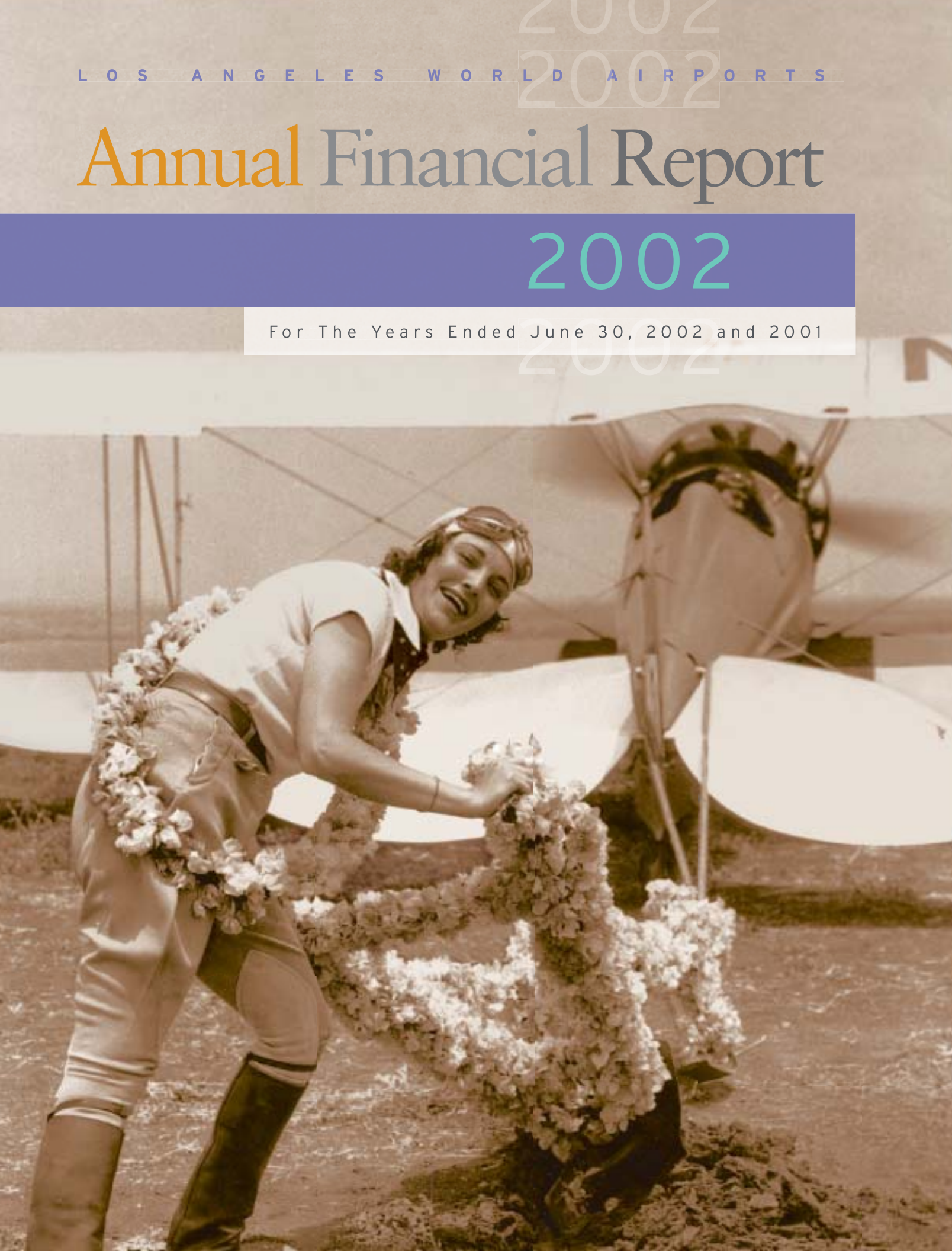


2002
2002
L O S A N G E L E S W O R L D A I R P O R T S

Annual Financial Report

2002

For The Years Ended June 30, 2002 and 2001



Independent Auditor's Reports, Financial Statements and Supplemental Information

For The Years Ended June 30, 2002 and 2001





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

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of June 30, 2002 and 2001, as listed in the accompanying table of contents. These financial statements are the responsibility of LAWA's management. Our responsibility is to express an opinion on these financial statements based on our 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 to the financial statements, the financial statements present only the LAWA, an Enterprise Fund of the City of Los Angeles, and do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California, as of June 30, 2002, and 2001, 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 our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LAWA as of June 30, 2002 and 2001 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.

As discussed in Note 2 to the financial statements, LAWA adopted the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2000.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2002 on our consideration of LAWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended June 30, 2002. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Macvar, Dini & Company LLP

Certified Public Accountants

Los Angeles, California
October 25, 2002

Statements of Net Assets

June 30, 2002 and 2001

DOLLARS IN THOUSANDS

ASSETS >	2002	2001
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 416,374	\$ 352,887
Accounts receivable, net of allowance for uncollectible accounts of \$2,418 and \$1,592 in 2002 and 2001, respectively	36,952	40,829
Unbilled receivables	25,404	3,785
Federal grants receivable	2,341	13,449
Accrued interest receivable	4,822	8,369
Prepaid expenses and inventories	2,619	2,425
Total current assets	488,512	421,744
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	439,987	475,992
Investments with fiscal agent (Note 3)	48,742	45,344
Accrued interest receivable	5,107	6,671
Passenger facility charges receivable (Note 12)	12,622	13,736
Total restricted assets	506,458	541,743
Capital assets (Note 4):		
Land, land clearance and air easements	532,798	532,798
Buildings, improvements and equipment	1,421,593	1,396,580
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(768,087)	(709,575)
Construction work in process	370,282	279,833
Net capital assets	1,741,009	1,684,059
Deferred bond issuance expenses	3,658	2,939
Total noncurrent assets	2,251,125	2,228,741
Total assets	\$ 2,739,637	\$ 2,650,485

See accompanying notes to financial statements.

Statements of Net Assets < Continued >

June 30, 2002 and 2001

DOLLARS IN THOUSANDS

	2002	2001
LIABILITIES >		
Current liabilities:		
Contracts and accounts payable	\$ 30,633	\$ 52,809
Employee benefits (Note 6)	7,291	13,913
Salaries payable	5,280	5,281
Commercial paper notes payable (Note 5)	15,500	-
Current obligations under capital leases (Note 11)	1,597	1,945
Deferred revenue	50	51
Other liabilities (Note 6)	6,867	4,654
Current liabilities payable from nonrestricted assets	67,218	78,653
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions (Note 3)	120,677	131,752
Bonds payable, less net deferred charges and credits of \$225 and \$228 in 2002 and 2001, respectively (Note 5)	25,368	24,520
Contracts, accounts payable and other	3,738	1,635
Accrued bond interest payable	2,627	2,783
Current liabilities payable from restricted assets	152,410	160,690
Total current liabilities	219,628	239,343
Long-term liabilities:		
Bonds payable, less net deferred charges and credits of \$2,991 and \$3,216 in 2002 and 2001, respectively (Note 5)	300,674	325,714
Obligations under capital leases – less current portion (Note 11)	122,957	134,696
Employee benefits (Note 6)	19,615	15,372
Deferred revenue	1,371	1,421
Other liabilities (Note 6)	18,367	18,367
Total long-term liabilities	462,984	495,570
Total liabilities	682,612	734,913
NET ASSETS >		
Invested in capital assets, net of related debt	1,290,413	1,197,184
Restricted:		
Capital projects	45,905	63,567
Debt service	46,716	43,440
Special purpose	196,790	208,368
Unrestricted	477,201	403,013
Total net assets	\$ 2,057,025	\$ 1,915,572

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2002 and 2001

DOLLARS IN THOUSANDS

	<u>2002</u>	<u>2001</u>
Operating revenue:		
Aviation revenue:		
Landing fees	\$ 124,390	\$ 114,141
Building rentals	107,325	76,760
Other aviation revenue	48,984	50,310
Concession revenue	181,372	233,125
Airports sales and services	7,595	5,437
Miscellaneous revenue	2,220	1,217
Total operating revenue	<u>471,886</u>	<u>480,990</u>
Operating expenses:		
Salaries and benefits	160,264	153,581
Contractual services	112,924	118,840
Administrative expense	7,393	53,446
Material and supplies	45,918	41,239
Utilities	24,769	23,434
Advertising and public relations	6,632	6,721
Other operating expenses	41,562	22,860
Total operating expenses before depreciation and amortization	<u>399,462</u>	<u>420,121</u>
Income from operations before depreciation and amortization	72,424	60,869
Depreciation and amortization	<u>(58,512)</u>	<u>(64,121)</u>
Operating income (loss)	<u>13,912</u>	<u>(3,252)</u>
Nonoperating revenue (expenses):		
Passenger facility charges (Note 12)	75,436	94,558
Interest income	37,439	44,153
Net increase (decrease) in fair value of investments	(3,863)	10,151
Interest expense	(25,369)	(25,871)
Bond expense	(222)	(222)
Federal grant revenue	6,336	-
Loss on sale of securities	(462)	-
Other nonoperating expenses	(1,821)	(15,903)
Other nonoperating revenue	434	4,395
Total nonoperating revenue, net	<u>87,908</u>	<u>111,261</u>
Income before capital grant contributions	101,820	108,009
Capital grant contributions	<u>39,633</u>	<u>6,777</u>
Change in net assets	141,453	114,786
Net assets, beginning of year, as restated (Note 2)	1,915,572	1,800,786
Net assets, end of year	<u>\$ 2,057,025</u>	<u>\$ 1,915,572</u>

See accompanying notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2002 and 2001

DOLLARS IN THOUSANDS

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Receipts from customers	\$ 453,318	\$ 490,237
Receipts from passenger facility charges	76,550	90,659
Payments for goods and services	(259,281)	(280,747)
Payments to employees	(162,644)	(147,872)
Other receipts (payments), net	1,417	(2,701)
Net cash provided by operating activities	<u>109,360</u>	<u>149,576</u>
Cash flows from noncapital financing activities:		
Federal grants received	6,336	-
Net cash used in noncapital financing activities	<u>6,336</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(115,462)	(176,400)
Principal paid on bonds	(24,420)	(25,025)
Interest paid on bonds	(20,310)	(21,836)
Principal paid on capital leases	(12,087)	(1,792)
Interest paid on capital leases	(4,988)	(7,631)
Commercial paper issued	15,500	-
Cash transferred from fiscal agent	(3,398)	2,226
Payments for commercial paper issuance costs	(941)	-
Federal grants received	50,741	9,410
Net cash used in capital and related financing activities	<u>(115,365)</u>	<u>(221,048)</u>
Cash flows from investing activities:		
Increase (decrease) in fair value of investments	(3,863)	10,151
Interest received	42,089	47,458
Securities lending cash collateral returned	(11,075)	(9,344)
Net cash provided by investing activities	<u>27,151</u>	<u>48,265</u>
Net increase (decrease) in cash and cash equivalents	27,482	(23,207)
Cash and cash equivalents, beginning of year	828,879	852,086
Cash and cash equivalents, ending of year	<u>\$ 856,361</u>	<u>\$ 828,879</u>

See accompanying notes to financial statements.

Statements of Cash Flows < *Continued* >

For the Years Ended June 30, 2002 and 2001

DOLLARS IN THOUSANDS

	2002	2001
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 13,912	\$ (3,252)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	58,512	64,121
Change in provision for uncollectible accounts	826	(185)
Passenger facility charges received	76,550	90,659
Other expenses, net	(1,387)	(11,508)
Changes in operating assets and liabilities:		
Accounts receivable	3,051	298
Unbilled receivables	(21,619)	9,134
Prepaid expenses and inventories	(194)	794
Contracts and accounts payable	(20,073)	(14,207)
Employee benefits	(2,379)	4,320
Salaries payable	(1)	1,389
Deferred revenue	(51)	(6,939)
Other liabilities	2,213	14,952
Total adjustments	95,448	152,828
Net cash provided by operating activities	\$ 109,360	\$ 149,576

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2002 and 2001

1 > REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES >

a > *Organization and Reporting Entity*

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

LAWA is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates Los Angeles International Airport (LAX), Ontario International Airport (Ontario), Van Nuys Airport and Palmdale Regional Airport (collectively, the Airport System).

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

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

b > *Basis of Accounting*

LAWA is reported as an enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each airport in the Airport System. Only the funds of LAWA are included in the reporting entity. Bonds issued by LAWA are payable solely from revenues of LAWA and are not general obligations of the City. LAWA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

Notes to Financial Statements

June 30, 2002 and 2001

1 > REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES < continued >

c > Cash and Pooled Investments

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAWA's outstanding bonds. In order to maximize investment return, LAWA pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

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

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

d > Securities Lending

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

e > Investments with Fiscal Agents

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

f > 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 contribution or operating grant revenue, as appropriate, in the statement of revenues, expenses and changes in net assets.

g > Capital Assets

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

Notes to Financial Statements

June 30, 2002 and 2001

1 > REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES < continued >

h > Depreciation and Amortization

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

i > Preliminary Costs of Capital Projects

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

j > Operating and Nonoperating Revenue and Expenses

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

k > Interest Expense

LAWA capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest expense of \$25,369,000 for the year ended June 30, 2002 and \$25,871,000 for the year ended June 30, 2001 excludes \$189,000 and \$3,584,000, respectively, of interest capitalized as part of the cost of LAWA's construction work in process.

l > Deferred Revenue

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

m > Employee Benefits

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

Notes to Financial Statements

June 30, 2002 and 2001

1 > REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES < continued >

n > Statements of Cash Flows

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

o > Use of Estimates

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

p > Reclassifications

Certain reclassifications have been made to fiscal year 2001 amounts in order to conform to the fiscal year 2002 presentation.

q > Inventory

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

r > Bond Premiums, Discounts and Issuance Costs

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

s > Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Notes to Financial Statements

June 30, 2002 and 2001

1 > REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES < continued >

s > Net Assets < continued >

- Unrestricted Net Assets – This category represents net assets of LAWA, not restricted for any project or other purpose.

2 > ACCOUNTING CHANGES >

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. GASB Statement No. 34 represents the most important single change in the history of accounting and financial reporting for state and local governments.

GASB Statement No. 34 provides new information and restructures information provided in the past. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expenses, and Changes in Net Assets replaces both the Income Statement and the Statement of Changes in Retained Earnings and Contributed Capital. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

In June 2001, GASB issued Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*. This statement is effective for the same periods as GASB Statement No. 34 and either clarifies or modifies certain provisions in GASB Statements No. 21 Accounting for Escheat Property and No. 34. It establishes guidance in the following areas: reporting of escheat property, topics for discussion in the Management’s Discussion and Analysis (MD&A), program revenue classifications, the minimum level of detail required for business-type activities in the statement of activities, etc.

LAWA is not required to present an MD&A with its financial statements because it is an Enterprise Fund of the City. MD&A is only required supplementary information for a governmental entity as a whole.

Also in June 2001, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which is effective for the same periods as GASB Statement No. 34. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) actions taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) inter-fund balances. These new disclosure requirements address the needs of users of financial statements identified by GASB.

Notes to Financial Statements

June 30, 2002 and 2001

2 > ACCOUNTING CHANGES < continued >

The impact of adopting GASB Statement Nos. 34, 37, and 38, resulted in changes in the presentation of the financial statements and providing additional disclosures in the notes to the statements.

3 > CASH AND INVESTMENTS >

a > *Cash and Pooled Investments*

Cash is deposited with the City Treasurer and generally invested in short-term investments under the City Treasurer's pooled investment program. The Los Angeles City Treasury Investment Procedures and Guidelines, established pursuant to the California Government Code and Los Angeles City Council action, govern the City's investment practices. The primary objectives of the City's investment policy are the safety of capital, the liquidity of the portfolio and the yield on the investments. Investments permitted by the City's investment policy include obligations of the U.S. Government and agencies, certain commercial paper, bankers' acceptances, medium-term corporate notes, negotiable certificates of deposit, repurchase agreements and state and local government pools (e.g., State Local Agency Investment Fund) up to certain specified allowable percentages.

In addition, the Securities Lending Program (the Program) approved by the City Council on October 28, 1991, allows the City to engage in the transfer of securities to other entities for collateral and simultaneously agree to return the collateral for the same securities in the future. Under the provisions of the Program, no more than 60% of the par value of the City's General Investment Pool (the Pool) shall be available for loan. Collateral on loaned securities shall be strictly limited to cash which the City can reinvest, and U.S. Treasury securities and U.S. Government Agency securities (noncallable) which can not be pledged or sold by the City unless the borrower defaults. Cash reinvestment shall be made only with security dealers designated as primary dealers by the New York Federal Reserve Bank or with direct issuers. The collateral on loaned securities shall not, on the loan initiation date, be less than 102% of the market value of the loaned securities, including accrued interest. After the initiation date, any aggregate amount that rounds to 102% shall be considered as meeting the 102% collateralization requirement. The securities lending agent shall mark to market the value of both the collateral and the repurchased securities collateral daily. During the fiscal year, the Pool had no losses due to borrowers' default. There was no credit risk exposure to the Pool at June 30, 2002 because the amounts owed the borrowers exceeded the amounts the borrowers owed the Pool. At June 30, 2002 and 2001, the assets and liabilities arising from the reinvested cash collateral have been recognized in LAWA's financial statements based on its equity in the pool at year-end.

Notes to Financial Statements

June 30, 2002 and 2001

3 > CASH AND INVESTMENTS < continued >

a > Cash and Pooled Investments < continued >

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

Description	2002	2001
Deposits	\$ 57,322	\$ 39,689
U.S. Treasury securities	83,620	152,068
Federal agency securities	386,890	308,464
Commercial paper	59,560	79,903
Medium-term corporate notes	171,175	154,527
State Local Agency Investment Fund	1,169	5,731
Repurchase agreements	96,614	88,273
Money market mutual funds	11	224
Total	856,361	828,879
Less restricted portion	(439,987)	(475,992)
Unrestricted portion	\$ 416,374	\$ 352,887

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

At June 30, 2002 and 2001, the bank balance of \$52,661,000 and \$25,012,000, respectively, of LAWA's proportionate share of cash deposits was entirely collateralized with collateral held in the pledging bank's trust department or another financial institution. As defined in the California Government Code, all collateral other than mortgage collateral must have a fair value at all times of not less than 110% of the amount of deposit, while mortgage collateral must have a fair value of not less than 150% of the deposit. Such collateral is considered held in the City's name.

b > Investments with Fiscal Agents

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

Notes to Financial Statements

June 30, 2002 and 2001

3 > CASH AND INVESTMENTS < continued >

b > Investments with Fiscal Agents < continued >

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

LAWA's investments with fiscal agents were as follows (dollars in thousands):

<u>Description</u>	<u>2002</u>	<u>2001</u>
Mutual funds	\$ 9,782	\$ 8,564
U.S. Treasury securities	<u>238,960</u>	<u>36,780</u>
Total	<u>\$ 48,742</u>	<u>\$ 45,344</u>

c > Custodial Credit Risk Categorization

Investments maintained on behalf of LAWA by the City and the fiscal agents are categorized to give an indication of the custodial credit risk assumed by LAWA at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by LAWA or in LAWA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAWA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or its trust department or agent, but not in LAWA's name. At June 30, 2002 and 2001, substantially all of the City's investments have been classified in Category 1 type investments, except for investments in the State Local Agency Investment Fund and money market mutual funds, which are not required to be categorized. Similarly, investments held by the fiscal agents have been classified as Category 2 type investments except for investments in mutual funds, which are noncategorized investments.

Notes to Financial Statements

June 30, 2002 and 2001

4 > CHANGES IN CAPITAL ASSETS >

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2002</u>
Capital assets, not depreciated:				
Land	\$ 485,823	\$ -	\$ -	\$ 485,823
Air Easements	46,975	-	-	46,975
Construction in Progress	<u>279,833</u>	<u>111,213</u>	<u>(20,764)</u>	<u>370,282</u>
Total capital assets, not Depreciated	<u>812,631</u>	<u>111,213</u>	<u>(20,764)</u>	<u>903,080</u>
Capital assets, depreciated:				
Buildings	675,278	-	-	675,278
Improvements	590,183	20,762	-	610,945
Equipment and Vehicles	131,119	4,251	-	135,370
Leased Property	<u>184,423</u>	<u>-</u>	<u>-</u>	<u>184,423</u>
Total capital assets, Depreciated	<u>1,581,003</u>	<u>25,013</u>	<u>-</u>	<u>1,606,016</u>
Less accumulated depreciation:				
Buildings	(239,822)	(17,218)	-	(257,040)
Improvements	(318,038)	(27,721)	-	(345,759)
Equipment and Vehicles	(85,711)	(10,432)	-	(96,143)
Leased Property	<u>(66,004)</u>	<u>(3,141)</u>	<u>-</u>	<u>(69,145)</u>
Total accumulated Depreciation	<u>(709,575)</u>	<u>(58,512)</u>	<u>-</u>	<u>(768,087)</u>
Total capital assets depreciated, net	<u>871,428</u>	<u>(33,499)</u>	<u>-</u>	<u>837,929</u>
Total capital assets, net	<u>\$ 1,684,059</u>	<u>\$ 77,714</u>	<u>\$ (20,764)</u>	<u>\$ 1,741,009</u>

Notes to Financial Statements

June 30, 2002 and 2001

4 > CHANGES IN CAPITAL ASSETS < continued >

Capital asset activity for the year ended June 30, 2001, was as follows:

	<u>Balance at July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2001</u>
Capital assets, not depreciated:				
Land	\$ 411,655	\$ 74,168	\$ -	\$ 485,823
Air Easements	46,975	-	-	46,975
Construction in Progress	<u>227,560</u>	<u>165,876</u>	<u>(113,603)</u>	<u>279,833</u>
Total capital assets, not Depreciated	<u>686,190</u>	<u>240,044</u>	<u>(113,603)</u>	<u>812,631</u>
Capital assets, depreciated:				
Buildings	675,488	2,312	(2,522)	675,278
Improvements	549,765	40,418	-	590,183
Equipment and Vehicles	127,996	11,866	(8,743)	131,119
Leased Property	<u>184,423</u>	<u>-</u>	<u>-</u>	<u>184,423</u>
Total capital assets, Depreciated	<u>1,537,672</u>	<u>54,596</u>	<u>(11,265)</u>	<u>1,581,003</u>
Less accumulated depreciation:				
Buildings	(219,965)	(19,857)	-	(239,822)
Improvements	(289,486)	(28,552)	-	(318,038)
Equipment and Vehicles	(85,037)	(10,937)	10,263	(85,711)
Leased Property	<u>(61,229)</u>	<u>(4,775)</u>	<u>-</u>	<u>(66,004)</u>
Total accumulated Depreciation	<u>(655,717)</u>	<u>(64,121)</u>	<u>10,263</u>	<u>(709,575)</u>
Total capital assets depreciated, net	<u>881,955</u>	<u>(9,525)</u>	<u>(1,002)</u>	<u>871,428</u>
Total capital assets, net	<u>\$ 1,568,145</u>	<u>\$ 230,519</u>	<u>\$ (114,605)</u>	<u>\$ 1,684,059</u>

Notes to Financial Statements

June 30, 2002 and 2001

5 > BONDS AND COMMERCIAL PAPER NOTES PAYABLE >

LAWA issued revenue bonds in 1995 and 1996 for various airport improvement projects. LAWA's revenues are pledged as security for the bonds. In 2002, LAWA issued \$15,500,000 in commercial paper notes to finance a portion of LAWA's short-term borrowing needs as well as pay all or a portion of the principal of and interest on the notes when due. The commercial paper notes bear interest at a market rate at the date issued not to exceed 12% per annum. LAWA recognized \$941,000 in bond issuance expense related to these commercial paper notes.

Outstanding revenue bonds mature in varying amounts through 2026 and commercial paper notes at June 30, 2002 are summarized as follows (dollars in thousands):

<u>Debt issue</u>	<u>Interest rate %</u>	<u>Authorized and issued</u>	<u>Included in current liabilities</u>	<u>Included in long-term liabilities</u>	<u>Total</u>
Issue of 1995	5.00 to 8.38	\$ 365,855	\$ 23,025	\$ 188,860	\$ 211,885
Issue of 1996	5.60 to 7.65	123,075	2,240	114,805	117,045
Sub-total		488,930	25,265	303,665	328,930
Commercial paper	Variable	300,000/15,500	15,500	-	15,500
Deferred charges and credits, net		-	(225)	(2,991)	(3,216)
Unredeemed bonds		-	328	-	328
Total		<u>\$ 504,430</u>	<u>\$ 40,868</u>	<u>\$ 300,674</u>	<u>\$ 341,542</u>

Changes to LAWA's outstanding debt consisted of bond principal payments of \$22,300,000 on the 1995 bonds, bond principal payments of \$2,115,000 on the 1996 bonds, retirement of unredeemed bonds of \$5,000 and issuance of commercial paper notes of \$15,500,000 for the year ended June 30, 2002. For the year ended June 30, 2001, changes to LAWA's outstanding debt consisted of bond principal payments of \$22,975,000 on the 1995 bonds, and bond principal payments of \$2,010,000 on the 1996 bonds, and retirement of unredeemed bonds of \$40,000.

Notes to Financial Statements

June 30, 2002 and 2001

5 > BONDS AND COMMERCIAL PAPER NOTES PAYABLE < continued >

Future annual debt service requirements are as follows (dollars in thousands):

Fiscal year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 40,765	\$ 19,270	\$ 60,035
2004	25,525	17,509	43,034
2005	24,885	15,972	40,857
2006	26,020	14,506	40,526
2007	25,705	13,111	38,816
2008-2112	99,910	44,252	144,162
2113-2017	36,795	25,820	62,615
2018-2022	31,405	16,286	47,691
2023-2026	33,420	5,297	38,717
Total	<u>\$ 344,430</u>	<u>\$ 172,023</u>	<u>\$ 516,453</u>

6 > OTHER LONG-TERM LIABILITIES >

Other long-term liabilities activity for the year ended June 30, 2002 was as follows:

	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2002</u>	<u>Due in One year</u>
Employee Benefits	\$ 29,285	\$ 31,724	\$ (34,103)	\$ 26,906	\$ 7,291
Deferred Revenue	1,472	-	(51)	1,421	50
Other Liabilities	23,021	415,217	(413,004)	25,234	6,867
Total	<u>\$ 53,778</u>	<u>\$ 446,941</u>	<u>\$ (447,158)</u>	<u>\$ 53,561</u>	<u>\$ 14,208</u>

Other long-term liabilities activity for the year ended June 30, 2001 was as follows:

	<u>Balance at July 1, 2000</u>	<u>Additions*</u>	<u>Deductions*</u>	<u>Balance at June 30, 2001</u>	<u>Due in One year</u>
Employee Benefits	\$ 24,965	\$ 4,320	\$ -	\$ 29,285	\$ 13,913
Deferred Revenue	8,411	-	(6,939)	1,472	51
Other Liabilities	8,069	14,952	-	23,021	4,654
Total	<u>\$ 41,445</u>	<u>\$ 19,272</u>	<u>\$ (6,939)</u>	<u>\$ 53,778</u>	<u>\$ 18,618</u>

* Additions and deductions shown net.

Notes to Financial Statements

June 30, 2002 and 2001

7 > RELATED PARTY SERVICES >

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAWA. The payments for these services, included in operating expenses for the years ended June 30, 2002 and 2001, were \$ 51,562,000 and \$56,851,000, respectively. Amounts due and payable for these services at June 30, 2002 and 2001 totaled \$189,000 and \$2,229,000, respectively. In addition, LAWA collects parking taxes at LAX on behalf of the City. Parking taxes collected and remitted to the City were \$5,123,000 and \$8,072,000 for the years ended June 30, 2002 and 2001, respectively.

8 > RETIREMENT SYSTEM >

a > *Retirement Plan Description*

All full-time employees of LAWA are eligible to participate in the City Employees' Retirement System of the City of Los Angeles, California (the System), a single employer defined benefit pension plan. The System serves as a common investment and administrative agent for various City departments and agencies that participate in the System. Copies of the System's Comprehensive Annual Financial Report can be obtained at 360 East Second Street, 2nd Floor, Los Angeles, California 90012. LAWA makes contributions to the System for its pro rata share of retirement costs attributable to its employees.

The System provides retirement, disability, death benefits, postemployment healthcare and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have 30 or more years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. The System does not have a mandatory retirement age.

b > *Funding Policy and Contributions*

The Board of Administration of the System establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to the System at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to February 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after February 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of the System. LAWA's actuarially required and actual contributions made to the System were \$6,169,000, \$7,750,000, and \$8,637,000 for the years ended June 30, 2002, 2001, and 2000, respectively, representing 4.7%, 5.8%, and 8.4% of covered payroll for the respective years.

The System's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The contribution rate for normal

Notes to Financial Statements

June 30, 2002 and 2001

8 > RETIREMENT SYSTEM < continued >

b > Funding Policy and Contributions < continued >

cost is determined using the projected unit credit cost method. The System amortizes the unfunded actuarial accrued liability using the level percent of payroll method over varying remaining 15- to 30-year periods on a closed basis. The significant actuarial assumptions used to compute the actuarially determined annual pension cost are the same as those used to compute the annual required contribution.

c > Other Postemployment Benefits

LAWA, as a participant in the System, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City, including LAWA. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. The System is advance funding the retiree health benefits on an actuarially determined basis. The City's actuarially required and actual contributions for the health care subsidy were \$27,591,000 (2.17% of covered payroll) for fiscal year 2002. The number of active participants for the City as a whole was 25,930. Separate information for LAWA contributions and participants is not available.

9 > SELF-INSURANCE >

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

	Year ended June 30	
	2002	2001
Beginning balance	\$ 12,048	\$ 11,406
Provision for claims	6,354	4,062
Claims paid	(3,228)	(3,420)
Ending balance	\$ 15,174	\$ 12,048

Notes to Financial Statements

June 30, 2002 and 2001

9 > SELF-INSURANCE < continued >

For other types of claims, commercial insurance is used when it is either legally or contractually required, or judged to be the most effective way to finance risk. LAWA's Risk Management Bureau estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2002, 2001, and 2000, no claims were in excess of LAWA's insurance coverage. LAWA maintains approximately \$2.5 billion coverage of property, casualty and other insurance. LAWA also maintains an insurance trust account to pay the deductible for property damage and any claims in excess of the insurance coverage.

10 > COMMITMENTS AND CONTINGENCIES >

As of June 30, 2002, a number of claims and lawsuits are pending against LAWA that arose in the normal course of operations. LAWA recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The following is a summary of certain matters related to LAWA's operations.

a > *Inverse Condemnation*

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

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

b > *City Services and Reimbursements*

Air Transport Association of America v. City of Los Angeles, City of Los Angeles Department of Airports, and Los Angeles Board of Airport Commissioners, Formal Complaint No. 13-95-05 (Federal Aviation Administration); and *Aircraft Owners and Pilots Association v. City of Los Angeles*, City of Los Angeles Department of Airports, and Los Angeles Board of Airport Commissioners, Formal Complaint No. 13-95-09 (Federal Aviation Administration) – two nearly identical administrative proceedings involving formal complaints filed in March and June 1995 are pending before the Secretary. These proceedings concern a transfer to the City's General Fund in the amount of approximately \$58 million (plus any accrued interest). The actions challenge the transfer of funds related to a condemnation award received from the State of California in connection with real estate acquired by the State for the Century Freeway Project. The complainants, the ATA and Aircraft Owners and Pilots Association, allege that the transfer is a violation of the Airport and Airways Improvement Act of 1982 (AAIA) governing the use of airport revenues and certain grant

Notes to Financial Statements

June 30, 2002 and 2001

10 > COMMITMENTS AND CONTINGENCIES < continued >

b > City Services and Reimbursements < continued >

assurances executed pursuant to AAIA. The complainants seek an order barring the City from expending the funds for nonairport uses, directing the City to repay to LAWA amounts already transferred, suspending LAX's eligibility for grant funds pending compliance with its grant assurances and imposing a civil penalty of \$50,000. The Federal Aviation Administration (the FAA) failed to act on the complainants' request for a preliminary ruling that the City be barred from using the funds while proceedings are pending. Answers to both complaints have been filed. In December 1995, the FAA denied respondents' motion to dismiss the complaints. There has been no decision by the FAA as to whether or not to institute an investigation on the complaints or to hold full hearings.

c > Environmental Issues

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

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

d > Other

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$12,575,000 and \$229,159,000 as of June 30, 2002 and 2001, respectively.

Notes to Financial Statements

June 30, 2002 and 2001

10 > COMMITMENTS AND CONTINGENCIES < continued >

(e) *Terrorist Activities*

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the “September 11 Events”). As a result of the September 11 Events, there was a temporary suspension of air carrier operations in the United States, including operations at LAWA. Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues and parking revenue. For the fiscal year ended June 30, 2002, LAWA experienced a 16% reduction in passenger levels and a 20% reduction in air traffic movements.

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

Reductions in operating levels at LAWA from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAWA will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service. A number of airlines were experiencing economic difficulties prior to the September 11 Events. This situation was worsened by the September 11 Events and most of the airlines have been downgraded by the rating agencies. Two smaller airlines which together accounted for less than 1% of LAX’s Fiscal 2002 revenues have filed for bankruptcy protection and one of them has suspended its operations. In addition, UAL Corporation, the parent company of United Airlines, which accounted for approximately 19% of enplanements at LAX in Fiscal Year 2002 and approximately 17% of revenues, announced that it may file for bankruptcy protection during 2002.

As of June 30, 2002, the ratings of LAWA’s outstanding revenue bonds ratings has not changed. LAWA is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAWA, (iii) the future financial condition of the airlines using LAWA’s airports, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

Notes to Financial Statements

June 30, 2002 and 2001

11 > CAPITAL LEASE AGREEMENTS >

LAWA has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAWA. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amounted to \$184,423,000 at June 30, 2002 and 2001. Accumulated depreciation with respect to such property for the respective years was \$69,145,000 and \$66,004,000.

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

Fiscal year ending June 30:	
2003	\$ 8,509
2004	8,538
2005	8,566
2006	8,591
2007	8,671
2008-2012	44,310
2013-2017	54,335
2018-2022	49,252
2023-2026	<u>29,933</u>
Total minimum lease payments	220,705
Less portion consisting of interest	<u>(96,151)</u>
Present value of minimum lease payments	<u>\$ 124,554</u>

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

12 > PASSENGER FACILITY CHARGES >

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

In April 1993, the FAA approved LAWA's application to collect PFC's at LAX and Ontario for specifically approved airport improvement projects. The collection authority was for \$360,000,000

Notes to Financial Statements

June 30, 2002 and 2001

12 > PASSENGER FACILITY CHARGES < continued >

for 5 years. Effective July 1, 1993, LAWA began collecting PFC's in the amount of \$3 per passenger. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000.

In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at Ontario. Accordingly, PFC charges totaling \$126,090,000, imposed and collected at LAX, have been transferred for Ontario's project expenditures as of June 30, 2002.

In November 1997 and April 1998, the FAA approved LAWA's application to impose PFC's at LAX and Ontario, respectively, for noise mitigation projects. LAWA began collecting PFC's in the amount of \$3 per passenger effective February 1, 1998 and July 1, 1998 at LAX and Ontario, respectively. Approved collections at LAX of \$150,000,000 are to be used for the soundproofing of City of Los Angeles residences and sound insulation of nearby city residences. Approved collections of \$45,680,000 at Ontario are to be used for land acquisition and sound insulation of the City of Ontario residences. Of the Ontario-approved PFC, an estimated \$33,680,000 will be used to reimburse LAX for funds previously utilized to acquire land for Ontario.

On October 2, 1998, the FAA approved LAWA's application to amend PFC's at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000. The noise mitigation project was modified to decrease residential soundproofing in the City of Los Angeles and to increase the amount of land to be acquired for noise mitigation purposes.

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

	June 30	
	2002	2001
Amount collected	\$ 536,466	\$ 460,332
Interest earned	70,458	62,752
Cumulative PFC collections	<u>\$ 606,924</u>	<u>\$ 523,084</u>

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

SUPPLEMENTAL INFORMATION >

Combining Statement of Net Assets

June 30, 2002 < With Comparative Totals at June 30, 2001 >

DOLLARS IN THOUSANDS

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport
ASSETS >			
Current assets:			
Cash and pooled investments held by the City Treasurer	\$ 392,056	\$ 24,318	\$ -
Accounts receivable, net of allowance for uncollectible accounts	31,596	5,240	70
Unbilled receivables	20,645	4,758	-
Federal grants receivable	2,061	280	-
Accrued interest receivable	4,502	320	-
Due from other agencies	45,731	-	5,318
Prepaid expenses and inventories	2,359	221	39
Total current assets	<u>498,950</u>	<u>35,137</u>	<u>5,427</u>
Noncurrent assets:			
Restricted assets:			
Cash and pooled investments held by the City Treasurer	345,257	87,029	7,233
Investments with fiscal agent	38,960	9,782	-
Accrued interest receivable	3,879	1,228	-
Passenger facility charges receivable	10,631	1,991	-
Total restricted assets	<u>398,727</u>	<u>100,030</u>	<u>7,233</u>
Capital assets:			
Land, land clearance and air easements	400,670	28,291	12,615
Buildings, improvements and equipment	1,073,507	310,401	32,421
Leased property	184,423	-	-
Less accumulated depreciation and amortization	(659,917)	(86,522)	(18,339)
Construction work in process	257,645	80,752	16,319
Net capital assets	<u>1,256,328</u>	<u>332,922</u>	<u>43,016</u>
Deferred bond issuance expense	2,249	1,409	-
Total noncurrent assets	<u>1,657,304</u>	<u>434,361</u>	<u>50,249</u>
Total assets	<u>\$ 2,156,254</u>	<u>\$ 469,498</u>	<u>\$ 55,676</u>

Combining Statement of Net Assets < Continued >

June 30, 2002 < With Comparative Totals at June 30, 2001 >

DOLLARS IN THOUSANDS

	Palmdale Regional Airport	Eliminations	Totals	
			2002	2001
ASSETS >				
Current assets:				
Cash and pooled investments held by the City Treasurer	\$ -	\$ -	\$ 416,374	\$ 352,887
Accounts receivable, net of allowance for uncollectible accounts	46	-	36,952	40,829
Unbilled receivables	1	-	25,404	3,785
Federal grants receivable	-	-	2,341	13,449
Accrued interest receivable	-	-	4,822	8,369
Due from other agencies	-	(51,049)	-	-
Prepaid expenses and inventories	-	-	2,619	2,425
Total current assets	47	(51,049)	488,512	421,744
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments held by the City Treasurer	468	-	439,987	475,992
Investments with fiscal agent	-	-	48,742	45,344
Accrued interest receivable	-	-	5,107	6,671
Passenger facility charges receivable	-	-	12,622	13,736
Total restricted assets	468	-	506,458	541,743
Capital assets:				
Land, land clearance and air easements	91,222	-	532,798	532,798
Buildings, improvements and equipment	5,264	-	1,421,593	1,396,580
Leased property	-	-	184,423	184,423
Less accumulated depreciation and amortization	(3,309)	-	(768,087)	(709,575)
Construction work in process	15,566	-	370,282	279,833
Net capital assets	108,743	-	1,741,009	1,684,059
Deferred bond issuance expenses	-	-	3,658	2,939
Total noncurrent assets	109,211	-	2,251,125	2,228,741
Total assets	\$ 109,258	\$ (51,049)	\$ 2,739,637	\$ 2,650,485

Combining Statement of Net Assets < *Continued* >

June 30, 2002 < With Comparative Totals at June 30, 2001 >

DOLLARS IN THOUSANDS

	<u>Los Angeles International Airport</u>	<u>Ontario International Airport</u>	<u>Van Nuys Airport</u>
LIABILITIES >			
Current liabilities :			
Contracts and accounts payable	\$ 24,642	\$ 5,619	\$ 372
Employee benefits	6,191	849	228
Salaries payable	3,811	768	662
Commercial paper notes payable	15,500	-	-
Due to other agencies	-	-	31,018
Current obligations under capital leases	1,597	-	-
Deferred revenue	-	50	-
Other liabilities	4,265	2,168	184
Current liabilities payable from nonrestricted assets	<u>56,006</u>	<u>9,454</u>	<u>32,464</u>
Current liabilities payable from restricted assets:			
Obligations under securities lending transactions	103,848	15,738	1,025
Bonds payable, less net deferred charges and credits	23,174	2,194	-
Contracts and accounts payable and other	3,681	57	-
Accrued bond interest payable	1,742	885	-
Current liabilities payable from restricted assets	<u>132,445</u>	<u>18,874</u>	<u>1,025</u>
Total current liabilities	<u>188,451</u>	<u>28,328</u>	<u>33,489</u>
Long-term liabilities :			
Bonds payable, less net deferred charges and credits	186,932	113,742	-
Obligations under capital leases - less current portion	122,957	-	-
Employee benefits	15,400	3,393	393
Deferred revenue	-	1,371	-
Other liabilities	18,367	-	-
Total long-term liabilities	<u>343,656</u>	<u>118,506</u>	<u>393</u>
Total liabilities	<u>532,107</u>	<u>146,834</u>	<u>33,882</u>
NET ASSETS >			
Invested in capital assets, net of related debt	921,668	216,987	43,015
Restricted:			
Capital projects	18,165	24,491	2,849
Debt service	37,790	8,926	-
Special purpose	155,343	41,447	-
Unrestricted (deficit)	<u>491,181</u>	<u>30,813</u>	<u>(24,070)</u>
Total net assets	<u>\$ 1,624,147</u>	<u>\$ 322,664</u>	<u>\$ 21,794</u>

Combining Statement of Net Assets < Continued >

June 30, 2002 < With Comparative Totals at June 30, 2001 >

DOLLARS IN THOUSANDS

	Palmdale Regional Airport	Eliminations	Totals	
			2002	2001
LIABILITIES >				
Current liabilities :				
Contracts and accounts payable	\$ -	\$ -	\$ 30,633	\$ 52,809
Employee benefits	23	-	7,291	13,913
Salaries payable	39	-	5,280	5,281
Commercial paper notes payable	-	-	15,500	-
Due to other agencies	20,031	(51,049)	-	-
Current obligations under capital leases	-	-	1,597	1,945
Deferred revenue	-	-	50	51
Other liabilities	250	-	6,867	4,654
Current liabilities payable from nonrestricted assets	20,343	(51,049)	67,218	78,653
Current liabilities payable from restricted assets :				
Obligations under securities lending transactions	66	-	120,677	131,752
Bonds payable, less net deferred charges and credits	-	-	25,368	24,520
Contracts and accounts payable and other	-	-	3,738	1,635
Accrued bond interest payable	-	-	2,627	2,783
Current liabilities payable from restricted assets	66	-	152,410	160,690
Total current liabilities	20,409	(51,049)	219,628	239,343
Long-term liabilities :				
Bonds payable, less net deferred charges and credits	-	-	300,674	325,714
Obligations under capital leases - less current portion	-	-	122,957	134,696
Employee benefits	429	-	19,615	15,372
Deferred revenue	-	-	1,371	1,421
Other liabilities	-	-	18,367	18,367
Total long-term liabilities	429	-	462,984	495,570
Total liabilities	20,838	(51,049)	682,612	734,913
NET ASSETS >				
Invested in capital assets, net of related debt	108,743	-	1,290,413	1,197,184
Restricted:				
Capital projects	400	-	45,905	63,567
Debt service	-	-	46,716	43,440
Special purpose	-	-	196,790	208,368
Unrestricted (deficit)	(20,723)	-	477,201	403,013
Total net assets	\$ 88,420	\$ -	\$ 2,057,025	\$ 1,915,572

Combining Statement of Revenues, Expenses and Changes in Net Assets

For The Year Ended June 30, 2002 < With Comparative Totals at June 30, 2001 >

DOLLARS IN THOUSANDS

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport	Palmdale Regional Airport	Totals	
					2002	2001
Operating revenue:						
Aviation revenue						
Landing fees	\$ 116,334	\$ 8,041	\$ 5	\$ -	\$ 124,390	\$ 114,141
Building rentals	78,614	26,950	1,727	34	107,325	76,760
Other aviation revenue	40,387	3,613	4,701	283	48,984	50,310
Concession revenue	156,128	23,766	1,478	-	181,372	233,125
Airports sales and services	5,361	2,229	5	-	7,595	5,437
Miscellaneous revenue	1,727	124	358	11	2,220	1,217
Total operating revenue	<u>398,551</u>	<u>64,723</u>	<u>8,284</u>	<u>328</u>	<u>471,886</u>	<u>480,990</u>
Operating expenses:						
Salaries and benefits	135,416	19,502	4,906	440	160,264	153,581
Contractual services	97,389	12,886	2,559	90	112,924	118,840
Administrative expense	7,035	335	20	3	7,393	53,446
Material and supplies	39,211	5,607	1,035	65	45,918	41,239
Utilities	19,843	4,811	81	34	24,769	23,434
Advertising and public relations	6,113	166	352	1	6,632	6,721
Other operating expenses	34,813	2,430	2,761	1,558	41,562	22,860
Total operating expenses before depreciation and amortization	<u>339,820</u>	<u>45,737</u>	<u>11,714</u>	<u>2,191</u>	<u>399,462</u>	<u>420,121</u>
Income (loss) from operations before depreciation and amortization	58,731	18,986	(3,430)	(1,863)	72,424	60,869
Depreciation and amortization	(46,126)	(10,848)	(1,328)	(210)	(58,512)	(64,121)
Operating income (loss)	<u>12,605</u>	<u>8,138</u>	<u>(4,758)</u>	<u>(2,073)</u>	<u>13,912</u>	<u>(3,252)</u>
Nonoperating revenue (expenses):						
Passenger facility charges	67,166	8,270	-	-	75,436	94,558
Interest income	32,017	5,422	-	-	37,439	44,153
Net increase (decrease) in fair value of investments	(3,667)	(196)	-	-	(3,863)	10,151
Interest expense	(18,135)	(7,234)	-	-	(25,369)	(25,871)
Bond expense	(163)	(59)	-	-	(222)	(222)
Federal grant revenue	5,763	573	-	-	6,336	-
Loss on sale of securities	(462)	-	-	-	(462)	-
Other nonoperating expenses	(1,821)	-	-	-	(1,821)	(15,903)
Other nonoperating revenue	361	8	-	65	434	4,395
Total nonoperating revenue, net	<u>81,059</u>	<u>6,784</u>	<u>-</u>	<u>65</u>	<u>87,908</u>	<u>111,261</u>
Income (loss) before capital grant contributions	93,664	14,922	(4,758)	(2,008)	101,820	108,009
Capital grant contributions	35,916	3,717	-	-	39,633	6,777
Inter-agency transfers	(17,553)	15,108	1,674	771	-	-
Change in net assets	112,027	33,747	(3,084)	(1,237)	141,453	114,786
Net assets, beginning of year	1,512,120	288,917	24,878	89,657	1,915,572	1,800,786
Net assets, end of year	<u>\$ 1,624,147</u>	<u>\$ 322,664</u>	<u>\$ 21,794</u>	<u>\$ 88,420</u>	<u>\$ 2,057,025</u>	<u>\$ 1,915,572</u>

COMPLIANCE SECTION >



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

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

We have audited the accompanying financial statements of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2002 and have issued our report thereon dated October 25, 2002, which included an explanatory paragraph describing LAWA's adoption of the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2000. 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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of LAWA are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

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

This report is intended solely for the information and use of the Board of Airport Commissioners, management of LAWA and federal or pass-through grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Inaacar, Fini & Company LLP

Certified Public Accountants

Los Angeles, California

October 25, 2002

Photo Credits >

All photos are from the Los Angeles World Airports Photo Archives.

Cover :

Aviatrix Ruth Gillespie Elder plowing ground in opening ceremony for the 1933 Los Angeles National Air Races at Los Angeles Municipal Airport.

Inside Cover :

Catalina Amphibian in front of the old Los Angeles Municipal Airport tower (circa 1930's).

Table of Contents (right) :

Skyline view of Los Angeles International Airport today with the new tower and pylon entryway lighting (2001).

Inside Back Cover :

Will Rogers and Charles Lindbergh in a Ford Tri-Motor aircraft at Los Angeles Municipal Airport (circa 1930's).



Annual Financial Report 2002

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