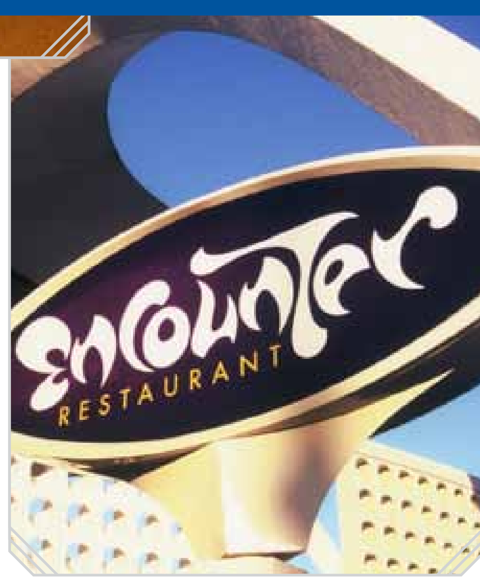
Los Angeles International Airport Annual Financial Report

Fiscal Years Ended June 30, 2010 and 2009

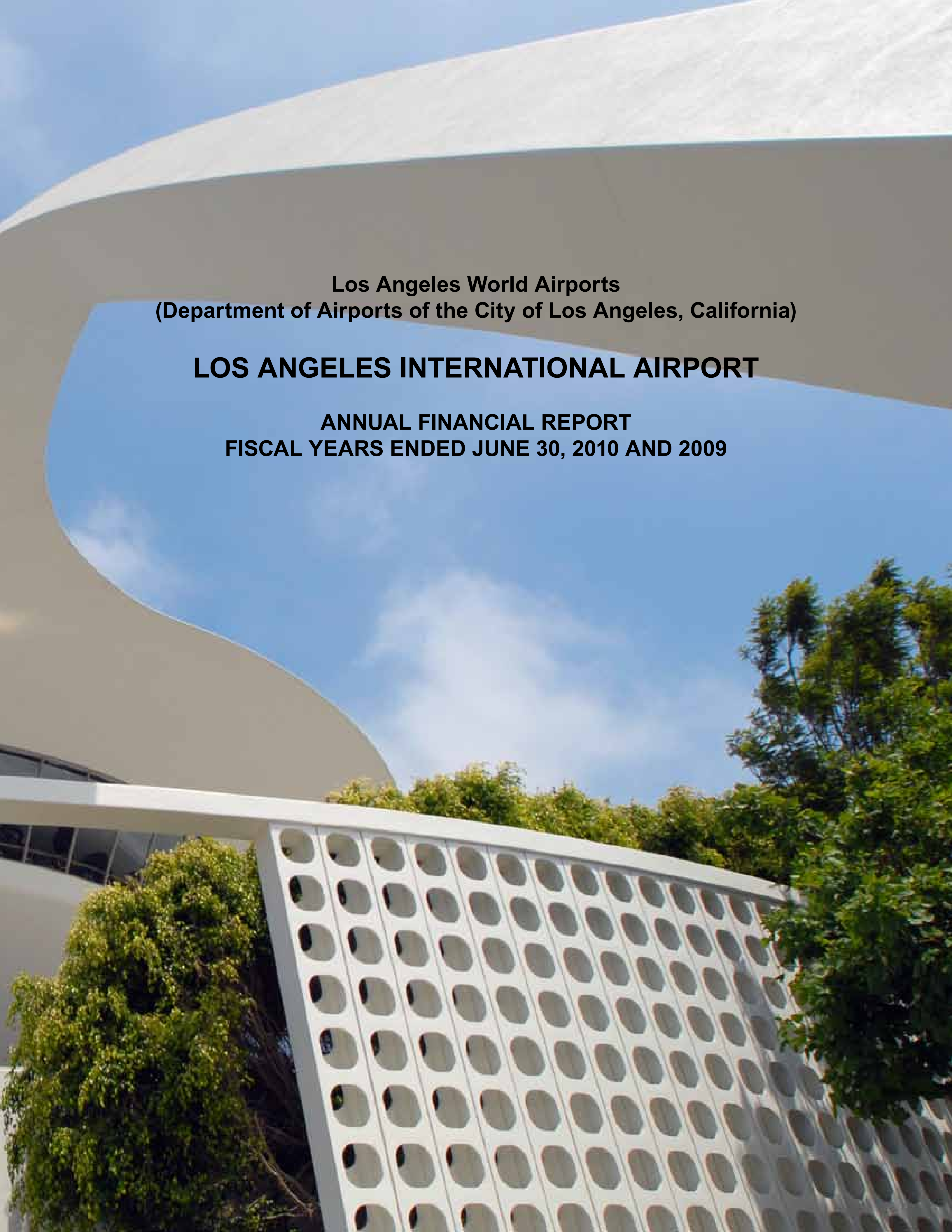


LAX
Los Angeles World Airports
™

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

LOS ANGELES INTERNATIONAL AIRPORT

ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED JUNE 30, 2010 AND 2009



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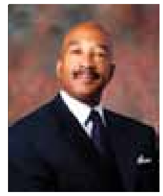

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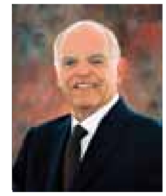

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Message from the Comptroller

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal years ended June 30, 2010 and 2009.

Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, audited LAX's financial statements. Based upon its audit, MGO concluded that there was a reasonable basis for rendering an unqualified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2010 and 2009, were fairly presented in conformity with generally accepted accounting principles (GAAP). MGO's report is on pages 1 and 2.

MGO conducted additional audit to determine LAX's compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*. MGO's audit reported that LAX complied in all material respects, with the requirements that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2010. MGO's report can be found in the Compliance Section.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A can be found immediately following the report of the independent auditor.

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

Passenger and cargo traffic at Los Angeles International Airport has shown encouraging growth. Passenger traffic increased by 2.3% in fiscal year 2010 as compared to the prior fiscal year, while air cargo tonnage increased by 14.6% during the same comparative period. Passenger and other activity highlights during the last three fiscal years are discussed in the MD&A.

Wei Chi
Deputy Executive Director
Comptroller

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FINANCIAL SECTION

MGO Certified Public Accountants.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of LAX's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City, as of June 30, 2010 and 2009, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of LAX as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010, on our consideration of LAX's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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2121 N. California Blvd., Suite 750, Walnut Creek, CA 95496
505 14th Street, 5th Floor, Oakland, CA 94612
515 S. Figueroa Street, Suite 325, Los Angeles, CA 90071
2029 Century Park East, Suite 500, Los Angeles, CA 90067
1201 Dove Street, Suite 680, Newport Beach, CA 92660
225 Broadway, Suite 1750, San Diego, CA 92101

The Management's Discussion and Analysis (MD&A) presented on pages 3 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements of LAX. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole. The accompanying Schedules of Funding Progress – Prorated Data for Los Angeles World Airports Defined Benefit Plan and Other Postemployment Benefits Healthcare Plan (Non-GAAP Basis) have not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 6, 2010

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

MANAGEMENT'S DISCUSSION & ANALYSIS
(UNAUDITED)
June 30, 2010 and 2009

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

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2010 and 2009. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 21.

Using This Financial Report

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

The *Statements of Net Assets* present information on all of LAX's assets and liabilities at June 30, 2010 and 2009. The difference between the assets and liabilities was reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of LAX's financial position.

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

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

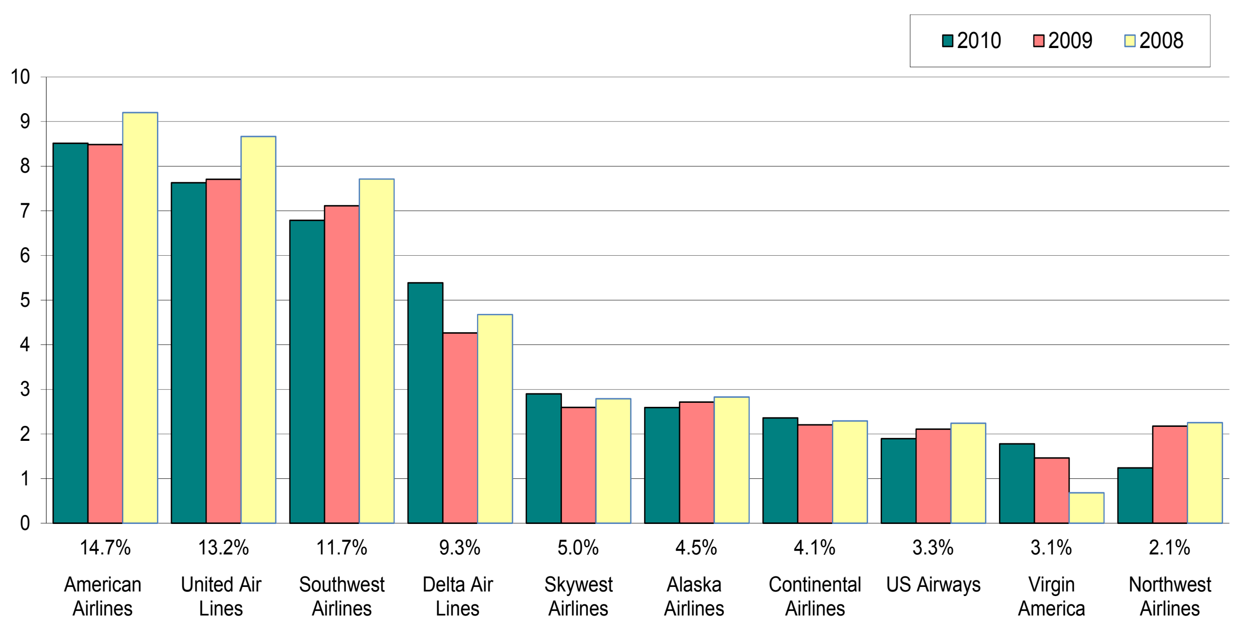
The following table presents a summary of passenger and other traffic at LAX for the last three fiscal years:

	FY 2010	FY 2009	FY 2008	% Change FY 2010	% Change FY 2009
Total passengers	57,827,501	56,547,039	62,262,753	2.3%	-9.2%
Domestic passengers	42,085,485	41,245,222	44,834,824	2.0%	-8.0%
International passengers	15,742,016	15,301,817	17,427,929	2.9%	-12.2%
Departing passengers	28,967,422	28,328,978	31,142,339	2.3%	-9.0%
Arriving passengers	28,860,079	28,218,061	31,120,414	2.3%	-9.3%
Passenger flight operations					
Departures	256,063	257,653	300,591	-0.6%	-14.3%
Arrivals	255,729	257,198	299,789	-0.6%	-14.2%
Landing weight (thousand lbs)	47,295,359	46,699,033	52,102,218	1.3%	-10.4%
Air cargo (tons)					
Mail	69,528	62,731	72,140	10.8%	-13.0%
Freight	1,781,675	1,552,583	1,940,668	14.8%	-20.0%

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, at LAX for fiscal year 2010 and the comparative passengers for fiscal years 2009 and 2008.

FY 2010 Top Ten Carriers and Percentage of Market Share (passengers in millions)



Passenger Traffic, Fiscal Year 2010

Passenger traffic at LAX increased by 2.3% in fiscal year 2010 as compared to fiscal year 2009. Of the 57.8 million passengers that moved in and out of LAX, domestic passengers accounted for 72.8%, while international passengers accounted for 27.2%. American Airlines ferried the most number of passengers at 8.5 million, a minimal increase from the prior fiscal year. Delta Air Lines, ranked fourth with 5.4 million passengers posted a 26.3% increase in passenger traffic. United Air Lines (7.6 million), Southwest Airlines (6.8 million), and Skywest Airlines (2.9 million) complete the top five air carriers operating at LAX. Qantas Airlines, the top foreign flag carrier ferried over 1.2 million passengers or 2.1% of total passengers.

Passenger Traffic, Fiscal Year 2009

Passenger traffic at LAX decreased by 9.2% in fiscal year 2009 as compared to fiscal year 2008. Of the 56.5 million passengers that moved in and out of LAX, domestic passengers accounted for 72.9%, while international passengers accounted for 27.1%. American Airlines ferried the most number of passengers at 8.5 million, a decrease of 7.8% from fiscal year 2008. United Air Lines (7.7 million), Southwest Airlines (7.1 million), Delta Airlines (4.3 million), and Alaska Airlines (2.8 million) complete the top five air carriers operating at LAX. Virgin America, the tenth ranked airline had a 114.5% increase in passenger traffic. Qantas Airlines, the top foreign flag carrier ferried over 1.2 million passengers edging out Mexicana Airlines by 1,700 passengers.

Flight Operations, Fiscal Year 2010

Landings and takeoffs at LAX, excluding cargo, had a decrease of 3,059 flights or 0.6% during fiscal year 2010 when compared to fiscal year 2009. Charter and commuter were up 5,078 flights, while scheduled flights were down 8,137. Revenue landing pounds were up 1.3%. The top three carriers in terms of landing pounds were American Airlines, United Air Lines, and Southwest Airlines. In total, these three airlines contributed 33.8% of the total revenue pounds.

Flight Operations, Fiscal Year 2009

Landings and takeoffs at LAX, excluding cargo, had a decrease of 85,529 flights or 14.2% during fiscal year 2009 when compared to fiscal year 2008. Charter was up 99 flights, while the combined scheduled and commuter flights were down 85,628. Revenue landing pounds were down 10.4%. The top three carriers in terms of landing pounds were United Air Lines, American Airlines, and Southwest Airlines. In aggregate, these three airlines contributed 35.3% of the total revenue pounds.

Air Cargo Operations, Fiscal Year 2010

Mail and freight cargo at LAX increased by 14.6% in fiscal year 2010 as compared to fiscal year 2009. Mail tonnage was up 6,797 tons while freight tonnage was up 229,092 tons. Domestic cargo was higher by 63,635 tons or 8.7% while international cargo was higher by 172,254 tons or 19.4%. Federal Express was the top air freight carrier accounting for 20% of total freight cargo, followed by Korean Airlines with 5.8%. United Air Lines was the top mail carrier accounting for 25% of total mail cargo.

Air Cargo Operations, Fiscal Year 2009

Mail and freight cargo at LAX decreased by 19.7% in fiscal year 2009 as compared to fiscal year 2008. Mail tonnage was down 9,409 tons while freight tonnage was down 388,085 tons. Domestic cargo was lower by 148,699 tons or 16.9% while international cargo was lower by 248,795 tons or 21.9%. Federal Express was the top air freight carrier accounting for 22.7% of total freight cargo, followed by Korean Airlines with 5.2%. United Air Lines was the top mail carrier accounting for 24.2% of total mail cargo.

Financial Highlights, Fiscal Year 2010

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

Financial Highlights, Fiscal Year 2009

- LAX's assets exceeded liabilities at June 30, 2009 by $3 billion.
- Bonded debt of LAX had a net increase of $828.8 million; new issuances totaled $853.3 million.
- Operating revenue totaled $657.2 million.
- Operating expenses, including depreciation, totaled $609.8 million.
- Net nonoperating revenue (including passenger facility charges of $104 million) was $136.8 million.
- Federal grants totaled $88.2 million.
- Net assets increased by $271.9 million.

Overview of LAX's Financial Statements

Net Assets Summary

A condensed summary of LAX's net assets for fiscal years 2010, 2009, and 2008 is presented below:

Condensed Net Assets
(amounts in thousands)

	FY 2010	FY 2009	FY 2008	FY 2010 increase (decrease)	FY 2009 increase (decrease)
Assets					
Unrestricted current assets	$ 774,448	$ 684,077	$ 646,200	$ 90,371	$ 37,877
Restricted current assets	1,626,842	982,941	809,982	643,901	172,959
Capital assets, net	3,410,735	2,681,138	2,255,412	729,597	425,726
Other noncurrent assets	480,128	7,001	2,189	473,127	4,812
Total assets	6,292,153	4,355,157	3,713,783	1,936,996	641,374
Liabilities					
Current liabilities payable from unrestricted assets	341,430	204,414	542,314	137,016	(337,900)
Current liabilities payable from restricted assets	82,757	106,729	89,109	(23,972)	17,620
Noncurrent liabilities	2,626,690	1,093,886	404,124	1,532,804	689,762
Total liabilities	3,050,877	1,405,029	1,035,547	1,645,848	369,482
Net Assets					
Invested in capital assets, net of related debt	1,534,174	1,584,180	1,664,448	(50,006)	(80,268)
Restricted for debt service	336,264	106,750	26,688	229,514	80,062
Restricted for capital projects	730,468	623,718	474,390	106,750	149,328
Restricted for operations and maintenance reserve	137,684	137,684	137,684	--	--
Restricted for other purposes	5,641	33,958	95,570	(28,317)	(61,612)
Unrestricted	497,045	463,838	279,456	33,207	184,382
Total net assets	$ 3,241,276	$ 2,950,128	$ 2,678,236	$ 291,148	$ 271,892

Net Assets- Fiscal Year 2010

As noted earlier, net assets may serve as a useful indicator of LAX's financial position. At the close of fiscal year 2009-10 and 2008-09, LAX's assets exceeded liabilities by $3.2 billion and $3 billion, respectively, representing a 9.9% increase or $291.1 million.

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

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

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

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

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

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

Current liabilities payable from restricted assets decreased by $24 million or 22.5% due primarily to the decrease in current maturities of LAX's long-term debt offset by increase in accrued interest and obligations under securities lending transactions.

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

Net Assets- Fiscal Year 2009

As noted earlier, net assets may serve as a useful indicator of LAX's financial position. At the close of fiscal year 2008-09 and 2007-08, LAX's assets exceeded liabilities by $3 billion and $2.7 billion, respectively, representing a 10.2% increase or $271.9 million.

The largest portion of LAX's net assets ($1.6 billion or 53.7%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net assets ($902.1 million or 30.6%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $463.8 million (15.7%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets consist primarily of cash and pooled investments held by the City Treasurer. Unrestricted current assets increased by 5.9%, from $646.2 million at June 30, 2008 to $684.1 million at June 30, 2009, due primarily to net cash provided by operating activities.

Restricted current assets include cash and investments held by the City Treasurer for capital projects funded by passenger facility charges (PFC) and customer facility charges (CFC). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFC and CFC capital expenditures were less than collections and interest earnings that resulted to a net incremental increase of approximately $109.6 million in fiscal year 2009. Revenue bonds were issued during fiscal year 2009 and the amounts held by fiscal agents to be used to reimburse LAX for capital expenditures incurred at LAX and bond debt service funds increased from $27.5 million to $186 million.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 18.9%. Ongoing construction and improvements at LAX terminals and facilities were the primary reasons for the increase.

The increase in other noncurrent assets from $2.2 million in fiscal year 2008 to $7 million in fiscal year 2009 was due to additional deferred bond issuance cost that resulted from bond issuances during fiscal year 2009.

Current liabilities payable from unrestricted assets decreased by $337.9 million or 62.3%. Refunding commercial paper notes to longer term debt and the temporary suspension of the City's securities lending program were the main reasons for the decrease.

Current liabilities payable from restricted assets increased by $17.6 million or 19.8% due primarily to the increase in current maturities of LAX's long-term debt offset by decrease in obligations under securities lending transactions. As previously discussed the City's securities lending program was temporarily suspended because of the extreme volatility in the financial markets.

The net increase in noncurrent liabilities of $689.8 million or 170.7% was due mainly to the following reasons: (a) issuance of long-term debt to fund increased construction activities at LAX and to refund commercial paper notes, (b) recognition of liability for environmental /hazardous materials clean up, and (c) reclassification of cash receipts in protest from customers to operations as a result of settlement agreements.

Changes in Net Assets Summary

A condensed summary of LAX's changes in net assets for fiscal years ended 2010, 2009, and 2008 is presented below:

Condensed Changes in Net Assets
(amounts in thousands)

	FY 2010	FY 2009	FY 2008	FY 2010 increase (decrease)	FY 2009 increase (decrease)
Operating revenue	$ 658,907	$ 657,165	$ 635,262	$ 1,742	$ 21,903
Operating expenses	(529,552)	(522,911)	(517,732)	6,641	5,179
Operating income before depreciation and amortization	129,355	134,254	117,530	(4,899)	16,724
Depreciation and amortization	(86,976)	(86,927)	(83,908)	49	3,019
Operating income	42,379	47,327	33,622	(4,948)	13,705
Other nonoperating revenue, net	160,590	136,794	196,037	23,796	(59,243)
Federal grants	80,955	88,241	86,885	(7,286)	1,356
Interagency transfers	7,224	(470)	(7,188)	7,694	(6,718)
Changes in net assets	291,148	271,892	309,356	19,256	(37,464)
Net assets, beginning of year	2,950,128	2,678,236	2,368,880	271,892	309,356
Net assets, end of year	$ 3,241,276	$ 2,950,128	$ 2,678,236	$ 291,148	$ 271,892

Operating Revenue

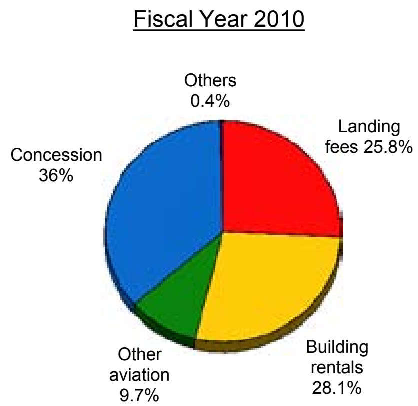
LAX derives its operating revenue from several major airports business activities. The following table presents a summary of these business activities during fiscal years 2010, 2009, and 2008:

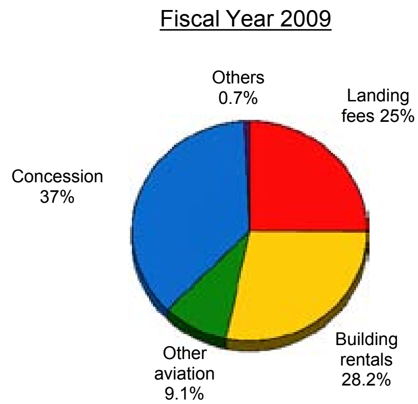
Summary of Operating Revenue
(amounts in thousands)

	FY 2010	FY 2009	FY 2008	FY 2010 increase (decrease)	FY 2009 increase (decrease)
Landing fees, net of reliever fee	$ 169,683	$ 164,489	$ 171,823	$ 5,194	$ (7,334)
Building rentals	185,138	185,457	146,206	(319)	39,251
Other aviation revenue	64,219	59,528	61,932	4,691	(2,404)
Concession revenue	236,911	243,096	250,694	(6,185)	(7,598)
Sales and services	1,820	2,229	2,577	(409)	(348)
Miscellaneous	1,136	2,366	2,030	(1,230)	336
Total operating revenue	$ 658,907	$ 657,165	$ 635,262	$ 1,742	$ 21,903

Operating Revenue, Fiscal Year 2010

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2010 and 2009. Sales and services, and miscellaneous were added and labeled "others."





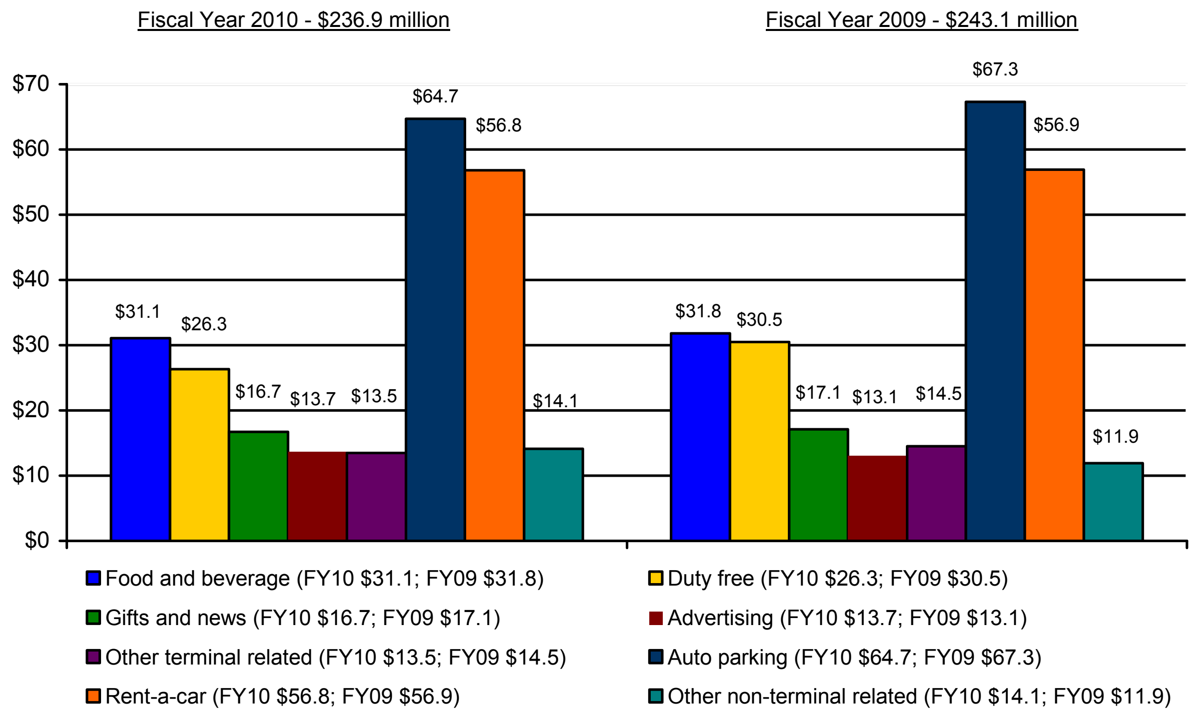
For the fiscal year ended June 30, 2010, total operating revenue was $658.9 million, a $1.7 million or 0.3% increase from the prior fiscal year. The growth in aviation related revenue of $9.6 million was offset by the decline in non-aviation revenue particularly concessions, which was down $6.2 million.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

As described in the Notes to the Financial Statements (see page 31), landing fees assessed air carriers at LAX are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Gross landing fees at LAX for the fiscal years ended June 30, 2010 and 2009 were, $172.3 million and $171.6 million, respectively. The offsetting reliever fees for the respective fiscal years were $2.6 million and $7.1 million. Gains in passenger traffic and cargo traffic resulted to a minimal but encouraging increase in revenue landed weight. The reliever fees paid to VNY declined as a consequence of decreased operating costs at VNY. The increase in other aviation revenue of $4.7 million is mainly due to additional rental income collected from existing tenants of a commercial real property acquired during the fiscal year.

Revenue from concessions was $236.9 million in fiscal year 2010, a 2.5% decline from fiscal year 2009 figure of $243.1 million. Terminal related 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. Non-terminal related concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services.

Comparative concession revenue by type for fiscal years 2010 and 2009 is presented in the following chart.

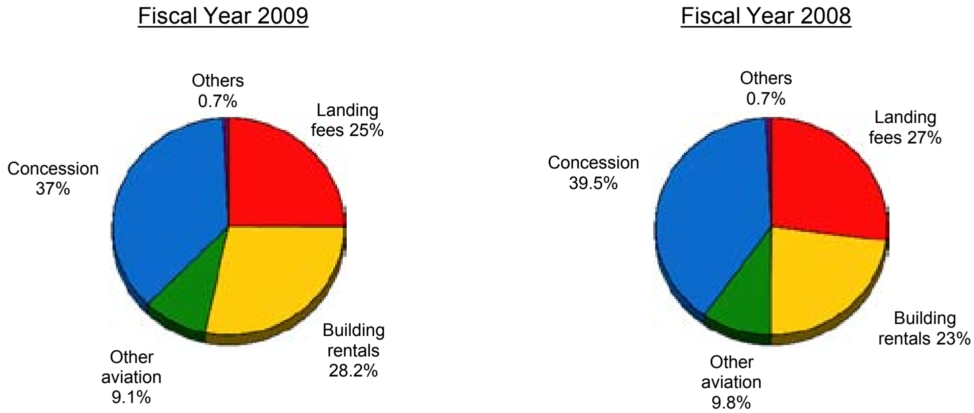


Terminal related concession revenue during fiscal year 2010 decreased by $5.7 million or 5.3% as compared to fiscal year 2009. The decrease is mainly due to credits of approximately $3.7 million given to the duty free concessionaire that resulted from the reconciliation of prior year's sales. Because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

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

Operating Revenue, Fiscal Year 2009

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2009 and 2008. Sales and services, and miscellaneous were added and labeled "others."



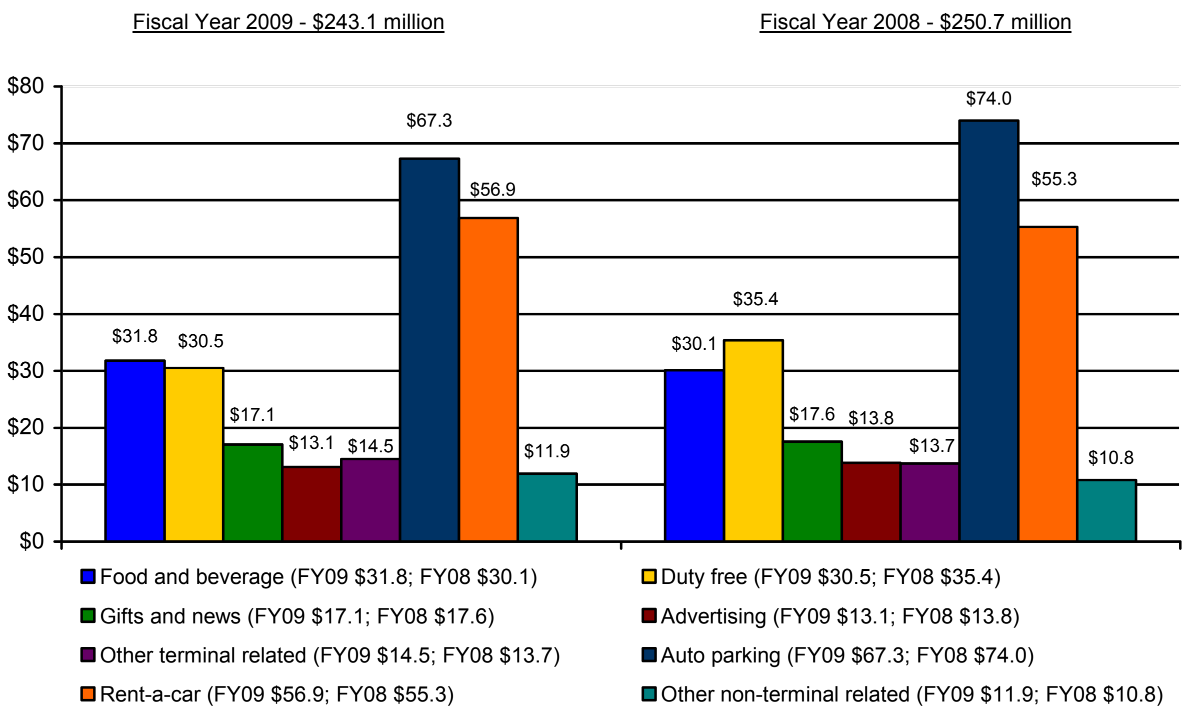
For the fiscal year ended June 30, 2009, total operating revenue was $657.2 million, a $21.9 million or 3.4% increase from the prior fiscal year. Aviation related revenue had a net increase of $29.5 million. Building rentals increased by $39.2 million but landing fees and other aviation revenue decreased by $7.3 million and $2.4 million, respectively. Non-aviation revenue had a net decrease of $7.6 million due substantially to the decrease in concessions.

As described in the Notes to the Financial Statements (see page 31), landing fees assessed air carriers at LAX 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.

The economic slump that started in September 2008, significantly affected passenger and cargo traffic at LAX. As a result, revenue landing weight sustained a decline of 10.4%. Consequently, gross landing fees for the fiscal years ended June 30, 2009 and 2008 were, $171.6 million and $177.4 million, respectively, a decrease of 3.3%. The offsetting reliever fees paid to VNY for the respective fiscal years were $7.1 million and $5.6 million.

Building rentals increased to $185.5 million in fiscal year 2009 from $146.2 million in fiscal year 2008. Building rentals increased because of the partial settlement with certain airlines that disputed rent increases back in 2007. Between October 2007 and December 2008, all disputed rent increases were deferred until a settlement was reached. The settlement was reached during fiscal year 2009 and resulted with rent adjustments.

Revenue from concessions was $243.1 million in fiscal year 2009, a 3% decline from fiscal year 2008 figure of $250.7 million. Terminal related 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. Non-terminal related concession revenue was derived from auto parking, rent-a-car, bus, limousine, and taxi services. Comparative concession revenue by type for fiscal years 2009 and 2008 is presented in the following chart.



Terminal related concession revenue in fiscal year 2009 had a net decrease of $3.5 million or 3.2% as compared to fiscal year 2008. For nonterminal related concession revenue, the net decrease was $4.1 million or 2.9%. Overall, the decreases in concession revenue, more significantly on duty free and auto parking, were directly caused by the drop in passenger traffic and aircraft movements.

Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2010, 2009, and 2008.

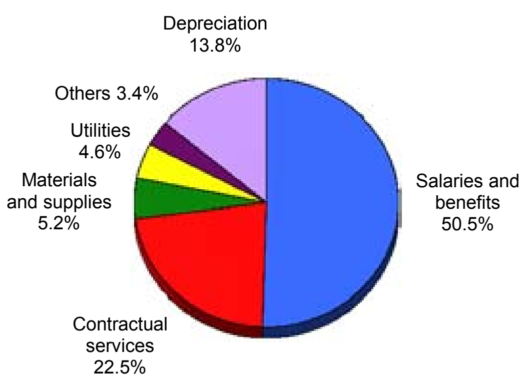
Summary of Operating Expenses
(amounts in thousands)

	FY 2010	FY 2009	FY 2008	FY 2010 increase (decrease)	FY 2009 increase (decrease)
Salaries and benefits	$ 317,000	$ 298,612	$ 291,015	$ 18,388	$ 7,597
Contractual services	141,253	148,627	151,155	(7,374)	(2,528)
Materials and supplies	32,661	38,738	37,870	(6,077)	868
Utilities	28,832	29,018	27,674	(186)	1,344
Advertising and public relations	6,937	7,967	8,286	(1,030)	(319)
Administrative expense	2,392	1,951	1,665	441	286
Other operating expenses	11,884	10,923	14,694	961	(3,771)
Operating expenses before depreciation	540,959	535,836	532,359	5,123	3,477
Depreciation	86,976	86,927	83,908	49	3,019
Total operating expenses	627,935	622,763	616,267	5,172	6,496
Allocation to other airports	(11,407)	(12,925)	(14,627)	(1,518)	(1,702)
Net operating expenses	$ 616,528	$ 609,838	$ 601,640	$ 6,690	$ 8,198

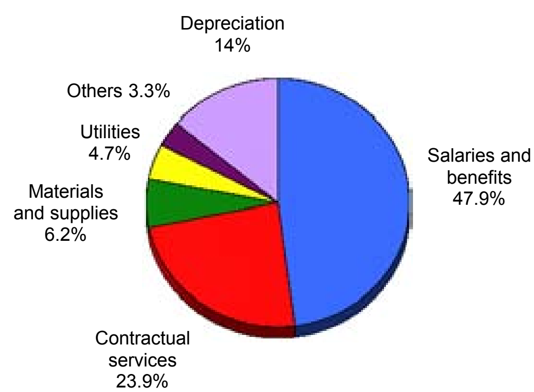
Operating Expenses, Fiscal Year 2010

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2010 and 2009. Advertising and public relations, administrative expense, and other operating expenses were added and labeled "others."

Fiscal Year 2010



Fiscal Year 2009

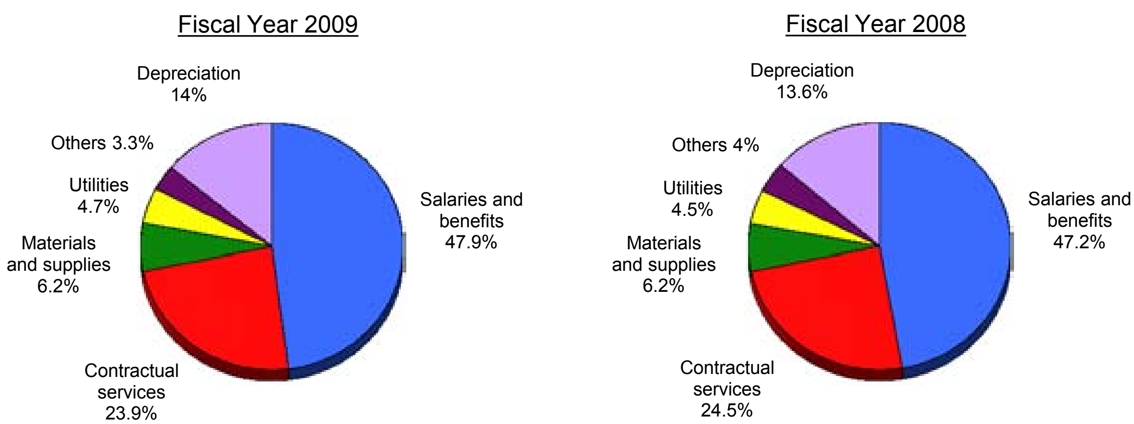


For the fiscal year ended June 30, 2010, operating expenses, before allocation to other airports, were $627.9 million, a $5.2 million or 0.8% increase from the prior fiscal year. Expense categories that posted significant fluctuations were salaries and benefits, up by $18.4 million; contractual services,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

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

Operating Expenses, Fiscal Year 2009

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2009 and 2008. Advertising and public relations, administrative expense, and other operating expenses were added and labeled "others."



For the fiscal year ended June 30, 2009, operating expenses, before allocation to other airports, were $622.8 million, a $6.5 million or 1.1% increase from the prior fiscal year. The increase in salaries and benefits was primarily due an average 3% increase in cost of living allowance. Budget cuts implemented during the year were the primary reason for the decrease in expenses for contractual services as well as other operating expenses. The remaining operating expense accounts had slight variances when compared against the previous year's amounts. Depreciation expense increased as major improvements at LAX were completed and put into service.

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

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services and producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2010, 2009, and 2008.

Summary of Nonoperating Transactions
(amounts in thousands)

	FY 2010	FY 2009	FY 2008	FY 2010 increase (decrease)	FY 2009 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 110,961	$ 103,982	$ 116,705	$ 6,979	$ (12,723)
Customer facility charges	22,270	22,086	24,964	184	(2,878)
Interest and investment income	44,005	56,325	71,684	(12,320)	(15,359)
Other nonoperating revenue	19,692	2,306	1,435	17,386	871
	$ 196,928	$ 184,699	$ 214,788	$ 12,229	$ (30,089)
Nonoperating expenses					
Interest expense	35,416	20,483	18,323	14,933	2,160
Amortization of bond issuance costs	922	455	428	467	27
Other nonoperating expenses	--	26,967	--	(26,967)	26,967
	$ 36,338	$ 47,905	$ 18,751	$ (11,567)	$ 29,154
Federal capital grants	$ 80,955	$ 88,241	$ 86,885	$ (7,286)	$ 1,356
Interagency transfers	$ 7,224	$ (470)	$ (7,188)	$ 7,694	$ (6,718)

Nonoperating Transactions, Fiscal Year 2010

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

Issuance of bonded debt caused the increases in interest expense and bond issuance costs. The recognition of pollution remediation liabilities that LAX began implementing in fiscal year 2009 and non-capitalizable charges related to a lease termination were the major reasons for the $27 million other nonoperating expenses in fiscal year 2009. Eligible expenditures for capital grant related projects were less in fiscal year 2010 as compared to fiscal year 2009.

Nonoperating Transactions, Fiscal Year 2009

For fiscal year 2009, the decrease of $12.7 million in passenger facility charges (PFCs) from the prior fiscal year represents a 10.9% decline. Passenger traffic at LAX declined in fiscal year 2009 as compared to fiscal year 2008. PFCs are imposed on enplaning passengers. The decrease in customer facility charges followed the decreasing trend of rental car concession revenue. The decrease in interest and investment income was reflective of the decline in interest rates. The rates of return of the Treasury Pool reserve and core portfolios for the twelve months ended June 30, 2009 were 5.87% and 2.22%, respectively, down from the prior fiscal year rates of 7.93% and 4.31%, respectively. Issuance of bonded debt caused the increases in interest expense and bond issuance costs. The recognition of pollution remediation liabilities that LAX began implementing in fiscal year 2009 and non-capitalizable charges related to a lease termination were the major reasons for the $27 million other nonoperating expenses in fiscal year 2009. Eligible expenditures for capital grant related projects were slightly higher in fiscal year 2009 as compared to fiscal year 2008.

Long-Term Debt

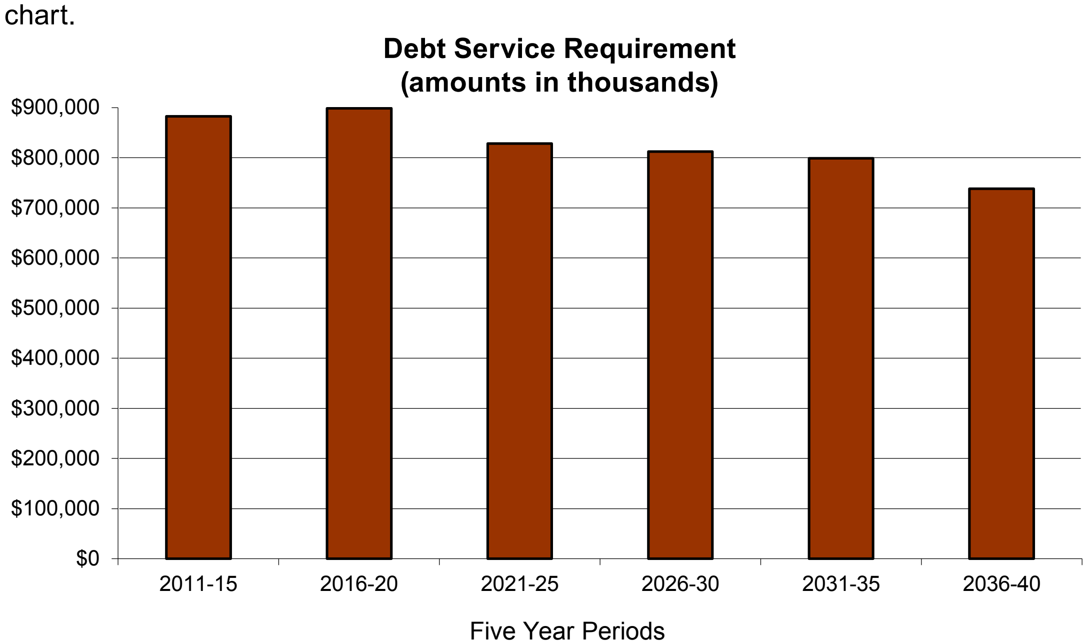
As of June 30, 2010, LAX's outstanding long-term debt was $2.5 billion. The increase of $1.5 billion from the June 30, 2009 balance resulted from the sale of $1.6 billion of LAX revenue bonds less the refunding of $37.4 million revenue bonds, scheduled maturities of $64.9 million, and redemption of $30.4 million revenue bonds using LAX funds.

As of June 30, 2009, LAX's outstanding long-term debt was $1 billion. The increase of $828.8 million from the June 30, 2008 balance resulted from the sale of $853.3 million of LAX revenue bonds less the refunding of $8.5 million revenue bonds and scheduled maturities of $16 million.

As of June 30, 2010 and 2009, LAX had $357.4 million and $112.9 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2010, Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings affirmed the following ratings for LAX's outstanding bonds: AA, Aa3, and AA for LAX Senior Bonds; AA-, A1, and AA- for Subordinate Bonds.

Outstanding principal, plus scheduled interest as of June 20, 2010, is scheduled to mature as shown in the following chart.



Additional information regarding LAX's bonded debt can be found in Note 6 of the Notes to the Financial Statements beginning on page 40.

Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2010 and 2009 were $3.4 billion and $2.7 billion, respectively. This investment, which accounts for 54.2% and 61.6% of LAX's total assets as of June 2010 and 2009, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAX's policy affecting capital assets can be found in Note 1(f) of the Notes to the Financial Statements on page 30. Additional information can be found on Note 4 on pages 37-38.

Capital Assets, Fiscal Year 2010

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

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

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

Capital Assets, Fiscal Year 2009

Major capital assets activities during fiscal year 2009 were as follows:

- $207.9 million interior improvements and security upgrades at TBIT.
- $64.1 million security program-in-line baggage screening.
- $32.1 million residential acquisition and soundproofing.
- $27.3 million southside airfield improvements.
- $13.3 million midfield satellite concourse.
- $5 million runway status lights infrastructure improvements.
- $4.7 million passenger boarding bridges at TBIT.

At June 30, 2009, the amounts committed for capital expenditures were as follows: $22.7 million for airfield and runways, $31.5 million for noise mitigation program, $47.2 million for terminals and facilities, and $4.5 million for miscellaneous projects.

Landing Fees, Fiscal Year 2011

The airline landing fees at LAX for fiscal year 2011, which became effective as of July 1, 2010 are as follows:

Permitted air carriers	Non-permitted air carriers	
$ 53.00	$ 66.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
102.00	127.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.34	4.18	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
4.06	5.08	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

Landing fee rates were based on budgeted operating 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.

Request for Information

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

FINANCIAL STATEMENTS

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Statements of Net Assets
June 30, 2010 and 2009
(amounts in thousands)

	2010	2009
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 566,993	$ 478,382
Investments with fiscal agents	102,892	101,879
Accounts receivable, net of allowance for uncollectible accounts: 2010 - $385; 2009 - $309	18,497	6,522
Unbilled receivables	13,174	41,037
Accrued interest receivable	3,200	5,083
Grants receivable	18,697	--
Receivable from City General Fund	747	--
Due from other agencies	47,316	45,957
Prepaid expenses	1,262	3,422
Inventories	1,670	1,795
Total unrestricted current assets	774,448	684,077
Restricted current assets		
Cash and pooled investments held in City Treasury	877,800	773,590
Investments with fiscal agents, includes cash and cash equivalents: 2010 - $425,951; 2009 - $142,305	727,686	186,005
Accrued interest receivable	2,443	3,327
Passenger facility charges receivable	16,185	18,096
Customer facility charges receivable	2,728	1,923
Total restricted current assets	1,626,842	982,941
Total current assets	2,401,290	1,667,018
Noncurrent Assets		
Capital assets		
Not depreciated	2,375,797	1,849,005
Depreciated, net	1,034,938	832,133
Total capital assets	3,410,735	2,681,138
Other noncurrent assets		
Restricted investments with fiscal agents	446,859	--
Receivable from City General Fund, net of current portion	16,218	--
Deferred bond issuance costs	17,051	7,001
Total other noncurrent assets	480,128	7,001
Total noncurrent assets	3,890,863	2,688,139
TOTAL ASSETS	$ 6,292,153	$ 4,355,157

Continued…

	2010	2009
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 69,635	$ 91,175
Accrued salaries	5,962	5,121
Accrued employee benefits	8,002	3,629
Estimated claims payable	5,023	4,217
Commercial paper	147,116	96,989
Accrued interest payable	--	26
Obligations under capital lease	--	1,311
Obligations under securities lending transactions	14,557	--
Other current liabilities	91,135	1,946
Total current liabilities payable from unrestricted assets	341,430	204,414
Current liabilities payable from restricted assets		
Contracts and accounts payable	1,376	1,749
Current maturities of bonded debt	38,670	98,790
Accrued interest payable	21,122	6,190
Obligations under securities lending transactions	21,589	--
Total current liabilities payable from restricted assets	82,757	106,729
Total current liabilities	424,187	311,143
Noncurrent Liabilities		
Bonded debt, net of current maturities	2,524,819	931,555
Accrued employee benefits, net of current portion	30,332	14,517
Estimated claims payable, net of current portion	42,854	42,205
Obligations under capital lease, net of current portion	--	48,207
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	9,870	10,118
Other long-term liabilities	6,032	34,501
Total noncurrent liabilities	2,626,690	1,093,886
TOTAL LIABILITIES	3,050,877	1,405,029
Net Assets		
Invested in capital assets, net of related debt	1,534,174	1,584,180
Restricted for:		
Debt service	336,264	106,750
Passenger facility charges funded projects	645,130	534,472
Customer facility charges funded projects	71,629	49,525
Central utility plant	13,709	39,721
Operations and maintenance reserve	137,684	137,684
Other purposes	5,641	33,958
Unrestricted	497,045	463,838
TOTAL NET ASSETS	$ 3,241,276	$ 2,950,128

See accompanying notes to financial statements.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Statements of Revenues, Expenses & Changes in Net Assets
For the Years Ended June 30, 2010 and 2009
(amounts in thousands)

	2010	2009
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 172,287	$ 171,549
Reliever airport fee	(2,604)	(7,060)
Building rentals	185,138	185,457
Other aviation revenue	64,219	59,528
Concession revenue	236,911	243,096
Sales and services	1,820	2,229
Miscellaneous revenue	1,136	2,366
Total operating revenue	658,907	657,165
OPERATING EXPENSES		
Salaries and benefits	317,000	298,612
Contractual services	141,253	148,627
Materials and supplies	32,661	38,738
Administrative expense	2,392	1,951
Utilities	28,832	29,018
Advertising and public relations	6,937	7,967
Other operating expenses	11,884	10,923
Administrative charges allocated to other airports	(11,407)	(12,925)
Total operating expenses before depreciation and amortization	529,552	522,911
Operating income before depreciation and amortization	129,355	134,254
Depreciation and amortization	86,976	86,927
OPERATING INCOME	42,379	47,327
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	110,961	103,982
Customer facility charges	22,270	22,086
Interest and investment income	44,005	56,325
Interest expense	(35,416)	(20,483)
Amortization of bond issuance costs	(922)	(455)
Other nonoperating revenues	19,692	2,306
Other nonoperating expenses	--	(26,967)
Total nonoperating revenue, net	160,590	136,794
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	202,969	184,121
Federal grants	80,955	88,241
Inter-agency transfers	7,224	(470)
CHANGES IN NET ASSETS	291,148	271,892
NET ASSETS, BEGINNING OF YEAR	2,950,128	2,678,236
NET ASSETS, END OF YEAR	$ 3,241,276	$ 2,950,128

See accompanying notes to financial statements.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009
(amounts in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 642,591	$ 568,434
Cash received in protest from customers	99	22,322
Payments to suppliers	(161,815)	(184,319)
Payments to employees	(292,064)	(289,333)
Payments for City services	(82,760)	(81,678)
Interagency payments, net	8,803	5,865
Net cash provided by operating activities	114,854	41,291
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	3,207	--
Inter-agency transfers	2,734	(6,344)
Net cash provided by (used for) noncapital financing activities	5,941	(6,344)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	1,649,548	601,603
Principal paid on revenue bonds and commercial paper notes	(64,905)	(16,050)
Interest paid on revenue bonds and commercial paper notes	(66,633)	(43,719)
Revenue bonds and commercial paper notes issuance costs	(12,457)	(5,267)
Principal paid on capital lease	--	(1,197)
Interest paid on capital lease	(549)	(992)
Acquisition and construction of capital assets	(720,596)	(484,234)
Proceeds from passenger facility charges	112,872	101,297
Proceeds from customer facility charges	21,465	22,383
Capital contributed by federal agencies	62,258	88,241
Transfers to fiscal agent	(704,894)	(16,230)
Net cash provided by capital and related financing activities	276,109	245,835
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	44,430	55,206
Cash collateral received (paid) under securities lending transactions	36,146	(165,317)
Net cash provided by (used for) investing activities	80,576	(110,111)
NET INCREASE IN CASH AND CASH EQUIVALENTS	477,480	170,671
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,496,156	1,325,485
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,973,636	$ 1,496,156
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 566,993	$ 478,382
Investments with fiscal agents- unrestricted	102,892	101,879
Cash and pooled investments held in City Treasury- restricted	877,800	773,590
Investments with fiscal agents- restricted	425,951	142,305
Total cash and cash equivalents	$ 1,973,636	$ 1,496,156

Continued…

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 42,379	$ 47,327
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	86,976	86,927
Change in provision for uncollectible accounts	76	(459)
Other nonoperating revenues (expenses), net	506	(11,878)
Changes in assets and liabilities		
Accounts receivable	(12,051)	6,431
Unbilled receivables	19,289	(21,208)
Prepaid expenses and inventories	2,285	(411)
Contracts and accounts payable	(20,663)	(15,435)
Accrued salaries	841	4
Accrued employee benefits	20,188	2,530
Other liabilities	(24,972)	(52,537)
Total adjustments	72,475	(6,036)
Net cash provided by operating activities	$ 114,854	$ 41,291
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 22,349	$ 47,572
Net proceeds of revenue and refunding bonds deposited with escrow agent to refund or redeem outstanding commercial paper notes and revenue bonds	254,292	242,313

See accompanying notes to financial statements.

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Notes to the Financial Statements

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

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Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

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

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

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

b. Basis of Accounting

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

c. *Cash, Cash Equivalents, and Investments*

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

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

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

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

d. *Accounts Receivable and Unbilled 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 LAX's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAX policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

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

e. *Inventory*

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

f. *Capital Assets*

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

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 (net of interest earnings on the temporary investment of such proceeds) used during construction. Net interest capitalized in fiscal years 2010 and 2009 were $46.8 million and $28.4 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; and equipment, 5 to 20 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

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 fees charged for a facility or services are based on costs attributable only to that facility or service. For example, the landing fees charged for using the airfield and apron are based on LAX's actual costs of operating the airfield and apron. For control purposes, the landing fees are calculated twice each year.

j. Concession Revenue

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

k. Unearned Revenue

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

l. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves, and early retirement incentive. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave. The liability for early retirement is recognized for the separation payment to be paid to LAX employees who qualified and elected to participate in the City's Early Retirement Incentive Program. Below is a schedule of accrued employee benefits as of June 30, 2010 and 2009 (amounts in thousands):

Type of benefit	2010	2009
Accrued vacation leave	$ 18,146	$ 13,134
Accrued sick leave	16,013	5,012
Early retirement incentive	4,175	--
Total	$ 38,334	$ 18,146

m. Federal Grants

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

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

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

o. Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions of enabling legislation. At June 30, 2010 and 2009, net assets of $716.8 million and $584 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAX that are not restricted for any project or other purpose.

p. Use of 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.

q. Reclassifications

Certain reclassifications have been made to fiscal 2009 amounts in order to conform to the fiscal year 2010 presentation.

2. New Accounting Standards

Issued in June 2007, GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets,*" establishes standards for accounting and financial reporting for intangible assets for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. Prior to the adoption of GASB 51, LAX capitalized $44.3 million for air easements. Beginning in fiscal year 2009, LAX implemented GASB 51 for other types of intangible assets such that in July 2008, emission reduction credits of $5.9 million were capitalized.

Issued in June 2008, GASB Statement No. 53 "*Accounting and Financial Reporting for Derivative Instruments*," establishes standards for accounting and financial reporting for derivative instruments for all state and local governments. Implementation of this statement is effective fiscal year 2010; however, it has no impact on LAX's financial statements.

3. Cash and Investments

a. Pooled Investments

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

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

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). As of June 30, 2010 and 2009, LAX's share of the Pool was $1.445 billion and $1.252 billion, which represent approximately 23% and 21%, respectively. There are no specific investments belonging to LAX. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

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

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

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

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. Due to extreme volatility in the financial markets, the City temporarily suspended its securities lending program in November 2008. The City continued to monitor the financial markets and re-entered the securities lending market in April 2010. As of June 30, 2010, LAX's portion of the cash collateral and the related obligation in the City's program was $36.2 million. LAX's portion of the securities purchased from the reinvested cash collateral was $36.2 million. Such securities are stated at fair value.

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

c. *Investments with Fiscal Agents*

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

	June 30	
	2010	2009
Unrestricted, current		
Revocable trust accounts for lease termination	$ 102,174	$ 100,959
Commercial paper	718	920
Subtotal	102,892	101,879
Restricted, current and noncurrent		
Bond security funds	357,385	112,940
Construction funds	817,160	73,065
Subtotal	1,174,545	186,005
Total	$ 1,277,437	$ 287,884

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

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

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

The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar objectives. At June 30, 2010, the investments and their maturities are as follows (amounts in thousands):

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

At June 30, 2009, the investments with fiscal agents and their maturities are as follows (amounts in thousands):

		Investment maturities			
Type of investments	Amount	1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. Treasury notes	$ 43,700	$ --	$ --	$ 43,700	$ --
Money market mutual funds	244,184	--	244,184	--	--
Total	$ 287,884	$ --	$ 244,184	$ 43,700	$ --

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

Credit Risk. At June 30, 2010 and 2009, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's.

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 2010 (amounts in thousands):

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

LAX had the following activities in capital assets during fiscal year 2009 (amounts in thousands):

	Balance at July 1, 2008	Interagency transfers and additions	Interagency transfers, retirements, and disposals	Interaccount transfers	Balance at June 30, 2009
Capital assets not depreciated					
Land and land clearance	$ 575,420	$ --	$ --	$ --	$ 575,420
Air easements	44,346	--	--	--	44,346
Emission reduction credits	--	--	--	5,918	5,918
Construction work in progress	783,332	455,402	--	(15,413)	1,223,321
Total capital assets not depreciated	1,403,098	455,402	--	(9,495)	1,849,005
Capital assets depreciated					
Buildings	521,839	--	--	--	521,839
Improvements	1,032,936	38,633	--	9,495	1,081,064
Equipment and vehicles	154,607	21,304	(3,644)	--	172,267
Leased property	184,423	--	--	--	184,423
Total capital asset depreciated	1,893,805	59,937	(3,644)	9,495	1,959,593
Less accumulated depreciation					
Buildings	(300,890)	(13,036)	--	--	(313,926)
Improvements	(528,800)	(60,714)	--	--	(589,514)
Equipment and vehicles	(111,646)	(8,626)	958	--	(119,314)
Leased property	(100,155)	(4,551)	--	--	(104,706)
Total accumulated depreciation	(1,041,491)	(86,927)	958	--	(1,127,460)
Capital assets depreciated, net	852,314	(26,990)	(2,686)	9,495	832,133
Total capital assets	$ 2,255,412	$ 428,412	$ (2,686)	$ --	$ 2,681,138

5. Commercial Paper

As of June 30, 2010 and 2009, LAX had outstanding commercial paper notes (CP) of $147.1 million and $97 million, respectively. The respective average interest rates in effect at June 30, 2010 and 2009 were 0.33% and 0.66%. The CP matures no more than 270 days from the date of issuance. The notes were issued as a means of interim financing for certain capital expenditures at LAX.

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

LAX had the following CP activity for the fiscal years ended June 30, 2010 and 2009 (amounts in thousands):

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
Commercial paper Series B	$ --	$ 185,000	$ (185,000)	$ --
Commercial paper Series C	96,989	50,127	--	147,116
Total	$ 96,989	$ 235,127	$ (185,000)	$ 147,116

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Commercial paper Series A	$ 158,400	$ --	$ (158,400)	$ --
Commercial paper Series B	75,000	--	(75,000)	--
Commercial paper Series C	96,828	161	--	96,989
Total	$ 330,228	$ 161	$ (233,400)	$ 96,989

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 bonds and refunding revenue bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2010 and 2009 are as follows (amounts in thousands):

Bond issues	Date of issue	Interest rate	Fiscal year of last scheduled maturity	Principal outstanding 2010	Principal outstanding 2009
Issue of 2002, Series A	12/19/02	4.100% - 5.250%	2019	$ 32,450	$ 32,450
Issue of 2002, Series C1	12/19/02	variable	2020	--	37,400
Issue of 2002, Series C2	12/19/02	variable	2020	--	20,000
Issue of 2003, Series A	02/26/03	variable	2016	--	23,700
Issue of 2003, Series B	05/07/03	4.000% - 5.000%	2015	58,945	71,340
Issue of 2008, Series A	08/06/08	3.750% - 5.500%	2038	571,690	602,075
Issue of 2008, Series B	08/06/08	3.000% - 5.000%	2015	6,210	7,280
Issue of 2008, Series C	08/06/08	3.000% - 5.250%	2038	235,925	240,150
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	309,420	--
Issue of 2009, Series C	12/03/09	5.175% - 6.582%	2039	307,350	--
Issue of 2009, Series D	12/03/09	2.500% - 5.000%	2015	31,295	--
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	37,745	--
Issue of 2010, Series A	04/08/10	3.000% - 5.000%	2040	930,155	--
Total principal amount				2,521,185	1,034,395
Unamortized premium				52,872	6,538
Unamortized discount				(9,024)	(9,774)
Unamortized deferred amount on refunding				(1,544)	(814)
Less current debt				(38,670)	(98,790)
Net noncurrent debt				$ 2,524,819	$ 931,555

b. Pledged Revenues

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. The total principal and interest remaining to be paid on the bonds is $5 billion. Principal and interest paid during fiscal year 2010 and the net pledged revenues, as defined, were $131.5 million and $152 million, respectively. Principal and interest paid during fiscal year 2009 and the net pledged revenues, as defined, were $59.8 million and $170.7 million, respectively.

c. New Issuances

Fiscal Year 2010

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

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

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

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

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

Fiscal Year 2009

In August 2008, LAX issued the following bonds: $602.1 million Senior Revenue Bonds, 2008 Series A; $7.9 million Senior Refunding Revenue Bonds, 2008 Series B; and $243.4 million Subordinate Revenue Bonds, 2008 Series C.

The 2008 Series A and 2008 Series C bonds were issued to pay or reimburse for certain capital expenditures incurred at LAX, and to refund $233.4 million Subordinate Commercial Paper Notes issued for such purposes.

Proceeds of the 2008 Series B bonds plus funds released from the debt service fund were used to refund $8.5 million outstanding LAX Senior Revenue Bonds Issue of 1995, Series D. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt was $421 thousand. This transaction resulted in a $327 thousand net present value savings and a net loss for accounting purposes of $31 thousand which was deferred and is being amortized over the life of the new bonds.

d. *Variable Rate Bonds*

At June 30, 2009, LAX had outstanding variable rate bonds of $81.1 million. LAX obtained credit enhancement and liquidity support in the form of irrevocable transferable direct-pay letters of credit issued by BNP Paribas for the variable rate bonds. In fiscal year 2010, $37.4 million was refunded and the remaining balance of $43.7 million was redeemed with LAX funds.

e. *Principal Maturities and Interest*

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

Fiscal year(s) ending	Principal	Interest	Total
2011	$ 38,670	$ 135,913	$ 174,583
2012	40,915	129,586	170,501
2013	47,600	127,731	175,331
2014	56,640	125,512	182,152
2015	57,320	122,792	180,112
2016 - 2020	328,275	570,516	898,791
2021 - 2025	344,030	484,451	828,481
2026 - 2030	428,155	384,117	812,272
2031 - 2035	540,550	258,314	798,864
2036 - 2040	639,030	99,091	738,121
Total	$ 2,521,185	$ 2,438,023	$ 4,959,208

7. Changes in Long-term Liabilities

LAX had the following long-term liabilities activity for the fiscal years ended June 30, 2010 and 2009 (amounts in thousands):

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Revenue bonds	$ 205,635	$ 853,300	$ (24,540)	$ 1,034,395	$ 98,790
Add unamortized premium	7,498	219	(1,179)	6,538	--
Less unamortized discount	--	(10,079)	305	(9,774)	--
Less unamortized deferred amount on refunding	(923)	(28)	137	(814)	--
Net revenue bonds	212,210	843,412	(25,277)	1,030,345	98,790
Accrued employee benefits	15,616	5,123	(2,593)	18,146	3,629
Estimated claims payable	40,336	9,246	(3,160)	46,422	4,217
Obligations under capital lease	50,715	--	(1,197)	49,518	1,311
Liability for environmental/ hazardous materials cleanup	--	12,783	--	12,783	--
Net pension obligation	9,459	659	--	10,118	--
Other long-term liabilities	96,018	26,171	(87,688)	34,501	--
Total	$ 424,354	$ 897,394	$ (119,915)	$ 1,201,833	$ 107,947

8. Leases

a. Operating Leases

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

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the years ended June 30, 2010 and 2009, revenues from such agreements were approximately $164 million and $169.8 million, respectively. The respective amounts over MAG were $18.9 million and $19.4 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
2011	$ 135,837
2012	127,465
2013	88,876
2014	49,036
2015	28,604
Total	$ 429,818

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

The land and terminal lease agreements are accounted for as operating leases. For the years ended June 30, 2010 and 2009, revenues from these leases were approximately $237.7 million and $230.6 million, respectively. Future rents under these agreements over the next five years, based on existing rates and assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2011	$ 221,579
2012	212,863
2013	198,338
2014	191,009
2015	184,430
Total	$ 1,008,219

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2010 and 2009 are as follows (amounts in thousands):

	2010	2009
Buildings and facilities	$ 625,469	$ 624,722
Less- Accumulated depreciation	(361,351)	(345,361)
Net	264,118	279,361
Land	472,671	347,732
Total	$ 736,789	$ 627,093

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

b. *Lease Obligations*

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2010 and 2009 were $3.7 million and $2.4 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2011	$ 4,612
2012	4,528
2013	4,528
2014	4,528
2015	4,528
2016 - 2020	21,436
2021 - 2025	8,191
2026 - 2030	8,191
2031 - 2032	3,276
Total	$ 63,818

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

9. Passenger Facility Charges

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

LAX has received approvals from FAA to impose PFCs for various projects. The current PFC is $4.50. The following project summary has been approved by FAA as of June 30, 2010 (amounts in thousands):

Terminal development	$ 1,632,304
Noise mitigation	788,450
Airfield development	82,645
Aircraft rescue and firefighting vehicles	975
Total	$ 2,504,374

PFCs collected and the related interest earnings through June 30, 2010 and 2009 were as follows (amounts in thousands):

	2010	2009
Amount collected	$ 1,316,991	$ 1,206,532
Interest earnings	142,747	129,147
FAA approved transfer to ONT	(126,090)	(126,090)
Total	$ 1,333,648	$ 1,209,589

As of June 30, 2010 and 2009, cumulative expenditures to date on approved PFC projects, net of the related expenditures on the transfer to ONT, totaled $685.1 million and $666.6 million, respectively.

10. Customer Facility Charges

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

CFCs collected and the related interest earnings through June 30, 2010 and 2009 were as follows (amounts in thousands):

	2010	2009
Amount collected	$ 69,321	$ 47,050
Interest earnings	3,422	2,359
Total	$ 72,743	$ 49,409

As of June 30, 2010 and 2009, cumulative expenditures to date on approved CFC projects totaled $2.8 million and $2.2 million, respectively.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $81 million and $88.2 million in fiscal years 2010 and 2009, respectively. Capital grant funds are used for the Airport Improvement Program and Transportation Security Administration capital projects.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for the years ended June 30, 2010 and 2009 were $89.2 million and $88.3 million, of which $5.2 million and $6.6 million were capitalized, respectively.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2010 and 2009 were $6.8 million.

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. The details are as follows (amounts in thousands):

	FY 2010	FY 2009
Allocated administrative costs		
ONT	$ 8,999	$ 9,742
VNY	2,049	2,567
PMD	359	616
Total	$ 11,407	$ 12,925
Reliever airport fee	$ 2,604	$ 7,060

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of $43 million out of approximately $58 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway. The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling $17.7 million plus a 3% interest for a total of $21.3 million. To effect payment, the installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2010, the outstanding principal amount of $16.2 million payable beyond one year was reported under Other Noncurrent Assets while the balance of $0.75 million payable within one year was reported under Unrestricted Current Assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer substantive other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 360 E. Second Street 2nd Floor, Los Angeles, CA 90012, (213) 473-7200. As a department of the City, LAWA shares in the risks and costs with the City. LAX presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

Pension and other postemployment benefits are established pursuant to City ordinance. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for health premium subsidy with City-approved health carrier.

b. Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 19.43% in fiscal year 2010 and 20.17% in fiscal year 2009. The required contribution rates were based on the June 30, 2008 and June 30, 2007 actuarial valuations, respectively. LAWA contributed 100% of its annual contributions of which LAX portions for fiscal years 2010 and 2009 were $40.4 million and $37.9 million, respectively.

Plan members are required to contribute to the defined benefit pension plan but are not required to contribute to the OPEB plan. Plan members' contribution rates for the defined benefit pension plan were 8.22% to 13.33% of their salaries depending on their entry age with City subsidy for members who joined prior to February 1983. The contribution rate for members joining the plan subsequent to January 1983 is 6%. The City Administrative Code and related ordinances define member contributions.

c. Net Pension Obligation

The City allocated a portion of its net pension obligation to LAWA based upon its percentage of payroll benefit costs for all City employees. The amounts recorded at June 30, 2010 and 2009 were $9.9 million and $10.1 million, respectively. For administrative purpose, the allocated amounts were presented as part of LAX's liabilities and were not allocated to all four airport agencies.

d. *Funded Status of the Plans*

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

e. *Early Retirement Incentive Program*

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

Depending on the length of service credit, ERIP retirees shall each receive a separation payment of $1,000 for each year of service or $15,000. The separation payment shall be paid over two separate calendar years. There were 2,400 ERIP filers Citywide.

Of the Citywide ERIP participants, 209 were LAX employees. Consequently, an early retirement liability of $2.1 million is included in the current accrued employee benefits and an early retirement liability of $2.1 million is included in the long-term liabilities for accrued employee benefits.

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

14. Risk Management

The Risk Management Division (RMD) administers LAX’s risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAX’s ability to meet its business goals and objectives. LAWA maintains insurance coverage of $1.3 billion for general liability and $1 billion for war and terrorism. Additional insurance coverage is carried for general property for $1.5 billion, boiler and machinery for $250 million, and earthquake for $25 million. Deductibles for these policies are $10,000 per claim with a $400,000 annual aggregate for general liability, and $100,000 per occurrence and annual aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAX also maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2010, 2009, and 2008, 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, 2010 and 2009 were $11.7 million and $11.9 million, respectively.

LAX is self insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 4% yield on investments. LAX's accrued workers' compensation liability at June 30, 2010 and 2009 were $36.2 million and $34.5 million, respectively.

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

	June 30		
	2010	2009	2008
Balance at beginning of year	$ 46,422	$ 40,336	$ 40,169
Provision for current year's events and changes in provision for prior years' events	5,672	9,246	4,377
Claims payments	(4,217)	(3,160)	(4,210)
Balance at end of year	$ 47,877	$ 46,422	$ 40,336
Current portion	$ 5,023	$ 4,217	$ 3,160

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for construction and purchase of real property, equipment, materials and supplies were $124.1 million and $113.8 million as of June 30, 2010 and 2009, respectively. Significant amounts were committed for the following projects: inspection, testing, and surveying for the center taxiway; in-line baggage screening; runway projects; interior improvements at TBIT; midfield satellite concourse; and land acquisition.

b. LAX Master Plan

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

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

c. *Aviation Security*

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

d. *Environmental Issues*

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy. As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2010 and 2009 was $12.8 million. LAX does not expect any recoveries reducing this obligation.

e. *Terminal Leases*

In December 2006, the Board of Airport Commissioners approved an increase in the M&O Charges. The increase was due to the inclusion of security costs and full indirect costs. A number of airlines filed court action against LAWA disputing LAX's right to make changes to the M&O Charges. Settlement agreements were reached with each of the airlines.

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

LAWA also purchased certain facilities under operating lease by retiring third party bonds used to finance improvements on such facilities. The purchase price (the cost to retire the debt) on this transaction was $48.7 million.

The amended agreements with American and Delta Airlines settled disputed M&O Charges through September 30, 2010 and permit the two carriers to bring new actions against LAWA for M&O Charges disputes after September 30, 2010 if an agreement is not reached. Under their respective settlement agreements, American, Delta and LAX are obligated to work diligently along with other airlines to reach an agreement regarding rates and charges structure, and the manner by which future capital needs at LAX will be met. Such negotiations include, without limitation, the following: (a) a reasonable financing plan for necessary capital improvements at LAX, including improvements in the terminal areas, and (2) ways in which the leasing agreements at LAX can be structured to create incentives for LAX to improve operating efficiencies, limit costs, and increase non-airline revenues.

LAWA continues to engage in negotiations with the airlines.

f. *Terminal Tariff*

In February 2007, certain domestic airlines operating at LAX Terminal 1 (T1 Complainants) and at LAX Terminal 3 (T3 Complainants) (together the T1/3 Complainants) filed a complaint with the United States Department of Transportation (DOT) alleging that terminal rates and charges imposed under the Airport Terminal Tariff were unreasonable and discriminatory. The T3 Complainants filed an additional claim alleging that LAWA's "market-value" method in determining the base charge was unreasonable.

Also in February 2007, certain international airlines (TBIT Complainants) operating at the Tom Bradley International Terminal (TBIT) filed a complaint with DOT challenging the imposition of changes to the various charges, including M&O Charges, that were retroactive to January 2006. In April 2007, a second set of international airlines operating at TBIT filed a complaint with DOT challenging the imposition of the rentable space methodology and the increased M&O Charges. Decision of the DOT on these cases was subsequently petitioned for review by the involved parties in the United States Court of Appeals (COA). The TBIT Complainants motion to withdraw their petition for review was granted in June 2008.

The June 2007 DOT Final Decision and the August 2009 COA opinion included the following significant conclusions:

- The COA affirmed the DOT decision that the increased M&O Charges and LAWA's rates methodology were non-discriminatory and not unreasonable when used to recover fully allocated costs of maintenance and operation of the terminal, including the increasing general administration, ground transportation, and airport security.
- While the DOT decided that the rentable space methodology does not violate airports requirements, the COA found that LAX's methodology was discriminatory as applied in setting the tariffs for Terminals 1 and 3 and remanded this finding to the DOT.
- The DOT had decided that the fair market-value methodology is not inherently unreasonable and can be used in setting terminal rental rates with certain conditions. However, the COA found that the DOT did not explain the disparate treatment of fees (i.e. historical cost basis for airfield fees and any reasonable methodology such as fair market value for non-airfield fees). The COA remanded the matter to the DOT to either justify or abandon its disparate treatment of fees. Additionally, the COA directed DOT to either justify or abandon its objection to LAX's setting up of terminal rents based on fair market value upholding the requirement for an independent fair market value appraisal.
- Although the DOT did not rule on the T1/3 Complainants assertion that LAX has monopoly power over the provision of airport services, the COA directed the DOT to explain why the case did not present the extraordinary situation in which such allegation of monopoly powers would be relevant to the fee dispute.

In November 2009, the DOT requested the litigants in the above cases to: (a) advise the DOT on any settlement possibilities on the remanded issues, and (b) provide comments as to recommended procedures for handling the remanded issues. The DOT has granted an interim stay of the proceedings and extended the deadline to file procedural and evidentiary comments.

In January 2010, LAX and the T1/3 Complainants reached a partial agreement settling, among other things, certain rates and charges disputes through the issuance of rental credits.

LAX is unable to predict how the DOT will rule on the remanded open issues.

16. Other Matters

a. Retail Concession Agreements at LAX

In May 2009, the Board of Airport Commissioners (BOAC) approved the release of a Request for Proposals (RFP) to secure ten-year contracts for retail concessions at LAX. The RFP offered bidders 22 retail units which were bundled into five concession packages. A five-member panel composed of LAWA executives evaluated 13 responsive proposals and recommended the highest ranked proposals within each retail package be awarded a ten-year concession agreement. Because of a potential conflict of interest involving a member of the BOAC, the awarding of the contracts was transferred from the BOAC to the Board of Referred Powers of the City of Los Angeles (BRP).

On September 14, 2010, the BRP approved the award of three retail concession contracts. These retail contracts will bring new vendors to Terminals 4, 5, 7 and 9 at LAX. On September 20, 2010, the BRP approved four of five food and beverage concession contracts. LAWA will re-solicit proposals for the rejected bid at a later date. Two other retail concession contracts will be voted on by BOAC. All approved contracts will be presented to the full City Council for final approval.

b. City Financial Challenges

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

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

17. Subsequent Events

On August 2, 2010, Mexicana Airlines (Mexicana), one of the international airlines that operate at LAX, filed for Chapter 15 bankruptcy in New York. The carrier also filed an insolvency petition with a Mexico City district court. Mexicana ceased operations at LAX on August 28, 2010. LAX’s receivables from Mexicana total $2.2 million ($1.5 million prepetition and $0.7 million postpetition). While LAX filed its creditor’s claim with the bankruptcy court, it can not predict the outcome of the bankruptcy filing.

On November 4, 2010, LAWA issued the following bonds: (a) $134.7 million LAX Subordinate Revenue Bonds, 2010 Series B with an interest rate of 5% and final maturity date of May 2040, and (b) $59.4 million LAX Subordinate Revenue Bonds, 2010 Series C with an interest rate of 7.053% and final maturity date of May 2040. The bonds were issued to finance a portion of the costs of certain capital projects at LAX including construction of the Bradley West Aprons Project and the Taxilane T Project.

On November 30, 2010, LAWA issued $875.8 million LAX Senior Revenue Bonds, 2010 Series D with interest rates ranging from 3% to 5.5% and final maturity date of May 2040. The bonds were issued to finance a portion of the costs of certain capital projects at LAX, including construction of certain elements of the Bradley West Terminal Projects and the Central Utility Plant Project.

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SUPPLEMENTAL INFORMATION

Los Angeles City Retirement System
Defined Benefit Pension Plan
Schedule of Funding Progress
Prorated Data for Los Angeles World Airports
(Non-GAAP Basis - Unaudited)
(dollar amounts in thousands)

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

Los Angeles City Retirement System
Other Postemployment Benefits Healthcare Plan
Schedule of Funding Progress
Prorated Data for Los Angeles World Airports
(Non-GAAP Basis - Unaudited)
(dollar amounts in thousands)

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

Notes to the Schedules:

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

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

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Schedule of Passenger Facility Charge Revenues and Expenditures
For the Years Ended June 30, 2010 and 2009
(amounts in thousands)

	Passenger facility charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of June 30, 2008	$ 1,101,698	$ 107,918	$ 1,209,616	$ 757,378	$ 452,238
Fiscal year 2008-09 transactions					
Quarter ended September 30, 2008	26,521	4,383	30,904	8,022	22,882
Quarter ended December 31, 2008	26,523	6,612	33,135	16,536	16,599
Quarter ended March 31, 2009	21,540	2,241	23,781	8,914	14,867
Quarter ended June 30, 2009	30,250	7,993	38,243	3,753	34,490
Program to date as of June 30, 2009	1,206,532	129,147	1,335,679	794,603	541,076
Fiscal year 2009-10 transactions					
Quarter ended September 30, 2009	27,594	2,875	30,469	10,013	20,456
Quarter ended December 31, 2009	27,815	3,486	31,301	2,285	29,016
Quarter ended March 31, 2010	24,623	2,799	27,422	3,293	24,129
Quarter ended June 30, 2010	30,427	4,440	34,867	2,846	32,021
Unexpended passenger facility charge revenues and interest earned, June 30, 2010	$ 1,316,991	$ 142,747	$ 1,459,738	$ 813,040	$ 646,698

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

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES
June 30, 2010 and 2009

1. General

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

The current PFC rate at LAX is $4.50. The PFC collection authority approved to date by FAA is $2,504.4 million. 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
Total			$ 2,504,374

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

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 2010	Expenditures to date June 30 2009
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	--	--
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	--	--
Aircraft Noise Mitigation and Management System	3,450	3,652	3,622
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,169
TBIT Interior Improvements and Baggage Screening System	468,030	--	--
Implementation of IT Security Master Plan	56,573	16,748	15,992
Noise Mitigation - Land Acquisitions	485,000	348,337	346,055
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	14,599	7,559
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	26,786	18,506
Bradley West	855,000	--	--
Total	$ 2,504,374	$ 813,040	$ 794,603

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

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

3. Excess Project Expenditures

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

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COMPLIANCE SECTION

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

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

We have audited the accompanying basic financial statements of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the year ended June 30, 2010, which included an explanatory paragraph that the financial statements present only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2010, and have issued our report thereon dated December 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LAX's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LAX's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over financial reporting.

A *deficiency in internal control* 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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Airport Commissioners, LAX management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 6, 2010

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

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

Compliance

We have audited the Los Angeles International Airport's (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), compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2010. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of LAX's management. Our responsibility is to express an opinion on LAX's compliance based on our audit.

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

In our opinion, LAX complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of LAX is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered LAX's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion in the effectiveness of internal control over compliance. Accordingly, we do not express an opinion in 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 6, 2010

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