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

LOS ANGELES INTERNATIONAL AIRPORT

Annual Financial Report

For the Years Ended June 30, 2008 and 2007

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(Department of Airports of the City of Los Angeles, California)
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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 International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the years ended June 30, 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 the LAX's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made my management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 1, the financial statements presents only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2008 and 2007, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LAX 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 the LAX'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 pension and postemployment healthcare plans schedules of funding progress on page 44 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.

Macias Gini & 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)
LOS ANGELES INTERNATIONAL AIRPORT
Statement of Net Assets
June 30, 2008 and 2007
(Dollars in thousands)

	2008	2007
ASSETS		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	$ 432,526	$ 383,911
Investments with fiscal agents (Note 3)	101,780	153,452
Accounts receivable, net of allowance for uncollectible accounts of $768 and $1,629 in 2008 and 2007 respectively	11,041	15,024
Unbilled receivables	21,996	33,323
Accrued interest receivable	4,440	5,635
Due from other agencies	40,083	32,000
Prepaid expenses and inventories	4,806	3,641
Total unrestricted current assets	616,672	626,986
Restricted current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	791,178	713,691
Investments with fiscal agents (Note 3)	27,470	27,528
Accrued interest receivable	3,945	4,842
Passenger facility charges receivable (Note 13)	16,917	18,298
Total restricted current assets	839,510	764,359
Total current assets	1,456,182	1,391,345
Noncurrent assets:		
Capital assets (Notes 4 and 12):		
Land and air easements	619,766	619,766
Buildings, improvements, and equipment	1,709,382	1,665,780
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(1,041,491)	(959,812)
Construction work in process	783,332	355,555
Net capital assets	2,255,412	1,865,712
Deferred bond issuance expenses	2,189	2,504
Total noncurrent assets	2,257,601	1,868,216
Total assets	$ 3,713,783	$ 3,259,561

See accompanying notes to financial statements.

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

	2008	2007
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Contracts and accounts payable	$ 102,994	$ 69,134
Employee benefits and insurance claims payable (Notes 6)	5,753	6,365
Salaries payable	5,117	4,218
Commercial paper notes payable (Note 5)	330,228	178,745
Current obligations under capital leases (Notes 6 and 12)	1,197	1,140
Accrued interest payable	491	1,959
Other liabilities (Notes 6 and 15)	804	4,065
Current liabilities payable from unrestricted assets	446,584	265,626
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions	165,317	186,333
Bonds payable, net of deferred charges and credits of $878 and $919 in 2008 and 2007, respectively (Note 5)	14,158	13,334
Contracts and accounts payable	5,366	23,975
Accrued bond interest payable	877	955
Current liabilities payable from restricted assets	185,718	224,597
Total current liabilities	632,302	490,223
Long-term liabilities:		
Bonds payable, net of deferred charges and credits of $5,697 and $6,580 in 2008 and 2007, respectively (Note 5)	198,052	212,215
Obligations under capital leases (Notes 6 and 12)	49,518	50,715
Employee benefits and insurance claims payable (Notes 6)	41,291	26,070
Other liabilities (Note 6 and 15)	114,384	111,458
Total long-term liabilities	403,245	400,458
Total liabilities	1,035,547	890,681
Net assets:		
Invested in capital assets, net of related debt	1,766,228	1,563,016
Restricted:		
Capital projects	174	164
Debt service	26,688	26,667
Special purpose	641,089	526,265
Unrestricted	244,057	252,768
Total net assets	$ 2,678,236	$ 2,368,880

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS

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

LOS ANGELES INTERNATIONAL AIRPORT

Statements of Revenues, Expenses, and Changes in Net Assets

For the years ended June 30, 2008 and 2007

(Dollars in thousands)

	2008	**2007**
Operating revenue:		
Aviation revenue:		
Landing fees	$ 171,822	$ 148,937
Building rentals	146,206	107,338
Other aviation revenue	61,932	61,689
Concession revenue	275,659	227,177
Airport sales and services	2,577	2,824
Miscellaneous revenue	2,030	2,012
Total operating revenue	660,226	549,977
Operating expenses:		
Salaries and benefits	291,015	255,536
Contractual services	151,155	141,306
Materials and supplies	37,870	43,313
Administrative expense	1,665	725
Utilities	27,674	20,101
Advertising and public relations	8,286	10,015
Net other operating expense/(revenue)	67	(2,472)
Total operating expenses before depreciation and amortization	517,732	468,524
Income from operations before depreciation and amortization	142,494	81,453
Depreciation and amortization	(83,908)	(72,438)
Operating income	58,586	9,015
Nonoperating revenue (expenses):		
Passenger facility charges (Note 13)	116,705	116,083
Interest income	49,477	39,502
Change in fair value of investments	22,207	11,468
Interest expense	(18,278)	(15,266)
Bond expense	(428)	(345)
Other nonoperating revenue, net	1,390	810
Total nonoperating revenue, net	171,073	152,252
Income before contributions and transfers	229,659	161,267
Capital grant contributions (Note 14)	34,555	62,947
TSA contributions (Note 14)	52,330	11,094
Inter-agency transfers	(7,188)	(43,511)
Change in net assets	309,356	191,797
Net assets, beginning of year	2,368,880	2,177,083
Net assets, end of year	$ 2,678,236	$ 2,368,880

See accompanying notes to financial statements.

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

	2008	2007
Cash flows from operating activities:		
Receipts from customers	$ 676,397	$ 544,730
Cash received in protest from customers	132	91,680
Payments for goods and services	(226,983)	(153,412)
Payments to employees	(275,506)	(253,138)
Other receipts (payments), net	6,633	(6,057)
Net cash provided by operating activities	180,673	223,803
Cash flows from noncapital financing activities:		
Inter-agency transfer out	(7,188)	(43,511)
Net cash provided by noncapital financing activities	(7,188)	(43,511)
Cash flow from capital and related financing activities:		
Acquisition and construction of capital assets	(476,317)	(388,641)
Receipts from passenger facility charges	118,086	117,172
Principal paid on bonds	(12,415)	(11,820)
Interest paid on bonds and commercial paper	(18,993)	(12,181)
Bond and commercial paper issuance cost paid	(112)	(75)
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)
Cash transferred from (to) fiscal agent	58	(154)
Net receipts from commercial paper	151,483	178,745
Federal grants and TSA receipts	86,885	74,041
Net cash used in capital and related financing activities	(154,238)	(46,202)
Cash flow from investing activities:		
Increase in fair value of investments	22,207	11,468
Interest received	53,992	40,248
Cash collateral (paid) received under securities lending transactions	(21,016)	32,320
Net cash provided by investing activities	55,183	84,036
Net increase cash and cash equivalents	74,430	218,126
Cash and cash equivalents, beginning of year	1,251,054	1,032,928
Cash and cash equivalents, end of year	$ 1,325,484	$ 1,251,054

The following is a reconciliation of cash and cash equivalents to the statement of net assets:

	2008	2007
Cash and pooled investments held by the City Treasurer - unrestricted	$ 432,526	$ 383,911
Unrestricted cash held with fiscal agent	101,780	153,452
Cash and pooled investments held by the City Treasurer - restricted	791,178	713,691
	$ 1,325,484	$ 1,251,054

See accompanying notes to financial statements.

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

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 58,586	$ 9,015
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	83,908	72,438
Change in provision for uncollectible accounts	(861)	(1,875)
Other expenses, net	(218)	(506)
Changes in assets and liabilities:		
Accounts receivable	4,844	11,131
Unbilled receivable	11,327	(6,096)
Due from other agencies	(8,083)	(9,847)
Prepaid expenses and inventories	(1,165)	(668)
Contracts and accounts payable	17,162	(30,518)
Employee benefits and insurance claims payable	14,609	1,804
Salaries payable	899	594
Other liabilities	(335)	178,331
Total adjustments	122,087	214,788
Net cash provided by operating activities	$ 180,673	$ 223,803
Noncash capital, and financing activities:		
Acquisition of capital assets included in accounts payable	$ 44,453	$ 46,365

See accompanying notes to financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The financial statements of the Los Angeles International Airport (LAX) 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.

The Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) operates LAX. 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 LAX only and are not intended to present fairly the financial position, changes in financial position, or cash flows of LAWA or the City in conformity with GAAP.

(b) Basis of Accounting

LAX 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 LAX are included in the reporting entity. Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City. LAX applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

(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 LAX's outstanding bonds. In order to maximize investment return, LAX pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAX'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 LAX based on the relationship of LAX's respective daily cash balances to aggregate cash and pooled investments.

(d) Accounts Receivable and Unbilled Receivables

LAX recognizes revenue in the period earned. Receivables aged beyond 90 days are put into the collection process and then referred after 120 days to LAX's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set as a reserve by LAX policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense. Unbilled receivable balances are the result of revenue accrued for services that exceed $5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal period might not get processed through the billing system for up to sixty days into the next fiscal year. For fiscal year 2008, certain 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 LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, then an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities. Reserves for claims and litigation are recorded as other long-term liabilities.

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

(f) Securities Lending

The City Treasurer engages in securities lending activities. LAX'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

LAX has funds that are held by fiscal agents and pledged to the payment or security of the 1995, 2002, and 2003 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, net 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. LAX 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 LAX. The type of landing fee method applied by LAX is compensatory. Under this 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 LAX's actual costs of operating the airfield and apron. For control purposes, the landing fees are calculated twice each fiscal year.

(k) Concession Revenue

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

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

(k) Concession Revenue (continued)

The timing of concessionaire reporting determines 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. LAX derives operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX’s major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.

(o) Interest Expense

LAX capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest expense was $18,278,000 for the year ended June 30, 2008 and $15,266,000 for the year ended June 30, 2007. All outstanding bonds are for refunding purpose, therefore, there was no capitalized interest in both FY2008 and FY2007.

(p) Employee Benefits

LAX 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.

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

(q) 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.

(r) Use of Estimates

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

(s) Reclassifications

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

(t) Inventory

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

(u) 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.

(v) Net Assets

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

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

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008 and 2007, net assets of $444.2 million and $355.9 million, respectively, are restricted by enabling legislation.

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

(v) Net Assets (continued)

- *Unrestricted Net Assets* – This category represents net assets of LAX, 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. LAX is required to implement the statement for the fiscal year 2008-09 financial statements. LAX 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 LAX beginning in fiscal year 2010. Retroactive reporting is required. LAX is evaluating its potential liability concerning GASB Statement No. 51.

(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

(3) Cash and Investments (continued)

(a) Cash and Pooled Investments (continued)

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

LAX'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 LAX's actual investments in the pooled funds (in thousands):

Description	2008	2007
Deposits	$ 53,353	$ 41,709
U.S. Treasury securities	336,396	318,305
Federal agency securities	221,246	390,746
Commercial paper	358,178	128,419
Medium-term corporate notes	254,531	218,423
Total	1,223,704	1,097,602
Less restricted portion	(791,178)	(713,691)
Unrestricted portion	$ 432,526	$ 383,911

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

(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 LAX 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.

	Maximum maturities	**Maximum concentration**
U.S. Treasury and federal agency securities	5 years	100%
Bonds issued by local agencies	5 years	100
Registered state warrants and muncipal 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, LAX had $1,223,704,000 and $1,097,602,000, respectively, invested with the City Pool, which represents approximately 21.42% and 19.07%, respectively, of the City Treasury's General Investment Pool.

(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):

Type of Investments	Amount	Days	Days	Days	To 5 Years
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
Total General and Special Pools	$ 7,393,533	$ 1,816,525	$ 560,876	$ 733,113	$ 4,283,019

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):

		Investment Maturities			
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years
U.S. Treasury Notes	$ 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
Total General and Special Pools	$ 7,708,851	$ 1,399,066	$ 118,016	$ 772,368	$ 5,419,401

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.

(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 U.S. sponsored agency issues, 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.

(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.

LAX's share of cash collateral received and corresponding liability aggregated approximately $165,317,000 and $186,333,000 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.

(3) Cash and Investments (continued)

(e) Investments with Fiscal Agents

LAX also maintains investments with fiscal agents that are pledged to the payment or security of LAX's 1995, 2002, and 2003 bonds. These investments are also 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.

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

Description	2008	2007
Money Market Funds	$ 109,696	$ 161,425
U.S. Treasury Securities	19,554	19,555
Total	$ 129,250	$ 180,980

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)

(4) Changes in Capital Assets

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

	Balance at July 1, 2007	Additions	Deductions	Balance at June 30, 2008
Capital assets, not depreciated:				
Land	$ 575,421	$ -	$ -	$ 575,421
Air easements	44,345	-	-	44,345
Construction work in process	355,555	435,395	(7,618)	783,332
Total capital assets, not depreciated	975,321	435,395	(7,618)	1,403,098
Capital assets, depreciated:				
Buildings	521,799	40	-	521,839
Improvements	998,197	34,739	-	1,032,936
Equipment and vehicles	145,784	11,849	(3,026)	154,607
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	1,850,203	46,628	(3,026)	1,893,805
Less accumulated depreciation and amortization:				
Buildings	(287,845)	(13,045)	-	(300,890)
Improvements	(470,150)	(58,650)	-	(528,800)
Equipment and vehicles	(106,212)	(7,663)	2,229	(111,646)
Leased property	(95,605)	(4,550)	-	(100,155)
Total accumulated depreciation and amortization	(959,812)	(83,908)	2,229	(1,041,491)
Total capital assets depreciated, net	890,391	(37,280)	(797)	852,314
Total capital assets, net	$ 1,865,712	$ 398,115	$ (8,415)	$ 2,255,412

(4) Changes in Capital Assets (continued)

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

	Balance at July 1, 2006	Additions	Deductions	Balance at June 30, 2007
Capital assets, not depreciated:				
Land	$ 556,072	$ 23,594	$ (4,245)	$ 575,421
Air easements	44,345	-	-	44,345
Construction work in process	221,758	407,594	(273,797)	355,555
Total capital assets, not depreciated	822,175	431,188	(278,042)	975,321
Capital assets, depreciated:				
Buildings	514,259	7,540	-	521,799
Improvements	739,173	259,024	-	998,197
Equipment and vehicles	130,488	21,172	(5,876)	145,784
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	1,568,343	287,736	(5,876)	1,850,203
Less accumulated depreciation and amortization:				
Buildings	(275,134)	(12,711)	-	(287,845)
Improvements	(422,761)	(48,734)	1,345	(470,150)
Equipment and vehicles	(105,855)	(6,202)	5,845	(106,212)
Leased property	(90,814)	(4,791)	-	(95,605)
Total accumulated depreciation and amortization	(894,564)	(72,438)	7,190	(959,812)
Total capital assets depreciated, net	673,779	215,298	1,314	890,391
Total capital assets, net	$ 1,495,954	$ 646,486	$ (276,728)	$ 1,865,712

(5) Bonds and Commercial Notes Payable

LAX issued revenue bonds in 1995, 2002, and 2003 for various airport improvement projects and to refund previously issued debt. LAX'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 to refund previously issued debt. The bonds are limited obligations of LAWA payable from and secured by a pledge of LAX revenues.

In fiscal year 2003, LAX issued a total of $217,175,000 of revenue bonds to fund LAX airport improvement projects and advance refund a portion of the 1995 bonds.

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 as of June 30, 2008 mature in varying amounts through 2020. Bond and commercial paper notes activity for the year ended June 30, 2008 was as follows (in thousands):

Debt issue	Interest rate%	Balance at July 1, 2007	Additions	Deductions	Balance at June 30, 2008	Due in one year
Issue of 1995	5.00% to 8.38%	$ 10,195	$ -	$ (1,230)	$ 8,965	$ 1,500
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		218,050	-	(12,415)	205,635	13,280
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	7,499	-	(924)	6,575	878
Total		$ 404,294	$ 204,599	$ (66,455)	$ 542,438	$ 344,386

* Average variable rate.

(5) Bonds and Commercial Notes Payable (continued)

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

Debt issue	Interest rate%	Balance at July 1, 2006	Additions	Deductions	Balance at June 30, 2007	Due in one year
Issue of 1995	5.00% to 8.38%	$ 12,695	$ -	$ (2,500)	$ 10,195	$ 1,230
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	3.52*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	103,625	-	(9,320)	94,305	11,185
Subtotal		229,870	-	(11,820)	218,050	12,415
Commercial paper Series A	3.68*	-	30,000	-	30,000	30,000
Commercial paper Series C	5.26*	-	148,745	-	148,745	148,745
Deferred charges and credits, net	N/A	8,261	-	(762)	7,499	919
Total		$ 238,131	$ 178,745	$ (12,582)	$ 404,294	$ 192,079

* Average variable rate.

LAX's future annual debt service requirements as of June 30, 2008, are as follows (in thousands):

	Principal	Interest [1]	Total
Fiscal year ending June 30:			
2009	$ 13,280	$ 7,933	$ 21,213
2010	13,475	7,344	20,819
2011	14,395	6,653	21,048
2012	15,120	5,929	21,049
2013	15,890	5,159	21,049
2014 – 2018	92,700	14,308	107,008
2019 – 2020	40,775	1,215	41,990
Total	$ 205,635	$ 48,541	$ 254,176

(1) Interest requirements for variable-rate bonds were calculated using June 30, 2008 rates of 1.50%, 1.35%, and 2.87% for 2002 C1, 2002 C2, and 2003 A Bonds, respectively.

(6) Other Long-Term Liabilities

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

	Balance at July 1, 2007	Additions	Deductions	Balance at June 30, 2008	Due in one year
Employee benefits & insurance claims payable	$ 32,435	$ 14,609	$ -	$ 47,044	$ 5,753
Obligations under capital leases	51,855	-	(1,140)	50,715	1,197
Other liabilities	115,523	2,947	(3,282)	115,188	804
Total	$ 199,813	$ 17,556	$ (4,422)	$ 212,947	$ 7,754

(6) Other Long-Term Liabilities (continued)

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

	Balance at July 1, 2006	Additions	Deductions	Balance at June 30, 2007	Due in one year
Employee benefits & insurance claims payable	$ 30,631	$ 9,432	$ (7,628)	$ 32,435	$ 6,365
Obligations under capital leases	52,881	-	(1,026)	51,855	1,140
Other liabilities	23,269	106,758	(14,504)	115,523	4,065
Total	$ 106,781	$ 116,190	$ (23,158)	$ 199,813	$ 11,570

(7) Related Party Transactions

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAX. The payments for these services, included in operating expenses for the years ended June 30, 2008 and 2007, were $51,727,000 and $42,227,000, respectively. In addition, LAX collects parking taxes on behalf of the City of Los Angeles. For the years ended June 30, 2008 and 2007, parking taxes collected and remitted to the City of Los Angeles were $7,457,000 and $7,250,000, respectively.

(8) Inter-Airport Funding Activity

LAX controls the expense disbursement process for each of LAWA's other airports: Ontario, Van Nuys and Palmdale. LAX supports the payment activities for these airports by first processing their approved budgeted expenditures and then transferring this impact to the airport that ordered the goods and services in the form of an inter-airport cash transfer. The requesting airport then records the expenditure to the appropriate classification on its books of account at the time it reimburses LAX for the activity. Whenever a specific airport is unable to make a cash transfer to LAX, due to a lack of funds, the amount is then recorded as a Due To Other Agency transaction. Conversely, LAX will record the same amount owed to it as a Due from Other Agency transaction. As a result of this process, Palmdale Airport has accumulated a total of $40,083,000 and $32,000,000 in Due To Other Agency balance owed to LAX at June 30, 2008 and 2007, respectively.

Upon combining the statement of net assets of all four airports that comprise LAWA, the Due From Other Agency asset balance on LAX's statement of net assets fully offset against the Due To Other Agency liability on the respective statement of net assets of Palmdale Airport. The amount of elimination for this balance at June 30, 2008 is $40,083,000. With Palmdale Airport being part of the LAWA airport system, there is no near-term expectation for repayment of the Due To Other Agency balances to LAX.

(9) Retirement System

(a) Retirement Plan Description

All full-time employees of LAX 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.

(9) Retirement System (continued)

(a) Retirement Plan Description (continued)

LAX 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 LAX'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. LAX's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS, which are based on LAX's salaries relative to total salaries for LAWA as a whole, were approximately $39,700,000 (100% of ARC), $34,600,000 (100% of ARC) and $33,500,000 (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.

(9) 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 current year contribution requirement was determined based on the June 30, 2006 actuarial valuation, using the following actuarial assumptions:

	LACERS
Actuarial valuation date	June 30, 2006
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%

(9) 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
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	4.75% - 10%
Inflation rate	3.75%
Cost of living adjustments	3%

(9) 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:	LACERS
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:

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

(9) 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	286,368	100%	(79,972)

The City allocated a pro rata share of its net pension obligation to 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 LAX is not available (dollars in thousands):

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

(9) 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%

(9) 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 44, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability (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, 2nd Floor, Los Angeles, California 90012.

(d) Other Postemployment Benefits (OPEB)

LAX, 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.

(9) 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:

	LACERS OPEB
Actuarial valuation date	June 30, 2006
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	8.75% graded down over 8 years to ultimate rate of 5%
Dental	5%

(9) 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 LAX alone are not available.

(9) Retirement System (continued)

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

The City's annual pension 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 Pension Cost (APC)	Percentage of APC Contributed	Net Pension 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 unfunded health benefit subsidy applicable to LACERS as a whole was approximately $585,123,000 as follows (dollars in thousands):

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

(9) 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:

	LACERS OPEB
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%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	8.75%, decreasing by 0.5% for each year for eight years unitl it reaches an ultimate rate of 5%
Dental	5%

9) 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 44 present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(10) Self-Insurance

LAX 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. LAX's accrued total liability for workers' compensation has been based on the results of an actuarial study and has been allocated to LAX based on a ratio of LAX salaries to total LAWA salaries. 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	$ 28,476
Provisions for claims	4,432
Claim payments	(2,628)
Liability at June 30, 2007	30,280
Provisions for claims	5,918
Claim payments	(4,591)
Liability at June 30, 2008	31,607
Current portion	(3,161)
Long-term liability at June 30, 2008, net of current portion	$ 28,446

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 insurance policies 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

(10) Self-Insurance (continued)

insurance as well as the purchase of all insurance policies is budgeted and funded annually by the Risk Management 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 breech 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 and other insurance. LAWA also maintains an insurance trust fund to pay the deductible for property damage and any claims in excess of the insurance coverage.

(11) Commitments and Contingencies

As of June 30, 2008, a number of claims and lawsuits are pending against LAX that arose in the normal course of operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The following is a summary of certain matters related to LAX'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.

(11) 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 11th 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 LAX 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 LAX 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.

LAX 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 LAX, (iii) the future financial condition of the airlines using LAX, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

(c) Other

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to $87,500,000 and $45,800,000 as of June 30, 2008 and 2007, respectively. The change in commitments is due to the following projects: $26,300,000 for inspection testing, and surveying for the center taxiway, in-line baggage screening, runway 25L reconstruction, and TBIT interior improvement projects; and, $37,300,000 for land acquisition.

(12) 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

LAX 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 LAX by such airlines for terminal leases and landing fees.

(13) 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 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 Ontario. 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, the FAA approved LAWA's application to impose $3 per passenger PFCs at LAX, 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.
- 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):

(13) Passenger Facility Charges (continued)

	2008	2007
Amount collected	$ 1,101,698	$ 983,612
Interest received	107,918	89,001
Cumulative PFC collections	$ 1,209,616	$ 1,072,613

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.

(14) Capital Grant Contributions

Contributed capital related to governmental grants and other aid increased by $13.0 million to $87.0 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. During fiscal year 2007, capital grant contributions increased from fiscal year 2006 by $42.0 million to $74.0 million.

(15) 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.

(15) 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.

(16) Subsequent Events

(a) Bond Issuance

LAX issued three series bonds totaling $853,300,000 in August 2008. 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.

(16) 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

Schedules of Funding Progress

a) Retirement System

Based upon available data, the following represents the LACERS Schedule of Funding Progress, separate information for LAX 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 LAX 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)%

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 the Los Angeles International Airport (LAX), a departmental component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, 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 the LAX's internal control over financial reporting in order to determine 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 the LAX's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LAX'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 the 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 the LAX's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 17, 2008