



# *Los Angeles World Airports*

## **Annual Financial Report**

For fiscal years ended  
June 30, 2008 and 2007

**Gina Marie Lindsey**  
Executive Director

**Wei Chi**  
Deputy Executive Director  
Comptroller

**John H. Kantz**  
Departmental Chief Accountant

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

Annual Financial Report  
For the Years Ended June 30, 2008 and 2007

*Table of Contents*

	<i>Page(s)</i>
<b>FINANCIAL SECTION:</b>	
Independent Auditor’s Report.....	1-2
Management’s Discussion and Analysis (Unaudited) .....	3-20
<b>Financial Statements for the Years Ended June 30, 2008 and 2007:</b>	
Statements of Net Assets .....	21-22
Statements of Revenues, Expenses, and Changes in Net Assets .....	23
Statements of Cash Flows .....	24-25
Notes to Financial Statements .....	26-62
Required Supplementary Information-Schedule of Funding Status.....	63
<b>Supplemental Information for the Year Ended June 30, 2008:</b>	
Combining Statement of Net Assets .....	64-65
Combining Statement of Revenues, Expenses and Changes in Net Assets.....	66
<b>COMPLIANCE SECTION:</b>	
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 <i>Government Auditing Standards</i> .....	67-68



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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 accompanying basic 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 (City), as of and for the years ended June 30, 2008 and 2007, as listed in the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAWA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAWA as of June 30, 2008 and 2007 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 17, 2008 on our consideration of LAWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2008. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 20 and the pension and postemployment healthcare plans schedules of funding progress, on page 63, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on LAWA's financial statements. The combining financial statements on pages 64 through 66 listed in the accompanying table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
December 17, 2008

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

Management's Discussion and Analysis

(Unaudited)

June 30, 2008 and 2007

Los Angeles World Airports (LAWA) is an independent and financially self-sufficient department of the City of Los Angeles, California (City) and is an enterprise fund comprised of four separate airports. LAWA owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), Van Nuys Airport (VNY), and LA/Palmdale Regional Airport (PMD). The information presented in this "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of LAWA's financial statements as of and for the years ended June 30, 2008 and 2007. We encourage readers to consider this information in conjunction with the accompanying financial statements.

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

**Financial Highlights of Airport Activities**

For fiscal year 2008, LAWA increased its net assets by 12.3% to \$3.2 billion. The change in net assets of \$353.1 million is 45%, or \$109.6 million, greater than the change in net assets for prior fiscal year. This increase was the result of a combination of factors. Income from operations, excluding depreciation and amortization, was \$147.2 million, representing an increase of \$59.3 million, or 67.4%, from fiscal year 2007. Additionally, net nonoperating revenue increased by \$20.6 million, or 12.4%, to \$186.4 million over the prior year. Lastly, capital grant contributions increased to \$125.3 million by \$43.2 million or 52.6%, which consisted primarily of increases of \$12.8 million and \$30.8 million at LAX and ONT, respectively. The operating income growth is primarily due to the increase in concession revenue by \$51.0 million or 19.2%. Also, landing fees and building rentals increased by \$21.3 million and \$35.8 million or 12.4% and 25.3%, respectively. This fiscal year's net increase in nonoperating revenue is due to higher interest income and net increase in the fair value of investments, which increased \$9.2 million and \$10.0 million, respectively. Capital grant contributions are composed of two categories: capital grant contributions that are for projects approved under the Federal Aviation Administration's Airport Improvement Program (AIP); and contributions from the Transportation Security Administration (TSA) for approved security-related capital reimbursement programs. For combined LAWA, fiscal year 2008 TSA contributions increased by \$56.9 million to \$69.0 million, while contributions from AIP grants decreased by \$13.7 million to \$56.3 million.

As of June 30, 2008, total assets at LAWA of \$4.4 billion increased \$504.0 million, or 12.9%, over fiscal year 2007. Of this increase, \$448.9 million came from the net increases in capital assets due to the \$496.2 million growth in the construction work-in-progress category and \$56.1 million growth in buildings, improvements and equipment. The growth was offset by an increase in accumulated depreciation of \$103.4 million during the year. During fiscal year 2008, there were significant expenditures made for major capital projects currently underway to include: LAX noise mitigation projects of \$13.1 million; Southside airfield projects at LAX for \$90.7 million; interior improvements at the Tom Bradley International Terminal at LAX for \$270.5 million; security program in-line baggage screening systems for

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

(Unaudited)

June 30, 2008 and 2007

**Financial Highlights of Airport Activities (continued)**

\$36.1 million at LAX and \$40.1 million at ONT; and security program-perimeter and cargo upgrades for ONT of \$13.2 million.

LAWA depends primarily on passenger traffic to generate the majority of its aviation related revenue. During fiscal year 2008, passenger traffic at LAWA increased by 0.8 million over fiscal year 2007 levels to 69.4 million or 1.1%. In fiscal year 2007, passenger traffic at LAWA stayed at the same level as fiscal year 2006 levels of 68.6 million. However, LAWA is still below the peak level that it reached with 74.1 million in combined LAX and ONT passengers during fiscal year 2001.

LAWA continues to engage in the residential sound insulation program. Funding for this program, which offers mitigation features that improve affected homes, has come primarily from Passenger Facility Charges (PFC) collected from certain enplaned passengers at LAWA. As of June 30, 2008 and 2007, the PFC collection rate is \$4.50 per airline ticket at LAX and \$3.00 at ONT. At the end of fiscal year 2008, cumulative PFC collections were \$1.368 billion, consisting of \$1.222 billion in passenger collections and \$146.0 million in interest. At the end of fiscal year 2007, cumulative PFC collections amounted to \$1.215 billion, of which \$1.091 billion were passenger collections and \$124.0 million was interest.

**Income from Operations**

*Fiscal Year 2008 Compared to 2007.* For the year fiscal ended June 30, 2008, LAWA had a \$41.5 million income from operations, net of depreciation and amortization, showing a \$45.8 million improvement over the prior fiscal year's loss from operations of \$4.3 million. Operating revenues increased by \$115.3 million, or 17.5%, to \$774.3 million driven by the growth in concession revenue of \$51.0 million, or 19.2%, to \$316.1 million and the increase in aviation revenues by \$64.7 million, or 16.7% to \$452.8 million. Operating expenses, excluding depreciation and amortization, increased by \$56.0 million, or 9.8%, to \$627.1 million. The three major expense categories that significantly impacted this growth were: salaries and benefits, contractual services and utilities. Salaries and benefits of \$344.3 million increased \$40.6 million, or 13.4%, while contractual services and utilities grew by \$11.2 million, or 6.9%, to \$174.0 million, and \$8.1 million, or 31.7%, to \$33.6 million, respectively. Decreases in materials and supplies and advertising and public relations of \$5.0 million, or 9.8%, and \$1.6 million, or 15.0%, respectively, partly offset the growth in operating expenses.

*Fiscal Year 2007 Compared to 2006.* For the year fiscal ended June 30, 2007, LAWA had a \$4.3 million loss from operations, net of depreciation and amortization, showing a \$6.5 million improvement over the prior fiscal year's loss from operations of \$10.8 million. Operating revenues increased by \$38.3 million, or 6.2%, to \$659.0 million driven by concession revenue growth of \$25.2 million, or 10.5%, to \$265.1 million while Aviation revenues of \$388.1 million increased \$11.7 million, or 3.1%. Operating expenses displayed a lower amount and rate of growth than operating revenues by increasing \$23.6 million, or 4.3%, to \$571.1 million. The two major categories that significantly impacted this growth were: salaries and benefits, and materials and supplies. Salaries and benefits of \$303.7 million increased \$28.6 million, or 10.4%, while materials and supplies grew by \$9.2 million to \$50.5 million, or 22.3%. Decreases in contractual services and utilities expense of \$9.7 million or 5.6%, and \$2.8 million or 9.8%, respectively, partially offset the net growth in the remaining areas of operating expenses.

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

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2008 and 2007

**Change in Net Assets**

*Fiscal Year 2008 Compared to 2007.* LAWA's \$353.1 million change in net assets for fiscal year 2008 is composed of net operating income of \$41.5 million, net nonoperating revenues of \$186.4 million and capital grant contributions of \$125.3 million. The growth of LAWA's change in net assets, of \$109.6 million, is 45.0% higher than the prior fiscal year results of \$243.5 million. Three main factors accounted for this growth. First, there was a considerable increase in operating income to \$41.5 million in fiscal year 2008 versus an operating loss of \$4.3 million in fiscal year 2007. This is mainly due to the growth in concession revenue of \$51.0 million, or 19.2%, the increase in landing fees by \$21.3 million, or 12.4% and, the rise in revenue from building rentals by \$35.8 million, or 25.3%. Second, nonoperating revenue grew by \$20.6 million, or 12.4% due to higher interest income by \$8.1 million, or 17.4%, net increase in the fair value of investments by \$10.0 million, or 70.5%, and increase in collection of passenger facility charges by \$3.6 million or 2.9%. Third, \$43.2 million more in capital grant contributions were received this fiscal year over last year. The TSA contributions received this year are \$57.0 million more than last fiscal year, while contributions from the Federal Aviation Administration went down by \$13.7 million this year over the prior year, resulting in a net increase of \$43.2 million or 52.6%.

*Fiscal Year 2007 Compared to 2006.* LAWA's change in net assets for fiscal year 2007 of \$243.5 million is comprised of the net operating loss of \$4.3 million, net nonoperating revenues of \$165.7 million and capital grant contributions of \$82.1 million. The growth of LAWA's change in net assets, or \$70.7 million, is 40.9% higher than the prior fiscal year results of \$172.9 million. This growth is caused primarily by a \$31.8 million increase in the fair value of investments resulting from the City of Los Angeles' pro-rata allocation from its investment pool to LAWA. Additionally, LAWA's interest income grew by \$6.4 million, or 16.3%, as a result of a positive market impact on its \$1.1 billion of invested cash. Also, \$19.5 million more in capital grant contributions were received from the U. S. Departments of Transportation and Homeland Security, than in the prior year, for a current year total of \$82.1 million.

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

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2008 and 2007

**Net Asset Summary**

Net assets serve as an indicator of LAWA's financial position. As of June 30, 2008, LAWA assets exceeded its liabilities by \$3.231 billion.

A summary of LAWA's net assets for fiscal years (FY) 2008, 2007, and 2006 is shown below (in thousands):

**Summary Statement of Net Assets**

(Dollars in thousands)

Assets:	<b>FY2008</b>	<b>FY2007</b>	<b>FY2006</b>
Current assets	\$ 618,152	\$ 647,957	\$ 629,052
Current restricted assets	945,997	860,770	705,584
Capital assets, net	2,830,640	2,381,723	2,034,536
Deferred bond issuance expenses	3,351	3,732	3,947
Total assets	<u>4,398,140</u>	<u>3,894,182</u>	<u>3,373,119</u>
<b>Liabilities:</b>			
Current liabilities payable from unrestricted assets	467,017	282,760	78,495
Current liabilities payable from restricted assets	207,568	243,405	229,441
Long-term liabilities	493,013	490,571	431,281
Total liabilities	<u>1,167,598</u>	<u>1,016,736</u>	<u>739,217</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	2,259,002	1,992,657	1,637,147
<b>Restricted:</b>			
Capital projects	678	645	16,040
Debt service	33,193	33,231	35,472
Special purpose	721,611	599,578	439,963
Unrestricted	216,058	251,335	505,280
Total net assets	<u>\$ 3,230,542</u>	<u>\$ 2,877,446</u>	<u>\$ 2,633,902</u>

**Current Assets**

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA's current assets decreased by \$29.8 million, or 4.6%, due to the \$51.7 million decrease in cash with fiscal agent, and net decrease of \$14.9 million in accounts and unbilled receivables. This is offset by the \$36.9 million increase in cash and pooled investments held by the City Treasurer. The decrease in cash with fiscal agent is mainly due to the \$53.1 million payment of LAX's commercial paper in fiscal year 2008. LAWA's increased invoicing and collection efficiency and credit memos issued from certain building rental revenue settlements resulted in the decrease in accounts receivable. The increase in cash and pooled investments held by the City Treasurer is driven by daily operating activities at LAX and ONT airports.

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

(Unaudited)

June 30, 2008 and 2007

**Current Assets (continued)**

*Fiscal Year 2007 Compared to 2006.* For fiscal year 2007, LAWA's current assets increased by \$18.9 million, or 3.0%, due to the \$153.5 million increase in cash with fiscal agent offset by a decrease of cash and pooled investments held by the City Treasurer of \$134.2 million. The cash with fiscal agent balance comes from LAWA issuing \$178.7 million of commercial paper used as a short term measure to fund increased capital project activity at LAX. The decrease to cash and pooled investments held by the City Treasurer is driven by daily operating activities at LAX and ONT airports. Receipts of unrestricted cash at these airports increased by \$119.7 million during fiscal year 2007, however, the outflow of cash used for unrestricted capital and related financing activities increased by \$173.2 million. The net result of these daily impacts reduced LAWA's unrestricted cash balance by 23.7% to \$431.9 million at year-end.

**Current Restricted Assets**

*Fiscal Year 2008 Compared to 2007.* Restricted assets of \$946.0 million increased by \$85.2 million, or 9.9%. This is primarily due to the increase in restricted invested cash and pooled investments held by the City Treasurer, excluding securities lending program (SLP) collateral and fair value adjustment, of \$85.1 million, or 13.9%, to \$696.1 million. The change in other restricted asset account is mainly due to the increase in cash reserved for market valuation by \$20.9 million or 173.9%, and, the decrease in SLP by \$18.1 million, or 9.0%, although counterbalancing,. Also, PFC receivables and accrued interest receivables decreased by \$1.5 million, or 7.5% to \$18.4 million, and \$1.1 million, or 19.3% to \$4.4 million, respectively.

*Fiscal Year 2007 Compared to 2006.* Restricted assets of \$860.8 million increased by \$155.2 million, or 22.0%, resulting from the growth in restricted invested cash and pooled investments held by the City Treasurer, excluding (SLP) collateral and fair value adjustment, of \$123.1 million, or 25.2%, to \$611.0 million. SLP collateral and fair value adjustment are equivalent cash transactions allocated by the City Treasurer that represent LAWA's prorata share of the City's investment in marketable securities as discussed in Note 3 of the accompanying notes to financial statements. Increases to SLP collateral and adjustment for market valuation balances of \$21.8 million and \$13.1 million, respectively, added to the growth in restricted assets. PFC receivables decreased \$1.1 million, or 5.3% to \$19.9 million.

**Capital Assets**

*Fiscal Year 2008 Compared to 2007.* Net capital assets at LAWA of \$2.8 billion reflect growth of \$448.9 million, or 18.8%, due primarily to increases in construction work in process by \$496.2 million and in buildings, improvements, and equipment by \$56.1 million. Significant capital expenditures were made at LAX for noise mitigation projects, southside airfield projects, interior improvements at the Tom Bradley International Terminal, and in-line baggage screening systems. A substantial portion of this growth was offset by a \$103.4 million, or 9.0%, increase in accumulated depreciation.

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

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2008 and 2007

The table below lists fiscal year 2008 expenditures of major capital improvement projects. Commitments for the major capital projects listed on this table are included in the total commitment amount of \$96.1 million, as shown in Note 10 (b) of the accompanying notes to financial statements.

<b>MAJOR CAPITAL EXPENDITURES</b>		
<b>FISCAL YEAR 2008</b>		
<b>(Dollars in millions)</b>		
<u>Project Name by Airport Location</u>	<u>Expenditure</u>	<u>Purpose</u>
<b>LAX</b>		
Tom Bradley International Terminal	\$ 270.5	Interior improvements and security upgrades.
Noise Mitigation	13.1	Residential acquisition and soundproofing.
Security Program-In-Line Baggage Screening	36.1	Screening of check-in baggage prior to passenger boarding.
Southside Airfield Improvement	90.7	Move southern-most runway 50 feet to allow greater distance between aircraft.
Other Capital Expenditures	28.1	
<b>Subtotal</b>	<b>\$ 438.5</b>	
<b>ONT</b>		
Security Program-Upgrades	\$ 13.2	Perimeter/cargo upgrades, passenger checkpoint modifications.
Security Program-In-Line Baggage Screening	40.1	Screening of check-in baggage prior to passenger boarding.
Other Capital Expenditures	5.8	
<b>Subtotal</b>	<b>\$ 59.1</b>	
<b>VNY/PMD</b>		
Maintenance Yard Relocation-VNY	\$ 4.4	Construction of approximately 20,000 sq. ft. of buildings, shop space and utilities. Also, grading and paving of 3.5 acres for this yard.
Other Capital Expenditures	1.8	
<b>Subtotal</b>	<b>\$ 6.2</b>	
<b>LAWA TOTAL</b>	<b>\$ 503.8</b>	

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

(Unaudited)

June 30, 2008 and 2007

The table below lists fiscal year 2007 expenditures of major capital improvement projects. Commitments for the major capital projects listed on this table are included in the total commitment amount of \$53.2 million, as shown in Note 10 (b) of the accompanying notes to financial statements.

<b>MAJOR CAPITAL EXPENDITURES</b>		
<b>FISCAL YEAR 2007</b>		
<b>(Dollars in millions)</b>		
<u>Project Name by Airport Location</u>	<u>Expenditure</u>	<u>Purpose</u>
<b>LAX</b>		
Tom Bradley International Terminal	\$ 64.7	Interior improvements and security upgrades.
Noise Mitigation	34.0	Residential acquisition and soundproofing.
Security Program	7.4	Perimeter/cargo upgrades, passenger checkpoint modifications
In-Line Baggage Screening	15.9	Screening of check-in baggage prior to passenger boarding.
Southside Airfield Improvement	185.7	Move southern-most runway 50 feet to allow greater distance between aircraft.
<b>Subtotal</b>	<b>\$ 307.7</b>	
<b>ONT</b>		
Runway 26R	\$ 11.8	Reconstruction of runway.
In-Line Baggage Screening	7.9	Screening of check-in baggage prior to passenger boarding.
<b>Subtotal</b>	<b>\$ 19.7</b>	
<b>VNY/PMD</b>		
Maintenance Yard Relocation-VNY	\$ 4.1	Construction of approximately 20,000 sq. ft. of buildings, shop space and utilities. Also, grading and paving of 3.5 acres for this yard.
<b>Other Capital Expenditures</b>	<b>79.6</b>	
<b>LAWA TOTAL</b>	<b>\$ 411.1</b>	

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

(Unaudited)

June 30, 2008 and 2007

**Capital Assets (continued)**

*Fiscal Year 2007 Compared to 2006.* Net capital assets at LAWA of \$2.4 billion reflect an increase of \$347.2 million, or 17.1%, due primarily to a \$245.6 million increase in buildings, improvements, and equipment and a \$165.1 million increase in construction work in process. Significant capital expenditures were made at LAX for noise mitigation projects, Southside airfield projects, interior improvements at the Tom Bradley International Terminal, and in-line baggage screening systems. A substantial portion of this growth was offset by an \$82.9 million, or 7.8%, increase in accumulated depreciation.

**Total Liabilities**

*Fiscal Year 2008 Compared to 2007.* At June 30, 2008, total liabilities of \$1.168 billion increased by \$150.9 million, or 14.8%. The factors contributing to this increase stem from the combined growth of \$148.4 million in current liabilities and \$2.4 million in long-term liabilities.

Current liabilities payable from unrestricted assets increased by \$184.3 million, due primarily to the net receipts and payments of \$151.5 million in commercial paper notes and a \$34.1 million increase in contracts and accounts payable. Current liabilities payable from restricted assets are down by \$35.8 million, or 14.7%. This is mainly due to the decreased allocation by the City Treasurer for the SLP collateral's offsetting liability of \$18.1 million, and the decline in contracts and accounts payable by \$18.6 million.

Long-term liabilities of \$493.0 million slightly increased by \$2.4 million, or 0.5% due to the increase in employee benefits by \$17.7 million, or 56.3%, offset by the decrease in long term bonded debt by \$17.1 million, or 5.8%. A large part of the increase in employee benefits is due to the \$15.0 million accrual of vested benefits for sick and vacation balances. The decrease in bonded debt was merely due to a transfer current liability.

LAWA's bonds are rated periodically by the three major credit agencies: Standard & Poor's, Moody's, and Fitch. For LAX, the ratings at June 30, 2008 are AA, Aa3, and AA for each credit agency, respectively. For ONT, the ratings are A, A2, and A, respectively.

*Fiscal Year 2007 Compared to 2006.* At June 30, 2007, total liabilities of \$1.017 billion increased by \$277.5 million, or 37.5%. The factors contributing to this increase stem from the combined growth of \$218.2 million in current liabilities plus a \$59.3 million increase in long-term liabilities.

Current liabilities payable from unrestricted assets increased by \$204.3 million, due primarily to the issuance of \$178.7 million in commercial paper notes and a \$23.5 million increase in contracts and accounts payable. Current liabilities payable from restricted assets are up by \$14.0 million, or 6.1%, due partly to the increased allocation by the City Treasurer for the SLP collateral's offsetting liability of \$21.8 million, which is substantially reduced by the \$8.3 million decline in contracts and accounts payable.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)  
Management's Discussion and Analysis (Continued)  
(Unaudited)  
June 30, 2008 and 2007

**Total Liabilities (continued)**

Long-term liabilities of \$490.6 million increased by \$59.3 million, or 13.7%, due in large part to the recognition of \$92.6 million of the liability resulting from cash payments received and interest earned from LAX tenants of passenger terminal facilities who still paid for the rent increases under protest.

These disputed payments were made by the terminal tenants as a result of a Board of Airport Commissioners resolution to recover a greater amount of operating expenses through an increase in the maintenance and operations (M&O) rent effective from January 1, 2006. Because the payments were not recorded as revenue, the liability is the offset to the rental receipts and related interest earned through June 30, 2007. As a result of these disputed payments, no related revenue will be recognized until this matter is resolved. This matter is discussed in more detail under Note (14) of the accompanying notes to financial statements.

Partially reducing this increase were principal payments in the bonded debt liability balance at LAX and ONT of \$12.4 million and \$21.6 million, respectively, LAWA's bonds are rated periodically by the three major credit agencies: Standard & Poor's, Moody's, and Fitch. For LAX, the ratings at June 30, 2007 are AA, Aa3, and AA for each credit agency, respectively. For ONT, the ratings are A, A2, and A, respectively. For both LAX and ONT, the ratings have not changed from fiscal year 2006 to 2007. LAWA's bonded indebtedness is discussed in more detail under Note (5) of the accompanying notes to financial statements. Also, there was an increase of \$1.2 million, or 4.0%, in long-term employee benefits as a result of the growth in number of LAWA employees during fiscal year 2007.

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

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2008 and 2007

**Highlights of Changes in Net Assets**

The following table illustrates a condensed summary of changes in net assets for FY 2008, 2007, and 2006:

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

	<b>FY2008</b>	<b>FY2007</b>	<b>FY2006</b>
Operating revenue	\$ 774,288	\$ 659,025	\$ 620,699
Operating expenses excluding depreciation and amortization	<u>(627,073)</u>	<u>(571,087)</u>	<u>(547,529)</u>
Income from operations before depreciation and amortization	147,215	87,938	73,170
Depreciation and amortization	<u>(105,762)</u>	<u>(92,230)</u>	<u>(83,945)</u>
Operating income(loss)	41,453	(4,292)	(10,775)
Nonoperating revenue, net	<u>186,351</u>	<u>165,748</u>	<u>121,077</u>
Income before capital grant contributions	227,804	161,456	110,302
Capital grant/TSA contributions	<u>125,292</u>	<u>82,088</u>	<u>62,590</u>
Change in net assets	353,096	243,544	172,892
Net assets at beginning of year	<u>2,877,446</u>	<u>2,633,902</u>	<u>2,461,010</u>
Net assets at end of year	<u><u>\$ 3,230,542</u></u>	<u><u>\$ 2,877,446</u></u>	<u><u>\$ 2,633,902</u></u>

**Passengers**

*Fiscal Year 2008 Compared to 2007.* When compared to the previous year, total passengers at LAWA increased by approximately 1.1% or 752,490 for fiscal year 2008 to 69,386,660 annual passengers. This change is comprised of: the growth at LAX of 684,563 passengers to 62,262,753; by an increase of 46,749 passengers at ONT to 7,101,458; and by an increase of 21,178 passengers at PMD to 22,449.

*Fiscal Year 2007 Compared to 2006.* When compared to the previous year, total passengers at LAWA decreased slightly by approximately 0.1% or 69,258 for fiscal year 2007 to 68,589,559 annual passengers. This change is comprised of the small growth at LAX of 77,892 passengers to 61,534,823 that was offset by a decline of 147,150 passengers at ONT to 7,054,736.

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

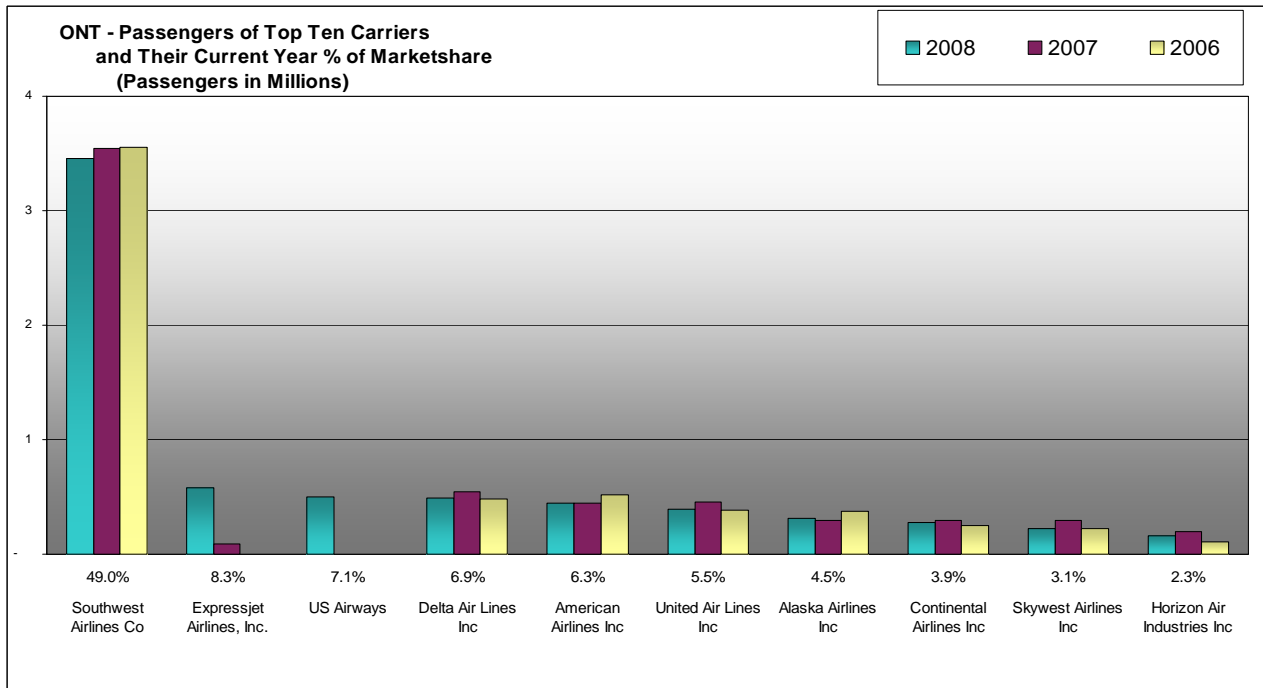
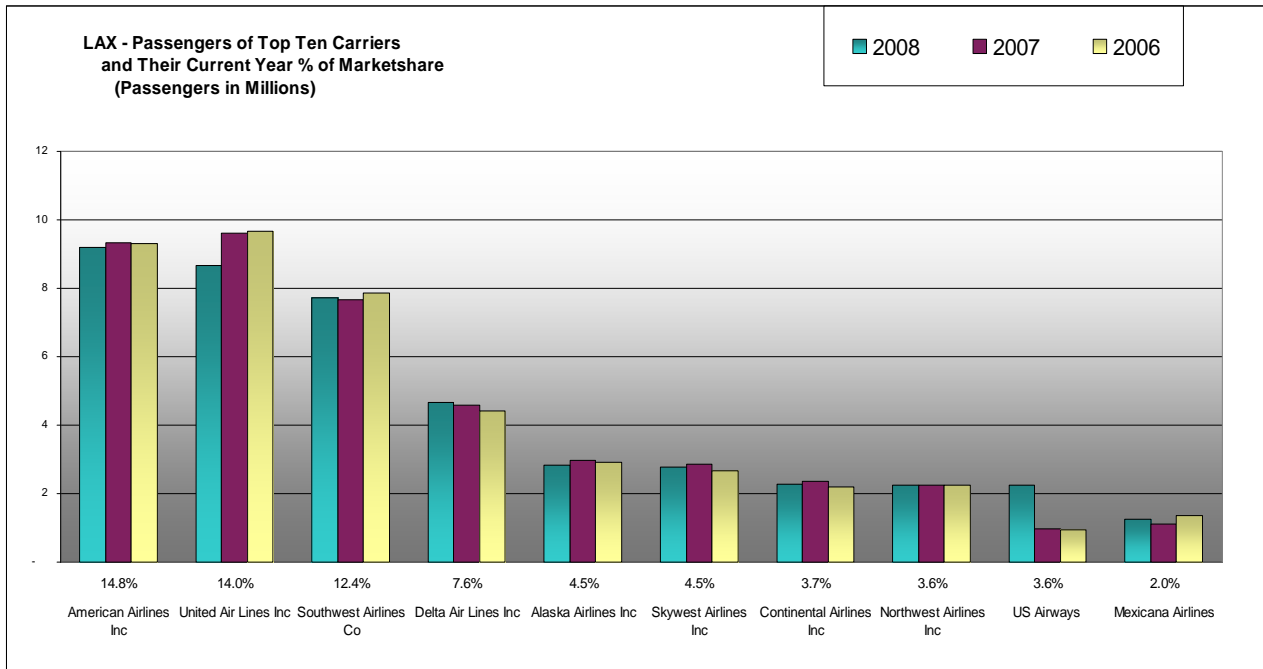
Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2008 and 2007

**Passengers (continued)**

The following charts illustrate the top ten airlines at LAX and ONT by number of passengers for FY2008, FY2007, and FY2006:



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

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

June 30, 2008 and 2007

**Operating Revenues**

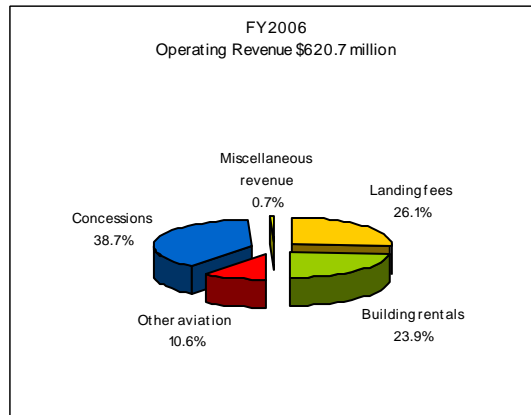
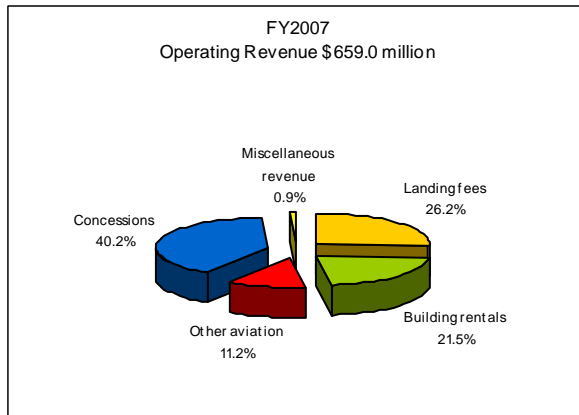
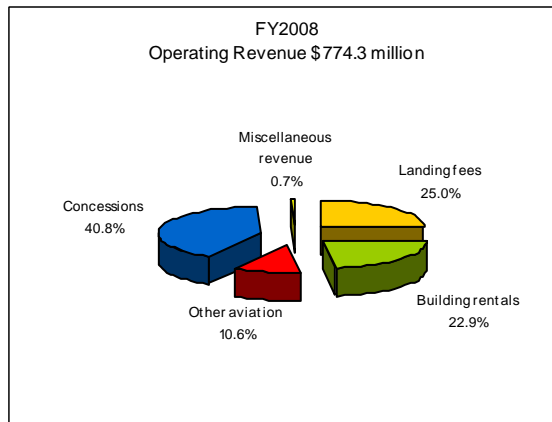
LAWA derives its operating revenues from several major airport business activities. The following table illustrates a comparative summary of the major operating revenue categories in FY 2008, 2007, and 2006:

**Summary of Operating Revenues**

(Dollars in thousands)

	<b>FY2008</b>	<b>FY2007</b>	<b>FY2006</b>
Landing fees	\$ 193,805	\$ 172,495	\$ 162,037
Building rentals	177,362	141,521	148,320
Other aviation revenue	81,632	74,114	66,024
Concession revenue	316,116	265,112	239,936
Airport sales and services	2,911	3,306	2,463
Miscellaneous revenue	2,462	2,477	1,919
<b>Total operating revenue</b>	<b>\$ 774,288</b>	<b>\$ 659,025</b>	<b>\$ 620,699</b>

The following charts illustrate the distribution of the major sources of operating revenues for fiscal years 2008, 2007, and 2006:



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

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

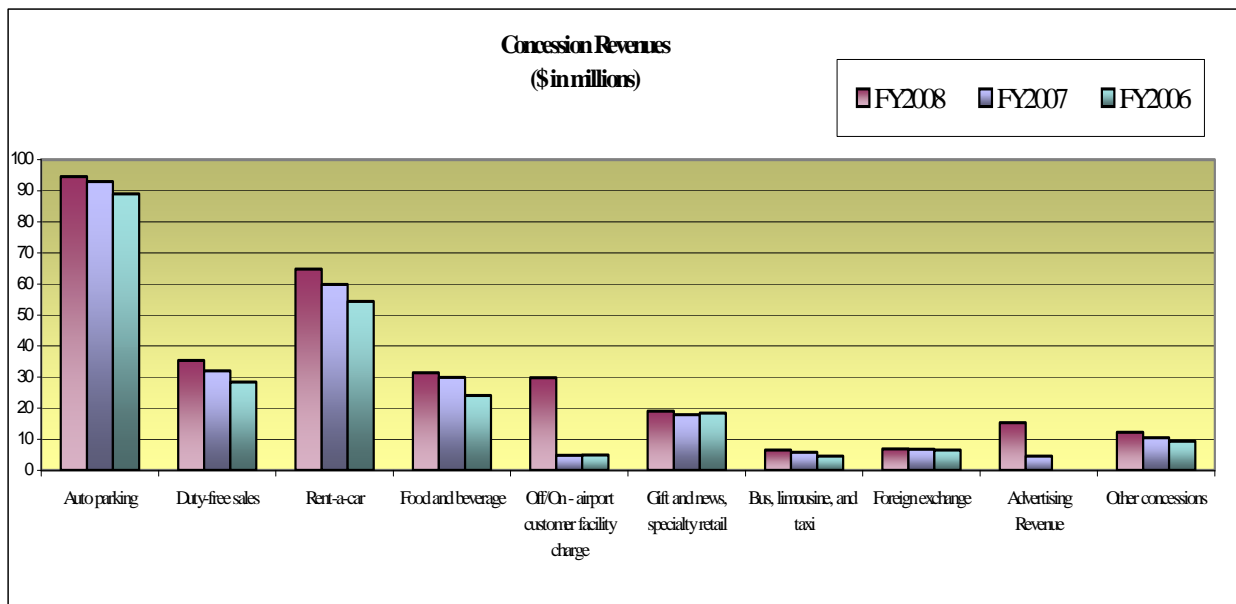
June 30, 2008 and 2007

**Operating Revenues (continued)**

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA's total operating revenues increased by \$115.3 million, or 17.5%, to \$774.3 million, mainly due to a \$51.0 million, or 19.2% increase in concession revenues, and \$35.8 million, or 25.3%, growth in revenue from building rentals. Additionally, LAWA's landing fees increased \$21.3 million, or 12.4%, while other aviation revenue increased \$7.5 million, or 10.1%. A new concession revenue item for LAX this year is On-Airport Customer Facilities Charge (CFC). CFC is a fee collected by the airport from customers per vehicle rental. The charge is similar to a Passenger Facility Charge except that it is not airline-related and is classified as operating revenue. It generated total revenue of \$25.0 million and is mainly contributory to the increase in concession revenue this fiscal year. Additionally, advertising revenue which totaled \$15.4 million went up by \$10.8 million or an over two-fold increase when compared to the prior fiscal year. The advertising revenue increase is composed of \$9.5 million from LAX and \$1.3 million from ONT.

*Fiscal Year 2007 Compared to 2006.* For fiscal year 2007, LAWA's total operating revenues increased by \$38.3 million, or 6.2%, to \$659.0 million, due primarily to a \$25.1 million or 10.5% increase in concession revenues and from increases in Federal security agreement revenues of \$7.0 million. Additionally, landing fees increased \$10.5 million, or 6.5%. Lastly, LAWA's airport sales and services income jumped 34.2% to \$3.3 million, while miscellaneous revenues, including movie production fees of over \$1.0 million, climbed nearly 29.1% to \$2.5 million.

The following chart illustrates the categories of concession revenues by type for FY2008, FY2007, and FY2006:



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

(Unaudited)

June 30, 2008 and 2007

**Operating Revenues (continued)**

The table below presents concession revenues on a per enplanement basis to indicate spending activity for passengers that pass through LAWA's primary airports. Between fiscal year 2008 to fiscal year 2007, enplanements at LAX grew 1.3%, while growth in concession revenues per enplanement increased 19.8% to \$8.85. In fiscal year 2007, enplanements at LAX were 6.9% over the prior fiscal year, while concession revenues per enplanement grew by 6.0% to \$7.39. These result show that passenger spending has steadily increased at LAX from 2006 through 2008.

At ONT, enplanements in 2008 were 0.8% over 2007, while concession revenues increased 5.8% to \$11.40 per enplaned passenger during this fiscal period. ONT enplanements in 2007 were 2.9% above 2006, while concession revenues per enplanement decreased 2.3% to \$10.77. This table indicates that passengers were spending more money on ONT concessions than at LAX on a per enplanement basis.

<b>LOS ANGELES WORLD AIRPORTS CONCESSION REVENUES PER ENPLANEMENT FOR FISCAL YEARS 2008, 2007, AND 2006</b>			
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b><u>Los Angeles International Airport</u></b>			
Enplanements	31,142,339	30,751,547	28,777,160
Concession Revenues Per Enplanement	\$8.85	\$7.39	\$6.97
<b><u>Ontario International Airport</u></b>			
Enplanements	3,548,882	3,521,926	3,424,025
Concession Revenues Per Enplanement	\$11.40	\$10.77	\$11.02

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

(Unaudited)

June 30, 2008 and 2007

**Operating Expenses**

The following table illustrates a comparative summary of operating expenses in FY2008, 2007, and 2006:

**Summary of Operating Expenses**

(Dollars in thousands)

	<u><b>FY2008</b></u>	<u><b>FY2007</b></u>	<u><b>FY2006</b></u>
Salaries and benefits	\$ 344,322	\$ 303,678	\$ 275,031
Contractual services	173,994	162,826	172,510
Materials and supplies	45,502	50,464	41,261
Administrative expense	2,392	892	2,103
Utilities	33,608	25,524	28,282
Advertising and public relations	9,019	10,612	10,493
Other operating expenses	<u>18,236</u>	<u>17,091</u>	<u>17,849</u>
Total operating expenses before depreciation and amortization	627,073	571,087	547,529
Depreciation and amortization	<u>105,762</u>	<u>92,230</u>	<u>83,945</u>
Total operating expenses	<u><u>\$ 732,835</u></u>	<u><u>\$ 663,317</u></u>	<u><u>\$ 631,474</u></u>

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA's operating expenses before depreciation and amortization increased by \$56.0 million, or 9.8%, over fiscal year 2007 to \$627.1 million. The category that shows the highest operating expense growth is the salaries and benefits account, which grew \$40.6 million, or 13.4%, to \$344.3 million. The account has two large components, namely: salary expense and benefits expense. Of these large components, salary expense grew by \$18.5 million, or 8.3%, to \$242.0 million. This is in part due to the 3% average increase in cost of living allowance. The second component, employee benefits, increased \$22.1 million to \$102.4 million, or 27.6%. The growth to LAWA's benefits expense is mainly due to the \$15.0 million accrual of vested benefits for sick and vacation balances. Other significant impacts to the increased employee benefits expenses come from LAWA's retirement contribution and health subsidy payments to the City, which grew by \$7.3 million, or 16.6%, and \$4.3 million, or 17.0%, respectively. The higher cost of benefits expenses came also as a direct result of increases in both medical and dental insurance that LAWA pays for its larger employee base, growing by 1.0 % to 3,732 full time equivalent employees at June 30, 2008. Of the total LAWA staff, full time equivalent personnel of 3,182 and 431 are working at LAX and ONT, respectively.

The operating expense category having the second largest expense growth in fiscal 2008 is contractual services, which increased \$11.2 million, or 6.9%, to \$174.0 million. This is mainly due to new parking and transportation contracts entered into by LAWA's Landside Operations Division. Operating expenses also increased due to the \$8.1 million, or 31.7%, increase in utilities, offset by the \$5.0 million, or 9.8%, decrease in materials and supplies.

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

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2008 and 2007

**Operating Expenses (continued)**

*Fiscal Year 2007 Compared to 2006.* For fiscal year 2007, LAWA's operating expenses before depreciation increased by \$23.6 million over fiscal year 2006 to \$571.1 million, or 4.3%. The category that shows the highest operating expense growth is salaries and benefits, which grew \$28.6 million, or 10.4%, to \$303.7 million. Of these two large expense components, salary expense, grew by \$21.2 million, or 10.2%, to \$223.5 million. The second largest component, employee benefits, increased \$7.5 million to \$80.2 million, or 10.2%. The growth to LAWA benefits expense comes largely from a \$4.0 million increase to its workers' compensation claims reserve maintained at an actuarial level relative to LAWA's larger staff size and mix of employee job types. Other significant impacts to employee benefits stem from LAWA's health subsidy and retirement contribution payments to the City, which increased by \$2.6 million, or 11.7%, and \$0.8 million, or 1.8%, respectively. The higher cost of benefits expenses came also as a direct result of increases in both medical and dental insurance that LAWA pays for its larger employee base, growing by 6.3 % to 3,702 full time equivalent employees at June 30, 2007. Of the total LAWA staff, 3,080 full time equivalent personnel are working at LAX, while 499 full time equivalent employees work at ONT.

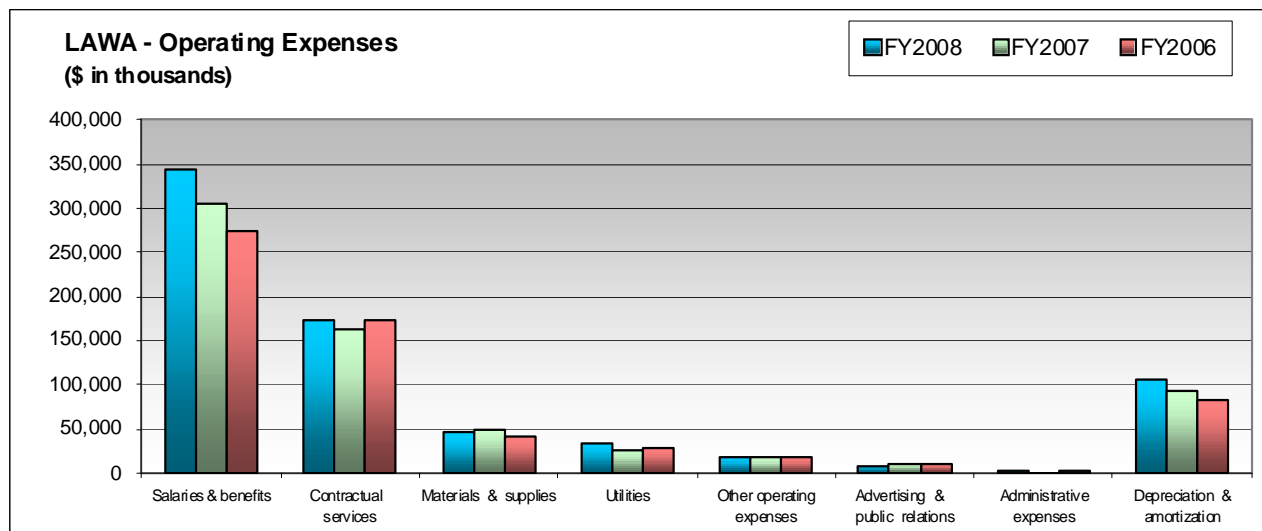
The operating expense category having the second largest expense growth in fiscal 2007 is materials and supplies, which increased \$9.2 million, or 22.3%, to \$50.5 million. This increase is due largely to the impact of LAWA's personal computer technology upgrade project during fiscal year 2007. This project cost LAWA \$5.3 million to replace the complete desktop configuration for all employees who use computers to assist them in their daily assignments. Other substantial increases in materials and supplies expense came from higher fuel costs for LAWA pool vehicles, uniform replacement cost, air conditioning repairs, and automotive repair parts, at \$1.4 million, \$0.8 million, \$0.6 million and \$0.4 million, respectively. In the remaining categories of operating expenses, contractual services expense reflected the largest decline of \$9.7 million, or 5.6%. This decrease is due mainly to reductions in city services of \$5.1 million, environmental contracts for \$2.7 million; systems support services of \$4.5 million and security services of \$3.2 million.

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

(Unaudited)

June 30, 2008 and 2007

The following chart illustrates comparative growth in LAWA's operating expenses by category for fiscal years 2008, 2007, and 2006:



**Nonoperating Revenue and Expenses**

Nonoperating revenue and expenses consist of transactions that are not normally associated with ongoing operations of LAWA, but the impact can be significant to the total change in net assets for the fiscal year. Examples are collections of FAA-approved Passenger Facilities Charges (PFC), payments of debt-related interest, and receipts of interest from the investment of LAWA's idle cash by the City Treasurer.

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA recorded a 12.4% increase, or \$20.6 million, in net nonoperating revenues to \$186.4 million. This is due to the positive change of \$10.0 million in the fair value of investments resulting from the City of Los Angeles' pro-rata allocation from its investment pool to LAWA. Also, LAWA's interest income grew by \$9.2 million, or 20.1%, as a result of a positive market impact on its \$1.4 billion of invested cash. A more detailed explanation of the methodology impacting LAWA's investment activity is provided in Note 3 (a) and (c) of the accompanying notes to the financial statements. Additionally, PFC revenue of \$129.1 million increased by \$3.6 million, or 2.9%, over the prior fiscal year. Of the total PFCs recorded during fiscal year 2008, \$116.7 million and \$12.4 million were reported by LAX and ONT.

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

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2008 and 2007

**Nonoperating Revenue and Expenses (continued)**

*Fiscal Year 2007 Compared to 2006.* For fiscal year 2007, LAWA recorded a substantial 36.9% increase, or \$44.7 million, in net nonoperating revenues to \$165.7 million. This result is due primarily to the positive change of \$30.9 million in the fair value of investments resulting from the City of Los Angeles' pro-rata allocation from its investment pool to LAWA. Also, LAWA's interest income grew by \$6.4 million, or 16.3%, as a result of a positive market impact on its \$1.1 billion of invested cash. A more detailed explanation of the methodology impacting LAWA's investment activity is provided in Note 3 (a) and (c) of the accompanying notes to the financial statements. Additionally, PFC revenue of \$125.5 million increased by \$1.3 million, or 1.0%, over the prior fiscal year results. Of the total PFCs recorded during fiscal year 2007, \$116.1 million were reported by LAX and \$9.4 million were reported by ONT.

**Income before Capital Grant Contributions**

*Fiscal Year 2008 Compared to 2007.* Income before capital grant contributions was \$227.8 million for fiscal year 2008, which is 41.1%, or \$66.3 million, higher than the prior fiscal year amount of \$161.5 million. During fiscal year 2008, LAWA received TSA contributions for approved security-related capital reimbursement programs in the amount of \$69.0 million, an increase of \$57.0 million, or almost five times more than the prior year's total of \$12.0 million. Of this amount, \$52.3 million and \$16.6 million were reported by LAX and ONT, respectively. LAWA's change in net assets for fiscal year 2008 of \$353.1 million is 45.0%, or \$109.6 million, higher than that of fiscal year 2007. Net assets increased by 12.3% to \$3.2 billion at the end of fiscal year 2008.

*Fiscal Year 2007 Compared to 2006.* Income before capital grant contributions was \$161.5 million for fiscal year 2007, which is 46.4%, or \$51.2 million, higher than the prior fiscal year amount of \$110.3 million. During fiscal year 2007, LAWA received grant contributions for approved capital grant projects in the amount of \$82.1 million, an increase of \$19.5 million, or 31.1%, over the prior year total of \$62 million. AIP capital contributions, which are an important component of LAWA's grants revenue, grew by \$31.2 million to \$70.1 million. Of this amount, \$62.9 million came in to LAX, while \$6.4 million was reported by ONT and were used mainly for runway improvements. LAWA's change in net assets for fiscal year 2007 of \$243.5 million is 40.9%, or \$70.7 million higher than the change in net assets was for fiscal year 2006. Net Assets increased by 9.2% to \$2.9 billion at the end of 2007.

**Additional Information**

Further information on the results of LAWA is provided in the accompanying audited financial statements and notes thereto for the years ended June 30, 2008 and 2007. This MD&A is designed to provide LAWA and its customers, investors, and creditors with a general overview of LAWA's financial condition and to present information about the money that it receives and spends for the fiscal years reported. If you have questions about this MD&A, or need additional financial information, please contact the Los Angeles World Airports Financial Reporting Division at 7301 World Way West, 6th Floor, Los Angeles, California 90045. Also, you may find historical and other useful information regarding LAWA and the other LAWA airports from our website at [www.lawa.org](http://www.lawa.org).

## **BASIC FINANCIAL STATEMENTS**

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

Statement of Net Assets  
June 30, 2008 and 2007  
(Dollars in thousands)

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 468,833	\$ 431,918
Investments with fiscal agents (Note 3)	101,780	153,452
Accounts receivable, net of allowance for uncollectible accounts of \$1,242 and \$2,099 in 2008 and 2007, respectively	15,717	19,250
Unbilled receivables	21,997	33,338
Accrued interest receivable	4,594	6,046
Prepaid expenses and inventories	5,231	3,953
Total unrestricted current assets	618,152	647,957
Restricted current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	888,698	800,818
Investments with fiscal agents (Note 3)	34,489	34,588
Accrued interest receivable	4,442	5,501
Passenger facility charges receivable (Note 12)	18,368	19,863
Total restricted current assets	945,997	860,770
Total current assets	1,564,149	1,508,727
Noncurrent assets:		
Capital assets (Note 4 and 12):		
Land and air easements	751,992	751,992
Buildings, improvements, and equipment	2,197,803	2,141,664
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(1,251,877)	(1,148,458)
Construction work in process	948,299	452,102
Net capital assets	2,830,640	2,381,723
Deferred bond issuance expenses	3,351	3,732
Total noncurrent assets	2,833,991	2,385,455
Total assets	\$ 4,398,140	\$ 3,894,182

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Statements of Net Assets (Continued)  
June 30, 2008 and 2007  
(Dollars in thousands)

	<b>2008</b>	<b>2007</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Contracts and accounts payable	\$ 116,136	\$ 82,083
Employee benefits and insurance claims payable (Note 6)	6,851	8,172
Salaries payable	6,504	5,292
Commercial paper notes payable (Note 5)	330,228	178,745
Current obligations under capital leases (Notes 6 and 11)	1,197	1,140
Accrued interest payable	491	1,959
Deferred revenue (Note 6)	50	50
Other liabilities (Note 6)	5,560	5,319
Current liabilities payable from unrestricted assets	467,017	282,760
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions	183,701	201,835
Bonds payable, net of deferred charges and credits of \$917 and \$958 in 2008 and 2007, respectively (Note 5)	17,052	16,088
Contracts and accounts payable	5,423	23,995
Accrued interest payable	1,392	1,487
Current liabilities payable from restricted assets	207,568	243,405
Total current liabilities	674,585	526,165
Long-term liabilities:		
Bonds payable, net deferred charges and credits of \$6,363 and \$7,286 in 2008 and 2007, respectively (Note 5)	278,773	295,831
Obligations under capital leases - less current portion (Notes 6 and 11)	49,518	50,715
Employee benefits and insurance claims payable (Note 6)	49,157	31,446
Deferred revenue (Note 6)	1,071	1,121
Other liabilities (Notes 6 and 14)	114,494	111,458
Total long-term liabilities	493,013	490,571
Total liabilities	1,167,598	1,016,736
Net assets:		
Invested in capital assets, net of related debt	2,259,002	1,992,657
Restricted:		
Capital projects	678	645
Debt service	33,193	33,231
Special purpose	721,611	599,578
Unrestricted	216,058	251,335
Total net assets	\$ 3,230,542	\$ 2,877,446

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Statements of Revenues, Expenses, and Changes in Net Assets  
For the Years Ended June 30, 2008 and 2007  
(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Operating revenue:		
Aviation revenue:		
Landing fees	\$ 193,805	\$ 172,495
Building rentals	177,362	141,521
Other aviation revenue	81,632	74,114
Concession revenue	316,116	265,112
Airports sales and services	2,911	3,306
Miscellaneous revenue	2,462	2,477
Total operating revenue	<u>774,288</u>	<u>659,025</u>
Operating expenses:		
Salaries and benefits	344,322	303,678
Contractual services	173,994	162,826
Material and supplies	45,502	50,464
Administrative expense	2,392	892
Utilities	33,608	25,524
Advertising and public relations	9,019	10,612
Other operating expenses	18,236	17,091
Total operating expenses before depreciation and amortization	<u>627,073</u>	<u>571,087</u>
Income from operations before depreciation and amortization	147,215	87,938
Depreciation and amortization	<u>(105,762)</u>	<u>(92,230)</u>
Operating income (loss)	<u>41,453</u>	<u>(4,292)</u>
Nonoperating revenue (expenses):		
Passenger facility charges (Note 12)	129,125	125,515
Interest income	54,704	45,550
Change in fair value of investments	24,123	14,145
Interest expense	(22,474)	(20,922)
Bond expense	(493)	(407)
Other nonoperating revenue, net	1,366	1,867
Total nonoperating revenue, net	<u>186,351</u>	<u>165,748</u>
Income before contributions and transfers	227,804	161,456
Capital grant contributions (Note 13)	56,325	70,074
TSA contributions (Note 13)	68,967	12,014
Change in net assets	<u>353,096</u>	<u>243,544</u>
Net assets, beginning of year	<u>2,877,446</u>	<u>2,633,902</u>
Net assets, end of year	<u>\$ 3,230,542</u>	<u>\$ 2,877,446</u>

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Statements of Cash Flows  
 For the years ended June 30, 2008 and 2007  
 (Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers	\$ 790,019	\$ 649,788
Cash received in protest from customers	132	91,680
Payments for goods and services	(266,177)	(300,123)
Payments to employees	(326,721)	(300,990)
Other receipts/(payments), net	1,297	(38)
Net cash provided by operating activities	<u>198,550</u>	<u>140,317</u>
Cash flow from capital and related financing activities:		
Acquisition and construction of capital assets	(557,147)	(379,222)
Receipts from passenger facility charges	130,621	126,618
Principal paid on bonds	(15,130)	(33,495)
Interest paid on bonds and commercial paper	(23,245)	(19,791)
Bond and Commercial paper issuance cost paid	(112)	(192)
Bond payment liability returned as escheated funds	(19)	-
Principal paid on capital leases	(1,140)	(1,026)
Interest paid on capital leases	(1,754)	(2,263)
Net receipts from commercial paper	151,483	178,745
Cash transferred from fiscal agent	99	2,602
Federal grants and TSA receipts	125,291	82,088
Net cash used in capital and related financing activities	<u>(191,053)</u>	<u>(45,936)</u>
Cash flow from investing activities:		
Increase in fair value of investments	24,123	13,059
Interest received	59,637	47,966
Cash collateral (paid)/received under securities lending transactions	(18,134)	21,849
Net cash provided by investing activities	<u>65,626</u>	<u>82,874</u>
Net increase cash and cash equivalents	73,123	177,255
Cash and cash equivalents, beginning of year	<u>1,386,188</u>	<u>1,208,933</u>
Cash and cash equivalents, ending of year	<u>\$ 1,459,311</u>	<u>\$ 1,386,188</u>
The following is a reconciliation of cash and cash equivalents		
to the statement of net assets:		
Cash and pooled investments held by the City Treasurer - unrestricted	\$ 468,833	\$ 431,918
Unrestricted cash held with fiscal agent	101,780	153,452
Cash and pooled investments held by the City Treasurer - restricted	888,698	800,818
	<u>\$ 1,459,311</u>	<u>\$ 1,386,188</u>

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Statements of Cash Flows (Continued)  
 For the years ended June 30, 2008 and 2007  
 (Dollars in thousands)

	<b>2008</b>	<b>2007</b>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 41,453	\$ (4,292)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	105,762	92,230
Change in provision for uncollectible accounts	(857)	(1,964)
Other revenues, net	336	1,335
Changes in assets and liabilities:		
Accounts receivable	4,390	3,917
Unbilled receivables	11,341	(6,110)
Prepaid expenses and inventories	(1,278)	(697)
Contracts and accounts payable	16,574	(37,801)
Employee benefits and insurance claims payable	16,390	1,891
Deferred revenue	(50)	(50)
Salaries payable	1,212	797
Other liabilities	3,277	91,061
Total adjustments	157,097	144,609
Net cash provided by operating activities	\$ 198,550	\$ 140,317
Noncash capital, and financing activities:		
Bond proceeds deposited to escrow account for bond refunding	\$ -	\$ 93,272
Acquisition of capital assets included in contracts and accounts payable	51,949	53,042

See accompanying notes to financial statements.

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

Notes to Financial Statements  
June 30, 2008 and 2007

**(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), LA/Ontario International Airport (ONT), Van Nuys Airport (VNY) and LA/Palmdale Regional Airport (PMD) and collectively, the Airport System.

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

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

**(b) Basis of Accounting**

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

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(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) *Accounts Receivable and Unbilled Receivables***

LAWA recognizes revenue in the period earned. Receivables aged beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense. Unbilled receivable balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal period might not get processed through the billing system for up to sixty days into the next fiscal year. For Fiscal Year 2008, customer accounts with credit balances were offset to Unbilled Receivables.

**(e) *Contracts Payable, Accounts Payable and Other Liabilities***

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

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

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

**(f) *Securities Lending***

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

**(g) *Investments with Fiscal Agents***

LAWA has funds that are held by fiscal agents and pledged to the payment or security of the 1995, 2002, 2003, and 2006 bonds (see Note 3).

**(h) *Federal Grants***

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

**(i) *Capital Assets***

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

**(j) *Landing Fees***

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

**(k) *Concessions Revenue***

Concession revenue is generated through LAWA concessionaires or tenants, who pay monthly fees for using airport facilities to offer their goods and services to the general public and air traveling community. Payments to LAWA are based on negotiated agreements with concessionaires to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to concession revenue are determined by the type of

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

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

**(k) Concessions Revenue (continued)**

revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAWA in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when accruals are required for each tenant.

**(l) Depreciation and Amortization**

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

**(m) Preliminary Costs of Capital Projects**

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

**(n) Operating and Nonoperating Revenue and Expenses**

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

**(o) Interest Expense**

LAWA capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest expense was \$22,474,000 for the year ended June 30, 2008 and \$20,922,000 for the year ended June 30, 2007. All outstanding bonds are for refunding purposes, therefore, there was no capitalized interest in both FY2008 and FY2007.

**(p) Deferred Revenue**

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

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

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

**(q) *Employee Benefits***

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

**(r) *Statements of Cash Flows***

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

**(s) *Use of Estimates***

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

**(t) *Reclassifications***

Certain reclassifications have been made to fiscal year 2007 amounts in order to conform to the fiscal year 2008 presentation.

**(u) *Inventory***

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

**(v) *Bond Premiums, Discounts, and Issuance Costs***

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

**(w) *Net Assets***

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

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

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

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

*(w) Net Assets (continued)*

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008 and 2007, net assets of \$503.9 million and \$414.9 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAWA, not restricted for any project or other purpose.

**(2) Recent Accounting Pronouncements**

*(a) Recent Accounting Pronouncements*

In December 2006, GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. LAWA is required to implement the statement for the fiscal year 2008-09 financial statements. LAWA is evaluating its potential liability concerning GASB Statement No. 49.

GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets.*" Issued in June 2007, this statement 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. GASB 51 will be effective for LAWA beginning in fiscal year 2010. Retroactive reporting is required. LAWA is evaluating its potential liability concerning GASB Statement No. 51.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(3) Cash and Investments**

**(a) *Cash and Pooled Investments***

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. Investments in the City Treasury 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.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (the Policy) to the City Council. The policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53636 and 16429.1.

Examples of investments permitted by the City's pooled investment policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts (in Special Investment Program only), bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

The Investment Advisory Committee (IAC) reviews investment performance and strategy. The IAC is composed of the City Treasurer as chairperson, the Office of the Mayor, City Controller, Chief Legislative Analyst, City Administrative Officer, Director of Office of Finance, and an external investment advisor.

The City Treasurer manages the General Pool and Special Investment Pools. The investment disclosure information by pool is not available; accordingly, disclosures provided herein represent the combined General and Special Investment Pools. LAWA is invested only in the General Pool.

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(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 General Investment Pool of the City Treasurer's pooled funds and is not necessarily indicative of LAW A's actual investments in the pooled funds (in thousands):

<u>Description</u>	<u>2008</u>	<u>2007</u>
Deposits	\$ 59,188	\$ 46,844
U.S. Treasury securities	373,185	357,493
Federal agency securities	245,442	438,854
Commercial paper	397,349	144,230
Medium-term corporate notes	282,367	245,315
Total	1,357,531	1,232,736
Less restricted portion	(888,698)	(800,818)
Unrestricted portion	<u>\$ 468,833</u>	<u>\$ 431,918</u>

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

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(3) Cash and Investments (continued)**

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

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

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

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

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

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

At June 30, 2008 and 2007, LAWA has \$ 1,357,531,000 and \$1,232,736,000, respectively, invested with the City Pool, which represents approximately 23.76% and 21.41%, respectively, of the City Treasury's General Investment Pool.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(3) Cash and Investments (continued)**

*(c) City of Los Angeles Investment Pool*

At June 30, 2008, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

<u>Type of Investments</u>	<u>Amount</u>	<u>Investment Maturities</u>			
		<u>1 to 30 Days</u>	<u>31 to 60 Days</u>	<u>61 to 365 Days</u>	<u>366 Days To 5 Years</u>
U.S. Treasury Notes	\$ 1,619,055	\$ -	\$ -	\$ -	\$ 1,619,055
U.S. Government Agencies	1,530,897	230,356	174,594	224,569	901,378
Medium Term Notes	1,186,097	-	-	352,990	833,107
Commercial Paper	1,984,742	1,450,906	386,282	147,554	-
Guaranteed Investment Contracts	135,224	135,224	-	-	-
Certificates of Deposit	8,000	-	-	8,000	-
Short Term Investment Funds	38	38	-	-	-
State of California LAIF	1	1	-	-	-
Securities Lending Cash Collateral					
U.S. Treasury Notes	918,758	-	-	-	918,758
U.S. Agencies	10,721	-	-	-	10,721
<b>Total General and Special Pools</b>	<b>\$ 7,393,533</b>	<b>\$ 1,816,525</b>	<b>\$ 560,876</b>	<b>\$ 733,113</b>	<b>\$ 4,283,019</b>

At June 30, 2007, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

<u>Type of Investments</u>	<u>Amount</u>	<u>Investment Maturities</u>			
		<u>1 to 30 Days</u>	<u>31 to 60 Days</u>	<u>61 to 365 Days</u>	<u>366 Days To 5 Years</u>
U.S. Treasury Notes	\$ 1,651,432	\$ -	\$ -	\$ 100,394	\$ 1,551,038
U.S. Government Agencies	2,588,342	270,397	63,258	267,283	1,987,404
Medium Term Notes	1,135,468	-	-	364,595	770,873
Commercial Paper	900,606	811,138	54,758	34,710	-
Guaranteed Investment Contract	314,860	314,860	-	-	-
State of California LAIF	2,664	2,664	-	-	-
Short Term Investment Funds	7	7	-	-	-
Securities Lending Cash Collateral					
U.S. Treasury Notes	898,087	-	-	5,386	892,701
U.S. Agencies	217,385	-	-	-	217,385
<b>Total General and Special Pools</b>	<b>\$ 7,708,851</b>	<b>\$ 1,399,066</b>	<b>\$ 118,016</b>	<b>\$ 772,368</b>	<b>\$ 5,419,401</b>

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

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(3) Cash and Investments (continued)**

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

*Credit Risk.* The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers must have minimum credit ratings by Standard and Poor's Corporation (S&P) A-1/A or Moody's Investor Services (Moody's) P-1/A2 and, if available, Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating. The City Treasurer is granted the authority to specify approved California banks with a Fitch Ratings BankWatch of "C" or better and an A-2 rating where appropriate. In addition to a "AAA" rating for country risk, foreign banks with domestic licensed offices must be rated "B" or better and TBW-1 short-term rating by Fitch Ratings BankWatch. Domestic savings banks must be rated "B/C" or better and TBW-1 short-term rating by Fitch Ratings BankWatch.

Medium term notes must be issued by corporations operating within the United States and having total assets in excess of \$500 million. Commercial paper issuers must meet the preceding requirement or must be issued by corporations organized in the United States as a special purpose corporation, trust or limited liability company having program-wide credit enhancements.

The City's \$1.53 billion investments in U.S. government-sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$594.5 million, Federal National Mortgage Association - \$293.8 million, Federal Home Loan Mortgage Corporation - \$537.2 million, Federal Farm Credit Bank - \$105.5 million. As of June 30, 2008, these securities carried the highest ratings of AAA (S&P) and Aaa (Moody's).

The City's \$1.19 billion investments in medium term notes consist of securities issued by banks and corporations that comply with the requirements discussed above and were rated "A" or better by S&P and "A3" or better by Moody's.

The City's \$1.98 billion investments in commercial paper comply with the requirements discussed above and were rated AAA/A-1/A-1+ by S&P and Aaa/P-1 by Moody's.

The issuers of guaranteed investment contracts (in Special Investment Program only), certificates of deposits and the State of California Local Agency Investment Fund (LAIF) are not rated.

*Concentration of Credit Risk.* The City's investment policy does not allow more than 10% of its investment portfolio, except U.S. Treasury and federal agencies, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2008, \$594.5 million (8%) was invested in securities issued by the Federal Home Loan Bank and \$537.2 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(3) Cash and Investments (continued)**

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

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

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

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

LAWA's share of cash collateral received and corresponding liability aggregated approximately \$183,701,000 and \$201,835,000 at June 30, 2008 and 2007, respectively. During the fiscal year, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(3) Cash and Investments (continued)**

*(e) Investments with Fiscal Agents*

LAWA also maintains investments with fiscal agents that are pledged to the payment or security of LAWA's 1995, 1996, 2002, 2003, and 2006 bonds. These investments are generally invested in short-term investments under the control of the fiscal agents.

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

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

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

<u>Description</u>	<u>2008</u>	<u>2007</u>
Money Market Funds	\$ 109,872	\$ 161,643
U.S. Treasury Securities	26,397	26,397
Total	<u>\$ 136,269</u>	<u>\$ 188,040</u>

*Concentration of Credit Risk:* The money market funds are comprised of investments in the First American Treasury Obligation Fund and Federated U.S. Treasury Cash Reserve Fund and the entire U.S. Treasury Securities are invested in U.S. Treasury Bills.

*Interest Rate Risk:* The maturity date of the U.S. Treasury Bills invested is less than one year and the weighted average maturity of the money market funds is as follows:

First American Treasury Obligation Fund – 40 days

Federated U.S. Treasury Cash Reserve Fund – 54 days

*Credit Risk:*

First American Treasury Obligation Fund – Aaa (Moody's) and AAA (Standard & Poor's)

Federated U.S. Treasury Cash Reserve Fund – Aaa (Moody's) and AAA (Standard & Poor's)

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(4) Changes in Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	<b>Balance at July 1, 2007</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2008</b>
Capital assets, not depreciated:				
Land and land clearance	\$ 705,017	\$ -	\$ -	\$ 705,017
Air easements	46,975	-	-	46,975
Construction in progress	452,102	507,290	(11,093)	948,299
Total capital assets, not depreciated	<u>1,204,094</u>	<u>507,290</u>	<u>(11,093)</u>	<u>1,700,291</u>
Capital assets, depreciated:				
Buildings	775,458	75	-	775,533
Improvements	1,187,807	46,135	(15)	1,233,927
Equipment and vehicles	178,399	13,647	(3,703)	188,343
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>2,326,087</u>	<u>59,857</u>	<u>(3,718)</u>	<u>2,382,226</u>
Less accumulated depreciation:				
Buildings	(353,025)	(19,717)	-	(372,742)
Improvements	(573,197)	(72,141)	-	(645,338)
Equipment and vehicles	(126,631)	(9,354)	2,343	(133,642)
Leased property	(95,605)	(4,550)	-	(100,155)
Total accumulated depreciation	<u>(1,148,458)</u>	<u>(105,762)</u>	<u>2,343</u>	<u>(1,251,877)</u>
Total capital assets depreciated, net	<u>1,177,629</u>	<u>(45,905)</u>	<u>(1,375)</u>	<u>1,130,349</u>
Total capital assets, net	<u>\$ 2,381,723</u>	<u>\$ 461,385</u>	<u>\$ (12,468)</u>	<u>\$ 2,830,640</u>

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(4) Changes in Capital Assets (continued)**

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	<b>Balance at July 1, 2006</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2007</b>
Capital assets, not depreciated:				
Land and land clearance	\$ 685,668	\$ 23,594	\$ (4,245)	\$ 705,017
Air easements	46,975	-	-	46,975
Construction in progress	286,985	444,202	(279,085)	452,102
Total capital assets, not depreciated	<u>1,019,628</u>	<u>467,796</u>	<u>(283,330)</u>	<u>1,204,094</u>
Capital assets, depreciated:				
Buildings	767,950	7,508	-	775,458
Improvements	966,336	271,515	(50,044)	1,187,807
Equipment and vehicles	161,737	16,701	(39)	178,399
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>2,080,446</u>	<u>295,724</u>	<u>(50,083)</u>	<u>2,326,087</u>
Less accumulated depreciation:				
Buildings	(333,620)	(22,234)	2,829	(353,025)
Improvements	(515,861)	(57,336)	-	(573,197)
Equipment and vehicles	(125,243)	(7,869)	6,481	(126,631)
Leased property	(90,814)	(4,791)	-	(95,605)
Total accumulated depreciation	<u>(1,065,538)</u>	<u>(92,230)</u>	<u>9,310</u>	<u>(1,148,458)</u>
Total capital assets depreciated, net	<u>1,014,908</u>	<u>203,494</u>	<u>(40,773)</u>	<u>1,177,629</u>
Total capital assets, net	<u>\$ 2,034,536</u>	<u>\$ 671,290</u>	<u>\$ (324,103)</u>	<u>\$ 2,381,723</u>

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(5) Bonds and Commercial Paper Payable**

LAWA issued revenue bonds in 1995, 1996, 2002, 2003, and 2006 for various airport improvement projects and to refund previously issued debt. LAWA's revenues are pledged as security for the bonds.

The 1995 Revenue Bonds were issued in the amount of \$365,855,000 to finance capital improvements and repay certain indebtedness. The bonds are limited obligations of the Department payable from and secured by a pledge of LAX revenues. The 1996 Series Revenue Bonds were issued in the amount of \$123,075,000 to finance capital improvements of ONT. The bonds were limited obligations of the Department payable from and secured by a pledge of ONT revenues. In fiscal year 2003, LAWA issued \$217,175,000 of revenue bonds to fund LAX airport improvement projects and advance refund a portion of the 1995 bonds. In fiscal year 2007, LAWA issued \$90,155,000 of Refunding Revenue Bonds to refund all of the 1996 Series Revenue Bonds. The refunding of the 1996 Series Revenue Bonds resulted in an economic gain of \$12,519,000 and a reduction of \$47,454,000 in future debt service payments.

During the fiscal year, LAX issued an additional \$204,599,000 in commercial paper to meet its financing needs. A portion of these funds are being used to reimburse the airport for cash used in the construction of improvements on the south airfield and to the Tom Bradley International Terminal (TBIT). Additionally, these funds are being used to fund deposits that have been placed into revocable escrow accounts used as an interim step toward maintaining the required IRS non-taxable definition for long term financing of defeasing outstanding bonds issued to finance terminal improvements at LAX.

Outstanding revenue bonds at June 30, 2008 mature in varying amounts through 2026. Bond and commercial paper notes activity for the year ended June 30, 2008 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 10,195	\$ -	\$ (1,230)	\$ 8,965	\$ 1,500
Issue of 2006 Series A	4.50 to 5.00	79,520	-	(2,525)	76,995	2,660
Issue of 2006 Series B	5.404 to 5.587	6,105	-	(190)	5,915	195
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	2.75*	57,400	-	-	57,400	-
Issues of 2003 Series A	2.59*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	94,305	-	(11,185)	83,120	11,780
Subtotal		303,675	-	(15,130)	288,545	16,135
Commercial paper Series A	2.01*	30,000	128,400	-	158,400	158,400
Commercial paper Series B	1.41*	-	75,000	-	75,000	75,000
Commercial paper Series C	4.26*	148,745	1,199	(53,116)	96,828	96,828
Deferred charges and credits, net	N/A	8,244	-	(964)	7,280	917
Total		<u>\$ 490,664</u>	<u>\$ 204,599</u>	<u>\$ (69,210)</u>	<u>\$ 626,053</u>	<u>\$ 347,280</u>

\*Average variable rate.

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(5) Bonds and Commercial Paper Payable (continued)**

Bonds and commercial paper notes activity for the year ended June 30, 2007 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2007</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 12,695	\$ -	\$ (2,500)	\$ 10,195	\$ 1,230
Issue of 1996	5.60 to 7.90	107,300	-	(107,300)	-	-
Issue of 2006	4.50 to 5.587	-	90,155	(4,530)	85,625	2,715
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	3.52*	57,400	-	-	57,400	-
Issues of 2003 Series A	3.58*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	103,625	-	(9,320)	94,305	11,185
Subtotal		337,170	90,155	(123,650)	303,675	15,130
Commercial paper Series A	3.68*	-	30,000	-	30,000	30,000
Commercial paper Series B	5.26*	-	148,745	-	148,745	148,745
Deferred charges and credits, net	N/A	7,338	1,679	(773)	8,244	958
Total		<u>\$ 344,508</u>	<u>\$ 270,579</u>	<u>\$ (124,423)</u>	<u>\$ 490,664</u>	<u>\$ 194,833</u>

\* Average variable rate.

Future annual debt service requirements as of June 30, 2008, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u> <sup>(1)</sup>	<u>Total</u>
Fiscal year ending June 30:			
2009	\$ 16,135	\$ 12,049	\$ 28,184
2010	16,475	11,316	27,791
2011	17,565	10,488	28,053
2012	18,435	9,620	28,055
2013	19,365	8,699	28,064
2014 – 2018	113,120	29,262	142,382
2019 – 2023	67,515	10,432	77,947
2024 – 2026	19,935	2,047	21,982
Total	<u>\$ 288,545</u>	<u>\$ 93,913</u>	<u>\$ 382,458</u>

<sup>(1)</sup> Interest requirements for variable-rate bonds were determined using 1.50%, 1.35%, and 2.87% for 2002 C1, 2002 C2, and 2003 A, respectively, the rates in effect at June 30, 2008.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(6) Other Long-Term Liabilities**

Other long-term liabilities' activity for the year ended June 30, 2008 was as follows (in thousands):

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 39,618	\$ 16,390	\$ -	\$ 56,008	\$ 6,851
Deferred revenue	1,171	50	(100)	1,121	50
Obligations under capital leases	51,855	-	(1,140)	50,715	1,197
Other liabilities	116,777	8,295	(5,018)	120,054	5,560
Total	<u>\$ 209,421</u>	<u>\$ 24,735</u>	<u>\$ (6,258)</u>	<u>\$ 227,898</u>	<u>\$ 13,658</u>

Other long-term liabilities' activity for the year ended June 30, 2007 was as follows (in thousands):

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2007</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 37,727	\$ 13,847	\$ (11,956)	\$ 39,618	\$ 8,172
Deferred revenue	1,221	-	(50)	1,171	50
Obligations under capital leases	52,881	-	(1,026)	51,855	1,140
Other liabilities	25,716	108,239	(17,178)	116,777	5,319
Total	<u>\$ 117,545</u>	<u>\$ 122,086</u>	<u>\$ (30,210)</u>	<u>\$ 209,421</u>	<u>\$ 14,681</u>

**(7) Related Party Transactions**

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAWA. The payments for these services, included in operating expenses for the years ended June 30, 2008 and 2007, were \$56,101,000 and \$46,434,000, respectively. In addition, LAWA collects parking taxes at LAX and ONT on behalf of the cities of Los Angeles and Ontario. Parking taxes collected and remitted to the cities of Los Angeles and Ontario were as follows (in thousands):

	<u>2008</u>	<u>2007</u>
City of Los Angeles	\$ 7,457	\$ 7,250
City of Ontario	4,587	4,683
Total	<u>\$ 12,044</u>	<u>\$ 11,933</u>

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(8) Retirement System**

**(a) *Retirement Plan Description***

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

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

**(b) *Actuarially Determined Contribution Requirements and Contributions Made***

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. LAWA's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS were approximately \$46,800,000 (100% of ARC), \$41,000,000 (100% of ARC) and \$39,600,000 (100% of ARC) for the years ended June 30, 2008, 2007, and 2006, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(8) Retirement System (continued)**

*(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)*

LACERS's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The FY2008 contribution requirement was determined based on the June 30, 2006 actuarial valuation, using the following actuarial assumptions:

	<u>LACERS</u>
<u>Actuarial valuation date</u>	<u>June 30, 2006</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75% - 12.25%
<u>Inflation rate</u>	<u>3.75%</u>
Cost of living adjustments	3%

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(8) Retirement System (continued)**

*(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)*

The FY2007 contribution requirement was determined based on the June 30, 2005 actuarial valuation, using the following actuarial assumptions:

	LACERS
<u>Actuarial valuation date</u>	<u>June 30, 2005</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions:	
<u>Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>4.75% - 10%</u>
<u>Inflation rate</u>	<u>3.75%</u>
<u>Cost of living adjustments</u>	<u>3%</u>

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

Notes to Financial Statements (Continued)  
 June 30, 2008 and 2007

**(8) Retirement System (continued)**

**(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)**

The City's and member contribution rates for the year ended June 30, 2008 are as follows:

Contribution rates:	<u>LACERS</u>
City	14.65% of covered payroll
Plan members	8.22% to 13.33% of salaries at entry age with City subsidy for members prior to February 1983; 6% for entry date after January 1983

The City's and member contribution rates for the year ended June 30, 2007 are as follows (in thousand):

Contribution rates:	<u>LACERS</u>
City	14.6% of covered payroll
Plan members	8.22% to 13.33% of salaries at entry age with City subsidy for members prior to February 1983; 6% for entry date after January 1983

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(8) Retirement System (continued)**

**(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)**

The City's annual pension cost, the percentage of annual pension cost contributed to the plans, and the net pension obligation for fiscal year 2007-08 and the two preceding years for each of the plans are as follows (dollars in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
LACERS	06/30/06	\$ 227,006	100%	\$ (83,049)
	06/30/07	276,191	86%	(81,723)
	06/30/08	286,367	100%	(79,972)

The City allocated a pro rata share of its net pension obligation to the LAWA and the amounts recorded at June 30, 2008 and 2007 were \$9,459,000 and \$8,298,000, respectively.

**(c) Funded Status of LACERS**

Based upon available data, the following is funded status information for the plan as of June 30, 2008, separate information for LAWA is not available (dollars in thousands):

	<u>LACERS</u>
Actuarial Accrued Liability (AAL)	\$ 11,186,404
Actuarial Value of Assets	9,438,318
Underfunded AAL	1,748,086
Funded Ratio	84.4%
Covered Payroll	\$ 1,977,645
Underfunded AAL as a percentage of covered payroll	88.4%

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

Notes to Financial Statements (Continued)  
 June 30, 2008 and 2007

**(8) Retirement System (continued)**

*(c) Funded Status of LACERS (continued)*

The funded status of the plan as of June 30, 2008 was based on the following actuarial assumptions:

	LACERS
Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.75% - 12.25%
Inflation rate	3.75%
Cost of living adjustments	3.00%

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(8) Retirement System (continued)**

**(c) *Funded Status of LACERS (continued)***

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress, presented as Required Supplementary Information (RSI) on page 63, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Other contribution information and ten-year historical trend information can be found in LACERS's Comprehensive Annual Financial Report. Copies of LACERS's Comprehensive Annual Financial Report can be obtained from LACERS, 360 East Second Street, 2<sup>nd</sup> Floor, Los Angeles, California 90012.

**(d) *Other Postemployment Benefits (OPEB)***

LAWA, as a participant in LACERS, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. LACERS is advance funding the retiree health benefits on an actuarial-determined basis.

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(8) Retirement System (continued)**

**(d) Other Postemployment Benefits (OPEB) (continued)**

For the fiscal year ended June 30, 2008, the City's annual required contribution rate for OPEB was 5.48% of annual covered payroll and was determined based on the June 30, 2006 actuarial valuation. Significant methods and assumptions are as follows:

	<u>LACERS OPEB</u>
<u>Actuarial valuation date</u>	<u>June 30, 2006</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions:	
<u>Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>N/A</u>
<u>Inflation rate</u>	<u>3.75%</u>
Healthcare cost trend rates:	
Medical	8.75% graded down over 8 years to ultimate rate of 5%
Dental	5%

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(8) Retirement System (continued)**

**(d) Other Postemployment Benefits (OPEB) (continued)**

For the fiscal year ended June 30, 2007, the City's annual required contribution rate for OPEB was 6.1% of annual covered payroll and was determined based on the June 30, 2005 actuarial valuation. Significant methods and assumptions are as follows:

	LACERS OPEB
Actuarial valuation date	June 30, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	12% graded down over 7 years to ultimate rate of 5%
Dental	5%

Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by LAWA alone are not available.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(8) Retirement System (continued)**

**(d) Other Postemployment Benefits (OPEB) (continued)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2007-08 and the two preceding years for the plan are as follows (dollars in thousands):

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
LACERS	06/30/06	\$ 76,116	100%	-
	06/30/07	115,233	100%	-
	06/30/08	108,848	100%	-

From the most recent data made available by the City, as of June 30, 2008, LACERS membership consists of 30,326 active plan participants and 14,975 retired members. Also as of June 30, 2008, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total underfunded health benefit subsidy applicable to LACERS as a whole was approximately \$585,123,000 as follows (dollars in thousands):

	<u>LACERS</u>
Actuarial Accrued Liability (AAL)	\$ 1,928,043
Actuarial Value of Assets	1,342,920
Underfunded AAL	585,123
Funded Ratio	69.7%
Covered Payroll	\$ 1,977,645
Underfunded AAL as a percentage of covered payroll	29.6%

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

Notes to Financial Statements (Continued)  
June 30, 2008 and 2007

**(8) Retirement System (continued)**

**(d) Other Postemployment Benefits (OPEB) (continued)**

The funded status of the OPEB plan as of June 30, 2008 was based on the following actuarial assumptions:

	<u>LACERS OPEB</u>
<u>Actuarial valuation date</u>	<u>June 30, 2008</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions:	
<u>Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>N/A</u>
<u>Inflation rate</u>	<u>3.75%</u>
Healthcare cost trend rates:	
Medical	8.75%, decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%
Dental	5%

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(8) Retirement System (continued)**

*(d) Other Postemployment Benefits (OPEB) (continued)*

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The require schedule of funding progress, presented as RSI on page 63 present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

**(9) Self-Insurance**

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

Liability at June 30, 2006	\$ 35,108
Provisions for claims	8,491
Claim payments	(6,600)
Liability at June 30, 2007	<u>36,999</u>
Provisions for claims	6,079
Claim payments	(5,451)
Liability at June 30, 2008	<u>37,627</u>
Current portion	(3,764)
Long-term liability at June 30, 2008, net of current portion	<u><u>\$ 33,863</u></u>

The LAWA Risk Management Division oversees a sophisticated, self-administered Risk and Claims Management program. Claims are administered in-house by a dedicated team of Analysts who will manage and direct a claim/lawsuit until resolved. LAWA Risk Management (in cooperation with its contracted broker of record) is responsible for placing General Liability insurance policies (including a War & Terrorism policy) up to the policy limits of \$1.0 billion for General Liability coverage and \$1.25 billion for War and Terrorism coverage. Additional lines of insurance include General Property Insurance, with policy limits of \$1.5 billion, Boiler and Machinery coverage and Earthquake insurance. These insurance limits are in excess of LAWA's self-insured retention (deductible) which for general liability insurance is \$10,000/claim with a \$300,000 annual aggregate and \$100,000 per occurrence and annual aggregate on Property insurance. The self-insured retention for both Property and Liability insurance as well as the purchase of all insurance policies is budgeted and funded annually by the Risk Management

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(9) Self-Insurance (continued)**

Division. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAWA also continues to maintain a catastrophic loss fund that is held in reserve to fund claims or losses that may conceivably breach insurance policy limits. The transference of risk exposure through the procurement of liability and property insurance has proven to be a very effective program for LAWA in its management of risk.

For other types of claims, commercial insurance is used when it is either legally or contractually required, or judged to be the most effective way to finance risk. LAWA's Risk Management Division estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2008, 2007, and 2006, no claims were in excess of LAWA's insurance coverage. LAWA maintains approximately \$2.5 billion coverage of property, casualty general liability and other lines of insurance. LAWA also maintains an annual budget to fund the deductibles for property damage, general liability, and additionally maintains a catastrophic trust fund for any claims, losses in excess of the stated insurance coverage limits.

**(10) Commitments and Contingencies**

As of June 30, 2008, 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) 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.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(10) Commitments and Contingencies (continued)**

**(b) High-Security Environment**

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the September 11 Events). Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues, and parking revenue. During fiscal year 2008, LAWA's passenger volume was 6.4%, or 4.7 million, below its pre-September 11<sup>th</sup> Events level.

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

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

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

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(10) Commitments and Contingencies (continued)**

**(c) Other**

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$96,100,000 and \$53,200,000 as of June 30, 2008 and 2007, respectively. Significant amounts in commitments for fiscal year 2008 are due to the following projects: \$26,300,000 for inspection testing, and surveying for the center taxiway, in-line baggage screening, runway projects and interior improvements at TBIT; and, \$37,300,000 for land acquisition.

**(11) Capital Lease Agreements**

LAWA has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amounted to \$184,423,000 for both June 30, 2008 and 2007. Accumulated depreciation with respect to such property for the respective years was \$100.2 million and \$95.6 million, respectively.

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

Fiscal year ending June 30,			
2009	\$	3,076	
2010		3,146	
2011		3,268	
2012		3,327	
2013		3,439	
2014 – 2018		18,883	
2019 – 2023		23,004	
2024 – 2026		14,327	
Total minimum lease			
payments		72,470	
Less interest portion		(21,755)	
Present value of minimum			
lease payments	\$	50,715	

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.

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(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 PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers.

Since 1990, the following activities have taken place:

- In April 1993, the FAA granted LAWA's authority to collect PFCs at LAX and ONT in the amount of \$360,000,000 for 5 years for specifically approved airport improvement projects. Effective July 1, 1993, LAWA began collecting PFCs in the amount of \$3 per passenger.
- In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at ONT. 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 ONT. Accordingly, PFC charges totaling \$126,100,000 collected at LAX were transferred.
- In November 1997 and April 1998, the FAA approved LAWA's application to impose \$3 per passenger PFCs at LAX and ONT, respectively, for noise mitigation projects. Approved collections of \$150,000,000 at LAX were to be used for the soundproofing of City of Los Angeles residences and sound insulation of nearby city residences. Approved collections of \$45,700,000 at ONT were to be used for land acquisition and sound insulation of the City of Ontario residences.
- On October 2, 1998, the FAA approved LAWA's application to amend PFCs at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000.
- Effective August 1, 2003, the FAA approved an increase to the PFC charge at LAX from \$3.00 to \$4.50.

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

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

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

**(12) Passenger Facility Charges (continued)**

	<b>2008</b>	<b>2007</b>
Amount collected	\$ 1,221,594	\$ 1,090,973
Interest received	145,979	124,225
Cumulative PFC collections	\$ 1,367,573	\$ 1,215,198

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

**(13) Capital Grant Contributions**

Contributed capital related to governmental grants and other aid increased by \$43.2 million to \$125.3 million during the year ended June 30, 2008. Capital grant funds were used for projects under the Airport Improvement Program and Transportation Security Administration security-related capital projects.

**(14) Terminal Rents**

LAX has lease arrangements at its passenger terminal facilities with American Airlines, Continental Airlines, Delta Air Lines, LAX TWO Corporation, and United Air Lines (collectively, the “Long-term Airlines”) that have various terms of up to 40 years. Under these leases, the Long-term Airlines pay various charges, including maintenance and operations rent (“M&O Rent”) that reflects the expenses that LAX incurs in maintaining and operating the terminals. The M&O Rent rates are set each calendar year based on the actual audited M&O expenses for the prior fiscal year ending June 30.

Historically, less than the full amount of M&O expenses attributable to the airlines has been charged to the terminal tenants as M&O Rent. On December 18, 2006, the Board of Airport Commissioners (“BOAC”) approved a resolution setting the M&O Rent rate for 2006, effective January 1, 2006, based upon the full amount of M&O expenses expended in the year ended June 30, 2005 attributable to the airlines for all LAX passenger terminals.

The Long-term Airlines have objected to LAX’s calculation of the M&O Rents as approved by the BOAC for 2006. On January 18, 2007, American, Continental and United Airlines filed a complaint with the United States District Court objecting to the 2006 M&O Rents. Subsequently, Northwest Airlines, as the primary shareholder of LAX TWO, and Delta Air Lines also filed objections. In February of 2008, LAWA entered into interim settlement agreements with each of the Long-term Airlines resolving all disputed charges between January 1, 2006 and December 31, 2008. The agreements resulted in the issuance of credits for a portion of the amounts assessed to date. As part of these agreements, the Long-Term Airlines and LAWA agreed to work together to reach an agreement on future charges implemented January 1, 2009 and after. To date, no new agreements have been reached; however, the parties have commenced negotiations.

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

Notes to Financial Statements (continued)

June 30, 2008 and 2007

**(14) Terminal Rents (continued)**

Separately, the BOAC approved a new lease form on December 18, 2006 with a subsequent institution of a tariff on January 22, 2007. Certain carriers utilizing terminals 1 and 3 as well as carriers that operate from the Tom Bradley International Terminal objected to the tariff and filed a complaint with the Department of Transportation (“DOT”). The DOT issued its final decision on June 15, 2007. The decision resulted in a refund of a portion of the amounts assessed under the tariff to the complainants. A small number of tenants and sub-tenants were not party to the DOT action and continue to be assessed at the tariff rate. Subsequent to the DOT Supplemental Order on July 13, 2007, the carriers that were party to the DOT complaint filed a Petition to Review at the United States Court of Appeals regarding the DOT ruling.

Pending the resolution of these objections, LAX has classified the disputed cash portion of the M&O Rent and interest earned as “Cash under Protest” of \$95,179,252 and has not included these amounts as Revenue. The disputed portion of the M&O Rent is classified as “Customer Liability–Protested Revenue” and “Interest Earned under Protest;” both amounts are included as part of other long term liabilities reported in the Statement of Net Assets.

**(15) Subsequent Events**

**(a) Bond Issuance**

LAWA issued three series bonds totaling \$853,300,000 in August 2008 at LAX. The proceeds from the sale of these bonds were used to reimburse the Department for previous capital expenditures, pay for future capital expenditures, repay outstanding commercial paper notes and refund the balance of the 1995 D bonds. In September of 2008, bond proceeds were used to repay the balance of the Series A (tax exempt non-AMT) and Series B (tax-exempt AMT) commercial paper notes leaving only the Series C (taxable) notes outstanding.

**(b) Terminal Rents**

In July of 2008, LAWA and carriers that operate from the Tom Bradley International Terminal reached an agreement on M&O Rent and Base Rent Charges settling all disputed charges between the period January 1, 2006 and December 31, 2009. The agreement resulted in the issuance of credits for a portion of the amounts assessed to date.

The Partial Settlement Agreement signed on July 24, 2008 has not been fully implemented since all customer credits and LAX revenue adjustments to be recognized are extremely complex and are still being calculated as of this date.

In October 2008, the BOAC authorized a blanket order allowing the Executive Director of LAWA to enter into letter agreements with carriers that are currently under the tariff, as well as new entrants regarding tariff charges. The letter agreements may result in the issuance of credits for a portion of the amounts assessed to date.

On December 11, 2008 the United States Court of Appeals will hear oral arguments on the Petition to Review filed by carriers that were party to the DOT complaint.

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

Notes to Financial Statements (continued)  
June 30, 2008 and 2007

**(15) Subsequent Events (continued)**

**(c) *Financial Market Volatility***

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with certain investments held by the City that could impact the value of investments after the date of these financial statements. The unfolding financial crisis may affect the market value of certain investments, but the impact of future events cannot be determined at this time.

The values of assets held by the City's retirement and other postemployment benefit plans have also been impacted by recent market conditions. The plans' actuarial valuations employ a smoothing policy, which requires that the difference between the actual market return and the expected return on the market value be recognized in even increments over five years. As a result, the impact of recent market losses will be amortized and evidenced in actuarial valuations and funded status over the next five years and may eventually result in an increase in required City contributions.

**SUPPLEMENTAL INFORMATION**

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

Required Supplementary Information (Unaudited)  
June 30, 2008

**Schedule of Funding Status**

**(a) Retirement System**

Based upon available data, the following represents the LACERS Schedule of Funding Progress, separate information for LAWA is not available (dollars in thousands):

**LACERS Retirement System  
Schedule of Funding Progress  
(in thousands)**

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	\$ 9,870,662	\$ 7,674,999	\$(2,195,663)	77.8%	\$ 1,733,340	(126.7)%
2007	10,526,874	8,599,700	(1,927,174)	81.7%	1,896,609	(101.6)%
2008	11,186,404	9,438,318	(1,748,086)	84.4%	1,977,645	(88.4)%

**(b) Other Postemployment Benefits (OPEB)**

Based upon available data, the following represents the LACERS Schedule of Funding Progress for the OPEB plan; separate information for LAWA is not available (dollars in thousands):

**Other Postemployment Benefits Healthcare Plan  
Schedule of Funding Progress  
(in thousands)**

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	\$ 1,730,799	\$ 990,270	\$ (740,529)	57.2%	\$ 1,733,340	(42.7)%
2007	1,730,400	1,185,544	(544,856)	68.5%	1,896,609	(28.7)%
2008	1,928,043	1,342,920	(585,123)	69.7%	1,977,645	(29.6)%

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Combining Statement of Net Assets  
June 30, 2008  
(With comparative totals at June 30, 2007)  
(Dollars in thousands)

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport	Palmdale Regional Airport	Eliminations	2008	Totals 2007
<b>ASSETS</b>							
Current assets:							
Cash and pooled investments held by the City Treasurer	\$ 432,526	\$ 36,307	\$ -	\$ -	\$ -	\$ 468,833	\$ 431,918
Investments with fiscal agents	101,780	-	-	-	-	101,780	153,452
Accounts receivable, net of allowance for uncollectible accounts	11,041	2,666	1,910	100	-	15,717	19,250
Unbilled receivables	21,996	-	-	1	-	21,997	33,338
Accrued interest receivable	4,440	154	-	-	-	4,594	6,046
Due from other agencies	40,083	-	-	-	(40,083)	-	-
Prepaid expenses and inventories	4,806	287	138	-	-	5,231	3,953
Total unrestricted current assets	<u>616,672</u>	<u>39,414</u>	<u>2,048</u>	<u>101</u>	<u>(40,083)</u>	<u>618,152</u>	<u>647,957</u>
Restricted assets:							
Cash and pooled investments held by the City Treasurer	791,178	93,838	3,680	2	-	888,698	800,818
Investments with fiscal agents	27,470	7,019	-	-	-	34,489	34,588
Accrued interest receivable	3,945	497	-	-	-	4,442	5,501
Passenger facility charge receivable	16,917	1,451	-	-	-	18,368	19,863
Total restricted current assets	<u>839,510</u>	<u>102,805</u>	<u>3,680</u>	<u>2</u>	<u>-</u>	<u>945,997</u>	<u>860,770</u>
Total current assets	<u>1,456,182</u>	<u>142,219</u>	<u>5,728</u>	<u>103</u>	<u>(40,083)</u>	<u>1,564,149</u>	<u>1,508,727</u>
Capital assets:							
Land and air easements	619,766	28,291	12,615	91,320	-	751,992	751,992
Buildings, facilities and equipment	1,709,382	417,090	49,976	21,355	-	2,197,803	2,141,664
Leased property	184,423	-	-	-	-	184,423	184,423
Less accumulated depreciation	(1,041,491)	(171,663)	(30,207)	(8,516)	-	(1,251,877)	(1,148,458)
Construction work in process	783,332	139,330	23,554	2,083	-	948,299	452,102
Net capital assets	<u>2,255,412</u>	<u>413,048</u>	<u>55,938</u>	<u>106,242</u>	<u>-</u>	<u>2,830,640</u>	<u>2,381,723</u>
Deferred bond issuance expenses	2,189	1,162	-	-	-	3,351	3,732
Total noncurrent assets	<u>2,257,601</u>	<u>414,210</u>	<u>55,938</u>	<u>106,242</u>	<u>-</u>	<u>2,833,991</u>	<u>2,385,455</u>
Total assets	<u>\$ 3,713,783</u>	<u>\$ 556,429</u>	<u>\$ 61,666</u>	<u>\$ 106,345</u>	<u>\$ (40,083)</u>	<u>\$ 4,398,140</u>	<u>\$ 3,894,182</u>

See accompanying independent auditor's report.

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Combining Statement of Net Assets (cont'd)  
June 30, 2008  
(With comparative totals at June 30, 2007)  
(Dollars in thousands)

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport	Palmdale Regional Airport	Eliminations	Totals 2008	2007
<b>LIABILITIES</b>							
Current liabilities:							
Current liabilities payable							
from unrestricted assets:							
Contracts and							
accounts payable	102,994	6,721	4,114	2,307	-	116,136	82,083
Employee benefits							
and insurance							
claims payable	5,753	829	204	65	-	6,851	8,172
Salaries payable	5,117	906	403	78	-	6,504	5,292
Commercial paper							
notes payable	330,228	-	-	-	-	330,228	178,745
Due to other agencies	-	-	-	40,083	(40,083)	-	-
Current obligation							
under capital leases	1,197	-	-	-	-	1,197	1,140
Accrued interest payable	491	-	-	-	-	491	1,959
Deferred revenue	-	50	-	-	-	50	50
Other liabilities	804	4,175	438	143	-	5,560	5,319
Current liabilities payable from unrestricted assets	446,584	12,681	5,159	42,676	(40,083)	467,017	282,760
Current liabilities payable from restricted assets:							
Obligations under securities lending transactions	165,317	18,384	-	-	-	183,701	201,835
Bonds payable, net of deferred charges and credits	14,158	2,894	-	-	-	17,052	16,088
Contracts and accounts payable	5,366	57	-	-	-	5,423	23,995
Accrued bond interest payable	877	515	-	-	-	1,392	1,487
Current liabilities payable from restricted assets	185,718	21,850	-	-	-	207,568	243,405
Total current liabilities	632,302	34,531	5,159	42,676	(40,083)	674,585	526,165
Long-term liabilities:							
Bonds payable, net of deferred charges and credits	198,052	80,721	-	-	-	278,773	295,831
Obligations under capital leases	49,518	-	-	-	-	49,518	50,715
Employee benefits and insurance claims payable	41,291	5,899	1,475	492	-	49,157	31,446
Deferred revenue	-	1,071	-	-	-	1,071	1,121
Other liabilities	114,384	110	-	-	-	114,494	111,458
Total Long-term Liabilities	403,245	87,801	1,475	492	-	493,013	490,571
Total Liabilities	1,035,547	122,332	6,634	43,168	(40,083)	1,167,598	1,016,736
Net assets:							
Invested in capital assets, net of related debt	1,766,228	330,595	55,937	106,242	-	2,259,002	1,992,657
Restricted:							
Capital projects	174	504	-	-	-	678	645
Debt service	26,688	6,505	-	-	-	33,193	33,231
Special purpose	641,089	76,840	3,680	2	-	721,611	599,578
Unrestricted	244,057	19,653	(4,585)	(43,067)	-	216,058	251,335
Total net assets	\$ 2,678,236	\$ 434,097	\$ 55,032	\$ 63,177	\$ -	\$ 3,230,542	\$ 2,877,446

See accompanying independent auditor's report.

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Combining Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2008  
(With comparative totals for the year ended June 30, 2007)  
(Dollars in thousands)

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport	Palmdale Regional Airport	Eliminations	Totals 2008	Totals 2007
Operating revenues:							
Aviation revenue:							
Landing fees	\$ 171,822	\$ 16,357	\$ 21	\$ -	\$ 5,605	\$ 193,805	\$ 172,495
Building rentals	146,206	26,502	3,878	776	-	177,362	141,521
Other aviation revenue	61,932	7,092	17,439	774	(5,605)	81,632	74,114
Concession revenue	275,659	40,452	3	2	-	316,116	265,112
Airport sales and services	2,577	231	99	4	-	2,911	3,306
Miscellaneous revenue	2,030	173	247	12	-	2,462	2,477
Total operating revenue	<u>660,226</u>	<u>90,807</u>	<u>21,687</u>	<u>1,568</u>	<u>-</u>	<u>774,288</u>	<u>659,025</u>
Operating expenses:							
Salaries and benefits	291,015	42,012	9,050	2,245	-	344,322	303,678
Contractual services	151,155	14,279	4,733	3,827	-	173,994	162,826
Materials and supplies	37,870	5,958	1,042	632	-	45,502	50,464
Administrative expense	1,665	461	17	249	-	2,392	892
Utilities	27,674	4,951	612	371	-	33,608	25,524
Advertising and public relations	8,286	227	378	128	-	9,019	10,612
Other operating expenses	67	12,495	3,328	2,346	-	18,236	17,091
Total operating expenses before depreciation and amortization	<u>517,732</u>	<u>80,383</u>	<u>19,160</u>	<u>9,798</u>	<u>-</u>	<u>627,073</u>	<u>571,087</u>
Income /(loss) from operations before depreciation and amortization	142,494	10,424	2,527	(8,230)	-	147,215	87,938
Depreciation and amortization	(83,908)	(18,401)	(2,527)	(926)	-	(105,762)	(92,230)
Operating income (loss)	<u>58,586</u>	<u>(7,977)</u>	<u>-</u>	<u>(9,156)</u>	<u>-</u>	<u>41,453</u>	<u>(4,292)</u>
Nonoperating revenue (expenses):							
Passenger facility charges	116,705	12,420	-	-	-	129,125	125,515
Interest income	49,477	5,046	181	-	-	54,704	45,550
Change in fair value of investments	22,207	1,916	-	-	-	24,123	14,145
Interest expense	(18,278)	(4,196)	-	-	-	(22,474)	(20,922)
Bond expense	(428)	(65)	-	-	-	(493)	(407)
Other nonoperating expenses, net	1,390	(135)	64	47	-	1,366	1,867
Total nonoperating revenue, net	<u>171,073</u>	<u>14,986</u>	<u>245</u>	<u>47</u>	<u>-</u>	<u>186,351</u>	<u>165,748</u>
Income before contributions and transfers	229,659	7,009	245	(9,109)	-	227,804	161,456
Capital grant contributions	34,555	21,435	335	-	-	56,325	70,074
TSA contributions	52,330	16,637	-	-	-	68,967	12,014
Inter-agency transfers	(7,188)	-	7,188	-	-	-	-
Change in net assets	309,356	45,081	7,768	(9,109)	-	353,096	243,544
Net assets, beginning of year	2,368,880	389,016	47,264	72,286	-	2,877,446	2,633,902
Net assets, end of fiscal year	<u>\$ 2,678,236</u>	<u>\$ 434,097</u>	<u>\$ 55,032</u>	<u>\$ 63,177</u>	<u>\$ -</u>	<u>\$ 3,230,542</u>	<u>\$ 2,877,446</u>

See accompanying independent auditor's report.

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

We have audited the accompanying basic financial statements 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, California, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered LAWA's internal control over financial reporting 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 LAWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LAWA's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 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 LAWA'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 LAWA's Board of Airport Commissioners, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
December 17, 2008

# ELECTED OFFICIALS, BOARD OF AIRPORT COMMISSIONERS & LOS ANGELES WORLD AIRPORTS STAFF

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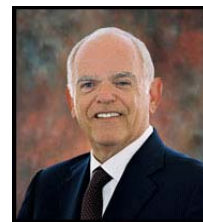
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*Mayor*

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Laura Chick  
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*Commercial Development*

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*LAX Development Program*

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*Operations and Maintenance*

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Wei Chi  
*Deputy Executive Director*  
*Comptroller*

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*Concessions Development*

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*Deputy Executive Director*  
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*Project & Facilities Development*

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*Public Safety and Security*

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*External Affairs*

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*Air Service Marketing*

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*Airport Engineering*

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Jess Romo  
*Airport Manager, LA/Ontario*

Robert Gluck  
*Airport Manager, LA/Palmdale*

Selena Birk  
*Airport Manager, VNY*

George Centeno  
*Chief-Airport Police*

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*Community Relations*

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*Concessions/Retail*

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