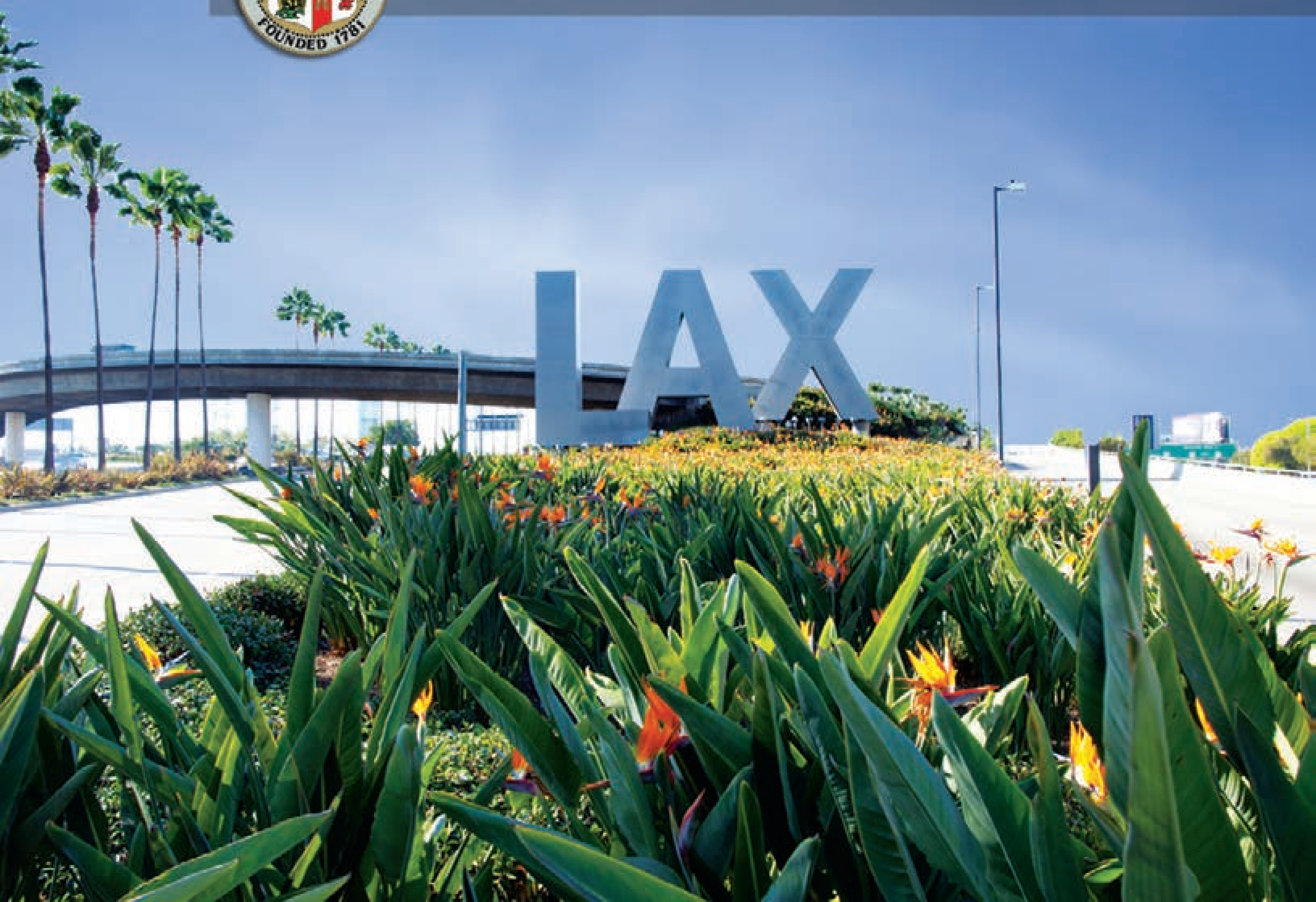
Los Angeles
International Airport

Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2014

Department of Airports Los Angeles, California



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

Los Angeles International Airport

Annual Financial Report
Fiscal Year Ended June 30, 2014


LAX

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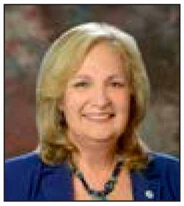
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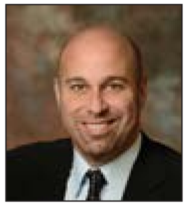
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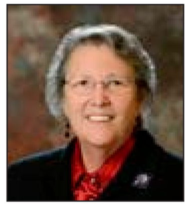
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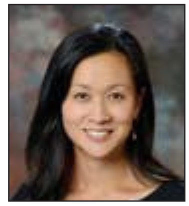
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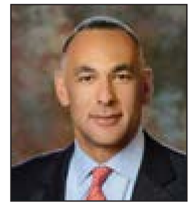
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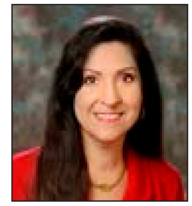
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Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2014.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2014 and 2013, were fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a material effect on its passenger facility charge program for the fiscal year ended June 30, 2014. MGO's report is on pages 69 and 70.

MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1936, as amended by Senate Bill 1192 and Assembly Bill 359*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2014. MGO's report is on pages 75 and 76.

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

The financial condition of LAX depends primarily upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. Passenger and cargo traffic at LAX depends on the demographic characteristics and economic activity of the Air Trade Area.

LAX is the sixth busiest airport in the world and third in the United States. As a large hub airport, LAX offers 692 daily nonstop flights to 85 cities in the United States and 928 weekly nonstop flights to 67 cities in 34 countries on 62 commercial air carriers. Passenger traffic in LAX has shown encouraging growth of 5.9% and reached 68.8 million passengers in fiscal year 2014 as compared to the prior fiscal year. LAX ranks 14th in the world and fifth in the United States in air cargo tonnage processed, with over 1.9 million tons of air cargo valued at over $92 billion. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

Gina Marie Lindsey

Gina Marie Lindsey
Executive Director

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

Annual Financial Report
Fiscal Year Ended June 30, 2014

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2014 ANNUAL FINANCIAL REPORT

Financial Section

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- MANAGEMENT'S DISCUSSION AND ANALYSIS
- FINANCIAL STATEMENTS

MGO Certified Public Accountants.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the fiscal years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAX as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements of LAX are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of LAX. They do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2014 and 2013, the changes in their financial position, or, where applicable, their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

As described in Note 2, effective July 1, 2012, LAX adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of the retroactive application of GASB Statement No. 65, LAX restated the beginning net position at July 1, 2012 by $21.9 million to write off unamortized bond issuance costs previously reported as an asset and reclassified the unamortized loss on refunding in the amount of $0.7 million from a contra liability account to deferred outflow of resources. In addition, LAX has also written off bond issuance costs included in the deferred amounts related to the 2012 Series Bonds in the amount of $2.0 million during fiscal year 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 71 to 74 and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 77 to 78 (collectively Information) are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Information is fairly stated in all material respects in relation to the financial statements as a whole.

The accompanying Schedules of Funding Progress – Prorated Data for Los Angeles World Airports Defined Benefit Pension Plan and Other Postemployment Benefit Healthcare Plan (Non-GAAP Basis) on page 67 have not been subjected to the auditing procedures applied in the audits of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014, 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 fiscal year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAWA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
November 4, 2014

2014 ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis

Management's Discussion and Analysis

Management's Discussion and Analysis (Unaudited)
June 30, 2014 and 2013

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

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2014 and 2013. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 25.

Using This Financial Report

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

The *Statements of Net Position* present information on all of LAX's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2014 and 2013. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. Over time, increases and decreases in net position may serve as a useful indicator about whether LAX's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* present the results of LAX's operations and information showing the changes in net position for the fiscal years ended June 30, 2014 and 2013. These statements can be useful indicators of how LAX recovered its costs through rates and charges. All changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

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

The *Notes to the Financial Statements* present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of LAX's financial activities.

Passenger and Other Traffic Activity Highlights

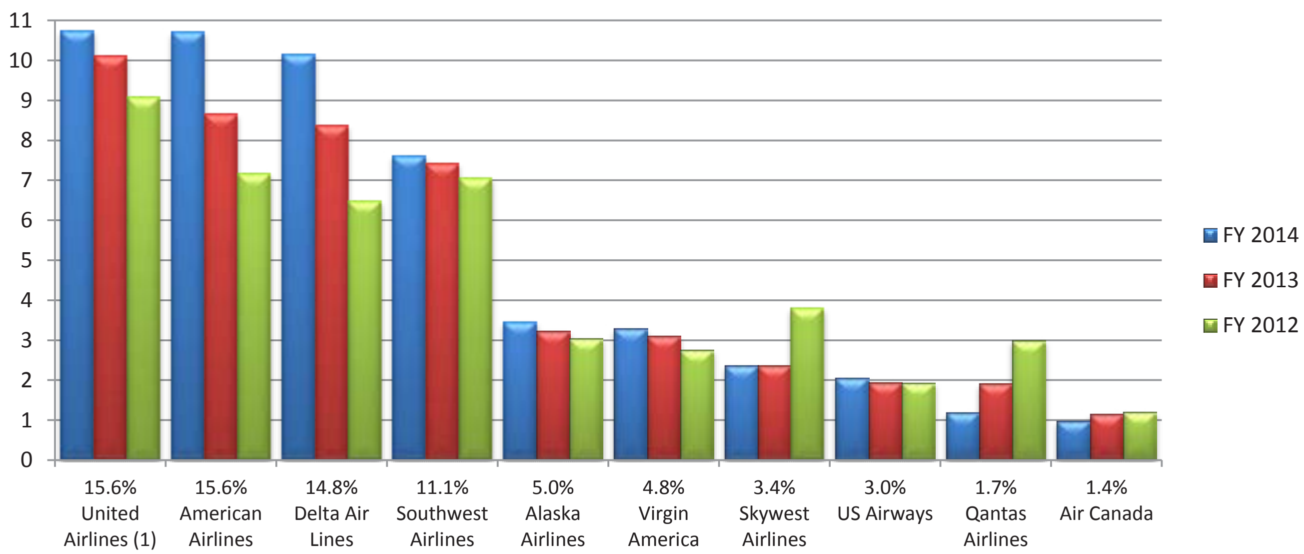
The following table presents a summary of passenger and other traffic for the last three fiscal years:

	FY 2014	FY 2013	FY 2012	% Change FY 2014	% Change FY 2013
Total passengers	68,786,455	64,969,102	62,930,683	5.9%	3.2%
Domestic passengers	50,162,524	47,641,025	45,957,270	5.3%	3.7%
International passengers	18,623,931	17,328,077	16,973,413	7.5%	2.1%
Departing passengers	34,333,784	32,524,178	31,519,124	5.6%	3.2%
Arriving passengers	34,452,671	32,444,924	31,411,559	6.2%	3.3%
Passenger flight operations					
Departures	286,725	273,193	276,980	5.0%	-1.4%
Arrivals	286,627	273,297	277,083	4.9%	-1.4%
Landing weight					
(thousand lbs)	52,572,657	50,206,827	49,997,632	4.7%	0.4%
Air cargo (tons)					
Mail	76,784	81,953	90,450	-6.3%	-9.4%
Freight	1,852,760	1,863,891	1,828,409	-0.6%	1.9%

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2014 and the comparative passengers for fiscal years 2014 and 2013.

FY 2014 Top Ten Carriers and Percentage of Market Share (passengers in millions)



(1) Continental Airlines merged into United Airlines in early 2014.

Passenger Traffic, Fiscal Year 2014

Passenger traffic at LAX increased by 5.9% in fiscal year 2014 as compared to fiscal year 2013. Of the 68.8 million passengers that moved in and out of LAX, domestic passengers accounted for 72.9%, while international passengers accounted for 27.1%. United Airlines and American Airlines ferried the largest number of passengers at 10.7 million each. United Airlines posted an increase of 24.0% from the prior fiscal year after merging with Continental Airlines in early 2014. Delta Air Lines, ranked third with 10.2 million passengers posted a 21.2% increase in passenger traffic. Southwest Airlines (7.6 million) and Alaska Airlines (3.5 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked ninth overall.

Passenger Traffic, Fiscal Year 2013

Passenger traffic at LAX increased by 3.2% in fiscal year 2013 as compared to fiscal year 2012. Of the 65.0 million passengers that moved in and out of LAX, domestic passengers accounted for 73.3%, while international passengers accounted for 26.7%. American Airlines ferried the largest number of passengers at 10.1 million. Delta Air Lines, ranked third with 8.4 million passengers posted a 29.2% increase in passenger traffic. United Airlines (8.7 million), Southwest Airlines (7.4 million), and Alaska Airlines (3.2 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked tenth overall.

Flight Operations, Fiscal Year 2014

Departures and arrivals at LAX had an increase of 26,862 flights or 4.9% during fiscal year 2014 when compared to fiscal year 2013. Scheduled and charter were up 41,852 flights, while commuter flights were down 14,990. Revenue landing pounds were up 4.7%. The top three carriers in terms of landing pounds were American Airlines, Delta Air Lines, and United Airlines. In total, these three airlines contributed 38.5% of the total revenue pounds at LAX.

Flight Operations, Fiscal Year 2013

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

Air Cargo Operations, Fiscal Year 2014

Mail and freight cargo at LAX decreased by 0.8% in fiscal year 2014 as compared to fiscal year 2013. Freight and mail were down by 11,131 tons and 5,169 tons, respectively. Domestic cargo was down by 8,972 tons or 1.1% and international cargo was down by 7,328 tons or 0.6%. Federal Express was the top air freight carrier accounting for 19.4% of total freight cargo, followed by American Airlines with 5.0%. United Airlines was the top mail carrier accounting for 31.5% of total mail cargo.

Air Cargo Operations, Fiscal Year 2013

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

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2014

- Assets exceeded liabilities at June 30, 2014 by $4.3 billion.
- Bonded debt had a net increase of $194.1 million.
- Operating revenue totaled $961.7 million.
- Operating expenses (including depreciation and amortization of $141.8 million) totaled $751.8 million.
- Net non-operating revenue was $59.2 million.
- Federal and other grants totaled $24.7 million.
- Net position increased by $300.1 million.

Financial Highlights, Fiscal Year 2013

- Assets exceeded liabilities at June 30, 2013 by $4.0 billion.
- Bonded debt had a net increase of $216.3 million.
- Operating revenue totaled $865.5 million.
- Operating expenses (including depreciation and amortization of $134.5 million) totaled $723.9 million.
- Net non-operating revenue was $70.7 million.
- Federal and other grants totaled $12.3 million.
- Net position increased by $216.5 million (including adjustment of an amount due from ONT of $16.0 million and change in accounting principle of $(21.9) million).

Net Position Summary

A condensed net position summary for fiscal years 2014, 2013, and 2012 is presented below:

Condensed Net Position (amounts in thousands)

	FY 2014	FY 2013	FY 2012	FY 2014 increase (decrease)	FY 2013 increase (decrease)
Assets					
Unrestricted current assets	$ 752,234	$ 724,570	$ 790,357	$ 27,664	$ (65,787)
Restricted current assets	1,673,096	1,631,710	2,290,510	41,386	(658,800)
Capital assets, net	6,453,252	5,888,002	4,819,209	565,250	1,068,793
Other noncurrent assets	11,235	13,841	36,522	(2,606)	(22,681)
Total assets	8,889,817	8,258,123	7,936,598	631,694	321,525
Deferred outflows of resources					
Deferred charges on debt refunding	676	730	--	(54)	730
Liabilities					
Current liabilities payable from unrestricted assets	402,672	259,121	363,612	143,551	(104,491)
Current liabilities payable from restricted assets	112,117	97,108	104,754	15,009	(7,646)
Noncurrent liabilities	4,030,675	3,857,701	3,639,852	172,974	217,849
Total liabilities	4,545,464	4,213,930	4,108,218	331,534	105,712
Net Position					
Net investment in capital assets	2,667,815	2,261,306	1,965,592	406,509	295,714
Restricted for debt service	325,490	307,374	379,603	18,116	(72,229)
Restricted for capital projects	893,390	889,723	895,745	3,667	(6,022)
Restricted for operations and maintenance reserve	164,284	157,210	159,424	7,074	(2,214)
Restricted for federally forfeited property and protested funds	1,088	894	919	194	(25)
Unrestricted	292,962	428,416	427,097	(135,454)	1,319
Total net position	$ 4,345,029	$ 4,044,923	$ 3,828,380	$ 300,106	$ 216,543

Net Position, Fiscal Year 2014

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2014 and 2013, assets exceeded liabilities by $4.3 billion and $4.0 billion, respectively, representing a 7.4% increase or $300.1 million.

The largest portion of LAX's net position ($2.7 billion or 61.4%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position ($1.4 billion or 31.9%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $293.0 million (6.7%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets increased by 3.8%, from $724.6 million at June 30, 2013 to $752.2 million at June 30, 2014. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2014) held in the City Treasury. Cash inflows were more than outflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2014) held in the City Treasury for capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 6.9% from $560.9 million in fiscal year 2013 to $599.6 million in fiscal year 2014.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisitions may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 9.6%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of $2.6 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net increase of $143.6 million or 55.4%. This was mainly due to the increase of $168.8 million, or 113.2% in contracts and accounts payable as a result of the final closeout payment of $83.3 million and $62.0 million for the Bradley West Core project and Bradley West Gates project, respectively. The increase was offset by the $15.9 million decrease in commercial paper and $9.5 million in unearned revenue recognized during fiscal year 2014.

Current liabilities payable from restricted assets had a net increase of $15.0 million or 15.5%. The net increment was mostly due to the increase of $19.2 million, or 36.0% in current maturities of bonded debt, offset by the decrease of $2.9 million in obligations under securities lending transactions and $2.9 million in LAX's allocated share of the City Treasury's fiscal year-end pending investment trades, in fiscal year 2014.

The net increase in noncurrent liabilities was $173.0 million or 4.5%, as a result of additional bond issuances during fiscal year 2014.

Net Position, Fiscal Year 2013

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2013 and 2012, assets exceeded liabilities by $4.0 billion and $3.8 billion, respectively, representing a 5.7% increase or $216.5 million.

The largest portion of LAX's net position ($2.3 billion or 55.9%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position ($1.4 billion or 33.5%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $428.4 million (10.6%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets decreased by 8.3%, from $790.4 million at June 30, 2012 to $724.6 million at June 30, 2013. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2013) held in the City Treasury. Cash outflows were more than inflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.

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

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisitions may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 22.2%. Ongoing construction and improvements to modernize terminals and facilities were the primary reasons for the increase.

The decline in the other noncurrent assets of $22.7 million was due to the recognition of the current portion of the receivable from the City General Fund of $0.8 million, together with the write off of $21.9 million unamortized bond issuance costs at July 1, 2012.

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

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

The net increase in noncurrent liabilities was $217.8 million or 6.0% as a result of additional bond issuances during fiscal year 2013 and a reclassification of $0.7 million of deferred changes on debt refunding from a contra liability account to deferred outflow of resources pursuant to implementation of GASB Statement No. 65.

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2014, 2013, and 2012 is presented below:

Condensed Changes in Net Position (amounts in thousands)

	FY 2014	FY 2013	FY 2012	FY 2014 increase (decrease)	FY 2013 increase (decrease)
Operating revenue	$ 961,729	$ 865,473	$ 822,090	$ 96,256	$ 43,383
Less- Operating expenses	610,027	589,430	580,160	20,597	9,270
Operating income before depreciation and amortization	351,702	276,043	241,930	75,659	34,113
Less- Depreciation and amortization	141,795	134,500	123,941	7,295	10,559
Operating income	209,907	141,543	117,989	68,364	23,554
Other nonoperating revenue, net	59,196	70,742	109,844	(11,546)	(39,102)
Federal and other grants	24,674	12,264	59,854	12,410	(47,590)
Inter-agency transfers	6,329	(2,126)	3,466	8,455	(5,592)
Changes in net position	300,106	222,423	291,153	77,683	(68,730)
Net position, beg. of year, as previously reported	4,044,923	3,828,380	3,537,227	216,543	291,153
Adjustment of an amount due from ONT	--	15,985	--	(15,985)	15,985
Change in accounting principle	--	(21,865)	--	21,865	(21,865)
Net position, beg. of year, as restated	4,044,923	3,822,500	3,537,227	222,423	285,273
Net position, end of year	$ 4,345,029	$ 4,044,923	$ 3,828,380	$ 300,106	$ 216,543

Operating Revenue

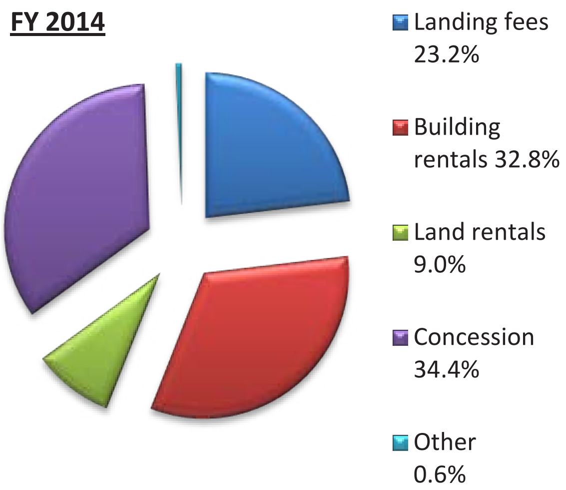
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2014, 2013, and 2012:

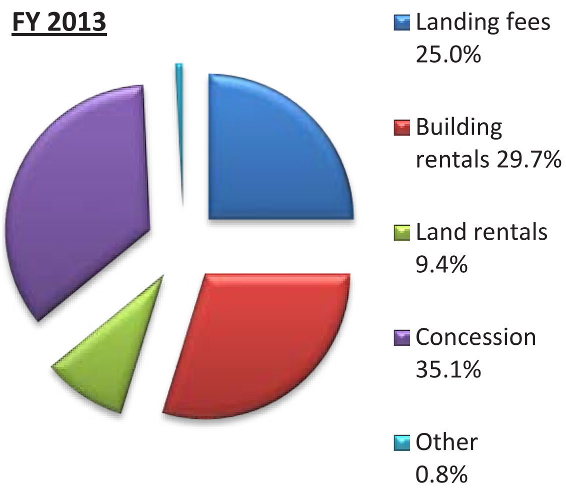
Summary of Operating Revenue (amounts in thousands)

	FY 2014	FY 2013	FY 2012	FY 2014 increase (decrease)	FY 2013 increase (decrease)
Aviation revenue					
Landing fees	$ 222,608	$ 216,359	$ 207,988	$ 6,249	$ 8,371
Building rentals	315,764	257,251	247,940	58,513	9,311
Land rentals	86,534	81,010	80,629	5,524	381
Other aviation revenue	3,620	3,924	5,772	(304)	(1,848)
Total aviation revenue	628,526	558,544	542,329	69,982	16,215
Concession revenue	331,311	304,139	278,767	27,172	25,372
Other operating revenue	1,892	2,790	3,414	(898)	(624)
Operating revenue before reliever fee	961,729	865,473	824,510	96,256	40,963
Reliever airport fee (landing fees offset)	--	--	2,420	--	(2,420)
Total operating revenue	$ 961,729	$ 865,473	$ 822,090	$ 96,256	$ 43,383

Operating Revenue, Fiscal Year 2014

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2014 and 2013. Other aviation and other operating revenue were added and labeled "other."





For the fiscal year ended June 30, 2014, total operating revenue was $961.7 million, a $96.3 million or 11.1% increase from the prior fiscal year. The growth in aviation related revenue was $70.0 million. Non-aviation revenue had a net increase of $26.3 million mostly from concessions.

As described in the notes to the financial statements (see page 36), landing fees assessed to air carriers at LAX are based on a cost recovery methodology. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the year using actual expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

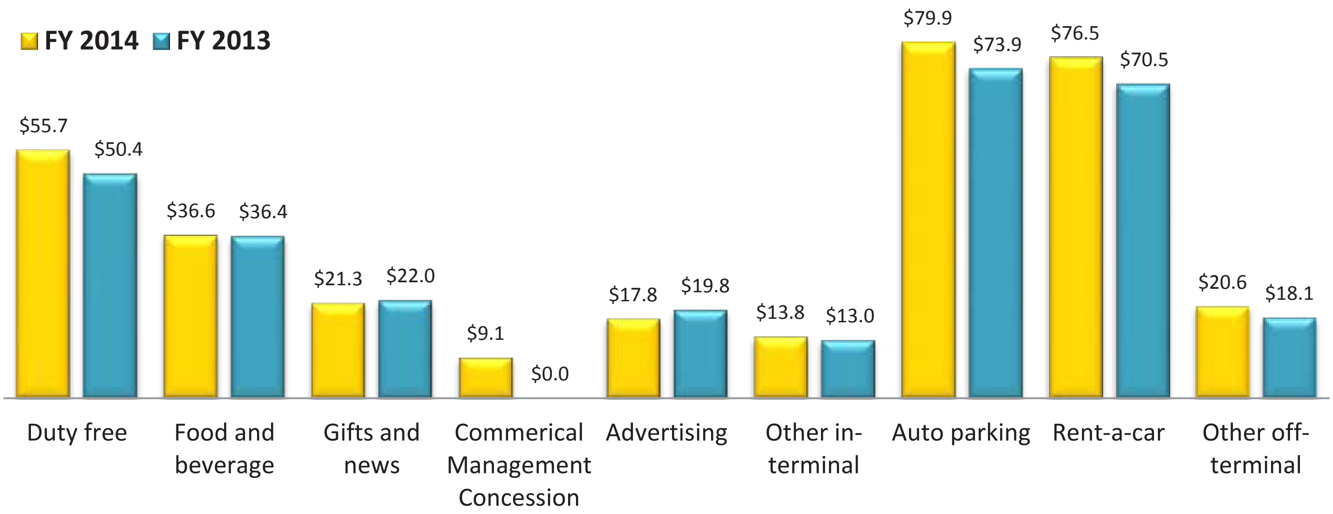
Landing fees for the fiscal year ended June 30, 2014 were up from $216.4 million to $222.6 million, or 2.9%. Total building rental revenue posted a growth of $58.5 million, or 22.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, the adoption of the new rates and charges, as well as the new and renegotiated leases signed with the airlines and other tenants. Building rental revenue from Skyview Center, which was acquired on June 25, 2013, represented $5.2 million of the increase. Land rental revenue increased by $5.5 million, including $3.2 million land rental revenue from Skyview Center.

Total revenue from concessions was $331.3 million in fiscal year 2014, an 8.9% growth from $304.1 million in fiscal year 2013. In-terminal concession revenue are rentals collected from commercial management concessionaries, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2014 had a net increase of $12.7 million or 9.0% as compared to fiscal year 2013. The concessions benefited from the increased passenger traffic and new offerings such that revenue from sales over the minimum annual guarantee (MAG) posted a notable improvement. Duty Free revenues increased by $5.3 million, or 10.5%. The total revenue from food and beverage concessionaires, retail merchants and commercial management concessionaires showed an increase of $8.6 million, or 14.7%. Advertising revenue decreased by $2.0 million, or 10.1% as a result of the loss of some advertising locations due to the closure of the old south concourse in Tom Bradley International Terminal (TBIT) and impacts of construction of new escalators, elevators, and walkways in the Terminal 4.

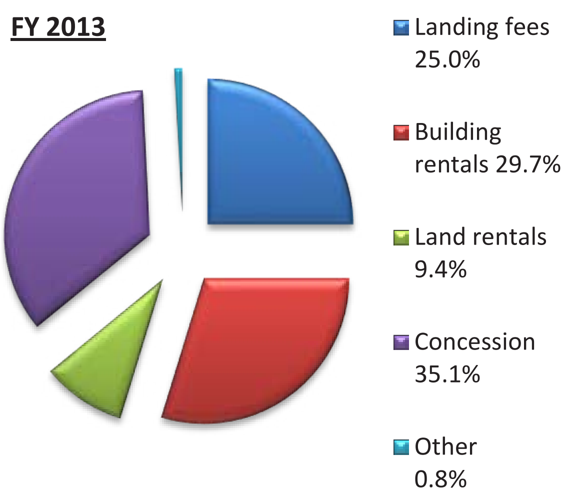
Off-terminal concession revenue in fiscal year 2014 was $177.0 million as compared to $162.5 million in fiscal year 2013, an increase of $14.5 million, or 8.9%. Of the $14.5 million increase, $6.0 million was from auto parking, $6.0 million from rent-a-car (RAC), $1.5 million from bus, limousine and taxi services, and $1.0 million from flyaway bus service.

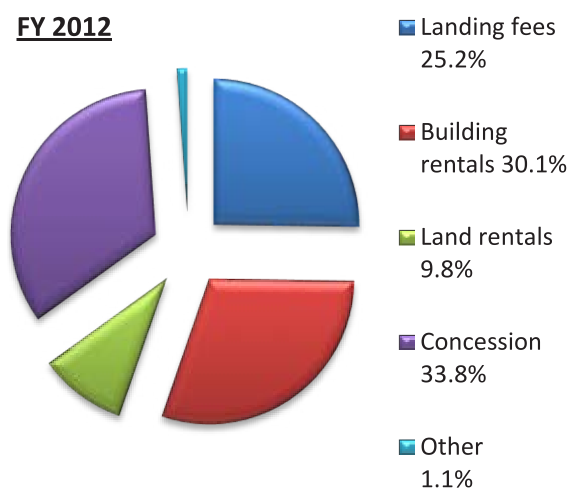
Comparative concession revenue by type for fiscal years 2014 and 2013 are presented in the following chart (amounts in millions).



Operating Revenue, Fiscal Year 2013

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





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

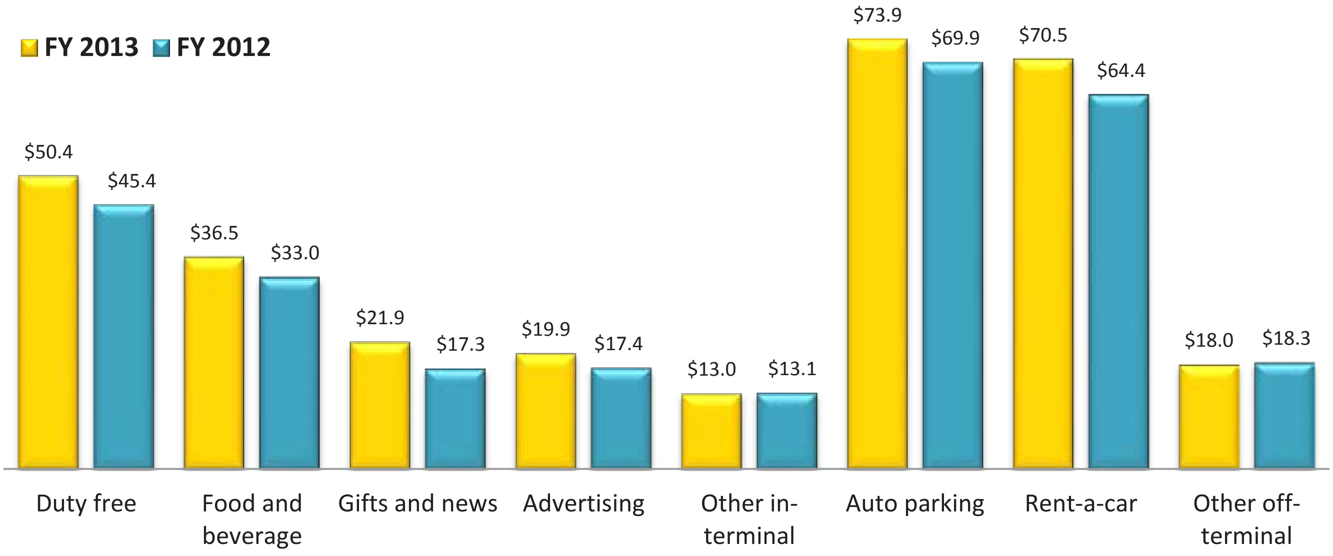
As described in the notes to the financial statements (see page 36), landing fees assessed to air carriers at LAX is based on a cost recovery methodology. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the year using actual expenses and actual landed weight, with differences credited or billed to the airlines accordingly.

Landing fees for the fiscal year ended June 30, 2013 were $216.4 million, or $8.4 million higher than the previous year. The increase in landing fees was due to the increase in actual expenses. LAX adopted a compensatory method of establishing terminal rates effective January 1, 2013. Improvements and refurbishments in the terminals as well as the adoption of the new rates and charges resulted in building rental revenue growth of $9.3 million as new and renegotiated leases were signed with the airlines and other tenants.

Revenue from concessions was $304.1 million in fiscal year 2013, a 9.1% growth from fiscal year 2012 figure of $278.8 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine and taxi services.

In-terminal concession revenue during fiscal year 2013 had a net increase of $15.5 million or 12.3% as compared to fiscal year 2012. The concessions benefited from the increased passenger traffic such that revenue from sales over MAG posted a notable improvement. Off-terminal concession revenue in fiscal year 2013 was $162.4 million as compared to $152.6 million in fiscal year 2012, an increase of $9.8 million. Of the $9.8 million, $4.0 million was from auto parking, $6.1 million from RAC, and offsetting net decrease of $0.3 million from bus service where the flyaway bus services had a decline in ridership.

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



Operating Expenses

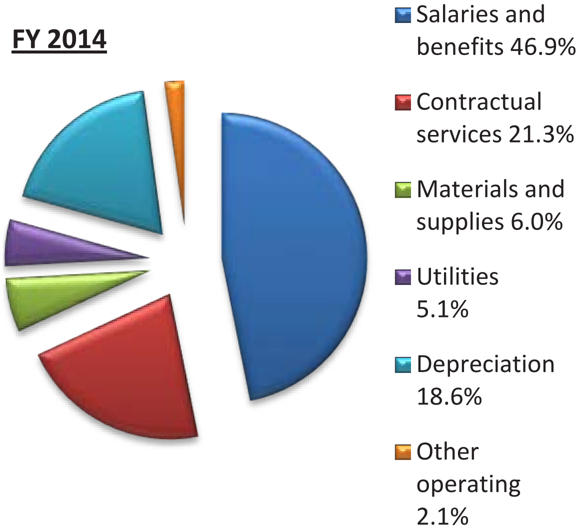
The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2014, 2013, and 2012. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

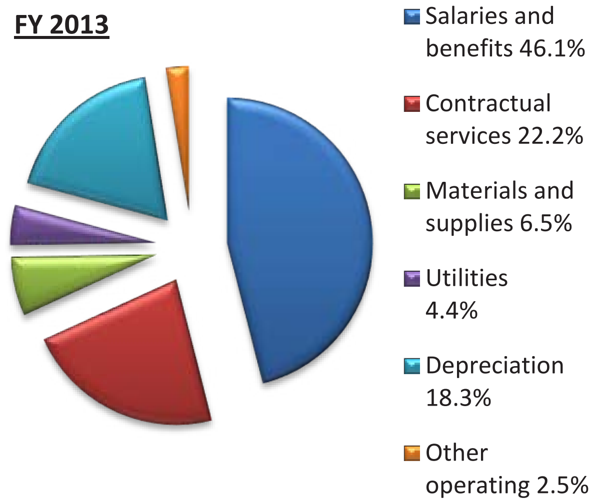
Summary of Operating Expenses (amounts in thousands)

	FY 2014	FY 2013	FY 2012	FY 2014 increase (decrease)	FY 2013 increase (decrease)
Salaries and benefits	$ 356,726	$ 338,004	$ 339,551	$ 18,722	$ (1,547)
Contractual services	161,771	162,661	162,071	(890)	590
Materials and supplies	45,726	47,908	35,986	(2,182)	11,922
Utilities	39,089	32,472	30,664	6,617	1,808
Other operating expenses	16,093	18,383	22,023	(2,290)	(3,640)
Operating expenses before depreciation	619,405	599,428	590,295	19,977	9,133
Depreciation	141,795	134,500	123,941	7,295	10,559
Total operating expenses	761,200	733,928	714,236	27,272	19,692
Less- allocation to ONT, VNY and PMD	9,378	9,998	10,135	(620)	(137)
Net operating expenses	$ 751,822	$ 723,930	$ 704,101	$ 27,892	$ 19,829

Operating Expenses, Fiscal Year 2014

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2014 and 2013. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.





For the fiscal year ended June 30, 2014, operating expenses before allocation to other airports were $761.2 million, a $27.3 million or 3.7% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $18.7 million, utilities, up by $6.6 million, and depreciation, up by $7.3 million. The remaining expense accounts had an aggregate net decrease of $5.4 million.

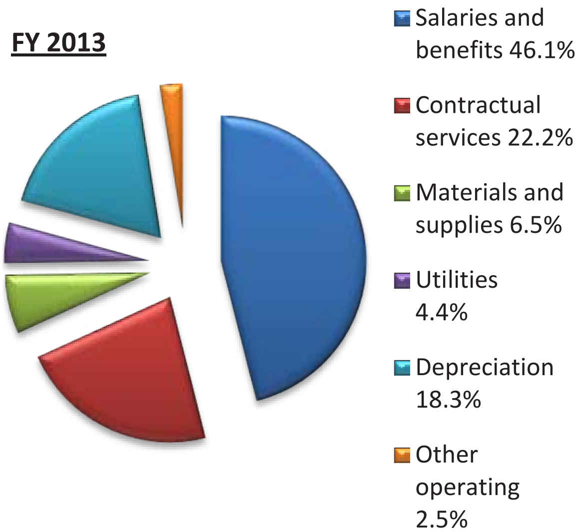
Salaries and overtime before capitalized charges had an increase of $15.5 million due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $4.3 million while workers' compensation decreased by $1.1 million. The increase in utilities was attributable to a combination of higher electricity rates and consumption as a result of the new Bradley West Project in TBIT, which was opened in September 2013. The increase in depreciation charges from $134.5 million in fiscal year 2013 to $141.8 million was due to the completion of certain major projects at LAX terminals and airfield. During fiscal year 2014, $1,621.9 million was reclassified from construction work in progress to depreciable capital asset categories.

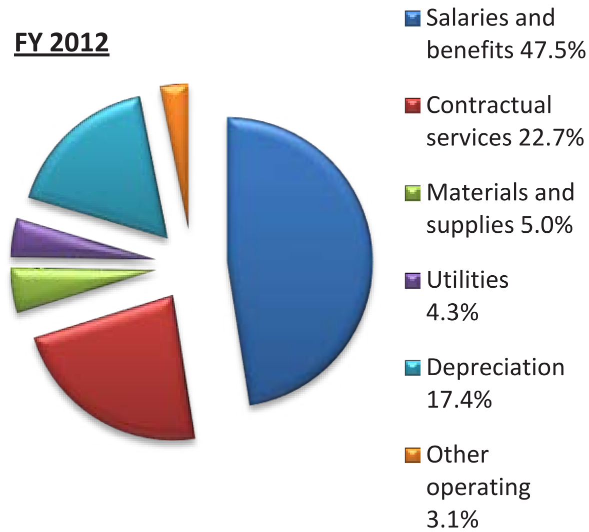
Contractual services, materials and supplies, and other operating expenses decreased by $0.9 million, $2.2 million and $2.3 million, respectively. Lower environmental consultant expenses as well as equipment maintenance and operations expenditures accounted for the decrease in contractual services. After LAX was in compliance with Federal Aviation Administration (FAA) regulations in fiscal year 2013, the costs for field paint, materials, supplies and services for the airfield marking was significantly lower in fiscal year 2014. The decline in other operating expenses was mainly driven by the continued decrease in provision for bad debts as lesser customer accounts were in bankruptcy. In accordance to LAX's policy, the allowance for bad debt is calculated based on 2% of outstanding month-end receivables plus 80% of all bankruptcy accounts and aged accounts over 120 days that are referred to the City Attorney.

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

Operating Expenses, Fiscal Year 2013

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





For the fiscal year ended June 30, 2013, operating expenses before allocation to other airports were $733.9 million, a $19.7 million or 2.8% increase from the prior fiscal year. Expense categories that posted significant fluctuations were materials and supplies, up by $11.9 million and depreciation, up by $10.6 million. The remaining expense accounts had an aggregate net decrease of $2.8 million.

For materials and supplies, the primary reason was the increased costs for field paint, materials, supplies and services for the airfield marking rehabilitation project to comply with FAA regulations. The increase in depreciation charges to $134.5 million during fiscal year 2014 from $123.9 million in the prior fiscal year was due to the completion of certain major projects at the terminals and airfield. During fiscal year 2013, $252.9 million was reclassified from construction work in progress to depreciable capital asset categories. Salaries and overtime expenses before capitalized charges had an increase of $12.4 million due mainly to bargaining agreements with employee unions. Offsetting this increase in salaries is the increase in capitalized charges of $5.9 million related to the ongoing capital improvements. The increase in provision for workers' compensation liability for fiscal year 2013 was $14.5 million less than the prior year because in the prior year there was a revaluation on the adequacy of case reserves, which resulted in a significant increase in case reserves from $14.7 million in fiscal year 2011 to $22.6 million in fiscal year 2012. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $6.7 million. The increase in expenses for utilities was mainly due to increased electricity consumption. The decrease in provision for bad debts was the primary reason for the decline in other operating expenses.

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

Non-operating Transactions

Non-operating transactions are activities that do not result from providing services as well as producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2014, 2013, and 2012.

Summary of Non-operating Transactions
(amounts in thousands)

	FY 2014	FY 2013	FY 2012	FY 2014 increase (decrease)	FY 2013 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 132,809	$ 124,610	$ 121,443	$ 8,199	$ 3,167
Customer facility charges	28,675	27,295	26,002	1,380	1,293
Interest income	20,413	25,231	27,554	(4,818)	(2,323)
Net change in fair value of investments	1,799	(22,793)	5,248	24,592	(28,041)
Other non-operating revenue	11,122	12,067	13,910	(945)	(1,843)
	$ 194,818	$ 166,410	$ 194,157	$ 28,408	$ (27,747)
Nonoperating expenses					
Interest expense	$ 133,694	$ 93,610	$ 83,068	$ 40,084	$ 10,542
Other non-operating expenses	1,928	2,058	1,245	(130)	813
	$ 135,622	$ 95,668	$ 84,313	$ 39,954	$ 11,355
Federal and other grants	$ 24,674	$ 12,264	$ 59,854	$ 12,410	$ (47,590)
Inter-agency transfers	$ 6,329	$ (2,126)	$ 3,466	$ 8,455	$ (5,592)

Non-operating Transactions, Fiscal Year 2014

The increase of $8.2 million in PFCs from fiscal year 2013 represents a 6.6% improvement aligned with the encouraging gain in passenger traffic. CFCs posted an increase, mostly from rental car business buoyed by passenger traffic. CFCs are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX.

Interest income decreased due to lower average balance of cash and pooled investments held in City Treasury and the lower annualized rate of return for the Treasury Pool core portfolio from 0.23% in fiscal year 2013 to 0.16% in fiscal year 2014. Net change in fair value of investments increased as a result of the upward adjustment of the fair value of investment securities at June 30, 2014. Within the non-operating revenue, the increase of $3.8 million reimbursements for certain Transportation Security Administration (TSA) programs in fiscal year 2014, was offset by the $3.1 million loss on demolition of the South Concourse in TBIT and reduction of $1.6 million in miscellaneous revenue. Interest expenses increased with additional issuances of revenue bonds in the amount of $241.9 million to finance capital improvement projects.

Non-operating Transactions, Fiscal Year 2013

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

Long-Term Debt

As of June 30, 2014, LAX's outstanding bonded debt was $3.9 billion. Issuances during the year amounted to $241.9 million, and payments for scheduled maturities were $53.2 million.

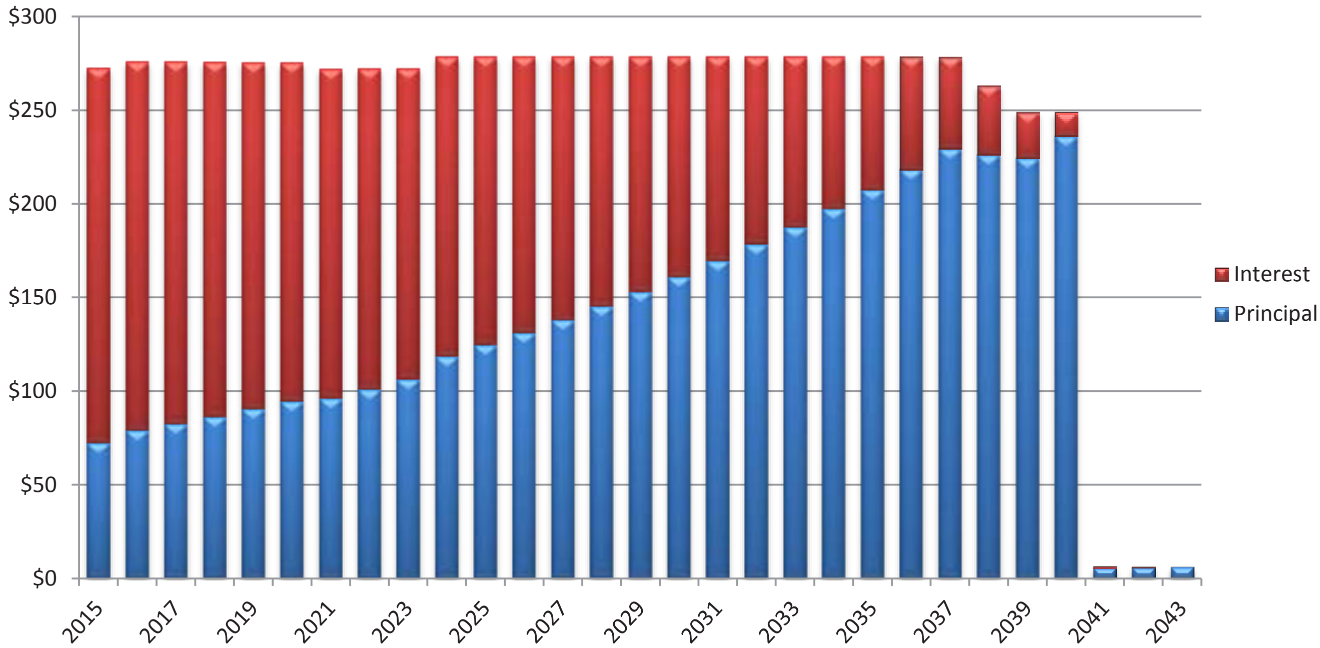
As of June 30, 2013, LAX's outstanding bonded debt was $3.7 billion. The increase of $176.6 million from the June 30, 2012 balance resulted from the sale of $279.1 million revenue bonds less scheduled maturities of $38.2 million, redemption of $32.5 million, and advance refunding of $31.8 million.

As of June 30, 2014 and 2013, LAX had $350.5 million and $331.2 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2014 and 2013, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA respectively for Senior Bonds; AA-, A1, and AA- respectively for Subordinate Bonds.

Additional information regarding LAX's bonded debt can be found in Note 6 of the notes to the financial statements beginning on page 48.

Outstanding principal, plus scheduled interest as of June 30, 2014, is scheduled to mature as shown in the following chart (amounts in millions).



Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2014 and 2013 were $6.5 billion and $5.9 billion, respectively. This investment, which accounts for 72.6% and 71.3% of LAX's total assets as of June 30, 2014 and 2013, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAX's policy affecting capital assets can be found in Note 1(f) of the notes to the financial statements on page 35. Additional information can be found in Note 4 on pages 45-46.

Capital Assets, Fiscal Year 2014

Major capital expenditure activities during fiscal year 2014 were as follows:

- $325.1 million improvements and security upgrades at the TBIT.
- $73.6 million renovations at Terminals 1 to 8.
- $55.9 million replacement of the Central Utility Plant and cogeneration facilities.

- $38.4 repairs and improvements of elevators and escalators.

- $26.5 million residential acquisition, soundproofing and noise mitigation.

- $17.9 million Central Terminal Area (CTA) curbside development project and Second Level Roadway Joint and Deck replacement.

- $12.8 million in costs related to various Information Technology network and systems projects.

- $13.7 million in costs related to various other projects.

At June 30, 2014, the amounts committed for capital expenditures were as follows: $7.5 million for airfield and runways, $6.7 million for noise mitigation program, $92.5 million for terminals and facilities, and $32.8 million for various other projects.

Capital Assets, Fiscal Year 2013

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

- $539.2 million improvements and security upgrades at the Tom Bradley International Terminal (TBIT).

- $195.0 million renovations at Terminals 2, 3, 5, 6, and 7.

- $125.6 million replacement of the Central Utility Plant and cogeneration facilities.

- $111.5 million purchase of Skyview Center land (including parking lots) and buildings.

- $29.9 million central terminal area development.

- $26.9 repairs and improvements of elevators and escalators.

- $20.2 million various IT network and systems projects.

- $11.3 million satellite concourse, runway and taxilane construction.

- $5.9 million residential acquisition, soundproofing and noise mitigation.

- $5.7 million security program.

At June 30, 2013, the amounts committed for capital expenditures were as follows: $5.0 million for airfield and runways, $7.0 million for noise mitigation program, $83.0 million for terminals and facilities, and $38.3 million for various other projects.

Landing Fees, Fiscal Year 2015

The airline landing fees for fiscal year 2015, which became effective as of July 1, 2014 are as follows:

Permitted air carriers	Non-permitted air carriers	
$ 58.00	$ 73.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
112.00	140.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.65	4.56	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.47	5.59	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

Landing fee rates were based on budgeted operating expenses and revenues. Reconciliation between actual revenues and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Request for Information

This report is designed to provide a general overview of the Los Angeles International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ryan P. Yakubik, Chief Financial Officer, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

2014 ANNUAL FINANCIAL REPORT

Financial Statements

Financial Statements

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

Statements of Net Position
June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 606,903	$ 573,736
Investments with fiscal agents	6,752	55
Accounts receivable, net of allowance for uncollectible accounts: 2014 - $1,478; 2013 - $6,646	19,237	32,459
Unbilled receivables	26,909	32,897
Accrued interest receivable	2,372	2,946
Grants receivable	14,733	14,477
Receivable from City General Fund	2,606	816
Due from other agencies	66,045	65,509
Prepaid expenses	5,139	117
Inventories	1,538	1,558
Total unrestricted current assets	752,234	724,570
Restricted current assets		
Cash and pooled investments held in City Treasury	1,047,774	1,044,359
Investments with fiscal agents	599,590	560,860
Accrued interest receivable	1,785	2,796
Passenger facility charges receivable	20,961	20,934
Customer facility charges receivable	2,986	2,761
Total restricted current assets	1,673,096	1,631,710
Total current assets	2,425,330	2,356,280
Noncurrent Assets		
Capital assets		
Not depreciated	2,803,034	3,734,331
Depreciated, net	3,650,218	2,153,671
Total capital assets	6,453,252	5,888,002
Other noncurrent assets		
Receivable from City General Fund, net of current portion	11,235	13,841
Total other noncurrent assets	11,235	13,841
Total noncurrent assets	6,464,487	5,901,843
TOTAL ASSETS	$ 8,889,817	$ 8,258,123
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	$ 676	$ 730

Statements of Net Position (continued)
June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 317,964	$ 149,141
Accrued salaries	11,438	9,979
Accrued employee benefits	4,464	4,295
Estimated claims payable	7,470	6,264
Commercial paper	52,160	68,086
Unearned revenue	--	9,536
Obligations under securities lending transactions	908	2,350
Other current liabilities	8,268	9,470
Total current liabilities payable from unrestricted assets	402,672	259,121
Current liabilities payable from restricted assets		
Contracts and accounts payable	4,361	3,903
Current maturities of bonded debt	72,390	53,220
Accrued interest payable	25,004	23,791
Obligations under securities lending transactions	1,509	4,420
Other current liabilities	8,853	11,774
Total current liabilities payable from restricted assets	112,117	97,108
Total current liabilities	514,789	356,229
Noncurrent Liabilities		
Bonded debt, net of current portion	3,910,421	3,735,516
Accrued employee benefits, net of current portion	36,122	34,748
Estimated claims payable, net of current portion	61,401	61,401
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	9,062	9,462
Other long-term liabilities	886	3,791
Total noncurrent liabilities	4,030,675	3,857,701
TOTAL LIABILITIES	4,545,464	4,213,930
NET POSITION		
Net investment in capital assets	2,667,815	2,261,306
Restricted for:		
Debt service	325,490	307,374
Passenger facility charges funded projects	710,576	737,532
Customer facility charges funded projects	182,814	152,191
Operations and maintenance reserve	164,284	157,210
Federally forfeited property and protested funds	1,088	894
Unrestricted	292,962	428,416
TOTAL NET POSITION	$ 4,345,029	$ 4,044,923

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 222,608	$ 216,359
Building rentals	315,764	257,251
Land rentals	86,534	81,010
Other aviation revenue	3,620	3,924
Total aviation revenue	628,526	558,544
Concession revenue	331,311	304,139
Other operating revenue	1,892	2,790
Total operating revenue	961,729	865,473
OPERATING EXPENSES		
Salaries and benefits	356,726	338,004
Contractual services	161,771	162,661
Materials and supplies	45,726	47,908
Utilities	39,089	32,472
Other operating expenses	16,093	18,383
Allocated administrative charges	(9,378)	(9,998)
Total operating expenses before depreciation and amortization	610,027	589,430
Operating income before depreciation and amortization	351,702	276,043
Depreciation and amortization	141,795	134,500
OPERATING INCOME	209,907	141,543
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	132,809	124,610
Customer facility charges	28,675	27,295
Interest income	20,413	25,231
Net change in fair value of investments	1,799	(22,793)
Interest expense	(133,694)	(93,610)
Other nonoperating revenue	11,122	12,067
Other nonoperating expenses	(1,928)	(2,058)
Total nonoperating revenue, net	59,196	70,742
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	269,103	212,285
Federal and other government grants	24,674	12,264
Inter-agency transfers	6,329	(2,126)
CHANGE IN NET POSITION	300,106	222,423
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	4,044,923	3,828,380
Adjustment of an amount due from ONT	--	15,985
Change in accounting principle	--	(21,865)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	4,044,923	3,822,500
NET POSITION, END OF YEAR	$ 4,345,029	$ 4,044,923

See accompanying notes to the financial statements.

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

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 976,844	$ 862,106
Payments to suppliers	(128,523)	(217,256)
Payments for employee salaries and benefits	(354,124)	(329,711)
Payments for City services	(93,439)	(74,700)
Inter-agency receipts for services, net	9,378	8,929
Net cash provided by operating activities	410,136	249,368
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	13,253	12,361
Inter-agency transfers in (out)	5,793	(3,365)
Net cash provided by noncapital financing activities	19,046	8,996
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	253,413	199,406
Principal paid on revenue bonds and commercial paper notes	(69,305)	(65,705)
Interest paid on revenue bonds and commercial paper notes	(196,760)	(186,203)
Revenue bonds and commercial paper notes issuance costs	(1,703)	(2,003)
Payments to escrow accounts for bond refunding and redemption	--	(5,980)
Acquisition and construction of capital assets	(534,351)	(1,089,650)
Proceeds from passenger facility charges	132,782	123,630
Proceeds from customer facility charges	28,450	26,846
Capital contributed by federal agencies	24,418	16,547
Net cash used for capital and related financing activities	(363,056)	(983,112)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	22,294	26,044
Net change in fair value of investments	1,799	(22,793)
Cash collateral received (paid) under securities lending transactions	(4,354)	6,770
Sales of investments	(3,856)	(26,693)
Proceeds from maturities of investments held by fiscal agents	--	54,737
Net cash provided by investing activities	15,883	38,065
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	82,009	(686,683)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,179,010	2,865,693
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,261,019	$ 2,179,010

	2014	2013
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 606,903	$ 573,736
Investments with fiscal agents- unrestricted	6,752	55
Cash and pooled investments held in City Treasury- restricted	1,047,774	1,044,359
Investments with fiscal agents- restricted	599,590	560,860
Total cash and cash equivalents	$ 2,261,019	$ 2,179,010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 209,907	$ 141,543
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	141,795	134,500
Change in provision for uncollectible accounts	(5,168)	(1,919)
Other nonoperating revenue, net	740	1,629
Changes in assets and liabilities		
Accounts receivable	18,390	(3,878)
Unbilled receivables	5,988	(2,826)
Prepaid expenses and inventories	(4,973)	2,726
Contracts and accounts payable	52,355	(27,450)
Accrued salaries	1,459	871
Accrued employee benefits	1,543	2,537
Other liabilities	(11,900)	1,635
Total adjustments	200,229	107,825
Net cash provided by operating activities	$ 410,136	$ 249,368
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 198,288	$ 80,111
Net proceeds of refunding bonds deposited in escrow accounts to refund certain outstanding commercial paper notes	$ -	$ 244,711
Net proceeds of commercial paper notes deposited in escrow accounts to refund certain outstanding bonds	$ -	$ 59,926

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

The notes to the financial statements include disclosures that are necessary for a better understanding of the accompanying financial statements. An index to the notes follows:

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Notes to the Financial Statements
June 30, 2014 and 2013

1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA owns property consisting of approximately 17,750 acres of land in the City of Palmdale.

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

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

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each of the three airports referred to above and the Palmdale property.

c. Cash, Cash Equivalents, and Investments

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

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

LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore these amounts are reported as cash equivalents. LAX has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

d. Accounts Receivable and Unbilled Receivables

LAX recognizes revenue in the period earned. Receivables outstanding beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus 80% of all bankruptcy accounts and all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

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

e. Inventories

LAX's inventories consist primarily of general custodial supplies and are recorded at cost on a first-in, first-out basis.

f. Capital Assets

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of $5,000 for all capital assets other than internally generated computer software where the threshold is $500,000.

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

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds). Net interest capitalized in fiscal years 2014 and 2013 were $57.6 million and $88.1 million, respectively.

Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; airfield and other improvements, 10 to 35 years; equipment, 5 to 20 years; and computer software, 5 to 10 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service. Also, no depreciation is taken on air easements and emission reduction credits because they are considered inexhaustible.

g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.

h. Operating and Non-operating Revenues and Expenses

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

i. Landing Fees

Landing fee rates determine the charges to the airlines each time that a qualified aircraft lands at LAX and landing fees assessed to air carriers are based on cost recovery methodologies. The landing fee is calculated annually to recover the costs of constructing, maintaining and operating airfield facilities. Costs recovered through these fees are identified using allocation methods of relevant costs attributable to that airfield. Landing fees are initially set using estimates of cost and activity and are reconciled to actual results following the end of each year.

j. Terminal Rates and Charges

On September 17, 2012, the Board approved a new methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The new rates, which will recover the costs of acquiring, constructing, operating and maintaining terminal facilities, are as follows: terminal building rate, federal inspection services area (FIS) rate, common use holdroom rate, common use baggage claim rate, common use outbound baggage system rate, common use ticket counter rate, and terminal special charges for custodial services, outbound baggage system maintenance, terminal airline support systems, and loading bridge capital and maintenance.

The new rates were effective beginning January 1, 2013 for airlines and airline consortia agreeing to the new methodology and executing a rate agreement with LAWA (signatory airlines). Agreements with signatory airlines terminate on December 31, 2022. The new rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period. In addition, signatory airlines will share in the concession revenue derived from the terminals based on prescribed two-tiered formulae. Tier One Revenue Sharing has the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing is distributed to signatory airlines in the form of a credit at the end of each calendar year beginning in 2014, subject to certain conditions.

Airlines with existing leases that opt not to sign an agreement under the new methodology (non-signatory tenant airlines) will continue to pay rates and charges based on their current leases until they sign the new rate agreement. Airlines with no existing leases that opt not to sign the new rate agreement (non-signatory tariff airlines) are charged the tariff rates effective January 1, 2013. Non-signatory airlines are not eligible to participate in the STP and revenue sharing programs.

k. Concession Revenue

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

l. Unearned Revenue

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

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leaves. Accrued employee benefits as of June 30, 2014 and 2013 are as follows (amounts in thousands):

Type of benefit	2014	2013
Accrued vacation leave	$ 20,930	$ 20,664
Accrued sick leave	19,656	18,379
Total	$ 40,586	$ 39,043

n. Deferred Outflows of Resources

In addition to assets, LAX reports a separate section for deferred outflows of resources effective fiscal year 2014. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources until then. LAX reclassified deferred charges on refunding of $0.7 million for fiscal years 2014 and 2013 from a contra liability account to deferred outflow of resources as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

o. Federal Grants

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

p. Bond Premiums and Discounts

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

q. Net Position

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

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

- *Restricted Net Position* – This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to 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, 2014 and 2013, net position of $893.4 million and $889.7 million, respectively, are restricted by enabling legislation.

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

r. Use of Restricted/Unrestricted Net Position

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

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 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 2013 amounts in statement of net position in order to conform to the fiscal year 2014 presentation. Such reclassifications had no effect on the previously reported change in net position.

u. Restatement of Net Position

Amount due from other agencies represents expenses paid by LAX on behalf of ONT or PMD that have not been reimbursed at the end of the fiscal year. The net position at July 1, 2012 was restated by $16.0 million for an adjustment of an amount due from ONT to LAX that was reported as LAX's expenses in prior years.

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2014.

Issued in March 2012, GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities,*" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As of July 1, 2012, LAX adopted the provisions of GASB Statement No. 65 and restated the beginning net position by $21.9 million to write off unamortized bond issuance costs previously reported as an asset. During fiscal year ended June 30, 2013, LAX has also written off bond issuance costs included in the deferred amounts related to the 2012 Series Bonds in the amount of $2.0 million. In addition, the remaining unamortized loss on refunding in the amount of $0.7 million at June 30, 2013 was reclassified from a contra liability account to deferred outflows of resources.

Issued in March 2012, GASB Statement No. 66, "*Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62,*" resolves conflicting guidance that resulted from the issuance of previously issued pronouncements. This statement had no impact on LAX's financial statements.

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

The GASB has issued several pronouncements that have effective dates that may impact future presentations. LAX is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in June 2012, GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions,*" replaces the requirements of previously issued statements as they relate to governments that provide pensions through pension plans administered by trusts or similar arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. Governments will report in their financial statements a net pension liability that represents the difference between the total pension liability and the pension plan's fiduciary net position. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including descriptive information about the types of benefits available, how to determine the amount of pension plan contributions, and assumptions and methods used in calculating the pension liability. This statement requires LAX to record a liability and expense equal to their proportionate share of the collective net pension liability and expense of the City's single-employer defined benefit pension plan. Implementation of this statement is effective fiscal year 2015.

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

Issued in November 2013, GASB Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68,"* amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. Implementation of this statement is effective fiscal year 2015.

3. Cash and Investments

a. Pooled Investments

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

Each investment transaction and the entire portfolio must comply with the California Government Code and the Policy. Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund (LAIF).

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of the Pool of $1.7 billion and $1.6 billion as of June 30, 2014 and 2013 represented approximately 21.2% and 21.8%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated shares for fiscal years 2014 and 2013 were $14.2 million and $18.0 million, respectively, and were reported as other current liabilities in the statement of net position. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

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

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

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

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. The City temporarily suspended its securities lending program in May 2012 and resumed in December 2012. At June 30, 2014, LAX's portion of the cash collateral and the related obligation in the City's program was $2.4 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2014 was $2.4 million. Such securities are stated at fair value. LAX's portion of the noncash collateral at June 30, 2014 was $66.7 million. At June 30, 2013, LAX's portion of the cash collateral and the related obligation in the City's program was $6.8 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2013 was $6.8 million. Such securities are stated at fair value. LAX's portion of the noncash collateral at June 30, 2013 was $144.1 million.

During the fiscal years, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the years. There was no credit risk exposure to the City at June 30, 2014 and 2013 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

c. Investments with Fiscal Agents

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

	2014	2013
Unrestricted, current		
Commercial paper and cash at bank	$ 6,752	$ 55
Restricted, current and noncurrent		
Bond security funds	350,494	331,164
Construction funds	249,096	229,696
Subtotal	599,590	560,860
Total	$ 606,342	$ 560,915

The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments. The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.

At June 30, 2014, the investments and their maturities are as follows (amounts in thousands):

		Investment maturities	
	Amount	1 to 60 days	61 to 365 days
Money market mutual funds	$ 383,436	$ 383,436	$ --
State of California LAIF	216,154	--	216,154
Subtotal	599,590	$ 383,436	$ 216,154
Bank deposit accounts	6,752		
Total	$ 606,342		

At June 30, 2013, the investments and their maturities are as follows (amounts in thousands):

		Investment maturities	
	Amount	1 to 60 days	61 to 365 days
Money market mutual funds	$ 250,285	$ 250,285	$ --
State of California LAIF	310,575	--	310,575
Subtotal	560,860	$ 250,285	$ 310,575
Bank deposit accounts	55		
Total	$ 560,915		

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

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2014 and 2013, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's.

As of June 30, 2014, LAX's investments in LAIF held by fiscal agents totaled $216.2 million. The total amount invested by all public agencies in LAIF at that date was $21.1 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2014, the investments in the PMIA totaled $64.9 billion, of which 98% is invested in non-derivative financial products and 2% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 232 days as of June 30, 2014. LAIF is not rated.

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

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

The bank deposit accounts are covered by Federal depository insurance up to a certain amount. Financial institutions are required under California law to collateralize the uninsured portion of the deposits by pledging government securities or first trust deed mortgage notes. The collateral is held by the pledging institution's trust department and is considered held in LAX's name.

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2014 (amounts in thousands):

	Balance at July 1, 2013	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2014
Capital assets not depreciated					
Land and land clearance	$ 840,530	$ --	$ --	$ --	$ 840,530
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	2,843,537	690,560	--	(1,621,857)	1,912,240
Total capital assets not depreciated	3,734,331	690,560	--	(1,621,857)	2,803,034
Capital assets depreciated					
Buildings	633,575	--	(15,558)	1,494,268	2,112,285
Improvements	2,887,179	14,692	(194)	126,444	3,028,121
Computer software	2,466	--	--	1,145	3,611
Equipment and vehicles	199,513	4,888	(1,073)	-	203,328
Total capital assets depreciated	3,722,733	19,580	(16,825)	1,621,857	5,347,345
Less accumulated depreciation					
Buildings	(378,247)	(15,190)	12,463	--	(380,974)
Improvements	(1,047,387)	(117,055)	194	--	(1,164,248)
Equipment, vehicles and computer software	(143,428)	(9,550)	1,073	--	(151,905)
Total accumulated depreciation	(1,569,062)	(141,795)	13,730	--	(1,697,127)
Capital assets depreciated, net	2,153,671	(122,215)	(3,095)	1,621,857	3,650,218
Total capital assets	$ 5,888,002	$ 568,345	$ (3,095)	$ --	$ 6,453,252

LAX had the following activities in capital assets during fiscal year 2013 (amounts in thousands):

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

5. Commercial Paper

As of June 30, 2014 and 2013, LAX had outstanding commercial paper (CP) notes of $52.2 million and $68.1 million, respectively. The respective average interest rates in effect as of June 30, 2014 and 2013 were 0.24% and 0.15%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

LAX entered into a letter of credit and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Bank of America for $54.5 million to expire on March 6, 2015; Citibank for $109 million to expire on March 6, 2015; Wells Fargo Bank for $163.5 million to expire on March 6, 2015; and Barclays Bank for $54.5 million which expired on March 7, 2014.

LAX had the following CP activity during fiscal year 2014 (amounts in thousands):

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Series C	$ 68,086	$ 159	$ (16,085)	$ 52,160

LAX had the following CP activity during fiscal year 2013 (amounts in thousands):

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

On October 23, 2012, LAWA sold $59.9 million LAX CP notes for the redemption of the outstanding LAX Series 2002A bonds and advance refunding of the outstanding LAX Series 2003B bonds. The net proceeds of the CP notes plus amounts available from the debt service fund accounts of the aforementioned bonds were deposited into escrow accounts as follows: $32.5 million Series 2002A Escrow Fund, and $33.4 million Series 2003B Escrow Fund. On November 1, 2012, the outstanding Series 2002A bonds with par amount of $32.5 million were redeemed. The amount deposited into the irrevocable Series 2003B Escrow Fund will provide for all future debt service on the bonds. Accordingly, the refunded bonds were considered defeased such that the corresponding liability was subsequently removed from LAX's books and the trust account assets were excluded. The above redemption and advance refunding transactions resulted in a net gain for accounting purposes of $1.0 million, which is credited to operations and restated due to the implementation of GASB Statement No.65.

6. Bonded Debt

Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City.

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2014 and 2013 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal 2014	Outstanding principal 2013
Issue of 2008, Series A	8/06/08	3.750% - 5.500%	2038	$ 602,075	$ 529,515	$ 540,770
Issue of 2008, Series B	8/06/08	3.000% - 5.000%	2015	7,875	1,365	2,665
Issue of 2008, Series C	8/06/08	3.000% - 5.250%	2038	243,350	217,640	222,440
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	310,410	291,495	297,520
Issue of 2009, Series C	12/03/09	5.175% - 6.582%	2039	307,350	307,350	307,350
Issue of 2009, Series D	12/03/09	2.500% - 5.000%	2015	31,815	7,955	15,535
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	39,750	24,450	27,955
Issue of 2010, Series A	4/08/10	3.000% - 5.000%	2040	930,155	923,325	930,155
Issue of 2010, Series B	11/04/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/04/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	863,225	867,545
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	100,665	105,610
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	141,895	144,555
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	27,870	27,870
Issue of 2013, Series A	11/19/13	5.000%	2043	170,685	170,685	-
Issue of 2013, Series B	11/19/13	4.625% - 5.000%	2038	71,175	71,175	-
Total principal amount				$ 4,063,595	3,872,650	3,684,010
Unamortized premium					117,890	112,779
Unamortized discount					(7,729)	(8,053)
Net revenue bonds					3,982,811	3,788,736
Less- current portion of debt					(72,390)	(53,220)
Net noncurrent debt					$ 3,910,421	$ 3,735,516

b. Pledged Revenue

The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. LAX has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that LAX's pledged revenues, as defined in the master senior and subordinate indentures, shall be the security and source of payment for the bonds.

LAX has received approval from the Federal Aviation Administration to collect and use passenger facility charges (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. The Board authorized amounts of $96.5 million and $34.4 million were used for debt service in fiscal years 2014 and 2013, respectively.

The total principal and interest remaining to be paid on the bonds is $7.1 billion. Principal and interest paid during fiscal year 2014 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the $96.5 million PFCs funds discussed in the preceding paragraph), were $249.4 million and $472.5 million, respectively. Principal and interest paid during fiscal year 2013 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the $34.4 million PFCs funds discussed in the preceding paragraph), were $224.2 million and $322.5 million, respectively.

c. Bond Issuances

On November 19, 2013, LAX issued Series 2013A senior revenue bonds of $170.7 million and Series 2013B subordinate revenue bonds of $71.2 million. The premium for these issuances totaled $11.4 million. The bonds were issued to provide ongoing funding for the Terminal 4 Connector, Bradley West Core Renovations, and various other capital projects.

On December 18, 2012, LAWA issued senior lien LAX revenue bonds in the aggregate par amount of $279.1 million broken down as follows: Series 2012A for $105.6 million, Series 2012B for $145.6 million, and Series 2012C for $27.9 million. The premium for these issuances totaled $46.9 million. The bonds were issued to pay for certain capital projects at LAX and to refund outstanding subordinate CP notes totaling $244.7 million. Of the $244.7 million refunded CP notes, $32.5 million was used for the interim redemption of the Series 2002A bonds (see page 47). Since the $32.5 million CP notes were refunded by the Series 2012C bonds, effectively, Series 2002A bonds were refunded by Series 2012C bonds. These transactions resulted in a cash flow savings of $6.6 million and economic gain of $6.0 million.

d. Principal Maturities and Interest

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

Fiscal year(s) ending	Principal	Interest	Total
2015	$ 72,390	$ 200,030	$ 272,420
2016	79,145	196,828	275,973
2017	82,635	193,199	275,834
2018	86,320	189,358	275,678
2019	90,370	185,146	275,516
2020 - 2024	516,390	853,728	1,370,118
2025 - 2029	692,205	701,127	1,393,332
2030 - 2034	893,750	499,569	1,393,319
2035 - 2039	1,105,890	241,823	1,347,713
2040 - 2043	253,555	14,722	268,277
Total	$ 3,872,650	$ 3,275,530	$ 7,148,180

e. Build America Bonds

LAX Subordinate Revenue Bonds 2009 Series C and 2010 Series C with par amounts of $307.4 million and $59.4 million, respectively, were issued as federally taxable Build America Bonds (BABs) under the American Recovery and Reinvestment Act of 2009. LAX receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as “sequestration”) for the federal fiscal years ending September 30, 2014 and September 30, 2013 reduced the subsidy. The interest subsidy on the BABs was $7.7 million for FY 2014 and $8.0 million for FY 2013. The subsidy is recorded as a noncapital grant, a component of other non-operating revenue.

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2014 (amounts in thousands):

	Balance at July 1, 2013	Additions	Reduction	Balance at June 30, 2014	Current Portion
Revenue bonds	$ 3,684,010	$ 241,860	$ (53,220)	$ 3,872,650	$ 72,390
Add unamortized premium	112,779	11,394	(6,283)	117,890	--
Less unamortized discount	(8,053)	--	324	(7,729)	--
Net revenue bonds	3,788,736	253,254	(59,179)	3,982,811	72,390
Accrued employee benefits	39,043	5,838	(4,295)	40,586	4,464
Estimated claims payable	67,665	7,470	(6,264)	68,871	7,470
Unearned revenue	9,536	--	(9,536)	--	--
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,462	--	(400)	9,062	--
Other long-term liabilities	3,791	--	(2,905)	886	--
Total long-term liabilities	$ 3,931,016	$ 266,562	$ (82,579)	$ 4,114,999	$ 84,324

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2013 (amounts in thousands):

	Balance at July 1, 2012	Additions	Reduction	Balance at June 30, 2013	Current Portion
Revenue bonds	$ 3,507,375	$ 279,110	$ (102,475)	$ 3,684,010	$ 53,220
Add unamortized premium	73,924	46,881	(8,026)	112,779	--
Less unamortized discount	(8,377)	--	324	(8,053)	--
Net revenue bonds	3,572,922	325,991	(110,177)	3,788,736	53,220
Accrued employee benefits	36,506	6,553	(4,016)	39,043	4,295
Estimated claims payable	65,334	8,185	(5,854)	67,665	6,264
Unearned revenue	4,165	5,371	--	9,536	9,536
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,474	--	(12)	9,462	--
Other long-term liabilities	5,662	634	(2,505)	3,791	--
Total long-term liabilities	$ 3,706,846	$ 346,734	$ (122,564)	$ 3,931,016	$ 73,315

8. Leases and Agreements

a. Operating Leases and Agreements As Lessor

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

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2014 and 2013, revenues from such agreements were approximately $241.5 million and $221.2 million, respectively. The respective amounts over MAG were $64.3 million and $61.4 million.

Minimum future rents or payments under these agreements over the next five years, assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2015	$ 132,554
2016	73,615
2017	72,579
2018	22,891
2019	21,059
Total	$ 322,698

On March 1, 2012, LAWA and Westfield Concession Management, LLC (Westfield) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT) and Terminal 2 for a term of 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $81.9 million in initial improvements and $16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 3-1-12 Agreement, Westfield paid LAX the MAG of $17.7 million ($210 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) $210 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX.

For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and Westfield entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $78.6 million in initial improvements and $15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 6-22-12 Agreement, Westfield paid LAX the MAG of over $17 million ($240 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) $240 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

Minimum future rents under these two agreements with Westfield over the next five years are estimated as follows (amounts in thousands):

Fiscal year ending	Amount
2015	$ 26,793
2016	35,894
2017	36,611
2018	37,344
2019	38,091
Total	$ 174,733

LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from 10 to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the fiscal years ended June 30, 2014 and 2013, revenues from these leases were $402.3 million and $338.3 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the following assumptions: (a) current agreements are carried to contractual termination, (b) airline agreements with no definitive expiry dates are carried over for the next five years, and (c) non-airline agreements with no definitive expiry dates are carried over for the next three years. The future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2015	$ 420,321
2016	411,590
2017	405,346
2018	348,344
2019	325,792
Total	$ 1,911,393

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2014 and 2013 are as follows (amounts in thousands):

	2014	2013
Buildings and facilities	$ 3,133,865	$ 1,628,845
Less- Accumulated depreciation	(522,955)	(476,096)
Net	2,610,910	1,152,749
Land	555,997	555,997
Total	$ 3,166,907	$ 1,708,746

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2014 and 2013 were $6.0 million and $4.7 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2015	$ 5,886
2016	5,886
2017	5,886
2018	5,886
2019	5,886
2020 - 2024	17,446
2025 - 2029	13,750
2030 - 2032	5,513
Total	$ 66,139

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

9. Passenger Facility Charges

PFCs are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as non-operating revenue and presented as restricted assets in the financial statements. LAX has received approvals from FAA to impose PFCs for various projects. The current PFCs is $4.50 per enplaned passenger.

As previously discussed, LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. Board authorized amounts of $96.5 million and $34.4 million were used for debt service in fiscal years 2014 and 2013, respectively.

The following project summary has been approved by FAA as of June 30, 2014 (amounts in thousands):

Terminal development	$ 1,632,304
Noise mitigation	822,539
Airfield development	82,645
Aircraft rescue and firefighting vehicles	975
Total	$ 2,538,463

PFCs collected and the related interest earnings through June 30, 2014 and 2013 were as follows (amounts in thousands):

	2014	2013
Amount collected	$ 1,809,280	$ 1,674,348
Interest earnings	187,781	177,204
Total	$ 1,997,061	$ 1,851,552

As of June 30, 2014 and 2013, cumulative expenditures to date on approved PFCs projects totaled $1.3 billion and $1.1 billion, respectively.

10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charges (CFCs) from car rental agencies serving LAX. State law allows airports to collect a fee of $10 per on-airport rental car agency transaction to fund the development of consolidated car rental facility and common-use transportation system. CFCs are recorded as non-operating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2014 and 2013 were as follows (amounts in thousands):

	2014	2013
Amount collected	$ 172,556	$ 144,106
Interest earnings	9,660	7,997
Total	$ 182,216	$ 152,103

As of June 30, 2014 and 2013, cumulative expenditures to date on approved CFCs projects totaled $3.0 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $24.7 million and $12.3 million in fiscal years 2014 and 2013, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for the fiscal years ended June 30, 2014 and 2013 were $89.1 million and $81.6 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2014 and 2013 were $7.9 million and $7.3 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD including, but not limited to, legal, human services, and financial services. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent for fiscal years 2014 and 2013 was $1.08 million and $1.07 million, respectively. The details are as follows (amounts in thousands):

	FY 2014	FY 2013
Allocated administrative costs		
ONT	$ 7,160	$ 7,907
VNY	1,832	1,692
PMD	386	399
Total	9,378	9,998
Land rental	(1,083)	(1,069)
Net	$ 8,295	$ 8,929

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of $43 million out of approximately $58 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway. The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling $17.7 million plus 3% interest for a total of $21.3 million. The installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2014 and 2013, the respective outstanding principal amount of $11.2 million and $13.8 million payable beyond one year were reported under other noncurrent assets while the balance of $2.6 million and $0.8 million payable within one year were reported under unrestricted current assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328.

As a City department, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City. Pension and other postemployment benefits are established pursuant to City ordinance. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older (Tier 1). Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for health premium subsidy with a City-approved health carrier.

On July 1, 2013, a new tier of retirement and postemployment health care benefits, referred to as Tier 2, is in effect for LACERS members hired on or after July 1, 2013. For Tier 2 members, normal retirement allowances are reduced for employees under age 65 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. On August 25, 2014, Employee Relations Board (ERB) issued Order No. 1898-1904 (Order) which stated that the City shall cease and desist from adding new tiers to LACERS or otherwise making changes without first offering the employee organizations an opportunity to meet and confer; and the City shall rescind Ordinance No. 182296 which created LACERS Tier 2 and shall place all affected employees hired on or after July 1, 2013 in LACERS Tier 1 retroactive to their date of hire. The Order is stayed pending appeal and final judgment before the court.

b. Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 25.33% and 18.32% for Tier 1 and Tier 2 members, respectively in fiscal year 2014, 24.14% in fiscal year 2013, and 27.66% in fiscal year 2012. The required contribution rates were based on the June 30, 2012, June 30, 2011 and June 30, 2010 actuarial valuations, respectively. LAWA paid 100% of its annual contributions of which LAX's portions for fiscal years 2014, 2013 and 2012 were $58.0 million, $54.7 million and $50.2 million, respectively.

Effective July 1, 2011, Tier 1 members contribute 7%, 9% or 11% of pay, depending upon the bargaining group to which they belong. Most of the members who contribute 7% or 9% were required to contribute 11% effective July 1, 2012, and January 1, 2013, respectively. Tier 2 members contribute 10% of pay for the years 2013 to 2017. After 2017, the contribution rate is subject to change every three years. The City Charter and related ordinances define member contributions.

c. Net Pension Obligation

The City allocated a portion of its net pension obligation (NPO) to LAWA based upon its percentage of payroll benefit costs for all City employees. The allocated NPO at June 30, 2014 and 2013 was $9.1 million and $9.5 million, respectively. For administrative purpose, the allocated amounts were presented as part of LAX's liabilities and were not allocated to the other two airports.

d. Net Pension Liability

LAX is in the process of implementing GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions,*" in fiscal year 2015. This statement requires LAX to record a liability and expense equal to their proportionate share of the collective net pension liability and expense of the City's single-employer defined benefit pension plan. LAX will report a net pension liability that represents the difference between the total pension liability and the pension plan's fiduciary net position in the financial statements starting from fiscal year 2015.

e. Funded Status of the Plans

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

14. Risk Management

The Risk Management Division (RMD) administers LAWA's risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAWA's ability to meet its business goals and objectives.

LAWA maintains insurance coverage of $1.3 billion for general aviation liability and $1.0 billion for war and allied perils. Additional insurance coverage is carried for general all risk property insurance for $2.3 billion, that includes $250.0 million for boiler and machinery, and $25.0 million for earthquake. Deductibles for these policies are $10,000 per claim with a $400,000 annual aggregate for general liability, and $100,000 per occurrence and annual aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits.

LAX also maintains a separate owner controlled insurance program (OCIP) to cover risks associated with the Bradley West Improvement Project. The OCIP covers associated workers' compensation, general liability, and builder's risks exposures for the project and its contracted participants. The aggregate coverage level is $300.0 million with a $250,000 deductible per occurrence. The OCIP was in effect for the five-year construction period ended in 2014. Additionally, LAX maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2014, 2013, and 2012, no claims were in excess of LAX's insurance coverage.

A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities with a probability of occurring from these lawsuits. The liability for litigation and other claims at June 30, 2014 and 2013 was $11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liability at June 30, 2014 and 2013 was $57.2 million and $56.0 million, respectively.

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

	June 30		
	2014	2013	2012
Balance at beginning of year	$ 67,665	$ 65,334	$ 48,892
Provision for current year's events and changes in provision for prior years' events	7,470	8,185	20,773
Claims payments	(6,264)	(5,854)	(4,331)
Balance at end of year	$ 68,871	$ 67,665	$ 65,334
Current portion	$ 7,470	$ 6,264	$ 5,854

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $146.8 million and $140.4 million as of June 30, 2014 and 2013, respectively. Significant amounts were committed for the following: TBIT improvements, elevator and escalator system upgrade, central utility plant replacement, information technology network expansion, and noise mitigation projects.

b. LAX Master Plan

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

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

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

On February 5, 2013, the board certified the Environmental Impact Report (EIR) prepared for the LAX SPAS under CEQA and determined that the LAX SPAS was complete. It also selected the Staff-Recommended Alternative, including the proposed amendments to Section 7.H of the LAX Specific Plan and all amendments to the City's general plan, including the LAX Plan, and the LAX Specific Plan, as the best alternative to the problems that the so-called "Yellow Lights Projects" were designed to address, subject to future detailed planning, engineering, and project-level environmental review, such as project-level review of individual improvements under CEQA and the evaluation and approval processes of FAA. Approval of the SPAS Staff-Recommended Alternative would provide the platform from which the specific details of the proposed improvements would be further defined and evaluated in connection with current and future FAA standards.

On April 30, 2013, the City Council certified the LAX SPAS EIR and selected the Staff-Recommend Alternative, subject to the same provisions set forth above. On May 30, 2013, the Alliance for a Regional Solution to Airport Congestion, the City of Inglewood, the City of Culver City, the City of Ontario, the County of San Bernardino, and SEIU United Service Workers West (Petitioners) filed three separate petitions for writ of mandate in the Los Angeles Superior Court against the City alleging that the SPAS final environmental impact report (SPAS Final EIR) was not completed in compliance with CEQA and requested, among other things, the Court to set aside all approvals based upon the SPAS Final EIR. The three cases were deemed related on June 24, 2013, and consolidated on September 18, 2013. On February 28, 2014, they were transferred to the Ventura County Superior Court. No hearing date for the trial on the merits of the case has been set.

Over the course of the past 18 months, the parties have been preparing the record of proceedings (i.e., assembly of the documents upon which the merits of the case will be determined). A dispute has arisen regarding production of certain LAWA records. On September 2, 2014, the Petitioners brought a motion to clarify the administrative record. The motion is set for hearing in Ventura County Superior Court on November 14, 2014. Once the parties have finalized the Administrative Record, a briefing schedule and hearing date will be set for the trial on the merits of the case.

c. Aviation Security

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

d. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy.

As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2014 and 2013 was $12.8 million. LAX does not expect any recoveries reducing this obligation.

The State Water Resources Control Board (SWRCB) issued a Notice of Violation (NOV) to LAWA generally alleging violations of underground storage tank (UST) construction, monitoring, and testing laws at facilities where LAWA owns and operates USTs. LAWA owns and/or operates six USTs at LAX. The NOV did not specify any particular violations but the SWRCB subsequently identified a number of alleged violations that are under review along with continued improvement of LAWA's overall UST compliance program.

e. Terminal Leases

In January 2007, American Airlines, Inc. ("American") filed a complaint in Federal District Court alleging that LAWA had imposed new maintenance and operation charges in violation of its lease at LAX. In 2008, LAWA and American entered into an interim settlement agreement (the "ISA") and pursuant to the ISA, the parties filed a joint stipulation for dismissal of the litigation without prejudice to renew litigation. In January 2014, American and LAWA entered into a settlement agreement ("Final Settlement") which settled, among other things, the maintenance and operation charges in the lease. Under the Final Settlement, LAWA and American agreed that the dismissal filed in 2008 was deemed to be a dismissal with prejudice; American paid $14.0 million in compromise and settlement of all disputes regarding the maintenance and operation charges for the period from January 2011 through December 2013; and LAWA paid for the purchase of certain pavement and terminal improvements, busing credit related to the employee parking lot, and Terminal 4 connector design plans.

16. Other Matter

City Financial Challenges

Faced with projected gaps in the General Fund budget, the City implemented various measures and considering others to attain a balanced budget. Such measures include elimination of vacancies, reorganization of departmental functions, expense account reductions, and funding realignment from the General Fund to special funds.

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

17. Subsequent Events

a. Midfield Satellite Concourse Program

On July 21, 2014, the Board approved the Midfield Satellite Concourse (MSC) Program including the MSC North Project at LAX. The MSC Program consists of a new multi-level concourse located within the western portion of the airfield west of the existing TBIT and associated passenger processing space in proposed Central Terminal Processor (CTP). The MSC Program also includes conveyance systems connecting the MSC and CTP as well as a new taxilane, taxiway, apron, and utilities required to serve the MSC. The overall objective of the MSC Program is to provide LAWA with the flexibility to accommodate existing demand for aircraft gates while modernizing other terminals at LAX and reducing reliance on the West Remote Gates. The new concourse facility will be designed to serve both domestic and international traffic with the ability to accommodate all sizes of the current aircraft fleet at LAX. Due to the size and scale of the MSC Program, LAWA intends to develop the MSC Program in phases. The MSC Project represents Phase 1 of the overall MSC Program, and includes construction of the northern portion of the multi-story MSC facility and associated improvements. The MSC North Project is intended to improve the terminal operations, concession facilities, and overall passenger experience at LAX. On July 21, 2014, the Board awarded a $50.0 million contract for the pre-construction and construction services for the MSC North Enabling Project.

b. West Aircraft Maintenance Area Project

On July 21, 2014, the Board awarded a $63.7 million contract for the West Aircraft Maintenance Area (WAMA) Project at LAX. The purpose of the WAMA Project is to consolidate, relocate and modernize existing aircraft maintenance facilities at LAX.

c. Parking Garage Elevator Upgrades

On July 21, 2014, the Board awarded a $39.7 million contract for the Parking Garage Elevator Upgrades Project at LAX, with the purpose to upgrade 26 parking garage elevators with new equipment and to update the interior and exterior finishes to improve the overall look of the Central Terminal Area at LAX.

d. Terminal 1 Renovations

In fiscal year 2014, LAX began an expansion and modernization program in Terminal 1 to improve efficiency and increase the passenger level of service while meeting evolving federal security requirements. The program includes reconfiguring the existing terminal uses to improve passenger services and amenities, better accommodate security requirements, and improve curbside circulation with a new façade and seismic retrofitting. LAWA, under the expansion and modernization program envisioned in the September 16, 2014 amendment to Southwest's lease, is obligated to acquire up to $509.8 million of the completed terminal improvements.

e. Issuance of Commercial Paper Notes

Between October 8 and October 16 of 2014, LAX issued $200.0 million of CP notes in multiple series to provide interim financing for capital expenditures at LAX. The CP notes carried interest rates between 0.09% and 0.13% and had maturities of between 100 and 125 days.

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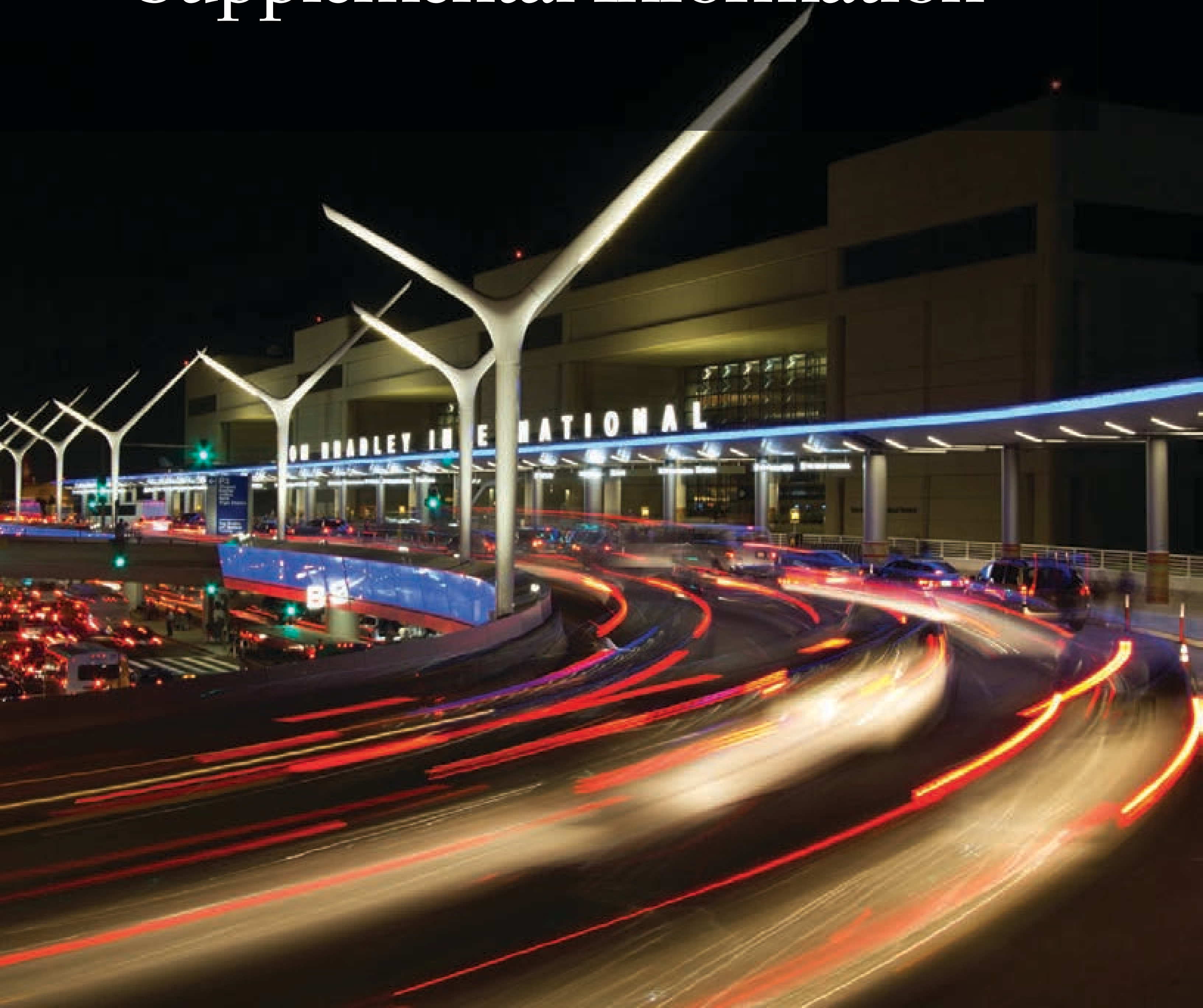
Supplemental Information



Supplemental Information

Los Angeles City Retirement System
Schedules of Funding Progress

Prorated Data for Los Angeles World Airports
(Non-GAAP Basis – Unaudited)
(dollar amounts in thousands)

Defined Benefit Pension Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2011	$1,186,475	$1,639,552	$453,077	72%	$224,463	202%
6/30/2012	1,285,854	1,862,970	577,116	69%	235,463	245%
6/30/2013	1,374,201	2,000,242	626,041	69%	248,251	252%

Other Postemployment Benefit Healthcare Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2011	$189,386	$241,030	$51,644	79%	$224,463	23%
6/30/2012	212,568	296,699	84,131	72%	235,463	36%
6/30/2013	233,165	324,262	91,096	72%	248,251	37%

Notes to the Schedules

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

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

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Compliance Section

Compliance Section Contents

- Independent Auditor’s Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance
- Schedule of Passenger Facility Charge Revenues and Expenditures
- Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
- Independent Auditor’s Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance
- Schedule of Customer Facility Charge Revenues and Expenditures
- Notes to the Schedule of Customer Facility Charge Revenues and Expenditures

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

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, applicable to its passenger facility charge program for the fiscal year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the fiscal year ended June 30, 2014.

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

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

Macias Gini & O'Connell LLP

Los Angeles, California
November 4, 2014

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

Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2014 and 2013
(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over (under) revenues collected on approved projects
Program to date as of June 30, 2012	$ 1,552,868	$ 165,902	$ 1,718,770	$ 985,892	$ 732,878
Fiscal year 2012-13 transactions					
Quarter ended September 30, 2012	30,571	2,170	32,741	1,771	30,970
Quarter ended December 31, 2012	29,628	2,691	32,319	(8,751)	41,070
Quarter ended March 31, 2013	31,119	3,144	34,263	3,979	30,284
Quarter ended June 30, 2013	30,162	3,297	33,459	159,805	(126,346)
Program to date as of June 30, 2013	1,674,348	177,204	1,851,552	1,142,696	708,856
Fiscal year 2013-14 transactions					
Quarter ended September 30, 2013	35,241	1,670	36,911	695	36,216
Quarter ended December 31, 2013	33,194	2,386	35,580	50,989	(15,409)
Quarter ended March 31, 2014	26,976	3,540	30,516	8,165	22,351
Quarter ended June 30, 2014	39,521	2,981	42,502	109,231	(66,729)
Unexpended passenger facility charge revenues and interest earned June 30, 2014	$ 1,809,280	$ 187,781	$ 1,997,061	$ 1,311,776	$ 685,285

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

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2014 and 2013

1. General

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

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

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

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

In April 2008, FAA approved LAWA’s amendment request that increased application number 05-05-C-01-LAX to $468.0 million to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Project. The amounts used for this purpose were $96.5 million and $34.4 million in fiscal years 2014 and 2013, respectively.

The general description of the approved projects and the expenditures to date are as follows (amounts in thousands):

Approved projects	Amount approved for collection	Expenditures to date June 30 2014	Expenditures to date June 30 2013
ONT- Terminal Development Program	$ 116,371	$ 116,371	$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	--	--
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	175,078	78,576
Implementation of IT Security Master Plan	56,573	33,448	33,063
Noise Mitigation - Land Acquisitions	485,000	349,829	348,312
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	33,201	29,710
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	47,252	38,067
Bradley West	855,000	180,000	122,000
Lennox Schools Soundproofing Program	34,089	11,215	11,215
Total	$ 2,538,463	$ 1,311,776	$ 1,142,696

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

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

3. Excess Project Expenditures

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

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

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *California Civil Code Section 1936, as amended by Senate Bill (SB) 1192 and Assembly Bill (AB) 359*, applicable to its customer facility charge program for the fiscal year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*. Those standards and the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the fiscal year ended June 30, 2014.

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
November 4, 2014

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

Schedule of Customer Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2014 and 2013
(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
Program to date as of June 30, 2012	$ 117,260	$ 6,318	$ 123,578	$ 3,026	$ 120,552
Fiscal year 2012-13 transactions					
Quarter ended September 30, 2012	7,120	464	7,584	--	7,584
Quarter ended December 31, 2012	6,825	431	7,256	--	7,256
Quarter ended March 31, 2013	5,855	374	6,229	--	6,229
Quarter ended June 30, 2013	7,046	410	7,456	--	7,456
Program to date as of June 30, 2013	144,106	7,997	152,103	3,026	149,077
Fiscal year 2013-14 transactions					
Quarter ended September 30, 2013	7,535	393	7,928	--	7,928
Quarter ended December 31, 2013	6,971	445	7,416	--	7,416
Quarter ended March 31, 2014	6,433	397	6,830	--	6,830
Quarter ended June 30, 2014	7,511	428	7,939	--	7,939
Unexpended customer facility charge revenues and interest earned June 30, 2014	$ 172,556	$ 9,660	$ 182,216	$ 3,026	$ 179,190

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

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2014 and 2013

1. General

Assembly Bill 491 of the 2001-2002 California Legislature (codified in California Civil Code Section 1936 et seq.) (Code) authorized the imposition of Customer Facility Charges (CFCs) and use of CFC revenue to plan, finance, design, and construct on-airport consolidated rental car facilities (CRCF).

On March 5, 2007, the Board found that the CRCF proposed by management was sufficiently definitive and authorized the collection of CFCs of $10 on each car rental transaction at LAX. The authorization included a two-year collection period of July 1, 2007 through June 30, 2009. On June 22, 2009, the Board resolved to extend the collection period until a determination is made that the project will not proceed.

The proposed CRCF at LAX will enhance efforts to reduce traffic congestion while also providing an efficient, secure, safe, and reliable transportation system.

CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	2014	2013
Amount collected	$ 172,556	$ 144,106
Interest earnings	9,660	7,997
Subtotal	182,216	152,103
Expenditures		
CRCF planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	$ 179,190	$ 149,077

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

The accompanying Schedule of Customer Facility Charge Revenues and Expenditures was prepared using the cash basis of accounting.

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