736	(7,646)	(53,982)
Noncurrent liabilities	3,856,971	3,639,852	3,678,263	217,119	(38,411)
Total liabilities	4,213,200	4,108,218	4,155,079	104,982	(46,861)
Net Position					
Net investment in capital assets	2,283,641	1,965,592	1,600,882	318,049	364,710
Restricted for debt service	307,374	379,603	478,067	(72,229)	(98,464)
Restricted for capital projects	855,483	861,505	771,180	(6,022)	90,325
Restricted for operations and maintenance reserve	157,210	159,424	137,684	(2,214)	21,740
Restricted for other purposes	894	919	565	(25)	354
Unrestricted	446,671	461,337	548,849	(14,666)	(87,512)
Total net position	$ 4,051,273	$ 3,828,380	$ 3,537,227	$ 222,893	$ 291,153

Net Position, Fiscal Year 2013

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2013 and 2012, assets exceeded liabilities by $4.1 billion and $3.8 billion, respectively, representing a 5.8% increase or $222.9 million.

The largest portion of LAX's net position ($2.3 billion or 56.4%) 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 position ($1.3 billion or 32.6%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $446.7 million (11%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets decreased by 9.9%, from $824.6 million at June 30, 2012 to $742.8 million at June 30, 2013. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2013) held in the City Treasury. Cash outflows were more than inflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral) held in the City Treasury for capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The drawdowns reduced the year-end investment portfolio held by fiscal agents from $1.2 billion in fiscal year 2012 to $560.9 million in fiscal year 2013.

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 22.2%. Ongoing construction and improvements to modernize terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of $0.8 million and the offsetting net increase in unamortized bond issuance costs of $0.4 million were the primary reasons for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net decrease of $104.5 million or 28.7%. This was mainly due to the refinancing of commercial paper notes to longer term bonded obligations and the net settlement of the unrestricted portion of LAX's allocated share of the City Treasury's fiscal year-end pending investment trades. The recognition of the obligations under securities lending transactions resulted from the resumption of the City Treasury's securities lending program in December 2012, which is further discussed in Note 3 of the Notes to the Financial Statements.

Current liabilities payable from restricted assets had a net decrease of $7.6 million or 7.3%. The net decrease was mostly due to the restricted portion of LAWA's allocated share of the City Treasury's fiscal year-end pending investment trades. The recognition of the obligations under securities lending transactions resulted from the resumption of the City Treasury's securities lending program in December 2012, which is further discussed in Note 3 of the Notes to the Financial Statements.

The net increase in noncurrent liabilities was $217.1 million or 6%. Additional bond issuances during the year were the primary reason for the increase.

Net Position, Fiscal Year 2012

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 position ($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 position ($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 in the City Treasury. 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, 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 in the City Treasury for capital projects funded by PFCs and CFCs. Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFCs and CFCs 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 further discussed in Note 3 of the Notes to the Financial Statements.

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.

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2013, 2012, and 2011 is presented below:

Condensed Changes in Net Position (amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Operating revenue	$ 865,473	$ 822,090	$ 767,844	$ 43,383	$ 54,246
Less- Operating expenses	589,430	580,160	541,228	9,270	38,932
Operating income before depreciation and amortization	276,043	241,930	226,616	34,113	15,314
Less- Depreciation and amortization	134,500	123,941	103,300	10,559	20,641
Operating income	141,543	117,989	123,316	23,554	(5,327)
Other nonoperating revenue, net	71,212	109,844	103,892	(38,632)	5,952
Federal and other grants	12,264	59,854	67,939	(47,590)	(8,085)
Interagency transfers	(2,126)	3,466	804	(5,592)	2,662
Changes in net position	222,893	291,153	295,951	(68,260)	(4,798)
Net position, beginning of year	3,828,380	3,537,227	3,241,276	291,153	295,951
Net position, end of year	$ 4,051,273	$ 3,828,380	$ 3,537,227	$ 222,893	$ 291,153

Operating Revenue

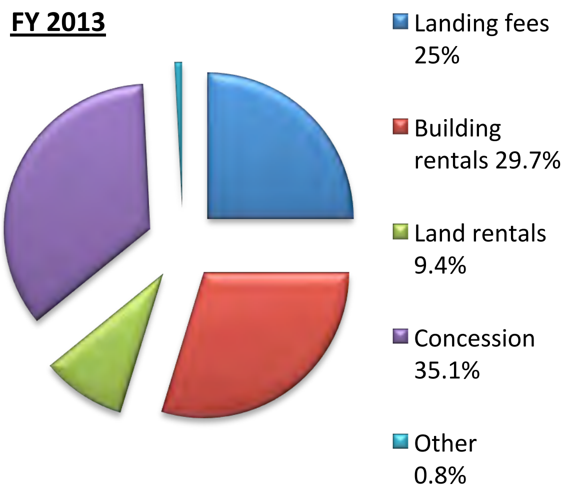
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2013, 2012, and 2011:

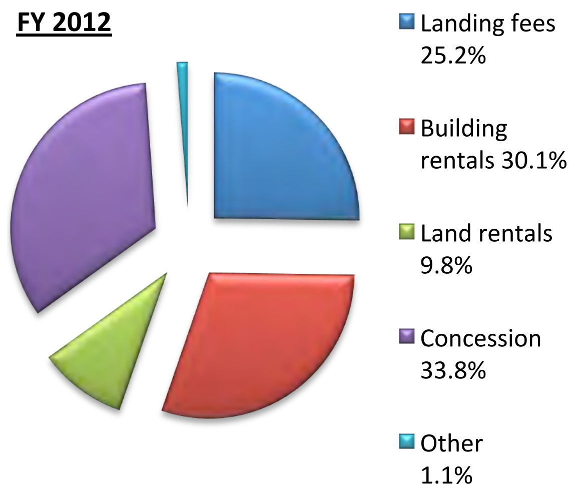
Summary of Operating Revenue
(amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Aviation revenue					
Landing fees	$ 216,359	$ 207,988	$ 191,307	$ 8,371	$ 16,681
Building rentals	257,251	247,940	220,940	9,311	27,000
Land rentals	81,010	80,629	87,225	381	(6,596)
Other aviation revenue	3,924	5,772	1,764	(1,848)	4,008
Total aviation revenue	558,544	542,329	501,236	16,215	41,093
Concession revenue	304,139	278,767	263,195	25,372	15,572
Other operating revenue	2,790	3,414	3,413	(624)	1
Operating revenue before reliever fee	865,473	824,510	767,844	40,963	56,666
Reliever airport fee (landing fees offset)	--	2,420	--	(2,420)	2,420
Total operating revenue	$ 865,473	$ 822,090	$ 767,844	$ 43,383	$ 54,246

Operating Revenue, Fiscal Year 2013

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2013 and 2012. Other aviation and other operating revenue were added and labeled "other."





For the fiscal year ended June 30, 2013, total operating revenue was $865.5 million, a $41 million or 5% increase from the prior fiscal year. The growth in aviation related revenue was $16.2 million. Non-aviation revenue had a net increase of $24.8 million mostly from concessions.

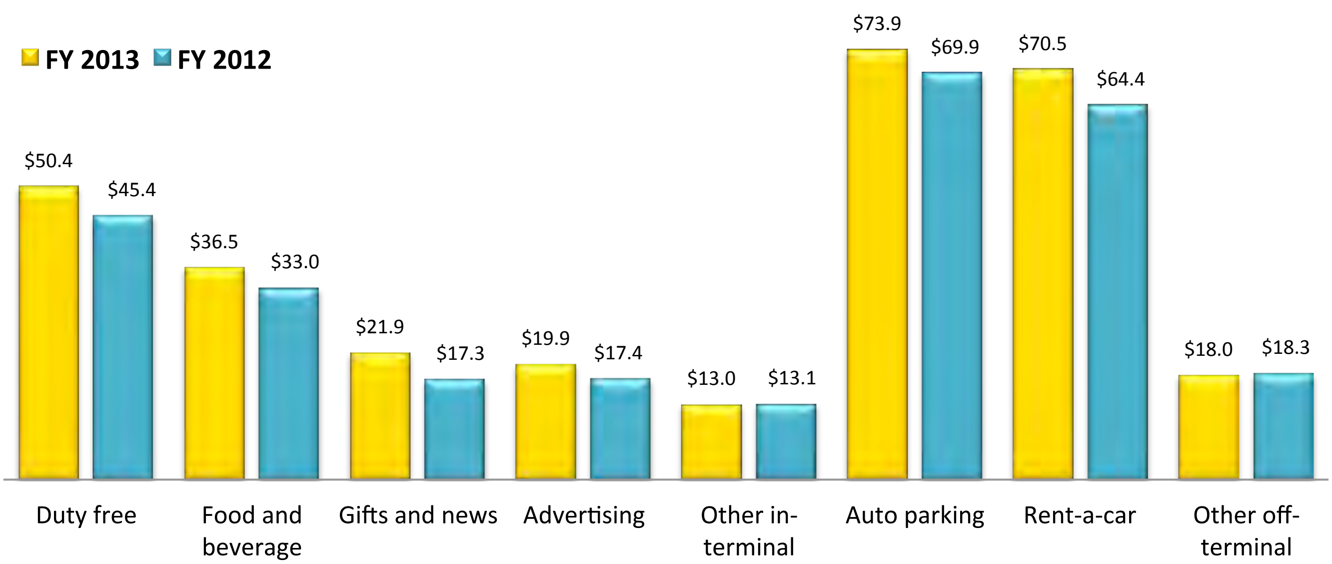
As described in the Notes to the Financial Statements (see page 36), landing fees assessed air carriers are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts 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 year ended June 30, 2013 were $216.4 million, or $8.4 million higher than the previous year. $1.9 million of the increase is attributable to increase in landed weight that resulted from gains in passenger and cargo traffic; increase in landing rates contributed the remaining $6.5 million as passenger and cargo rates increased by 3.3% and 1.4%, respectively. Corollary to the improvements and refurbishments at the terminals as well as the adoption of the new rates and charges, building rental revenue posted growth of $9.3 million as new and renegotiated leases were signed with the airlines and other tenants. Land rental revenue had a slight increase of $0.4 million.

Revenue from concessions was $304.1 million in fiscal year 2013, a 9.1% growth from fiscal year 2012 figure of $278.8 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.

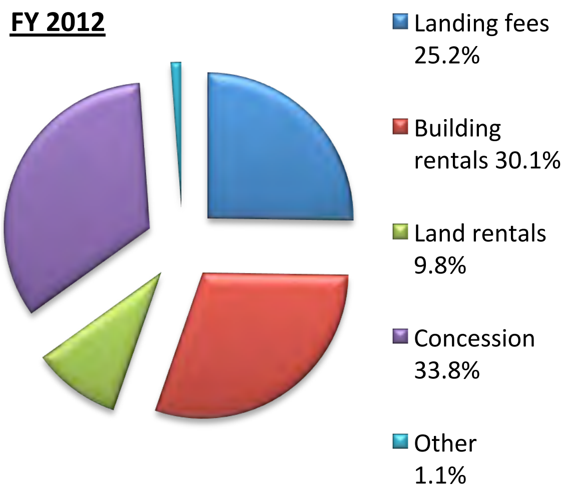
In-terminal concession revenue during fiscal year 2013 had a net increase of $15.5 million or 12.3% as compared to fiscal year 2012. The concessions benefited from the increased passenger traffic such that revenue from sales over the minimum annual guarantee (MAG) posted a notable improvement. Off-terminal concession revenue in fiscal year 2013 was $162.4 million as compared to $152.6 million in fiscal year 2012, an increase of $9.8 million. Of the $9.8 million, $4 million was from auto parking, $6.1 million from rent-a-car (RAC), and offsetting net decrease of $0.3 million from bus service where the flyaway bus services had a decline in ridership.

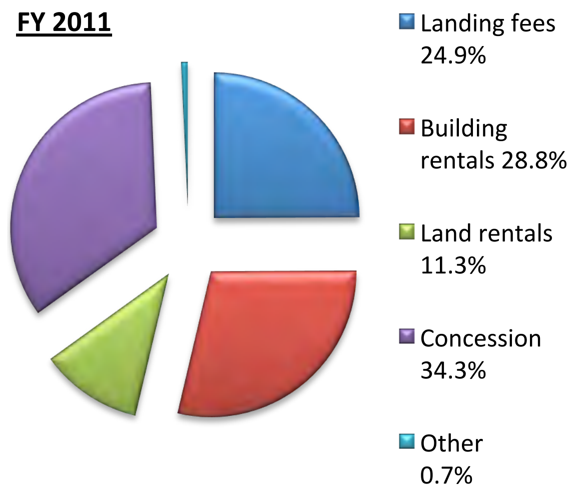
Comparative concession revenue by type for fiscal years 2013 and 2012 are presented in the following chart (amounts in millions).



Operating Revenue, Fiscal Year 2012

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2012 and 2011. Other aviation and other operating revenue were added and labeled "other."





For the fiscal year ended June 30, 2012, total operating revenue was $824.5 million, a $56.7 million or 7.4% increase from the prior fiscal year. The growth in aviation related revenue was $41.1 million. Non-aviation revenue grew by $15.6 million mostly from concessions.

As described in the Notes to the Financial Statements (see page 36), 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.

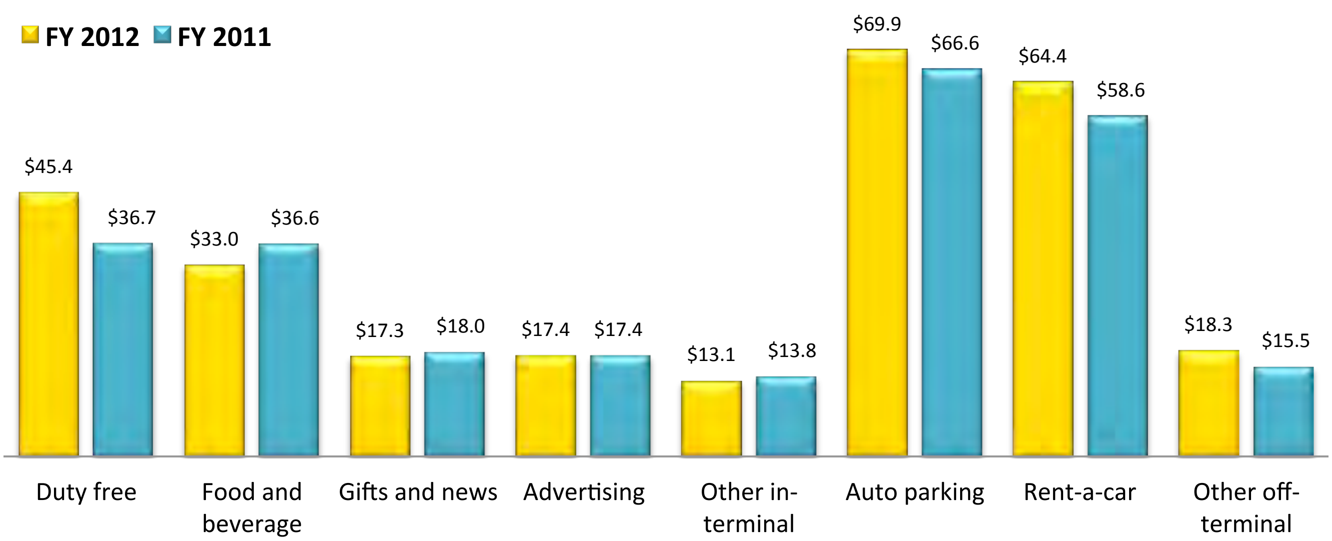
Landing fees for the fiscal years ended June 30, 2012 and 2011 were $208 million and $191.3 million, respectively, for an increase of $16.7 million or 8.7%. The offsetting airport reliever fee paid to VNY in fiscal year 2012 was $2.4 million. Of the $16.7 million, $7.5 million is attributable to increase 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 $27 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 fiscal year 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 fiscal year 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.

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, $3.3 million was from auto parking and $5.8 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 Expenses

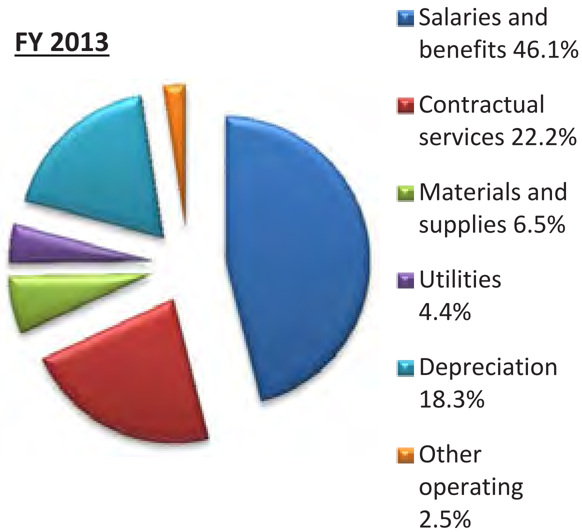
The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2013, 2012, and 2011. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

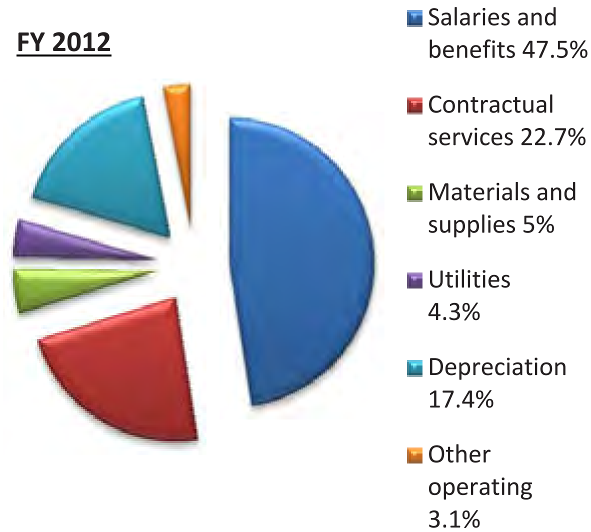
Summary of Operating Expenses (amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Salaries and benefits	$ 338,004	$ 339,551	$ 323,522	$ (1,547)	$ 16,029
Contractual services	162,661	162,071	143,684	590	18,387
Materials and supplies	47,908	35,986	32,699	11,922	3,287
Utilities	32,472	30,664	29,606	1,808	1,058
Other operating expenses	18,383	22,023	21,712	(3,640)	311
Operating expenses before depreciation	599,428	590,295	551,223	9,133	39,072
Depreciation	134,500	123,941	103,300	10,559	20,641
Total operating expenses	733,928	714,236	654,523	19,692	59,713
Less- allocation to ONT, VNY and PMD	9,998	10,135	9,995	(137)	140
Net operating expenses	$ 723,930	$ 704,101	$ 644,528	$ 19,829	$ 59,573

Operating Expenses, Fiscal Year 2013

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2013 and 2012. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.



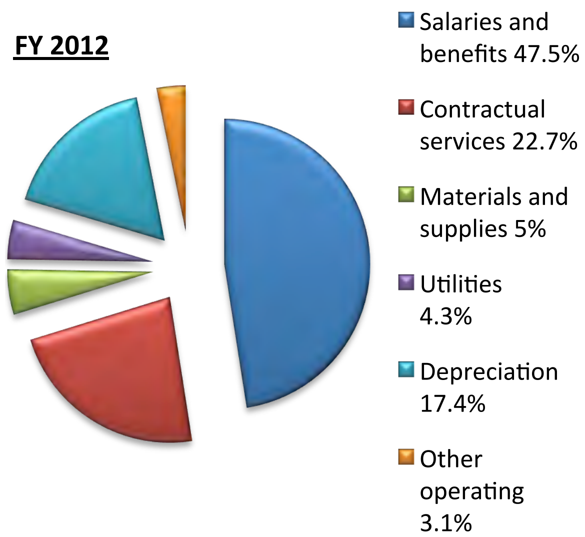


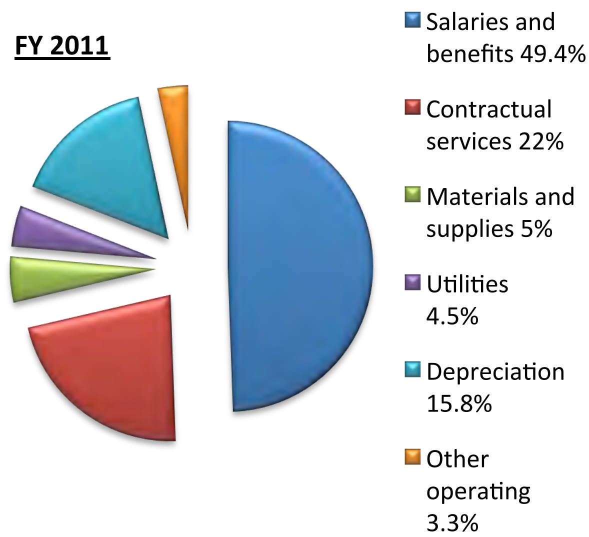
For the fiscal year ended June 30, 2013, operating expenses before allocation to other airports were $733.9 million, a $19.7 million or 2.8% increase from the prior fiscal year. Expense categories that posted significant fluctuations were materials and supplies, up by $11.9 million and depreciation, up by $10.6 million. The remaining expense accounts had an aggregate net decrease of $2.8 million. For materials and supplies, the primary reason was the increased costs for field paint, materials, supplies and services for the airfield marking rehabilitation project to comply with FAA regulations. The increase in depreciation charges to $134.5 million from $123.9 million in the prior fiscal year was due to the completion of certain major projects at the terminals and airfield. During fiscal year 2013, $252.9 million was reclassified from construction work in progress to depreciable capital asset categories. Salaries and overtime expenses before capitalized charges had an increase of $12.4 million due mainly to bargaining agreements with employee unions. Offsetting this increase in salaries is the increase in capitalized charges of $5.9 million related to the ongoing capital improvements. The increase in provision for workers' compensation liability for fiscal year 2013 was $14.5 million less than the prior year because in the prior year there was a reevaluation on the adequacy of case reserves, which resulted in a significant increase in case reserves from $14.7 million in fiscal year 2011 to $22.6 million in fiscal year 2012.The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $6.7 million. The increase in expenses for utilities was mainly due to increased electricity consumption. The decrease in provision for bad debts was the primary reason for the decline in other operating expenses.

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

Operating Expenses, Fiscal Year 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.





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.

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 2013, 2012, and 2011.

Summary of Nonoperating Transactions
(amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 124,610	$ 121,443	$ 117,821	$ 3,167	$ 3,622
Customer facility charges	27,295	26,002	24,250	1,293	1,752
Interest income	25,231	27,554	29,896	(2,323)	(2,342)
Net change in fair value of investments	(22,793)	5,248	(832)	(28,041)	6,080
Other nonoperating revenue	11,487	13,910	13,380	(2,423)	530
	$ 165,830	$ 194,157	$ 184,515	$ (28,327)	$ 9,642
Nonoperating expenses					
Interest expense	$ 93,610	$ 83,068	$ 78,740	$ 10,542	$ 4,328
Other nonoperating expenses	1,008	1,245	1,883	(237)	(638)
	$ 94,618	$ 84,313	$ 80,623	$ 10,305	$ 3,690
Federal and other capital grants	$ 12,264	$ 59,854	$ 67,939	$ (47,590)	$ (8,085)
Interagency transfers	$ (2,126)	$ 3,466	$ 804	$ (5,592)	$ 2,662

Nonoperating Transactions, Fiscal Year 2013

For fiscal year 2013, the increase of $3.2 million in PFCs from the prior fiscal represents a 2.6% improvement aligned with the encouraging gain in passenger traffic. PFCs are imposed on enplaning passengers. The increase in CFCs followed the trend of rental car concession revenue. The decrease in interest income was reflective of the overall performance of the City's investment pool. The annualized rates of return of the Treasury Pool reserve and core portfolios for fiscal year 2013 were 0.15% and 0.23%, respectively, compared to the prior fiscal year rates of 2.38% and 0.21%. The net change in the investment rates was translated to the downward year-end net adjustment of the fair value of investment securities. A component of nonoperating revenue related to reimbursements for certain TSA programs was $3.6 million less in fiscal year 2013. 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 2013 as compared to fiscal year 2012 because of decreasing activity related to airfield projects.

Nonoperating Transactions, Fiscal Year 2012

For fiscal year 2012, the increase of $3.6 million in 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. 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 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 value of investment securities. Build America Bonds subsidy, a component of other nonoperating revenue, was $8.3 million in fiscal year 2012 compared to $7.6 million in fiscal year 2011. 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.

Long-Term Debt

As of June 30, 2013, LAX's outstanding bonded debt was $3.7 billion. The increase of $176.6 million from the June 30, 2012 balance resulted from the sale of $279.1 million revenue bonds less scheduled maturities of $38.2 million, redemption of $32.5 million, and advance refunding of $31.8 million.

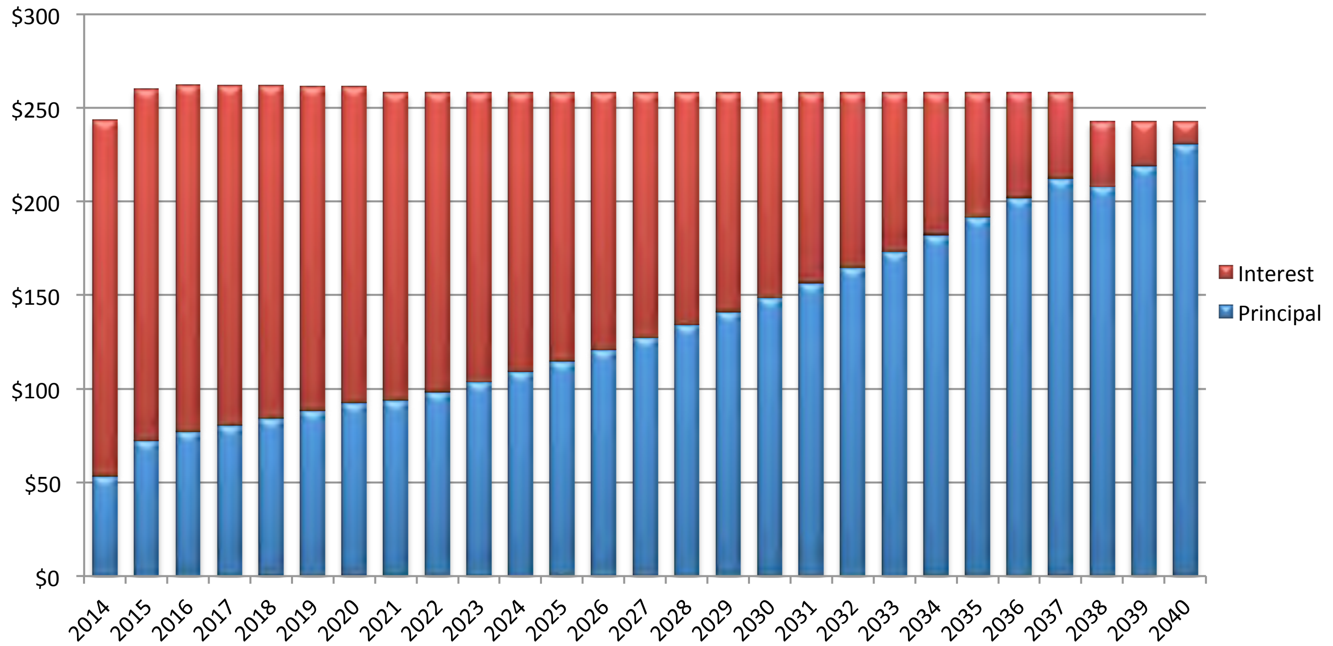
As of June 30, 2012, LAX's outstanding bonded debt was $3.5 billion. Scheduled principal maturities paid during the fiscal year reduced the June 30, 2011 balance by $45 million.

As of June 30, 2013 and 2012, LAX had $331.2 million and $402.5 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2013 and 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 47.

Outstanding principal, plus scheduled interest as of June 30, 2013, 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, 2013 and 2012 were $5.9 billion and $4.8 billion, respectively. This investment, which accounts for 71.2% and 60.7% of LAX's total assets as of June 2013 and 2012, 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 35. Additional information can be found on Note 4 on pages 44-45.

Capital Assets, Fiscal Year 2013

Major capital assets activities during fiscal year 2013 were as follows:

- $539.2 million improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- $195 million renovations at Terminals 2, 3, 5, 6, and 7.
- $125.6 million replacement of the Central Utility Plant and cogeneration facilities.
- $111.5 million purchase of Skyview Center land (including parking lots) and buildings.

- $29.9 million central terminal area development.
- $26.9 repairs and improvements of elevators and escalators.
- $20.2 million various IT network and systems projects.
- $11.3 million satellite concourse, runway and taxilane construction.
- $5.9 million residential acquisition, soundproofing and noise mitigation.
- $5.7 million security program

At June 30, 2013, the amounts committed for capital expenditures were as follows: $5 million for airfield and runways, $7 million for noise mitigation program, $83 million for terminals and facilities, and $38.3 million for various other projects.

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.

Landing Fees, Fiscal Year 2014

The airline landing fees for fiscal year 2014, which became effective as of July 1, 2013 are as follows:

Permitted air carriers	Non-permitted air carriers	
$ 60.00	$ 75.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
115.00	144.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.78	4.73	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
4.60	5.75	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

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 Ryan P. Yakubik, Interim Chief Financial Officer, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

2013 ANNUAL FINANCIAL REPORT

Financial Statements

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

Statements of Net Position
June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 607,976	$ 627,556
Investments with fiscal agents	55	61,764
Accounts receivable, net of allowance for uncollectible accounts: 2013 - $6,646; 2012 - $8,565	32,459	26,662
Unbilled receivables	32,897	30,071
Accrued interest receivable	2,946	3,387
Grants receivable	14,477	21,698
Receivable from City General Fund	816	793
Due from other agencies	49,524	48,285
Prepaid expenses	117	2,705
Inventories	1,558	1,676
Total unrestricted current assets	742,825	824,597
Restricted current assets		
Cash and pooled investments held in City Treasury	1,010,119	1,031,575
Investments with fiscal agents, includes cash and cash equivalents: 2013 - $560,860; 2012 - $1,144,798	560,860	1,199,535
Accrued interest receivable	2,796	2,894
Passenger facility charges receivable	20,934	19,954
Customer facility charges receivable	2,761	2,312
Total restricted current assets	1,597,470	2,256,270
Total current assets	2,340,295	3,080,867
Noncurrent Assets		
Capital assets		
Not depreciated	3,734,331	2,811,312
Depreciated, net	2,153,671	2,007,897
Total capital assets	5,888,002	4,819,209
Other noncurrent assets		
Receivable from City General Fund, net of current portion	13,841	14,657
Deferred bond issuance costs	22,335	21,865
Total other noncurrent assets	36,176	36,522
Total noncurrent assets	5,924,178	4,855,731
TOTAL ASSETS	$ 8,264,473	$ 7,936,598

Statements of Net Position (continued)
June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 149,141	$ 154,169
Accrued salaries	9,979	9,108
Accrued employee benefits	4,295	4,016
Estimated claims payable	6,264	5,854
Commercial paper	68,086	162,199
Unearned revenue	9,536	4,165
Obligations under securities lending transactions	2,350	--
Other current liabilities	9,470	24,101
Total current liabilities payable from unrestricted assets	259,121	363,612
Current liabilities payable from restricted assets		
Contracts and accounts payable	3,903	2,071
Current maturities of bonded debt	53,220	51,790
Accrued interest payable	23,791	22,873
Obligations under securities lending transactions	4,420	--
Other current liabilities	11,774	28,020
Total current liabilities payable from restricted assets	97,108	104,754
Total current liabilities	356,229	468,366
Noncurrent Liabilities		
Bonded debt, net of current portion	3,734,786	3,519,963
Accrued employee benefits, net of current portion	34,748	32,490
Estimated claims payable, net of current portion	61,401	59,480
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	9,462	9,474
Other long-term liabilities	3,791	5,662
Total noncurrent liabilities	3,856,971	3,639,852
TOTAL LIABILITIES	4,213,200	4,108,218
NET POSITION		
Net investment in capital assets	2,283,641	1,965,592
Restricted for:		
Debt service	307,374	379,603
Passenger facility charges funded projects	703,292	736,653
Customer facility charges funded projects	152,191	124,852
Operations and maintenance reserve	157,210	159,424
Other purposes	894	919
Unrestricted	446,671	461,337
TOTAL NET POSITION	$ 4,051,273	$ 3,828,380

See accompanying notes to the financial statements.

Los Angeles International Airport

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 216,359	$ 207,988
Reliever airport fee	--	(2,420)
Building rentals	257,251	247,940
Land rentals	81,010	80,629
Other aviation revenue	3,924	5,772
Total aviation revenue	558,544	539,909
Concession revenue	304,139	278,767
Other operating revenue	2,790	3,414
Total operating revenue	865,473	822,090
OPERATING EXPENSES		
Salaries and benefits	338,004	339,551
Contractual services	162,661	162,071
Materials and supplies	47,908	35,986
Utilities	32,472	30,664
Other operating expenses	18,383	22,023
Allocated administrative charges	(9,998)	(10,135)
Total operating expenses before depreciation and amortization	589,430	580,160
Operating income before depreciation and amortization	276,043	241,930
Depreciation and amortization	134,500	123,941
OPERATING INCOME	141,543	117,989
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	124,610	121,443
Customer facility charges	27,295	26,002
Interest income	25,231	27,554
Net change in fair value of investments	(22,793)	5,248
Interest expense	(93,610)	(83,068)
Other nonoperating revenue	11,487	13,910
Other nonoperating expenses	(1,008)	(1,245)
Total nonoperating revenue, net	71,212	109,844
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	212,755	227,833
Federal and other government grants	12,264	59,854
Inter-agency transfers	(2,126)	3,466
CHANGE IN NET POSITION	222,893	291,153
NET POSITION, BEGINNING OF YEAR	3,828,380	3,537,227
NET POSITION, END OF YEAR	$ 4,051,273	$ 3,828,380

See accompanying notes to the financial statements.

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 862,106	$ 825,951
Payments to suppliers	(217,256)	(116,668)
Payments for employee salaries and benefits	(329,711)	(326,599)
Payments for City services	(74,700)	(77,289)
Inter-agency receipts for services, net	8,929	6,663
Net cash provided by operating activities	249,368	312,058
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	12,361	10,598
Inter-agency transfers in (out)	(3,365)	3,530
Net cash provided by noncapital financing activities	8,996	14,128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	199,406	209,398
Principal paid on revenue bonds and commercial paper notes	(65,705)	(207,196)
Interest paid on revenue bonds and commercial paper notes	(186,203)	(184,717)
Revenue bonds and commercial paper notes issuance costs	(2,003)	--
Payments to escrow accounts for bond refunding and redemption	(5,980)	--
Acquisition and construction of capital assets	(1,089,650)	(933,501)
Proceeds from passenger facility charges	123,630	119,899
Proceeds from customer facility charges	26,846	26,232
Capital contributed by federal agencies	16,547	63,468
Net cash used for capital and related financing activities	(983,112)	(906,417)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	26,044	28,394
Net change in fair value of investments	(22,793)	5,248
Cash collateral received (paid) under securities lending transactions	6,770	(153,202)
Purchases (sales) of investments	(26,693)	44,728
Proceeds from maturities of investments held by fiscal agents	54,737	185,855
Net cash provided by investing activities	38,065	111,023
NET DECREASE IN CASH AND CASH EQUIVALENTS	(686,683)	(469,208)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,865,693	3,334,901
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,179,010	$ 2,865,693

	2013	2012
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 607,976	$ 627,556
Investments with fiscal agents- unrestricted	55	61,764
Cash and pooled investments held in City Treasury- restricted	1,010,119	1,031,575
Investments with fiscal agents- restricted	560,860	1,144,798
Total cash and cash equivalents	$ 2,179,010	$ 2,865,693
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 141,543	$ 117,989
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	134,500	123,941
Change in provision for uncollectible accounts	(1,919)	7,660
Other nonoperating revenue, net	1,629	123
Changes in assets and liabilities		
Accounts receivable	(3,878)	(20,638)
Unbilled receivables	(2,826)	9,323
Prepaid expenses and inventories	2,726	(2,334)
Contracts and accounts payable	(27,450)	52,864
Accrued salaries	871	1,397
Accrued employee benefits	2,537	(1,782)
Other liabilities	1,635	23,515
Total adjustments	107,825	194,069
Net cash provided by operating activities	$ 249,368	$ 312,058
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 80,111	$ 54,606
Net proceeds of refunding bonds deposited in escrow accounts to refund certain outstanding commercial paper notes	244,711	--
Net proceeds of commercial paper notes deposited in escrow accounts to refund certain outstanding bonds	59,926	--

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 owns property consisting of approximately 17,750 acres of land in the City of Palmdale.

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 position and changes in net position 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 of the three airports referred to above and the Palmdale property. As further discussed in Note 2, LAX applies all applicable GASB pronouncements as well as private sector pronouncements issued by the Financial Accounting Standards Board (FASB), unless such FASB pronouncements conflict or contradict GASB pronouncements.

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 position 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 position.

LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore these amounts are 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 Receivables

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 receivables 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. Inventories

LAX's inventories consist primarily of general custodial supplies and are 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 tax-exempt bond proceeds). Net interest capitalized in fiscal years 2013 and 2012 were $88.1 million and $95.6 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. Also, no depreciation is taken on air easements and emission reduction credits because they are considered inexhaustible.

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. Rates and Charges

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, which will recover the 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.

l. 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.

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves. 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 leaves. Accrued employee benefits as of June 30, 2013 and 2012 are as follows (amounts in thousands):

Type of benefit	2013	2012
Accrued vacation leave	$ 20,664	$ 19,503
Accrued sick leave	18,379	17,003
Total	$ 39,043	$ 36,506

n. Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as nonoperating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.

o. Bond Premiums, Discounts, Refunding Charges, and Issuance Costs

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment of debt 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 a component of other noncurrent assets and amortized over the term of the related debt.

p. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. 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 Position* – 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, 2013 and 2012, net position of $855.5 million and $861.5 million, respectively, are restricted by enabling legislation.

- *Unrestricted Net Position* – This category represents net position of LAX that is not restricted for any project or other purpose.

q. Use of Restricted/Unrestricted Net Position

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

r. 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.

s. Reclassifications

Certain reclassifications have been made to fiscal year 2012 amounts in order to conform to the fiscal year 2013 presentation. Such reclassifications had no effect on the previously reported change in net position.

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2013.

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. This statement had no impact on LAX's financial statements.

Issued in November 2010, GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34,*" modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. This statement had no impact on LAX's financial statements.

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. This statement had no material impact on LAX's financial statements.

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. This statement had no material impact on LAX's financial statements.

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

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 plan's fiduciary net position. 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 LAX to record a liability and expense equal to their proportionate share of the collective net pension liability and expense of the City's single-employer defined benefit pension plan. Implementation of this statement is effective fiscal year 2015.

Issued in January 2013, GASB Statement No. 69, "*Government Combinations and Disposals of Government Operations,*" establishes accounting and financial reporting standards related to mergers, acquisitions, transfers of operations, and disposal of operations applicable to state and local governmental entities. Implementation of this statement is effective fiscal year 2015.

Issued in April 2013, GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees,*" requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability in its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. Implementation of this statement is effective fiscal year 2014.

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.

Each investment transaction and the entire portfolio must comply with the California Government Code and the Policy. 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). LAX's share of the Pool of $1.6 billion and $1.7 billion as of June 30, 2013 and 2012 represented approximately 22% and 24%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated share for fiscal years 2013 and 2012 were $18 million and $44.7 million, respectively. 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, U.S. government securities, and federal agency issued securities as collateral on loaned securities. The cash collateral 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 in May 2012 and resumed in December 2012. At June 30, 2013, LAX's portion of the cash collateral and the related obligation in the City's program was $6.8 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2013 was $6.8 million. Such securities are stated at fair value. LAX's portion of the noncash collateral at June 30, 2013 was $144.1 million.

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, 2013 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 that relate to LAX's portfolio are similar as those of the City Treasurer's, and have similar objectives. LAX's investments held by fiscal agents are for the following purposes (amounts in thousands):

	2013	2012
Unrestricted, current		
Commercial paper	$ 55	$ 61,764
Restricted, current and noncurrent		
Bond security funds	331,164	402,476
Construction funds	229,696	797,059
Subtotal	560,860	1,199,535
Total	$ 560,915	$ 1,261,299

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, 2013, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities
Money market mutual funds	$ 250,285	1 to 30 days
State of California LAIF	310,575	61 to 365 days
Bank deposit accounts	55	n/a
Total	$ 560,915	

At June 30, 2012, the investments 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			

Interest Rate Risk. LAX adopts the City's policy that limits the maturity of investments to five years for U.S. Treasury and government agency securities. The policy allows funds with longer term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2013 and 2012, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's. 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 at June 30, 2012.

As of June 30, 2013, LAX's investments in the State of California Local Agency Investment Fund (LAIF) held by fiscal agents totaled $310.6 million. The total amount invested by all public agencies in LAIF at that date was $21.2 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2013, the investments in the PMIA totaled $58.8 billion, of which 98% is invested in non-derivative financial products and 2% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 278 days as of June 30, 2013. LAIF is not rated.

The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The Pooled Money Investment Board whose members are the State Treasurer, Director of Finance, and State Controller, has oversight responsibility for PMIA. The value of the pool shares in LAIF, which may be withdrawn anytime, is determined on a historical basis, which is different than the fair value of LAX's position in the pool.

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 2013 (amounts in thousands):

	Balance at July 1, 2012	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2013
Capital assets not depreciated					
Land and land clearance	$ 741,597	$ 66,255	$ --	$ 32,678	$ 840,530
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	2,019,451	1,076,961	--	(252,875)	2,843,537
Total capital assets not depreciated	2,811,312	1,143,216	--	(220,197)	3,734,331
Capital assets depreciated					
Buildings	574,217	45,209	--	14,149	633,575
Improvements	2,687,185	8,184	--	191,810	2,887,179
Computer software	--	--	--	2,466	2,466
Equipment and vehicles	182,438	6,902	(1,599)	11,772	199,513
Total capital assets depreciated	3,443,840	60,295	(1,599)	220,197	3,722,733
Less accumulated depreciation					
Buildings	(364,218)	(14,029)	--	--	(378,247)
Improvements	(935,215)	(112,172)	--	--	(1,047,387)
Equipment and vehicles	(136,510)	(8,299)	1,381	--	(143,428)
Total accumulated depreciation	(1,435,943)	(134,500)	1,381	--	(1,569,062)
Capital assets depreciated, net	2,007,897	(74,205)	(218)	220,197	2,153,671
Total capital assets	$ 4,819,209	$ 1,069,011	$ (218)	$ --	$ 5,888,002

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

5. Commercial Paper

As of June 30, 2013 and 2012, LAX had outstanding commercial paper (CP) notes of $68.1 million and $162.2 million, respectively. The respective average interest rates in effect as of June 30, 2013 and 2012 were 0.15% and 0.17%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

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, 2013 and 2012 (amounts in thousands):

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
Series A	$ --	$ --	$ --	$ --	$ 32,512	$ (32,512)	$ --
Series B	115,012	47,199	(115,012)	47,199	50,000	(97,199)	--
Series C	--	47,199	(47,199)	--	95,541	(27,455)	68,086
Series D	--	115,000	--	115,000	--	(115,000)	--
Total	$ 115,012	$ 209,398	$ (162,211)	$ 162,199	$ 178,053	$ (272,166)	$ 68,086

On October 23, 2012, LAX sold $59.9 million CP notes for the redemption of the outstanding Series 2002A bonds and advance refunding of the outstanding Series 2003B bonds. The net proceeds of the CP notes plus amounts available from the debt service fund accounts of the aforementioned bonds were deposited into escrow accounts as follows: $32.5 million Series 2002A Escrow Fund, and $33.4 million Series 2003B Escrow Fund. On November 1, 2012, the outstanding Series 2002A bonds with par amount of $32.5 million were redeemed. The amount deposited into the irrevocable Series 2003B Escrow Fund will provide for all future debt service on the bonds. Accordingly, the refunded bonds were considered defeased such that the corresponding liability was subsequently removed from LAX's books and the trust account assets were excluded. The above redemption and advance refunding transactions resulted in a net gain for accounting purposes of $0.4 million, which is credited to operations.

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, 2013 and 2012 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal 2013	Outstanding principal 2012
Issue of 2002, Series A	12/19/02	4.100% - 5.250%	2019	$ 32,450	$ --	$ 32,450
Issue of 2003, Series B	5/07/03	4.000% - 5.000%	2015	103,625	--	31,775
Issue of 2008, Series A	8/06/08	3.750% - 5.500%	2038	602,075	540,770	551,545
Issue of 2008, Series B	8/06/08	3.000% - 5.000%	2015	7,875	2,665	3,905
Issue of 2008, Series C	8/06/08	3.000% - 5.250%	2038	243,350	222,440	227,080
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	310,410	297,520	303,260
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	15,535	22,755
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	39,750	27,955	31,325
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	867,545	871,735
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	105,610	--
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	144,555	--
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	27,870	--
Total principal amount				$ 3,957,810	3,684,010	3,507,375
Unamortized premium					112,779	73,924
Unamortized discount					(8,053)	(8,377)
Unamortized refunding charges					(730)	(1,169)
Net revenue bonds					3,788,006	3,571,753
Less current debt					(53,220)	(51,790)
Net noncurrent debt					$ 3,734,786	$ 3,519,963

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 (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal years 2013 and 2012, the Board authorized the use of PFCs funds not to exceed $35 million and $25.2 million for this purpose, respectively. Of the authorized amounts, $34.4 million and $25.2 million were used for debt service in fiscal years 2013 and 2012, respectively.

The total principal and interest remaining to be paid on the bonds is $6.9 billion. Principal and interest paid during fiscal year 2013 and the net pledged revenues (as defined and including the $34.4 million PFCs funds discussed in the preceding paragraph), were $224.2 million and $322.5 million, respectively. Principal and interest paid during fiscal year 2012 and the net pledged revenues, (as defined and including the $25.2 million PFCs funds discussed in the preceding paragraph), were $229.4 million and $302.4 million, respectively.

c. Fiscal Year 2013 Issuances

On December 18, 2012, LAX issued senior lien revenue bonds in the aggregate par amount of $279.1 million broken down as follows: Series 2012A for $105.6 million, Series 2012B for $145.6 million, and Series 2012C for $27.9 million. The premium for these issuances totaled $46.9 million. The bonds were issued to pay for certain capital projects and to refund outstanding subordinate CP notes totaling $244.7 million.

Of the $244.7 million refunded CP notes, $32.5 million was used for the interim redemption of the Series 2002A bonds (see page 46). Since the $32.5 million CP notes were refunded by the Series 2012C bonds, effectively, Series 2002A bonds were refunded by Series 2012C bonds. These transactions resulted in a cash flow savings of $6.6 million and economic gain of $6 million.

d. Principal Maturities and Interest

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

Fiscal year(s) ending	Principal	Interest	Total
2014	$ 53,220	$ 190,267	$ 243,487
2015	72,390	187,940	260,330
2016	77,425	184,739	262,164
2017	80,830	181,195	262,025
2018	84,425	177,445	261,870
2019 - 2023	477,315	820,619	1,297,934
2024 - 2028	607,020	684,163	1,291,183
2029 - 2033	784,895	506,291	1,291,186
2034 - 2038	996,500	278,753	1,275,253
2039 - 2040	449,990	35,158	485,148
Total	$ 3,684,010	$ 3,246,570	$ 6,930,580

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 receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as “sequestration”) for the federal fiscal year ending September 30, 2013 reduced the subsidy. The interest subsidy on the BABs was $8 million for FY 2013 and $8.3 million for FY 2012. 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 activities for the fiscal years ended June 30, 2013 and 2012 (amounts in thousands):

	Balance at July 1, 2012	Additions	Reduction	Balance at June 30, 2013	Current Portion
Revenue bonds	$ 3,507,375	$ 279,110	$ (102,475)	$ 3,684,010	$ 53,220
Add unamortized premium	73,924	46,881	(8,026)	112,779	--
Less unamortized discount	(8,377)	--	324	(8,053)	--
Less unamortized refunding charges	(1,169)	--	439	(730)	--
Net revenue bonds	3,571,753	325,991	(109,738)	3,788,006	53,220
Accrued employee benefits	36,506	6,553	(4,016)	39,043	4,295
Estimated claims payable	65,334	8,185	(5,854)	67,665	6,264
Unearned revenue	4,165	5,371	--	9,536	9,536
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,474	--	(12)	9,462	--
Other long-term liabilities	5,662	634	(2,505)	3,791	--
Total long-term liabilities	$ 3,705,677	$ 346,734	$ (122,125)	$ 3,930,286	$ 73,315

	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 refunding charges	(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

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 fiscal years ended June 30, 2013 and 2012, revenues from such agreements were approximately $221.2 million and $199.1 million, respectively. The respective amounts over MAG were $61.4 million and $53.1 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
2014	$ 142,053
2015	74,244
2016	18,499
2017	16,768
2018	14,935
Total	$ 266,499

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. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

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. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

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
2014	$ 9,024
2015	26,794
2016	35,894
2017	36,612
2018	37,344
Total	$ 145,668

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 fiscal years ended June 30, 2013 and 2012, revenues from these leases were $338.3 million and $328.6 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
2014	$ 360,907
2015	355,828
2016	349,797
2017	339,606
2018	323,840
Total	$ 1,729,978

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2013 and 2012 are as follows (amounts in thousands):

	2013	2012
Buildings and facilities	$ 1,628,845	$ 1,532,645
Less- Accumulated depreciation	(476,096)	(424,620)
Net	1,152,749	1,108,025
Land	555,997	489,742
Total	$ 1,708,746	$ 1,597,767

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2013 and 2012 were $4.7 million and $4.2 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2014	$ 1,797
2015	1,797
2016	1,797
2017	1,797
2018	1,797
2019 - 2023	8,984
2024 - 2028	8,984
2029 - 2032	7,187
Total	$ 34,140

On June 25, 2013, LAX purchased a 17.6 acres commercial real estate property (known as Skyview Center) located adjacent to the airport. The $111.5 million acquisition includes the land, two 12 and 11 storey office buildings, a parking structure, and a 14.4 acres parking lot. Prior to the purchase of the property, LAX leased certain areas of one of the buildings for office space.

9. 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 PFCs 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 2013 and 2012, the Board authorized the use of PFCs funds not to exceed $35 million and $25.2 million, respectively. Of the authorized amounts, $34.4 million and $25.2 million were used for debt service in fiscal years 2013 and 2012, respectively.

The following project summary has been approved by FAA as of June 30, 2013 (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, 2013 and 2012 were as follows (amounts in thousands):

	2013	2012
Amount collected	$ 1,674,348	$ 1,552,868
Interest earnings	177,204	165,902
FAA approved transfer to ONT	(126,090)	(126,090)
Total	$ 1,725,462	$ 1,592,680

As of June 30, 2013 and 2012, cumulative expenditures to date on approved PFCs projects, excluding the related expenditures on the transfer to ONT, totaled $1,014.7 million and $857.9 million, respectively.

10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charges (CFCs) 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, 2013 and 2012 were as follows (amounts in thousands):

	2013	2012
Amount collected	$ 144,106	$ 117,260
Interest earnings	7,997	6,318
Total	$ 152,103	$ 123,578

As of June 30, 2013 and 2012, cumulative expenditures to date on approved CFCs projects totaled $3 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $12.3 million and $59.9 million in fiscal years 2013 and 2012, 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 fiscal years ended June 30, 2013 and 2012 were $81.6 million and $78.3 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2013 and 2012 were $7.3 million and $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 2013 and 2012 was $1.069 million and $1.052 million, respectively. The details are as follows (amounts in thousands):

	FY 2013	FY 2012
Allocated administrative costs		
ONT	$ 7,907	$ 7,908
VNY	1,692	1,847
PMD	399	380
Total	9,998	10,135
Reliever airport fee	--	(2,420)
Land rental	(1,069)	(1,052)
Net	$ 8,929	$ 6,663

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 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, 2013 and 2012, the respective outstanding principal amount of $13.8 million and $14.7 million payable beyond one year were reported under Other Noncurrent Assets while the balance of $0.82 million and $0.79 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 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 a City-approved health carrier.

b. Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 24.14% in fiscal year 2013, 27.66% in fiscal year 2012, and 24.49% in fiscal year 2011. The required contribution rates were based on the June 30, 2011, June 30, 2010 and June 30, 2009 actuarial valuations, respectively. LAWA paid 100% of its annual contributions of which LAX's portions for fiscal years 2013, 2012 and 2011 were $54.7 million, $50.2 million and $49.2 million, respectively.

Effective July 1, 2011, members contribute 7%, 9% or 11% of pay, depending upon the bargaining group to which they belong. Most of the members who contribute 7% or 9% were required to contribute 11% effective July 1, 2012, and January 1, 2013, respectively. The City Charter and related ordinances define member contributions.

c. Net Pension Obligation

The City allocated a portion of its net pension obligation (NPO) to LAWA based upon its percentage of payroll benefit costs for all City employees. The allocated NPO at June 30, 2013 and 2012 was $9.5 million. For administrative purpose, the allocated amounts were presented as part of LAX's liabilities and were not allocated to the other two airports.

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.

14. Risk Management

The Risk Management Division (RMD) administers LAWA'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 LAWA's ability to meet its business goals and objectives.

LAWA maintains insurance coverage of $1.3 billion for general aviation liability and $1 billion for war and allied perils. Additional insurance coverage is carried for general all risk property insurance for $2 billion, that includes $250 million for boiler and machinery, and $25 million for earthquake. 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 a separate owner controlled insurance program (OCIP) to cover risks associated with the Bradley West Improvement Project. The OCIP covers associated workers' compensation, general liability, and builder's risks exposures for the project and its contracted participants. The aggregate coverage level is $300 million with a $250,000 deductible per occurrence. The OCIP is in effect for the five-year construction period ending in 2014. Additionally, LAX 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 2013, 2012, and 2011, 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, 2013 and 2012 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, 2013 and 2012 were $56 million and $53.6 million, respectively.

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

	June 30		
	2013	2012	2011
Balance at beginning of year	$ 65,334	$ 48,892	$ 47,877
Provision for current year's events and changes in provision for prior years' events	8,185	20,773	6,038
Claims payments	(5,854)	(4,331)	(5,023)
Balance at end of year	$ 67,665	$ 65,334	$ 48,892
Current portion	$ 6,264	$ 5,854	$ 4,331

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $140.4 million and $121.8 million as of June 30, 2013 and 2012, respectively. Significant amounts were committed for the following projects: TBIT improvements, elevator and escalator system upgrade, central utility plant replacement, information technology network expansion, and noise mitigation projects.

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. LAX is continuing to perform its obligations pursuant to these agreements conditioned upon FAA's approval of expenditures and use of airport revenues for the specified purposes.

In connection with the approval of the LAX Master Plan, the City Council amended the City's general plan to include a component specific to LAX, the LAX Plan. Along with the approval of the LAX Master Plan in 2004, the City Council also adopted the LAX Specific Plan, an ordinance that establishes zoning and development regulations consistent with the LAX Plan. The LAX Specific Plan requires LAWA to initiate a Specific Plan Amendment Study (SPAS) to address, among other things, security, traffic, aviation activity, and corresponding environmental analysis consistent with the California Environmental Quality Act (CEQA).

On May 30, 2013, the Alliance for a Regional Solution to Airport Congestion filed a petition for writ of mandate in the California Superior Court (Court) against the City alleging that the SPAS final environmental impact report (SPAS Final EIR) was not completed in compliance with CEQA and requested, among other things, the Court to set aside all approvals based upon the SPAS Final EIR. Lawsuits on similar grounds have been filed by the City of Inglewood, Culver City, City of Ontario, County of San Bernardino, and the SEIU United Service Workers West. No hearing date has been set. The parties are currently engaged in settlement discussions.

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, 2013 and 2012 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 eight USTs at LAX. The NOV did not specify any particular violations but the SWRCB subsequently identified a number of alleged violations that are under review along with continued improvement of LAWA's overall UST compliance program.

e. Terminal Leases

In January 2007, American Airlines, Continental Airlines, and United Airlines (the Plaintiffs) filed a complaint in Federal District Court alleging that LAWA 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 Airlines 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. 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's parent company filed for Chapter 11 bankruptcy protection. Pursuant to bankruptcy laws, AA has a certain period of time to assume or reject the lease and must cure any defaults if it assumes the lease. AA has assumed the lease, but has put aside the "cure" issue for future court hearing. LAWA views the underpayment as a default under the lease. At this time AA and LAWA are negotiating the cure amount.

f. AMR Corporation Bankruptcy Filing

In November 2011, AMR Corporation, the parent company of AA, filed for Chapter 11 bankruptcy protection. AA is the top airline, by number of passengers, operating at LAX. Although AA's operations at the airport remain as usual, LAX cannot predict the outcome of the bankruptcy filing.

16. Other Matter

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 Event

Revenue Bonds Issuance

On October 15, 2013, the Board authorized the issuance of the Series 2013 LAX revenue bonds in an aggregate par amount not to exceed $350 million. The proceeds of the issuance will be used to provide ongoing funding for the Terminal 4 Connector, Bradley West Core Renovations, and various capital projects.

2013 ANNUAL FINANCIAL REPORT

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
6/30/2010	$ 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%
6/30/2012	1,285,854	1,862,970	577,116	69%	235,463	245%

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
6/30/2010	$ 186,256	$ 291,832	$ 105,576	64%	$ 237,458	44%
6/30/2011	189,386	241,030	51,644	79%	224,463	23%
6/30/2012	212,568	296,699	84,131	72%	235,463	36%

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 three airports.

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2013 ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE PASSENGER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the fiscal year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit 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.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the fiscal year ended June 30, 2013.

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance 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 compliance requirement 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the Guide. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
October 28, 2013

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 Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over (under) revenues collected on approved projects
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
Program to date as of June 30, 2012	1,552,868	165,902	1,718,770	985,892	732,878
Fiscal year 2012-13 transactions					
Quarter ended September 30, 2012	30,571	2,170	32,741	1,771	30,970
Quarter ended December 31, 2012	29,628	2,691	32,319	(8,751)	41,070
Quarter ended March 31, 2013	31,119	3,144	34,263	3,979	30,284
Quarter ended June 30, 2013	30,162	3,297	33,459	159,805	(126,346)
Unexpended passenger facility charge revenues and interest earned June 30, 2013	$ 1,674,348	$ 177,204	$ 1,851,552	$ 1,142,696	$ 708,856

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, 2013 and 2012

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

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

In May 1996, FAA approved LAWA's request to transfer a portion of PFCs revenues collected at LAX to fund certain projects at ONT. Accordingly, PFCs 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 $34.4 million and $25.2 million in fiscal years 2013 and 2012, 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 2013	Expenditures to date June 30 2012
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	78,576	44,176
Implementation of IT Security Master Plan	56,573	33,063	28,790
Noise Mitigation - Land Acquisitions	485,000	348,312	360,292
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	29,710	25,575
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	38,067	34,091
Bradley West	855,000	122,000	--
Lennox Schools Soundproofing Program	34,089	11,215	11,215
Total	$ 2,538,463	$ 1,142,696	$ 985,892

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 PFCs application in which the authority was approved, the public agency may elect to increase the total approved PFCs revenue in that application by 15% or less.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE CUSTOMER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, for its customer facility charge program for the fiscal year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *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 material effect on the customer facility charge program occurred. An audit 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.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the fiscal year ended June 30, 2013.

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance 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 compliance requirement 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *California Civil Code Section 1936, as amended by SB 1192*. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
October 28, 2013

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 Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
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
Program to date as of June 30, 2012	117,260	6,318	123,578	3,026	120,552
Fiscal year 2012-13 transactions					
Quarter ended September 30, 2012	7,120	464	7,584	--	7,584
Quarter ended December 31, 2012	6,825	431	7,256	--	7,256
Quarter ended March 31, 2013	5,855	374	6,229	--	6,229
Quarter ended June 30, 2013	7,046	410	7,456	--	7,456
Unexpended customer facility charge revenues and interest earned June 30, 2013	$ 144,106	$ 7,997	$ 152,103	$ 3,026	$ 149,077

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, 2013 and 2012

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 (CFCs) 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 CFCs 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):

	2013	2012
Amount collected	$ 144,106	$ 117,260
Interest earnings	7,997	6,318
Subtotal	152,103	123,578
Expenditures		
CRCF planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	$ 149,077	$ 120,552

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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