



*Los Angeles  
World Airports*

# Comprehensive Annual Financial Report

Fiscal years ended June 30, 2016  
and 2015

Department of Airports Los Angeles, California







**Los Angeles World Airports**

Department of Airports of the City of Los Angeles, California

**Comprehensive Annual Financial Report**

Fiscal years ended June 30, 2016 and 2015

Prepared by Financial Reporting Division

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

**Comprehensive Annual Financial Report**  
**Fiscal Years Ended June 30, 2016 and 2015**

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***Prepared by: Financial Reporting Division of Los Angeles World Airports***

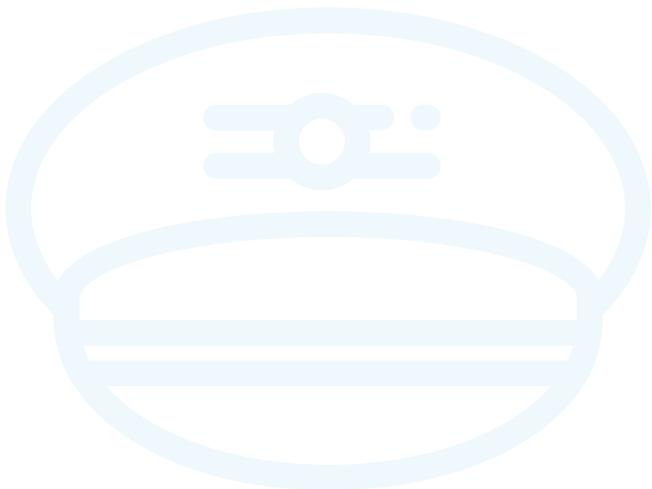
# Introductory Section

2016 Comprehensive Annual Financial Report

## Introductory Section Contents

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- Transmittal Letter
- Organization Chart
- Board of Airport Commissioners, Elected City Officials, and Los Angeles World Airports Executive Staff
- GFOA Certificate of Achievement for Excellence in Financial Reporting





# Los Angeles World Airports

October 31, 2016

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) for the fiscal year ended June 30, 2016. The CAFR, which was prepared following the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA), contains financial statements and statistical data that fully disclose all material financial operations of LAWA. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with LAWA's management. We believe that the data presented is complete and reliable in all material respects. This transmittal letter presents a summary of LAWA's background, economic condition and outlook, and major initiatives and developments.

Accounting principles generally accepted in the United States of America (GAAP) require management to provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditor.

## Profile of the Reporting Entity

LAWA is an independent, financially self-sufficient department of the City of Los Angeles (City) created pursuant to Article XXIV, Section 238 of the City Charter. LAWA is under the management and control of a seven-member Board of Airport Commissioners (Board) appointed by the Mayor and confirmed by the City Council.

Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated or controlled by the City; and (c) fix, regulate and collect rates and charges for use of the airport system. An Executive Director administers LAWA and reports to the Board.

LAWA operates and maintains three airports in the Los Angeles Air Trade Area. The airports are Los Angeles International Airport (LAX), LA/ONT International Airport (ONT), and Van Nuys Airport (VNY). LAWA owns approximately 17,750 acres of land located east of United States Air Force Plant 42 in the City of Palmdale and retains the rights for future development of the Palmdale property. LAX, ONT and VNY are collectively known as the Airport System.

LAX

LA/Ontario

Van Nuys

City of Los Angeles

Eric Garcetti  
Mayor

Board of Airport  
Commissioners

Sean O. Burton  
President

Valeria C. Velasco  
Vice President

Jeffery J. Daar  
Gabriel L. Eshaghian  
Beatrice C. Hsu  
Nolan V. Rollins  
Dr. Cynthia A. Telles

Deborah Flint  
Chief Executive Officer





## Transmittal Letter (continued)

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LAX is the major facility of the Airport System. It is located approximately 15 miles from downtown Los Angeles on the western boundary of the City. LAX occupies approximately 3,673 acres in an area generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the south by Imperial Highway, and on the west by the Pacific Ocean. Commercial airline service started in December 1946, and the present terminal complex in LAX was constructed in 1961. In the early 1980s, LAX added domestic and international terminals, parking structures and a second level roadway. LAX is the largest airport in the five-county area (subsequently referred to as “*Air Trade Area*”) comprising Los Angeles, Orange, Ventura, Riverside and San Bernardino counties.

LAX is the seventh busiest airport in the world and third in the United States. LAX served more than 77.8 million passengers in fiscal year 2016. LAX offers 742 daily nonstop flights to 101 cities in the U.S. and 1,273 weekly nonstop flights to 76 cities in 41 countries on 64 commercial air carriers. LAX ranks 14th in the world and fifth in the U.S. in air cargo tonnage processed, with more than 2.1 million tons of air cargo valued at over \$101.4 billion.

ONT is a medium hub, full-service airport with commercial jet service to major United States cities and connecting service to international destinations. ONT is located approximately 35 miles east of downtown Los Angeles and approximately 50 miles east of LAX and occupies approximately 1,463 acres. ONT served approximately 4.2 million enplaned and deplaned passengers and approximately 540,000 tons of airfreight was shipped in fiscal year 2016. ONT’s more than 64 daily flights provide service to major cities in the United States. Airlines serving ONT include AeroMexico, Alaska, American, Delta, Southwest, United/United Express and Volaris. The facility includes two terminals at 265,000 square feet each for a total of 530,000 square feet, a ground transportation center and parking for the traveling public. ONT is also the center of a developing freight movement system that includes the airport, two railroads, four major freeways, and an expanding network of freight forwarders. ONT is served by airfreight carriers including Ameriflight, Empire Airlines, Federal Express, Kalitta Air, West Air, United Parcel Service, ABX Air and Atlas.

VNY is a general aviation airport located 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is one of the busiest general aviation airports in the United States with an average of over 217,000 takeoffs and landings annually. More than 100 businesses are located at the airport, including four fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs.



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## Economic Condition and Outlook

The financial condition of LAWA is primarily dependent upon the demand for air transportation within the geographical area served by LAX, ONT, and VNY. Passenger and cargo traffic at the airports depends upon the demographic characteristics and economic activity of the Air Trade Area.

According to the Los Angeles County Economic Development Corporation (LAEDC) 2016-2017 economic forecast, the Southern California economy will continue to experience employment gains and continued improvement in local unemployment rates. The leading job gains are expected to be in the industry of health care and social assistance, professional and business services, retail trade, leisure and hospitality. Transportation and infrastructure projects such as the on-going multi-billion dollar modernization program at LAX and the expansion of Los Angeles' light rail system is expected to make significant contribution to job growth and economy in Southern California.

Los Angeles County continued to experience job gains in healthcare and social assistance, leisure and hospitality and government. The improvement is expected to continue over the next year at a slower pace. Orange County's economy has made significant headway in terms of economic growth and job creation with the largest job gains in health care and social assistance, construction, leisure and hospitality, professional, technical and scientific services. Employment growth is expected to continue in the coming year.

The Inland Empire (Riverside and San Bernardino counties) experienced the fastest job growth in California on a broad-base of industries including business and professional services, goods movement, leisure and hospitality, construction and manufacturing. Employment growth is expected to continue in the coming year. Ventura County's unemployment rate continued to decline with major contribution from leisure and hospitality, with future job growth expected in professional, scientific and technical services, administration, waste and support services.

LAEDC forecasts that the U.S. economy and job growth will continue at a modest pace because of the increase in consumer spending and improving numbers in housing. Uncertainties in the financial markets, fragile economics in Europe, and Japan, and the political and economic consequences to Europe as a result of Britain's vote to leave European Union, continue to be the key risks for future economic growth.

## **The Airline Industry**

LAWA's aviation revenue generation depends, in large part, upon the financial health of the aviation industry. The economic condition of the industry is volatile, and it has undergone significant changes, including mergers, acquisitions, and bankruptcies in recent years. Further, other than the general economic condition as previously discussed, the industry is sensitive to a variety of factors, including (a) cost and availability of labor, fuel, aircraft, and insurance, (b) currency values, (c) competitive considerations, including airline ticket pricing, (d) traffic and capacity constraints, (e) governmental regulations, including security, taxes, and environmental requirements, (f) labor actions such as strikes and other union activities, and (g) disruptions due to airline incidents, criminal incidents, and acts of war or terrorism.

The International Air Transport Association (IATA) forecasted the global airline industry to generate profits of \$33.0 billion in 2016 as a result of the improved global economic activity. The outlook for the air passenger market remains strong but challenges remain for cargo, reflecting both structural and cyclical factors.

Meanwhile, passenger traffic at LAX and ONT have shown a growth of 8.0% and 1.2%, respectively, in fiscal year 2016 as compared to the prior fiscal year. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

LAWA's airports are powerful economic engines for Southern California and vital to the economies of their surrounding communities. In April 2016, the economic impact analysis report issued by LAEDC reaffirmed LAX's role as a major economic generator in Southern California. Based on calendar year 2014 operations, LAX carried 70.7 million passengers on over 578,000 domestic and international flights, and moved 2 million tons of mail and cargo. These on-airport and off-airport services generated 620,610 jobs in Southern California with labor income of \$37.3 billion and economic output (business revenues) of more than \$126.6 billion. This activity added \$6.2 billion to local and state revenues and \$8.7 billion in federal tax revenues. The study also reported that LAX's ongoing capital-improvement program creates an additional 121,640 annual jobs with labor income of \$7.6 billion and economic output of \$20.3 billion, \$966.0 million in state and local taxes, and \$1.6 billion in federal tax revenues.



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## Initiatives and Developments

LAWA's overall mission is to operate and develop first class, customer-friendly, safe and secure airport facilities that serve as the Los Angeles Region's travel and trade gateways to the world. In order to fulfill this mission, LAWA is committed to operate the Airport System safely and securely, enhance organizational capability, foster employee ownership, implement the capital improvement program, create premier passenger and customer service, implement best airport business practices to build revenue and control expenses, and secure and maintain stakeholder support.

LAWA is in the midst of a multi-billion dollar capital improvements program at LAX, which is expected to continue through 2024. The capital improvements program is developed based on anticipated facility needs, current and expected airline traffic, available funding sources, and project priorities. Among the projects underway are terminal improvements and upgrades, roadway improvements, runway and taxiway rehabilitation and improvement, and utilities and infrastructure components.

Listing below are a summary of LAWA's major capital improvements projects:

### **Midfield Satellite Concourse**

This project consists of the development of a new 12-gate, 800,000 square feet concourse west of the Tom Bradley International Terminal (TBIT)/Bradley West terminal complex. This project would include adjacent apron and airfield pavement improvements, utilities, and baggage systems. It would be connected via an underground tunnel to TBIT/Bradley West and would serve both international and domestic airline operations. This project is estimated to cost \$1.6 billion and to be completed by fiscal year 2020.

### **Bradley West Interior Enhancements**

This project consists of the redevelopment, reconfiguration, or demolition of building areas remaining from the original TBIT constructed in 1984. Modifications include enlargement and reconfiguration of original main terminal space, demolition of the original TBIT concourses and aprons, enlargement of original Federal Inspection Services (FIS) space, and reconfiguration of the passenger security screening checkpoint. This project is estimated to cost \$383.5 million and was substantially completed in fiscal year 2016.

### **Elevators and Escalators Replacements**

This project consists of the comprehensive upgrading of elevator and escalator systems throughout the public areas of LAX (primarily in the Central Terminal Area (CTA)) that have exceeded their useful lives. This project is estimated to cost \$248.3 million and to be completed by fiscal year 2018.

### **West Maintenance Facility Pad and Infrastructure**

This project consists of the demolition of existing facilities, grading, and infrastructure associated with 84 acres located to the west of the aviation support area and to the south of the remote gates. Infrastructure elements of this project include utilities and storm water improvements. This project is estimated to cost \$100.7 million and was substantially completed in fiscal year 2016.



## **Transmittal Letter (continued)**

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### **Terminal 1 Improvement Project**

This project consists of the phased reconstruction of substantially all of Terminal 1, including the development of a new centralized 12-lane passenger security screening checkpoint, a new checked baggage inspection system, redeveloped public areas, hold rooms, gate areas, airline operations space, and adjacent apron areas. This project is estimated to cost \$536.5 million and to be completed by fiscal year 2019.

### **Terminal 2 Improvement Project**

This project consists of the phased redevelopment of portions of Terminal 2, including ticketing lobby, baggage screening, baggage-claim area, concourses, and building systems (electrical, mechanical, communication, etc.) that serve the terminal. This project is estimated to cost \$204.9 million and to be completed by fiscal year 2018.

### **Terminal 4/TBIT Connector Building**

This project consists of the construction of a 74,000 square feet, multiuse, multilevel facility that includes a post-security corridor linking Terminal 4 with the TBIT/Bradley West complex, a checked baggage inspection system for Terminal 4, a five-lane passenger security screening checkpoint, an airside bus port for passenger connections to other terminals, and additional tenant support spaces. This project is estimated to cost \$150.0 million and was substantially completed in fiscal year 2016.

### **Terminals 6/7/8 Improvement Project**

This project consists of the phased redevelopment of portions of these terminals, including a new checked baggage screening system, a new baggage sortation system, renovated baggage claim areas, renovated passenger security screening checkpoints, airline office areas, the replacement of passenger boarding bridges, and the construction of a new clubroom for use by United Airlines premium passengers. This project is estimated to cost \$548.8 million and to be completed by fiscal year 2019.

### **Terminal Commercial Management**

This project consists of the development of certain public use areas in Terminals 1, 2, 3, 6 and the TBIT, including public seating, restroom facilities, and common area enhancements. Under the terms of its agreements with LAWA, Westfield Concessions Management, LLC, is funding and undertaking these improvements, which are to be purchased by LAWA in phases when completed. This project is estimated to cost \$146.6 million and to be completed by fiscal year 2017.

### **Runway Safety Area Improvements**

This project consists of improvements to Runway 7L-25R runway safety area and to extend the runway by 800 feet. Also included are improvements to the east ends of Runways 6L-24R and 6R-24L. These projects are estimated to cost \$284.0 million and to be completed by fiscal year 2017.

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## **Taxilane T Program**

This project consists of the construction of a new Taxilane T, in multiple phases, extending from the area adjacent Taxilane S between Runways 7L-25R and 6R-24L. The final phases of this project are estimated to cost \$61.2 million and to be completed by fiscal year 2017.

## **Landside Access and Modernization Program (LAMP)**

Projects under consideration within the program include an automated people mover (APM) system, a consolidated rental car facility (ConRac) and intermodal transportation facilities. The APM and ConRac system, targeted for completion by mid-2024, are expected to be designed, built, financed, operated, and maintained by third party operators (the DBFOM approach). Current cost estimates for the LAMP range from approximately \$4.5 billion to \$5.5 billion, assuming a traditional delivery and financing approach.

## **Outlook for the Future**

Operating revenues for fiscal year 2017 are projected to increase by 12.3%, driven primarily by cost recovery formulas used in calculation of airfield and terminal rates and charges. These aeronautical revenues are expected to be higher than fiscal year 2016 due to increased operating expenses and debt service in the airfield and terminal cost centers as well as implementation of the Year 4 phased increase in cost recovery pursuant to the Terminal Rate Agreement (see Note 1 (j) of the notes to the financial statements). Revenues from in-terminal concession agreements and parking/ground transportation operations, boosted by increased levels of passenger traffic, are also expected to contribute to greater overall revenues.

The largest portion of LAWA's operating expenses consists of salaries, fringe benefits and other related payroll expenses, which is expected to increase by 6.9% for fiscal year 2017. This assumes a 1.2% increase in the current headcount, a 5.8% increase in personnel expenses associated with salaries plus overtime, and a 9.7% increase in pension contributions. Management continues to exercise fiscal prudence from within each LAWA division in administering the operating budget. The unrestricted net position, together with other fund sources such as operating revenue, debt proceeds, and grant receipts, will balance the subsequent fiscal year's budget as well as maintain projected reserves.

In December 2015, the City of Ontario, the City of Los Angeles, LAWA, the LAWA Board and Ontario International Airport Authority (OIAA), a joint powers authority of the County of San Bernardino and the City of Ontario, entered into a settlement agreement (ONT Settlement Agreement) which, among other things, provides for, subject to the terms of the ONT Settlement Agreement, the City to transfer, assign and deliver to OIAA the City's right, title and interest in and to certain of the assets, properties, rights and interests solely used or held solely for use in connection with LAWA's operation of ONT. The transactions contemplated by the ONT Settlement Agreement are currently scheduled to close on November 1, 2016. Additional information regarding the transfer can be found in Note 15 (d) of the notes to the financial statement on page 89.



## Transmittal Letter (continued)

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### Internal Control Framework

LAWA's internal control framework is designed to provide reasonable but not absolute assurance regarding: (a) safeguarding of assets against loss from unauthorized use or disposition; (b) execution of transactions in accordance with management's authorization; (c) reliability of financial records used in preparing financial statements and maintaining accountability for assets; (d) effectiveness and efficiency of operations; and (e) compliance with applicable laws and regulations. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from it, and that the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above structure. We believe that LAWA's internal control framework adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

### Budgetary Control

The annual operating budget is proposed by LAWA's management and adopted by the Board in a public meeting before the beginning of each fiscal year. The level of budgetary control (the level at which expenditures may not exceed appropriations) is by commitment item within each airport. The commitment items are salaries and benefits, contractual services, administrative services, materials and supplies, utilities, advertising and public relations, other operating expenses, and equipment and vehicles.

### Independent Audit

Macias Gini & O'Connell LLP (MGO), a firm of independent certified public accountants, audited LAWA's financial statements. MGO concluded, based upon its audit, that there was a reasonable basis for rendering an unmodified opinion that LAWA's financial statements as of and for the fiscal years ended June 30, 2016 and 2015, were fairly presented in conformity with GAAP. MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAWA's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAWA 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, 2016. MGO's report is on pages 145 and 146.

MGO also conducted a third audit to determine LAWA'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 LAWA 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, 2016. MGO's report is on pages 153 and 154.

As a recipient of federal grants, LAWA is required to undergo an additional audit to meet the requirements of the Federal Single Audit Act of 1996 and related Office of Management and Budget Circular A-133 and Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200 (Uniform Guidance). The results of the Single Audit performed by MGO are issued in a separate report.

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## Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LAWA for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the fifth consecutive year that LAWA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

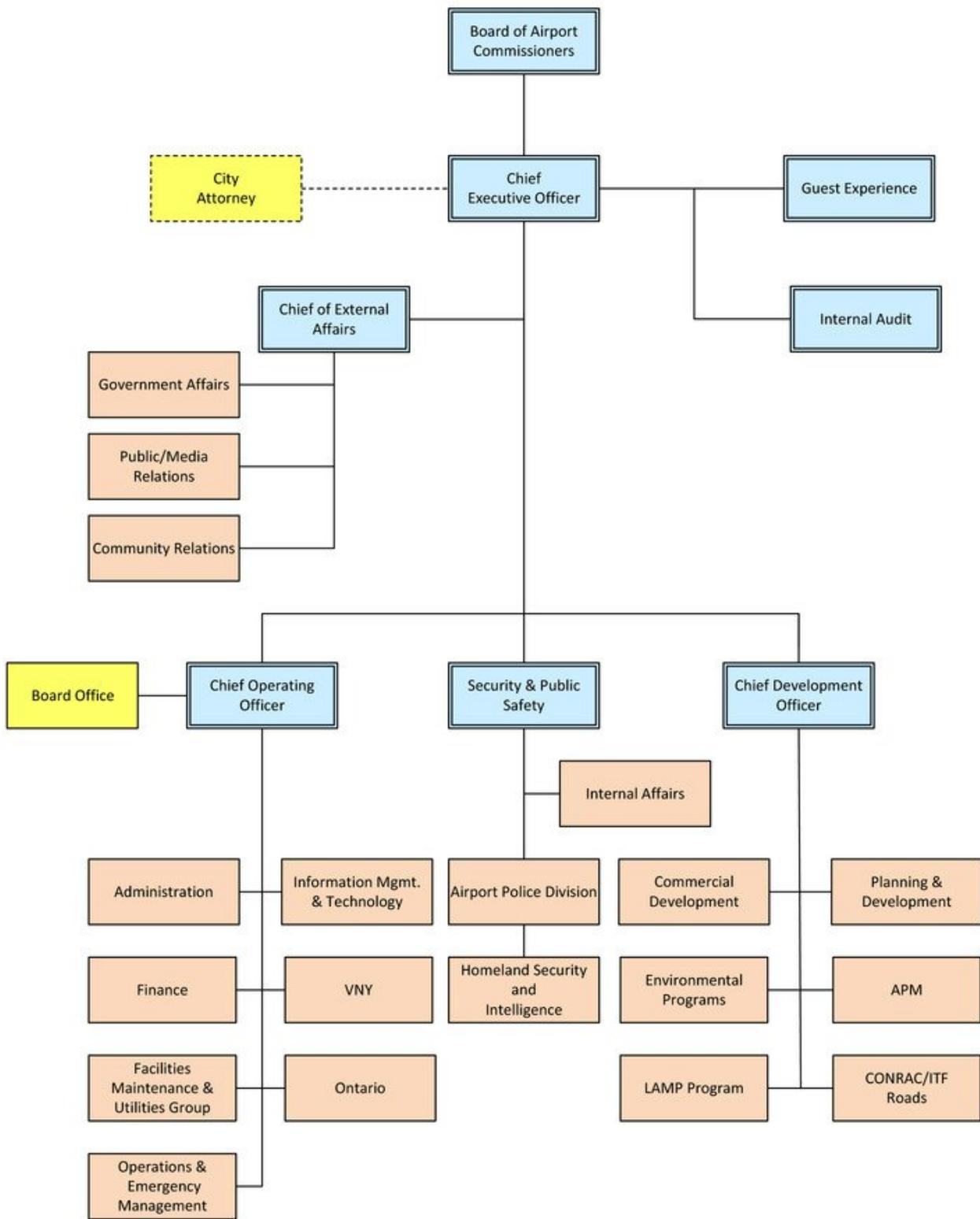
## Acknowledgement

Publication of this CAFR is a reflection of the excellence and professionalism of LAWA's entire staff. The dedicated service and efforts of the Financial Reporting Division made the preparation of this report possible. We would like to express our appreciation to all team members who assisted in and contributed to its preparation.

Respectfully submitted,

Deborah Flint  
Chief Executive Officer

Ryan P. Yakubik  
Chief Financial Officer



## Board of Airport Commissioners, Elected City Officials, and Los Angeles World Airports Executive Staff

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Sean O. Burton  
President



Valeria C. Velasco  
Vice President



Gabriel L. Eshaghian  
Commissioner



Nolan V. Rollins  
Commissioner



Beatrice C. Hsu  
Commissioner



Jeffery J. Daar  
Commissioner



Cynthia A. Telles  
Commissioner



Deborah Flint  
Executive Director

### CITY OF LOS ANGELES ELECTED OFFICIALS

Eric Garcetti, Mayor  
Mike Feuer, City Attorney  
Ron Galperin, City Controller

### CITY COUNCIL

Herb J. Wesson, Jr., President, District 10  
Mitchell Englander, President Pro Tempore, District 12  
Nury Martinez, Assistant President Pro Tempore, District 6

Gilbert A. Cedillo, District 1  
Paul Krekorian, District 2  
Bob Blumenfield, District 3  
David E. Ryu, District 4

Paul Koretz, District 5  
Vacant, District 7  
Marqueece Harris-Dawson, District 8  
Curren D. Price, Jr., District 9

Mike Bonin, District 11  
Mitch O'Farrell, District 13  
José Huizar, District 14  
Joe Buscaino, District 15

### LOS ANGELES WORLD AIRPORTS EXECUTIVE STAFF

Deborah Flint, Executive Director  
Samson Mengistu, Deputy Executive Director, Chief Operating Officer  
Stephen Martin, Deputy Executive Director, Chief Development Officer  
Ryan Yakubik, Deputy Executive Director, Chief Financial Officer  
Justin Erbacci, Deputy Executive Director, Chief Innovation and Technology Officer  
Roger Johnson, Deputy Executive Director, Airports Development  
Debbie Bowers, Deputy Executive Director, Commercial Development  
Samantha Bricker, Deputy Executive Director, Environmental Programs  
Trevor Daley, Deputy Executive Director, External Affairs  
David Shuter, Deputy Executive Director, Facilities Maintenance & Utilities  
Cynthia Guidry, Deputy Executive Director, Planning and Development  
Patrick Gannon, Deputy Executive Director, Security and Public Safety  
Raymond Ilgunas, General Counsel



Government Finance Officers Association

**Certificate of  
Achievement  
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Reporting**

Presented to

**Los Angeles World Airports  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO



# Financial Section

2016 Comprehensive Annual Financial Report

Economy  
Check-In



## Financial Section Contents

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- Independent Auditor's Report
- Management's Discussion and Analysis
- Financial Statements
- Required Supplementary Information
- Supplemental Information





## 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 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, 2016 and 2015, 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 LAWA as of June 30, 2016 and 2015, 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 LAWA 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 LAWA. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its 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 1, effective July 1, 2014, LAWA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The implementation of these statements resulted in a restatement of net position as of July 1, 2014, in the amount of \$617.5 million. The net position as of July 1, 2013 was not restated because all of the information available to restate prior year amounts was not readily available. Our opinion is not modified with respect to this matter.



## Independent Auditor's Report (continued)

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### **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 5 to 33, the schedule of LAWA's proportionate share of the net pension liability on page 93, and the schedule of contributions - pension on pages 94 to 96 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 LAWA. The accompanying introductory section, supplemental information, statistical section, and compliance section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying combining schedules on pages 100 to 105; Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 147 to 151; and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 155 to 157 (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 introductory section on pages i to xii and statistical section on pages 110 to 142 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 October 31, 2016, 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. 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  
October 31, 2016



# Financial Section

## Management's Discussion and Analysis

2016 Comprehensive Annual Financial Report

## Management's Discussion and Analysis

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# Los Angeles World Airports

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

## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015

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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). 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 LAWA's financial activities for the fiscal years ended June 30, 2016 and 2015. This discussion and analysis should be read in conjunction with LAWA's financial statements that begin on page 37.

### Using This Financial Report

LAWA'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 LAWA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2016 and 2015. 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 LAWA's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present the results of LAWA's operations and information showing the changes in net position for the fiscal years ended June 30, 2016 and 2015. These statements can, among other things, be useful indicators of how LAWA 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 LAWA'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 LAWA's financial activities.



## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

### Passenger and Other Traffic Activity Highlights

The following tables present a summary of passenger and other traffic at LAX and ONT for the last three fiscal years:

#### Los Angeles International Airport

	FY 2016	FY 2015	FY 2014	% Change	
				FY 2016	FY 2015
Total passengers	77,799,530	72,062,730	68,786,455	8.0%	4.8%
Domestic passengers	56,151,106	52,478,111	50,162,524	7.0%	4.6%
International passengers	21,648,424	19,584,619	18,623,931	10.5%	5.2%
Departing passengers	38,952,367	36,114,325	34,333,784	7.9%	5.2%
Arriving passengers	38,847,163	35,948,405	34,452,671	8.1%	4.3%
Passenger flight operations					
Departures	300,023	291,107	286,725	3.1%	1.5%
Arrivals	299,652	290,920	286,627	3.0%	1.5%
Landing weight (thousand lbs)	59,166,582	54,990,272	52,572,657	7.6%	4.6%
Air cargo (tons)					
Mail	92,675	87,791	76,784	5.6%	14.3%
Freight	2,024,248	2,016,438	1,852,760	0.4%	8.8%

#### LA/Ontario International Airport

	FY 2016	FY 2015	FY 2014	% Change	
				FY 2016	FY 2015
Total passengers	4,216,975	4,165,442	4,005,540	1.2%	4.0%
Domestic passengers	4,071,451	4,048,118	3,932,996	0.6%	2.9%
International passengers	145,524	117,324	72,544	24.0%	61.7%
Departing passengers	2,108,441	2,085,482	2,002,759	1.1%	4.1%
Arriving passengers	2,108,534	2,079,960	2,002,781	1.4%	3.9%
Passenger flight operations					
Departures	21,052	20,884	21,336	0.8%	-2.1%
Arrivals	21,056	20,920	21,443	0.7%	-2.4%
Landing weight (thousand lbs)	5,198,143	4,691,442	4,675,640	10.8%	0.3%
Air cargo (tons)					
Mail	26,644	20,962	15,033	27.1%	39.4%
Freight	511,414	462,386	449,369	10.6%	2.9%

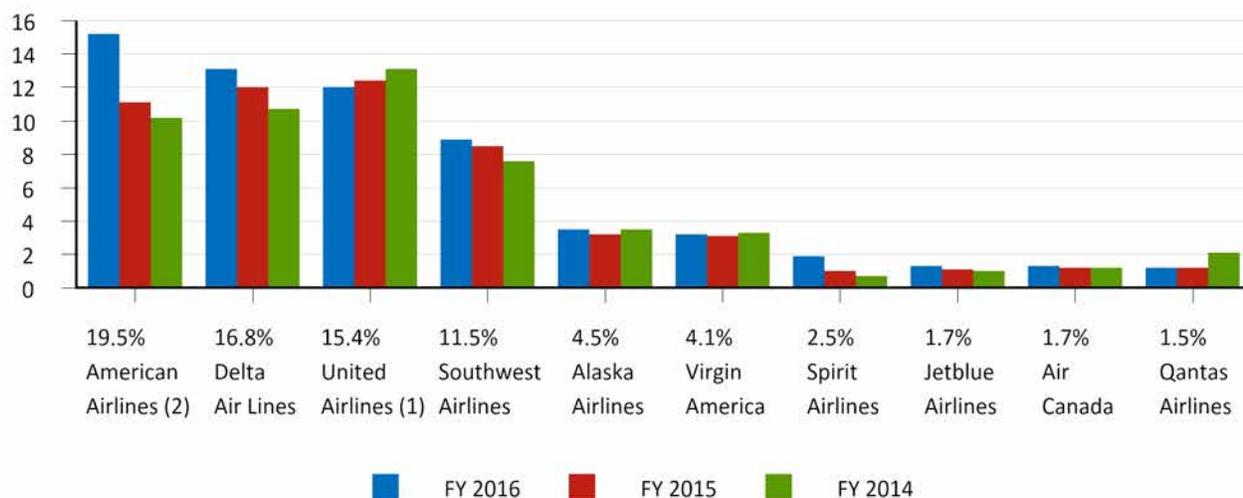
*Note: Prior years' data may change because of the updated available information, however, in order to remain comparable and consistent with the published data, the passenger and other traffic numbers for prior fiscal years are not changed. Fiscal Year (FY) 2016 traffic data is based on information available on July 26, 2016.*



## Passenger Traffic

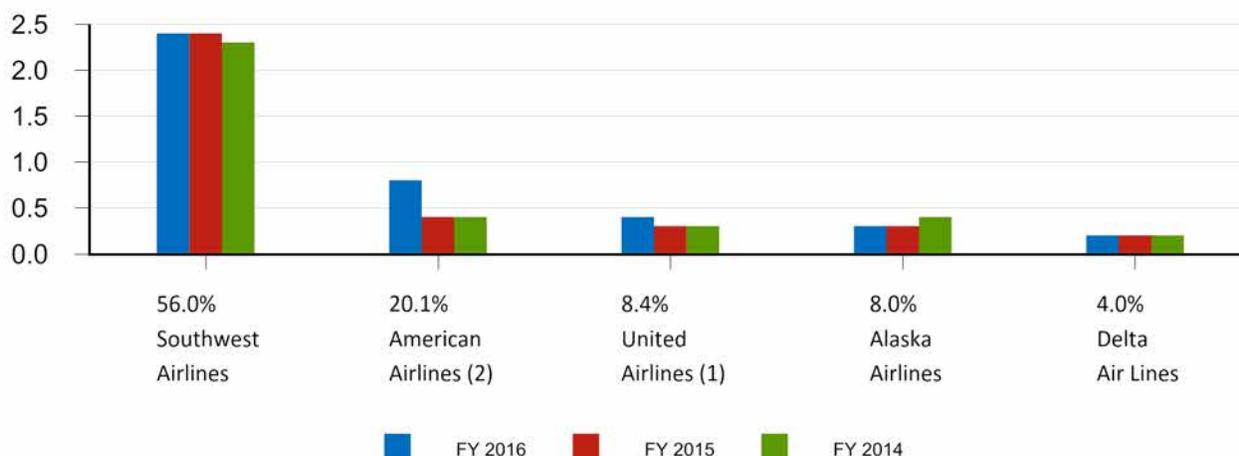
The following charts present the top ten airlines at LAX and top five airlines at ONT by number of passengers for fiscal year 2016 and the comparative passengers for fiscal years 2015 and 2014.

### LAX- FY 2016 Top Ten Carriers and Percentage of Market Share (passengers in millions)



(1) Continental Airlines merged with United Airlines and combined data was reported in FY 2014.  
 (2) American Airlines merged with US Airways and combined data was reported in FY 2016.

### ONT- FY 2016 Top Five Carriers and Percentage of Market Share (passengers in millions)



(1) Continental Airlines merged with United Airlines and combined data was reported in FY 2014.  
 (2) American Airlines merged with US Airways and combined data was reported in FY 2016.



## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

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### Passenger Traffic, Fiscal Year 2016

Passenger traffic at LAX increased by 8.0% in fiscal year 2016 as compared to fiscal year 2015. Of the 77.8 million passengers that moved in and out of LAX, domestic passengers accounted for 72.2%, while international passengers accounted for 27.8%. American Airlines ferried the largest number of passengers at 15.2 million with a 11.8%<sup>1</sup> increase in passenger traffic. Delta Air Lines, ranked second with 13.1 million passengers posted a 9.2% increase in passenger traffic. United Airlines, ranked third with 12.0 million passengers posted a 3.2% decrease in passenger traffic. Southwest Airlines (8.9 million) and Alaska Airlines (3.5 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.3 million passengers and was ranked ninth overall.

Passenger traffic at ONT increased by 1.2% in fiscal year 2016 as compared to fiscal year 2015. Of the 4.2 million passengers, domestic passengers accounted for 96.5%, while international passengers accounted for 3.5%. International passengers increased by 24.0% in fiscal year 2016 as compared to fiscal year 2015. Southwest Airlines ferried the largest number of passengers at 2.4 million with a 0.8% decrease in passenger traffic.

### Passenger Traffic, Fiscal Year 2015

Passenger traffic at LAX increased by 4.8% in fiscal year 2015 as compared to fiscal year 2014. Of the 72.1 million passengers that moved in and out of LAX, domestic passengers accounted for 72.8%, while international passengers accounted for 27.2%. United Airlines ferried the largest number of passengers at 12.4 million with a 5.2% decrease in passenger traffic. Delta Air Lines, ranked second with 12.0 million passengers posted a 17.8% increase in passenger traffic. American Airlines, ranked third with 11.1 million passengers posted a 3.8% increase in passenger traffic. Southwest Airlines (8.5 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 eight overall.

Passenger traffic at ONT increased by 4.0% in fiscal year 2015 as compared to fiscal year 2014. Of the 4.2 million passengers, domestic passengers accounted for 97.2%, while international passengers accounted for 2.8%. International passengers increased by 61.7% in fiscal year 2015 as compared to fiscal year 2014. Southwest Airlines ferried the largest number of passengers at 2.4 million with a 3.3% increase in passenger traffic.

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<sup>1</sup> American Airlines merged with US Airways and combined data was reported in FY 2016. On a comparable basis, FY 2015 passenger data for American Airlines was normalized to show combined total of 13.6 million for the purpose of calculating the increase in passenger traffic.



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## Flight Operations, Fiscal Year 2016

Departures and arrivals at LAX had an increase of 17,648 flights or 3.0% during fiscal year 2016 when compared to fiscal year 2015. Scheduled and charter were up 19,080 flights, while commuter flights were down 1,432. Revenue landing pounds were up 7.6%. The top three carriers in terms of landing pounds were American Airlines, Delta Air Lines, and United Airlines. In total, these three airlines contributed 42.1% of the total revenue pounds at LAX.

Departures and arrivals at ONT had an increase of 304 flights or 0.7% during fiscal year 2016 when compared to fiscal year 2015. Revenue landing pounds were up 10.8%. United Parcel Service and Southwest Airlines were the top two carriers in terms of landing pounds. Together, these two airlines contributed 64.9% of the total revenue pounds at ONT.

## Flight Operations, Fiscal Year 2015

Departures and arrivals at LAX had an increase of 8,675 flights or 1.5% during fiscal year 2015 when compared to fiscal year 2014. Scheduled<sup>2</sup> and charter were up 85,315 flights, while commuter flights were down 76,640. Revenue landing pounds were up 4.6%. The top three carriers in terms of landing pounds were Delta Air Lines, United Airlines, and American Airlines. In total, these three airlines contributed 40.2% of the total revenue pounds at LAX.

Departures and arrivals at ONT had a decrease of 975 flights or 2.3% during fiscal year 2015 when compared to fiscal year 2014. Revenue landing pounds were up 0.3%. United Parcel Service and Southwest Airlines were the top two carriers in terms of landing pounds. Together, these two airlines contributed 66.7% of the total revenue pounds at ONT.

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<sup>2</sup> The increase in scheduled and charter flights by 85,315 and the decrease in commuter flights by 76,640 in fiscal year 2015 was due to the grouping of the Skywest activity into United Airlines effective FY2015. Skywest is considered as a commuter airline while United Airlines is considered as a scheduled carrier. Prior year data is not restated as information is not available.



## **Management's Discussion and Analysis (Unaudited)** **June 30, 2016 and 2015** (continued)

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### **Air Cargo Operations, Fiscal Year 2016**

Freight and mail cargo at LAX increased by 0.6% in fiscal year 2016 as compared to fiscal year 2015. Freight and mail were up by 7,810 tons and 4,884 tons, respectively. Domestic cargo was up by 14,185 tons or 1.7% and international cargo was down by 1,491 tons or 0.1%. Federal Express was the top air freight carrier accounting for 17.8% of total freight cargo, followed by Delta Air Lines with 4.8%. Delta Air Lines was the top mail carrier accounting for 24.5% of total mail cargo.

Freight and mail cargo at ONT had an increase of 11.3% in fiscal year 2016 as compared to fiscal year 2015. Mail was up 5,682 tons and freight was up 49,028 tons. United Parcel Service was the top mail and freight carrier accounting for 70.9% of total freight cargo, and 94.5% of total mail cargo.

### **Air Cargo Operations, Fiscal Year 2015**

Freight and mail cargo at LAX increased by 9.1% in fiscal year 2015 as compared to fiscal year 2014. Freight and mail were up by 163,678 tons and 11,007 tons, respectively. Domestic cargo was up by 32,670 tons or 4.1% and international cargo was up by 142,015 tons or 12.6%. Federal Express was the top air freight carrier accounting for 17.6% of total freight cargo, followed by Korean Airlines with 4.9%. United Airlines was the top mail carrier accounting for 31.8% of total mail cargo.

Freight and mail cargo at ONT had an increase of 4.1% in fiscal year 2015 as compared to fiscal year 2014. Mail was up 5,929 tons and freight was up 13,017 tons. United Parcel Service was the top mail and freight carrier accounting for 72.5% of total freight cargo, and 91.9% of total mail cargo.



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## Overview of LAWA's Financial Statements

### Financial Highlights, Fiscal Year 2016

- LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2016 by \$4.9 billion.
- Bonded debt of LAWA had a net increase of \$615.5 million.
- Operating revenue totaled \$1.3 billion.
- Operating expenses (including depreciation and amortization of \$250.1 million) totaled \$984.5 million.
- Net nonoperating revenue was \$54.8 million.
- Federal grants totaled \$49.3 million.
- LAWA's proportionate share of net pension liability (NPL) for the retirement benefits, based on the ratio of LAWA's contributions to the City's retirement plan's total contributions, was \$697.5 million as of measurement date June 30, 2015, and reporting date June 30, 2016. NPL, the difference between the total pension liability (TPL) and the retirement plan's net position, is an important measure required by Governmental Accounting Standards Board (GASB) Statements No. 68<sup>3</sup> and 71<sup>4</sup>, to disclose in the financial statements (see Note 13 of the notes to the financial statements.)
- Net position increased by \$405.4 million .

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<sup>3</sup> GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, issued in June 2012

<sup>4</sup> GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68, issued in November 2013



## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

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### Financial Highlights, Fiscal Year 2015

- LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2015 by \$4.5 billion.
- Bonded debt of LAWA had a net increase of \$312.0 million.
- Operating revenue totaled \$1.1 billion.
- Operating expenses (including depreciation and amortization of \$201.2 million) totaled \$913.3 million.
- Net nonoperating revenue was \$24.8 million.
- Federal grants totaled \$34.8 million.
- LAWA's proportionate share of NPL for the retirement benefits, based on the ratio of LAWA's contributions to the City's retirement plan's total contributions, was \$615.3 million as of measurement date June 30, 2014, and reporting date June 30, 2015. NPL, the difference between the TPL and the retirement plan's net position, is an important measure required by GASB Statements No. 68 and 71, to disclose in the financial statements (see Note 13 of the notes to the financial statements.) The data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amounts was not readily available.
- Net position decreased by \$349.6 million (including restatement of net position of \$(617.5) million as a result of the implementation of GASB Statements No. 68 and 71).



## Net Position Summary

A condensed summary of LAWA's net position for fiscal years 2016, 2015, and 2014 is presented below:

### Condensed Net Position (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
<b>Assets</b>					
Unrestricted current assets	\$ 953,498	\$ 801,802	\$ 773,686	\$ 151,696	\$ 28,116
Restricted current assets	1,826,813	1,666,940	1,741,540	159,873	(74,600)
Capital assets, net	8,237,704	7,457,471	6,938,565	780,233	518,906
Other noncurrent assets	13,151	16,070	18,932	(2,919)	(2,862)
Total assets	<u>11,031,166</u>	<u>9,942,283</u>	<u>9,472,723</u>	<u>1,088,883</u>	<u>469,560</u>
<b>Deferred outflows of resources</b>					
Deferred charges on debt refunding	25,763	27,051	2,581	(1,288)	24,470
Changes of assumptions related to pension	70,724	89,130	—	(18,406)	89,130
Contribution after measurement date related to pension	60,694	53,261	—	7,433	53,261
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,802	—	—	6,802	—
Total deferred outflows of resources	<u>163,983</u>	<u>169,442</u>	<u>2,581</u>	<u>(5,459)</u>	<u>166,861</u>
<b>Liabilities</b>					
Current liabilities payable from unrestricted assets	358,841	319,941	414,285	38,900	(94,344)
Current liabilities payable from restricted assets	174,686	132,667	116,999	42,019	15,668
Noncurrent liabilities	5,001,300	4,401,545	4,102,171	599,755	299,374
Net pension liability	697,482	615,349	—	82,133	615,349
Total liabilities	<u>6,232,309</u>	<u>5,469,502</u>	<u>4,633,455</u>	<u>762,807</u>	<u>836,047</u>
<b>Deferred inflows of resources</b>					
Differences between expected and actual experience related to pension	30,059	18,368	—	11,691	18,368
Differences between projected and actual investment earnings related to pension	20,096	112,403	—	(92,307)	112,403
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,081	19,248	—	(4,167)	19,248
Total deferred inflows of resources	<u>65,236</u>	<u>150,019</u>	<u>—</u>	<u>(84,783)</u>	<u>150,019</u>
<b>Net Position</b>					
Net investment in capital assets	3,651,912	3,359,104	3,089,235	292,808	269,869
Restricted for debt service	397,828	350,101	334,396	47,727	15,705
Restricted for capital projects	750,234	801,276	944,200	(51,042)	(142,924)
Restricted for operations and maintenance reserve	194,818	188,375	178,598	6,443	9,777
Restricted for federally forfeited property and protested funds	1,368	1,517	1,313	(149)	204
Unrestricted	(98,556)	(208,169)	294,107	109,613	(502,276)
Total net position	<u>\$ 4,897,604</u>	<u>\$ 4,492,204</u>	<u>\$ 4,841,849</u>	<u>\$ 405,400</u>	<u>\$ (349,645)</u>



## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

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### Net Position, Fiscal Year 2016

As noted earlier, net position may serve as a useful indicator of LAWA's financial condition. At the close of fiscal years 2016 and 2015, LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4.9 billion and \$4.5 billion, respectively, representing a 9.0% increase or \$405.4 million.

The largest portion of LAWA's net position (\$3.7 billion or 74.6%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAWA's net position (\$1.3 billion or 27.4%) represents resources that are subject to various restrictions on how they may be used. The unrestricted net position (-\$98.6 million or -2.0%) was a result of the recognition of \$82.1 million additional net pension liability in accordance with GASB Statements No. 68 and 71.

Unrestricted current assets increased by 18.9%, from \$801.8 million at June 30, 2015 to \$953.5 million at June 30, 2016. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2016) 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 operating activities, capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2016) 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 LAWA capital expenditures incurred at LAX and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 27.6% from \$653.9 million in fiscal year 2015 to \$834.3 million in fiscal year 2016 mainly due to unspent proceeds of newly issued 2016 series bonds as of June 30, 2016.

LAWA's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 10.5%. 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 \$2.8 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net increase of \$38.9 million or 12.2%. This was mainly due to the increase of \$20.1 million, or 9.3% in contracts and accounts payable as a result of the accrued \$34.4 million acquisition of Terminal 1 renovations at year-end; increase of \$10.7 million, or 243.3% in obligations under securities lending transactions, and increase of \$4.9 million or 22.6% in other current liabilities. The increase in other current liabilities was mainly due to an increase in LAWA's share of the City Treasury's year-end pending investment trade of \$9.0 million, offset by decrease of \$5.5 million in unapplied credits issued to the airlines in FY 2016, and increase of \$1.9 million negative unbilled receivables arising from the landing fees and building rentals reconciliation.



Current liabilities payable from restricted assets had an increase of \$42.0 million or 31.7% due to the increase of \$14.7 million, or 17.2% in current maturities of bonded debt, increase of \$12.4 million in obligations under securities lending transactions, increase of \$9.4 million in LAWA's allocated share of the City Treasury's fiscal year-end pending investment trades, increase of \$2.7 million in accrued interest payable, and increase of \$2.4 million, or 120.2% in contracts and accounts payable in fiscal year 2016. The net increase in noncurrent liabilities was \$681.9 million or 13.6%, as a result of additional bond issuances of \$613.5 million and the recognition of LAWA's additional proportionate share of net pension liability of \$82.1 million in fiscal year 2016.

The total deferred outflows of resources had a net decrease of \$5.5 million or 3.2%. The decrease was mainly due to the decrease of \$18.4 million, or 20.7% in the proportionate share of deferred outflows of resources for changes of assumptions related to pension, and the decrease of \$1.3 million or 4.8% in deferred charges on debt refunding, offset by the increase of \$7.4 million or 14.0% in deferred outflows of resources for contribution after measurement date related to pension, and the increase of \$6.8 million in the deferred outflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension.

The total deferred inflows of resources had a net decrease of \$84.8 million or 56.5%. The decrease was mainly due to the decrease of \$92.3 million, or 82.1% in the deferred inflows of resources for differences between projected and actual investment earnings related to pension, and the decrease of \$4.2 million or 21.6% in the the deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension, offset by the increase of \$11.7 million, or 63.6% in the deferred inflows of resources for differences between expected and actual experience related to pension.

### **Net Position, Fiscal Year 2015**

As noted earlier, net position may serve as a useful indicator of LAWA's financial condition. At the close of fiscal years 2015 and 2014, LAWA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4.5 billion and \$4.8 billion, respectively, representing a 7.2% decrease or \$349.6 million. The decrease in net position is a result of LAWA's adoption of the provisions of GASB Statements No. 68 and 71.

The largest portion of LAWA's net position (\$3.4 billion or 74.8%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAWA's net position (\$1.3 billion or 29.8%) represents resources that are subject to various restrictions on how they may be used. The unrestricted net position (-\$208.2 million or -4.6%) reflects the recognition of the reduction of net position due to GASB Statements No. 68 and 71 as stated above.

Unrestricted current assets increased by 3.6%, from \$773.7 million at June 30, 2014 to \$801.8 million at June 30, 2015. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2015) held in the City Treasury. Cash outflows were less 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 in 2015) 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 LAWA capital expenditures incurred at LAX and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 9.0% from \$599.8 million in fiscal year 2014 to \$653.9 million in fiscal year 2015 mainly due to unspent proceeds of newly issued 2015 series bonds as of June 30, 2015.



## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

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LAWA's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 7.5%. 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 \$2.7 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net decrease of \$94.3 million or 22.8%. This was mainly due to the decrease of \$109.9 million, or 33.7% 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, in fiscal year 2014. The decrease was offset by increase in obligations under securities lending transactions and increase in other current liabilities. The increase in other current liabilities was mainly due to the increase in the negative accounts receivable balance of \$6.0 million resulting from the unapplied credits issued to the airlines, increase in negative unbilled receivables of \$2.8 million arising from the landing fees and building rentals reconciliation and increase in LAWA's share of the City Treasury's year-end pending investment trade of \$1.6 million.

Current liabilities payable from restricted assets had a net increase of \$15.7 million or 13.4%. The increase was mainly due to the increase of \$9.5 million, or 12.5% in current maturities of bonded debt and the increase of \$1.4 million in accrued interest payable, increase of \$5.1 million in obligations under securities lending transactions and \$2.0 million in LAWA's allocated share of the City Treasury's fiscal year-end pending investment trades, in fiscal year 2015, offset by the decrease of \$2.4 million, or 54.6% in contracts and accounts payable.

The net increase in noncurrent liabilities was \$914.7 million or 22.3%, as a result of additional bond issuances of \$497.3 million and the recognition of LAWA's proportionate share of net pension liability of \$615.3 million during fiscal year 2015.

In addition to the net pension liability, LAWA has also recognized the proportionate share of deferred outflows of resources for changes of assumptions related to pension of \$89.1 million, deferred outflows of resources for contribution after measurement date related to pension of \$53.3 million, deferred inflows of resources for differences between projected and actual investment earnings related to pension of \$112.4 million, deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of \$19.2 million, and deferred inflows of resources for differences between expected and actual actuarial experience related to pension of \$18.4 million. LAWA has also recognized the reversal of the net pension obligation of \$9.0 million during fiscal year 2015. As a result, the net financial impact of the implementation of GASB Statements No. 68 and 71 is decrease in the net position by \$613.9 million. Implementation of GASB Statements No. 68 and 71 is solely for financial reporting purpose, and it does not represent an immediate funding requirement.



## Changes in Net Position Summary

A condensed summary of LAWA's changes in net position for fiscal years ended 2016, 2015, and 2014 is presented below:

### Condensed Changes in Net Position (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Operating revenue	\$ 1,285,816	\$ 1,121,584	\$ 1,038,506	\$ 164,232	\$ 83,078
Less- Operating expenses	734,419	712,060	679,861	22,359	32,199
Operating income before depreciation and amortization	551,397	409,524	358,645	141,873	50,879
Less- Depreciation and amortization	250,109	201,214	165,960	48,895	35,254
Operating income	301,288	208,310	192,685	92,978	15,625
Other nonoperating revenue, net	54,841	24,803	66,015	30,038	(41,212)
Federal grants	49,271	34,761	32,677	14,510	2,084
Changes in net position	405,400	267,874	291,377	137,526	(23,503)
Net position, beginning of year, as previously reported	4,492,204	4,841,849	4,550,472	(349,645)	291,377
Change in accounting principle	—	(617,519)	—	617,519	(617,519)
Net position, beginning of year, as restated	4,492,204	4,224,330	4,550,472	267,874	(326,142)
Net position, end of year	\$ 4,897,604	\$ 4,492,204	\$ 4,841,849	\$ 405,400	\$ (349,645)



# Management's Discussion and Analysis (Unaudited)

## June 30, 2016 and 2015

(continued)

### Operating Revenue

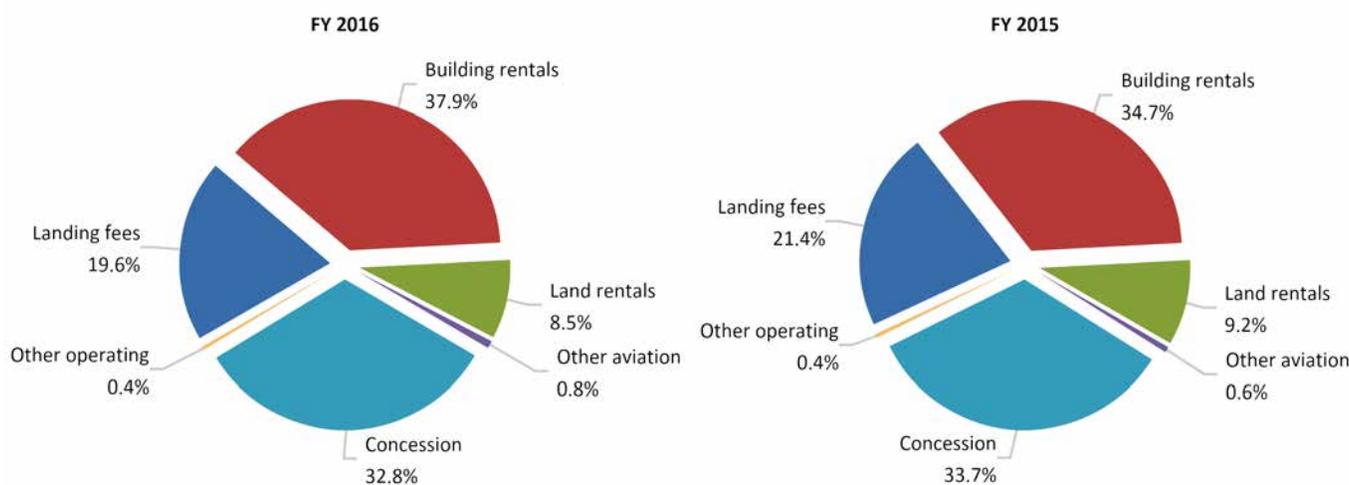
LAWA derives its operating revenue from several major airports business activities. The following table presents a summary of these business activities during fiscal years 2016, 2015, and 2014:

#### Summary of Operating Revenue (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Aviation revenue					
Landing fees	\$ 252,589	\$ 239,659	\$ 234,394	\$ 12,930	\$ 5,265
Building rentals	487,349	389,796	339,420	97,553	50,376
Land rentals	109,422	102,746	101,369	6,676	1,377
Other aviation revenue	9,606	7,126	5,899	2,480	1,227
Total aviation revenue	858,966	739,327	681,082	119,639	58,245
Concession revenue	422,278	377,617	354,847	44,661	22,770
Other operating revenue	4,572	4,640	2,577	(68)	2,063
Total operating revenue	\$ 1,285,816	\$ 1,121,584	\$ 1,038,506	\$ 164,232	\$ 83,078

### Operating Revenue, Fiscal Year 2016

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2016 and 2015.





For the fiscal year ended June 30, 2016, total operating revenue was \$1.3 billion, a \$164.2 million or 14.6% increase from the prior fiscal year. The growth in aviation related revenue was \$119.6 million. Non-aviation revenue had an increase of \$44.6 million mostly from concessions.

As described in the notes to the financial statements (see page 48), landing fees assessed to air carriers at LAX and ONT are based on cost recovery methodologies. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Landing fees increased by \$12.9 million or 5.4%, from \$239.7 million in fiscal year 2015 to \$252.6 million in fiscal year 2016. At LAX, landing fees were up by \$13.3 million, or 5.9%. The increase in landing fees was due to the increase in actual expenses. At ONT, landing fees were down by \$0.4 million, or 3.3%.

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. Terminal rental rates calculated for ONT follow a residual fee methodology. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a fiscal year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

At LAX, total building rental revenue posted growth of \$97.4 million, or 26.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, scheduled rate increases associated with the Terminal Rate Agreement, as well as new and renegotiated leases signed with the airlines and other tenants. At ONT, building rental decreased by \$0.3 million, or 2.0%, due to decreases in operating expenses.

Land rental revenue was up by \$6.7 million from \$102.7 million in fiscal year 2015 to \$109.4 million in fiscal year 2016. Land rental revenue increased by \$5.7 million at LAX and \$0.4 million at ONT, and increased by \$0.6 million at VNY. The increase in land rental revenue at LAX was mainly due to the increase in leased areas.

Total revenue from concessions was \$422.3 million in fiscal year 2016, an 11.8% growth from \$377.6 million in fiscal year 2015. In-terminal concession revenue are rentals collected from commercial management concessionaires, 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, transportation network company and other commercial ground transportation operations.

At LAX, in-terminal concession revenue during fiscal year 2016 had a net increase of \$19.0 million or 11.4% as compared to fiscal year 2015. The concessions benefited from the increased passenger traffic. Duty free revenues increased by \$2.3 million, or 3.6%. Advertising revenue increased by 3.9 million, or 17.3% as a result of negotiated increases in the minimum annual guarantee (MAG). Foreign exchange and telecommunications increased by \$1.7 million, or 20.2%. As discussed in Note 8 of the notes to the financial statements, LAWA entered into Terminal Commercial Management Concession Agreements with Westfield Concession Management, LLC to develop, lease, and manage certain retail food and beverage operations in specific locations at the TBIT, Terminals 1, 2, 3 and 6. Overall, the total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires showed a net increase of \$11.1 million, or 17.0%.

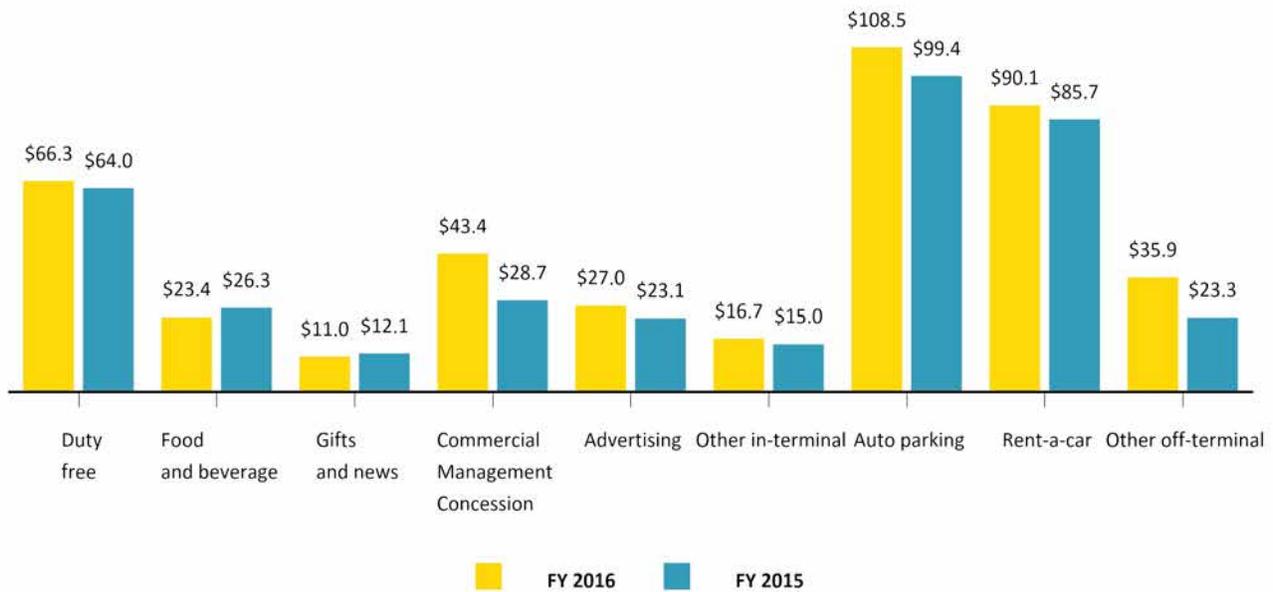


## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

Off-terminal concession revenue at LAX in fiscal year 2016 was \$213.0 million as compared to \$187.4 million in fiscal year 2015, an increase of \$25.6 million, or 13.7%. Of the \$25.6 million increase, \$8.3 million was from auto parking, \$4.7 million from rent-a-car, \$1.5 million from bus, limousine and taxi services, and \$2.2 million from flyaway bus service. New fees charged to transportation network companies added \$8.9 million in fiscal year 2016.

At ONT, in-terminal concession revenue was down \$0.4 million, or 16.0% from fiscal year 2015, mainly due to the decrease of \$0.4 million, or 40.0% in gifts and news. Off-terminal concession revenue showed an increase of \$0.5 million, or 2.4% from fiscal year 2015 mainly due to increase of \$0.8 million, or 5.9% in auto parking revenue, offset by the decrease of \$0.3 million, or 4.2% in rent-a-car.

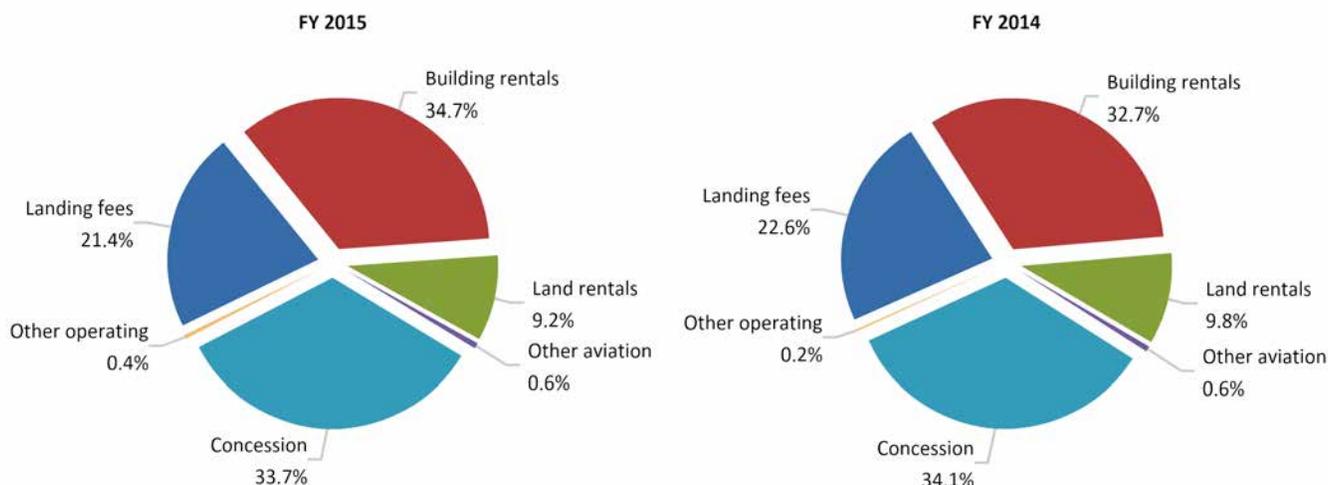
Comparative concession revenue by type for fiscal years 2016 and 2015 are presented in the following chart (amounts in millions).





## Operating Revenue, Fiscal Year 2015

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2015 and 2014.



For the fiscal year ended June 30, 2015, total operating revenue was \$1.1 billion, a \$83.1 million or 8.0% increase from the prior fiscal year. The growth in aviation related revenue was \$58.2 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 48), landing fees assessed to air carriers at LAX and ONT are based on cost recovery methodologies. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Landing fees increased by \$5.3 million or 2.2%, from \$234.4 million in fiscal year 2014 to \$239.7 million in fiscal year 2015. At LAX, landing fees were up by \$4.9 million, or 2.2%. At ONT, landing fees were up by \$0.4 million, or 3.1%. The increase in landing fees was due to the increase in actual expenses.

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. Terminal rental rates calculated for ONT follow a residual fee methodology. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a fiscal year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

At LAX, total building rental revenue posted a growth of \$49.5 million, or 15.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, scheduled rate increases associated with the Terminal Rate Agreement, as well as new and renegotiated leases signed with the airlines and other tenants. At ONT, building rental decreased by \$0.4 million, or 2.4%, due to decreases in operating expenses.



## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

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Land rental revenue was up by \$1.3 million from \$101.4 million in fiscal year 2014 to \$102.7 million in fiscal year 2015. Land rental revenue increased by \$3.9 million at LAX and \$0.2 million at ONT, and decreased by \$2.8 million at VNY. The increased land rental revenue at LAX was mainly due to the increase in leased areas.

Total revenue from concessions was \$377.6 million in fiscal year 2015, an 6.4% growth from \$354.8 million in fiscal year 2014. In-terminal concession revenue are rentals collected from commercial management concessionaires, 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.

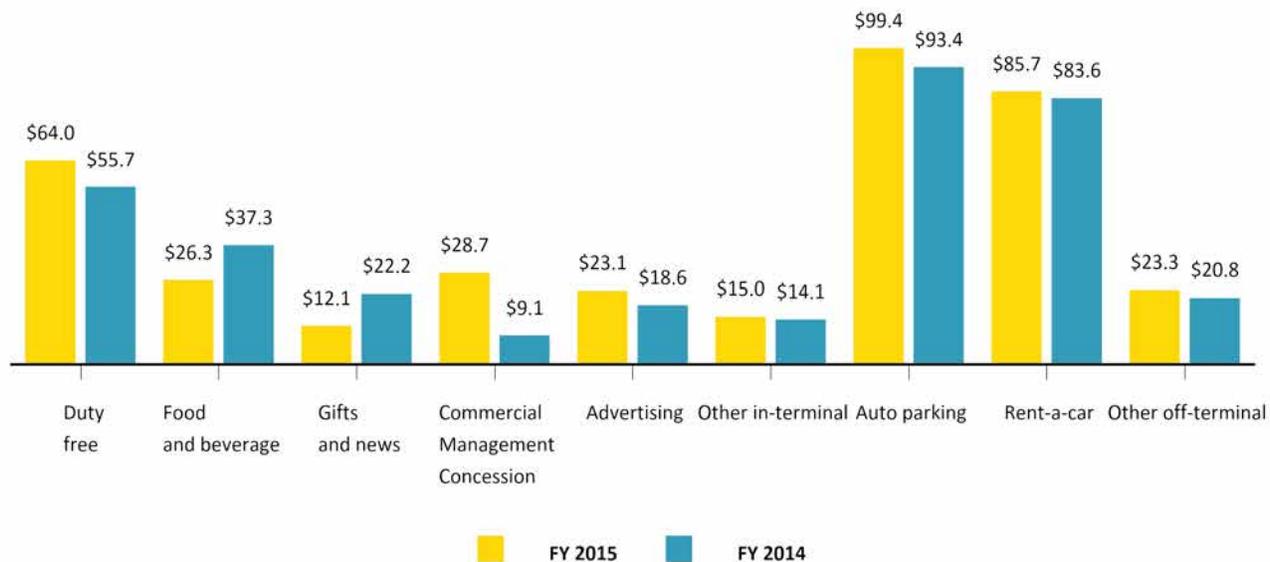
At LAX, in-terminal concession revenue during fiscal year 2015 had a net increase of \$12.4 million or 8.0% as compared to fiscal year 2014. The concessions benefited from the increased passenger traffic. Duty free revenues increased by \$8.3 million, or 14.8%. Advertising revenue increased by \$4.7 million, or 26.8% as a result of the new advertising contract. Foreign exchange and telecommunications increased by \$1.1 million, or 14.8%. As discussed in Note 8 of the notes to the financial statements, LAWA entered into Terminal Commercial Management Concession Agreements with Westfield Concession Management, LLC to develop, lease, and manage certain retail food and beverage operations in specific locations at the TBIT, Terminals 1, 2, 3 and 6. Overall, the total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires showed a slight decrease of \$1.6 million, or 2.4% mainly caused by the closure of some retail locations due to the on-going terminal modernization projects.

Off-terminal concession revenue at LAX in fiscal year 2015 was \$187.4 million as compared to \$177.0 million in fiscal year 2014, an increase of \$10.4 million, or 5.9%. Of the \$10.4 million increase, \$5.9 million was from auto parking, \$2.1 million from rent-a-car (RAC), \$1.3 million from bus, limousine and taxi services, and \$1.1 million from flyaway bus service.

At ONT, in-terminal concession revenue was down \$0.2 million, or 5.9% from fiscal year 2014, mainly due to the decrease of \$0.2 million, or 21.5% in advertising revenue, and decrease of \$0.1 million, or 11.4% from food and beverage, offset by an increase of \$0.1 million, or 12.2% in gifts and news. Off-terminal concession revenue showed an increase of \$0.2 million, or 0.7% from fiscal year 2014 mainly due to increase in auto parking revenue as a result of the increase in passenger traffic.



Comparative concession revenue by type for fiscal years 2015 and 2014 are presented in the following chart (amounts in millions).





# Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

## Operating Expenses

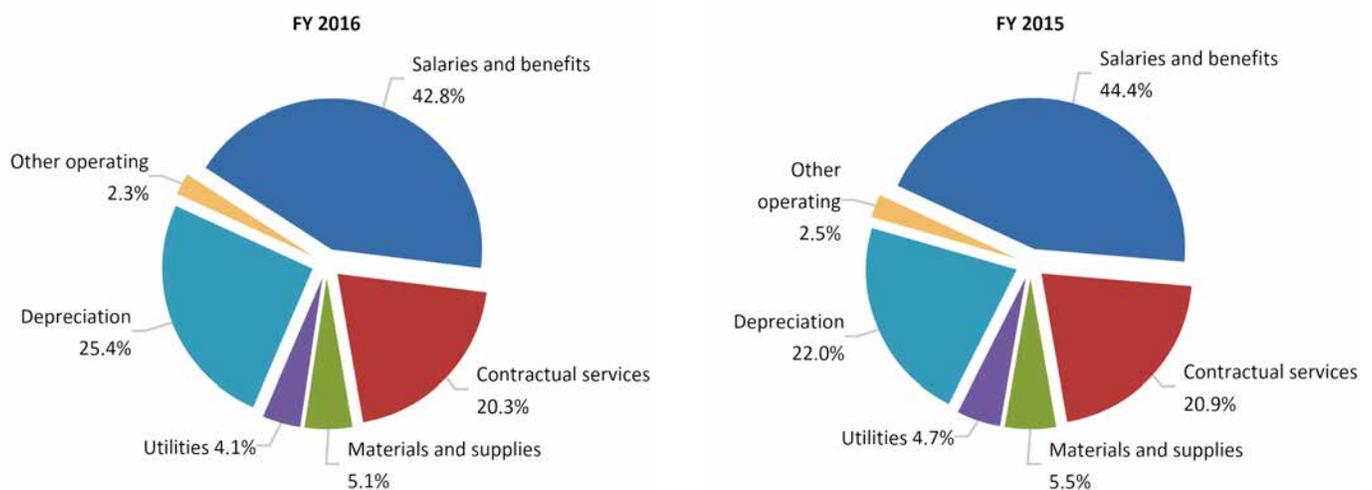
The following table presents a summary of LAWA operating expenses for the fiscal years ended June 30, 2016, 2015, and 2014. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

### Summary of Operating Expenses (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Salaries and benefits	\$ 421,028	\$ 405,923	\$ 388,677	\$ 15,105	\$ 17,246
Contractual services	199,919	190,445	179,988	9,474	10,457
Materials and supplies	50,325	49,810	49,604	515	206
Utilities	40,843	43,247	44,037	(2,404)	(790)
Other operating expenses	22,304	22,635	17,555	(331)	5,080
Operating expenses before depreciation	734,419	712,060	679,861	22,359	32,199
Depreciation	250,109	201,214	165,960	48,895	35,254
Total operating expenses	\$ 984,528	\$ 913,274	\$ 845,821	\$ 71,254	\$ 67,453

## Operating Expenses, Fiscal Year 2016

The following chart illustrates the proportion of categories of operating expenses for fiscal years ended June 30, 2016 and 2015.





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For the fiscal year ended June 30, 2016, operating expenses were \$984.5 million, a \$71.3 million or 7.8% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by \$15.1 million, contractual services, up by \$9.5 million, and depreciation, up by \$48.9 million, offset by the decrease in utilities of \$2.4 million.

Salaries and overtime before capitalized charges had an increase of \$6.0 million, or 2.0% due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was \$15.0 million, or 13.6%. The decrease in workers' compensation of \$5.0 million, or 36.9% was mainly due to the decrease in the number of high value cases during fiscal year 2016 as compared to fiscal year 2015. The increase in contractual services was mainly due to higher city services payment, capital planning and engineering services, offset by lower legal services expenses. The increase in depreciation charges from \$201.2 million to \$250.1 million in fiscal year 2016 was due to the completion of the associated projects related to Bradley West, and the replacement of the Central Utility Plant (CUP) facilities at LAX. During fiscal year 2016, \$1.8 billion was reclassified from construction work in progress to depreciable capital asset categories. The decrease in utilities from \$43.2 million to \$40.8 million in fiscal year 2016 was due to the decrease in electricity of \$1.0 million, or 3.1%, and decrease in water charges of \$2.0 million, or 29.0%, offset by the increase of \$0.6 million or 11.1% in gas and telephone. The decrease in fiscal year 2016 electricity charges was resulted from the operation of a new, more energy efficient CUP. The decrease in water charges was due to a one-time rate adjustment credit of \$0.7 million and efforts to lower water consumption in fiscal year 2016.

Materials and supplies increased by \$0.5 million, or 1.0% and other operating expenses decreased by \$0.3 million, or 1.5%. The decrease in other operating expenses was mainly due to a decrease of \$2.7 million as a result of the change in accrued property tax from possessory interest tax instead of real estate tax for the Skyview property; offset by the increase of a legal settlement costs of \$1.3 million to the State Water Resources Control Board relating to monitoring of underground fuel storage tank. Bad debts expenses in fiscal year was \$0.4 million as compared to a reduction in bad debts expenses of \$0.4 million in fiscal year 2015.



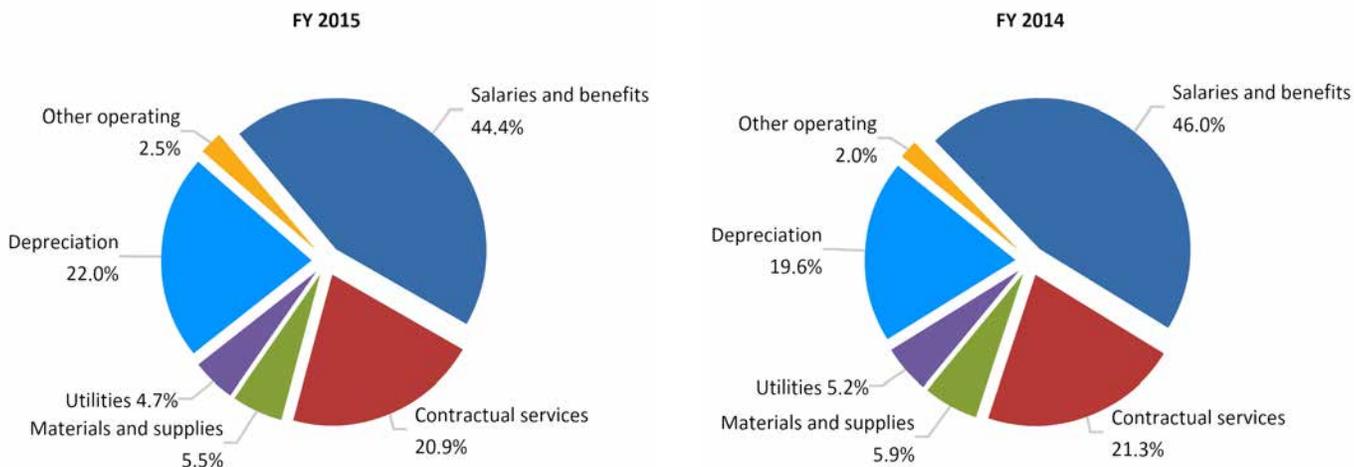
# Management's Discussion and Analysis (Unaudited)

## June 30, 2016 and 2015

(continued)

### Operating Expenses, Fiscal Year 2015

The following chart illustrates the proportion of categories of operating expenses for fiscal years ended June 30, 2015 and 2014.



For the fiscal year ended June 30, 2015, operating expenses were \$913.3 million, a \$67.5 million or 8.0% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by \$17.2 million, contractual services, up by \$10.5 million, and depreciation, up by \$35.3 million, offset by the decrease in utilities of \$0.8 million.

Salaries and overtime before capitalized charges had an increase of \$13.5 million or 4.6% due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was \$1.3 million, or 1.2%. The increase in provision for workers' compensation liability was mainly due to the increase in number of cases as well as the increase in some high value cases during fiscal year 2015. The increase in contractual services was mainly due to the surge in legal services expenses of \$6.7 million for lawsuit relating to local control of the LA/ONT International Airport. The increase in depreciation charges from \$166.0 million in fiscal year 2014 to \$201.2 million was due to the completion of major projects including the Bradley West North and South Gates, and the core area improvements at LAX. During fiscal year 2015, \$168.9 million was reclassified from construction work in progress to depreciable capital asset categories. The decrease in utilities from \$44.0 million to \$43.2 million in fiscal year 2015 was due to the decrease in electricity of \$1.3 million, or 3.8%, decrease in gas and telephone of \$0.9 million, or 15.8%, offset by the increase in \$1.2 million, or 21.7% of water charges. The decrease was a result of the replacement of the CUP with an energy efficient facility which saved electrical and natural gas usage in fiscal year 2015.

Materials and supplies, and other operating expenses increased by \$0.2 million, or 0.4% and \$5.1 million, or 28.9%, respectively. The increase in other operating expenses was mainly caused by a reduction in the reversal of bad debts allowance from \$4.7 million in fiscal year 2014 to \$0.5 million in fiscal year 2015. In accordance to LAWA'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.



## Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services as well as producing and delivering goods in connection with LAWA's ongoing operations. The following table presents a summary of these activities during fiscal years 2016, 2015, and 2014.

### Summary of Nonoperating Transactions (amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Nonoperating revenue					
Passenger facility charges	\$ 153,964	\$ 141,466	\$ 136,280	\$ 12,498	\$ 5,186
Customer facility charges	36,082	33,185	32,345	2,897	840
Interest income	21,956	22,240	22,482	(284)	(242)
Net change in fair value of investments	15,074	(2,074)	1,940	17,148	(4,014)
Other nonoperating revenue	17,857	9,175	11,901	8,682	(2,726)
	<u>\$ 244,933</u>	<u>\$ 203,992</u>	<u>\$ 204,948</u>	<u>\$ 40,941</u>	<u>\$ (956)</u>
Nonoperating expenses					
Interest expense	\$ 185,275	\$ 169,630	\$ 137,005	\$ 15,645	\$ 32,625
Other nonoperating expenses	4,817	9,559	1,928	(4,742)	7,631
	<u>\$ 190,092</u>	<u>\$ 179,189</u>	<u>\$ 138,933</u>	<u>\$ 10,903</u>	<u>\$ 40,256</u>
Federal capital grants	<u>\$ 49,271</u>	<u>\$ 34,761</u>	<u>\$ 32,677</u>	<u>\$ 14,510</u>	<u>\$ 2,084</u>

### Nonoperating Transactions, Fiscal Year 2016

As a result of the increase of 8.0% passenger traffic in fiscal year 2016, PFCs increased by \$12.6 million, or 9.1%, at LAX. At ONT, effective April 1, 2016, the PFCs was increased from \$2.00 to \$4.50. The decreased PFCs revenue at ONT of \$0.1 million, or 1.6% was a result of a reversal of a prior year estimate.

CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAWA, posted an increase of \$2.9 million, or 8.7% in fiscal year 2016. CFCs increased by \$2.7 million, or 9.0%, at LAX, and increased by \$0.2 million, or 6.5%, at ONT.

Interest income decreased slightly by \$0.3 million, or 1.3% due to slightly lower average balance of cash and pooled investments held in City Treasury. The net change in fair value of investments reflects the increase driven by the upward year-end net adjustment to the fair value of investment securities. The other nonoperating revenue increased by \$8.7 million, or 94.6% in fiscal year 2016. This was mainly due to increase of \$1.0 million in sales of property and equipment, increase of \$5.1 million from the favorable litigation settlement relating to the Runway 25L Relocation and Center Taxiway Improvement project, and increase of \$2.3 million rental income from residential acquisition program. Interest expenses increased with additional issuances of \$613.5 million revenue bonds in fiscal year 2016 to finance capital improvement projects. The decrease in other nonoperating expenses was mainly due to lower expenses offset by the increase of \$1.3 million bond issuance expenses in fiscal year 2016.



## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

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### Nonoperating Transactions, Fiscal Year 2015

As a result of the increase in passenger traffic in fiscal year 2015, PFCs increased by \$5.0 million, or 3.8%, at LAX, and increased by \$0.1 million, or 4.0%, at ONT.

CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAWA, posted an increase of \$0.8 million, or 2.6% in fiscal year 2015. CFCs increased by \$0.7 million, or 2.3%, at LAX, and increased by \$0.2 million, or 4.6%, at ONT.

Interest income decreased slightly by \$0.2 million, or 1.1% due to slightly lower average balance of cash and pooled investments held in City Treasury. The net change in fair value of investments reflects the decrease driven by the downward year-end net adjustment to the fair value of investment securities. A component of other nonoperating revenue related to reimbursements for certain Transportation Security Administration (TSA) programs was \$2.3 million less in fiscal year 2015. Interest expenses increased with additional issuances of revenue bonds in the amount of \$497.3 million in fiscal year 2015 to finance capital improvement projects. The increase in other nonoperating expenses was mainly due to correction of prior years' expenses of \$6.9 million, together with \$0.8 million bond issuance expenses.

### Long-Term Debt

As of June 30, 2016, LAWA's outstanding long-term debt before unamortized premium and discount was \$4.7 billion. Issuances during the year amounted to \$613.5 million, and payments for scheduled maturities were \$85.8 million. Together with the unamortized premium and discount, bonded debt of LAWA increased by \$615.5 million to a total of \$5.0 billion.

As of June 30, 2015, LAWA's outstanding long-term debt before unamortized premium and discount was \$4.2 billion. Issuances during the year amounted to \$497.3 million, and payments for scheduled maturities were \$190.6 million. Together with the unamortized premium and discount, bonded debt of LAWA increased by \$312.0 million to \$4.4 billion.

As of June 30, 2016 and 2015, LAWA had \$426.0 million and \$375.1 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

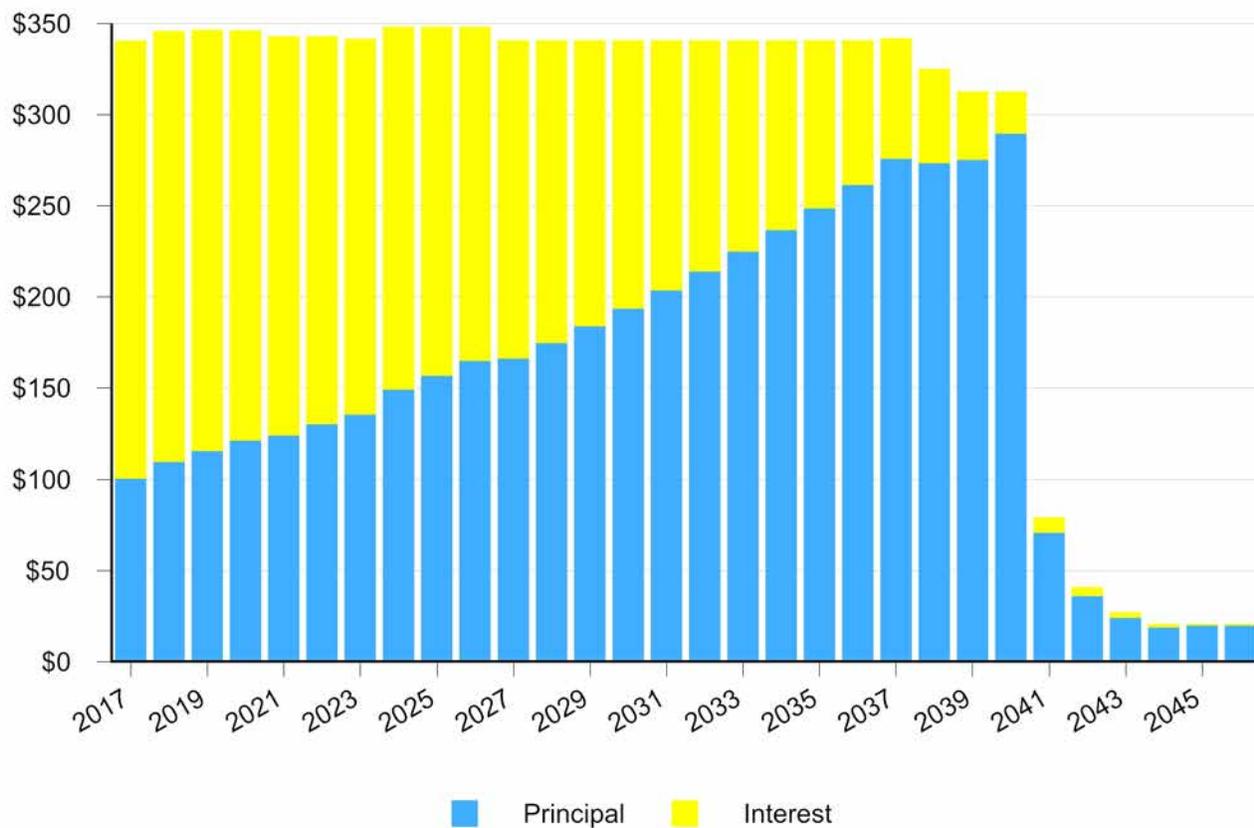
As of June 30, 2016 and 2015, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA respectively for LAX Senior Bonds; AA-, A1, and AA- respectively for LAX Subordinate Bonds.

As of June 30, 2016 and 2015, the ratings of ONT's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were A-, Baa1 and A-, respectively.

Additional information regarding LAWA's bonded debt can be found in Note 6 of the notes to the financial statements beginning on page 63.



Outstanding principal, plus scheduled interest as of June 30, 2016, is scheduled to mature as shown in the following chart (amounts in millions).





## Management's Discussion and Analysis (Unaudited) June 30, 2016 and 2015 (continued)

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### Capital Assets

LAWA's investment in capital assets, net of accumulated depreciation, as of June 30, 2016 and 2015 were \$8.2 billion and \$7.5 billion, respectively. This investment, which accounts for 74.7% and 75.0% of LAWA's total assets as of June 30, 2016 and 2015, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAWA's policy affecting capital assets can be found in Note 1(f) of the notes to the financial statements on pages 46-47. Additional information can be found in Note 4 on pages 60-61.

### Capital Assets, Fiscal Year 2016

Major capital expenditure activities during fiscal year 2016 included:

- LAX - \$356.4 million renovations at Terminals 1 to 8
- LAX - \$166.2 million interior improvements and security upgrades at TBIT and Bradley West
- LAX - \$88.7 million construction of Midfield Satellite Concourse
- LAX - \$72.6 million construction of runways and taxiways
- LAX - \$56.6 million Central Terminal Area (CTA) curbside development project and Second Level Roadway Joint and Deck replacement
- LAX - \$55.9 million in costs related to construction of west maintenance facility
- LAX - \$44.7 million replacement and improvements of elevators and escalators
- LAX - \$41.1 million residential acquisition, soundproofing and noise mitigation
- LAX - \$18.0 million replacement of Central Utility Plant (CUP) facilities
- LAX - \$12.1 million in costs related to various information technology network and systems projects
- LAX - \$11.5 million preconstruction activities related to LAX's landside program
- LAX - \$7.0 million construction of consolidated rental car facility

At June 30, 2016, the amounts committed for capital expenditures included \$7.9 million for airfield and runways, \$6.6 million for noise mitigation program, \$81.1 million for terminals and facilities, and \$20.1 million for various other projects.



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## Capital Assets, Fiscal Year 2015

Major capital expenditure activities during fiscal year 2015 included:

- LAX - \$228.3 million interior improvements and security upgrades at TBIT and Bradley West
- LAX - \$118.2 million renovations at Terminals 1 to 8
- LAX - \$55.0 million residential acquisition, soundproofing and noise mitigation
- LAX - \$63.5 million replacement of CUP facilities
- LAX - \$49.2 million CTA curbside development project and Second Level Roadway Joint and Deck replacement
- LAX - \$31.7 million replacement and improvements of elevators and escalators
- LAX - \$26.7 million design and preconstruction services of Midfield Satellite Concourse
- LAX - \$23.5 million in costs related to various information technology network and systems projects
- LAX - \$21.1 million construction of runways and taxiways
- LAX - \$17.2 million in costs related to construction of west maintenance facility
- ONT - \$2.8 million runway safety area improvement
- VNY - \$0.6 million taxiway and runway rehabilitation

At June 30, 2015, the amounts committed for capital expenditures included \$5.9 million for airfield and runways, \$7.1 million for noise mitigation program, \$75.4 million for terminals and facilities, and \$30.9 million for various other projects.



**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016 and 2015**  
 (continued)

**Landing Fees, Fiscal Year 2017**

The airline landing fees for fiscal year 2017, which became effective as of July 1, 2016 are as follows:

**Los Angeles International Airport**

Permitted air carriers	Non-permitted air carriers	
\$59.00	\$74.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
113.00	141.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.54	4.43	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
4.50	5.63	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

**LA/Ontario International Airport**

Signatory airlines	Non-signatory airlines	
\$30.00	\$37.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
57.00	72.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
2.29	2.86	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

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 fiscal year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.



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## **Request for Information**

This report is designed to provide a general overview of the Los Angeles World Airports' 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.



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# Financial Section

## Financial Statements

2016 Comprehensive Annual Financial Report

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# Financial Statements

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# Los Angeles World Airports

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

## Statements of Net Position

### June 30, 2016 and 2015

(amounts in thousands)

	2016	2015
<b>ASSETS</b>		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	\$ 849,991	\$ 644,352
Investments with fiscal agents	16,465	100,913
Accounts receivable, net of allowance for uncollectible accounts: 2016 - \$1,066; 2015 - \$785	11,975	1,596
Unbilled receivables	38,213	28,868
Accrued interest receivable	3,207	2,827
Grants receivable	24,771	14,065
Loans receivable	169	177
Receivable from City General Fund	2,766	2,684
Prepaid expenses	4,339	4,552
Inventories	1,602	1,768
Total unrestricted current assets	<u>953,498</u>	<u>801,802</u>
Restricted current assets		
Cash and pooled investments held in City Treasury	969,292	987,687
Investments with fiscal agents, includes cash and cash equivalents: 2016 - \$828,185; 2015 - \$653,904	834,330	653,904
Accrued interest receivable	1,440	1,546
Passenger facility charges receivable	18,428	20,779
Customer facility charges receivable	3,323	3,024
Total restricted current assets	<u>1,826,813</u>	<u>1,666,940</u>
Total current assets	<u>2,780,311</u>	<u>2,468,742</u>
Noncurrent Assets		
Capital assets		
Not depreciated	2,757,914	3,497,687
Depreciated, net	5,479,790	3,959,784
Total capital assets	<u>8,237,704</u>	<u>7,457,471</u>
Other noncurrent assets		
Restricted investments with fiscal agents	6,843	6,843
Loans receivable, net of current portion	523	677
Receivable from City General Fund, net of current portion	5,785	8,550
Total other noncurrent assets	<u>13,151</u>	<u>16,070</u>
Total noncurrent assets	<u>8,250,855</u>	<u>7,473,541</u>
<b>TOTAL ASSETS</b>	<u>11,031,166</u>	<u>9,942,283</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charges on debt refunding	25,763	27,051
Changes of assumptions related to pension	70,724	89,130
Contribution after measurement date related to pension	60,694	53,261
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,802	—
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 163,983</u>	<u>\$ 169,442</u>



**Statements of Net Position (continued)**  
**June 30, 2016 and 2015**  
(amounts in thousands)

	<u>2016</u>	<u>2015</u>
<b>LIABILITIES</b>		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	\$ 235,948	\$ 215,822
Accrued salaries	16,429	13,828
Accrued employee benefits	5,928	5,082
Estimated claims payable	8,537	9,039
Commercial paper	50,310	50,123
Obligations under securities lending transactions	15,161	4,416
Other current liabilities	26,528	21,631
Total current liabilities payable from unrestricted assets	<u>358,841</u>	<u>319,941</u>
Current liabilities payable from restricted assets		
Contracts and accounts payable	4,375	1,987
Current maturities of bonded debt	100,495	85,770
Accrued interest payable	29,511	26,810
Obligations under securities lending transactions	19,104	6,694
Other current liabilities	21,201	11,406
Total current liabilities payable from restricted assets	<u>174,686</u>	<u>132,667</u>
Total current liabilities	<u>533,527</u>	<u>452,608</u>
Noncurrent Liabilities		
Bonded debt, net of current portion	4,875,613	4,274,819
Accrued employee benefits, net of current portion	41,118	41,118
Estimated claims payable, net of current portion	70,900	71,939
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension liability	697,482	615,349
Other long-term liabilities	886	886
Total noncurrent liabilities	<u>5,698,782</u>	<u>5,016,894</u>
<b>TOTAL LIABILITIES</b>	<u>6,232,309</u>	<u>5,469,502</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Differences between expected and actual experience related to pension	30,059	18,368
Differences between projected and actual investment earnings related to pension	20,096	112,403
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,081	19,248
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>65,236</u>	<u>150,019</u>
<b>NET POSITION</b>		
Net investment in capital assets	3,651,912	3,359,104
Restricted for:		
Debt service	397,828	350,101
Passenger facility charges eligible projects	484,961	573,805
Customer facility charges eligible projects	255,612	218,059
Capital projects reserve	9,661	9,412
Operations and maintenance reserve	194,818	188,375
Federally forfeited property and protested funds	1,368	1,517
Unrestricted	(98,556)	(208,169)
<b>TOTAL NET POSITION</b>	<u>\$ 4,897,604</u>	<u>\$ 4,492,204</u>

See accompanying notes to the financial statements.



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

**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2016 and 2015**  
(amounts in thousands)

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUE</b>		
Aviation revenue		
Landing fees	\$ 252,589	\$ 239,659
Building rentals	487,349	389,796
Land rentals	109,422	102,746
Other aviation revenue	9,606	7,126
Total aviation revenue	<u>858,966</u>	<u>739,327</u>
Concession revenue	422,278	377,617
Other operating revenue	4,572	4,640
Total operating revenue	<u>1,285,816</u>	<u>1,121,584</u>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	421,028	405,923
Contractual services	199,919	190,445
Materials and supplies	50,325	49,810
Utilities	40,843	43,247
Other operating expenses	22,304	22,635
Total operating expenses before depreciation and amortization	<u>734,419</u>	<u>712,060</u>
Operating income before depreciation and amortization	551,397	409,524
Depreciation and amortization	250,109	201,214
<b>OPERATING INCOME</b>	<u>301,288</u>	<u>208,310</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Passenger facility charges	153,964	141,466
Customer facility charges	36,082	33,185
Interest income	21,956	22,240
Net change in fair value of investments	15,074	(2,074)
Interest expense	(185,275)	(169,630)
Other nonoperating revenue	17,857	9,175
Other nonoperating expenses	(4,817)	(9,559)
Total nonoperating revenue, net	<u>54,841</u>	<u>24,803</u>
<b>INCOME BEFORE CAPITAL GRANTS</b>	356,129	233,113
Federal and other government grants	49,271	34,761
<b>CHANGE IN NET POSITION</b>	<u>405,400</u>	<u>267,874</u>
<b>NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>	4,492,204	4,841,849
Change in accounting principle	—	(617,519)
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	<u>4,492,204</u>	<u>4,224,330</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 4,897,604</u>	<u>\$ 4,492,204</u>

See accompanying notes to the financial statements.



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

**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2016 and 2015**  
(amounts in thousands)

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,270,832	\$ 1,137,751
Payments to suppliers	(235,795)	(200,780)
Payments for employee salaries and benefits	(418,427)	(401,155)
Payments for City services	(96,023)	(90,216)
Net cash provided by operating activities	<u>520,587</u>	<u>445,600</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants received	<u>10,524</u>	<u>11,359</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of revenue bonds and commercial paper notes	711,782	566,347
Principal paid on revenue bonds and commercial paper notes	(85,770)	(278,342)
Interest paid on revenue bonds and commercial paper notes	(222,341)	(206,471)
Revenue bonds issuance costs	(1,561)	(781)
Acquisition and construction of capital assets	(959,656)	(806,881)
Proceeds from passenger facility charges	156,315	143,405
Proceeds from customer facility charges	35,783	33,492
Capital contributed by federal agencies	38,565	35,917
Net cash used for capital and related financing activities	<u>(326,883)</u>	<u>(513,314)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	22,395	22,254
Net change in fair value of investments	15,074	(2,074)
Cash collateral received under securities lending transactions	23,155	8,504
Sales of investments	18,370	3,637
Purchases of investments held by fiscal agents	(6,145)	—
Net cash provided by investing activities	<u>72,849</u>	<u>32,321</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>277,077</u>	<u>(24,034)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,386,856</u>	<u>2,410,890</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,663,933</u>	<u>\$ 2,386,856</u>
<b>CASH AND CASH EQUIVALENTS COMPONENTS</b>		
Cash and pooled investments held in City Treasury- unrestricted	\$ 849,991	\$ 644,352
Investments with fiscal agents- unrestricted	16,465	100,913
Cash and pooled investments held in City Treasury- restricted	969,292	987,687
Investments with fiscal agents- restricted	828,185	653,904
Total cash and cash equivalents	<u>\$ 2,663,933</u>	<u>\$ 2,386,856</u>



	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED</b>		
<b>BY OPERATING ACTIVITIES</b>		
Operating income	\$ 301,288	\$ 208,310
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	250,109	201,214
Change in provision for uncollectible accounts	281	(890)
Other nonoperating revenues (expenses), net	8,049	(6,218)
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	(10,661)	20,498
Unbilled receivables	(9,345)	(1,350)
Prepaid expenses and inventories	370	706
Loans receivable	162	164
Contracts and accounts payable	(18,952)	8,322
Accrued salaries	2,601	1,378
Accrued employee benefits	846	852
Other liabilities	(5,682)	7,156
Net pension liability and related changes in deferred outflows and inflows of resources	1,521	5,458
Total adjustments	<u>219,299</u>	<u>237,290</u>
Net cash provided by operating activities	<u>\$ 520,587</u>	<u>\$ 445,600</u>
<b>SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets included in contracts and accounts payable	\$ 125,284	\$ 80,815
Revenue bonds proceeds received in escrow trust fund	--	216,174
Debt defeased and related costs paid through escrow trust fund with revenue bonds	--	(216,174)

See accompanying notes to the financial statements.



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## Index to the Notes to the Financial Statements

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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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# Los Angeles World Airports

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

## Notes to the Financial Statements

### June 30, 2016 and 2015

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#### 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 approximately 17,750 acres of land located east of United States Air Force Plant 42 in the City of Palmdale and retains the rights for future development of the Palmdale property.

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.

LAWA is reported as a major enterprise fund in the City's basic financial statements presented in its Comprehensive Annual Financial Report. The accompanying financial statements present the net position and changes in net position and cash flows of LAWA. These financial statements are not intended to present the financial position and the changes in financial position of the City, or cash flows of the City's enterprise funds.

##### b. Basis of Accounting

LAWA 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.



## Notes to the Financial Statements

### June 30, 2016 and 2015

(continued)

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#### **c. Cash, Cash Equivalents, and Investments**

LAWA'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. LAWA's portion of the pool is presented on the statements of net position as "Cash and Pooled Investments Held in City Treasury." LAWA'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. LAWA's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net position.

LAWA 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. LAWA 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**

LAWA 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**

LAWA'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. LAWA has a capitalization threshold of \$5,000 for all capital assets other than internally generated computer software where the threshold is \$500,000.

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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.

LAWA 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 2016 and 2015 were \$28.2 million and \$33.8 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 LAWA from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAWA makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.

#### **h. Operating and Nonoperating Revenues and Expenses**

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



## Notes to the Financial Statements

### June 30, 2016 and 2015

(continued)

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#### i. Landing Fees

Landing fee rates determine the charges to the airlines each time that a qualified aircraft lands at LAX or ONT. A separate landing fee is calculated annually for each airport to recover the costs of constructing, maintaining and operating airfield facilities. Costs recovered through these fees are identified for each airport using allocation methods of relevant costs attributable to those facilities. Landing fees are initially set using estimates of cost and activity and are reconciled to actual results following each fiscal year end.

#### j. Terminal Rates and Charges

On September 17, 2012, the Board approved a methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The 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 rates were effective January 1, 2013 to airlines and airline consortia (signatory airlines) agreeing to the methodology and executing a rate agreement with LAWA. Agreements with signatory airlines terminate on December 31, 2022.

The 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 had the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing was 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 methodology (non-signatory tenant airlines) will continue to pay rates and charges based on their current leases until they sign the rate agreement. Airlines with no existing leases that opt not to sign the 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.

ONT uses a “*residual method*” to determine terminal rates and fees. Under this method, ONT sets the airlines’ terminal rental rates and charges so that those fees provide the revenue needed to offset the difference between ONT’s total expenses allocable to the terminal area and the revenues collected from other sources such as concession, parking and other rental revenue.



**k. Concession Revenue**

Concession revenues are generated through LAWA concessionaires, tenants or airport service providers who pay monthly fees or rents for using or accessing airport facilities to offer their goods and services to the general public and air transportation community. Payments to LAWA are typically 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 LAWA in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when or if accruals are required for each tenant agreement.

**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. LAWA 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, 2016 and 2015 are as follows (amounts in thousands):

Type of benefit	2016	2015
Accrued vacation leave	\$ 23,691	\$ 23,369
Accrued sick leave	23,355	22,831
Total	<u>\$ 47,046</u>	<u>\$ 46,200</u>



## Notes to the Financial Statements June 30, 2016 and 2015 (continued)

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### n. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, LAWA reports a separate section for deferred outflows of resources and deferred inflows of resources, respectively. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and won't be recognized as an outflow of resources until then. Deferred inflows of resources represent an acquisition of resources that is applicable to future reporting period(s) that won't be recognized as an inflow of resources until then.

LAWA reported deferred charges on refunding of \$25.8 million and \$27.1 million for fiscal years 2016 and 2015, respectively, as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

As a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, LAWA reported the following deferred outflows and inflows of resources:

Deferred outflows of resources at June 30:

- Changes of assumptions related to pension of \$70.7 million and \$89.1 million for fiscal years 2016 and 2015, respectively.
- Contribution after measurement date related to pension of \$60.7 million and \$53.3 million for fiscal years 2016 and 2015, respectively.
- Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of \$6.8 million for fiscal year 2016 and none for fiscal year 2015.

Deferred inflows of resources at June 30:

- Differences between projected and actual investment earnings related to pension of \$20.1 million and \$112.4 million for fiscal years 2016 and 2015, respectively.
- Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of \$15.1 million and \$19.2 million for fiscal years 2016 and 2015, respectively.
- Differences between expected and actual experience related to pension of \$30.1 million and \$18.4 million for fiscal years 2016 and 2015, respectively.

### 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 nonoperating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.

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**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. At the time of bond refunding, the unamortized premiums or discounts are amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. Bonds payable is reported net of the applicable bond premium or discount.

In fiscal year 2015, LAWA changed the method of amortizing bond premiums or discounts from straight-line method to effective interest method. The effective interest method allocates bond interest expense over the life of the bonds in such a way that it yields a constant rate of interest, which in turn is the market rate of interest at the date of issue of bonds. With effective interest method, the amortization of bond premiums or discounts is calculated using the effective market interest rate versus the coupon rate used in straight-line method.

**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, 2016 and 2015, net positions of \$740.6 million and \$791.9 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Position* - This category represents net position of LAWA 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, LAWA's policy is to apply restricted resources first.



## Notes to the Financial Statements June 30, 2016 and 2015 (continued)

### 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. Restatement of Net Position

The net position at July 1, 2014 was restated by \$617.5 million to adjust for the change in accounting principle as a result of the implementation of GASB Statements No. 68 and 71:

	2015
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	\$ 4,841,849
Change in accounting principle as a result of implementation of GASB Statement No. 68	<u>(617,519)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>\$ 4,224,330</u>

The beginning of the year net position for fiscal year 2014 was not restated because all of the information available to restate prior year amounts was not readily available.

### u. Reclassifications

Certain reclassifications have been made to fiscal year 2015 amounts in order to conform to the fiscal year 2016 presentation. Such presentations had no effect on the previously reported change in net position.

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## 2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2016.

Issued in February 2015, GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Additional information can be found in Note 3(c) of the notes to financial statements beginning on page 57.

Issued in June 2015, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments*, consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement has no impact on LAWA's financial statements.

Issued in December 2015, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. This statement has no impact on LAWA's financial statements.

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

Issued in June 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, this statement also clarifies the application of certain provisions of GASB Statement No. 68 with regard to the information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported. Implementation of this statement is effective fiscal year 2017.

Issued in June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. Implementation of this statement is effective fiscal year 2017.



## Notes to the Financial Statements

### June 30, 2016 and 2015

(continued)

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Issued in June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and financial reporting for other postemployment benefit (OPEB) that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Implementation of this statement is effective fiscal year 2018.

Issued in August 2015, GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. Implementation of this statement is effective fiscal year 2017.

Issued in December 2015, GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, to exclude pensions provided to employees of state or local governmental employers through certain cost-sharing multiple-employer defined benefit pension plan. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics as defined. Implementation of this statement is effective fiscal year 2017.

Issued in January 2016, GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. Implementation of this statement is effective fiscal year 2017.

Issued in March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements* requires that a government that receives resources pursuant to an irrevocable split interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Implementation of this statement is effective fiscal year 2018.

Issued in March 2016, GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Implementation of this statement is effective fiscal year 2017.

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### 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 principal, 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).

LAWA maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAWA's share of the Pool of \$1.8 billion and \$1.6 billion as of June 30, 2016 and 2015, respectively, represented approximately 21.6% and 19.5%, respectively. There are no specific investments belonging to LAWA. Included in LAWA's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAWA's allocated shares for fiscal years 2016 and 2015 were \$37.3 million and \$18.9 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.



## Notes to the Financial Statements

### June 30, 2016 and 2015

(continued)

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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.

LAWA participates in the City's securities lending program through the pooled investment fund. LAWA recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. At June 30, 2016, LAWA's portion of the cash collateral and the related obligation in the City's program was \$34.3 million. LAWA's portion of the securities purchased from the reinvested cash collateral at June 30, 2016 was \$34.3 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAWA's portion of the noncash collateral at June 30, 2016 was \$121.6 million. At June 30, 2015, LAWA's portion of the cash collateral and the related obligation in the City's program was \$11.1 million. LAWA's portion of the securities purchased from the reinvested cash collateral at June 30, 2015 was \$11.1 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAWA's portion of the noncash collateral at June 30, 2015 was \$140.0 million.

During the fiscal years, collateralizations on all loaned securities were within the required 102.0% 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, 2016 and 2015 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 LAWA's portfolio are similar as those of the City Treasurer, and have similar objectives. LAWA's investments held by fiscal agents are for the following purposes (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Unrestricted, current		
Commercial paper and cash at bank	\$ 16,465	\$ 100,913
Restricted, current and noncurrent		
Bond security funds	425,975	375,148
Construction funds	415,198	285,599
Subtotal	<u>841,173</u>	<u>660,747</u>
Total	<u>\$ 857,638</u>	<u>\$ 761,660</u>

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 LAWA for capital expenditures incurred or to be incurred at LAX.

At June 30, 2016, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities		
		1 to 60 days	61 to 365 days	366 days to over 5 years
Money market mutual funds	\$ 318,788	\$ 318,788	\$ —	\$ —
State of California LAIF	508,832	—	508,832	—
US Treasury Certificates	6,145		6,145	
Collateralized investment contract	6,843	—	—	6,843
Subtotal	840,608	<u>\$ 318,788</u>	<u>\$ 514,977</u>	<u>\$ 6,843</u>
Bank deposit accounts	17,030			
Total	<u>\$ 857,638</u>			



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

At June 30, 2015, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities		
		1 to 60 days	61 to 365 days	366 days to over 5 years
Money market mutual funds	\$ 226,940	\$ 226,940	\$ —	\$ —
State of California LAIF	423,614	—	423,614	—
Collateralized investment contract	6,843	—	—	6,843
Subtotal	657,397	\$ 226,940	\$ 423,614	\$ 6,843
Bank deposit accounts	104,263			
Total	\$ 761,660			

**Fair Value Measurements**

The investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and.
- Level 3: Investments reflect prices based upon unobservable sources.

At June 30, 2016, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1	Fair Value Measurements Using Level 2
Money Market Funds	\$ 318,788	\$ 318,788	\$ —
Collateralized investment contract	6,843	—	6,843
U.S. Government securities	6,145	6,145	—
Total investments by fair value level	\$ 331,776	\$ 324,933	\$ 6,843
Investments not subject to fair value hierarchy			
State of California LAIF	508,832		
Bank deposit accounts	17,030		
Total investments	\$ 857,638		



At June 30, 2015, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1	Fair Value Measurements Using Level 2
Money Market Funds	\$ 226,940	\$ 226,940	\$ —
Collateralized investment contract	6,843	—	6,843
Total investments by fair value level	<u>\$ 233,783</u>	<u>\$ 226,940</u>	<u>\$ 6,843</u>
Investments not subject to fair value hierarchy			
State of California LAIF	423,614		
Bank deposit accounts	104,263		
Total investments	<u>\$ 761,660</u>		

*Interest Rate Risk.* LAWA 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, 2016 and 2015, the money market mutual funds were rated AAAM by Standard and Poor’s, and Aaa by Moody’s. The collateralized investment contract is not rated.

As of June 30, 2016, LAWA’s investments in the LAIF held by fiscal agents totaled \$508.8 million. The total amount invested by all public agencies in LAIF at that date was \$22.7 billion. The LAIF is part of the State’s Pooled Money Investment Account (PMIA). As of June 30, 2016, the investments in the PMIA totaled \$75.5 billion, of which 97.2% is invested in non-derivative financial products and 2.8% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 167 days as of June 30, 2016. LAIF is not rated. As of June 30, 2015, LAWA’s investments in the LAIF held by fiscal agents totaled \$423.6 million. The total amount invested by all public agencies in LAIF at that date was \$21.5 billion. The LAIF is part of the State’s PMIA. As of June 30, 2015, the investments in the PMIA totaled \$69.7 billion, of which 97.9% is invested in non-derivative financial products and 2.1% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 239 days as of June 30, 2015. 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 LAWA’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 LAWA’s name.



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

**4. Capital Assets**

LAWA had the following activities in capital assets during fiscal year 2016 (amounts in thousands):

	Balance at July 1, 2015	Additions	Retirements & disposals	Transfers	Balance at June 30, 2016
<b>Capital assets not depreciated</b>					
Land and land clearance	\$ 970,990	\$ —	\$ (724)	\$ 90,237	\$ 1,060,503
Air easements	46,975	—	—	—	46,975
Emission reduction credits	5,918	—	—	(3,065)	2,853
Construction work in progress	2,473,804	1,021,106	(784)	(1,846,543)	1,647,583
Total capital assets not depreciated	<u>3,497,687</u>	<u>1,021,106</u>	<u>(1,508)</u>	<u>(1,759,371)</u>	<u>2,757,914</u>
<b>Capital assets depreciated</b>					
Buildings	2,510,102	—	—	748,052	3,258,154
Improvements	3,435,810	2,170	—	761,936	4,199,916
Equipment and vehicles	252,519	8,835	(3,312)	20,374	278,416
Total capital assets depreciated	<u>6,198,431</u>	<u>11,005</u>	<u>(3,312)</u>	<u>1,530,362</u>	<u>7,736,486</u>
<b>Less accumulated depreciation</b>					
Buildings	(503,439)	(74,290)	—	(51,135)	(628,864)
Improvements	(1,541,128)	(163,115)	—	280,144	(1,424,099)
Equipment and vehicles	(194,080)	(12,704)	3,051	—	(203,733)
Total accumulated depreciation	<u>(2,238,647)</u>	<u>(250,109)</u>	<u>3,051</u>	<u>229,009</u>	<u>(2,256,696)</u>
Capital assets depreciated, net	<u>3,959,784</u>	<u>(239,104)</u>	<u>(261)</u>	<u>1,759,371</u>	<u>5,479,790</u>
Total capital assets	<u>\$ 7,457,471</u>	<u>\$ 782,002</u>	<u>\$ (1,769)</u>	<u>\$ —</u>	<u>\$ 8,237,704</u>



LAWA had the following activities in capital assets during fiscal year 2015 (amounts in thousands):

	Balance at July 1, 2014	Additions	Retirements & disposals	Transfers	Balance at June 30, 2015
<b>Capital assets not depreciated</b>					
Land and land clearance	\$ 970,990	\$ —	\$ —	\$ —	\$ 970,990
Air easements	46,975	—	—	—	46,975
Emission reduction credits	5,918	—	—	—	5,918
Construction work in progress	1,932,822	709,867	—	(168,885)	2,473,804
Total capital assets not depreciated	2,956,705	709,867	—	(168,885)	3,497,687
<b>Capital assets depreciated</b>					
Buildings	2,365,058	—	(12,413)	157,457	2,510,102
Improvements	3,424,048	5,335	—	6,427	3,435,810
Equipment and vehicles	242,218	7,955	(2,655)	5,001	252,519
Total capital assets depreciated	6,031,324	13,290	(15,068)	168,885	6,198,431
<b>Less accumulated depreciation</b>					
Buildings	(491,802)	(20,995)	9,625	(267)	(503,439)
Improvements	(1,377,023)	(164,372)	—	267	(1,541,128)
Equipment and vehicles	(180,639)	(15,847)	2,406	—	(194,080)
Total accumulated depreciation	(2,049,464)	(201,214)	12,031	—	(2,238,647)
Capital assets depreciated, net	3,981,860	(187,924)	(3,037)	168,885	3,959,784
Total capital assets	\$ 6,938,565	\$ 521,943	\$ (3,037)	\$ —	\$ 7,457,471



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

**5. Commercial Paper**

As of June 30, 2016 and 2015, LAWA had outstanding commercial paper (CP) notes of \$50.3 million and \$50.1 million, respectively. The respective average interest rates in effect as of June 30, 2016 and 2015 were 0.55% and 0.20%. 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.

LAWA entered into a letter of credit (LOC) and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Bank of the West for \$54.5 million to expire on October 2, 2017; Sumitomo Mitsui Bank for \$109.0 million to expire on October 2, 2017; Wells Fargo Bank for \$218.0 million to expire on October 2, 2017; and Barclays Bank PLC for \$163.5 million to expire on January 16, 2018. LAWA paid the LOC banks an annual commitment fee ranging from 0.27% and 0.35% on the stated amount of the LOC. LOC fees of \$1.5 million and \$1.8 million were paid for fiscal years 2016 and 2015, respectively.

LAWA had the following CP activity during fiscal year 2016 (amounts in thousands):

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Series C	\$ 50,123	\$ 187	\$ —	\$ 50,310

LAWA had the following CP activity during fiscal year 2015 (amounts in thousands):

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Series B	\$ —	\$ 200,000	\$ (200,000)	\$ —
Series C	52,160	65	(2,102)	50,123
Total	\$ 52,160	\$ 200,065	\$ (202,102)	\$ 50,123



## 6. Bonded Debt

Bonds issued by LAWA are payable solely from revenues of LAWA 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, 2016 and 2015 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal	
					2016	2015
Issue of 2006, Series A	10/18/06	4.500% - 5.000%	2026	\$ 83,720	\$ 51,525	\$ 55,305
Issue of 2006, Series B	10/18/06	5.400% - 5.590%	2026	6,435	3,980	4,270
Issue of 2008, Series A	8/6/08	3.750% - 5.500%	2038	602,075	506,300	518,115
Issue of 2008, Series C	8/6/08	3.000% - 5.250%	2038	243,350	16,925	22,100
Issue of 2009, Series A	12/3/09	2.000% - 5.250%	2039	310,410	277,570	284,770
Issue of 2009, Series C	12/3/09	5.175% - 6.582%	2039	307,350	299,045	307,350
Issue of 2009, Series E	12/3/09	2.000% - 5.000%	2020	39,750	17,015	20,805
Issue of 2010, Series A	4/8/10	3.000% - 5.000%	2040	930,155	888,025	905,090
Issue of 2010, Series B	11/4/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/4/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	846,125	854,555
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	87,235	94,380
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	136,385	139,180
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	21,755	27,460
Issue of 2013, Series A	11/19/13	5.000%	2043	170,685	170,685	170,685
Issue of 2013, Series B	11/19/13	4.625% - 5.000%	2038	71,175	69,455	71,175
Issue of 2015, Series A	2/24/15	3.230% - 5.000%	2045	267,525	265,780	267,525
Issue of 2015, Series B	2/24/15	2.920% - 5.000%	2045	47,925	47,925	47,925
Issue of 2015, Series C	2/24/15	3.000% - 5.000%	2035	181,805	180,995	181,805
Issue of 2015, Series D	11/24/15	5.000%	2041	296,475	296,475	—
Issue of 2015, Series E	11/24/15	2.000% - 5.000%	2041	27,850	27,850	—
Issue of 2016, Series A	6/1/16	3.000% - 5.000%	2042	289,210	289,210	—
Total principal amount				<u>\$ 5,224,850</u>	4,694,300	4,166,535
Unamortized premium					287,483	200,004
Unamortized discount					(5,675)	(5,950)
Net revenue bonds					4,976,108	4,360,589
Less - current portion of debt					(100,495)	(85,770)
Net noncurrent debt					<u>\$ 4,875,613</u>	<u>\$ 4,274,819</u>



## Notes to the Financial Statements

### June 30, 2016 and 2015

(continued)

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#### b. Pledged Revenue

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

LAWA has received approval from the FAA to collect and use passenger facility charges (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal (TBIT) Renovations, Bradley West projects and Terminal 6 improvements. Board of Airport Commissioners authorized amounts of \$124.0 million and \$91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.

The total principal and interest remaining to be paid on the bonds is \$8.3 billion. Principal and interest paid during fiscal year 2016 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the \$124.0 million PFCs funds discussed in the preceding paragraph), were \$307.9 million and \$708.6 million, respectively. Principal and interest paid during fiscal year 2015 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the \$91.0 million PFCs funds discussed in the preceding paragraph), were \$282.5 million and \$522.0 million, respectively. Based on provisions of the bond indenture in calculating debt service coverage, PFCs reimbursements are excluded from senior lien bonds debt service, and interest expenses from commercial papers are included in the subordinate lien bonds debt service.

#### c. Bond Issuances

On November 24, 2015, LAWA issued senior lien LAX revenue bonds Series 2015D of \$296.5 million and Series 2015E of \$27.8 million, and on June 1, 2016, LAX subordinate revenue bonds Series 2016A of \$289.2 million. The premium for these issuances totaled \$99.9 million. The bonds were issued to pay for certain capital projects at LAX.

On February 24, 2015, LAWA issued senior lien LAX revenue bonds Series 2015A of \$267.5 million, Series 2015B of \$47.9 million, and LAX subordinate revenue bonds Series 2015C of \$181.8 million. The premium for these issuances totaled \$86.9 million. The bonds were issued to pay for certain capital projects at LAX and to advance refund and defease a portion of the Series 2008C subordinate revenue bonds in the amount of \$190.6 million. These transactions resulted in a cash flow savings of \$25.7 million and economic gain of \$16.9 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
2017	\$ 100,495	\$ 240,227	\$ 340,722
2018	109,680	236,232	345,912
2019	115,530	230,924	346,454
2020	121,050	225,245	346,295
2021	123,735	219,283	343,018
2022 - 2026	735,315	993,893	1,729,208
2027 - 2031	921,065	783,319	1,704,384
2032 - 2036	1,184,825	519,563	1,704,388
2037 - 2041	1,184,245	187,219	1,371,464
2042 - 2045	98,360	10,953	109,313
Total	<u>\$ 4,694,300</u>	<u>\$ 3,646,858</u>	<u>\$ 8,341,158</u>

#### 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. LAWA 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, 2016 and September 30, 2015 reduced the subsidy. The interest subsidy on the BABs was \$7.8 million in fiscal year 2016 and \$7.7 million in fiscal year 2015. The subsidy is recorded as a non-capital grant, a component of other nonoperating revenue.



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

**7. Changes in Long-Term Liabilities**

LAWA had the following long-term liabilities activities for fiscal year ended June 30, 2016 (amounts in thousands):

	Balance at			Balance at	Current
	July 1, 2015	Additions	Reduction	June 30, 2016	Portion
Revenue bonds	\$ 4,166,535	\$ 613,535	\$ (85,770)	\$ 4,694,300	\$ 100,495
Add unamortized premium	200,004	99,858	(12,379)	287,483	—
Less unamortized discount	(5,950)	—	275	(5,675)	—
Net revenue bonds	4,360,589	713,393	(97,874)	4,976,108	100,495
Accrued employee benefits	46,200	5,928	(5,082)	47,046	5,928
Estimated claims payable	80,978	7,498	(9,039)	79,437	8,537
Liability for environmental/ hazardous materials cleanup	12,783	—	—	12,783	—
Net pension liability	615,349	82,133	—	697,482	—
Other long-term liabilities	886	—	—	886	—
Total long-term liabilities	<u>\$ 5,116,785</u>	<u>\$ 808,952</u>	<u>\$ (111,995)</u>	<u>\$ 5,813,742</u>	<u>\$ 114,960</u>



LAWA had the following long-term liabilities activities for fiscal year ended June 30, 2015 (amounts in thousands):

	Balance at			Balance at June 30, 2015	Current Portion
	July 1, 2014	Additions	Reduction		
Revenue bonds	\$ 3,936,075	\$ 497,255	\$ (266,795)	\$ 4,166,535	\$ 85,770
Add unamortized premium	120,263	91,717	(11,976)	200,004	—
Less unamortized discount	(7,729)	—	1,779	(5,950)	—
Net revenue bonds	4,048,609	588,972	(276,992)	4,360,589	85,770
Accrued employee benefits	45,348	5,840	(4,988)	46,200	5,082
Estimated claims payable	74,836	14,267	(8,125)	80,978	9,039
Liability for environmental/ hazardous materials cleanup	12,783	—	—	12,783	—
Net pension obligation	9,062	—	(9,062)	—	—
Net pension liability	—	615,349	—	615,349	—
Other long-term liabilities	886	—	—	886	—
Total long-term liabilities	<u>\$ 4,191,524</u>	<u>\$ 1,224,428</u>	<u>\$ (299,167)</u>	<u>\$ 5,116,785</u>	<u>\$ 99,891</u>



## Notes to the Financial Statements June 30, 2016 and 2015 (continued)

### 8. Leases and Agreements

#### a. Operating Leases and Agreements As Lessor

LAWA 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, 2016 and 2015, revenues from such agreements were \$300.5 million and \$267.1 million, respectively. The respective amounts over MAG were \$78.3 million and \$58.5 million. Minimum future rents or payments under these agreements over the next five years, assuming no material changes from concessionaires' current levels of gross sales, and that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ 196,545
2018	162,891
2019	116,462
2020	38,397
2021	24,341
Total	<u>\$ 538,637</u>

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 at LAX for a term of 17 years consisting of two-year development period and fifteen-year operational period. Since then, the Terminal 2 portion has been amended with an expiration date the same as the TBIT portion, which is no later than January 31, 2032. 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, 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 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA beginning January 1, 2014. 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 at LAX. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Under this agreement, the expiration dates of Terminal 1, 3 and 6 are June 30, 2032, June 30, 2029 and September 30, 2030, respectively. 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, 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 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA. 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 beginning January 1, 2014.

Minimum future rents under these two agreements with Westfield over the next five years assuming no material changes from concessionaires' current levels of gross sales are estimated as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ 36,447
2018	37,358
2019	38,292
2020	39,249
2021	40,727
Total	\$ 192,074



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

LAWA also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from less than 10 years to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines at LAX 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, 2016 and 2015, revenues from these leases were \$596.8 million and \$492.5 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the assumption that current agreements are carried to contractual termination. The future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ 542,598
2018	523,006
2019	499,532
2020	477,390
2021	460,969
Total	\$ 2,503,494

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2016 and 2015 are as follows (amounts in thousands):

	2016	2015
Buildings and facilities	\$ 4,238,368	\$ 3,487,044
Less- Accumulated depreciation	(799,561)	(607,779)
Net	3,438,807	2,879,265
Land	687,317	686,363
Total	\$ 4,126,124	\$ 3,565,628

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## b. Lease Obligations

LAWA leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2016 and 2015 were \$7.8 million and \$6.5 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

<u>Fiscal year(s) ending</u>	<u>Amount</u>
2017	\$ 7,026
2018	6,840
2019	6,832
2020	5,453
2021	3,522
2022-2026	17,612
2027-2031	10,155
2032	1,820
Total	<u>\$ 59,259</u>



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

**9. Passenger Facility Charges**

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the FAA. Airlines operating at LAX and ONT have been collecting PFCs on behalf of LAWA. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. The current PFCs at LAX is \$4.50 per enplaned passenger. At ONT, the PFC rate had been reduced from \$4.50 to \$2.00 effective January 1, 2013. On February 25, 2016, the FAA approved LAWA's application to amend the PFCs at ONT from \$2.00 to \$4.50 effective April 1, 2016. The application did not change ONT's collection authority of \$242.4 million but the estimated charge expiration date is changed to October 2018. PFCs collection authorities approved by FAA are \$3.1 billion at LAX and \$242.4 million at ONT as of June 30, 2016. LAWA has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of \$124.0 million and \$91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.

The following is a summary of projects approved by FAA as of June 30, 2016 (amounts in thousands):

Terminal development	\$	2,247,348
Noise mitigation		948,519
Airfield development and equipment		108,650
Land acquisition		33,680
Total	\$	<u>3,338,197</u>

PFCs collected and the related interest earnings through June 30, 2016 and 2015 were as follows (amounts in thousands):

	2016	2015
Amount collected	\$ 2,296,409	\$ 2,142,445
Interest earnings	249,083	242,182
Total	<u>\$ 2,545,492</u>	<u>\$ 2,384,627</u>

As of June 30, 2016 and 2015, cumulative expenditures to date on approved PFCs projects totaled \$2.1 billion and \$1.8 billion, respectively.

## 10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charge (CFCs) from car rental agencies serving LAX and ONT. State law allows airports to collect a fee of \$10.00 per on-airport rental car agency transaction to fund the development of a consolidated car rental facility and common-use transportation system. CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2016 and 2015 were as follows (amounts in thousands):

	2016	2015
Amount collected	\$ 292,282	\$ 256,200
Interest earnings	15,009	12,349
Total	<u>\$ 307,291</u>	<u>\$ 268,549</u>

As of June 30, 2016 and 2015, cumulative expenditures to date on approved CFCs projects totaled \$57.4 million and \$54.2 million, respectively.

## 11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled \$49.3 million and \$34.8 million in fiscal years 2016 and 2015, 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 LAWA such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for fiscal years ended June 30, 2016 and 2015 were \$98.9 million and \$93.2 million, respectively.

LAWA collects parking taxes at LAX on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2016 and 2015 were \$9.3 million and \$8.8 million, respectively.

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAWA to the City General Fund. The cases involved compliance review by FAA of the transfer of LAWA revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of \$43.0 million out of approximately \$58.0 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 LAWA totaling \$17.7 million plus 3.0% 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 LAWA. At June 30, 2016 and 2015, the respective outstanding principal amount of \$5.8 million and \$8.5 million payable beyond one year were reported under other noncurrent assets while the balance of \$2.8 million and \$2.7 million payable within one year were reported under unrestricted current assets.



## Notes to the Financial Statements June 30, 2016 and 2015 (continued)

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### 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 single employer plan of the City on a cost-sharing basis. As of the completion date of LAWA's financial statements, LACERS financial statements and the plan's actuarial valuation study for fiscal year 2016 are not yet available.

Pension and other postemployment benefits are established pursuant to the City ordinance. The City Council may, by an ordinance adopted pursuant to specific requirements (approved by not less than 2/3 of the City Council, subject to the veto of the Mayor and override by City Council by 3/4 of City Council), modify or add to the benefits set forth in the Los Angeles Administrative Code or change conditions of entitlement. However, the City Council may not increase or modify benefits if doing so would violate limitations imposed by federal or state law. As a further condition to the final adoption of benefit modifications, it shall be required that the City Council be advised in writing by an enrolled actuary as to the cost of benefit increases.

#### i) Pension Plan

##### Benefits

LACERS provides service retirement, disability, death and survivor benefits to eligible employees. Employees of the City become members of LACERS on the first day of employment in a position with the City in which the employee is not excluded from membership. Members employed prior to July 1, 2013 are designated as Tier 1 and those employed on or after July 1, 2013 are designated as Tier 2<sup>5</sup>(unless a specific exemption applies to the employee, providing a right to Tier 1 status). Effective February 20, 2016, active members who were Tier 2 members were transferred to Tier 1. Membership to Tier 1 is now closed to new entrants. All employees who become members of LACERS on or after February 21, 2016 are members of Tier 3 membership under Los Angeles Administrative Code, with limited exceptions.

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<sup>5</sup> It should be noted that since the measurement date as of June 30, 2015, the City has rescinded Tier 2 and directed LACERS to transfer all the current Tier 2 members retroactively to Tier 1. As Segal Consulting have not yet measured the financial impact of those changes, they have continued to refer to those members as Tier 2 members and included their liabilities as measured under Tier 2 in their report.

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Members of LACERS have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member who has five or more years of continuous City service terminates employment, the member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

### Tier 1 members

LACERS' Tier 1 members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the member's average monthly salary during the member's last 12 months of service, or during any other 12 consecutive months of service designated by the member, multiplied by the member's years of service credit. For Tier 1 members, the maximum monthly retirement allowance is 100% of the final average monthly compensation.

Tier 1 members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater. Upon an active member's death, refund of the member's contributions plus a limited pension benefit equal to 50% of monthly salary will be paid up to 12 months, or survivor benefits will be paid to an eligible spouse or qualified domestic partner if such member was eligible to retire. Upon a retired member's death, modified or unmodified allowance is continued to a eligible spouse or qualified domestic partner in addition to payment of a funeral allowance.

### Tier 3 members

LACERS' Tier 3 members are eligible for normal retirement if they have 10 or more years of city service (5 years must be continuous service) at age 60, with retirement benefits determined as 1.5% of the member's 36-month final average compensation per year of service credit. Tier 3 members are also eligible for normal retirement if they have 30 or more years of city service (5 years must be continuous service) at age 60, with retirement benefits determined as 2.0% of the member's 36-month final average compensation per year of service credit.

Tier 3 members are eligible for enhanced retirement after reaching age 63 with 10 or more years of city service (5 years must be continuous service), with retirement benefits determined as 2.0% of the member's 36-month final average compensation per year of service credit. Tier 3 members are also eligible for enhanced retirement after reaching age 63 with 30 or more years of city service (5 years must be continuous service), with retirement benefits determined as 2.1% of the member's 36-month final average compensation per year of service credit.

Tier 3 members are also eligible for early retirement to retire with any age prior to age 60 with 30 or more years of city service (5 years must be continuous service), with retirement benefits determined as 2.0% of the member's 36-month final average compensation per year of service credit, adjusted for an early retirement adjustment factor. If the member is age 55 or older at the date of retirement, the retirement allowance shall not be subject to reduction on account of age. If the member is younger than age 55 at the date of retirement, a reduction factor will be applied based on age.



## Notes to the Financial Statements June 30, 2016 and 2015 (continued)

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For Tier 3 members, the maximum monthly retirement allowance is 80% of the final average monthly compensation.

Tier 3 members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater. Upon an active member's death, refund of the member's contributions plus a limited pension benefit equal to 50% of monthly salary will be paid up to 12 months, or survivor benefits will be paid to an eligible spouse or qualified domestic partner if such member was eligible to retire. Upon a retired member's death, modified or unmodified allowance is continued to a eligible spouse or qualified domestic partner in addition to payment of a funeral allowance.

Retirement allowances are indexed annually for inflation. The Board of Administration has authority to determine the average annual percentage change in the CPI for the purpose of providing a COLA to the benefits of eligible members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 members or 2.0% for Tier 3 members. The excess over the maximum will be banked for Tier 1 members only.

### Membership

As of June 30, 2015, LACERS had 20,906 and 2,989 active vested and nonvested members, respectively; 4,408 and 17,932 inactive nonvested and inactive retired members, respectively; and 2,099 inactive terminated members entitled to but not yet receiving benefits (Note: information for fiscal year 2016 not yet available on this report issue date).

### Member contributions

For Tier 1 members, as a result of the 2009 Early Retirement Incentive Program (ERIP) ordinance, which stipulates a 1% increase in the member contribution rate for all employees for a period of 15 years (or until the ERIP cost obligation is fully recovered, whichever comes first), and the new ordinances adopted by the City Council in 2011 requiring additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy, most of the members contribute 11% of pay as of June 30, 2016 and June 30, 2015. For Tier 3 members, the contribution rate is 11% of their pensionable salary and no part of the members contribution is attributable to the ERIP obligations.

### Employer contributions

The City contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Administration. Employer contribution rates are adopted annually based upon recommendations received from LACERS' actuary after the completion of the annual actuarial valuation. The average employer contribution rates were 20.76% and 19.84% of compensation<sup>6</sup> as of June 30, 2015 (based on the June 30, 2013 valuation) and June 30, 2014 (based on the June 30, 2012 valuation), respectively. As of the completion date of LAWA's financial statements, the average employer contribution rate for the fiscal year ended June 30, 2016 is not yet available.

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<sup>6</sup> After adjustments to phase in over five years the impact of new actuarial assumptions (as a result of the June 30, 2011 Triennial Experience Study) on the City's contributions.



The total City contributions to LACERS of \$652.0 million and \$588.9 million for the years ended June 30, 2016 and June 30, 2015, respectively, consisted of the following (amounts in thousands):

	2016	2015
Required contributions	\$ 440,546	\$ 381,141
Family death benefit Plan	158	158
Total City contributions	440,704	381,299
Member contributions	211,345	207,564
Total contributions	<u>\$ 652,049</u>	<u>\$ 588,863</u>

The required City contribution of \$440.5 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$211.3 million were made toward the retirement and voluntary family death benefits for fiscal year 2016.

The required City contribution of \$381.1 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$207.6 million were made toward the retirement and voluntary family death benefits for fiscal year 2015.

### ***LAWA's Contributions to the Pension Plan***

LAWA's contributions to the Pension Plan for the year ended June 30 (amounts in thousands):

	2016	2015
LAWA's required contributions to the Pension Plan	<u>\$ 60,694</u>	<u>\$ 53,262</u>

The LAWA contributions made for the Pension Plan under the required contribution category in the amounts of \$60.7 million and \$53.3 million for fiscal years 2016 and 2015, respectively, were equal to 100% of the actuarially determined contribution of the employer.

### **ii) Other Postemployment Benefit Healthcare Plan (OPEB)**

LACERS provides postemployment health care benefits to eligible retirees of OPEB, and, if the member retires under Tier 1 membership, to their spouses/domestic partners as well. Prior to the retirement effective date of July 1, 2011, the benefits of this single employer postemployment benefit health care plan were available to all employees who 1) participate in the Pension Plan; 2) have at least 10 years of service with LACERS; and 3) enrolled in a system-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). The retiree or Tier 1 surviving spouse/domestic partner can choose from the health plans that are available, which include medical, vision, and dental benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. The retiree or Tier 1 surviving spouse/domestic partner receives medical subsidies based on service years. The dental subsidies are provided to the retirees only, based on years of service. The maximum subsidies are set annually by the LACERS Board of Administration.



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

During the 2011 fiscal year, the City adopted an ordinance to limit the maximum medical subsidy at \$1,190 for those LACERS' members who retire on or after July 1, 2011. However, LACERS' members, who at any time prior to retirement, contribute the additional 2% or 4% of pay are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2015, approximately 99% of non-retired members were making the additional contributions, and therefore were not subject to the medical subsidy cap. Postemployment healthcare benefits for the Tier 3 members differ from those for the Tier 1 members in that all Tier 3 members contribute towards the cost of this benefit.

**Funding Policy for OPEB**

The City Charter requires periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for OPEB for the fiscal year ended June 30, 2015, was 5.61% of covered payroll, determined by the June 30, 2013 valuation. As of the completion date of LAWA's financial statements, the required contribution rate for OPEB for the fiscal year ended June 30, 2016 is not yet available.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns, and the health care cost trends. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB asset (liability) for fiscal year 2015 and the two preceding years for each of the plans are as follows (amounts in thousands):

Year ended	Annual OPEB Cost (AOC)	Percentage of AOC contributed	Net OPEB Asset (Liability)
6/30/2013	\$ 72,916	100%	—
6/30/2014	\$ 97,841	100%	—
6/30/2015	\$ 100,467	100%	—

## Funded Status and Funding Progress

The following is funded status information for LACERS OPEB as of June 30, 2015 (amounts in thousands) (Note: information for fiscal year 2016 not yet available on this report issue date):

	2015
Actuarial Accrued Liability (AAL)	\$ 2,646,989
Actuarial value of assets	2,108,925
Unfunded AAL	<u>\$ 538,064</u>
Funded ratio	79.67%
Covered Payroll	\$ 1,907,665
Unfunded AAL as a percentage of covered payroll	28.21%

## LAWA's Contributions to OPEB

LAWA's contributions to OPEB for the year ended June 30 (amounts in thousands):

	2016	2015
LAWA's required contributions to OPEB	<u>\$ 14,858</u>	<u>\$ 14,166</u>

LAWA's contributions made for OPEB, in the amounts of \$14.9 million and \$14.2 million for fiscal years 2016 and 2015, respectively, represent 100% of the Annual Required Contribution (ARC) as defined by GASB Statements No. 43<sup>7</sup> and No. 45<sup>8</sup>.

<sup>7</sup> GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued in April 2004.

<sup>8</sup> GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension*, issued in June 2004.



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
(continued)

**b. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions for Fiscal Year 2016**

LACERS' Net Pension Liability (NPL) for fiscal year 2016 was measured as of June 30, 2015 and determined based upon the Plan Fiduciary Net Position (FNP) and Total Pension Liability (TPL) from actuarial valuation as of June 30, 2015. LACERS' NPL for fiscal year 2015 was measured as of June 30, 2014 and determined based upon the FNP and TPL from actuarial valuation as of June 30, 2014.

As of the reporting date June 30, 2016 (measurement date of June 30, 2015) and reporting date June 30, 2015 (measurement date of June 30, 2014), LAWA reported its proportionate shares of TPL, FNP and NPL as follows (amounts in thousands):

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
<b>LAWA's proportionate share:</b>		
Total Pension Liability	\$ 2,363,848	\$ 2,242,992
Plan Fiduciary Net Position	(1,666,366)	(1,627,643)
Net Pension Liability	<u>\$ 697,482</u>	<u>\$ 615,349</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	70.49%	72.57%

LAWA's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAWA during fiscal year 2015. The NPL was measured as of June 30, 2015 and determined based upon the Pension Plan's FNP (plan assets) and TPL from actuarial valuations as of June 30, 2015.

Change in LAWA's proportionate share of the NPL as of June 30, 2016 (measurement date June 30, 2015) and 2015 (measurement date June 30, 2014) was as follows (amounts in thousands):

	NPL	Proportion
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	\$ 697,482	13.98%
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	\$ 615,349	13.80%
Change - Increase	\$ 82,133	0.18%

Change in LAWA's proportionate share of the NPL as of June 30, 2015 (measurement date June 30, 2014) and 2014 (measurement date June 30, 2013) was as follows (amounts in thousands):

	NPL	Proportion
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	\$ 615,349	13.80%
Proportion - Reporting date June 30, 2014 (measurement date June 30, 2013)	\$ 675,951	14.30%
Change - Decrease	\$ (60,602)	(0.50)%



For the year ended June 30, 2016, LAWA recognized pension expense of \$62.2 million. At June 30, 2016, LAWA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	\$ 60,694	\$ —
Differences between expected and actual experience	—	30,059
Changes of assumptions	70,724	—
Net difference between projected and actual earnings on pension plan investments	—	20,096
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,802	15,081
Total	<u>\$ 138,220</u>	<u>\$ 65,236</u>

\$60.7 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

Fiscal year ending	Amount
2017	\$ (2,758)
2018	(2,758)
2019	(2,758)
2020	21,389
2021	(825)



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

For the year ended June 30, 2015, LAWA recognized pension expense of \$49.7 million. At June 30, 2015, LAWA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	\$ 53,261	\$ —
Differences between expected and actual experience	—	18,368
Changes of assumptions	89,130	—
Net difference between projected and actual earnings on pension plan investments	—	112,403
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	19,248
Total	<u>\$ 142,391</u>	<u>\$ 150,019</u>

\$53.3 million reported as deferred outflows of resources related to contributions subsequent to the measurement date were recognized as a reduction of the NPL in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

Fiscal year ending	Amount
2016	\$ (16,951)
2017	(16,951)
2018	(16,951)
2019	(16,951)
2020	6,913

### c. Actuarial Assumptions for the June 30, 2015 Measurement Date for Fiscal Year 2016

The total pension liabilities as of June 30, 2015 and June 30, 2014 were determined by actuarial valuations as of June 30, 2015 and June 30, 2014, respectively, using the following actuarial assumptions<sup>9</sup>, applied to all periods included in the measurement:

Inflation:	3.25%
Discount rate:	7.50%
Salary increases:	Ranges from 4.40% to 10.50% based on years of service, including inflation
Investment rate of return:	7.50%, net of pension plan investment expense, including inflation
Post-Retirement Mortality Rates:	
Healthy Members and all Beneficiaries:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
Disabled Members:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward seven years for males and set forward eight years for females.
Termination Rates before Retirement: Pre-Retirement Mortality:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
Retirement Age and Benefit for Inactive Vested Participants:	Pension benefit paid at the later of age 58 or the current attained age. For reciprocals, 4.40% compensation increases per annum.
Exclusion of Inactive Members:	All inactive participants are included in the valuation.
Definition of Active Members:	First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.
Unknown Data for Members:	Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.
Percent Married/Domestic Partner:	76% of male participants; 50% of female participants.
Age of Spouse:	Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.
Service:	Employment service is used for eligibility determination purposes. Benefit service is used for benefit calculation purposes.
Future Benefit Accruals:	1.0 year of service per year.
Other Reciprocal Service:	5% of future inactive vested members will work at a reciprocal system.
Consumer Price Index:	Increase of 3.25% per year; benefit increases due to CPI subject to 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.
Employee Contribution Crediting Rate:	Based on average of 5-year Treasury note rate. An assumption of 3.25% is used to approximate that crediting rate in this valuation.
Actuarial Cost Method:	Entry Age Cost Method.

<sup>9</sup> The actuarial assumptions used in this June 30, 2015 valuation were based on the results of an experience study for the period from July 1, 2011 through June 30, 2014. They are the same as the assumptions used in the June 30, 2015 funding actuarial valuation for LACERS.



**Notes to the Financial Statements**  
**June 30, 2016 and 2015**  
 (continued)

**d. Discount Rate for Fiscal Year 2016**

The discount rate used to measure the total pension liability was 7.50% as of June 30, 2015 and June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015 and June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation, and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term (Arithmetic) Expected Real Rate of Return</u>
U.S. Large Cap Equity	20.40%	5.94%
U.S. Small Cap Equity	3.60%	6.64%
Developed	21.75%	6.98%
Emerging Market	7.25%	8.48%
Core Bonds	16.53%	0.71%
High Yield Bonds	2.47%	2.89%
Private Real Estate	5.00%	4.69%
Cash	1.00%	-0.46%
Credit Opportunities	5.00%	3.07%
Public Real Assets	5.00%	3.41%
Private Equity	12.00%	10.51%
Total	100.00%	

### ***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents LAWA's proportionate share of the NPL as of June 30, 2015 and June 30, 2014, calculated using the discount rate of 7.50%, as well as what LAWA's proportionate share of NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate (amounts in thousands):

	June 30, 2015	June 30, 2014
1% decrease	6.50%	6.50%
Net Pension Liability	\$1,012,535	\$918,658
Current discount rate	7.50%	7.50%
Net Pension Liability	\$697,482	\$615,349
1% increase	8.50%	8.50%
Net Pension Liability	\$435,297	\$363,284

### ***Pension Plan Fiduciary Net Position***

The Pension Plan's fiduciary net position has been determined on the same basis used by the Pension Plan and the plans basis of accounting, including policies with respect to benefit payments and valuation of investments. Detailed information about LACERS' net position is available in the separately issued LACERS' financial reports, which can be found on the LACERS website.

#### **e. Payable to the Pension Plan for Fiscal Year 2016**

The City 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. LAWA paid 100% of its annual contributions of \$60.7 million and \$53.3 million to the Pension Plan for fiscal years ended June 30, 2016 and June 30, 2015, respectively. At June 30, 2016 and June 30, 2015, LAWA did not have any payable to be reported for the outstanding amount of contributions to the pension plan required for the year end.



## Notes to the Financial Statements

### June 30, 2016 and 2015

(continued)

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#### 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 \$2.5 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 \$500,000 annual aggregate for general liability, and \$100,000 per occurrence and no aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits.

Additionally, LAWA maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits or where insurance is not available or viable. 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 2016, 2015, and 2014, no claims were in excess of LAWA's insurance coverage.

A number of lawsuits were pending against LAWA that arose in the normal course of its operations. LAWA recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of 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 probability weighted liability for litigation and other claims at June 30, 2016 and 2015 was \$11.7 million.

LAWA 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 LAWA. 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. LAWA's accrued workers' compensation liabilities at June 30, 2016 and 2015 were \$67.7 million and \$69.3 million, respectively.

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

	June 30		
	2016	2015	2014
Balance at beginning of year	\$ 80,978	\$ 74,836	\$ 73,644
Provision for current year's events and changes in provision for prior years' events	7,498	14,267	8,125
Claims payments	(9,039)	(8,125)	(6,933)
Balance at end of year	<u>\$ 79,437</u>	<u>\$ 80,978</u>	<u>\$ 74,836</u>
Current portion	<u>\$ 8,537</u>	<u>\$ 9,039</u>	<u>\$ 8,125</u>

## 15. Commitments, Litigations, and Contingencies

### a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were \$126.2 million and \$129.3 million as of June 30, 2016 and 2015, respectively. Significant amounts were committed for terminals and facilities, airfield and runways, as well as noise mitigation program.

### b. 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 and continues to be a potential terrorist target. LAWA 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 LAWA's airports.

### c. Environmental Issues

LAWA 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, LAWA assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAWA 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. LAWA accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2016 and 2015 was \$12.8 million. LAWA does not expect any recoveries reducing this obligation.



## Notes to the Financial Statements

### June 30, 2016 and 2015

(continued)

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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 13 USTs (6 at LAX, 4 at VNY and 3 at ONT). The Board approved a consent judgment settlement with the SWRCB in October 2015 with a total civil penalty amount of \$2.3 million to be paid or suspended on condition that LAWA complies with the terms of the consent judgment.

The California Regional Water Quality Control Board, Lahontan Region (Water Board) issued a Notice of Revised Proposed Cleanup and Abatement Order (Order) to Los Angeles County Sanitation District No. 20 (District) and the City of Los Angeles (City), as Dischargers, with respect to discharges to underground water from the Palmdale Reclamation Plant (Reclamation Plant) owned by the District. The Order states that the discharges have resulted in violations of waste discharge requirements for the Reclamation Plant and prohibitions contained in the Water Quality Control Plan for the Lahontan Region, and that discharges from the Reclamation Plant to unlined ponds and to the Effluent Management Site (owned by the City and now known as the Agricultural Site) have adversely affected and polluted groundwater in the area of the discharges. The Water Board issued an order to the District and LAWA to submit technical reports that include feasibility and costs to remove nitrate from groundwater to certain acceptable levels. The costs and timeframe to perform the Order, along with the apportionment of liability, are uncertain at this time.

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#### d. LA/ONT International Airport Local Control

The City, the Department, the Board, City of Ontario, and Ontario International Airport Authority (OIAA), a joint powers authority of the County of San Bernardino and the City of Ontario, entered into a settlement agreement (ONT Settlement Agreement) relating to litigation filed by the City of Ontario in June 2013 (Ontario Litigation) against the City, the Department, and the Board.

The ONT Settlement Agreement provides, generally, for: (I) the City to transfer, assign and deliver to OIAA the City's right, title and interest in and to certain of the assets, properties, rights and interests solely used or held solely for use in connection with the Department's operation of ONT, including: (a) certain real property, improvements and equipment comprising ONT and certain surrounding parcels; (b) certain contractual or entitlement rights, comprised of leases, contracts, grant agreements and entitlements; (c) certain accounts receivable and cash remaining in the accounts of ONT after the (i) transfer of certain passenger facility charges, (ii) transfer of \$40.0 million from ONT accounts to other Department non-ONT accounts, and (iii) use of the funds in the reserve fund established for the original \$90.2 million aggregate principal amount of ONT Refunding Revenue Bonds Series 2006A and Series 2006B (ONT Bonds) to discharge the outstanding ONT Bonds, all as provided in the ONT Settlement Agreement; (II) the development of a Staff Augmentation Agreement and a Department Employee Protection and Transition Plan; (III) termination and rescission of the joint powers agreement of the City and the City of Ontario; (IV) dismissal with prejudice of the Ontario Litigation and other related litigation; and (V) certain reimbursement payments and transfers of funds to the Department, including: (a) \$30.0 million from the City of Ontario to the City for the benefit of the Department to be used for the capital and operating expenses of the airport system owned and operated by the Department (other than ONT); (b) \$40.0 million from the unrestricted cash ONT accounts to other Department non-ONT accounts (as described above) to be used for the capital and operating expenses of the airport system owned and operated by the Department (other than ONT); (c) \$120.0 million from OIAA to the Department, over a period of approximately 10 years and subject to certain conditions and limitations, including that a portion thereof may be paid by the transfer of certain previously collected passenger facility charges; and (d) funds from OIAA sufficient, together with amounts available in the applicable bond reserve fund, to cause the discharge of the ONT Bonds (as described above). The transactions contemplated by the ONT Settlement Agreement are currently scheduled to close on November 1, 2016.



## Notes to the Financial Statements June 30, 2016 and 2015 (continued)

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### 16. Other Matter

#### City Financial Challenges

According to the City Administrative Officer, the City continues making progress towards fiscal sustainability; however, as a result of low investment returns from the pension systems, and increasing employee related costs, the City's structural deficit projected last year to be eliminated in fiscal year 2019 is now expected to last through fiscal year 2021. The City's enhanced focus on fiscal responsibility in the coming years will continue to play a critical role in addressing this challenge.

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 LAWA's operations. However, auxiliary services provided to LAWA by other City departments may be impacted. In addition, the City's budget challenges may have an adverse effect on the trading value of LAWA's outstanding and future bond issues.

### 17. Subsequent Event

#### Revenue Bonds Issuance

On October 20, 2016, the Board authorized the issuance of the LAX subordinate revenue bonds, 2016 Series B in an aggregate principal amount not to exceed \$550.0 million, and LAX senior revenue bonds, 2016 Series C in an aggregate principal amount not to exceed \$229.9 million. Proceeds from the LAX 2016 Series B subordinate bonds will be used to pay and/or reimburse LAX for capital expenditures incurred or to be incurred by LAX. Proceeds from the LAX 2016 Series C senior bonds will be used to advance refund a portion of outstanding LAX senior revenue bonds, 2008 Series A.



# Required Supplementary Information

2016 Comprehensive Annual  
Financial Report

## Required Supplementary Information

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

**Required Supplementary Information**  
**Last Ten Fiscal Years Ended June 30\***  
(amounts in thousands)

**Schedule of LAWA's Proportionate Share of the Net Pension Liability**

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
Proportion of the Net Pension Liability	13.98%	13.80%
Proportionate share of the Net Pension Liability	\$ 697,482	\$ 615,349
Covered-employee payroll <sup>(10)</sup>	\$ 255,014	\$ 249,228
Proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	273.51%	246.90%
Proportionate share of Pension Plan's Fiduciary Net Position	\$ 1,666,366	\$ 1,627,643
Proportionate share of Pension Plan's Total Pension Liability	\$ 2,363,848	\$ 2,242,992
Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability	70.49%	72.57%

**Notes to schedule:**

1. Changes of assumptions for measurement date June 30, 2014:

The June 30, 2014 calculations reflected various assumptions changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of the Pension Plan's Total Pension Liability is primarily due to the lowered assumed investment rate of return, from 7.75% in fiscal year 2013 to 7.50% in fiscal year 2014, and longer assumed life expectancies for members and beneficiaries.

\* Since fiscal year 2015 was the first year of implementation, only two years are shown.

<sup>10</sup> Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.



# Los Angeles World Airports

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

## Required Supplementary Information

### Last Ten Fiscal Years Ended June 30\*

(amounts in thousands)

#### Schedule of Contributions - Pension

	2016	2015
Contractually required contribution (actuarially determined)	\$ 60,694	\$ 53,261
Contributions in relation to the actuarially determined contributions	60,694	53,261
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>
LAWA's covered-employee payroll <sup>(11)</sup>	\$ 255,014	\$ 249,228
LAWA's Contributions as a percentage of covered-employee payroll	23.80%	21.37%

\* Since fiscal year 2015 was the first year of implementation, only two years are shown.

<sup>11</sup> Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.



# Los Angeles World Airports

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

## Required Supplementary Information

### Last Ten Fiscal Years Ended June 30\*

(amounts in thousands)

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#### Notes to schedule:

Valuation date: Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

#### Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age actuarial cost method, level percent of salary.
Amortization method	Level percent of payroll - assuming a 4.0% increase in total covered payroll.
Amortization period	Multiple layers - closed amortization period. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over five years. Actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years.
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of the market value of assets. An ad hoc change was made in 2014 to combine the unrecognized returns and losses of prior years as of June 30, 2013 into one layer and recognize it evenly over six years from fiscal year 2013-14 through fiscal year 2018-19.

\* Since fiscal year 2015 was the first year of implementation, only two years are shown.



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

**Required Supplementary Information**  
**Last Ten Fiscal Years Ended June 30\***  
(amounts in thousands)

**Notes to schedule (continued):**

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
Investment rate of return	7.50%	7.75%
Inflation rate	3.25%	3.50%
Real across-the-board salary increase	0.75%	0.75%
Projected salary increases	Ranges from 10.50% to 4.40% based on years of service	Ranges from 11.25% to 6.50% for members with less than 5 years of service. Ranges from 6.50% to 4.65% for members with 5 or more years of service
Cost of living adjustment <sup>(1)</sup>	Tier 1: 3.00% Tier 2: 2.00%	Tier 1: 3.00% Tier 2: 2.00%
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no set back for females	Healthy: RP-2000 Combined Healthy Mortality Table, set back two years for males and with set back one year for females

1. Actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1 and a 2.00% maximum for Tier 2.

\* Since fiscal year 2015 was the first year of implementation, only two years are shown.



# Financial Section

## Supplemental Information

2016 Comprehensive Annual Financial Report

# Supplemental Information

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

**Combining Schedule of Net Position June 30, 2016**  
**(with June 30, 2015 comparative total)**  
(amounts in thousands)

	Los Angeles International Airport	LA/Ontario International Airport	Van Nuys Airport
<b>ASSETS</b>			
Current Assets			
Unrestricted current assets			
Cash and pooled investments held in City Treasury	\$ 775,059	\$ 70,637	\$ 4,293
Investments with fiscal agents	16,465	—	—
Accounts receivable, net of allowance for uncollectible accounts: 2016 - \$1,066; 2015 - \$785	10,842	—	1,088
Unbilled receivables	38,213	—	—
Accrued interest receivable	2,962	245	—
Grants receivable	24,709	62	—
Loans receivable	—	—	169
Receivable from City General Fund	2,766	—	—
Due from (to) other agencies	48,588	—	—
Prepaid expenses	4,164	140	35
Inventories	1,383	180	39
Total unrestricted current assets	<u>925,151</u>	<u>71,264</u>	<u>5,624</u>
Restricted current assets			
Cash and pooled investments held in City Treasury	886,107	83,083	102
Investments with fiscal agents, includes cash and cash equivalents: 2016 - \$828,185; 2015 - \$653,904	833,981	349	—
Accrued interest receivable	1,330	110	—
Passenger facility charges receivable	17,632	796	—
Customer facility charges receivable	2,846	477	—
Total restricted current assets	<u>1,741,896</u>	<u>84,815</u>	<u>102</u>
Total current assets	<u>2,667,047</u>	<u>156,079</u>	<u>5,726</u>
Noncurrent Assets			
Capital assets			
Not depreciated	2,623,721	28,794	13,216
Depreciated, net	5,169,281	254,693	48,129
Total capital assets	<u>7,793,002</u>	<u>283,487</u>	<u>61,345</u>
Other noncurrent assets			
Restricted investments with fiscal agents	—	6,843	—
Loans receivable, net of current portion	—	—	523
Receivable from City General Fund, net of current portion	5,785	—	—
Total other noncurrent assets	<u>5,785</u>	<u>6,843</u>	<u>523</u>
Total noncurrent assets	<u>7,798,787</u>	<u>290,330</u>	<u>61,868</u>
<b>TOTAL ASSETS</b>	<u>10,465,834</u>	<u>446,409</u>	<u>67,594</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on debt refunding	24,179	1,584	—
Changes of assumptions related to pension	65,097	4,356	1,271
Contribution after measurement date related to pension	55,972	3,769	953
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,273	422	107
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 151,521</u>	<u>\$ 10,131</u>	<u>\$ 2,331</u>



# Los Angeles World Airports

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

## Combining Schedule of Net Position June 30, 2016 (continued) (with June 30, 2015 comparative total) (amounts in thousands)

	Palmdale Property	Total 2016	Total 2015
<b>ASSETS</b>			
Current Assets			
Unrestricted current assets			
Cash and pooled investments held in City Treasury	\$ 2	\$ 849,991	\$ 644,352
Investments with fiscal agents	—	16,465	100,913
Accounts receivable, net of allowance for uncollectible accounts: 2016 - \$1,066; 2015 - \$785	45	11,975	1,596
Unbilled receivables	—	38,213	28,868
Accrued interest receivable	—	3,207	2,827
Grants receivable	—	24,771	14,065
Loans receivable	—	169	177
Receivable from City General Fund	—	2,766	2,684
Due from (to) other agencies	(48,588)	—	—
Prepaid expenses	—	4,339	4,552
Inventories	—	1,602	1,768
Total unrestricted current assets	<u>(48,541)</u>	<u>953,498</u>	<u>801,802</u>
Restricted current assets			
Cash and pooled investments held in City Treasury	—	969,292	987,687
Investments with fiscal agents, includes cash and cash equivalents: 2016 - \$828,185; 2015 - \$653,904	—	834,330	653,904
Accrued interest receivable	—	1,440	1,546
Passenger facility charges receivable	—	18,428	20,779
Customer facility charges receivable	—	3,323	3,024
Total restricted current assets	<u>—</u>	<u>1,826,813</u>	<u>1,666,940</u>
Total current assets	<u>(48,541)</u>	<u>2,780,311</u>	<u>2,468,742</u>
Noncurrent Assets			
Capital assets			
Not depreciated	92,183	2,757,914	3,497,687
Depreciated, net	7,687	5,479,790	3,959,784
Total capital assets	<u>99,870</u>	<u>8,237,704</u>	<u>7,457,471</u>
Other noncurrent assets			
Restricted investments with fiscal agents	—	6,843	6,843
Loans receivable, net of current portion	—	523	677
Receivable from City General Fund, net of current portion	—	5,785	8,550
Total other noncurrent assets	<u>—</u>	<u>13,151</u>	<u>16,070</u>
Total noncurrent assets	<u>99,870</u>	<u>8,250,855</u>	<u>7,473,541</u>
<b>TOTAL ASSETS</b>	<u>51,329</u>	<u>11,031,166</u>	<u>9,942,283</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on debt refunding	—	25,763	27,051
Changes of assumptions related to pension	—	70,724	89,130
Contribution after measurement date related to pension	—	60,694	53,261
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	6,802	—
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ —</u>	<u>\$ 163,983</u>	<u>\$ 169,442</u>

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

**Combining Schedule of Net Position June 30, 2016 (continued)**  
**(with June 30, 2015 comparative total)**  
(amounts in thousands)

	Los Angeles International Airport	LA/Ontario International Airport	Van Nuys Airport
<b>LIABILITIES</b>			
Current Liabilities			
Current liabilities payable from unrestricted assets			
Contracts and accounts payable	\$ 228,389	\$ 4,868	\$ 1,303
Accrued salaries	15,133	1,001	295
Accrued employee benefits	5,357	450	121
Estimated claims payable	7,899	496	142
Commercial paper	50,310	—	—
Obligations under securities lending transactions	13,728	1,433	—
Other current liabilities	18,634	7,546	333
Total current liabilities payable from unrestricted assets	<u>339,450</u>	<u>15,794</u>	<u>2,194</u>
Current liabilities payable from restricted assets			
Contracts and accounts payable	4,255	18	102
Current maturities of bonded debt	96,200	4,295	—
Accrued interest payable	29,161	350	—
Obligations under securities lending transactions	17,518	1,586	—
Other current liabilities	19,475	1,726	—
Total current liabilities payable from restricted assets	<u>166,609</u>	<u>7,975</u>	<u>102</u>
Total current liabilities	<u>506,059</u>	<u>23,769</u>	<u>2,296</u>
Noncurrent Liabilities			
Bonded debt, net of current portion	4,822,900	52,713	—
Accrued employee benefits, net of current portion	37,158	3,120	840
Estimated claims payable, net of current portion	66,477	3,440	983
Liability for environmental/hazardous materials cleanup	12,783	—	—
Net pension liability	642,431	43,089	11,962
Other long-term liabilities	886	—	—
Total noncurrent liabilities	<u>5,582,635</u>	<u>102,362</u>	<u>13,785</u>
<b>TOTAL LIABILITIES</b>	<u>6,088,694</u>	<u>126,131</u>	<u>16,081</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Differences between expected and actual experience related to pension	27,695	1,859	505
Differences between projected and actual investment earnings related to pension	18,375	1,203	518
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,881	929	271
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>59,951</u>	<u>3,991</u>	<u>1,294</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,262,634	228,063	61,345
Restricted for:			
Debt service	389,217	8,611	—
Passenger facility charges eligible projects	435,285	49,676	—
Customer facility charges eligible projects	250,795	4,817	—
Capital projects reserve	—	9,661	—
Operations and maintenance reserve	179,836	14,982	—
Federally forfeited property and protested funds	1,137	231	—
Unrestricted	(50,194)	10,377	(8,795)
<b>TOTAL NET POSITION</b>	<u>\$ 4,468,710</u>	<u>\$ 326,418</u>	<u>\$ 52,550</u>



# Los Angeles World Airports

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

## Combining Schedule of Net Position June 30, 2016 (continued) (with June 30, 2015 comparative total) (amounts in thousands)

	Palmdale Property	Total 2016	Total 2015
<b>LIABILITIES</b>			
Current Liabilities			
Current liabilities payable from unrestricted assets			
Contracts and accounts payable	\$ 1,388	\$ 235,948	\$ 215,822
Accrued salaries	—	16,429	13,828
Accrued employee benefits	—	5,928	5,082
Estimated claims payable	—	8,537	9,039
Commercial paper	—	50,310	50,123
Obligations under securities lending transactions	—	15,161	4,416
Other current liabilities	15	26,528	21,631
Total current liabilities payable from unrestricted assets	<u>1,403</u>	<u>358,841</u>	<u>319,941</u>
Current liabilities payable from restricted assets			
Contracts and accounts payable	—	4,375	1,987
Current maturities of bonded debt	—	100,495	85,770
Accrued interest payable	—	29,511	26,810
Obligations under securities lending transactions	—	19,104	6,694
Other current liabilities	—	21,201	11,406
Total current liabilities payable from restricted assets	<u>—</u>	<u>174,686</u>	<u>132,667</u>
Total current liabilities	<u>1,403</u>	<u>533,527</u>	<u>452,608</u>
Noncurrent Liabilities			
Bonded debt, net of current portion	—	4,875,613	4,274,819
Accrued employee benefits, net of current portion	—	41,118	41,118
Estimated claims payable, net of current portion	—	70,900	71,939
Liability for environmental/hazardous materials cleanup	—	12,783	12,783
Net pension liability	—	697,482	615,349
Other long-term liabilities	—	886	886
Total noncurrent liabilities	<u>—</u>	<u>5,698,782</u>	<u>5,016,894</u>
<b>TOTAL LIABILITIES</b>	<u>1,403</u>	<u>6,232,309</u>	<u>5,469,502</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Differences between expected and actual experience related to pension	—	30,059	18,368
Differences between projected and actual investment earnings related to pension	—	20,096	112,403
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	15,081	19,248
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>—</u>	<u>65,236</u>	<u>150,019</u>
<b>NET POSITION</b>			
Net investment in capital assets	99,870	3,651,912	3,359,104
Restricted for:			
Debt service	—	397,828	350,101
Passenger facility charges eligible projects	—	484,961	573,805
Customer facility charges eligible projects	—	255,612	218,059
Capital projects reserve	—	9,661	9,412
Operations and maintenance reserve	—	194,818	188,375
Federally forfeited property and protested funds	—	1,368	1,517
Unrestricted	(49,944)	(98,556)	(208,169)
<b>TOTAL NET POSITION</b>	<u>\$ 49,926</u>	<u>\$ 4,897,604</u>	<u>\$ 4,492,204</u>



# Los Angeles World Airports

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

## Combining Schedule of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2016 (with for the fiscal year ended June 30, 2015 comparative total) (amounts in thousands)

	Los Angeles International Airport	LA/Ontario International Airport	Van Nuys Airport	Palmdale Property
<b>OPERATING REVENUE</b>				
Aviation revenue				
Landing fees	\$ 240,853	\$ 11,736	\$ —	\$ —
Reliever airport fee	(2,362)	—	2,362	—
Building rentals	462,667	17,005	4,622	3,055
Land rentals	96,167	3,274	10,666	427
Other aviation revenue	6,599	677	2,330	—
Total aviation revenue	<u>803,924</u>	<u>32,692</u>	<u>19,980</u>	<u>3,482</u>
Concession revenue	398,692	23,584	2	—
Other operating revenue	3,996	472	104	—
Total operating revenue	<u>1,206,612</u>	<u>56,748</u>	<u>20,086</u>	<u>3,482</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	387,595	26,326	7,107	—
Contractual services	182,659	11,165	4,840	1,255
Materials and supplies	46,062	3,503	760	—
Utilities	36,181	4,082	353	227
Other operating expenses	20,738	1,122	571	985
Allocated administrative charges	(9,356)	6,866	2,120	370
Total operating expenses before depreciation and amortization	<u>663,879</u>	<u>53,064</u>	<u>15,751</u>	<u>2,837</u>
Operating income before depreciation and amortization	542,733	3,684	4,335	645
Depreciation and amortization	226,439	18,485	4,335	850
<b>OPERATING INCOME (LOSS)</b>	<u>316,294</u>	<u>(14,801)</u>	<u>—</u>	<u>(205)</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Passenger facility charges	150,409	3,555	—	—
Customer facility charges	31,996	4,086	—	—
Interest income	19,638	2,206	112	—
Net change in fair value of investments	13,776	1,298	—	—
Interest expense	(182,386)	(2,889)	—	—
Other nonoperating revenue	17,985	(128)	—	—
Other nonoperating expenses	(6,790)	—	1,973	—
Total nonoperating revenue, net	<u>44,628</u>	<u>8,128</u>	<u>2,085</u>	<u>—</u>
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS</b>				
Federal and other government grants	49,255	16	—	—
Inter-agency transfers	5,116	—	(5,116)	—
<b>CHANGE IN NET POSITION</b>	<u>415,293</u>	<u>(6,657)</u>	<u>(3,031)</u>	<u>(205)</u>
<b>NET POSITION, BEG. OF YEAR, AS PREVIOUSLY REPORTED</b>				
Change in accounting principle	—	—	—	—
<b>NET POSITION, BEG. OF YEAR, AS RESTATED</b>	<u>4,053,417</u>	<u>333,075</u>	<u>55,581</u>	<u>50,131</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 4,468,710</u>	<u>\$ 326,418</u>	<u>\$ 52,550</u>	<u>\$ 49,926</u>



# Los Angeles World Airports

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

## Combining Schedule of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2016 (continued) (with for the fiscal year ended June 30, 2015 comparative total) (amounts in thousands)

	Total before eliminations	Eliminations	Total 2016	Total 2015
<b>OPERATING REVENUE</b>				
Aviation revenue				
Landing fees	\$ 252,589	\$ —	\$ 252,589	\$ 239,659
Reliever airport fee	—	—	—	—
Building rentals	487,349	—	487,349	389,796
Land rentals	110,534	(1,112)	109,422	102,746
Other aviation revenue	9,606	—	9,606	7,126
Total aviation revenue	860,078	(1,112)	858,966	739,327
Concession revenue	422,278	—	422,278	377,617
Other operating revenue	4,572	—	4,572	4,640
Total operating revenue	1,286,928	(1,112)	1,285,816	1,121,584
<b>OPERATING EXPENSES</b>				
Salaries and benefits	421,028	—	421,028	405,923
Contractual services	199,919	—	199,919	190,445
Materials and supplies	50,325	—	50,325	49,810
Utilities	40,843	—	40,843	43,247
Other operating expenses	23,416	(1,112)	22,304	22,635
Allocated administrative charges	—	—	—	—
Total operating expenses before depreciation and amortization	735,531	(1,112)	734,419	712,060
Operating income before depreciation and amortization	551,397	—	551,397	409,524
Depreciation and amortization	250,109	—	250,109	201,214
<b>OPERATING INCOME (LOSS)</b>	301,288	—	301,288	208,310
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Passenger facility charges	153,964	—	153,964	141,466
Customer facility charges	36,082	—	36,082	33,185
Interest income	21,956	—	21,956	22,240
Net change in fair value of investments	15,074	—	15,074	(2,074)
Interest expense	(185,275)	—	(185,275)	(169,630)
Other nonoperating revenue	17,857	—	17,857	9,175
Other nonoperating expenses	(4,817)	—	(4,817)	(9,559)
Total nonoperating revenue, net	54,841	—	54,841	24,803
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS</b>				
Federal and other government grants	49,271	—	49,271	34,761
Inter-agency transfers	—	—	—	—
<b>CHANGE IN NET POSITION</b>	405,400	—	405,400	267,874
<b>NET POSITION, BEG. OF YEAR, AS PREVIOUSLY REPORTED</b>	4,492,204	—	4,492,204	4,841,849
Change in accounting principle	—	—	—	(617,519)
<b>NET POSITION, BEG. OF YEAR, AS RESTATED</b>	4,492,204	—	4,492,204	4,224,330
<b>NET POSITION, END OF YEAR</b>	\$ 4,897,604	\$ —	\$ 4,897,604	\$ 4,492,204

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# Statistical Section

2016 Comprehensive Annual Financial Report



## Statistical Section

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The Statistical Section's objective is to provide users of LAWA's financial statements with additional historical perspective, context and detail to assist in using the information presented in the financial statements, notes to the financial statements, required supplementary information, and supplemental information to assess LAWA's economic condition





# Los Angeles World Airports

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

## Statistical Section (Unaudited)

### Fiscal Year Ended June 30, 2016

The Statistical Section provides information with up to ten years of comparable data.

### Financial Trend and Revenue Capacity

The financial trend schedules depict the financial position of LAWA over the years. The information provided allows for an understanding of how revenues and expenses have changed over the years. The revenue capacity schedules present the significant sources of LAWA's operating revenues.

• Net Position Summary .....	Page 110	• Changes in Net Position .....	Page 112
• Operating Revenue .....	Page 114	• Gross Concession Revenue per Enplaned Passenger .....	Page 116
• Operating Expenses per Enplaned Passenger .....	Page 118	• Landing Fee Rates .....	Page 120

### Debt Capacity

The schedules present LAWA's outstanding debt over the years, related debt service ratios, and LAWA's ability to repay the outstanding debt and ability to issue additional debt in the future.

• Outstanding Debt by Type and Debt Ratios .....	Page 122	• Revenue Bonds Debt Service Coverage .....	Page 124
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### Operating Information

The schedules provide information on the distribution of LAWA's carriers, passenger traffic, airport personnel, and capital assets.

• Airline Landing Weight Trend .....	Page 126	• Enplaned Passengers Data .....	Page 130
• Employee Trend .....	Page 134	• Schedule of Capital Assets .....	Page 136

### Demographic and Economic Data

The schedules offer demographic and economic indicators to help readers understand the environment within which LAWA's financial activities occur.

• Air Trade Area Population .....	Page 138
• Air Trade Area Personal Income .....	Page 139
• Air Trade Area Personal Income Per Capita .....	Page 140
• Air Trade Area Unemployment Rate .....	Page 141
• Los Angeles County Principal Employers (Non-Government) .....	Page 142



# Los Angeles World Airports

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

## Net Position Summary

### Last Ten Fiscal Years June 30

(amounts in thousands)

	2016	2015	2014	2013	2012
<b>Assets</b>					
Unrestricted current assets	\$ 953,498	\$ 801,802	\$ 773,686	\$ 751,416	\$ 835,785
Restricted current assets	1,826,813	1,666,940	1,741,540	1,698,879	2,352,742
Capital assets, net	8,237,704	7,457,471	6,938,565	6,385,858	5,331,736
Other noncurrent assets	13,151	16,070	18,932	21,702	45,437
<b>Total assets</b>	<b>11,031,166</b>	<b>9,942,283</b>	<b>9,472,723</b>	<b>8,857,855</b>	<b>8,565,700</b>
<b>Deferred outflows of resources</b>					
Deferred charges on debt refunding	25,763	27,051	2,581	2,795	—
Changes of assumptions related to pension	70,724	89,130	—	—	—
Contribution after measurement date related to pension	60,694	53,261	—	—	—
Changes in proportionate share of contributions	6,802	—	—	—	—
<b>Total deferred outflows of resources</b>	<b>163,983</b>	<b>169,442</b>	<b>2,581</b>	<b>2,795</b>	<b>—</b>
<b>Liabilities</b>					
Current liabilities payable from unrestricted assets	358,841	319,941	414,285	274,859	382,293
Current liabilities payable from restricted assets	174,686	132,667	116,999	102,125	110,482
Noncurrent liabilities	5,001,300	4,401,545	4,102,171	3,933,194	3,717,043
Net pension liability	697,482	615,349	—	—	—
<b>Total liabilities</b>	<b>6,232,309</b>	<b>5,469,502</b>	<b>4,633,455</b>	<b>4,310,178</b>	<b>4,209,818</b>
<b>Deferred inflows of resources</b>					
Differences between expected and actual experience related to pension	30,059	18,368	—	—	—
Differences between projected and actual investment earnings related to pension	20,096	112,403	—	—	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,081	19,248	—	—	—
<b>Total deferred inflows of resources</b>	<b>65,236</b>	<b>150,019</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Position</b>					
Net investment in capital assets	3,651,912	3,359,104	3,089,235	2,691,560	2,407,904
Restricted for debt service	397,828	350,101	334,396	316,249	388,458
Restricted for capital projects	750,234	801,276	944,200	937,398	937,355
Restricted for operation & maintenance reserve	194,818	188,375	178,598	173,101	175,543
Restricted for federal forfeited property & protested funds	1,368	1,517	1,313	1,117	1,141
Unrestricted	(98,556)	(208,169)	294,107	431,047	445,481
<b>Total net position</b>	<b>\$ 4,897,604</b>	<b>\$ 4,492,204</b>	<b>\$ 4,841,849</b>	<b>\$ 4,550,472</b>	<b>\$ 4,355,882</b>



	2011	2010	2009	2008	2007
<b>Assets</b>					
Unrestricted current assets	\$ 973,345	\$ 770,751	\$ 676,544	\$ 601,602	\$ 651,841
Restricted current assets	2,807,009	1,715,836	1,064,230	962,547	857,575
Capital assets, net	4,459,842	3,966,292	3,261,207	2,830,640	2,381,724
Other noncurrent assets	102,166	489,445	8,098	3,351	3,732
<b>Total assets</b>	<b>8,342,362</b>	<b>6,942,324</b>	<b>5,010,079</b>	<b>4,398,140</b>	<b>3,894,872</b>
<b>Deferred outflows of resources</b>					
Deferred charges on debt refunding	—	—	—	—	—
Changes of assumptions related to pension	—	—	—	—	—
Contribution after measurement date related to pension	—	—	—	—	—
Changes in proportionate share of contributions	—	—	—	—	—
<b>Total deferred outflows of resources</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Liabilities</b>					
Current liabilities payable from unrestricted assets	338,685	359,225	220,164	531,194	352,029
Current liabilities payable from restricted assets	169,554	89,256	110,483	142,473	173,868
Noncurrent liabilities	3,757,733	2,711,343	1,180,396	493,931	491,529
Net pension liability	—	—	—	—	—
<b>Total liabilities</b>	<b>4,265,972</b>	<b>3,159,824</b>	<b>1,511,043</b>	<b>1,167,598</b>	<b>1,017,426</b>
<b>Deferred inflows of resources</b>					
Differences between expected and actual experience related to pension	—	—	—	—	—
Differences between projected and actual investment earnings related to pension	—	—	—	—	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	—	—	—	—
<b>Total deferred inflows of resources</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Position</b>					
Net investment in capital assets	2,061,683	2,013,081	2,084,626	2,157,223	1,996,389
Restricted for debt service	486,955	345,116	115,601	35,523	35,213
Restricted for capital projects	825,114	795,967	677,575	547,799	418,543
Restricted for operation & maintenance reserve	155,200	155,200	155,200	156,407	153,379
Restricted for federal forfeited property & protested funds	779	5,965	34,268	1,301	252
Unrestricted	546,659	467,171	431,766	332,289	273,670
<b>Total net position</b>	<b>\$ 4,076,390</b>	<b>\$ 3,782,500</b>	<b>\$ 3,499,036</b>	<b>\$ 3,230,542</b>	<b>\$ 2,877,446</b>

Note: The net pension liability data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amount was not readily available.



# Los Angeles World Airports

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

## Changes in Net Position

### Last Ten Fiscal Years Ended June 30

(amounts in thousands)

	2016	2015	2014	2013	2012
<b>Operating revenue</b>					
Aviation revenue					
Landing fees	\$ 252,589	\$ 239,659	\$ 234,394	\$ 227,683	\$ 218,224
Building rentals	487,349	389,796	339,420	285,873	274,183
Land rentals	109,422	102,746	101,369	94,694	92,529
Other aviation revenue	9,606	7,126	5,899	6,336	8,456
Concession revenue	422,278	377,617	354,847	328,636	304,670
Other operating revenue	4,572	4,640	2,577	3,571	4,095
Total operating revenue	<u>1,285,816</u>	<u>1,121,584</u>	<u>1,038,506</u>	<u>946,793</u>	<u>902,157</u>
<b>Nonoperating revenue</b>					
Passenger facility charges	153,964	141,466	136,280	130,512	130,769
Customer facility charges	36,082	33,185	32,345	30,896	29,643
Investment income	37,030	20,166	24,422	2,985	36,014
Other nonoperating revenue	17,857	9,175	11,901	12,098	15,848
Total nonoperating revenue	<u>244,933</u>	<u>203,992</u>	<u>204,948</u>	<u>176,491</u>	<u>212,274</u>
<b>Total revenue</b>	<u>1,530,749</u>	<u>1,325,576</u>	<u>1,243,454</u>	<u>1,123,284</u>	<u>1,114,431</u>
<b>Operating expenses</b>					
Salaries and benefits	421,028	405,923	388,677	371,708	376,042
Contractual services	199,919	190,445	179,988	184,139	182,487
Materials and supplies	50,325	49,810	49,604	52,158	39,881
Utilities	40,843	43,247	44,037	37,089	35,048
Other operating expenses	22,304	22,635	17,555	19,939	24,258
Depreciation and amortization	250,109	201,214	165,960	159,719	151,654
Total operating expenses	<u>984,528</u>	<u>913,274</u>	<u>845,821</u>	<u>824,752</u>	<u>809,370</u>
<b>Nonoperating expenses</b>					
Interest expense	185,275	169,630	137,005	97,089	86,700
Other nonoperating expenses	4,817	9,559	1,928	2,058	1,310
Total nonoperating expenses	<u>190,092</u>	<u>179,189</u>	<u>138,933</u>	<u>99,147</u>	<u>88,010</u>
<b>Total expenses</b>	<u>1,174,620</u>	<u>1,092,463</u>	<u>984,754</u>	<u>923,899</u>	<u>897,380</u>
<b>Income before capital grants</b>	<u>356,129</u>	<u>233,113</u>	<u>258,700</u>	<u>199,385</u>	<u>217,051</u>
Federal and other grants	49,271	34,761	32,677	17,972	62,441
<b>Changes in net position</b>	<u>405,400</u>	<u>267,874</u>	<u>291,377</u>	<u>217,357</u>	<u>279,492</u>
<b>Net position, beginning of year, as previously reported</b>	<u>4,492,204</u>	<u>4,841,849</u>	<u>4,550,472</u>	<u>4,355,882</u>	<u>4,076,390</u>
Change in accounting principle	—	(617,519)	—	(22,767)	—
<b>Net position, beginning of year, as restated</b>	<u>4,492,204</u>	<u>4,224,330</u>	<u>4,550,472</u>	<u>4,333,115</u>	<u>4,076,390</u>
<b>Net position, end of year</b>	<u>\$ 4,897,604</u>	<u>\$ 4,492,204</u>	<u>\$ 4,841,849</u>	<u>\$ 4,550,472</u>	<u>\$ 4,355,882</u>



	2011	2010	2009	2008	2007
<b>Operating revenue</b>					
Aviation revenue					
Landing fees	\$ 203,424	\$ 185,911	\$ 185,553	\$ 193,805	\$ 172,495
Building rentals	249,267	224,228	220,731	184,151	144,082
Land rentals	99,624	65,454	59,536	61,992	57,810
Other aviation revenue	4,033	4,078	4,648	8,007	5,909
Concession revenue	290,494	264,730	273,669	286,296	260,275
Other operating revenue	4,324	3,408	5,234	5,373	5,783
Total operating revenue	<u>851,166</u>	<u>747,809</u>	<u>749,371</u>	<u>739,624</u>	<u>646,354</u>
<b>Nonoperating revenue</b>					
Passenger facility charges	128,084	121,519	113,852	129,125	125,515
Customer facility charges	27,821	25,638	26,145	29,820	4,837
Investment income	31,801	47,898	60,094	78,827	59,695
Other nonoperating revenue	13,918	25,158	10,999	6,391	9,908
Total nonoperating revenue	<u>201,624</u>	<u>220,213</u>	<u>211,090</u>	<u>244,163</u>	<u>199,955</u>
<b>Total revenue</b>	<u>1,052,790</u>	<u>968,022</u>	<u>960,461</u>	<u>983,787</u>	<u>846,309</u>
<b>Operating expenses</b>					
Salaries and benefits	359,700	360,033	348,504	344,322	303,678
Contractual services	161,784	161,751	169,474	173,994	162,826
Materials and supplies	37,343	37,283	45,173	45,502	50,464
Utilities	34,392	33,668	34,348	33,608	25,524
Other operating expenses	23,704	24,221	23,622	29,647	28,595
Depreciation and amortization	130,805	108,221	108,887	105,762	92,230
Total operating expenses	<u>747,728</u>	<u>725,177</u>	<u>730,008</u>	<u>732,835</u>	<u>663,317</u>
<b>Nonoperating expenses</b>					
Interest expense	82,501	39,349	24,541	22,474	20,922
Other nonoperating expenses	3,842	987	27,487	674	614
Total nonoperating expenses	<u>86,343</u>	<u>40,336</u>	<u>52,028</u>	<u>23,148</u>	<u>21,536</u>
<b>Total expenses</b>	<u>834,071</u>	<u>765,513</u>	<u>782,036</u>	<u>755,983</u>	<u>684,853</u>
<b>Income before capital grants</b>	<u>218,719</u>	<u>202,509</u>	<u>178,425</u>	<u>227,804</u>	<u>161,456</u>
Federal and other grants	75,171	80,955	90,069	125,292	82,088
<b>Changes in net position</b>	<u>293,890</u>	<u>283,464</u>	<u>268,494</u>	<u>353,096</u>	<u>243,544</u>
<b>Net position, beginning of year, as previously reported</b>	<u>3,782,500</u>	<u>3,499,036</u>	<u>3,230,542</u>	<u>2,877,446</u>	<u>2,633,902</u>
Change in accounting principle	—	—	—	—	—
<b>Net position, beginning of year, as restated</b>	<u>3,782,500</u>	<u>3,499,036</u>	<u>3,230,542</u>	<u>2,877,446</u>	<u>2,633,902</u>
<b>Net position, end of year</b>	<u>\$ 4,076,390</u>	<u>\$ 3,782,500</u>	<u>\$ 3,499,036</u>	<u>\$ 3,230,542</u>	<u>\$ 2,877,446</u>

Note: The net pension liability data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amount was not readily available.



# Los Angeles World Airports

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

## Operating Revenue

### Last Ten Fiscal Years Ended June 30

(amounts in thousands)

	2016	2015	2014	2013	2012
<b>Landing fees</b>					
Permitted/signatory	\$ 251,898	\$ 239,200	\$ 233,947	\$ 227,132	\$ 217,403
Non-permitted/non-signatory	691	459	447	551	821
Total landing fees	252,589	239,659	234,394	227,683	218,224
<b>Building rentals</b>					
Terminals	422,713	329,688	274,836	229,023	216,366
Other buildings	64,636	60,108	64,584	56,850	57,817
Total building rentals	487,349	389,796	339,420	285,873	274,183
<b>Land rentals</b>	109,422	102,746	101,369	94,694	92,529
<b>Other aviation revenue</b>					
Plane parking	3,279	1,031	942	875	967
Fuel fee	2,784	2,729	2,175	2,200	2,142
Other	3,543	3,366	2,782	3,261	5,347
Total other aviation revenue	9,606	7,126	5,899	6,336	8,456
<b>Concession revenue</b>					
Duty free	66,287	63,983	55,756	50,409	45,434
Commercial management concession	43,343	28,674	9,078	30	—
Food and beverage	23,440	26,249	37,354	37,747	34,217
Gifts and news	11,035	12,076	22,227	23,019	18,411
Advertising	26,998	23,196	18,603	20,936	18,763
Foreign exchange	8,003	7,093	6,508	6,356	6,572
Telecommunications	2,082	1,379	879	761	1,109
Luggage carts	2,746	2,754	2,786	2,690	2,792
Automated teller machines	3,840	3,840	3,840	3,620	3,400
Subtotal- In-terminal	187,774	169,244	157,031	145,568	130,698
Auto parking	108,507	99,401	93,391	87,398	84,270
Rent-a-car	90,059	85,658	83,621	77,303	70,982
Bus, limousine, and taxi	13,731	12,238	10,889	9,390	8,969
Transportation network company	8,897	—	—	—	—
Flyaway bus service	13,310	11,076	9,915	8,977	9,751
Subtotal- Off-terminal	234,504	208,373	197,816	183,068	173,972
Total concession revenue	422,278	377,617	354,847	328,636	304,670
<b>Other operating revenue</b>					
Sales and service	3,103	2,476	1,201	1,216	2,573
Miscellaneous	1,469	2,164	1,376	2,355	1,522
Total other operating revenue	4,572	4,640	2,577	3,571	4,095
<b>Total operating revenue</b>	<u>\$ 1,285,816</u>	<u>\$ 1,121,584</u>	<u>\$ 1,038,506</u>	<u>\$ 946,793</u>	<u>\$ 902,157</u>



	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Landing fees</b>					
Permitted/signatory	\$ 202,899	\$ 184,703	\$ 183,432	\$ 187,587	\$ 171,673
Non-permitted/non-signatory	525	1,208	2,121	6,218	822
Total landing fees	<u>203,424</u>	<u>185,911</u>	<u>185,553</u>	<u>193,805</u>	<u>172,495</u>
<b>Building rentals</b>					
Terminals	193,566	185,372	183,947	147,398	105,586
Other buildings	55,701	38,856	36,784	36,753	38,496
Total building rentals	<u>249,267</u>	<u>224,228</u>	<u>220,731</u>	<u>184,151</u>	<u>144,082</u>
<b>Land rentals</b>	<u>99,624</u>	<u>65,454</u>	<u>59,536</u>	<u>61,992</u>	<u>57,810</u>
<b>Other aviation revenue</b>					
Plane parking	724	821	871	1,108	1,346
Fuel fee	2,230	1,954	990	2,144	1,237
Other	1,079	1,303	2,787	4,755	3,326
Total other aviation revenue	<u>4,033</u>	<u>4,078</u>	<u>4,648</u>	<u>8,007</u>	<u>5,909</u>
<b>Concession revenue</b>					
Duty free	36,743	26,338	30,502	35,380	32,037
Commercial management concession	—	—	—	—	—
Food and beverage	37,784	32,288	33,102	31,356	29,941
Gifts and news	19,214	17,826	18,391	19,047	17,918
Advertising	18,938	15,083	14,764	15,359	4,585
Foreign exchange	6,533	6,381	6,613	6,937	6,784
Telecommunications	1,920	1,824	2,759	2,133	1,957
Luggage carts	2,780	2,748	2,703	2,766	2,785
Automated teller machines	3,400	3,400	3,400	2,643	1,939
Subtotal- In-terminal	<u>127,312</u>	<u>105,888</u>	<u>112,234</u>	<u>115,621</u>	<u>97,946</u>
Auto parking	81,822	80,567	84,180	94,619	92,917
Rent-a-car	65,500	63,823	64,929	64,717	59,854
Bus, limousine, and taxi	6,940	6,211	6,327	6,601	6,367
Transportation network company	—	—	—	—	—
Flyaway bus service	8,920	8,241	5,999	4,738	3,191
Subtotal- Off-terminal	<u>163,182</u>	<u>158,842</u>	<u>161,435</u>	<u>170,675</u>	<u>162,329</u>
Total concession revenue	<u>290,494</u>	<u>264,730</u>	<u>273,669</u>	<u>286,296</u>	<u>260,275</u>
<b>Other operating revenue</b>					
Sales and service	2,442	2,095	2,541	2,911	3,306
Miscellaneous	1,882	1,313	2,693	2,462	2,477
Total other operating revenue	<u>4,324</u>	<u>3,408</u>	<u>5,234</u>	<u>5,373</u>	<u>5,783</u>
<b>Total operating revenue</b>	<u>\$ 851,166</u>	<u>\$ 747,809</u>	<u>\$ 749,371</u>	<u>\$ 739,624</u>	<u>\$ 646,354</u>



# Los Angeles World Airports

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

## Gross Concession Revenue Per Enplaned Passenger

Last Ten Fiscal Years Ended June 30

(amounts in thousands, except per enplaned)

	2016	2015	2014	2013	2012
<b>Los Angeles International Airport</b>					
In-terminal					
Duty free	\$ 66,287	\$ 63,983	\$ 55,756	\$ 50,409	\$ 45,434
Commercial mgmt concession	43,343	28,674	9,078	30	—
Food and beverage	22,746	25,598	36,619	36,475	32,956
Gifts and news	10,433	11,096	21,353	21,912	17,282
Advertising	26,437	22,553	17,784	19,875	17,433
Foreign exchange	8,003	7,093	6,508	6,356	6,572
Telecommunications	2,071	1,354	850	732	976
Luggage carts	2,636	2,644	2,676	2,580	2,682
Automated teller machines	3,750	3,750	3,750	3,303	2,856
Off-terminal					
Auto parking	94,086	85,803	79,914	73,932	69,945
Rent-a-car	83,299	78,556	76,558	70,517	64,361
Bus, limousine, and taxi	13,394	11,902	10,550	9,041	8,519
Transportation network company	8,897	—	—	—	—
Flyaway bus service	13,310	11,076	9,915	8,977	9,751
Total gross concession revenue	<u>398,692</u>	<u>354,082</u>	<u>331,311</u>	<u>304,139</u>	<u>278,767</u>
Total enplaned passengers	38,952	36,114	34,334	32,524	31,519
Gross concession revenue per enplaned passenger	<u>\$ 10.24</u>	<u>\$ 9.80</u>	<u>\$ 9.65</u>	<u>\$ 9.35</u>	<u>\$ 8.84</u>
<b>LA/Ontario International Airport</b>					
In-terminal					
Food and beverage	\$ 692	\$ 651	\$ 735	\$ 1,272	\$ 1,261
Gifts and news	602	981	874	1,107	1,129
Advertising	561	643	819	1,061	1,330
Telecommunications	11	25	29	29	131
Luggage carts	110	110	110	110	110
Automated teller machines	90	90	90	317	544
Off-terminal					
Auto parking	14,421	13,598	13,477	13,466	14,325
Rent-a-car	6,760	7,101	7,063	6,786	6,621
Bus, limousine, and taxi	337	336	339	349	450
Total gross concession revenue	<u>23,584</u>	<u>23,535</u>	<u>23,536</u>	<u>24,497</u>	<u>25,901</u>
Total enplaned passengers	2,108	2,085	2,003	2,076	2,209
Gross concession revenue per enplaned passenger	<u>\$ 11.19</u>	<u>\$ 11.29</u>	<u>\$ 11.75</u>	<u>\$ 11.80</u>	<u>\$ 11.73</u>



	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Los Angeles International Airport</b>					
In-terminal					
Duty free	\$ 36,743	\$ 26,338	\$ 30,502	\$ 35,380	\$ 32,037
Commercial mgmt concession	—	—	—	—	—
Food and beverage	36,579	31,109	31,804	30,080	28,731
Gifts and news	17,998	16,713	17,106	17,598	16,559
Advertising	17,419	13,676	13,086	13,768	4,300
Foreign exchange	6,533	6,381	6,613	6,937	6,784
Telecommunications	1,714	1,629	2,475	1,953	1,766
Luggage carts	2,680	2,638	2,593	2,654	2,669
Automated teller machines	2,856	2,856	2,856	2,203	1,610
Off-terminal					
Auto parking	66,575	64,661	67,289	74,004	72,917
Rent-a-car	58,647	56,752	56,891	55,336	50,761
Bus, limousine, and taxi	6,531	5,917	5,882	6,044	5,852
Transportation network company	—	—	—	—	—
Flyaway bus service	8,920	8,241	5,999	4,738	3,191
Total gross concession revenue	<u>263,195</u>	<u>236,911</u>	<u>243,096</u>	<u>250,695</u>	<u>227,177</u>
Total enplaned passengers	30,281	29,003	28,329	31,142	30,803
Gross concession revenue per enplaned passenger	<u>\$ 8.69</u>	<u>\$ 8.17</u>	<u>\$ 8.58</u>	<u>\$ 8.05</u>	<u>\$ 7.38</u>
<b>LA/Ontario International Airport</b>					
In-terminal					
Food and beverage	\$ 1,205	\$ 1,179	\$ 1,297	\$ 1,275	\$ 1,210
Gifts and news	1,215	1,113	1,285	1,449	1,359
Advertising	1,519	1,407	1,678	1,591	285
Telecommunications	197	185	266	179	188
Luggage carts	101	110	110	112	116
Automated teller machines	544	544	544	440	329
Off-terminal					
Auto parking	15,246	15,906	16,890	20,612	19,997
Rent-a-car	6,853	7,071	8,038	9,381	9,093
Bus, limousine, and taxi	410	294	445	557	515
Total gross concession revenue	<u>27,290</u>	<u>27,809</u>	<u>30,553</u>	<u>35,596</u>	<u>33,092</u>
Total enplaned passengers	2,367	2,417	2,631	3,549	3,533
Gross concession revenue per enplaned passenger	<u>\$ 11.53</u>	<u>\$ 11.51</u>	<u>\$ 11.61</u>	<u>\$ 10.03</u>	<u>\$ 9.37</u>



# Los Angeles World Airports

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

## Operating Expenses Per Enplaned Passenger Last Ten Fiscal Years Ended June 30

(amounts in thousands, except per enplaned)

	2016	2015	2014	2013	2012
<b>Los Angeles International Airport</b>					
Salaries and benefits	\$ 387,595	\$ 374,018	\$ 356,726	\$ 338,004	\$ 339,551
Contractual services	182,659	174,745	161,771	162,661	162,071
Materials and supplies	46,062	46,102	45,726	47,908	35,986
Utilities	36,181	38,355	39,089	32,472	30,664
Other operating expenses	20,738	21,205	16,093	18,383	22,023
Administrative charges					
allocated to ONT, VNY & PMD	(9,356)	(9,027)	(9,378)	(9,998)	(10,135)
Total operating expenses before depreciation	663,879	645,398	610,027	589,430	580,160
Total enplaned passengers	38,952	36,114	34,334	32,524	31,519
Operating expenses per enplaned passenger	\$ 17.04	\$ 17.87	\$ 17.77	\$ 18.12	\$ 18.41
<b>LA/Ontario International Airport</b>					
Salaries and benefits	\$ 26,326	\$ 25,701	\$ 25,735	\$ 28,128	\$ 29,612
Contractual services	11,165	11,217	12,780	16,115	15,482
Materials and supplies	3,503	3,211	3,347	3,556	3,167
Utilities	4,082	4,254	4,170	4,087	3,808
Other operating expenses	1,122	1,302	1,190	1,233	1,279
Administrative charges					
allocated from LAX	6,866	6,932	7,160	7,907	7,908
Total operating expenses before depreciation	53,064	52,617	54,382	61,026	61,256
Total enplaned passengers	2,108	2,085	2,003	2,076	2,209
Operating expenses per enplaned passenger	\$ 25.17	\$ 25.24	\$ 27.15	\$ 29.40	\$ 27.73



	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Los Angeles International Airport</b>					
Salaries and benefits	\$ 323,522	\$ 317,000	\$ 298,612	\$ 291,015	\$ 255,536
Contractual services	143,684	141,253	148,627	151,155	141,306
Materials and supplies	32,699	32,661	38,738	37,870	43,313
Utilities	29,606	28,832	29,018	27,674	20,101
Other operating expenses	21,712	21,213	20,841	24,645	21,649
Administrative charges allocated to ONT, VNY & PMD	(9,995)	(11,407)	(12,925)	(14,627)	(13,381)
Total operating expenses before depreciation	541,228	529,552	522,911	517,732	468,524
Total enplaned passengers	30,281	29,003	28,329	31,142	30,803
Operating expenses per enplaned passenger	<u>\$ 17.87</u>	<u>\$ 18.26</u>	<u>\$ 18.46</u>	<u>\$ 16.62</u>	<u>\$ 15.21</u>
<b>LA/Ontario International Airport</b>					
Salaries and benefits	\$ 30,026	\$ 35,346	\$ 38,722	\$ 42,012	\$ 39,391
Contractual services	14,852	15,324	15,522	14,279	18,071
Materials and supplies	3,889	3,884	4,527	5,958	6,070
Utilities	4,110	3,970	4,519	4,951	4,912
Other operating expenses	1,424	1,476	1,201	2,300	2,426
Administrative charges allocated from LAX	8,129	8,999	9,742	10,883	10,629
Total operating expenses before depreciation	62,430	68,999	74,233	80,383	81,499
Total enplaned passengers	2,367	2,417	2,631	3,549	3,533
Operating expenses per enplaned passenger	<u>\$ 26.38</u>	<u>\$ 28.55</u>	<u>\$ 28.21</u>	<u>\$ 22.65</u>	<u>\$ 23.07</u>



# Los Angeles World Airports

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

## Landing Fee Rates

### Last Ten Fiscal Years Ended June 30

#### Los Angeles International Airport

Fiscal Year	Permitted air carriers		Non-permitted air carriers	
	Passenger	Cargo	Passenger	Cargo
2016	\$4.12	\$3.28	\$5.48	\$4.33
2015	4.27	3.51	5.59	4.56
2014	4.33	3.57	5.75	4.73
2013	4.37	3.60	5.58	4.71
2012	4.24	3.56	5.45	4.46
2011	4.06	3.31	5.08	4.18
2010	3.74	3.02	5.09	4.16
2009	3.88	3.21	4.81	4.05
2008	3.42	2.84	4.19	3.40
2007	3.01	2.50	3.76	3.10

#### LA/Ontario International Airport

Fiscal Year	Signatory airlines	Non-signatory airlines
	passenger and cargo	passenger and cargo
2016	\$2.20	\$3.35
2015	2.57	3.35
2014	2.51	2.94
2013	2.28	2.90
2012	1.97	2.90
2011	2.28	2.94
2010	2.49	3.45
2009	2.54	3.38
2008	2.15	3.04
2007	2.24	2.86

The above rates are assessed per 1,000 pounds of maximum gross landing weight for each landing of aircraft having a maximum gross landing weight of more than 25,000 pounds. Different rates apply for less than 12,000 pounds, and up to and including 25,000 pounds.

Landing rates are adopted by the Board of Airport Commissioners and become effective beginning July 1 of each fiscal year. The adopted rates are based on budgeted operating revenue and expenses. A reconciliation between the actual amounts against the estimates used in initial calculation may result in a year-end adjustment to unbilled receivables. The landing rates for fiscal year 2016 represent the adopted rate which is subject to reconciliation at the end of calendar year 2016. The landing rates for fiscal years 2007 through 2015 represent the final reconciled rates.



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# Los Angeles World Airports

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

## Outstanding Debt by Type and Debt Ratios Last Ten Fiscal Years Ended June 30

(amounts in thousands, except per enplaned)

	2016	2015	2014	2013	2012
<b>Los Angeles International Airport</b>					
Outstanding debt					
Revenue bonds after premium & discount	\$ 4,919,100	\$ 4,299,262	\$ 3,982,811	\$ 3,788,736	\$ 3,571,753
Debt service-revenue bonds					
Principal	\$ 81,700	\$ 72,390	\$ 53,220	\$ 38,250	\$ 44,985
Interest, net of capitalized amount	196,552	184,017	157,758	91,258	86,019
Total debt service	\$ 278,252	\$ 256,407	\$ 210,978	\$ 129,508	\$ 131,004
Total enplaned passengers	38,952	36,114	34,334	32,524	31,519
Outstanding debt per enplaned passenger	\$ 126.29	\$ 119.05	\$ 116.00	\$ 116.49	\$ 113.32
Debt service per enplaned passenger	\$ 7.14	\$ 7.10	\$ 6.14	\$ 3.98	\$ 4.16
<b>LA/Ontario International Airport</b>					
Outstanding debt					
Revenue bonds after premium & discount	\$ 57,008	\$ 61,327	\$ 65,798	\$ 69,668	\$ 71,118
Debt service-revenue bonds					
Principal	\$ 4,070	\$ 3,850	\$ 3,670	\$ 3,475	\$ 3,315
Interest, net of capitalized amount	3,003	3,197	3,373	3,540	3,691
Total debt service	\$ 7,073	\$ 7,047	\$ 7,043	\$ 7,015	\$ 7,006
Total enplaned passengers	2,108	2,085	2,003	2,076	2,209
Outstanding debt per enplaned passenger	\$ 27.04	\$ 29.41	\$ 32.85	\$ 33.56	\$ 32.19
Debt service per enplaned passenger	\$ 3.36	\$ 3.38	\$ 3.52	\$ 3.38	\$ 3.17
<b>LAWA</b>					
Revenue bonds after premium & discount	\$ 4,976,108	\$ 4,360,589	\$ 4,048,609	\$ 3,858,404	\$ 3,642,871



	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Los Angeles International Airport</b>					
Outstanding debt					
Revenue bonds after premium & discount	\$ 3,620,397	\$ 2,563,489	\$ 1,030,345	\$ 212,210	\$ 225,549
Debt service-revenue bonds					
Principal	\$ 38,670	\$ 21,205	\$ 15,575	\$ 12,415	\$ 11,820
Interest, net of capitalized amount	80,655	26,770	16,184	9,238	10,351
Total debt service	\$ 119,325	\$ 47,975	\$ 31,759	\$ 21,653	\$ 22,171
Total enplaned passengers	30,281	29,003	28,329	31,142	30,803
Outstanding debt per enplaned passenger	\$ 119.56	\$ 88.39	\$ 36.37	\$ 6.81	\$ 7.32
Debt service per enplaned passenger	\$ 3.94	\$ 1.65	\$ 1.12	\$ 0.70	\$ 0.72
<b>LA/Ontario International Airport</b>					
Outstanding debt					
Revenue bonds after premium & discount	\$ 74,472	\$ 77,682	\$ 80,722	\$ 83,615	\$ 86,370
Debt service-revenue bonds					
Principal	\$ 3,170	\$ 3,000	\$ 2,855	\$ 2,715	\$ 4,530
Interest, net of capitalized amount	3,836	3,973	4,116	4,253	2,415
Total debt service	\$ 7,006	\$ 6,973	\$ 6,971	\$ 6,968	\$ 6,945
Total enplaned passengers	2,367	2,417	2,631	3,549	3,533
Outstanding debt per enplaned passenger	\$ 31.46	\$ 32.14	\$ 30.68	\$ 23.56	\$ 24.45
Debt service per enplaned passenger	\$ 2.96	\$ 2.88	\$ 2.65	\$ 1.96	\$ 1.97
<b>LAWA</b>					
Revenue bonds after premium & discount	\$ 3,694,869	\$ 2,641,171	\$ 1,111,067	\$ 295,825	\$ 311,919



# Los Angeles World Airports

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

## Revenue Bonds Debt Service Coverage Last Ten Fiscal Years Ended June 30

(amounts in thousands, except debt service coverage)

	2016	2015	2014	2013	2012
<b>Los Angeles International Airport</b>					
Operating revenue	\$ 1,206,612	\$ 1,045,800	\$ 961,729	\$ 865,473	\$ 822,090
Adjustments to arrive at pledged revenue <sup>(1)</sup>	(508,489)	(533,821)	(489,291)	(542,930)	(519,677)
Net pledged revenue	<u>\$ 698,123</u>	<u>\$ 511,979</u>	<u>\$ 472,438</u>	<u>\$ 322,543</u>	<u>\$ 302,413</u>
Debt service, principal and interest					
Senior lien bonds	\$ 216,164	\$ 201,193	\$ 159,062	\$ 79,886	\$ 85,753
Subordinate lien bonds	62,088	55,214	51,916	49,622	45,251
Total debt service	<u>\$ 278,252</u>	<u>\$ 256,407</u>	<u>\$ 210,978</u>	<u>\$ 129,508</u>	<u>\$ 131,004</u>
Debt service coverage (GAAP basis)					
Senior lien bonds	3.23	2.55	2.97	4.04	3.53
Subordinate lien bonds	7.76	5.63	6.04	4.89	4.79
Total bonds	2.51	2.00	2.24	2.49	2.31
Debt service coverage (Bond indenture basis) <sup>(3)</sup>					
Senior lien bonds	6.23	3.82	6.01	6.33	4.58
Subordinate lien bonds	7.74	5.61	6.02	4.86	4.76
Total bonds	3.72	2.54	3.28	3.02	2.61
<b>LA/Ontario International Airport</b>					
Operating revenue	\$ 56,748	\$ 56,880	\$ 56,659	\$ 63,849	\$ 61,296
Adjustments to arrive at pledged revenue <sup>(2)</sup>	(46,229)	(46,852)	(46,533)	(53,780)	(50,935)
Net pledged revenue	<u>\$ 10,519</u>	<u>\$ 10,028</u>	<u>\$ 10,126</u>	<u>\$ 10,069</u>	<u>\$ 10,361</u>
Debt service					
Principal	\$ 4,070	\$ 3,850	\$ 3,670	\$ 3,475	\$ 3,315
Interest	3,003	3,197	3,373	3,540	3,691
Total debt service	<u>\$ 7,073</u>	<u>\$ 7,047</u>	<u>\$ 7,043</u>	<u>\$ 7,015</u>	<u>\$ 7,006</u>
Debt service coverage (GAAP basis)	1.49	1.42	1.44	1.44	1.48



	2011	2010	2009	2008	2007
<b>Los Angeles International Airport</b>					
Operating revenue	\$ 767,844	\$ 655,701	\$ 651,271	\$ 631,311	\$ 542,744
Adjustments to arrive at pledged revenue <sup>(1)</sup>	(492,571)	(503,710)	(480,522)	(482,559)	(436,698)
Net pledged revenue	<u>\$ 275,273</u>	<u>\$ 151,991</u>	<u>\$ 170,749</u>	<u>\$ 148,752</u>	<u>\$ 106,046</u>
Debt service, principal and interest					
Senior lien bonds	\$ 79,095	\$ 24,710	\$ 18,433	\$ 19,300	\$ 19,306
Subordinate lien bonds	40,230	23,265	13,326	2,353	2,865
Total debt service	<u>\$ 119,325</u>	<u>\$ 47,975</u>	<u>\$ 31,759</u>	<u>\$ 21,653</u>	<u>\$ 22,171</u>
Debt service coverage (GAAP basis)					
Senior lien bonds	3.48	6.15	9.26	7.71	5.49
Subordinate lien bonds	4.88	5.47	11.43	55.02	30.28
Total bonds	2.31	3.17	5.38	6.87	4.78
Debt service coverage (Bond indenture basis) <sup>(3)</sup>					
Senior lien bonds	4.26	6.15	9.26	7.71	5.49
Subordinate lien bonds	4.83	5.33	9.65	12.17	13.65
Total bonds	2.54	3.13	4.99	4.97	4.13
<b>LA/Ontario International Airport</b>					
Operating revenue	\$ 66,886	\$ 72,380	\$ 75,019	\$ 85,058	\$ 82,808
Adjustments to arrive at pledged revenue <sup>(2)</sup>	(56,361)	(62,579)	(65,364)	(72,203)	(72,717)
Net pledged revenue	<u>\$ 10,525</u>	<u>\$ 9,801</u>	<u>\$ 9,655</u>	<u>\$ 12,855</u>	<u>\$ 10,091</u>
Debt service					
Principal	\$ 3,170	\$ 3,000	\$ 2,855	\$ 2,715	\$ 4,530
Interest	3,836	3,973	4,116	4,253	2,415
Total debt service	<u>\$ 7,006</u>	<u>\$ 6,973</u>	<u>\$ 6,971</u>	<u>\$ 6,968</u>	<u>\$ 6,945</u>
Debt service coverage (GAAP basis)	1.50	1.41	1.39	1.84	1.45

1. Adjustments include BABs subsidy; interest income net of PFCs, CFCs and construction funds; rental credits; and M&O expenses net of PFCs funded. LAX has received approval from FAA to collect and use PFCs to pay for debt service on certain bonds. The amounts used for this purpose were \$124.0 million, \$91.0 million, \$96.5 million, \$34.4 million, and \$25.2 million in fiscal years 2016, 2015, 2014, 2013, and 2012, respectively.
2. Adjustments include interest income net of PFCs, CFCs and construction funds; rental credits; M&O expenses net of PFCs and CFCs funded and 15% allocated administrative costs; and beginning cash balance adjustment.
3. Based on the bond indenture provisions, calculation of the senior lien bonds debt service excludes PFCs reimbursements and the subordinate lien bonds debt service includes commercial paper interest expenses.

# Los Angeles World Airports

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

## Airline Landing Weight Trend Last Ten Fiscal Years Ended June 30 (landing weight in thousand pounds)

Carrier	2016			2015			2014		
	Landing weight	% to total	Rank	Landing weight	% to total	Rank	Landing weight	% to total	Rank
<b>Los Angeles International Airport</b>									
American Airlines <sup>(6)</sup>	9,557,554	16.1%	1	7,184,885	13.1%	3	7,042,141	13.4%	2
Delta Air Lines <sup>(1)</sup>	8,171,783	13.8%	2	7,479,719	13.6%	1	6,670,030	12.7%	3
United Airlines <sup>(5)(7)</sup>	7,181,910	12.1%	3	7,447,741	13.5%	2	7,947,887	15.1%	1
Southwest Airlines	5,203,678	8.8%	4	4,977,130	9.1%	4	4,637,202	8.8%	4
Alaska Airlines	1,955,974	3.3%	5	1,658,662	3.0%	7	1,718,274	3.3%	7
Virgin America <sup>(2)</sup>	1,943,146	3.3%	6	1,860,734	3.4%	5	2,070,384	3.9%	5
Federal Express	1,898,211	3.2%	7	1,795,385	3.3%	6	1,740,088	3.3%	6
Qantas Airlines	1,328,707	2.2%	8	1,373,361	2.5%	8	1,304,899	2.5%	8
Cathay Pacific	1,142,039	1.9%	9	1,113,726	2.0%	11	893,119	1.7%	11
Korean Airlines	1,132,512	1.9%	10	1,252,622	2.3%	9	1,179,599	2.2%	9
US Airways <sup>(6)</sup>	—	—%	—	1,173,526	2.1%	10	1,066,394	2.0%	10
Skywest Airlines <sup>(7)</sup>	—	—%	—	—	—%	—	—	—%	—
Continental Airlines <sup>(5)</sup>	—	—%	—	—	—%	—	—	—%	—
Northwest Airlines <sup>(1)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	19,651,068	33.4%	—	17,672,781	32.1%	—	16,302,640	31.1%	—
<b>Total</b>	<b>59,166,582</b>			<b>54,990,272</b>			<b>52,572,657</b>		
Change from prior year		7.6%			4.6%			4.7%	
<b>LA/Ontario International Airport</b>									
United Parcel Service	2,026,609	39.0%	1	1,789,288	38.1%	1	1,701,834	36.4%	1
Southwest Airlines	1,346,748	25.9%	2	1,337,470	28.5%	2	1,394,440	29.8%	2
Federal Express	672,167	12.9%	3	549,292	11.7%	3	574,750	12.3%	3
American Airlines	452,175	8.7%	4	194,358	4.1%	5	185,999	4.0%	6
United Airlines <sup>(5)(7)</sup>	184,738	3.6%	5	171,387	3.7%	7	43,718	0.9%	9
Alaska Airlines	175,341	3.4%	6	175,253	3.7%	6	186,175	4.0%	5
Delta Air Lines	95,993	1.8%	7	94,451	2.0%	8	98,846	2.1%	8
US Airways <sup>(3)</sup>	—	—%	—	244,361	5.2%	4	242,757	5.2%	4
Expressjet <sup>(4)</sup>	—	—%	—	—	—%	—	—	—%	—
America West <sup>(3)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	244,372	4.7%	—	135,582	3.0%	—	247,121	5.3%	—
<b>Total</b>	<b>5,198,143</b>			<b>4,691,442</b>			<b>4,675,640</b>		
Change from prior year		10.8%			0.3%			-4.6%	



Carrier	2013			2012			2011		
	Landing	% to	Rank	Landing	% to	Rank	Landing	% to	Rank
	weight	total		weight	total		weight	total	
<b>Los Angeles International Airport</b>									
American Airlines <sup>(6)</sup>	6,529,038	13.0%	2	5,886,364	11.8%	1	5,570,846	11.5%	2
Delta Air Lines <sup>(1)</sup>	5,650,964	11.3%	3	4,641,153	9.3%	3	4,487,225	9.3%	4
United Airlines <sup>(5)(7)</sup>	6,771,183	13.5%	1	5,186,869	10.4%	2	5,584,145	11.5%	1
Southwest Airlines	4,641,112	9.2%	4	4,601,662	9.2%	4	4,737,254	9.8%	3
Alaska Airlines	1,611,321	3.2%	7	1,518,762	3.0%	9	1,433,511	3.0%	7
Virgin America <sup>(2)</sup>	1,905,138	3.8%	5	1,634,820	3.3%	7	1,331,658	2.8%	9
Federal Express	1,662,347	3.3%	6	1,628,897	3.3%	8	1,605,640	3.3%	6
Qantas Airlines	1,275,920	2.5%	8	1,331,893	2.7%	10	1,243,114	2.6%	10
Cathay Pacific	782,914	1.6%	12	778,532	1.6%	13	764,462	1.6%	13
Korean Airlines	1,189,653	2.4%	9	1,200,835	2.4%	11	1,219,303	2.5%	11
US Airways <sup>(6)</sup>	987,982	2.0%	11	1,003,778	2.0%	12	1,023,668	2.1%	12
Skywest Airlines <sup>(7)</sup>	—	—%	—	2,295,517	4.6%	5	2,187,953	4.5%	5
Continental Airlines <sup>(5)</sup>	1,142,672	2.3%	10	1,745,543	3.5%	6	1,402,854	2.9%	8
Northwest Airlines <sup>(1)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	16,056,583	31.9%	—	16,543,007	32.9%	—	15,830,719	32.6%	—
Total	<u>50,206,827</u>			<u>49,997,632</u>			<u>48,422,352</u>		
Change from prior year		0.4%			3.3%			2.3%	
<b>LA/Ontario International Airport</b>									
United Parcel Service	1,698,421	34.7%	1	1,699,558	33.4%	1	1,672,356	32.3%	1
Southwest Airlines	1,484,052	30.3%	2	1,559,950	30.7%	2	1,671,134	32.2%	2
Federal Express	601,544	12.3%	3	587,865	11.6%	3	527,135	10.2%	3
American Airlines	179,440	3.7%	6	182,482	3.6%	6	203,236	3.9%	5
United Airlines <sup>(5)(7)</sup>	167,841	3.4%	7	114,327	2.2%	8	154,700	3.0%	7
Alaska Airlines	192,940	3.9%	5	204,156	4.0%	5	139,378	2.7%	9
Delta Air Lines	130,733	2.7%	8	160,626	3.2%	7	84,768	1.6%	10
US Airways <sup>(3)</sup>	246,759	5.0%	4	250,058	4.9%	4	237,037	4.6%	4
Expressjet <sup>(4)</sup>	—	—%	—	—	—%	—	—	—%	—
America West <sup>(3)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	199,325	4.0%	—	324,022	6.4%	—	492,649	9.5%	—
Total	<u>4,901,055</u>			<u>5,083,044</u>			<u>5,182,393</u>		
Change from prior year		-3.6%			-1.9%			-3.8%	

## Airline Landing Weight Trend (continued) Last Ten Fiscal Years Ended June 30 (landing weight in thousand pounds)

Carrier	2010			2009			2008		
	Landing weight	% to total	Rank	Landing weight	% to total	Rank	Landing weight	% to total	Rank
<b>Los Angeles International Airport</b>									
American Airlines <sup>(6)</sup>	5,616,948	11.9%	1	5,765,733	12.3%	1	6,203,061	11.9%	2
Delta Air Lines <sup>(1)</sup>	3,504,530	7.4%	4	2,549,234	5.5%	4	3,033,961	5.8%	4
United Airlines <sup>(5)(7)</sup>	5,602,302	11.8%	2	5,667,801	12.1%	2	6,558,553	12.6%	1
Southwest Airlines	4,744,526	10.0%	3	5,068,050	10.9%	3	5,092,746	9.8%	3
Alaska Airlines	1,365,625	2.9%	8	1,530,621	3.3%	7	1,684,252	3.2%	7
Virgin America <sup>(2)</sup>	1,079,918	2.3%	11	923,066	2.0%	13	520,530	1.0%	24
Federal Express	1,523,405	3.2%	6	1,642,089	3.5%	5	1,775,030	3.4%	6
Qantas Airlines	1,426,256	3.0%	7	1,434,230	3.1%	9	1,442,048	2.8%	9
Cathay Pacific	699,675	1.5%	17	747,759	1.6%	15	930,340	1.8%	13
Korean Airlines	1,249,739	2.6%	10	1,138,866	2.4%	12	1,138,390	2.2%	12
US Airways <sup>(6)</sup>	987,948	2.1%	12	1,231,410	2.6%	11	1,315,542	2.5%	11
Skywest Airlines <sup>(7)</sup>	1,865,047	3.9%	5	1,634,395	3.5%	6	1,787,682	3.4%	5
Continental Airlines <sup>(5)</sup>	1,305,333	2.8%	9	1,286,451	2.8%	10	1,387,393	2.7%	10
Northwest Airlines <sup>(1)</sup>	826,879	1.7%	14	1,458,649	3.1%	8	1,572,800	3.0%	8
All Others	15,538,811	32.9%	—	14,620,679	31.3%	—	17,656,617	33.9%	—
Total	<u>47,336,942</u>			<u>46,699,033</u>			<u>52,098,945</u>		
Change from prior year		1.4%			-10.4%			-0.4%	
<b>LA/Ontario International Airport</b>									
United Parcel Service	1,662,990	30.9%	2	1,947,908	32.9%	2	1,996,001	27.6%	2
Southwest Airlines	1,814,598	33.7%	1	1,951,978	32.9%	1	2,268,106	31.4%	1
Federal Express	529,717	9.8%	3	473,081	8.0%	3	538,784	7.5%	3
American Airlines	217,590	4.0%	5	212,100	3.6%	5	229,294	3.2%	8
United Airlines <sup>(5)(7)</sup>	168,502	3.1%	6	182,682	3.1%	6	236,548	3.3%	7
Alaska Airlines	136,921	2.5%	9	148,517	2.5%	7	202,480	2.8%	9
Delta Air Lines	111,534	2.1%	10	126,030	2.1%	9	260,499	3.6%	6
US Airways <sup>(3)</sup>	232,029	4.3%	4	230,973	3.9%	4	328,823	4.6%	5
Expressjet <sup>(4)</sup>	—	—%	—	66,364	1.1%	12	426,861	5.9%	4
America West <sup>(3)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	515,141	9.6%	—	588,947	9.9%	—	735,433	10.1%	—
Total	<u>5,389,022</u>			<u>5,928,580</u>			<u>7,222,829</u>		
Change from prior year		-9.1%			-17.9%			-1.6%	



Carrier	2007			Rank
	Landing weight	% to total		
<b>Los Angeles International Airport</b>				
American Airlines <sup>(6)</sup>	6,342,564	12.1%		2
Delta Air Lines <sup>(1)</sup>	3,116,374	6.0%		4
United Airlines <sup>(5)(7)</sup>	7,144,632	13.7%		1
Southwest Airlines	4,982,430	9.5%		3
Alaska Airlines	1,831,490	3.5%		6
Virgin America <sup>(2)</sup>	—	—%		—
Federal Express	1,876,769	3.6%		5
Qantas Airlines	1,435,397	2.7%		9
Cathay Pacific	926,376	1.8%		12
Korean Airlines	1,117,802	2.1%		11
US Airways <sup>(6)</sup>	572,932	1.1%		22
Skywest Airlines <sup>(7)</sup>	1,752,097	3.4%		7
Continental Airlines <sup>(5)</sup>	1,421,707	2.7%		10
Northwest Airlines <sup>(1)</sup>	1,652,306	3.2%		8
All Others	18,112,933	34.6%		—
<b>Total</b>	<b>52,285,809</b>			
Change from prior year		0.9%		
<b>LA/Ontario International Airport</b>				
United Parcel Service	2,076,966	28.3%		2
Southwest Airlines	2,311,754	31.5%		1
Federal Express	574,084	7.8%		3
American Airlines	230,591	3.1%		7
United Airlines <sup>(5)(7)</sup>	258,822	3.5%		6
Alaska Airlines	188,944	2.6%		8
Delta Air Lines	326,389	4.4%		5
US Airways <sup>(3)</sup>	—	—%		—
Expressjet <sup>(4)</sup>	102,207	1.4%		12
America West <sup>(3)</sup>	336,622	4.6%		4
All Others	937,011	12.8%		—
<b>Total</b>	<b>7,343,390</b>			
Change from prior year		1.9%		

(1) Northwest Airlines merged into Delta Air Lines and the integration was completed in January 2010.

(2) Virgin America operated at LAX beginning 2008.

(5) United Airlines merged with Continental Airlines in early 2014.

(6) American Airlines (AA) merged with US Airways and combined data was reported starting FY 2016.

(7) Skywest data was reported under the carriers it operated for starting FY 2013.

Note: The list presents top ten airlines for each year and their rank throughout the ten-year period.

(3) America West merged into US Airways in late 2005.

(4) Expressjet operated at ONT from 2007 to 2009

Note: The list presents top ten airlines for each year and their rank throughout the ten-year period.

# Los Angeles World Airports

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

## Enplaned Passenger Data Last Ten Fiscal Years Ended June 30

Carrier	2016			2015			2014		
	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank
<b>Los Angeles International Airport</b>									
American Airlines <sup>(9)</sup>	7,613,660	19.5%	1	5,556,523	15.4%	3	5,329,141	15.5%	2
Delta Air Lines <sup>(1)</sup>	6,550,711	16.8%	2	6,020,280	16.7%	2	5,038,929	14.7%	3
United Airlines <sup>(7), (8)</sup>	6,020,563	15.5%	3	6,225,103	17.2%	1	6,568,648	19.1%	1
Southwest Airlines	4,446,133	11.4%	4	4,212,706	11.7%	4	3,796,292	11.1%	4
Alaska Airlines	1,763,171	4.5%	5	1,652,816	4.6%	5	1,741,179	5.1%	5
Virgin America <sup>(2)</sup>	1,607,495	4.1%	6	1,534,368	4.2%	6	1,658,310	4.8%	6
Spirit Airlines	956,783	2.5%	7	510,478	1.4%	11	369,236	1.1%	11
JetBlue Airways	675,589	1.7%	8	570,938	1.6%	10	446,183	1.3%	10
Air Canada	660,642	1.7%	9	597,050	1.7%	9	495,695	1.4%	9
Qantas Airlines	596,257	1.5%	10	614,333	1.7%	8	602,278	1.8%	8
US Airways <sup>(3)</sup>	—	—%	—	1,201,325	3.3%	7	1,035,543	3.0%	7
Skywest Airlines <sup>(8)</sup>	—	—%	—	—	—%	—	—	—%	—
Continental Airlines <sup>(7)</sup>	—	—%	—	—	—%	—	—	—%	—
Northwest Airlines <sup>(1)</sup>	—	—%	—	—	—%	—	—	—%	—
Mexicana Airlines <sup>(4)</sup>	—	—%	—	—	—%	—	—	—%	—
America West <sup>(3)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	8,061,363	20.8%	—	7,418,405	20.5%	—	7,252,104	21.1%	—
<b>Total</b>	<b>38,952,367</b>			<b>36,114,325</b>			<b>34,333,538</b>		
Change from prior year		7.9%			5.2%			5.6%	
<b>LA/Ontario International Airport</b>									
Southwest Airlines	1,181,669	56.0%	1	1,191,577	57.1%	1	1,151,948	57.5%	1
American Airlines <sup>(9)</sup>	418,832	19.9%	2	203,359	9.8%	3	188,211	9.4%	3
United Airlines	180,005	8.5%	3	166,639	8.0%	4	164,670	8.2%	5
Alaska Airlines	168,212	8.0%	4	166,551	8.0%	5	177,156	8.8%	4
Delta Air Lines	83,977	4.0%	5	82,722	4.0%	6	89,025	4.4%	6
US Airways <sup>(5)</sup>	—	—%	—	212,923	10.2%	2	192,686	9.6%	2
Skywest Airlines <sup>(8)</sup>	—	—%	—	—	—%	—	—	—%	—
Continental Airlines	—	—%	—	—	—%	—	—	—%	—
Expressjet <sup>(6)</sup>	—	—%	—	—	—%	—	—	—%	—
America West <sup>(5)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	75,746	3.6%	—	61,711	2.9%	—	39,063	2.1%	—
<b>Total</b>	<b>2,108,441</b>			<b>2,085,482</b>			<b>2,002,759</b>		
Change from prior year		1.1%			4.1%			-3.5%	



Carrier	2013			2012			2011		
	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank
<b>Los Angeles International Airport</b>									
American Airlines <sup>(9)</sup>	5,058,105	15.6%	2	4,598,923	14.6%	1	4,304,325	14.2%	1
Delta Air Lines <sup>(1)</sup>	4,171,972	12.8%	3	3,231,000	10.3%	4	3,441,646	11.4%	4
United Airlines <sup>(7), (8)</sup>	5,578,740	17.2%	1	3,610,573	11.5%	2	3,838,593	12.7%	2
Southwest Airlines	3,703,743	11.4%	4	3,516,770	11.2%	3	3,512,432	11.6%	3
Alaska Airlines	1,623,552	5.0%	5	1,522,926	4.8%	6	1,384,992	4.6%	6
Virgin America <sup>(2)</sup>	1,569,289	4.8%	6	1,387,310	4.4%	8	1,085,506	3.6%	8
Spirit Airlines	225,908	0.7%	22	265,973	0.8%	19	139,504	0.5%	32
JetBlue Airways	424,534	1.3%	12	358,326	1.1%	13	264,531	0.9%	20
Air Canada	459,937	1.4%	11	468,793	1.5%	12	438,868	1.4%	12
Qantas Airlines	575,310	1.8%	9	603,170	1.9%	11	571,004	1.9%	10
US Airways <sup>(3)</sup>	970,442	3.0%	7	964,577	3.1%	9	981,885	3.2%	9
Skywest Airlines <sup>(8)</sup>	—	—%	—	1,887,638	6.0%	5	1,777,359	5.9%	5
Continental Airlines <sup>(7)</sup>	965,486	3.0%	8	1,515,549	4.8%	7	1,238,177	4.1%	7
Northwest Airlines <sup>(1)</sup>	—	—%	—	—	—%	—	—	—%	—
Mexicana Airlines <sup>(4)</sup>	—	—%	—	—	—%	—	80,708	0.3%	44
America West <sup>(3)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	7,197,160	22.0%	—	7,587,596	24.0%	—	7,221,009	23.7%	—
<b>Total</b>	<b>32,524,178</b>			<b>31,519,124</b>			<b>30,280,539</b>		
Change from prior year		3.2%			4.1%			4.4%	
<b>LA/Ontario International Airport</b>									
Southwest Airlines	1,151,530	55.5%	1	1,168,315	52.9%	1	1,259,699	53.2%	1
American Airlines <sup>(9)</sup>	183,418	8.8%	5	187,825	8.5%	3	203,897	8.6%	2
United Airlines	205,363	9.9%	2	103,207	4.7%	7	125,359	5.3%	7
Alaska Airlines	185,924	9.0%	4	183,525	8.3%	4	129,564	5.5%	6
Delta Air Lines	113,439	5.5%	6	141,135	6.4%	5	79,061	3.3%	8
US Airways <sup>(5)</sup>	192,820	9.3%	3	195,957	8.9%	2	197,557	8.3%	3
Skywest Airlines <sup>(8)</sup>	—	—%	—	83,911	3.8%	8	148,527	6.3%	4
Continental Airlines	—	—%	—	104,957	4.8%	6	141,027	6.0%	5
Expressjet <sup>(6)</sup>	—	—%	—	—	—%	—	—	—%	—
America West <sup>(5)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	43,839	2.0%	—	40,238	1.7%	—	82,429	3.5%	—
<b>Total</b>	<b>2,076,333</b>			<b>2,209,070</b>			<b>2,367,120</b>		
Change from prior year		-6.0%			-6.7%			-2.1%	

## Enplaned Passenger Data (continued) Last Ten Fiscal Years Ended June 30

Carrier	2010			2009			2008		
	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank	Enplaned passengers	% to total	Rank
<b>Los Angeles International Airport</b>									
American Airlines <sup>(9)</sup>	4,257,396	14.7%	1	4,277,478	15.1%	1	4,611,217	14.8%	1
Delta Air Lines <sup>(1)</sup>	2,704,832	9.3%	4	2,145,884	7.6%	4	2,358,251	7.6%	4
United Airlines <sup>(7), (8)</sup>	3,833,352	13.2%	2	3,871,963	13.7%	2	4,360,069	14.0%	2
Southwest Airlines	3,389,180	11.7%	3	3,556,203	12.6%	3	3,851,867	12.4%	3
Alaska Airlines	1,300,025	4.5%	6	1,360,046	4.8%	5	1,409,966	4.5%	5
Virgin America <sup>(2)</sup>	893,567	3.1%	9	733,879	2.6%	10	343,589	1.1%	17
Spirit Airlines	69,098	0.2%	48	73,567	0.3%	39	120,584	0.4%	37
JetBlue Airways	151,538	0.5%	33	7,746	—%	64	150	—%	71
Air Canada	416,345	1.4%	14	424,024	1.5%	13	477,779	1.5%	13
Qantas Airlines	606,970	2.1%	11	590,960	2.1%	12	614,211	2.0%	11
US Airways <sup>(3)</sup>	958,824	3.3%	8	1,060,803	3.7%	9	1,110,117	3.6%	9
Skywest Airlines <sup>(8)</sup>	1,441,834	5.0%	5	1,289,602	4.6%	6	1,383,225	4.4%	6
Continental Airlines <sup>(7)</sup>	1,214,520	4.2%	7	1,104,162	3.9%	7	1,143,870	3.7%	7
Northwest Airlines <sup>(1)</sup>	620,804	2.1%	10	1,091,261	3.9%	8	1,133,442	3.6%	8
Mexicana Airlines <sup>(4)</sup>	529,007	1.8%	12	596,599	2.1%	11	636,272	2.0%	10
America West <sup>(3)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	6,615,850	22.9%	—	6,144,801	21.5%	—	7,587,730	24.4%	—
Total	<u>29,003,142</u>			<u>28,328,978</u>			<u>31,142,339</u>		
Change from prior year		2.4%			-9.0%			1.1%	
<b>LA/Ontario International Airport</b>									
Southwest Airlines	1,278,752	52.9%	1	1,412,930	53.7%	1	1,731,689	48.8%	1
American Airlines <sup>(9)</sup>	212,397	8.8%	2	197,943	7.5%	3	219,614	6.2%	5
United Airlines	143,238	5.9%	5	162,653	6.2%	4	197,140	5.6%	6
Alaska Airlines	124,560	5.2%	7	121,414	4.6%	6	155,492	4.4%	7
Delta Air Lines	97,965	4.1%	8	120,822	4.6%	7	242,279	6.8%	4
US Airways <sup>(5)</sup>	188,537	7.8%	3	205,250	7.8%	2	247,920	7.0%	3
Skywest Airlines <sup>(8)</sup>	136,028	5.6%	6	96,243	3.7%	8	112,316	3.2%	9
Continental Airlines	147,384	6.1%	4	144,210	5.5%	5	138,542	3.9%	8
Expressjet <sup>(6)</sup>	—	—%	—	54,269	2.1%	10	291,514	8.2%	2
America West <sup>(5)</sup>	—	—%	—	—	—%	—	—	—%	—
All Others	88,224	3.6%	—	115,458	4.3%	—	212,376	5.9%	—
Total	<u>2,417,085</u>			<u>2,631,192</u>			<u>3,548,882</u>		
Change from prior year		-8.1%			-25.9%			0.5%	



Carrier	2007			Rank	
	Enplaned passengers	% to total			
<b>Los Angeles International Airport</b>					
American Airlines <sup>(9)</sup>	4,679,905	15.2%		2	
Delta Air Lines <sup>(1)</sup>	2,312,650	7.5%		4	(1) Northwest Airlines merged into Delta Air Lines and the integration was completed in January 2010.
United Airlines <sup>(7), (8)</sup>	4,826,434	15.7%		1	(2) Virgin America operated at LAX beginning 2008.
Southwest Airlines	3,817,855	12.4%		3	(3) America West merged into US Airways in late 2005.
Alaska Airlines	1,479,679	4.8%		5	(4) Following its filing for Chapter 15 bankruptcy, Mexicana Airlines suspended its operations at LAX in August 2010.
Virgin America <sup>(2)</sup>	—	—%		—	
Spirit Airlines	75,596	0.2%		44	
JetBlue Airways	—	—%		—	
Air Canada	508,083	1.6%		13	(7) United Airlines merged with Continental Airlines in early 2014.
Qantas Airlines	620,142	2.0%		10	
US Airways <sup>(3)</sup>	495,365	1.6%		14	(8) Skywest data was reported under the carriers in operated for starting FY 2013.
Skywest Airlines <sup>(8)</sup>	1,425,685	4.6%		6	
Continental Airlines <sup>(7)</sup>	1,170,936	3.8%		7	(9) American Airlines merged with US Airways and combined data was reported starting FY 2016.
Northwest Airlines <sup>(1)</sup>	1,129,526	3.7%		8	
Mexicana Airlines <sup>(4)</sup>	572,616	1.9%		11	
America West <sup>(3)</sup>	742,902	2.4%		9	Note: The list presents top ten airlines for each year and their rank throughout the ten-year period.
All Others	6,946,096	22.6%		—	
<b>Total</b>	<b>30,803,470</b>				
Change from prior year		0.5%			

<b>LA/Ontario International Airport</b>					
Southwest Airlines	1,774,212	50.2%		1	
American Airlines <sup>(9)</sup>	221,952	6.3%		5	(5) America West merged into US Airways in late 2005
United Airlines	225,434	6.4%		4	(6) Expressjet operated at ONT from 2007 to 2009
Alaska Airlines	146,968	4.2%		8	Note: The list presents top five airlines for each year and their rank throughout the ten-year period.
Delta Air Lines	275,411	7.8%		2	
US Airways <sup>(5)</sup>	—	—%		—	
Skywest Airlines <sup>(8)</sup>	151,362	4.3%		6	
Continental Airlines	147,383	4.2%		7	
Expressjet <sup>(6)</sup>	44,593	1.3%		13	
America West <sup>(5)</sup>	259,470	7.3%		3	
All Others	286,152	8.0%		—	
<b>Total</b>	<b>3,532,937</b>				
Change from prior year		-2.0%			



# Los Angeles World Airports

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

## Employee Trend

### Last Ten Fiscal Years Ended June 30

Division/Group	2016	2015	2014	2013	2012
Administration	30	25	26	25	53
Airports Development	66	68	56	64	60
Capital Programming	—	40	—	—	—
Chief Financial Officer	26	29	26	16	17
Community Relations & Business Job Resources	49	54	63	62	61
Comptroller	131	127	131	127	118
Environmental & Land Use Planning	58	44	—	—	—
Facilities Maintenance & Utilities	1,290	1,244	1,442	1,457	1,456
Governmental Affairs	13	14	20	15	16
Human Resources Services	83	83	79	73	70
Information Management and Technology	168	175	162	163	162
Landside Business Management	8	9	9	14	10
Law Enforcement and Homeland Security	959	935	912	903	906
Leasing and Development	9	12	15	15	9
Operations and Emergency Management	471	440	464	512	526
Planning & Engineering	81	58	—	—	—
Procurement Services	37	39	39	38	39
Real Estate Services	41	34	40	43	39
Terminal Business Management	—	9	7	8	10
Total	3,520	3,439	3,491	3,535	3,552



Division/Group	2011	2010	2009	2008	2007
Administration	46	50	56	54	52
Airports Development	36	36	27	24	29
Capital Programming	—	—	—	—	—
Chief Financial Officer	17	18	16	16	10
Community Relations & Business Job Resources	64	75	91	121	112
Comptroller	120	119	125	113	114
Environmental & Land Use Planning	—	—	—	—	—
Facilities Maintenance & Utilities	1,461	1,441	1,544	1,552	1,466
Governmental Affairs	17	15	18	16	18
Human Resources Services	69	66	60	63	56
Information Management and Technology	161	160	154	132	113
Landside Business Management	14	18	15	15	18
Law Enforcement and Homeland Security	908	905	937	937	885
Leasing and Development	14	14	17	18	13
Operations and Emergency Management	522	538	621	677	678
Planning & Engineering	—	—	—	—	—
Procurement Services	39	39	30	32	25
Real Estate Services	37	29	29	14	16
Terminal Business Management	10	12	7	20	25
Total	<u>3,535</u>	<u>3,535</u>	<u>3,747</u>	<u>3,804</u>	<u>3,630</u>

Note: In fiscal year 2013, division heads were reported under their respective divisions/groups. In prior fiscal years, they were reported under Administration.

In fiscal year 2015, Capital Programming, Environmental & Land Use Planning, and Planning & Engineering were reported separately. In prior years, they were reported under Facilities Maintenance & Utilities.

In fiscal year 2016, Capital Programming was reported under Planning & Engineering; and Terminal Business Management was reported under Real Estate Services.



# Los Angeles World Airports

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

## Schedule of Capital Assets

### Last Ten Fiscal Years Ended June 30

(amounts in thousands)

	2016	2015	2014	2013	2012
<b>Total Capital Assets</b>					
Land and land clearance	\$ 1,060,503	\$ 970,990	\$ 970,990	\$ 970,990	\$ 872,057
Air easements	46,975	46,975	46,975	46,975	46,975
Emission reduction credits	2,853	5,918	5,918	5,918	5,918
Construction work in progress	1,647,583	2,473,804	1,932,822	2,854,349	2,027,552
<b>Capital assets not depreciated</b>	<b>2,757,914</b>	<b>3,497,687</b>	<b>2,956,705</b>	<b>3,878,232</b>	<b>2,952,502</b>
Buildings	3,258,154	2,510,102	2,365,058	886,348	827,911
Improvements	4,199,916	3,435,810	3,424,048	3,281,706	3,076,713
Capitalized leases	—	—	—	—	—
Equipment and vehicles	278,416	252,519	242,218	237,088	217,623
<b>Capital assets depreciated</b>	<b>7,736,486</b>	<b>6,198,431</b>	<b>6,031,324</b>	<b>4,405,142</b>	<b>4,122,247</b>
Less accumulated depreciation	(2,256,696)	(2,238,647)	(2,049,464)	(1,897,516)	(1,743,013)
<b>Net capital assets</b>	<b>\$ 8,237,704</b>	<b>\$ 7,457,471</b>	<b>\$ 6,938,565</b>	<b>\$ 6,385,858</b>	<b>\$ 5,331,736</b>
<b>Capital Assets Held for Leases</b>					
Buildings and facilities	\$ 4,238,368	\$ 3,487,044	\$ 3,350,207	\$ 1,845,187	\$ 1,748,987
Less accumulated depreciation	(799,561)	(607,779)	(614,881)	(562,696)	(505,895)
Net	3,438,807	2,879,265	2,735,326	1,282,491	1,243,092
Land	687,317	686,363	686,363	686,363	619,246
<b>Total capital assets held for leases</b>	<b>\$ 4,126,124</b>	<b>\$ 3,565,628</b>	<b>\$ 3,421,689</b>	<b>\$ 1,968,854</b>	<b>\$ 1,862,338</b>



	2011	2010	2009	2008	2007
<b>Total Capital Assets</b>					
Land and land clearance	\$ 834,124	\$ 829,956	\$ 705,017	\$ 705,017	\$ 705,017
Air easements	46,975	46,975	46,975	46,975	46,975
Emission reduction credits	5,918	5,918	5,918	—	—
Construction work in progress	1,976,232	1,790,155	1,406,017	948,299	452,102
<b>Capital assets not depreciated</b>	<b>2,863,249</b>	<b>2,673,004</b>	<b>2,163,927</b>	<b>1,700,291</b>	<b>1,204,094</b>
Buildings	827,911	827,911	775,533	775,533	775,458
Improvements	2,152,913	1,727,753	1,290,441	1,233,927	1,187,807
Capitalized leases	—	—	184,423	184,423	184,423
Equipment and vehicles	213,124	206,235	205,856	188,343	178,399
<b>Capital assets depreciated</b>	<b>3,193,948</b>	<b>2,761,899</b>	<b>2,456,253</b>	<b>2,382,226</b>	<b>2,326,087</b>
Less accumulated depreciation	(1,597,355)	4,695,887	4,136,973	3,988,919	3,876,716
<b>Net capital assets</b>	<b>\$ 4,459,842</b>	<b>\$ 10,130,790</b>	<b>\$ 8,757,153</b>	<b>\$ 8,071,436</b>	<b>\$ 7,406,897</b>
<b>Capital Assets Held for Leases</b>					
Buildings and facilities	\$ 1,068,927	\$ 841,811	\$ 841,064	\$ 816,560	\$ 816,520
Less accumulated depreciation	(463,618)	(431,793)	(410,386)	(390,256)	(370,235)
Net	605,309	410,018	430,678	426,304	446,285
Land	605,480	602,175	477,236	477,236	477,236
<b>Total capital assets held for leases</b>	<b>\$ 1,210,789</b>	<b>\$ 1,012,193</b>	<b>\$ 907,914</b>	<b>\$ 903,540</b>	<b>\$ 923,521</b>



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

### Air Trade Area Population (Five-County Service Area) Last Ten Years

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Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	Total
2016	10,241,335	3,183,011	2,347,828	2,139,570	856,508	18,768,252
2015	10,155,069	3,151,910	2,317,924	2,121,088	850,491	18,596,482
2014	10,093,053	3,127,403	2,291,093	2,100,700	846,705	18,458,954
2013	10,023,753	3,103,654	2,266,549	2,086,559	840,867	18,321,382
2012	9,956,722	3,069,454	2,239,715	2,070,374	834,253	18,170,518
2011	9,874,887	3,035,167	2,212,874	2,054,735	829,511	18,007,174
2010	9,818,605	3,010,232	2,189,641	2,035,210	823,318	17,877,006
2009	9,801,096	2,990,805	2,140,626	2,019,432	815,284	17,767,243
2008	9,785,474	2,974,321	2,102,741	2,009,594	808,970	17,681,100
2007	9,780,808	2,960,659	2,049,902	1,989,690	803,572	17,584,631

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Source: California Department of Finance, estimates as of January each year.



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

### Air Trade Area Personal Income (Five-County Service Area) Last Ten Years (amounts in thousands)

Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	Total
2014	\$ 499,767,889	\$ 173,305,650	\$ 78,239,388	\$ 69,487,877	\$ 42,651,306	\$ 863,452,110
2013	478,371,346	165,857,885	74,657,667	66,321,591	40,940,858	826,149,347
2012	475,931,985	164,970,595	72,303,147	64,633,723	40,391,098	818,230,548
2011	441,724,254	154,486,157	69,531,143	62,952,683	38,195,055	766,889,292
2010	418,046,367	144,888,672	65,532,154	59,850,108	36,032,516	724,349,817
2009	408,269,611	140,171,320	64,119,679	58,693,991	35,123,778	706,378,379
2008	424,773,112	148,866,191	66,450,042	60,145,538	36,669,201	736,904,084
2007	409,232,169	147,503,532	65,545,866	58,473,029	37,081,090	717,835,686
2006	392,696,751	146,410,403	62,791,072	56,242,067	35,584,729	693,725,022
2005	363,023,600	137,307,527	57,179,601	53,610,694	33,357,516	644,478,938

Source: US Department of Commerce, Bureau of Economic Analysis, Data subsequent to 2014 is not available.



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

### Air Trade Area Personal Income Per Capita (Five-County Service Area) Last Ten Years

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Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	Weighted Average
2014	\$ 49,400	\$ 55,096	\$ 33,590	\$ 32,892	\$ 50,405	\$ 46,006
2013	47,580	53,128	32,503	31,683	48,683	44,425
2012	47,713	53,390	31,879	31,064	48,345	44,327
2011	44,627	50,547	31,073	30,491	45,964	41,858
2010	42,540	48,007	29,753	29,314	43,657	39,864
2009	41,714	46,924	29,869	29,144	43,090	39,228
2008	43,633	50,334	31,497	30,017	45,475	41,221
2007	42,187	50,315	31,586	29,352	46,350	40,402
2006	40,326	49,931	31,203	28,489	44,582	39,235
2005	37,095	46,702	29,599	27,579	42,002	36,650

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Source: US Department of Commerce, Bureau of Economic Analysis. Data subsequent to 2014 is not available.

Note: Weighted Average is computed by dividing total personal income by the total population of the trade area.



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

### Air Trade Area Unemployment Rate (Five-County Service Area) (with comparative Statewide and Nationwide rates)

#### Last Ten Years (amounts in percent)

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Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura	California	U.S.
2016 <sup>(1)</sup>	5.2	4.4	6.7	6.4	5.4	5.7	5.1
2015	6.7	4.5	6.7	6.5	5.7	6.2	5
2014	8.2	5.5	8.2	8	6.6	7.5	5.6
2013	9.7	6.6	9.9	9.8	7.9	8.9	6.7
2012	10.9	7.9	11.6	11.4	9.1	10.4	7.9
2011	12.2	9.1	13.2	12.9	10.2	11.7	8.5
2010	12.5	9.7	13.8	13.5	10.8	12.2	9.3
2009	11.6	8.7	13.1	12.7	9.6	11.2	9.9
2008	7.6	5.3	8.6	8	6.3	7.3	7.3
2007	5.1	3.9	6.0	5.6	4.9	5.4	5

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Sources: California Employment Development Department for county rates.  
U.S. Department of Labor for nationwide and statewide rates.

(1) Rates published in August 2016



# Los Angeles World Airports

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

## Los Angeles County Principal Employers (Non-Government) Current Year and Nine Years Ago

Employer	2016			2007		
	Employees	Rank	Percentage	Employees	Rank	Percentage
Kaiser Permanente	36,987	1	0.8%	32,784	1	0.7%
University of Southern California	18,971	2	0.3%	12,604	6	0.3%
Northrop Grumman Corp.	16,619	3	0.4%	20,500	2	0.4%
Target Corporation	15,000	4	0.3%	12,441	7	0.3%
Ralphs/Food 4 Less/Kroger	13,500	5	0.3%	14,000	4	0.3%
Bank of America Corp	13,000	6	0.3%	11,000	8	0.2%
Providence Health & Services	13,000	7	0.3%	--	--	--
Walt Disney Co	12,500	8	--	--	--	--
Albertsons/Vons/Pavilions	12,400	9	--	13,603	5	0.3%
Cedars-Sinai Medical Center	11,625	10	0.2%	9,519	11	0.2%
Home Depot	--	--	0.2%	10,000	9	0.2%
Boeing Co.	--	--	0.2%	16,510	3	0.4%
All Others	4,511,198	--	96.7%	4,461,839	--	96.7%
	<u>4,674,800</u> <sup>1</sup>		<u>100.0%</u>	<u>4,614,800</u> <sup>1</sup>		<u>100.0%</u>

Sources: Los Angeles Business Journal (LABJ) dated August 2016

<sup>1</sup> <http://www.labormarketinfo.edd.ca.gov>

LABJ Note: The information on this list was provided by representatives of the employers themselves. Companies are ranked by the current number of full-time employees in L.A. County. Several companies may have qualified for this list, but failed to submit information or do not break out local employment data.



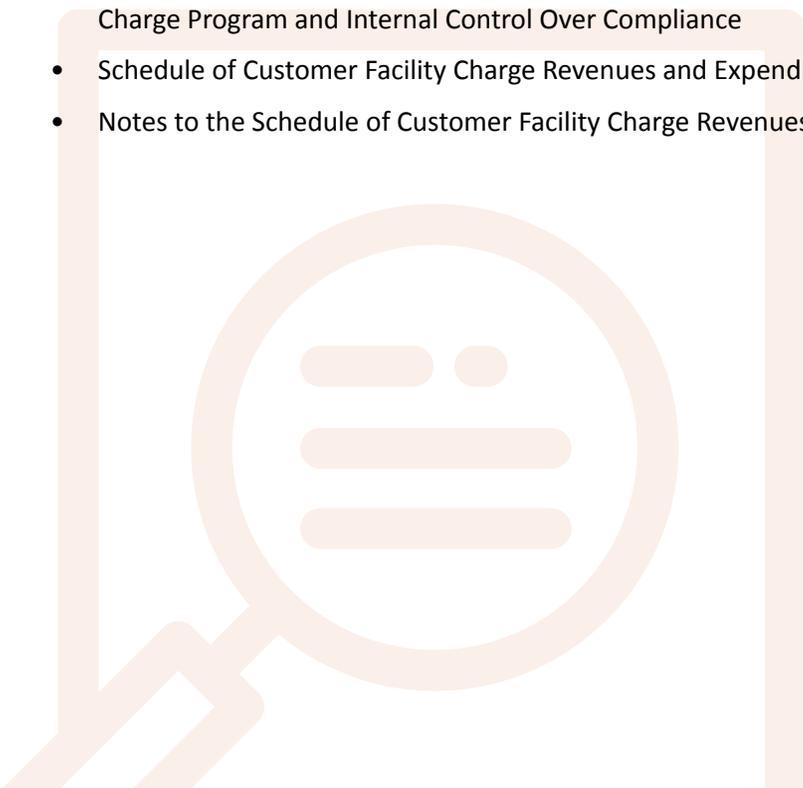
# Compliance Section

2016 Comprehensive Annual Financial Report

## Compliance Section Contents

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- 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





## 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 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, 2016.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on LAWA'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 LAWA'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 LAWA's compliance with those requirements.

### **Opinion**

In our opinion, LAWA 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, 2016.



## Independent Auditor's Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance (continued)

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### Internal Control Over Compliance

Management of LAWA 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 LAWA'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 LAWA'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

October 31, 2016



# Los Angeles World Airports

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

## Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over (under) revenues collected on approved projects
<b>Program to date as of June 30, 2014</b>					
Los Angeles International Airport	\$ 1,830,242	\$ 189,565	\$ 2,019,807	\$ 1,311,776	\$ 708,031
LA/Ontario International Airport	170,737	44,527	215,264	174,124	41,140
Subtotal	2,000,979	234,092	2,235,071	1,485,900	749,171
<b>Fiscal year 2014-15 transactions</b>					
Los Angeles International Airport					
Quarter ended September 30, 2014	31,368	2,123	33,491	25,456	8,035
Quarter ended December 31, 2014	29,618	1,954	31,572	25,025	6,547
Quarter ended March 31, 2015	37,759	1,996	39,755	21,181	18,574
Quarter ended June 30, 2015	39,109	1,588	40,697	254,837	(214,140)
Subtotal	137,854	7,661	145,515	326,499	(180,984)
LA/Ontario International Airport					
Quarter ended September 30, 2014	951	109	1,060	—	1,060
Quarter ended December 31, 2014	822	77	899	—	899
Quarter ended March 31, 2015	955	134	1,089	—	1,089
Quarter ended June 30, 2015	884	109	993	—	993
Subtotal	3,612	429	4,041	—	4,041
<b>Program to date as of June 30, 2015</b>					
Los Angeles International Airport	1,968,096	197,226	2,165,322	1,638,275	527,047
LA/Ontario International Airport	174,349	44,956	219,305	174,124	45,181
Subtotal	2,142,445	242,182	2,384,627	1,812,399	572,228
<b>Fiscal year 2015-16 transactions</b>					
Los Angeles International Airport					
Quarter ended September 30, 2015	34,293	1,436	35,729	139,017	(103,288)
Quarter ended December 31, 2015	33,026	1,747	34,773	35,952	(1,179)
Quarter ended March 31, 2016	38,704	1,517	40,221	40,132	89
Quarter ended June 30, 2016	44,386	1,644	46,030	39,011	7,019
Subtotal	150,409	6,344	156,753	254,112	(97,359)
LA/Ontario International Airport					
Quarter ended September 30, 2015	1,001	118	1,119	—	1,119
Quarter ended December 31, 2015	848	146	994	—	994
Quarter ended March 31, 2016	(252)	127	(125)	—	(125)
Quarter ended June 30, 2016	1,958	166	2,124	150	1,974
Subtotal	3,555	557	4,112	150	3,962
<b>Unexpended passenger facility charge revenues and interest earned June 30, 2016</b>					
Los Angeles International Airport	2,118,505	203,570	2,322,075	1,892,387	429,688
LA/Ontario International Airport	177,904	45,513	223,417	174,274	49,143
Total	\$ 2,296,409	\$ 249,083	\$ 2,545,492	\$ 2,066,661	\$ 478,831

Note: LAWA changed the basis of presentation of this schedule from cash basis to accrual basis in fiscal year 2015. The prior year amounts were adjusted to reflect this change.

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



# Los Angeles World Airports

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

## Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015

### 1. General

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

The current PFC rate at LAX is \$4.50 per enplaned passenger. At ONT, the PFC rate had been reduced from \$4.50 to \$2.00 effective January 1, 2013. On February 25, 2016, the FAA approved LAWA's application to amend the PFCs at ONT from \$2.00 to \$4.50 effective April 1, 2016. The application did not change ONT's collection authority of \$242.4 million but the estimated charge expiration date is changed to October 2018. PFCs collection authorities approved by FAA are \$3.1 billion at LAX and \$242.4 million at ONT as of June 30, 2016.

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	3/26/1993	5/6/1996	\$ 116,371
96-03-C-00-LAX, closed 10/1/08	5/10/1996	5/10/1996	50,223
97-04-C-02-LAX	11/28/1997	11/28/1997	610,000
97-04-C-02-LAX	10/31/1998	10/31/1998	90,000
05-05-C-00-LAX	12/1/2005	12/1/2005	229,750
05-05-C-01-LAX	12/1/2005	12/1/2005	468,030
07-06-C-00-LAX	1/1/2008	1/1/2008	85,000
10-07-C-00-LAX	6/1/2012	6/1/2012	855,000
11-08-C-00-LAX	3/1/2019	3/1/2019	27,801
13-09-C-00-LAX	6/1/2019	6/1/2019	44,379
14-10-C-00-LAX	10/1/2019	10/1/2019	516,091
15-11-U-00-LAX	3/1/2019	3/1/2019	3,115
Subtotal- LAX			<u>3,095,760</u>
95-02-U-00-ONT, closed 6/2/03	3/26/1993	5/6/1996	27,334
97-03-C-00-ONT	4/28/1998	4/28/1998	118,454
07-04-C-00-ONT	12/1/2007	3/22/2007	96,649
Subtotal- ONT			<u>242,437</u>
Total			<u>\$ 3,338,197</u>



## Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (continued)

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Note:

- a. 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.
- b. 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 TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of \$124.0 million and \$91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.
- c. In July 2016, FAA approved LAWA's application number 16-05-C-00-ONT to use \$47.3 million in PFCs collected at ONT to reimburse eligible project costs at LAX. In September 2016, FAA approved LAWA's amendment request that increased the application to \$117.3 million for additional PFC eligible costs. The estimated charge expiration date is November 1, 2026.
- d. In September 2016, FAA approved LAWA's amendment request that decreased application number 97-03-C-00-ONT to \$75.3 million to reflect the final costs of the projects in the application.
- e. In September 2016, FAA approved LAWA's amendment request that decreased application number 07-04-C-00-ONT to \$71.6 million to reflect the final costs of the projects in the application.

## Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (continued)

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	
		2016	2015
Los Angeles International Airport (LAX)			
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	302,351	266,034
Implementation of IT Security Master Plan	56,573	32,816	33,463
Noise Mitigation - Land Acquisitions	485,000	412,814	350,530
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	34,327	33,756
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	51,086	51,086
Bradley West	855,000	243,522	180,000
Lennox Schools Soundproofing Program	30,916	15,294	15,294
Inglewood USD Soundproofing Program	44,379	10,000	—
Terminal 6 Improvements	210,131	24,115	—
Elevators/Escalators/Moving Walkways Replacement	110,000	88,350	30,400
Midfield Satellite Concourse North Project	5,960	5,960	5,960
Central Utility Plant Replacement	190,000	190,000	190,000
Subtotal	3,095,760	1,892,388	1,638,276



## Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (continued)

Approved projects	Amount approved for collection	Expenditures to date	
		June 30	
		2016	2015
LA/Ontario International Airport (ONT)			
Terminal Development Program	\$ 27,334	\$ 27,334	\$ 27,334
Land Acquisition	33,680	34,376	34,376
Noise Mitigation	84,774	40,972	40,822
In-line Baggage Screening	48,621	47,032	47,032
Airfield Perimeter Section Fencing Enhancement Phase II	8,480	5,531	5,531
Runway 08L/26R Reconstruction	15,626	13,764	13,764
Implementation of IT Security Master Plan	16,961	328	328
Aircraft Rescue and Firefighting Vehicles	924	910	910
ONT Master Plan	6,037	4,027	4,027
Subtotal	242,437	174,274	174,124
Total	\$ 3,338,197	\$ 2,066,662	\$ 1,812,400

### 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 accrual basis of accounting.

### 3. Excess Project Expenditures

The expenditures of the following projects are in excess of authorized amounts: (a) LAX - Aircraft Noise Monitoring and Management System, and (b) ONT - Land Acquisition - East Ontario. 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 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, 2016.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on LAWA'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 LAWA'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 LAWA's compliance with those requirements.

### Opinion

In our opinion, LAWA 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, 2016.



## Independent Auditor's Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance (continued)

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### Internal Control Over Compliance

Management of LAWA 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 LAWA'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 LAWA'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  
October 31, 2016



# Los Angeles World Airports

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

## Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over (under) revenues collected on approved projects
<b>Program to date as of June 30, 2014</b>					
Los Angeles International Airport	\$ 172,781	\$ 9,660	\$ 182,441	\$ 3,026	\$ 179,415
LA/Ontario International Airport	50,234	529	50,763	47,967	2,796
Subtotal	223,015	10,189	233,204	50,993	182,211
<b>Fiscal year 2014-15 transactions</b>					
Los Angeles International Airport					
Quarter ended September 30, 2014	7,891	535	8,426	—	8,426
Quarter ended December 31, 2014	6,791	542	7,333	—	7,333
Quarter ended March 31, 2015	6,607	560	7,167	—	7,167
Quarter ended June 30, 2015	8,058	492	8,550	—	8,550
Subtotal	29,347	2,129	31,476	—	31,476
LA/Ontario International Airport					
Quarter ended September 30, 2014	954	7	961	883	78
Quarter ended December 31, 2014	933	7	940	883	57
Quarter ended March 31, 2015	862	7	869	883	(14)
Quarter ended June 30, 2015	1,089	10	1,099	570	529
Subtotal	3,838	31	3,869	3,219	650
<b>Program to date as of June 30, 2015</b>					
Los Angeles International Airport	202,128	11,789	213,917	3,026	210,891
LA/Ontario International Airport	54,072	560	54,632	51,186	3,446
Subtotal	256,200	12,349	268,549	54,212	214,337
<b>Fiscal year 2015-16 transactions</b>					
Los Angeles International Airport					
Quarter ended September 30, 2015	8,358	560	8,918	—	8,918
Quarter ended December 31, 2015	7,551	703	8,254	—	8,254
Quarter ended March 31, 2016	7,358	550	7,908	—	7,908
Quarter ended June 30, 2016	8,729	802	9,531	—	9,531
Subtotal	31,996	2,615	34,611	—	34,611
LA/Ontario International Airport					
Quarter ended September 30, 2015	1,011	8	1,019	824	195
Quarter ended December 31, 2015	1,017	11	1,028	824	204
Quarter ended March 31, 2016	938	9	947	824	123
Quarter ended June 30, 2016	1,120	17	1,137	710	427
Subtotal	4,086	45	4,131	3,182	949
<b>Unexpended customer facility charge revenues and interest earned June 30, 2016</b>					
Los Angeles International Airport	234,124	14,404	248,528	3,026	245,502
LA/Ontario International Airport	58,158	605	58,763	54,368	4,395
Total	\$ 292,282	\$ 15,009	\$ 307,291	\$ 57,394	\$ 249,897

Note: LAWA changed the basis of presentation of this schedule from cash basis to accrual basis in fiscal year 2015. The prior year amounts were adjusted to reflect this change.

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



# Los Angeles World Airports

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

## Notes to the Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015

### 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).

#### Los Angeles International Airport

On March 5, 2007, the Board found that the CRCF proposed by management was sufficiently definitive and authorized the collection of CFCs of \$10.00 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):

	2016	2015
Amount collected	\$ 234,124	\$ 202,128
Interest earnings	14,404	11,789
Subtotal	248,528	213,917
Expenditures		
CRCF planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	<u>\$ 245,502</u>	<u>\$ 210,891</u>

#### LA/Ontario International Airport

On December 4, 2001, on recommendation of management, the Board approved the collection of CFCs of \$10.00 on each car rental transaction at ONT effective January 1, 2002. Prior to the imposition of the CFCs, rental car operators at ONT were billed a fee that covered debt service requirements on the revenue bonds used to finance the ONT Ground Transportation Center (GTC), ground rent, maintenance and operation costs, and costs associated with the common use shuttle service.



## Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2016 and 2015 (continued)

The CFCs collected at ONT is used to repay LAWA's \$5.0 million direct investment in the GTC, offset costs associated with the common use shuttle service, and debt service requirements as previously discussed.

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

	2016	2015
Amount collected	\$ 58,158	\$ 54,072
Interest earnings	605	560
Subtotal	<u>58,763</u>	<u>54,632</u>
Expenditures		
LAWA direct investment	6,291	5,860
Common use shuttle service	37,287	35,196
Debt service	<u>10,790</u>	<u>10,130</u>
Subtotal	<u>54,368</u>	<u>51,186</u>
Unexpended CFCs revenue and interest earnings	<u>\$ 4,395</u>	<u>\$ 3,446</u>

## 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 accrual basis of accounting.



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