Los Angeles
International Airport

ANNUAL FINANCIAL REPORT

Department of Airports
Los Angeles, California

Fiscal years ended June 30, 2017 and 2016


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DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED JUNE 30, 2017 AND 2016
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Prepared by Financial Reporting Division

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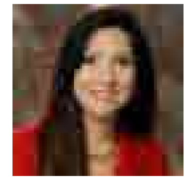

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Message from the Chief Executive Officer

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2017.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2017 and 2016, were fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a material effect on its passenger facility charge program for the fiscal year ended June 30, 2017. MGO's report is on pages 107 and 108.

MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1939, as amended by Assembly Bill 2051*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2017. MGO's report is on pages 113 and 114.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 5 through 33.

The financial condition of LAX depends largely upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. LAX is the largest airport in the Air Trade Area. Passenger and cargo traffic at LAX depend on the demographic characteristics and economic activity of the Air Trade Area. LAX is part of a system of Southern California airports - along with Van Nuys Airport and property retained for future aeronautical uses in the City of Palmdale - that are owned and operated by Los Angeles World Airports.

According to Airport Council International (ACI) statistics, in calendar year 2016, LAX ranked as the fourth busiest airport in the world, and second busiest airport in the United States. LAX was named to Skytrax's 2017 list of top 10 most improved airports. The airport offers 737 daily nonstop flights to 100 cities in the U.S. and 1,386 weekly nonstop flights to 88 cities in 44 countries on 73 commercial air carriers. LAX ranks 14th in the world and fifth in the U.S. in air cargo tonnage processed, with more than 2.2 million tons of air cargo valued at over $101.4 billion. LAX served more than 82.9 million passengers and handled 633,013 passenger flight operations (departures and arrivals) in fiscal year 2017.

Passenger traffic at LAX increased by 6.6% in fiscal year 2017 as compared to fiscal year 2016. Of the 82.9 million passengers that moved in and out of LAX, domestic passengers accounted for 71.1%, while international passengers accounted for 28.9%. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

Deborah Flint
Chief Executive Officer

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Los Angeles World Airports

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

Los Angeles International Airport

Annual Financial Report

Fiscal Years Ended June 30, 2017 and 2016

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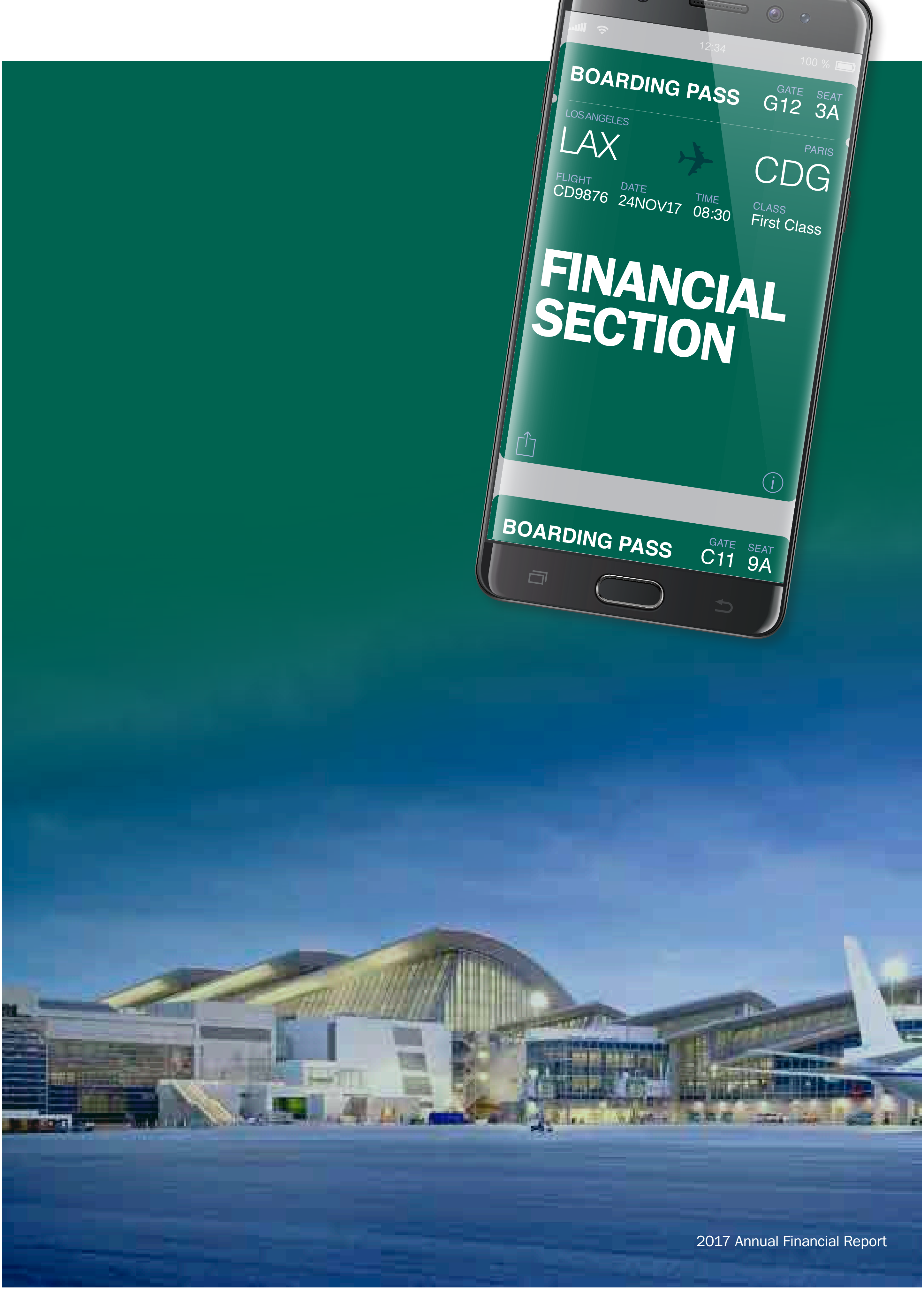
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2017 Annual Financial Report

Financial Section Contents

Certified Public Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAX as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements of LAX are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of LAX. They do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2017 and 2016, the changes in their financial position, or, where applicable, their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Macias Gini & O'Connell LLP
2029 Century Park East, Suite 1500
Los Angeles, CA 90067

www.mgocpa.com

Independent Auditor's Report
(continued)

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 LAX's proportionate share of the net pension liability on page 101, and the schedule of contributions - pension on pages 102 to 104 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

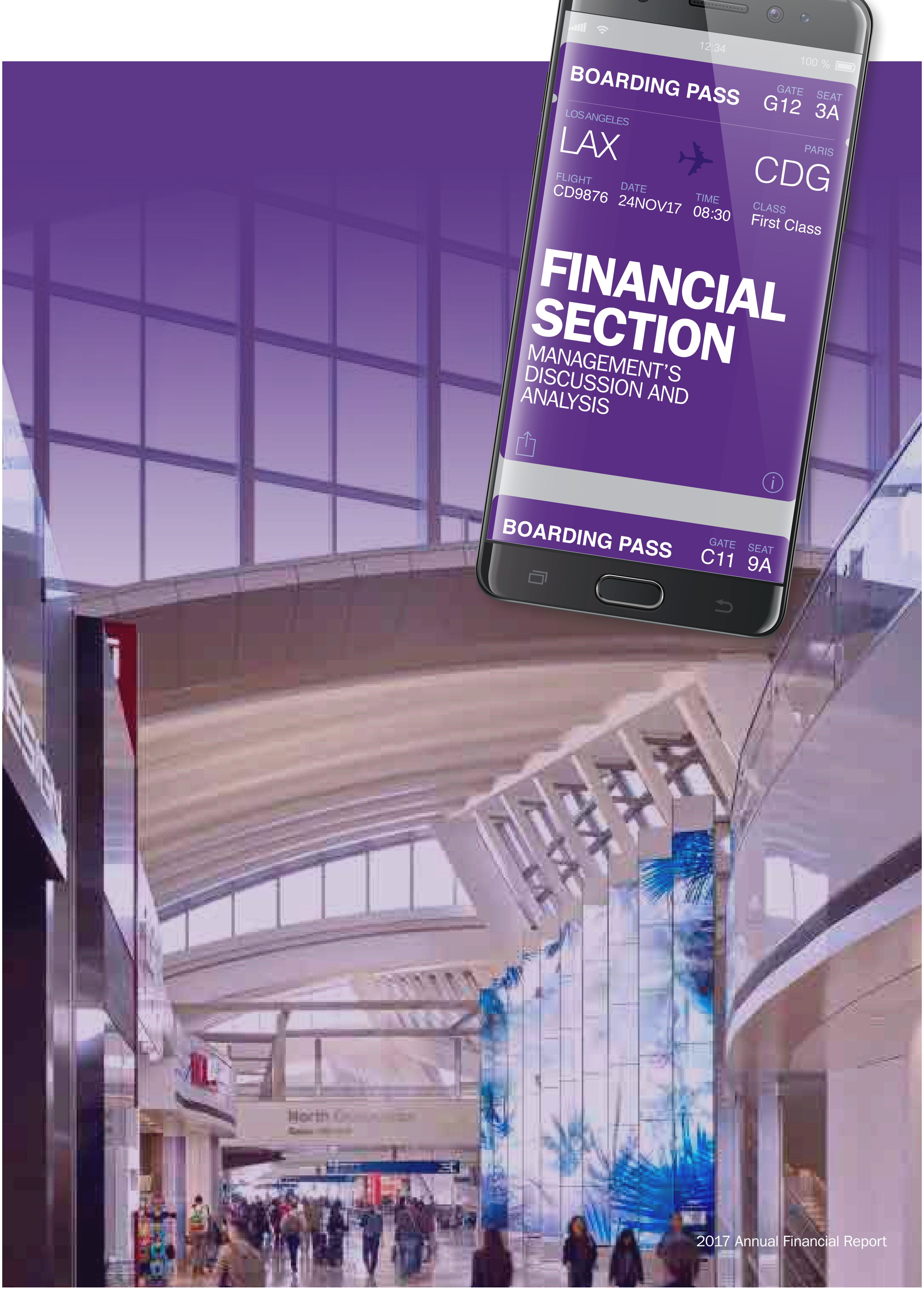
The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 109 to 112; and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 115 to 117 (collectively Information) are the responsibility of management and 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* , we have also issued our report dated October 23, 2017, on our consideration of LAX's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 LAX's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
October 23, 2017



FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management’s Discussion and Analysis

Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

Los Angeles World Airports (LAWA) is an independent, financially 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) and Van Nuys Airport (VNY). LAWA also owns approximately 17,750 acres of land located east of USAF Plant 42 in the City of Palmdale, and retains the rights for future development of the Palmdale property. On November 1, 2016, the City transferred, assigned and delivered to Ontario International Airport Authority (OIAA) the City's right, title and interest in and certain of the assets, properties, rights and interests solely used or held solely for use in connection with LAWA's operation of LA/ONT International Airport (ONT) pursuant to the Settlement Agreement described in Note 17 of the notes to the financial statements.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2017 and 2016. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 37.

Using This Financial Report

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

The *Statements of Net Position* present information on all of LAX's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2017 and 2016. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. Over time, increases and decreases in net position may serve as a useful indicator about whether LAX's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present the results of LAX's operations and information showing the changes in net position for the fiscal years ended June 30, 2017 and 2016. These statements can, among other things, be useful indicators of how LAX recovered its costs through rates and charges. All changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

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

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

Passenger and Other Traffic Activity Highlights

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

				% Change	
	FY 2017	FY 2016	FY 2015	FY 2017	FY 2016
Total passengers	82,923,839	77,799,530	72,062,730	6.6%	8.0%
Domestic passengers	58,934,016	56,151,106	52,478,111	5.0%	7.0%
International passengers	23,989,823	21,648,424	19,584,619	10.8%	10.5%
Departing passengers	41,602,124	38,952,367	36,114,325	6.8%	7.9%
Arriving passengers	41,321,715	38,847,163	35,948,405	6.4%	8.1%
Passenger flight operations					
Departures	316,704	300,023	291,107	5.6%	3.1%
Arrivals	316,309	299,652	290,920	5.6%	3.0%
Landing weight					
(thousand lbs)	62,635,426	59,166,582	54,990,272	5.9%	7.6%
Air cargo (tons)					
Mail	107,150	92,675	87,791	15.6%	5.6%
Freight	2,209,063	2,024,248	2,016,438	9.1%	0.4%

Note: Prior years’ data may change because of 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) 2017 traffic data is based on information available on August 1, 2017.

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2017 and the comparative passengers for fiscal years 2016 and 2015.

FY 2017 Top Ten Carriers and Percentage of Market Share
(passengers in millions)

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

Passenger Traffic, Fiscal Year 2017

Passenger traffic at LAX increased by 6.6% in fiscal year 2017 as compared to fiscal year 2016. Of the 82.9 million passengers that moved in and out of LAX, domestic passengers accounted for 71.1%, while international passengers accounted for 28.9%. American Airlines ferried the largest number of passengers at 15.9 million with a 4.6% increase in passenger traffic. Delta Air Lines, ranked second with 13.6 million passengers posted a 3.8% increase in passenger traffic. United Airlines, ranked third with 12.1 million passengers posted a 0.8% increase in passenger traffic. Southwest Airlines (9.7 million) and Alaska Airlines (3.6 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.4 million passengers and was ranked ninth overall.

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% 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.

Flight Operations, Fiscal Year 2017

Departures and arrivals at LAX increased by 33,338 flights or 5.6% during fiscal year 2017 when compared to fiscal year 2016. Scheduled and charter were up 33,636 flights, while commuter flights were down 298. Revenue landing pounds were up 5.9%. The top three carriers in terms of landing pounds were American Airlines, Delta Air Lines, and United Airlines. In total, these three airlines contributed 40.8% of the total revenue pounds at LAX.

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.

Air Cargo Operations, Fiscal Year 2017

Freight and mail cargo at LAX increased by 9.4% in fiscal year 2017 as compared to fiscal year 2016. Freight and mail were up by 184,815 tons and 14,475 tons, respectively. Domestic cargo was up by 42,423 tons or 5.0% and international cargo was up by 156,867 tons or 12.4%. Federal Express was the top air freight carrier accounting for 16.9% of total freight cargo, followed by American Airlines with 4.5%. United Airlines was the top mail carrier accounting for 23.6% of total mail cargo.

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.

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2017

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2017 by $5.0 billion.

- Bonded debt had a net increase of $404.4 million.

- Operating revenue totaled $1.3 billion.

- Operating expenses (including depreciation and amortization of $298.2 million) totaled $1.0 billion.

- Net nonoperating revenue was $18.8 million.

- Federal and other government grants totaled $87.8 million.

- LAX's proportionate share of net pension liability (NPL) for the retirement benefits, based on the ratio of LAX's contributions to the City's retirement plan's total contributions, was $761.2 million as of measurement date June 30, 2016, and reporting date June 30, 2017. 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[1] and 71[2], to report in the financial statements (see Note 13 of the notes to the financial statements.)

- Net position increased by $500.5 million.

- As a result of the transfer of ONT assets and liabilities to Ontario International Airport Authority (OIAA) on November 1, 2016 as contemplated by the LA/Ontario International Airport (ONT) Settlement Agreement, LAX recognized a transfer of residual operation from ONT of $104.1 million (see Note 17 of the notes to the financial statements.)

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[1] *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, issued in June 2012*
[2] *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*

Financial Highlights, Fiscal Year 2016

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2016 by $4.5 billion.
- Bonded debt had a net increase of $619.8 million.
- Operating revenue totaled $1.2 billion.
- Operating expenses (including depreciation and amortization of $226.4 million) totaled $890.3 million.
- Net nonoperating revenue was $44.6 million.
- Federal and other government grants totaled $49.3 million.
- LAX’s proportionate share of NPL for the retirement benefits, based on the ratio of LAX’s contributions to the City’s retirement plan’s total contributions, was $642.4 million as of measurement date June 30, 2015, and reporting date June 30, 2016. 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 report in the financial statements (see Note 13 of the notes to the financial statements.)
- Net position increased by $415.3 million.

Net Position Summary

A condensed net position summary for fiscal years 2017, 2016, and 2015 is presented below:

Condensed Net Position
(amounts in thousands)

	FY 2017	FY 2016	FY 2015	FY 2017 increase (decrease)	FY 2016 increase (decrease)
Assets					
Unrestricted current assets	$ 917,431	$ 925,151	$ 777,512	$ (7,720)	$ 147,639
Restricted current assets	1,920,872	1,741,896	1,590,602	178,976	151,294
Capital assets, net	8,588,837	7,793,002	6,991,500	795,835	801,502
Other noncurrent assets	67,630	5,785	8,550	61,845	(2,765)
Total assets	11,494,770	10,465,834	9,368,164	1,028,936	1,097,670
Deferred outflows of resources					
Deferred charges on debt refunding	38,550	24,179	25,307	14,371	(1,128)
Deferred outflows of resources related to Pension	203,352	127,342	131,114	76,010	(3,772)
Total deferred outflows of resources	241,902	151,521	156,421	90,381	(4,900)
Liabilities					
Current liabilities payable from unrestricted assets	385,024	339,450	304,022	45,574	35,428
Current liabilities payable from restricted assets	212,628	166,609	126,729	46,019	39,880
Noncurrent liabilities	5,335,668	4,940,204	4,335,666	395,464	604,538
Net pension liability	761,187	642,431	566,613	118,756	75,818
Total liabilities	6,694,507	6,088,694	5,333,030	605,813	755,664
Deferred inflows of resources					
Deferred inflows of resources related to Pension	72,915	59,951	138,138	12,964	(78,187)
Total deferred inflows of resources	72,915	59,951	138,138	12,964	(78,187)
Net Position					
Net investment in capital assets	3,742,152	3,262,634	2,952,716	479,518	309,918
Restricted for debt service	423,327	389,217	341,697	34,110	47,520
Restricted for capital projects	782,153	686,080	742,742	96,073	(56,662)
Restricted for operations and maintenance reserve	185,897	179,836	174,228	6,061	5,608
Restricted for federally forfeited property & protested funds	1,463	1,137	1,289	326	(152)
Unrestricted	(165,742)	(50,194)	(159,255)	(115,548)	109,061
Total net position	$ 4,969,250	$ 4,468,710	$ 4,053,417	$ 500,540	$ 415,293

Net Position, Fiscal Year 2017

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2017 and 2016, LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5.0 billion and $4.5 billion, respectively, representing an increase of 11.2% or $500.5 million.

The largest portion of LAX's net position ($3.7 billion or 75.3%) 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 LAX's net position ($1.4 billion or 28.0%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position decreased by $115.5 million from $(50.2) million in fiscal year 2016 to $(165.7) million in fiscal year 2017 primarily due to recognition of $118.8 million additional net pension liability (NPL) in accordance with GASB Statements No. 68 and 71.

Unrestricted current assets decreased by 0.8%, from $925.2 million at June 30, 2016 to $917.4 million at June 30, 2017. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2017) held in the City Treasury. Unrestricted cash inflows were from operating activities, investment activities, noncapital 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 2017) held in the City Treasury for future capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The increase in year-end investment portfolio held by fiscal agents of $90.5 million, or 10.9% from $834.0 million in fiscal year 2016 to $924.5 million in fiscal year 2017 was mainly due to unspent proceeds of newly issued 2017 series bonds as of June 30, 2017.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, new airport revenue 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 10.2%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

Other noncurrent assets increased by $61.8 million or 1,069.1%. The increase was primarily due to noncurrent receivable from OIAA of $47.1 million[3] as a result of the ONT Settlement Agreement described in Note 17 of the notes to the financial statements.

Current liabilities payable from unrestricted assets increased $45.6 million or 13.4%. This was mainly due to an increase of $55.0 million, or 295.1% in other current liabilities, offset by a decrease of $2.9 million, or 1.3% in contracts and accounts payable, and a decrease of $8.1 million, or 58.8% in obligations under securities lending transactions. The increase in other current liabilities was primarily a result of an increase in customers' advance payments and unapplied credits issued to the airlines of $25.0 million, and an increase in LAX's share of the City Treasury's year-end pending investment trade of $29.9 million in fiscal year 2017.

[3] *Total receivable from OIAA was $56.8 million, with current receivable of $9.7 million and noncurrent receivable of $47.1 million.*

Current liabilities payable from restricted assets increased $46.0 million or 27.6%. This was mainly due to an increase of $38.8 million or 203.4% in LAX's share of the City Treasury's year-end pending investment trade in fiscal year 2017, an increase of $11.7 million in current maturities of bonded debt, offset by a decrease of $10.2 million or 58.4% in obligations under securities lending transactions.

The net increase in noncurrent liabilities was $514.2 million or 9.2%. The increase was primarily a result of bond issuances of $677.6 million with net change in premium of $34.6 million, offset by advance refunding of $214.1 million, and the shift of $107.9 million to current bonded debt in fiscal year 2017. The net increase was also attributable to the recognition of additional proportionate share of NPL of $118.8 million. According to the Governmental Accounting Standards 68 Actuarial Valuation Report based on June 30, 2016 measurement date for employer reporting as of June 30, 2017, the increase in NPL was mainly due to the return on the market value of assets of 0.24% during fiscal year 2016 that was less than the assumption of 7.5% used in the June 30, 2015 valuation.

Total deferred outflows of resources increased $90.4 million or 59.6%. The increase was mainly due to increase of $14.4 million or 59.4% in deferred charges on debt refunding, and recognition of $87.4 million in deferred outflows of resources for differences between projected and actual investment earnings related to pension in fiscal year 2017, offset by decrease of $15.6 million or 23.9% in deferred outflows of resources for changes of assumptions related to pension.

Total deferred inflows of resources increased $13.0 million or 21.6%. The increase was mainly due to an increase of $27.2 million, or 98.2% in deferred inflows of resources for differences between expected and actual experience related to pension, offset by a decrease of $18.4 million in deferred inflows of resources for differences between projected and actual investment earnings related to pension.

Net Position, Fiscal Year 2016

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2016 and 2015, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $4.5 billion and $4.1 billion, respectively, representing a 10.2% increase or $415.3 million.

The largest portion of LAX's net position ($3.3 billion or 73.0%) 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 LAX's net position ($1.3 billion or 28.1%) represents resources that are subject to various restrictions on how they may be used. The unrestricted net position (-$50.2 million or -1.1%) was a result of a positive net position of $25.6 million offset by the recognition of $75.8 million additional NPL in accordance with GASB Statements No. 68 and 71.

Unrestricted current assets increased by 19.0%, from $777.5 million at June 30, 2015 to $925.2 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 future capital projects funded by PFCs and CFCs. Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 27.6% from $653.7 million in fiscal year 2015 to $834.0 million in fiscal year 2016 mainly due to unspent proceeds of newly issued 2016 series bonds as of June 30, 2016.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 11.5%. 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 $35.4 million or 11.7%. This was mainly due to the increase of $20.1 million, or 9.7% in contracts and accounts payable as a result of the accrued $34.4 million acquisition of Terminal 1 renovations at year-end; increase of $9.8 million , or 253.7% in obligations under securities lending transactions, and increase of $2.6 million or 15.9% other current liabilities. The increase in other current liabilities was mainly due to an increase in LAX's share of the City Treasury's year-end pending investment trade of $8.3 million, offset by decrease of $5.4 million in unapplied credits issued to the airlines in FY 2016.

Current liabilities payable from restricted assets had an increase of $39.9 million or 31.5% due to the increase of $14.5 million, or 17.7% in current maturities of bonded debt, increase of $11.3 million in obligations under securities lending transactions, increase of $8.3 million in LAX'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 124.8% in contracts and accounts payable in fiscal year 2016. The net increase in noncurrent liabilities was $680.4 million or 13.9%, as a result of additional bond issuances of $613.5 million and the recognition of LAX's additional proportionate share of NPL of $75.8 million in fiscal year 2016.

The total deferred outflows of resources had a net decrease of $4.9 million or 3.1%. The decrease was mainly due to the decrease of $17.0 million, or 20.7% in the proportionate share of deferred outflows of resources for changes of assumptions related to pension, and the decrease of $1.1 million or 4.5% in deferred charges on debt refunding, offset by the increase of $6.9 million or 14.1% in deferred outflows of resources for contribution after measurement date related to pension, and the increase of $6.3 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 $78.2 million or 56.6%. The decrease was mainly due to the decrease of $85.1 million, or 82.2% in the deferred inflows of resources for differences between projected and actual investment earnings related to pension, and the decrease of $3.8 million or 21.7% 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 $10.8 million, or 63.7% in the deferred inflows of resources for differences between expected and actual experience related to pension.

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2017, 2016, and 2015 is presented below:

Condensed Changes in Net Position
(amounts in thousands)

	FY 2017	FY 2016	FY 2015	FY 2017 increase (decrease)	FY 2016 increase (decrease)
Operating revenue	$ 1,328,689	$ 1,206,612	$ 1,045,800	$ 122,077	$ 160,812
Less- Operating expenses	742,500	663,879	645,398	78,621	18,481
Operating income before depreciation and amortization	586,189	542,733	400,402	43,456	142,331
Less- Depreciation and amortization	298,176	226,439	178,035	71,737	48,404
Operating income	288,013	316,294	222,367	(28,281)	93,927
Other nonoperating revenue, net	18,784	44,628	17,648	(25,844)	26,980
Federal and other government grants	87,762	49,255	30,964	38,507	18,291
Inter-agency transfers	1,856	5,116	5,303	(3,260)	(187)
Transfer of residual operation from ONT	104,125	—	—	104,125	—
Changes in net position	500,540	415,293	276,282	85,247	139,011
Net position, beginning of year, as previously reported	4,468,710	4,053,417	4,345,029	415,293	(291,612)
Change in accounting principle	—	—	(567,894)	—	567,894
Net position, beginning of year, as restated	4,468,710	4,053,417	3,777,135	415,293	276,282
Net position, end of year	$ 4,969,250	$ 4,468,710	$ 4,053,417	$ 500,540	$ 415,293

Operating Revenue

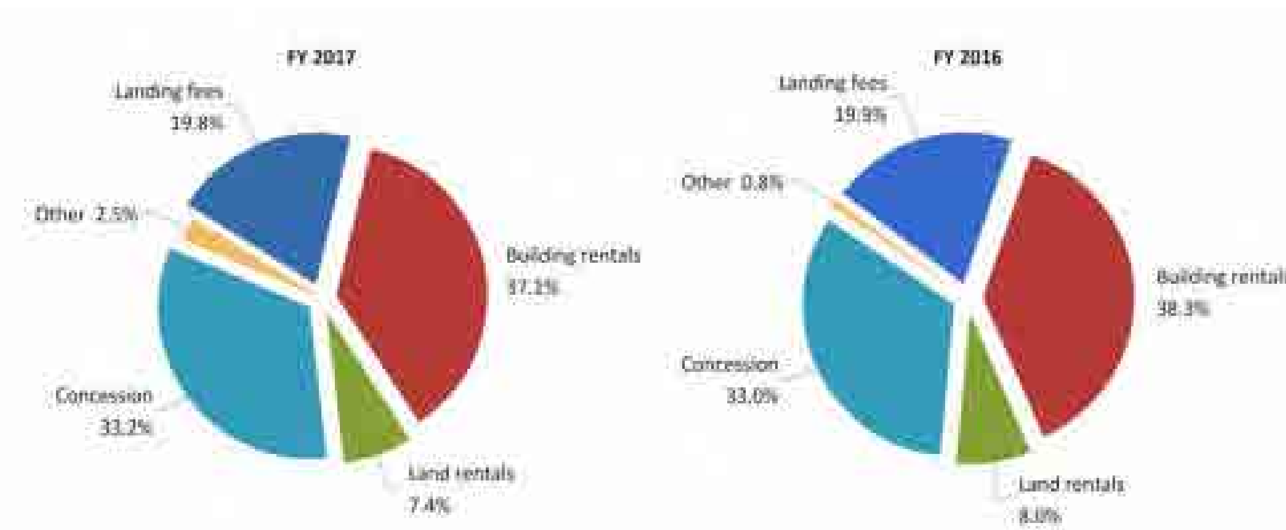
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2017, 2016, and 2015:

Summary of Operating Revenue
(amounts in thousands)

	FY 2017	FY 2016	FY 2015	FY 2017 increase (decrease)	FY 2016 increase (decrease)
Aviation revenue					
Landing fees	$ 261,639	$ 240,853	$ 227,518	$ 20,786	$ 13,335
Building rentals	493,382	462,667	365,296	30,715	97,371
Land rentals	98,563	96,167	90,478	2,396	5,689
Other aviation revenue	7,036	6,599	4,564	437	2,035
Total aviation revenue	860,620	806,286	687,856	54,334	118,430
Concession revenue	441,623	398,692	354,082	42,931	44,610
Other operating revenue	27,114	3,996	3,862	23,118	134
Total operating revenue before reliever fee	1,329,357	1,208,974	1,045,800	120,383	163,174
Reliever airport fee (landing fees offset)	(668)	(2,362)	—	1,694	(2,362)
Total operating revenue	$ 1,328,689	$ 1,206,612	$ 1,045,800	$ 122,077	$ 160,812

Operating Revenue, Fiscal Year 2017

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2017 and 2016. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2017, total operating revenue before reliever airport fees was $1.3 billion, a $120.4 million or 10.0% increase from the prior fiscal year. The growth in aviation related revenue was $54.3 million. Non-aviation revenue had an increase of $66.0 million, with $42.9 million increase in concessions, and $23.1 million increase in other operating revenue.

As described in Note 1i of the notes to the financial statements, landing fees assessed to air carriers at LAX are based on a cost recovery methodology. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

Landing fees for the fiscal year ended June 30, 2017 were up by $20.8 million, or 8.6%. The increase in landing fees was primarily due to the increase in actual capital and operating expenses allocable to the landing fee cost centers.

Total building rental revenue posted a growth of $30.7 million, or 6.6%. 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.

Land rental revenue increased by $2.4 million or 2.5%. The increase in land rental revenue at LAX was mainly due to an increase in leased areas.

Total revenue from concessions was $441.6 million in fiscal year 2017, a 10.8% growth from $398.7 million in fiscal year 2016. In-terminal concession revenue includes rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessions for advertising, foreign exchange booths, telecommunications, automated teller machines, luggage cart rental, and security screening services. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services, transportation network company (TNC)[4] and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2017 had a net increase of $13.0 million or 7.0% as compared to fiscal year 2016. The increase was primarily a result of growth in duty free revenues of $9.8 million, or 14.8% due to increase in international passengers, and increase in advertising revenue of $1.6 million, or 6.1% due to negotiated increases in the minimum annual guarantee (MAG).

Off-terminal concession revenue in fiscal year 2017 was $242.9 million as compared to $213.0 million in fiscal year 2016, an increase of $29.9 million, or 14.0%. The increase was mainly driven by the increase of TNC revenue of $24.8 million, or 278.7% from fiscal year 2016. The increase in TNC revenue was the result of a full year of TNC operation in fiscal year 2017 as compared to only six months operations in fiscal year 2016, and the significant growth in ridership driven by the popularity of TNC together with the increase in passenger traffic during fiscal year 2017. TNC revenue-generating operations were launched in late December 2015. Out of the remaining increase of $5.1 million in off-terminal concession, $2.6 million was from auto parking, $4.1 million from rent-a-car, $1.8 million from flyaway bus service, and offsetting decrease of $3.4 million from bus, limousine and taxi services.

[4] *Transportation network companies currently permitted to operate at LAX include Uber and Lyft.*

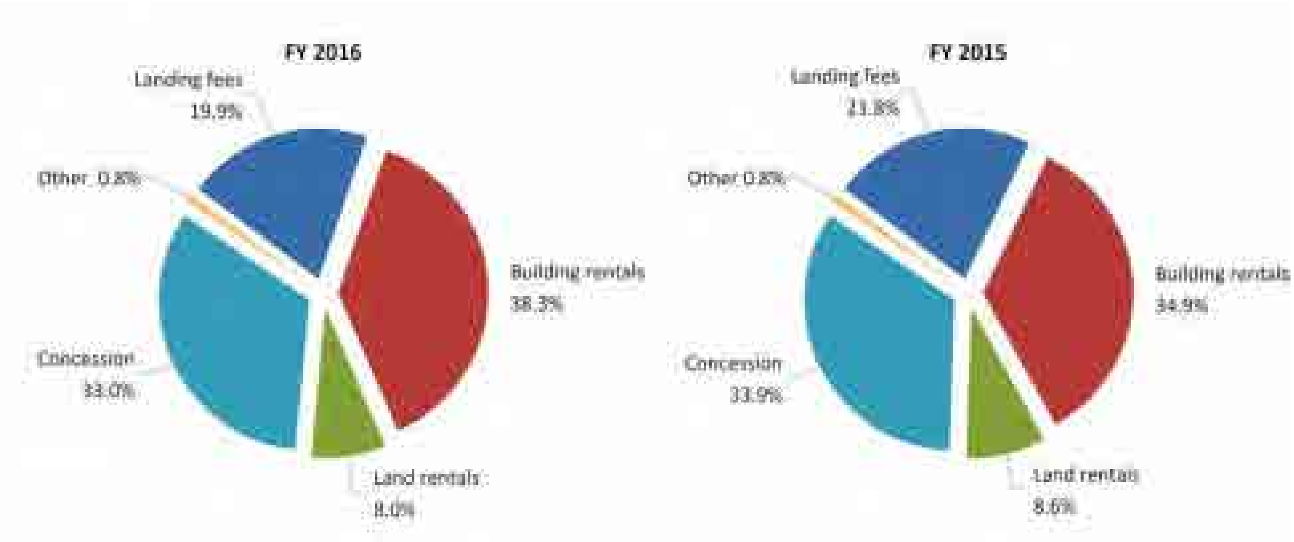
Comparative concession revenue by type for fiscal years 2017 and 2016 are presented in the following chart (amounts in millions).

1) Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

Other operating revenue increased by $23.1 million or 578.5% in fiscal year 2017 as a result of the ONT employee salary reimbursement of $21.0 million from OIAA pursuant to the Staff Augmentation Agreement (SAA) as described in Note 17 of the notes to the financial statements. Pursuant to the SAA, some LAWA staff may remain at ONT for as long as 21 months after the closing of the ONT Settlement Agreement on November 1, 2016. Accordingly, these ONT employee salary reimbursements are expected to continue on a limited duration which will end no later than August 1, 2018.

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. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2016, total operating revenue before reliever airport fees was $1.2 billion, a $163.2 million or 15.6% increase from the prior fiscal year. The growth in aviation related revenue was $118.4 million. Non-aviation revenue had an increase of $44.7 million mostly from concessions.

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

Landing fees for the fiscal year ended June 30, 2016 were up from $227.5 million to $240.9 million, or 5.9%. Total building rental revenue posted a growth of $97.4 million, or 26.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, increased cost recovery with the implementation of the terminal agreement, as well as the new and renegotiated leases signed with the airlines and other tenants. Land rental revenue increased by $5.7 million mainly due to the increase in leased areas.

Total revenue from concessions was $398.7 million in fiscal year 2016, an 12.6% growth from $354.1 million in fiscal year 2015. In-terminal concession revenue includes 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, TNC and other commercial ground transportation operations.

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 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, LAX entered into Terminal Commercial Management Concession Agreements with Westfield Airports, 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%.

Off-terminal concession revenue 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 TNC added $8.9 million in fiscal year 2016.

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

Operating Expenses

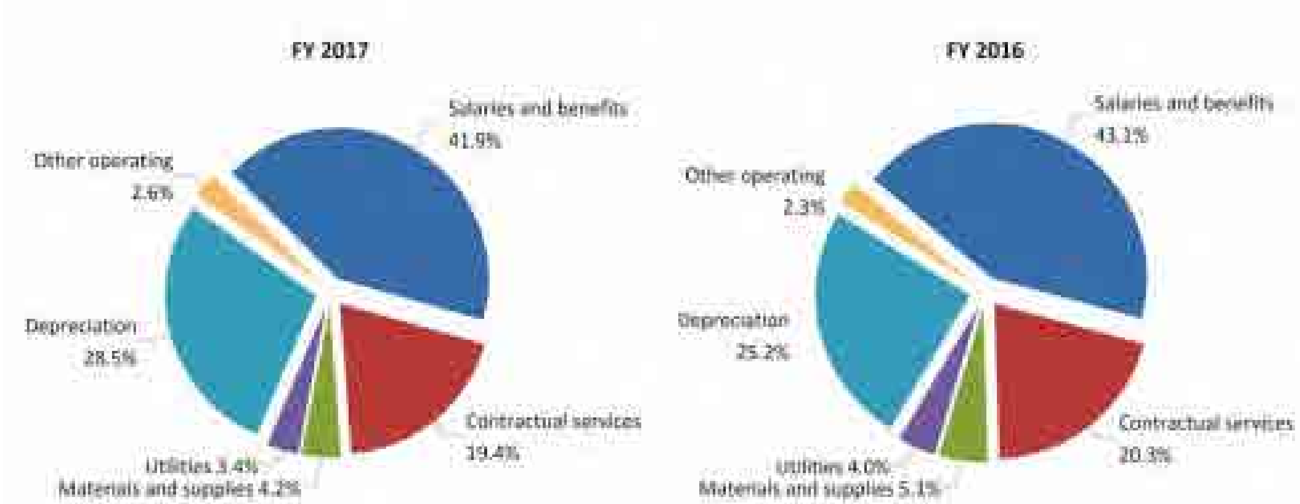
The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2017, 2016, and 2015. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

Summary of Operating Expenses
(amounts in thousands)

	FY 2017	FY 2016	FY 2015	FY 2017 increase (decrease)	FY 2016 increase (decrease)
Salaries and benefits	$ 438,153	$ 387,595	$ 374,018	$ 50,558	$ 13,577
Contractual services	203,277	182,659	174,745	20,618	7,914
Materials and supplies	43,830	46,062	46,102	(2,232)	(40)
Utilities	36,043	36,181	38,355	(138)	(2,174)
Other operating expenses	25,782	20,738	21,205	5,044	(467)
Operating expenses before depreciation	747,085	673,235	654,425	73,850	18,810
Depreciation	298,176	226,439	178,035	71,737	48,404
Total operating expenses	1,045,261	899,674	832,460	145,587	67,214
Less- allocation to ONT, VNY and PMD	4,585	9,356	9,027	(4,771)	329
Net operating expenses	$ 1,040,676	$ 890,318	$ 823,433	$ 150,358	$ 66,885

Operating Expenses, Fiscal Year 2017

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2017 and 2016.



For the fiscal year ended June 30, 2017, operating expenses before allocation to other airports were $1.0 billion, a $145.6 million or 16.2% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $50.6 million, contractual services, up by $20.6 million, and depreciation, up by $71.7 million, offset by the decrease in materials and supplies of $2.2 million and utilities of $0.1 million.

Salaries and benefits expense increased by $50.6 million or 13.0%. The increase was partially due to the inclusion of ONT's salaries and benefits of $17.4 million subsequent to the ONT transfer on November 1, 2016 as described in Note 17 of the notes to the financial statements. Without the ONT's salaries and benefits of $17.4 million, the actual increase in salaries and benefits would be $33.2 million or 8.6%. Within this category, salaries and overtime before capitalized charges at LAX had an increase of $24.0 million or 8.3%. Without the ONT's salaries and overtime of $12.8 million, the actual increase in salaries and overtime would be $11.2 million or 3.9%. This increase was mainly due to bargaining agreements with employee unions. The combined increase in pension, healthcare subsidy, and accrued sick and vacation was $23.9 million, or 20.6%. Without the ONT's pension, healthcare subsidy, and accrued sick and vacation of $4.3 million, the actual increase would be $19.6 million or 16.8%. The increase was mainly driven by increase in recognition of GASB 68 non-cash pension expense of $17.2 million from $61.2 million to $78.4 million in fiscal year 2017. Workers' compensation increased by $1.6 million from $8.1 million to $9.7 million in fiscal year 2017.

The increase in contractual service expense was mainly due to higher city services charges of $12.3 million due to increased cost allocation plan rates for central (personnel, controller, general services) and direct services (fire and police departments); higher legal services expense of $3.9 million due to claims related to the procurement of Aircraft Rescue and Fire Fighting (ARFF) vehicles, higher operations and emergency management expenses, offset by lower capital planning and engineering services and environmental program expenses in fiscal year 2017.

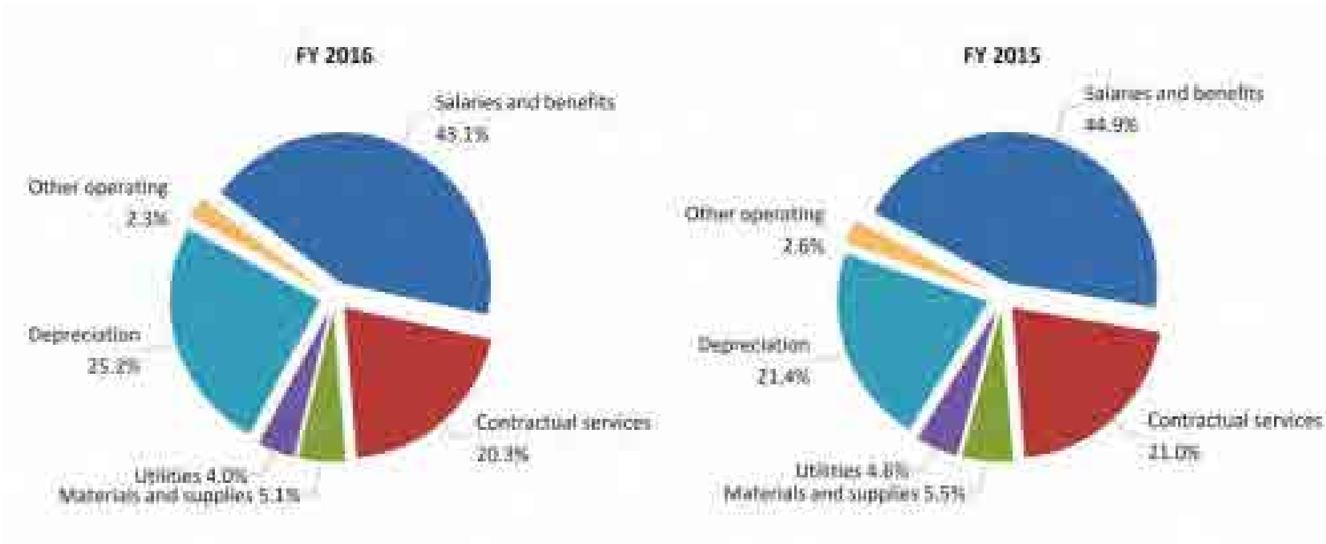
The increase in other operating expense was mainly due to the accrual and payment of $3.7 million property taxes for the Park One parking lot pursuant to the lease covering the fiscal years from 2014 to 2017.

The increase in depreciation charges from $226.4 million to $298.2 million in fiscal year 2017 was a result of the completion of the associated projects related to Bradley West core renovation, Bradley West Terminal connector, some terminal renovations, TCM improvements, west maintenance facility and CTA curbside development project.

A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services among other costs. Because of the transfer of ONT on November 1, 2016, the allocations to ONT decreased in fiscal year 2017.

Operating Expenses, Fiscal Year 2016

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2016 and 2015. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.



For the fiscal year ended June 30, 2016, operating expenses before allocation to other airports were $899.7 million, a $67.2 million or 8.1% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $13.6 million, contractual services, up by $7.9 million, and depreciation, up by $48.4 million, offset by the decrease in utilities of $2.2 million.

Salaries and overtime before capitalized charges had an increase of $6.7 million or 2.4% due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $13.5 million, or 13.1%. The decrease in workers' compensation of $5.6 million, or 40.8% 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 $178.0 million to $226.4 million in fiscal year 2016 was due to the completion of the associated projects related to Bradley West, and the replacement of the 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 $38.4 million to $36.2 million in fiscal year 2016 was due to the decrease in electricity of $0.8 million, or 2.9%, and decrease in water charges of $1.9 million, or 30.9%, offset by the increase of $0.5 million, or 12.5% 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 remained at the same spending level at $46.1 million and other operating expenses decreased by $0.5 million, or 2.2%. 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 $0.3 million as compared to a reduction in bad debts expenses of $0.3 million in fiscal year 2015.

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

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services as well as producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2017, 2016, and 2015.

Summary of Nonoperating Transactions
(amounts in thousands)

	FY 2017	FY 2016	FY 2015	FY 2017 increase (decrease)	FY 2016 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 163,869	$ 150,409	$ 137,855	$ 13,460	$ 12,554
Customer facility charges	32,545	31,996	29,347	549	2,649
Interest income	23,327	19,638	20,327	3,689	(689)
Net change in fair value of investments	(20,738)	13,776	(2,021)	(34,514)	15,797
Other nonoperating revenue	15,743	17,985	8,618	(2,242)	9,367
	$ 214,746	$ 233,804	$ 194,126	$ (19,058)	$ 39,678
Nonoperating expenses					
Interest expense	$ 193,469	$ 182,386	$ 166,919	$ 11,083	$ 15,467
Other nonoperating expenses	2,493	6,790	9,559	(4,297)	(2,769)
	$ 195,962	$ 189,176	$ 176,478	$ 6,786	$ 12,698
Federal and other government grants	$ 87,762	$ 49,255	$ 30,964	$ 38,507	$ 18,291
Inter-agency transfers	$ 1,856	$ 5,116	$ 5,303	$ (3,260)	$ (187)
Transfer of residual operation from ONT	$ 104,125	$ —	$ —	104,125	$ —

Nonoperating Transactions, Fiscal Year 2017

As a result of the increase of 6.6% passenger traffic in fiscal year 2017, PFCs increased by $13.5 million, or 8.9%. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, posted an increase of $0.5 million, or 1.7% in fiscal year 2017.

Interest income increased by $3.7 million, or 18.8% from $19.6 million to $23.3 million in fiscal year 2017 mainly due to higher 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. Interest expenses increased by $11.1 million, or 6.1% from $182.4 million to $193.5 million in fiscal year 2017 mainly due to the net additional issuances of $463.5 million revenue bonds (after advance refunding) to finance capital improvement projects.

Other nonoperating revenue decreased by $2.2 million, or 12.5% from $18.0 million to $15.7 million in fiscal year 2017. The decrease was mainly due to the offset of $2.3 million rental income from residential acquisition program with the corresponding acquired assets in fiscal year 2017. Other nonoperating expenses decreased by $4.3 million, or 63.3% from $6.8 million to $2.5 million in fiscal year 2017. The decrease was mainly due to $1.3 million decrease in bond issuance expenses in fiscal year 2017 and $3.0 million nonoperating expenses related primarily to an improvement expense adjustment between LAX and VNY in fiscal year 2016.

Federal and other government grants increased by $38.5 million, or 78.2% from $49.3 million to $87.8 million mainly due to the increase of $36.3 million TSA in-line baggage reimbursement grants from $1.8 million in fiscal year 2016 to $38.1 million in fiscal year 2017.

As described in Note 17 of the notes to the financial statements, LAWA transferred the assets and liabilities of ONT to OIAA as contemplated by the ONT Settlement Agreement on November 1, 2016. As a result of the transfer, LAX recognized a transfer of residual operation from ONT of $104.1 million.

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%. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, posted an increase of $2.7 million, or 9.0% in fiscal year 2016.

Interest income decreased slightly 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 $9.4 million, or 108.7% 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.

Long-Term Debt

As of June 30, 2017, LAX's outstanding long-term debt before unamortized premium and discount was $5.0 billion. Issuances during the year amounted to $677.6 million, advance refunding totaled $214.1 million, and payments for scheduled maturities were $96.2 million. Together with the unamortized premium and discount, bonded debt of LAX increased by $404.4 million to a total of $5.3 billion.

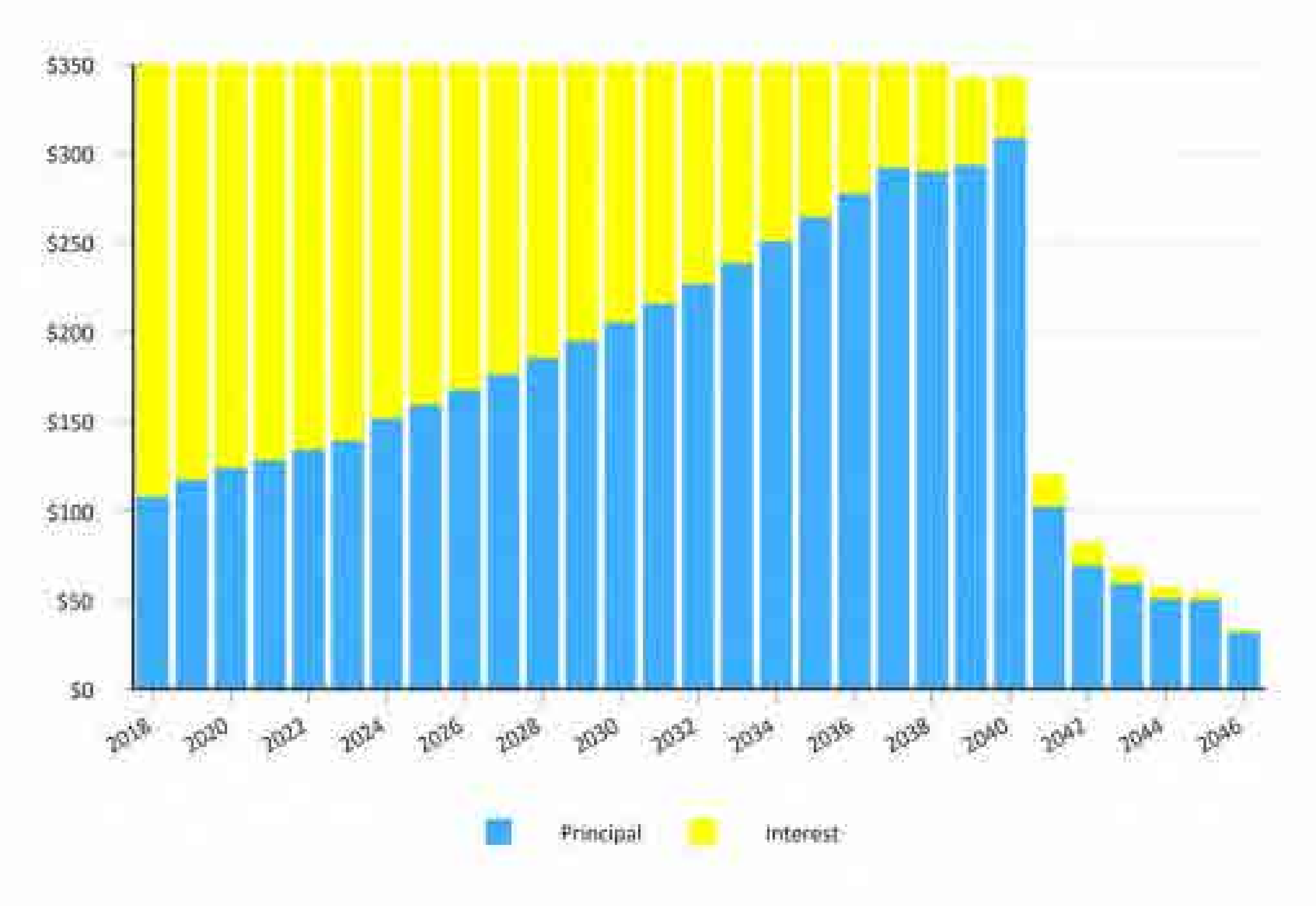
As of June 30, 2016, LAX's outstanding long-term debt before unamortized premium and discount was $4.6 billion. Issuances during the year amounted to $613.5 million, and payments for scheduled maturities were $81.7 million. Together with the unamortized premium and discount, bonded debt of LAX increased by $619.8 million to a total of $4.9 billion.

As of June 30, 2017 and 2016, LAX had $455.1 million and $418.8 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2017 and 2016, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA respectively for Senior Bonds; AA-, A1, and AA- respectively for Subordinate Bonds.

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

Outstanding principal, plus scheduled interest as of June 30, 2017, is scheduled to mature as shown in the following chart (amounts in millions).



Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2017 and 2016 were $8.6 billion and $7.8 billion, respectively. This investment, which accounts for 74.7% and 74.5% of LAX's total assets as of June 30, 2017 and 2016, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAX's policy affecting capital assets can be found in Note 1f of the notes to the financial statements. Additional information can be found in Note 4 of the notes to the financial statements.

Capital Assets, Fiscal Year 2017

Major capital expenditure activities during fiscal year 2017 included:

- $512.1 million renovations at Terminals 1 to 8
- $236.0 million construction of Midfield Satellite Concourse (MSC)
- $101.0 million construction of runways and taxiways
- $88.5 million residential acquisition, soundproofing and noise mitigation
- $78.5 million interior improvements and security upgrades at TBIT and Bradley West
- $50.1 million preconstruction activities related to Landside Access Modernization Program (LAMP)
- $34.3 million replacement and improvements of elevators and escalators
- $34.1 million construction of TBIT baggage handling system
- $12.4 million in costs related to construction of west maintenance facility
- $8.7 million Central Terminal Area (CTA) curbside development project and Second Level Roadway Joint and Deck replacement
- $5.5 million construction activities related to Imperial Cargo Complex

At June 30, 2017, the amounts committed for capital expenditures included $3.9 million for airfield and runways, $6.6 million for noise mitigation program, $53.2 million for terminals and facilities, and $17.6 million for various other projects.

LAX is in the midst of a multi-billion dollar capital improvements program, which is expected to continue through 2024. Among the projects underway are terminal improvements and upgrades, roadway improvements, runway and taxiway rehabilitation and improvement, utilities and infrastructure components, construction of MSC, and LAMP which includes automated people mover system (APM), consolidated rental car facility (ConRAC) and intermodal transportation facilities (ITF).

Capital Assets, Fiscal Year 2016

Major capital expenditure activities during fiscal year 2016 included:

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

At June 30, 2016, the amounts committed for capital expenditures included $7.1 million for airfield and runways, $6.6 million for noise mitigation program, $81.0 million for terminals and facilities, and $20.1 million for various other projects.

LAX is in the midst of a multi-billion dollar capital improvements program, which is expected to continue through 2024. Among the projects underway are terminal improvements and upgrades, roadway improvements, runway and taxiway rehabilitation and improvement, utilities and infrastructure components, and an APM, a ConRAC and ITF.

Landing Fees, Fiscal Year 2018

The airline landing fees for fiscal year 2018, which became effective as of July 1, 2017 are as follows:

Permitted air carriers	Non-permitted air carriers	
$60.00	$75.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
115.00	144.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.62	4.53	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
4.60	5.75	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

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

Request for Information

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

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Financial Statements

Los Angeles World Airports

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

Los Angeles International Airport

Statements of Net Position

June 30, 2017 and 2016

(amounts in thousands)

	2017	2016
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 769,241	$ 775,059
Investments with fiscal agents	22,282	16,465
Accounts receivable, net of allowance for uncollectible accounts: 2017 - $0 ; 2016 - $1,043	—	10,842
Unbilled receivables	44,245	38,213
Accrued interest receivable	3,435	2,962
Grants receivable	12,322	24,709
Receivable from OIAA	9,674	—
Receivable from City General Fund	2,849	2,766
Due from other agencies	48,020	48,588
Prepaid expenses	4,116	4,164
Inventories	1,247	1,383
Total unrestricted current assets	917,431	925,151
Restricted current assets		
Cash and pooled investments held in City Treasury	967,893	886,107
Investments with fiscal agents , includes cash and cash equivalents: 2017 - $924,494; 2016 - $827,836	924,494	833,981
Accrued interest receivable	1,324	1,330
Passenger facility charges receivable	23,881	17,632
Customer facility charges receivable	3,280	2,846
Total restricted current assets	1,920,872	1,741,896
Total current assets	2,838,303	2,667,047
Noncurrent Assets		
Capital assets		
Not depreciated	2,164,208	2,623,721
Depreciated, net	6,424,629	5,169,281
Total capital assets	8,588,837	7,793,002
Other noncurrent assets		
Investments with fiscal agents	17,585	—
Receivable from OIAA, net of current portion	47,110	—
Receivable from City General Fund, net of current portion	2,935	5,785
Total other noncurrent assets	67,630	5,785
Total noncurrent assets	8,656,467	7,798,787
TOTAL ASSETS	11,494,770	10,465,834
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	38,550	24,179
Deferred outflows of resources related to Pension	203,352	127,342
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 241,902	$ 151,521

Statements of Net Position (continued)
June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 225,492	$ 228,389
Accrued salaries	17,790	15,133
Accrued employee benefits	5,580	5,357
Estimated claims payable	8,137	7,899
Commercial paper	48,736	50,310
Obligations under securities lending transactions	5,658	13,728
Other current liabilities	73,631	18,634
Total current liabilities payable from unrestricted assets	385,024	339,450
Current liabilities payable from restricted assets		
Contracts and accounts payable	7,831	4,255
Current maturities of bonded debt	107,850	96,200
Accrued interest payable	31,529	29,161
Obligations under securities lending transactions	7,295	17,518
Other current liabilities	58,123	19,475
Total current liabilities payable from restricted assets	212,628	166,609
Total current liabilities	597,652	506,059
Noncurrent Liabilities		
Bonded debt, net of current portion	5,215,626	4,822,900
Accrued employee benefits, net of current portion	41,309	37,158
Estimated claims payable, net of current portion	70,347	66,477
Liability for environmental/hazardous materials cleanup	7,500	12,783
Net pension liability	761,187	642,431
Other long-term liabilities	886	886
Total noncurrent liabilities	6,096,855	5,582,635
TOTAL LIABILITIES	6,694,507	6,088,694
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to Pension	72,915	59,951
TOTAL DEFERRED INFLOWS OF RESOURCES	72,915	59,951
NET POSITION		
Net investment in capital assets	3,742,152	3,262,634
Restricted for:		
Debt service	423,327	389,217
Passenger facility charges eligible projects	481,751	435,285
Customer facility charges eligible projects	300,402	250,795
Operations and maintenance reserve	185,897	179,836
Federally forfeited property and protested funds	1,463	1,137
Unrestricted	(165,742)	(50,194)
TOTAL NET POSITION	$ 4,969,250	$ 4,468,710

See accompanying notes to the financial statements.

Los Angeles World Airports

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

Los Angeles International Airport

Statements of Revenues, Expenses and Changes in Net Position

For the Fiscal Years Ended June 30, 2017 and 2016

(amounts in thousands)

	2017	2016
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 261,639	$ 240,853
Reliever airport fee	(668)	(2,362)
Building rentals	493,382	462,667
Land rentals	98,563	96,167
Other aviation revenue	7,036	6,599
Total aviation revenue	859,952	803,924
Concession revenue	441,623	398,692
Other operating revenue	27,114	3,996
Total operating revenue	1,328,689	1,206,612
OPERATING EXPENSES		
Salaries and benefits	438,153	387,595
Contractual services	203,277	182,659
Materials and supplies	43,830	46,062
Utilities	36,043	36,181
Other operating expenses	25,782	20,738
Allocated administrative charges	(4,585)	(9,356)
Total operating expenses before depreciation and amortization	742,500	663,879
Operating income before depreciation and amortization	586,189	542,733
Depreciation and amortization	298,176	226,439
OPERATING INCOME	288,013	316,294
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	163,869	150,409
Customer facility charges	32,545	31,996
Interest income	23,327	19,638
Net change in fair value of investments	(20,738)	13,776
Interest expense	(193,469)	(182,386)
Other nonoperating revenue	15,743	17,985
Other nonoperating expenses	(2,493)	(6,790)
Total nonoperating revenue, net	18,784	44,628
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	306,797	360,922
Federal and other government grants	87,762	49,255
Inter-agency transfers	1,856	5,116
Transfer of residual operation from ONT	104,125	—
CHANGE IN NET POSITION	500,540	415,293
NET POSITION, BEGINNING OF YEAR	4,468,710	4,053,417
NET POSITION, END OF YEAR	$ 4,969,250	$ 4,468,710

See accompanying notes to the financial statements.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016
(amounts in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,358,315	$ 1,190,138
Payments to suppliers	(228,509)	(215,447)
Payments for employee salaries and benefits	(418,453)	(385,235)
Payments for City services	(101,008)	(91,234)
Inter-agency receipts for services, net	4,585	9,356
Net cash provided by operating activities	614,930	507,578
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	11,351	9,990
Inter-agency transfers in	2,424	6,122
Proceeds from ONT transfer	125,705	—
Net cash provided by noncapital financing activities	139,480	16,112
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	502,985	711,782
Principal paid on revenue bonds and commercial paper notes	(101,196)	(81,700)
Interest paid on revenue bonds and commercial paper notes	(243,301)	(219,340)
Revenue bonds issuance costs	(1,156)	(1,561)
Acquisition and construction of capital assets	(1,066,730)	(956,593)
Proceeds from passenger facility charges	157,620	151,815
Proceeds from customer facility charges	32,111	31,734
Capital contributed by federal agencies	100,149	38,445
Net cash used for capital and related financing activities	(619,518)	(325,418)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	25,307	20,162
Net change in fair value of investments	(20,738)	13,776
Cash collateral received (paid) under securities lending transactions	(18,293)	21,188
Sales of investments	68,715	16,876
(Purchases) of investments held by fiscal agents	(11,440)	(6,145)
Net cash provided by investing activities	43,551	65,857
NET INCREASE IN CASH AND CASH EQUIVALENTS	178,443	264,129
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,505,467	2,241,338
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,683,910	$ 2,505,467

	2017	2016
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 769,241	$ 775,059
Investments with fiscal agents- unrestricted	22,282	16,465
Cash and pooled investments held in City Treasury- restricted	967,893	886,107
Investments with fiscal agents- restricted	924,494	827,836
Total cash and cash equivalents	$ 2,683,910	$ 2,505,467
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 288,013	$ 316,294
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	298,176	226,439
Change in provision for uncollectible accounts	(1,043)	287
Other nonoperating revenues (expenses), net	3,901	6,076
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	11,885	(10,940)
Unbilled receivables	(6,032)	(9,345)
Prepaid expenses and inventories	196	262
Contracts and accounts payable	(20,759)	(19,023)
Accrued salaries	2,657	2,367
Accrued employee benefits	804	709
Other liabilities	19,954	(6,951)
Net pension liability and related changes in deferred outflows and inflows of resources	17,178	1,403
Total adjustments	326,917	191,284
Net cash provided by operating activities	$ 614,930	$ 507,578
SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 145,827	$ 125,284
Revenue bonds proceeds received in escrow trust fund	224,967	—
Debt defeased and related costs paid through escrow trust fund with revenue bonds	(224,967)	—
Contributions received (used) in relation to capital assets	12,387	(10,706)
Land transferred to ONT	(32,326)	—

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

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

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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) and Van Nuys Airport (VNY) general aviation airport. 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. On November 1, 2016, the City transferred, assigned and delivered to Ontario International Airport Authority (OIAA) the City's right, title and interest in and certain of the assets, properties, rights and interests solely used or held solely for use in connection with LAWA's operation of LA/ONT International Airport (ONT) pursuant to the Settlement Agreement described in Note 17 of the notes to the financial statements.

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

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

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each of the two airports[5] which referred to above and the Palmdale property.

[5] *Excluding ONT airport which was transferred to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement described in Note 17 of the notes to the financial statements.*

c. Cash, Cash Equivalents, and Investments

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

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

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

d. Accounts Receivable and Unbilled Receivables

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

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

e. Inventories

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

f. Capital Assets

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

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

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds). Net interest capitalized in fiscal years 2017 and 2016 were $34.7 million and $28.2 million, respectively.

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

g. Contracts Payable, Accounts Payable, and Other Liabilities

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

h. Operating and Nonoperating Revenues and Expenses

LAX 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 LAX's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services including professional services, parking operations and shuttle services, and other expenses including depreciation and amortization, maintenance, insurance, and utilities.

i. Landing Fees

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

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 formulas. 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 first distributed for calendar year 2016 in fiscal year 2017.

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. Non-signatory airlines are not eligible to participate in the STP and revenue sharing programs.

k. Concession Revenue

Concession revenues are generated through LAX terminal concessionaires, tenants or airport service providers who pay monthly fees or rents for using or accessing airport facilities to offer their goods and services to the general public and air transportation community. Payments to LAX are based on negotiated agreements with these parties to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAX in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when 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. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leaves. Accrued employee benefits as of June 30, 2017 and 2016 are as follows (amounts in thousands):

Type of benefit	2017	2016
Accrued vacation leave	$ 23,986	$ 21,545
Accrued sick leave	22,903	20,970
Sub-total	$ 46,889	$ 42,515
Current portion	(5,580)	(5,357)
Noncurrent portion	$ 41,309	$ 37,158

n. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, LAX 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.

LAX reported deferred charges on debt refunding of $38.6 million and $24.2 million for fiscal years 2017 and 2016, 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. 6*8, LAX reported the following deferred outflows and inflows of resources:

Deferred outflows of resources related to pension (amounts in thousands):

	2017	2016
Changes of assumptions related to pension	$ 49,538	$ 65,097
Contribution after measurement date related to pension	61,197	55,972
Changes in proportionate share of contribution	5,181	6,273
Differences between projected and actual investment earnings related to pension	87,436	—
Total	$ 203,352	$ 127,342

Deferred inflows of resources related to pension (amounts in thousands):

	2017	2016
Differences between expected and actual experience related to pension	$ 54,878	$ 27,695
Differences between projected and actual investment earnings related to pension	—	18,375
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension	18,037	13,881
Total	$ 72,915	$ 59,951

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.

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.

LAX amortizes bond premiums or discounts using the 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 at the time of issuances 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, 2017 and 2016, net positions of $968.1 million and $865.9 million, respectively, are restricted by enabling legislation.

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

r. Use of Restricted/Unrestricted Net Position

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

s. Use of Estimates

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

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2017.

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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 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. This statement has no impact on LAX's financial statements.

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. This statement has no impact on LAX's financial statements.

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. This statement has no impact on LAX's financial statements.

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. This statement has no impact on LAX's financial statements.

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. This statement has no impact on LAX's financial statements.

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. LAX implemented this statement.

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

Issued in June 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 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 November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes standards of accounting and financial reporting for certain Asset Retirement Obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Implementation of this statement is effective fiscal year 2019.

Issued in January 2017, GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Implementation of this statement is effective fiscal year 2020.

Issued in March 2017, GASB Statement No. 85, *OMNIBUS 2017*, is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Implementation of this statement is effective fiscal year 2018.

Issued in May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Implementation of this statement is effective fiscal year 2018.

Issued in June 2017, GASB Statement No. 87, *Leases* is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Implementation of this statement is effective fiscal year 2021.

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).

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of $1.7 billion in the Pool represented approximately 20.0% and 19.8% as of June 30, 2017 and 2016, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated shares for fiscal years 2017 and 2016 were $102.7 million and $34.0 million, respectively, and were reported as other current liabilities in the statement of net position. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

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

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

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

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. At June 30, 2017, LAX's portion of the cash collateral and the related obligation in the City's program was $13.0 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2017 was $13.0 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAX's portion of the noncash collateral at June 30, 2017 was $200.3 million. At June 30, 2016, LAX's portion of the cash collateral and the related obligation in the City's program was $31.3 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2016 was $31.3 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAX's portion of the noncash collateral at June 30, 2016 was $110.8 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, 2017 and 2016 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

c. Investments with Fiscal Agents

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

	2017	2016
Unrestricted, current		
Commercial paper and cash at bank	$ 22,282	$ 16,465
Restricted, current and noncurrent		
Bond security funds	455,125	418,783
Construction funds	486,954	415,198
Subtotal	942,079	833,981
Total	$ 964,361	$ 850,446

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

At June 30, 2017, the investments and their maturities are as follows (amounts in thousands):

		Investment maturities		
	Amount	1 to 60 days	61 to 365 days	366 days to over 5 years
Money market mutual funds	$ 591,046	$ 591,046	$ —	$ —
State of California LAIF	333,448	—	333,448	—
U.S. Treasury securities	17,585	—	—	17,585
Subtotal	942,079	$ 591,046	$ 333,448	$ 17,585
Bank deposit accounts	22,282			
Total	$ 964,361			

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

	Amount	Investment maturities 1 to 60 days	Investment maturities 61 to 365 days
Money market mutual funds	$ 318,439	$ 318,439	$ —
State of California LAIF	508,832	—	508,832
U.S. Treasury securities	6,145	—	6,145
Subtotal	833,416	$ 318,439	$ 514,977
Bank deposit accounts	17,030		
Total	$ 850,446		

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, 2017, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1
Money Market Funds	$ 591,046	$ 591,046
U.S. Treasury securities	17,585	17,585
Total investments by fair value level	608,631	$ 608,631
Investments not subject to fair value hierarchy		
State of California LAIF	333,448	
Bank deposit accounts	22,282	
Total	$ 964,361	

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

	Amount	Fair Value Measurements Using Level 1
Money Market Funds by fair value level	$ 318,439	$ 318,439
U.S. Treasury securities	6,145	6,145
Total investments by fair value level	324,584	$ 324,584
Investments not subject to fair value hierarchy		
State of California LAIF	508,832	
Bank deposit accounts	17,030	
Total	$ 850,446	

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

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2017 and 2016, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's.

Concentration of Credit Risk. The City's policy does not allow more than 40% of its investment portfolio to be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds or mortgage passthrough securities. The policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that can be invested in the U.S. Treasury and government agencies.

As of June 30, 2017, LAX's investments in the LAIF held by fiscal agents totaled $333.4 million. The total amount invested by all public agencies in LAIF at that date was $22.8 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2017, the investments in the PMIA totaled $77.6 billion, of which 97.1% is invested in non-derivative financial products and 2.9% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 194 days as of June 30, 2017. LAIF is not rated.

As of June 30, 2016, LAX'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. 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.

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

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

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2017 (amounts in thousands):

	Balance at July 1, 2016	Additions	Retirement & disposals	Transfers	Balance at June 30, 2017
Capital assets not depreciated					
Land and land clearance	$ 930,421	$ —	$ —	$ (20,844)	$ 909,577
Air easements	44,346	—	—	—	44,346
Emission reduction credits	2,853	—	—	217	3,070
Construction work in progress	1,646,101	1,111,511	—	(1,550,397)	1,207,215
Total capital assets not depreciated	2,623,721	1,111,511	—	(1,571,024)	2,164,208
Capital assets depreciated					
Buildings	3,003,008	—	—	562,924	3,565,932
Improvements	3,823,043	3,092	—	974,769	4,800,904
Equipment and vehicles	241,526	11,595	(1,322)	1,421	253,220
Total capital assets depreciated	7,067,577	14,687	(1,322)	1,539,114	8,620,056
Accumulated depreciation					
Buildings	(504,512)	(96,772)	—	—	(601,284)
Improvements	(1,221,362)	(187,824)	—	—	(1,409,186)
Equipment and vehicles	(172,422)	(13,580)	1,302	(257)	(184,957)
Total accumulated depreciation	(1,898,296)	(298,176)	1,302	(257)	(2,195,427)
Capital assets depreciated, net	5,169,281	(283,489)	(20)	1,538,857	6,424,629
Total	$ 7,793,002	$ 828,022	$ (20)	$ (32,167)	$ 8,588,837

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

	Balance at July 1, 2015	Additions	Retirement & disposals	Transfers	Balance at June 30, 2016
Capital assets not depreciated					
Land and land clearance	$ 840,530	$ —	$ (346)	$ 90,237	$ 930,421
Air easements	44,346	—	—	—	44,346
Emission reduction credits	5,918	—	—	(3,065)	2,853
Construction work in progress	2,449,829	1,020,763	(760)	(1,823,731)	1,646,101
Total capital assets not depreciated	3,340,623	1,020,763	(1,106)	(1,736,559)	2,623,721
Capital assets depreciated					
Buildings	2,254,956	—	—	748,052	3,003,008
Improvements	3,043,955	2,020	—	777,068	3,823,043
Equipment and vehicles	215,518	8,250	(2,616)	20,374	241,526
Total capital assets depreciated	5,514,429	10,270	(2,616)	1,545,494	7,067,577
Accumulated depreciation					
Buildings	(385,745)	(67,632)	—	(51,135)	(504,512)
Improvements	(1,314,084)	(147,493)	—	240,215	(1,221,362)
Equipment and vehicles	(163,723)	(11,314)	2,615	—	(172,422)
Total accumulated depreciation	(1,863,552)	(226,439)	2,615	189,080	(1,898,296)
Capital assets depreciated, net	3,650,877	(216,169)	(1)	1,734,574	5,169,281
Total	$ 6,991,500	$ 804,594	$ (1,107)	$ (1,985)	$ 7,793,002

5. Commercial Paper

As of June 30, 2017 and 2016, LAX had outstanding commercial paper (CP) notes of $48.7 million and $50.3 million, respectively. The respective average interest rates in effect as of June 30, 2017 and 2016 were 1.07% and 0.55%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

LAX entered into a letter of credit (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. LAX paid the LOC banks an average annual commitment fee approximately 0.27% on the stated amount of the LOC for fiscal years 2017 and 2016. LOC fees of $2.0 million and $1.5 million were paid for fiscal years 2017 and 2016, respectively. Please refer to note 19 of the notes to the financial statements relating to the subsequent extension of the LOC.

LAX had the following CP activity during fiscal year 2017 (amounts in thousands):

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Series B	$ —	$ 3,081	$ —	$ 3,081
Series C	50,310	341	(4,996)	45,655
Total	$ 50,310	$ 3,422	$ (4,996)	$ 48,736

LAX 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

6. Bonded Debt

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

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2017 and 2016 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal 2017	Outstanding principal 2016
Issue of 2008, Series A	8/6/08	3.750% - 5.500%	2038	$ 602,075	279,025	506,300
Issue of 2008, Series C	8/6/08	3.000% - 5.250%	2038	243,350	11,540	16,925
Issue of 2009, Series A	12/3/09	2.000% - 5.250%	2039	310,410	270,800	277,570
Issue of 2009, Series C	12/3/09	5.175% - 6.582%	2039	307,350	290,455	299,045
Issue of 2009, Series E	12/3/09	2.000% - 5.000%	2020	39,750	13,055	17,015
Issue of 2010, Series A	4/8/10	3.000% - 5.000%	2040	930,155	870,185	888,025
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	837,165	846,125
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	79,940	87,235
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	133,480	136,385
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	15,825	21,755
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	67,650	69,455
Issue of 2015, Series A	2/24/15	2.000% - 5.000%	2045	267,525	262,030	265,780
Issue of 2015, Series B	2/24/15	3.000% - 5.000%	2045	47,925	47,075	47,925
Issue of 2015, Series C	2/24/15	2.000% - 5.000%	2035	181,805	180,165	180,995
Issue of 2015, Series D	11/24/15	5.000%	2041	296,475	290,785	296,475
Issue of 2015, Series E	11/24/15	2.000% - 5.000%	2041	27,850	27,010	27,850
Issue of 2016, Series A	6/1/16	3.000% - 5.000%	2042	289,210	287,605	289,210
Issue of 2016, Series B	1/19/17	4.000% - 5.000%	2046	451,170	451,170	—
Issue of 2016, Series C	12/6/16	1.425% - 3.887%	2038	226,410	226,410	—
Total principal amount				$ 5,812,275	5,006,095	4,638,795
Unamortized premium					320,461	285,980
Unamortized discount					(3,080)	(5,675)
Net revenue bonds					5,323,476	4,919,100
Current portion of debt					(107,850)	(96,200)
Net noncurrent debt					$ 5,215,626	$ 4,822,900

b. Pledged Revenue

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

LAX has received approval from the 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 $118.0 million and $124.0 million were used for debt service in fiscal years 2017 and 2016, respectively.

The total principal and interest remaining to be paid on the bonds is $8.8 billion. Principal and interest paid during fiscal year 2017 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, after application of the $118.0 million PFCs funds discussed in the preceding paragraph), were $339.1 million and $735.5 million, respectively. Advance refunding of LAX Series 2008A was $214.1 million in fiscal year 2017. 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, after application of the $124.0 million PFCs funds discussed in the preceding paragraph), were $300.8 million and $698.1 million, respectively.

c. Bond Issuances

On December 6, 2016, LAX issued $226.4 million of LAX senior refunding revenue bonds Series 2016C, and on January 19, 2017, $451.2 million of LAX subordinate revenue bonds Series 2016B. The Series 2016C bonds were issued at par, and the Series 2016B bonds were sold with premium of $51.1 million. The 2016C bonds were issued to advance refund and defease a portion of the Series 2008A senior revenue bonds in the amount of $214.1 million. These transactions resulted in a cash flow savings of $39.7 million and economic gain of $24.8 million. The 2016B bonds were issued to fund certain capital projects at LAX.

On November 24, 2015, LAX 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.

d. Principal Maturities and Interest

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

Fiscal year(s) ending	Principal	Interest	Total
2018	$ 107,850	$ 252,230	$ 360,080
2019	117,280	247,107	364,387
2020	123,460	241,687	365,147
2021	127,810	236,206	364,016
2022	133,905	230,122	364,027
2023 - 2027	792,265	1,043,324	1,835,589
2028 - 2032	1,027,305	814,098	1,841,403
2033 - 2037	1,321,965	522,756	1,844,721
2038 - 2042	1,062,760	177,721	1,240,481
2043 - 2046	191,495	21,893	213,388
Total	$ 5,006,095	$ 3,787,144	$ 8,793,239

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, 2017 and September 30, 2016 reduced the subsidy. The interest subsidy on the BABs was $7.6 million in fiscal year 2017 and $7.8 million in fiscal year 2016. The subsidy is recorded as a non-capital grant, a component of other nonoperating revenue.

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2017 (amounts in thousands):

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Current Portion
Revenue bonds	$ 4,638,795	$ 677,580	$ (310,280)	$ 5,006,095	$ 107,850
Unamortized premium	285,980	51,142	(16,661)	320,461	—
Unamortized discount	(5,675)	—	2,595	(3,080)	—
Net revenue bonds	4,919,100	728,722	(324,346)	5,323,476	107,850
Accrued employee benefits	42,515	10,181	(5,807)	46,889	5,580
Estimated claims payable	74,376	12,503	(8,395)	78,484	8,137
Liability for environmental/ hazardous materials cleanup	12,783	1,580	(6,863)	7,500	—
Net pension liability	642,431	118,756	—	761,187	—
Other long-term liabilities	886	—	—	886	—
Total	$ 5,692,091	$ 871,742	$ (345,411)	$ 6,218,422	$ 121,567

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

	Balance at July 1, 2015	Additions	Reduction	Balance at June 30, 2016	Current Portion
Revenue bonds	$ 4,106,960	$ 613,535	$ (81,700)	$ 4,638,795	$ 96,200
Add unamortized premium	198,252	99,858	(12,130)	285,980	—
Less unamortized discount	(5,950)	—	275	(5,675)	—
Net revenue bonds	4,299,262	713,393	(93,555)	4,919,100	96,200
Accrued employee benefits	41,806	5,307	(4,598)	42,515	5,357
Estimated claims payable	75,559	7,149	(8,332)	74,376	7,899
Liability for environmental/ hazardous materials cleanup	12,783	—	—	12,783	—
Net pension liability	566,613	75,818	—	642,431	—
Other long-term liabilities	886	—	—	886	—
Total	$ 4,996,909	$ 801,667	$ (106,485)	$ 5,692,091	$ 109,456

8. Leases and Agreements

a. Operating Leases and Agreements As Lessor

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

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2017 and 2016, revenues from such agreements were approximately $329.8 million and $291.3 million, respectively. The respective amounts over MAG were $110.3 million and $76.6 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
2018	$	177,345
2019		130,071
2020		130,071
2021		34,943
2022		12,073
Total	$	484,503

On March 1, 2012, LAWA and Westfield Airports, 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. 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. Please refer to note 19 of the notes to the financial statements relating to a subsequent amendment of the Westfield Agreements.

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
2018	$	37,100
2019		38,028
2020		38,979
2021		39,953
2022		41,458
Total	$	195,518

LAX 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 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, 2017 and 2016, revenues from these leases were $592 million and $558.8 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 estimated future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2018	$ 573,052
2019	553,128
2020	540,028
2021	524,457
2022	461,691
Total	$ 2,652,356

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2017 and 2016 are as follows (amounts in thousands):

	2017	2016
Buildings and facilities	$ 4,939,989	$ 4,022,026
Accumulated depreciation	(838,408)	(697,070)
Net	4,101,581	3,324,956
Land	525,616	556,951
Total	$ 4,627,197	$ 3,881,907

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2017 and 2016 were $7.1 million and $7.6 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending		Amount
2018	$	7,196
2019		7,190
2020		5,676
2021		3,557
2022		3,557
2023-2027		16,899
2028-2032		9,459
Total	$	53,534

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 Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. The current PFCs is $4.50 per enplaned passenger. PFCs collection authorities approved by FAA are $4.1 billion and $3.1 billion as of June 30, 2017 and 2016, respectively. LAX 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 $118.0 million and $124.0 million were used for debt service in fiscal years 2017 and 2016, respectively.

The following is a summary of projects approved by FAA as of June 30, 2017 and 2016 (amounts in thousands):

	2017	2016
Terminal development	$ 3,141,679	$ 2,148,395
Noise mitigation	863,745	863,745
Airfield development and equipment	83,620	83,620
Total	$ 4,089,044	$ 3,095,760

PFCs collected and the related interest earnings through June 30, 2017 and 2016 were as follows (amounts in thousands):

	2017	2016
Amount collected	$ 2,282,374	$ 2,118,505
Interest earnings	209,050	203,570
Total	$ 2,491,424	$ 2,322,075

As of June 30, 2017 and 2016, cumulative expenditures to date on approved PFCs projects totaled $2.0 billion and $1.9 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. 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, 2017 and 2016 were as follows (amounts in thousands):

	2017	2016
Amount collected	$ 266,669	$ 234,124
Interest earnings	17,377	14,404
Total	$ 284,046	$ 248,528

As of June 30, 2017 and 2016, cumulative expenditures on approved CFCs projects totaled $3.0 million.

Under Section 1939 of California Legislature, LAX can change the amount and basis for collecting a CFCs from the current $10.00 per contract level to a maximum of $9.00 per transaction day, up to a 5-day maximum. Also, changes made to the amount and basis for collecting the CFCs would have to be initiated by January 1, 2018 by submitting certain information to the State of California (State).

The Landside Access and Modernization Program (LAMP) included proposed landside projects at LAX including a future ConRAC, Intermodal Transportation Facilities (ITF), which may include pick-up and drop-off locations for commercial vehicles that currently access the Central Terminal Area (CTA) on adjacent roadways and parking facilities for passenger and employees; the Automated People Mover (APM) System, and certain parking projects. The proposed ConRAC would be located east of the CTA, and it may include a customer service building, a ready/return area, a vehicle storage area, quick-turnaround facilities, and an area for rental car customers to access and exit the APM system. LAWA expects that the capital costs of a future ConRAC at LAX and portion of the APM system would be paid from annual CFCs revenues that are currently collected from on-airport rental car companies and remitted to LAWA. LAWA has initiated the State process to increase the CFCs rate charged at LAX. Please refer to note 19 of the notes to the financial statements relating to a subsequent Board authorization relating to CFC collection.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $87.8 million and $49.3 million in fiscal years 2017 and 2016, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for fiscal years ended June 30, 2017 and 2016 were $106.1 million and $94.1 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2017 and 2016 were $9.7 million and $9.3 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD including, but not limited to, legal, human services, and financial services. As described in Note 17 of the notes to the financial statements, ONT was transferred to OIAA on November 1, 2016.

Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent was $1.1 million for fiscal years 2017 and 2016 . The details are as follows (amounts in thousands):

	FY 2017	FY 2016
Allocated administrative costs		
ONT	$ 2,048	$ 6,866
VNY	2,241	2,120
PMD	296	370
Total	4,585	9,356
Land rental	(1,132)	(1,112)
Net	$ 3,453	$ 8,244

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of $43.0 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 LAX 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 LAX. At June 30, 2017 and 2016, the respective outstanding principal amount of $2.9 million and $5.8 million receivable beyond one year were reported under other noncurrent assets. The balance of $2.9 million was reported as receivable within one year under unrestricted current assets for both June 30, 2017 and 2016.

13. Pension Plan

a. General Information

Plan Description

All full-time employees of LAX are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a single-employer defined benefit pension plan (the Pension Plan). LACERS serves as a common investment and administrative agent for City departments and agencies that participate in LACERS. LACERS is under the exclusive management and control of its Board of Administration whose authority is granted by statutes in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. Benefits and benefit changes are established by ordinance and approved by City Council and the Mayor.

All employees who became members of LACERS before July 1, 2013 are designated as Tier 1 members. On or after July 1, 2013, new employees became members of LACERS Tier 2. However, on July 9, 2015, Tier 2 was rescinded and a new tier of benefits was created. As a result, Ordinance 184134 was adopted on January 12, 2016, where all active Tier 2 members were transferred to Tier 1 as of February 21, 2016. Thereafter, new members became Tier 3 members of LACERS.

LACERS' publicly issued financial report, which covers both pension benefits and other postemployment benefits, 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 or LACERS' website *http://lacers.org/aboutlacers/reports/index.html*. As a City department, LAWA shares in the risks and costs with the City. LAX 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 LAX's financial statements, LACERS' financial statements and the Pension Plan's actuarial valuation study for fiscal year 2017 are not yet available.

Benefits Provided

LACERS provides for service and disability retirement benefits, as well as death benefits. 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.

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 pensionable 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. 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, a refund of the member's contributions and, depending on the member's years of service, a limited pension benefit equal to 50% of monthly salary will be paid up to 12 months. Or, if such member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired member's death, a $2,500 funeral allowance is paid, and modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

LACERS Tier 3 members are eligible to retire with unreduced benefits if they have at least 10 or more years of City service at age 60 or at least 30 years of City service at age 55, provide that five years of service must be continuous. Full unreduced retirement benefits at age 60 with 10 years of City service are determined with a 1.5% retirement factor. Members also are eligible to retire with an age-based reduced benefits before reaching age 60 with 30 or more years of City service with a retirement factor of 2.0%. If the member is age 55 or older with 30 years of service at the time of retirement, his or her retirement allowance will not be subject to reduction on account of age. However, if the member is younger than age 55 with 30 years of service at the time of retirement, his or her retirement allowance will be reduced by the applicable early retirement reduction factor. In addition, LACERS also provides Tier 3 members an enhanced retirement benefits with a 2.0% retirement factor if the member retires at age 63 with at least 10 years of service; or a retirement factor of 2.1% if the member retires at age 63 with 30 years of service. Tier 3 retirement benefits are determined by multiplying the member's retirement factor (1.5% - 2.1%), with the member's last 36 months of final average compensation or any other 36 consecutive months designated by the member, and by the member's years of service credit.

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, a refund of the member's contributions and, depending on the member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired member's death, a $2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

Retirement allowances are indexed annually for inflation. The LACERS 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, 2016, LACERS had 20,078 Tier 1 active vested members; 3,907 and 461 active nonvested Tier 1 and Tier 3 members respectively; 18,357 inactive Tier 1 retired members; 4,677 inactive nonvested members; and 2,218 terminated members not yet receiving benefits. 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 not yet receiving benefits. (Note: information for fiscal year 2017 is not yet available on this report issue date).

Member Contributions

The current contribution rate for most of the Tier 1 members is 11% of their pensionable salary including a 1% increase in the member contribution rate pursuant to the 2009 Early Retirement Incentive Program (ERIP) ordinance for all employees for a period of 15 years (or until the ERIP cost obligation is fully recovered, whichever comes first); and 4% additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy pursuant to a 2011 City Council ordinance. As of June 30, 2017 and June 30, 2016, all active Tier 1 members are now paying additional contributions, and are not subject to the retiree medical subsidy cap. The contribution rate for Tier 3 members is 11% of their pensionable salary including 4% of additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy. Unlike Tier 1, Tier 3 members do not pay the ERIP contribution, therefore, Tier 3 members' contribution rate will not drop down when Tier 1 members cease to pay the 1% ERIP contribution.

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 23.02% and 20.76% of compensation[6] as of June 30, 2016 (based on the June 30, 2014 valuation) and June 30, 2015 (based on the June 30, 2013 valuation), respectively. (Note: information for fiscal year 2017 is not yet available on this report issue date).

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[6] *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 $681.0 million and $652.0 million for the years ended June 30, 2017 and June 30, 2016, respectively, consisted of the following (amounts in thousands):

	2017	2016
Required contributions	$ 453,356	$ 440,546
Family death benefit Plan	148	158
Total City contributions	453,504	440,704
Member contributions	227,532	211,345
Total	$ 681,036	$ 652,049

The required City contribution of $453.4 million was equal to 100% of the actuarially determined employer contribution. Member contributions of $227.5 million were made toward the retirement and voluntary family death benefits for fiscal year 2017.

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.

LAX's Contributions to the Pension Plan

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

	2017	2016
LAX's required contributions to the Pension Plan	$ 61,197	$ 55,972

The LAX contributions made to the Pension Plan under the required contribution category in the amounts of $61.2 million and $56.0 million for fiscal years 2017 and 2016, respectively, were equal to 100% of the actuarially determined contribution of the employer.

b. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to the Pension Plan

LACERS' Net Pension Liability (NPL) for fiscal year 2017 was measured as of June 30, 2016 and determined based upon the Plan Fiduciary Net Position (FNP) and Total Pension Liability (TPL) from actuarial valuation as of June 30, 2016. LACERS' NPL for fiscal year 2016 was measured as of June 30, 2015 and determined based upon the FNP and TPL from actuarial valuation as of June 30, 2015.

As of the reporting date June 30, 2017 (measurement date of June 30, 2016) and reporting date June 30, 2016 (measurement date of June 30, 2015), LAX reported its proportionate shares of TPL, FNP and NPL as follows (amounts in thousands):

	Reporting date 6/30/17 Measurement date 6/30/16	Reporting date 6/30/16 Measurement date 6/30/15
LAX's proportionate share:		
Total Pension Liability	$ 2,361,087	$ 2,177,306
Plan Fiduciary Net Position	(1,599,900)	(1,534,875)
Net Pension Liability	$ 761,187	$ 642,431
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	67.76%	70.49%

LAX's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAX during fiscal year 2016. The NPL was measured as of June 30, 2016 and determined based upon the Pension Plan's FNP (plan assets) and TPL from actuarial valuations as of June 30, 2016.

Change in LAX's proportionate share of the NPL as of June 30, 2017 (measurement date June 30, 2016) and 2016 (measurement date June 30, 2015) was as follows (amounts in thousands):

	NPL	Proportion
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	$ 761,187	13.55%
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	$ 642,431	12.87%
Change - Increase	$ 118,756	0.68%

Change in LAX'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)	$ 642,431	12.87%
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	$ 566,613	12.71%
Change - Increase	$ 75,818	0.16%

For the year ended June 30, 2017, LAX recognized pension expense of $78.4 million. At June 30, 2017, LAX 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	$ 61,197	$ —
Differences between expected and actual experience	—	54,878
Changes of assumptions	49,538	—
Net difference between projected and actual earnings on pension plan investments	87,436	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,181	18,037
Total	$ 203,352	$ 72,915

$61.2 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, 2018. 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
2018	$ 11,525
2019	11,525
2020	35,028
2021	13,450
2022	(2,288)

For the year ended June 30, 2016, LAX recognized pension expense of $57.4 million . At June 30, 2016, LAX 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	$ 55,972	$ —
Differences between expected and actual experience	—	27,695
Changes of assumptions	65,097	—
Net difference between projected and actual earnings on pension plan investments	—	18,375
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,273	13,881
Total	$ 127,342	$ 59,951

$56.0 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, 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	$ (2,562)
2018	(2,562)
2019	(2,562)
2020	19,872
2021	(767)

c. Actuarial Assumptions for the June 30, 2016 Measurement Date for Fiscal Year 2017

The total pension liabilities as of June 30, 2016 and June 30, 2015 determined by actuarial valuations as of June 30, 2016 and June 30, 2015, respectively, using the following actuarial assumptions[7], applied to all periods included in the measurement:

Inflation:	3.25%
Discount rate:	7.5%
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.

[7] *The actuarial assumptions used in the June 30, 2016 and June 30, 2015 valuations 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, 2016 funding actuarial valuation for LACERS.*

d. Discount Rate for Fiscal Year 2017

The discount rate used to measure the total pension liability was 7.50% as of June 30, 2016 and June 30, 2015. 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 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 both June 30, 2016 and June 30, 2015.

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:

Asset Class	Target Allocation	Long-Term (Arithmetic) Expected Real Rate of Return
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 LAX's proportionate share of the NPL as of June 30, 2016 and June 30, 2015, calculated using the discount rate of 7.50%, as well as what LAX'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, 2016	June 30, 2015
1% decrease	6.50%	6.50%
Net Pension Liability	$1,072,834	$932,617
Current discount rate	7.50%	7.50%
Net Pension Liability	$761,187	$642,431
1% increase	8.50%	8.50%
Net Pension Liability	$501,665	$400,940

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 2017

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. LAX paid 100% of its annual contributions of $61.2 million and $56.0 million to the Pension Plan for fiscal years ended June 30, 2017 and June 30, 2016, respectively. At June 30, 2017 and June 30, 2016, LAX did not have any payable to be reported for the outstanding amount of contributions to the Pension Plan required for the year end.

14. Other Postemployment Benefit Plan (OPEB)

a. General Information

Plan Description

LACERS provides other postemployment health care benefits under a Postemployment Health Care Plan to eligible retirees and their eligible spouses/domestic partners who participate in the Pension Plan. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for a health insurance premium subsidy. This subsidy is to be funded entirely by the City. These benefits may also extend to the coverage of other eligible dependent(s). To be eligible for health care benefits, member must: 1) be at least age 55; 2) had at least 10 whole 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). Retirees and surviving spouses/domestic partners can choose from the health plans that are available, which include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. Retirees and surviving spouses/domestic partners receive medical subsidies based on service years and service credit. The dental subsidies are provided to the retirees only, based on service years and service credit.

LACERS' publicly issued financial report, which covers both pension benefits and other postemployment benefits, 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 or LACERS’ website *http://lacers.org/aboutlacers/reports/index.html*. As a City department, LAWA shares in the risks and costs with the City. LAX presents the related OPEB benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the completion date of LAX's financial statements, LACERS' financial statements and the OPEB's actuarial valuation study for fiscal year 2017 are not yet available.

Benefits Provided

The maximum subsidies are set annually by the LACERS Board of Administration. Both Tier 1 and Tier 3 members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and the eligible members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service. Eligible spouses/domestic partners of Pension Plan members are entitled to LACERS’ postemployment health care benefits after the retired member’s death. During the 2011 fiscal year, the City adopted an ordinance (“Subsidy Cap Ordinance”) to limit the maximum medical subsidy at $1,190 for those members who retire on or after July 1, 2011; however, members who at any time prior to retirement made additional contributions 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.

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, 2016, was 5.58% of covered payroll, determined by the June 30, 2014 actuarial valuation. 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 actuarial valuation. (Note: information for fiscal year 2017 is not yet available on this report issue date)

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.

LACERS switched to the Entry Age cost method beginning from the June 30, 2012 actuarial valuation to determine the required annual contribution amount for OPEB. The required annual contribution amount is composed of two components: normal cost which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the unfunded actuarial accrued liability (UAAL) which is the difference between LACERS actuarial liabilities and actuarial assets.

The components of the UAAL are amortized as a level percent of pay. Based on LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 years, except that health cost trend and premium assumption changes are amortized over 15 years. Plan changes and experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period of 30 years for all layers combined. The amortization periods are closed as each layer of the UAAL is systematically amortized over a fixed period.

Funded Status and Funding Progress

The following is funded status information for OPEB as of June 30, 2016, and June 30, 2015 (amounts in thousands): (Note: information for fiscal year 2017 is not yet available on this report issue date)

	2016	2015	2014
Actuarial Accrued Liability (AAL)	$ 2,793,689	$ 2,646,989	$ 2,662,853
Actuarial value of assets	2,248,753	2,108,925	1,941,225
Unfunded AAL	$ 544,936	$ 538,064	$ 721,628
Funded ratio	80.49%	79.67%	72.90%
Covered payroll	$ 1,968,703	$ 1,907,665	$ 1,898,064
Unfunded AAL as a percentage of covered payroll	27.68%	28.21%	38.02%

City's Contributions to OPEB

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB plan, and the net OPEB asset (liability) for fiscal year 2016 and the two preceding years for each of the plans are as follows (amounts in thousands): (Note: information for fiscal year 2017 is not yet available on this report issue date).

Year ended	Annual OPEB Cost (AOC)	Percentage of AOC contributed	Net OPEB Asset (Liability)
6/30/2014	$ 97,841	100%	—
6/30/2015	$ 100,467	100%	—
6/30/2016	$ 105,983	100%	—

LAX's Contributions to OPEB

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

	2017	2016
LAX's required contributions to OPEB	$ 13,225	$ 13,875

LAX's contributions made for OPEB, in the amounts of $13.2 million and $13.9 million for fiscal years 2017 and 2016, respectively, represent 100% of the Annual Required Contribution (ARC) as defined by GASB Statements No. 43[8] and No. 45[9] .

[8] *GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued in April 2004*

[9] *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension, issued in June 2004.*

b. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on LACERS plan provisions and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques, such as seven-year smoothing of assets and amortization of UAAL over various periods of time depending on the nature of the UAAL, that are designed to reduce the effects of short-term volatility in funding, consistent with the long-term perspective of the calculations.

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Cost Method – level percent of salary.
Amortization Method	Level Percent of Payroll – assuming a 4.00% 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, except that assumptions specifically related with the Postemployment Health Care benefits and reviewed annually by the LACERS Board are amortized over 15 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over five years. Any 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 Statements No. 25/27 layers for the Pension Plan, were combined and amortized over 30 years. Health trend and premium assumption changes are amortized over 15 years. Years remaining range from 8 to 26 years.
Asset Valuation Method	Fair 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 fair value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or greater than 140% of fair 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.
Actuarial Assumptions:	
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation
Mortality Table for Retirees	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and no set back for females.
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set seven years for males and set forward eight years for females.
Marital Status	60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.
Surviving Spouse Coverage	With regard to members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the member's death.
Participation	50% of inactive members are assumed to receive a subsidy for a City approved health carrier. 100% of retirees becoming eligible for Medicare are assumed to be covered by both Parts A and B.
Health Care Cost Trend Rates	Medical Premium Trend Rates to be applied in the following fiscal years, to all health plans. Trend Rate is to be applied to the premium for shown fiscal year to calculate next fiscal year's projected premium.

15. Risk Management

The Risk Management Division administers LAWA's risk and claims management program. by implementing a comprehensive risk identification, assessment, regulation and insurance program. The program addresses key risks that may adversely affect LAWA's ability to meet its business goals and objectives and effectively insures against losses, transfers risk or otherwise mitigates risk losses.

LAWA maintains insurance coverage of $1.3 billion for general aviation liability perils and $1.0 billion for war and allied perils (Terrorism). Additional insurance coverage is carried for general all risk property insurance for $2.5 billion, that includes $250.0 million sub-limits 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 losses, 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 stated above.

Additionally, LAX 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. LAWA also monitors contractual transfer of risk by and through insurance review and requirements of contractors, tenants, airlines. For fiscal years 2017, 2016, and 2015, no claims were in excess of LAX's insurance coverage or approached a substantial portion of the overall coverage capacities.

A number of claims/lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities with a probability of occurring from these lawsuits. The probability weighted liability for litigation and other claims for the fiscal years ended June 30, 2017 and 2016 were $10.1 million and $11.7 million, respectively.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liabilities at June 30, 2017 and 2016 were $68.4 million and $62.7 million, respectively.

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

	June 30		
	2017	2016	2015
Balance at beginning of year	$ 74,376	$ 75,559	$ 68,871
Provision for current year's events and changes in provision for prior years' events	12,503	7,149	14,158
Claims payments	(8,395)	(8,332)	(7,470)
Balance at end of year	$ 78,484	$ 74,376	$ 75,559
Current portion	(8,137)	(7,899)	(8,332)
Noncurrent portion	$ 70,347	$ 66,477	$ 67,227

16. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $83.1 million and $124.7 million as of June 30, 2017 and 2016, 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, including epidemics and pandemics. As a result of terrorist activities, certain international hostilities and risk of violent crime, LAWA has implemented enhanced security measures mandated by the FAA, the Transportation Security Administration (TSA), the Department of Homeland Security and Airport management. Current and future security measures may create significantly increased inconvenience, costs and delays at LAX which may give rise to the avoidance of air travel generally and the switching from air to ground travel modes and may adversely affect LAWA's operations, expenses and revenues. LAX has been the target of a foiled terrorist bombing plot and has been recognized as a potential terrorist target. Recent incidents at United States and international airports underscore this risk. LAX is a high profile public facility in a major metropolitan area. LAWA cannot predict whether LAX or any of LAWA's other airports will be actual targets of terrorists or other violent acts in the future. Intelligence reports have indicated that LAX was a target of a terrorist bombing plot and continues to be a potential terrorist target. LAX is unable to predict: (a) the likelihood of future incidents of terrorism and other airline travel disruptions; (b) the impact of the aforementioned security issues on its operations and revenues; and (c) financial impact to the airlines operating at LAX.

c. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy. As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2017 and 2016 was $7.5 million and $12.8 million, respectively. LAX does not expect any further recoveries reducing this obligation.

The State Water Resources Control Board (SWRCB) issued a Notice of Violation (NOV) to LAWA generally alleging violations of underground storage tank (UST) construction, monitoring, and testing laws at facilities where LAWA owns and operates USTs. LAWA owns and/or operates six USTs at LAX. The 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.

17. Transfer of LA/ONT International Airport

The City, LAWA (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. As a result of the transfer of the ONT assets and liabilities to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement, LAWA recognized a loss of $225.3 million on the disposal of ONT as a special item, and LAX recognized a transfer of residual operations from ONT of $104.1 million.

On June 20, 2016, the parties agreed to a Staff Augmentation Agreement (SAA). The SAA contemplated some LAWA staff may remain at ONT for as long as 21 months after the closing. However, it provided the OIAA with the right to declare certain categories of employees redundant and return them to available employment with a City Department. OIAA has exercised that right on several occasions.

The transfer of residual operation from ONT to LAX is presented below (amounts in thousands):

		FY 2017
Proceeds from ONT transfer	$	125,705
Receivable from OIAA		56,784
Land transferred to ONT		(32,326)
Personnel related liabilities transferred from ONT		(46,038)
Total	$	104,125

18. Other Matter

City Financial Challenges

According to the City Administrative Officer's (CAO) year-end Financial Status Report for fiscal year 2017, there was a significant increase in liability claims expenses due to the payment of judgments and settlements. In order to manage the significant amount of judgment and settlement payouts, the CAO proposed a potential issuance of Judgment Obligation Bonds (JOB) with proceeds to be used to reimburse the Reserve Fund (or other City Funds) for advances or loans made to these expenses, and the City Council had adopted a resolution to proceed with the issuance of JOB. In addition, there were additional internal and external challenges including the potential federal funding issue, new labor agreements, and class action lawsuits that may adversely impact the City, the size and/or timing of which cannot be accurately determined at this time. The CAO is closely monitoring the federal appropriations process and any potential impacts to the City, as well as the fiscal impact based on the MOU agreements reached with the bargaining units, and identifying options to mitigate shortfalls to reduce liabilities going forward.

LAWA, as a proprietary department under the City Charter, is vested with the management and control of its assets. The budgetary challenges of the City's General Fund as well as the mitigating measures implemented by the Mayor and City Council do not directly affect LAX's operations. However, auxiliary services provided to 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 LAX's outstanding and future bond issues.

19. Subsequent Events

On July 26,2017, LAWA issued LAX subordinate revenue bonds 2017 Series A of $260.6 million, and 2017 Series B of $88.7 million. The premium for these issuances totaled $54.6 million. The bonds were issued to pay and/or reimburse for capital expenditures at LAX.

On August 25, 2017, the Board authorized a three-year letter of credit (LOC) agreement providing total of $500.0 million principal amount of credit to support LAX's commercial paper program with the following institutions: Sumitomo Mitsui Banking Corporation for $200.0 million, Wells Fargo Bank for $200.0 million, and Barclays Bank PLC for $100.0 million.

On September 20, 2017, the Board authorized issuance of LAX revenue bonds, notes or other obligations, in one or more series in an aggregate amount not to exceed $2.2 billion through fiscal year 2022 to pay for projected capital projects at LAX and to refund outstanding bonds for debt service savings.

On October 5, 2017, the Board authorized a third amendment to the Terminal Commercial Management Concession Agreement with Westfield Airports, LLC (Westfield) at LAX to add up to 30,000 square feet of concession space in the Midfield Satellite Concourse to the premises and generate a minimum of $6.4 million concession revenue per year and approximately $76.8 million in additional concession revenue over the term of the contract.

On October 5, 2017, the Board authorized collection of an updated CFC to fund costs of a consolidated rental car facility (ConRAC) and its share of a common-use transportation system (CTS) at LAX (Projects) pursuant to California Government Code Section 50474.3. The Board authorized the collection of a CFC of $7.50 per day for the first five days of each car rental contract, effective December 1, 2017, by rental car companies serving LAX. The Board authorized an increase in the CFC daily rate to $9.00 per day for the first five days of each car rental contract, effective the first day of the month following the commencement of rental car services to the public in the ConRAC, or such other earlier day if the Board determines that it is the best interest of the Projects to collect the increased CFC daily rate of $9.00 earlier.

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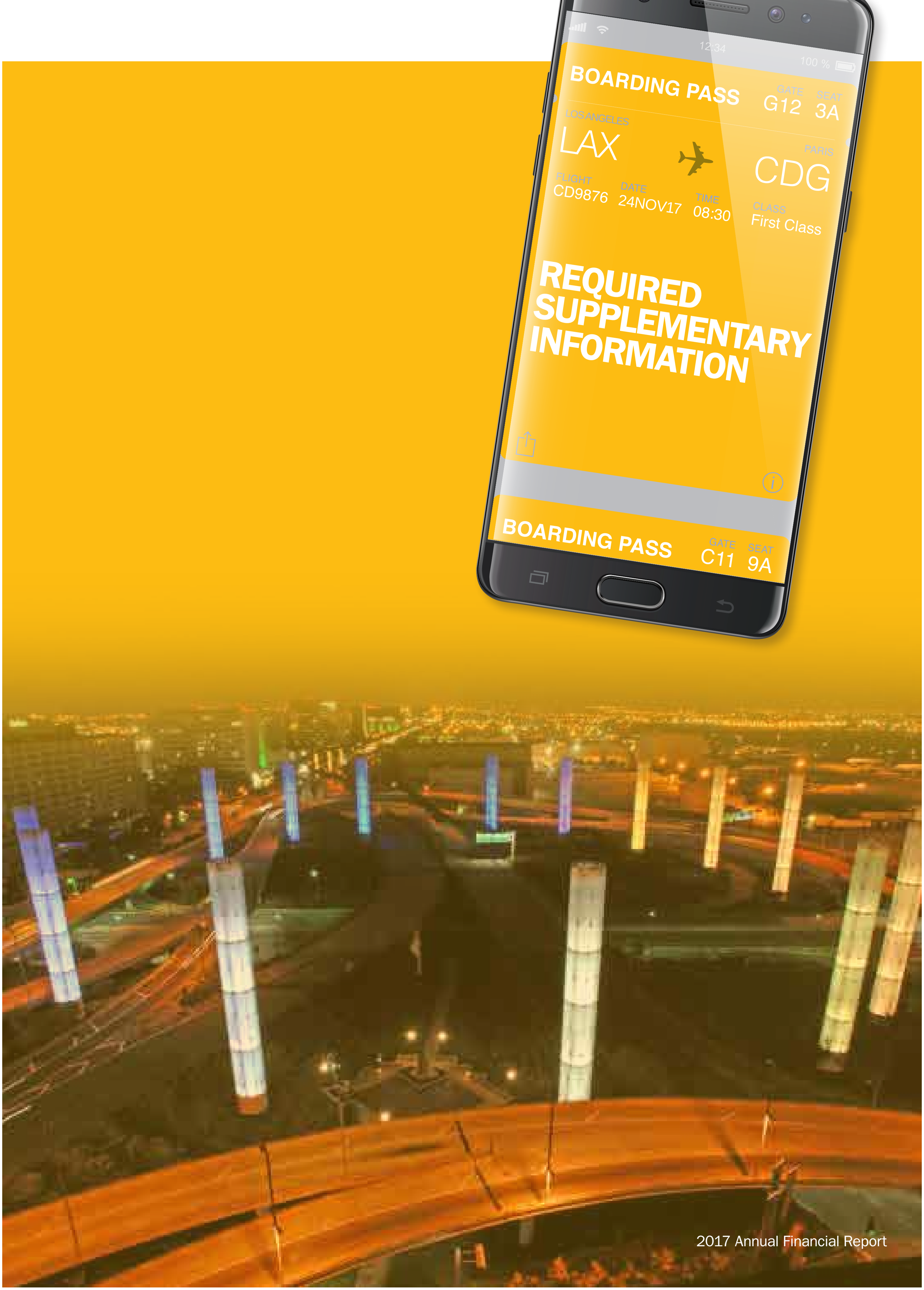
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2017 Annual Financial Report

Required Supplementary Information

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

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

Schedule of LAX's Proportionate Share of the Net Pension Liability

Fiscal Year	Proportion of the Net Pension Liability	Proportionate share of the Net Pension Liability	Covered Payroll (2)	Proportionate share of the Net Pension Liability as a percentage of its Covered Payroll	Proportionate share of Pension Plan's Fiduciary Net Position	Proportionate share of Pension Plan's Total Pension Liability	Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability
2015	12.71%	$ 566,613	$ 229,535	246.85%	$ 1,498,734	$ 2,065,347	72.57%
2016	12.87%	$ 642,431	$ 235,176	273.17%	$ 1,534,875	$ 2,177,306	70.49%
2017	13.55%	$ 761,187	$ 256,833	296.37%	$ 1,599,900	$ 2,361,087	67.76%

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.

2. Covered payroll is reported based on measurement period.

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

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

Schedule of Contributions - Pension

	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 61,197	$ 55,972	$ 49,043
Contributions in relation to the actuarially determined contributions	61,197	55,972	49,043
Contribution deficiency (excess)	$ —	$ —	$ —
LAX's covered payroll	$ 266,780	$ 256,833	$ 235,176
LAX's contributions as a percentage of covered payroll	22.94%	21.79%	20.85%

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

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.

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

Notes to schedule (continued):

	Reporting date 6/30/17 Measurement date 6/30/16	Reporting date 6/30/16 Measurement date 6/30/15
Investment rate of return	7.50%	7.50%
Inflation rate	3.25%	3.25%
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 10.50% to 4.40% based on years of service
Cost of living adjustment (1)	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 projected with Scale BB to 2020, set back one year for males and with no set back 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.


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2017 Annual Financial Report

Compliance Section Contents

mgo Certified Public Accountants

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

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, applicable to its passenger facility charge program for the fiscal year ended June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the fiscal year ended June 30, 2017.

Macias Gini & O'Connell LLP
2029 Century Park East, Suite 1500
Los Angeles, CA 90067

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

(continued)

Internal Control Over Compliance

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

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

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

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

Macias Gini & O'Connell LLP

Los Angeles, California
October 23, 2017

Los Angeles World Airports

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

Los Angeles International Airport

Schedule of Passenger Facility Charge Revenues and Expenditures

For the Fiscal Years Ended June 30, 2017 and 2016

(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of June 30, 2015	$ 1,968,096	$ 197,226	$ 2,165,322	$ 1,638,275	$ 527,047
Fiscal year 2015-16 transactions					
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
Program to date as of June 30, 2016	2,118,505	203,570	2,322,075	1,892,387	429,688
Fiscal year 2016-17 transactions					
Quarter ended September 30, 2016	37,539	1,366	38,905	29,199	9,706
Quarter ended December 31, 2016	36,475	1,216	37,691	35,160	2,531
Quarter ended March 31, 2017	45,567	1,384	46,951	29,735	17,216
Quarter ended June 30, 2017	44,288	1,514	45,802	51,651	(5,849)
Unexpended passenger facility charge revenues and interest earned June 30, 2017	$ 2,282,374	$ 209,050	$ 2,491,424	$ 2,038,132	$ 453,292

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

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2017 and 2016

1. General

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

The current PFC rate is $4.50 per enplaned passenger. PFCs collection authorities approved by FAA are $4.1 billion and $3.1 billion as of June 30, 2017 and 2016, respectively.

The details are as follows (amounts in thousands):

Application number	Charge effective date*	2017 Amount approved for use	2016 Amount approved for use
96-02-U-00-LAX, closed 6/2/03	6/1/1993	$ 116,371	$ 116,371
96-03-C-00-LAX, closed 10/1/08	7/1/1993	50,223	50,223
97-04-C-02-LAX	2/1/1998	610,000	610,000
97-04-C-02-LAX	2/1/1998	90,000	90,000
05-05-C-00-LAX	12/1/2005	229,750	229,750
05-05-C-01-LAX	12/1/2005	468,030	468,030
07-06-C-00-LAX	10/1/2009	85,000	85,000
10-07-C-01-LAX	6/1/2012	1,848,284	855,000
11-08-C-00-LAX	3/1/2019	27,801	27,801
13-09-C-00-LAX	6/1/2019	44,379	44,379
14-10-C-00-LAX	10/1/2019	516,091	516,091
15-11-U-00-LAX	3/1/2019	3,115	3,115
Total		$ 4,089,044	$ 3,095,760

* *Based on FAA's Final Agency Decision and subject to change with actual collections and future collection authorities approved by FAA.*

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 application number 05-05-C-01-LAX for $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 $118.0 million and $124.0 million were used for debt service in fiscal years 2017 and 2016, respectively.

c. In June 2017, FAA approved LAWA's amendment request that increased application number 10-07-C-01-LAX to $1.8 billion to reflect actual bond capital financing and interest.

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 2017	Expenditures to date June 30 2016
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
Noise Mitigation - Land Acquisitions	485,000	413,199	412,813
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Apron Lighting Upgrade	1,873	1,412	1,412
South Airfield Improvement Program (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 Monitoring and Management System	3,450	3,652	3,652
SAIP - Airfield Intersection Improvement	28,000	8,987	8,987
SAIP - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	336,775	302,351
Implementation of IT Security Master Plan	56,573	32,807	32,816
Residential Soundproofing Phase II	35,000	34,141	34,327
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	51,086	51,086
Bradley West	1,848,284	307,820	243,522
Lennox Schools Soundproofing Program	27,801	21,214	15,294
Inglewood USD Soundproofing Program	44,379	10,000	10,000
Terminal 6 Improvements	210,131	43,377	24,115
Elevators/Escalators/Moving Walkways Replacement	110,000	110,000	88,350
Midfield Satellite Concourse North Project	5,960	5,960	5,960
Central Utility Plant Replacement	190,000	190,000	190,000
Lennox Schools Soundproofing Program - Future Sites	3,115	—	—
Total	$ 4,089,044	$ 2,038,132	$ 1,892,387

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 for the Aircraft Noise Monitoring and Management System and the Noise Mitigation - Other Local Jurisdictions Phase II were in excess of authorized amounts. 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.

mgo Certified Public Accountants

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

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *California Civil Code Section 1939, as amended by Assembly Bill (AB) 2051,* applicable to its customer facility charge program for the fiscal year ended June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1939, as amended by AB 2051*. Those standards and the *California Civil Code Section 1939, as amended by AB 2051*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the fiscal year ended June 30, 2017.

Macias Gini & O'Connell LLP
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Independent Auditor's Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance

(continued)

Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and and the results of that testing based on the *California Civil Code Section 1939, as amended AB 2051*. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
October 23, 2017

Los Angeles World Airports

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

Los Angeles International Airport

Schedule of Customer Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2017 and 2016

(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
Program to date as of June 30, 2015	$ 202,128	$ 11,789	$ 213,917	$ 3,026	$ 210,891
Fiscal year 2015-16 transactions					
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
Program to date as of June 30, 2016	234,124	14,404	248,528	3,026	245,502
Fiscal year 2016-17 transactions					
Quarter ended September 30, 2016	8,803	963	9,766	—	9,766
Quarter ended December 31, 2016	7,714	945	8,659	—	8,659
Quarter ended March 31, 2017	7,001	633	7,634	—	7,634
Quarter ended June 30, 2017	9,027	432	9,459	—	9,459
Unexpended customer facility charge revenues and interest earned June 30, 2017	$ 266,669	$ 17,377	$ 284,046	$ 3,026	$ 281,020

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

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2017 and 2016

1. General

Assembly Bill (AB) 491 of the 2001-2002 California Legislature (Section 1936) 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 (ConRAC).

On March 5, 2007, the Board found that the ConRAC 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.

On August 25, 2016, AB 2051 of the 2015-2016 California Legislature (Section 1939) repealed Section 1936 relating to rental passenger vehicles, modified difinitions and terms for uniformity, and made conforming changes in the Legislature requiring rental companies to collect CFCs for specified purposes and requires airports to provide certain audits and reports regarding those fees to specified committees of the Legislature.

Under Section 1939, LAWA can change the amount and basis for collecting a CFCs from the current $10.00 per contract level to a maximum of $9.00 per transaction day, up to a 5-day maximum. Also, changes made to the amount and basis for collecting the CFCs would have to be initiated by January 1, 2018 by submitting certain information to the State of California (State).

The Landside Access and Modernization Program (LAMP) included proposed landside projects at LAX including a future ConRAC, Intermodal Transportation Facilities (ITF), which may include pick-up and drop-off locations for commercial vehicles that currently access the Central Terminal Area (CTA) on adjacent roadways and parking facilities for passenger and employees; the Automated People Mover (APM) System, and certain parking projects. The proposed ConRAC would be located east of the CTA, and it may include a customer service building, a ready/return area, a vehicle storage area, quick-turnaround facilities, and an area for rental car customers to access and exit the APM system. LAWA expects that the capital costs of a future ConRAC at LAX and portion of the APM system would be paid from annual CFCs revenues that are currently collected from on-airport rental car companies and remitted to LAWA. LAWA has initiated the State process to increase the CFCs rate charged at LAX.

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

	2017	2016
Amount collected	$ 266,669	$ 234,124
Interest earnings	17,377	14,404
Subtotal	284,046	248,528
Expenditures		
ConRAC planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	$ 281,020	$ 245,502

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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As a covered entity under Title II of the Americans With Disability Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure access to its programs, services and activities.

Department of Airports
Los Angeles, California