Los Angeles
International Airport

Annual Financial Report

Fiscal years ended June 30, 2016 and 2015

Department of Airports Los Angeles, California


275 CENTER WAY

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, 2016 and 2015

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Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2016.

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, 2016 and 2015, 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, 2016. MGO's report is on pages 95 and 96.

MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1936, as amended by Senate Bill 1192 and Assembly Bill 359*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2016. MGO's report is on pages 101 and 102.

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 30.

The financial condition of LAX depends primarily upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. Passenger and cargo traffic at LAX depends on the demographic characteristics and economic activity of the Air Trade Area. LAX is part of a system of Southern California airports - along with LA/Ontario International Airport, 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.

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

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%. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

Deborah Flint
Executive Director

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Los Angeles World Airports

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

Los Angeles International Airport

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

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Financial Section

2016 Annual Financial Report

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mgo Certified Public Accountants

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the fiscal years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAX as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements of 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, 2016 and 2015, 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.

Independent Auditor's Report
(continued)

Change in Accounting Principles

As described in Note 1, effective July 1, 2014, LAX adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The implementation of these statements resulted in a restatement of net position as of July 1, 2014, in the amount of $567.9 million. The net position as of July 1, 2013 was not restated because all of the information available to restate prior year amounts was not readily available. Our opinion is not modified with respect to this matter.

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 30, the schedule of LAX's proportionate share of the net pension liability on page 89, and the schedule of contributions - pension on pages 90 to 92 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 97 to 100; and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 103 to 104 (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 26, 2016, on our consideration of LAWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAWA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
October 26, 2016

Financial Section

Management's Discussion and Analysis

2016 Annual Financial Report

Management's Discussion and Analysis

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

Los Angeles World Airports (LAWA) is an independent, fiscally self-sufficient department of the City of Los Angeles, California (City). LAWA is an enterprise fund that owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). LAWA owns approximately 17,750 acres of land located east of USAF Plant 42 in the City of Palmdale. LAWA retains the rights for future development of the Palmdale property.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2016 and 2015. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 33.

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, 2016 and 2015. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. Over time, increases and decreases in net position may serve as a useful indicator about whether 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, 2016 and 2015. 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:

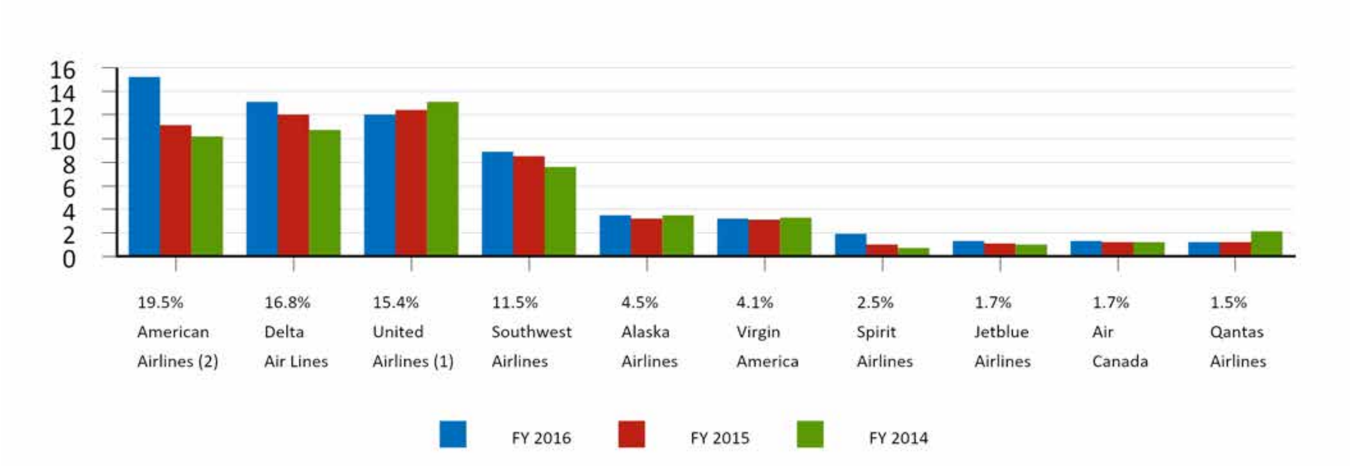
				% Change	
	FY 2016	FY 2015	FY 2014	FY 2016	FY 2015
Total passengers	77,799,530	72,062,730	68,786,455	8.0%	4.8%
Domestic passengers	56,151,106	52,478,111	50,162,524	7.0%	4.6%
International passengers	21,648,424	19,584,619	18,623,931	10.5%	5.2%
Departing passengers	38,952,367	36,114,325	34,333,784	7.9%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

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

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2016 and the comparative passengers for fiscal years 2015 and 2014.

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



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

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% [1] increase in passenger traffic. Delta Air Lines, ranked second with 13.1 million passengers posted a 9.2% increase in passenger traffic. United Airlines, ranked third with 12.0 million passengers posted a 3.2% decrease in passenger traffic. Southwest Airlines (8.9 million) and Alaska Airlines (3.5 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.3 million passengers and was ranked ninth overall.

Passenger Traffic, Fiscal Year 2015

Passenger traffic at LAX increased by 4.8% in fiscal year 2015 as compared to fiscal year 2014. Of the 72.1 million passengers that moved in and out of LAX, domestic passengers accounted for 72.8%, while international passengers accounted for 27.2%. United Airlines ferried the largest number of passengers at 12.4 million with a 5.2% decrease in passenger traffic. Delta Air Lines, ranked second with 12.0 million passengers posted a 17.8% increase in passenger traffic. American Airlines, ranked third with 11.1 million passengers posted a 3.8% increase in passenger traffic. Southwest Airlines (8.5 million) and Alaska Airlines (3.2 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked eight overall.

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.

Flight Operations, Fiscal Year 2015

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

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

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

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.

Air Cargo Operations, Fiscal Year 2015

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

Overview of LAX's Financial Statements

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 grants totaled $49.3 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 $642.4 million as of measurement date June 30, 2015, and reporting date June 30, 2016. NPL, the difference between the total pension liability (TPL) and the retirement plan's net position, is an important measure required by Governmental Accounting Standards Board (GASB) Statements No. 68[3] and 71[4], to disclose in the financial statements. (See Note 13 of the notes to the financial statements.)
- Net position increased by $415.3 million.

[3] *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, issued in June 2012*
[4] *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 2015

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2015 by $4.1 billion.

- Bonded debt had a net increase of $316.5 million.

- Operating revenue totaled $1.0 billion.

- Operating expenses (including depreciation and amortization of $178.0 million) totaled $823.4 million.

- Net nonoperating revenue was $17.6 million.

- Federal and other grants totaled $31.0 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 $566.6 million as of measurement date June 30, 2014, and reporting date June 30, 2015. NPL, the difference between the TPL and the retirement plan’s net position, is an important measure required by GASB Statements No. 68 and 71 , to disclose in the financial statements. (See Note 13 of the notes to the financial statements.) The data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amounts was not readily available.

- Net position decreased by $291.6 million (including restatement of net position of $(567.9) million as a result of the implementation of GASB Statements No. 68 and 71).

Net Position Summary

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

Condensed Net Position
(amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Assets					
Unrestricted current assets	$ 925,151	$ 777,512	$ 752,234	$ 147,639	$ 25,278
Restricted current assets	1,741,896	1,590,602	1,673,096	151,294	(82,494)
Capital assets, net	7,793,002	6,991,500	6,453,252	801,502	538,248
Other noncurrent assets	5,785	8,550	11,235	(2,765)	(2,685)
Total assets	10,465,834	9,368,164	8,889,817	1,097,670	478,347
Deferred outflows of resources					
Deferred charges on debt refunding	24,179	25,307	676	(1,128)	24,631
Changes of assumptions related to pension	65,097	82,071	—	(16,974)	82,071
Contribution after measurement date related to pension	55,972	49,043	—	6,929	49,043
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,273	—	—	6,273	—
Total deferred outflows of resources	151,521	156,421	676	(4,900)	155,745
Liabilities					
Current liabilities payable from unrestricted assets	339,450	304,022	402,672	35,428	(98,650)
Current liabilities payable from restricted assets	166,609	126,729	112,117	39,880	14,612
Noncurrent liabilities	4,940,204	4,335,666	4,030,675	604,538	304,991
Net pension liability	642,431	566,613	—	75,818	566,613
Total liabilities	6,088,694	5,333,030	4,545,464	755,664	787,566
Deferred inflows of resources					
Differences between expected and actual experience related to pension	27,695	16,914	—	10,781	16,914
Differences between projected and actual investment earnings related to pension	18,375	103,501	—	(85,126)	103,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,881	17,723	—	(3,842)	17,723
Total deferred inflows of resources	59,951	138,138	—	(78,187)	138,138
Net Position					
Net investment in capital assets	3,262,634	2,952,716	2,667,815	309,918	284,901
Restricted for debt service	389,217	341,697	325,490	47,520	16,207
Restricted for capital projects	686,080	742,742	893,390	(56,662)	(150,648)
Restricted for operations and maintenance reserve	179,836	174,228	164,284	5,608	9,944
Restricted for federally forfeited property and protested funds	1,137	1,289	1,088	(152)	201
Unrestricted	(50,194)	(159,255)	292,962	109,061	(452,217)
Total net position	$ 4,468,710	$ 4,053,417	4,345,029	$ 415,293	$ (291,612)

Net Position, Fiscal Year 2016

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. 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 net pension liability 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 capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 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% in 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 net pension liability 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.

Net Position, Fiscal Year 2015

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2015 and 2014, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $4.1 billion and $4.3 billion, respectively, representing a 6.7% decrease or $291.6 million. The decrease in net position is a result of LAX's adoption of the provisions of GASB Statements No. 68 and No. 71.

The largest portion of LAX's net position ($3.0 billion or 72.8%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position ($1.3 billion or 31.1%) represents resources that are subject to various restrictions on how they may be used. The unrestricted net position (-$159.3 million or -3.9%) reflects the recognition of the reduction of net position due to GASB Statements No. 68 and 71 as stated above.

Unrestricted current assets increased by 3.4%, from $752.2 million at June 30, 2014 to $777.5 million at June 30, 2015. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2015) held in the City Treasury. Cash outflows were less than inflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2015) held in the City Treasury for capital projects funded by PFCs and CFCs. Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 9.0% from $599.6 million in fiscal year 2014 to $653.7 million in fiscal year 2015 mainly due to unspent proceeds of newly issued 2015 series bonds as of June 30, 2015.
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 8.3%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of $2.7 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net decrease of $98.7 million or 24.5%. This was mainly due to the decrease of $109.7 million, or 34.5% in contracts and accounts payable as a result of the final closeout payment of $83.3 million and $62.0 million for the Bradley West Core project and Bradley West Gates project, respectively. The decrease was offset by increase in obligations under securities lending transactions and increase in other current liabilities. The increase in other current liabilities was mainly due to the increase in the negative accounts receivable balance of $5.4 million resulting from the unapplied credits issued to the airlines, and increase in LAX's share of the City Treasury's year-end pending investment trade of $1.3 million.

Current liabilities payable from restricted assets had a net increase of $14.6 million or 13.0%. The increase was mainly due to the increase of $9.3 million, or 12.9% in current maturities of bonded debt, and the increase of $1.4 million in accrued interest payable, increase of $4.7 million in obligations under securities lending transactions and $1.7 million in LAX's allocated share of the City Treasury's fiscal year-end pending investment trades, in fiscal year 2015, offset by the decrease of $2.5 million, or 56.6% in contracts and accounts payable.

The net increase in noncurrent liabilities was $871.6 million or 21.6%, as a result of additional bond issuances of $497.3 million and the recognition of LAX's proportionate share of net pension liability of $566.6 million during fiscal year 2015.

In addition to the net pension liability, LAX has also recognized the proportionate share of deferred outflows of resources for changes of assumptions related to pension of $82.1 million, deferred outflows of resources for contribution after measurement date related to pension of $49.0 million, deferred inflows of resources for differences between projected and actual investment earnings related to pension of $103.5 million, deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of $17.7 million, and deferred inflows of resources for differences between expected and actual actuarial experience related to pension of $16.9 million. LAX has also recognized the reversal of the net pension obligation of $9.0 million during fiscal year 2015. As a result, the net financial impact of the implementation of GASB Statements No. 68 and 71 is decrease in the net position by $564.6 million. Implementation of GASB Statements No. 68 and 71 is solely for financial reporting purpose, and it does not represent an immediate funding requirement.

Changes in Net Position Summary

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

Condensed Changes in Net Position
(amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Operating revenue	$ 1,206,612	$ 1,045,800	$ 961,729	$ 160,812	$ 84,071
Less- Operating expenses	663,879	645,398	610,027	18,481	35,371
Operating income before depreciation and amortization	542,733	400,402	351,702	142,331	48,700
Less- Depreciation and amortization	226,439	178,035	141,795	48,404	36,240
Operating income	316,294	222,367	209,907	93,927	12,460
Other nonoperating revenue, net	44,628	17,648	59,196	26,980	(41,548)
Federal and other grants	49,255	30,964	24,674	18,291	6,290
Inter-agency transfers	5,116	5,303	6,329	(187)	(1,026)
Changes in net position	415,293	276,282	300,106	139,011	(23,824)
Net position, beginning of year, as previously reported	4,053,417	4,345,029	4,044,923	(291,612)	300,106
Change in accounting principle	—	(567,894)	—	567,894	(567,894)
Net position, beginning of year, as restated	4,053,417	3,777,135	4,044,923	276,282	(267,788)
Net position, end of year	$ 4,468,710	$ 4,053,417	$ 4,345,029	$ 415,293	$ (291,612)

Operating Revenue

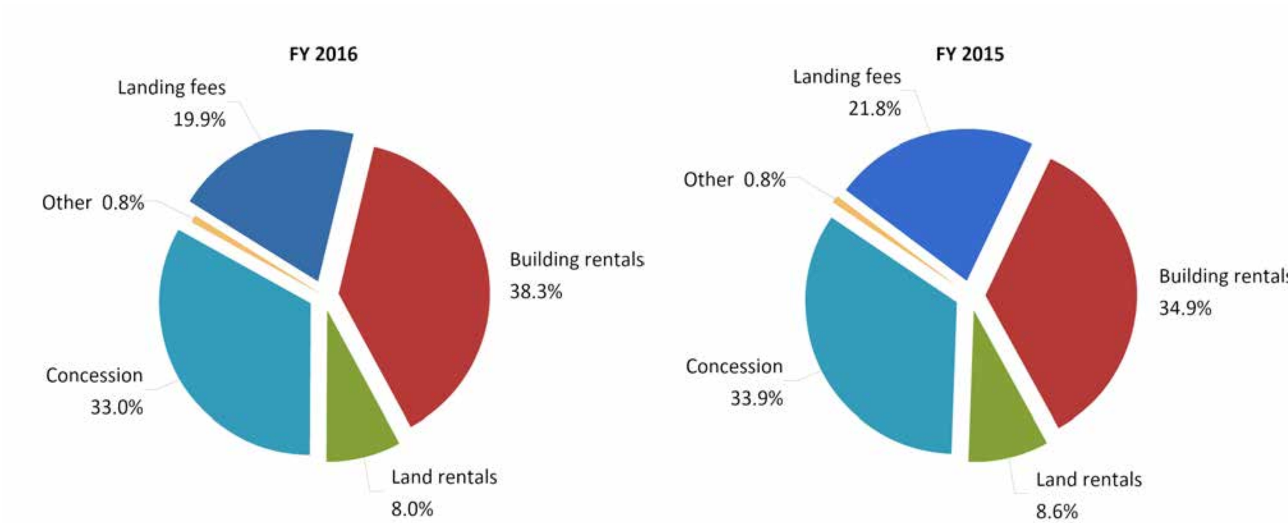
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2016, 2015, and 2014:

Summary of Operating Revenue
(amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Aviation revenue					
Landing fees	$ 240,853	$ 227,518	$ 222,608	$ 13,335	$ 4,910
Building rentals	462,667	365,296	315,764	97,371	49,532
Land rentals	96,167	90,478	86,534	5,689	3,944
Other aviation revenue	6,599	4,564	3,620	2,035	944
Total aviation revenue	806,286	687,856	628,526	118,430	59,330
Concession revenue	398,692	354,082	331,311	44,610	22,771
Other operating revenue	3,996	3,862	1,892	134	1,970
Total operating revenue before reliever fee	1,208,974	1,045,800	961,729	163,174	84,071
Reliever airport fee (landing fees offset)	(2,362)	—	—	(2,362)	—
Total operating revenue	$ 1,206,612	$ 1,045,800	$ 961,729	$ 160,812	$ 84,071

Operating Revenue, Fiscal Year 2016

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, 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 (see page 44), 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.

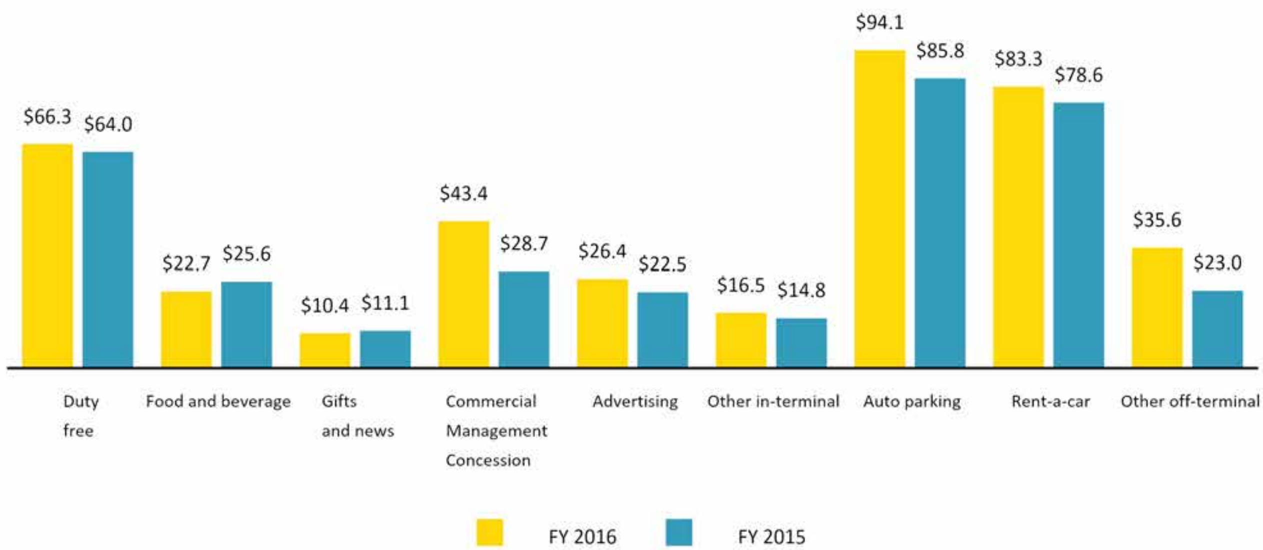
Landing fees for the fiscal year ended June 30, 2016 were up from $227.5 million to $240.9 million, or 5.9%. Total building rental revenue posted a growth of $97.4 million, or 26.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, increased cost recovery 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, a 12.6% growth from $354.1 million in fiscal year 2015. In-terminal concession revenue are rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services, transportation network company and other commercial ground transportation operations.

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

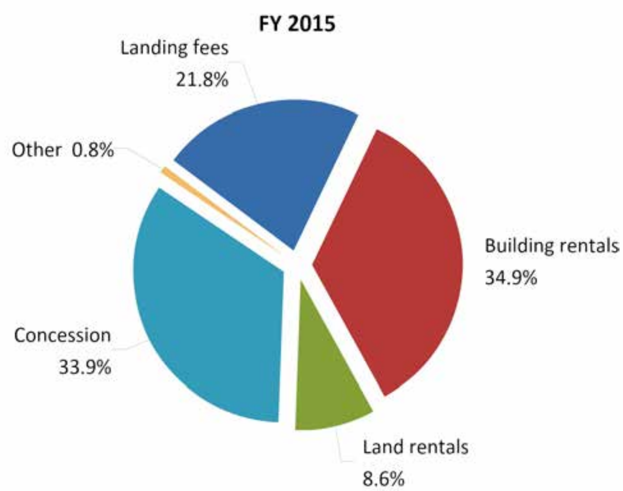
Off-terminal concession revenue in fiscal year 2016 was $213.0 million as compared to $187.4 million in fiscal year 2015, an increase of $25.6 million, or 13.7%. Of the $25.6 million increase, $8.3 million was from auto parking, $4.7 million from rent-a-car, $1.5 million from bus, limousine and taxi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

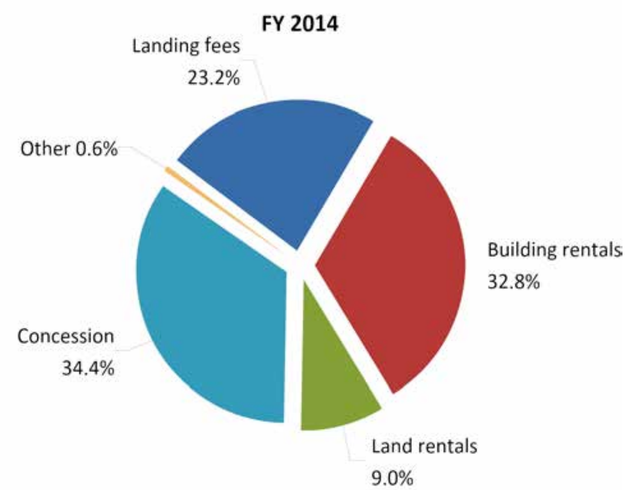
Comparative concession revenue by type for fiscal years 2016 and 2015 are presented in the following chart (amounts in millions).



Operating Revenue, Fiscal Year 2015

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2015 and 2014. Other aviation and other operating revenue were added and labeled "Other."





For the fiscal year ended June 30, 2015, total operating revenue was $1.0 billion, a $84.1 million or 8.7% increase from the prior fiscal year. The growth in aviation related revenue was $59.3 million. Non-aviation revenue had a net increase of $24.8 million mostly from concessions.

As described in the notes to the financial statements (see page 44), 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.

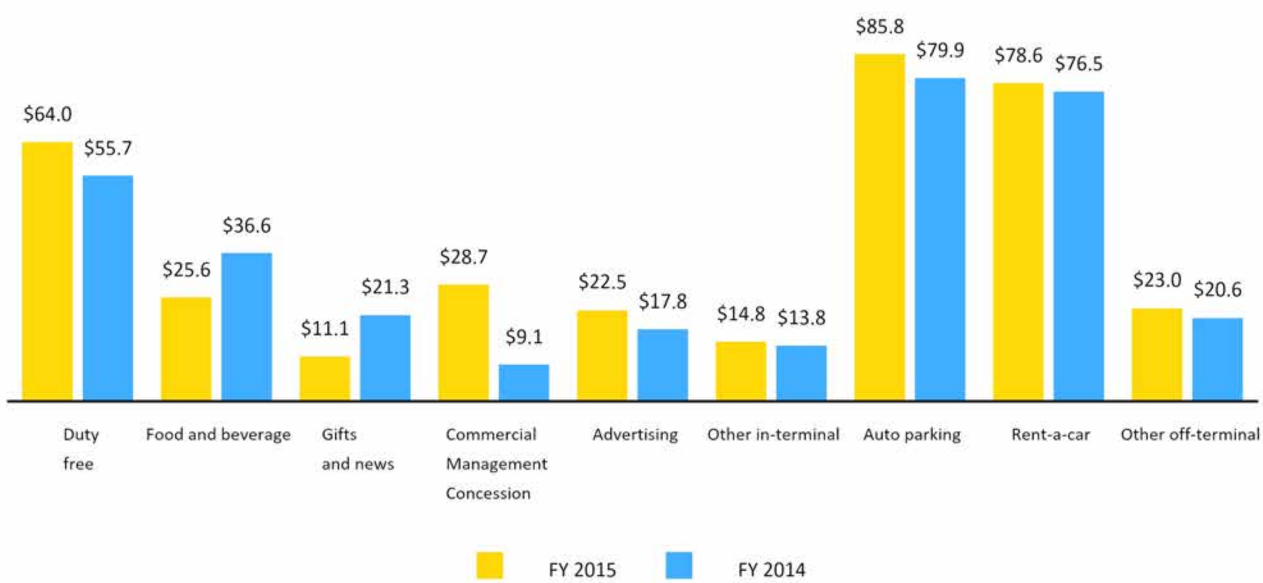
Landing fees for the fiscal year ended June 30, 2015 were up from $222.6 million to $227.5 million, or 2.2%. Total building rental revenue posted a growth of $49.5 million, or 15.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, increased cost recovery 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 $3.9 million mainly due to the increase in leased areas.

Total revenue from concessions was $354.1 million in fiscal year 2015, an 6.9% growth from $331.3 million in fiscal year 2014. In-terminal concession revenue are rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services and other commercial ground transportation operations.

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

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

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



Operating Expenses

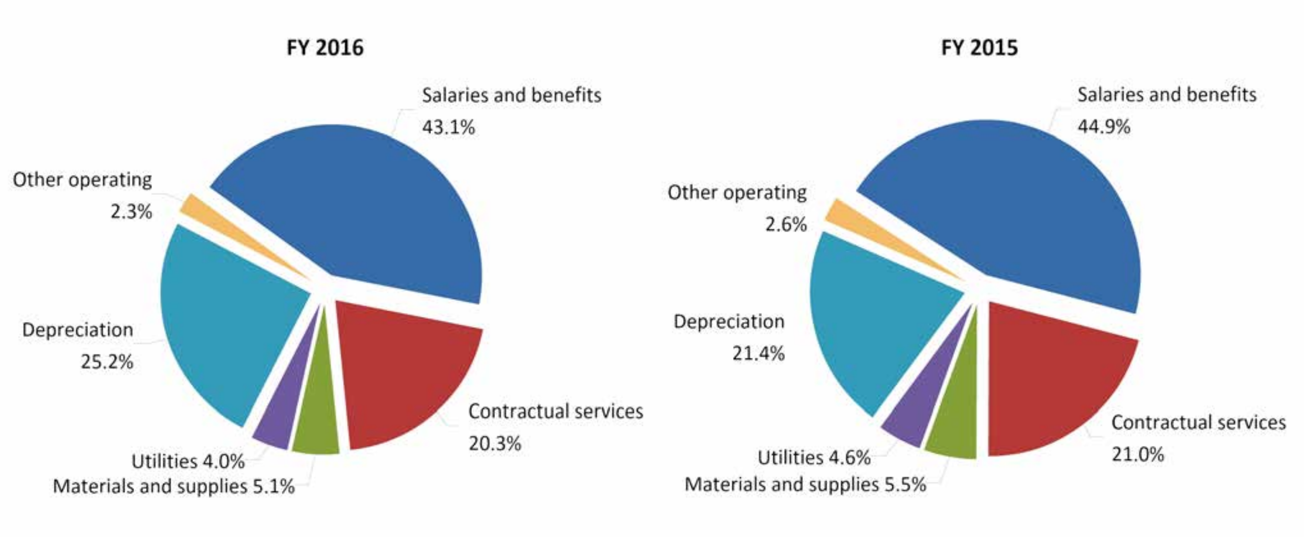
The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2016, 2015, and 2014. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

Summary of Operating Expenses
(amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Salaries and benefits	$ 387,595	$ 374,018	$ 356,726	$ 13,577	$ 17,292
Contractual services	182,659	174,745	161,771	7,914	12,974
Materials and supplies	46,062	46,102	45,726	(40)	376
Utilities	36,181	38,355	39,089	(2,174)	(734)
Other operating expenses	20,738	21,205	16,093	(467)	5,112
Operating expenses before depreciation	673,235	654,425	619,405	18,810	35,020
Depreciation	226,439	178,035	141,795	48,404	36,240
Total operating expenses	899,674	832,460	761,200	67,214	71,260
Less- allocation to ONT, VNY and PMD	9,356	9,027	9,378	329	(351)
Net operating expenses	$ 890,318	$ 823,433	$ 751,822	$ 66,885	$ 71,611

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 Central Utility Plant (CUP) facilities at LAX. During fiscal year 2016, $1.8 billion was reclassified from construction work in progress to depreciable capital asset categories.

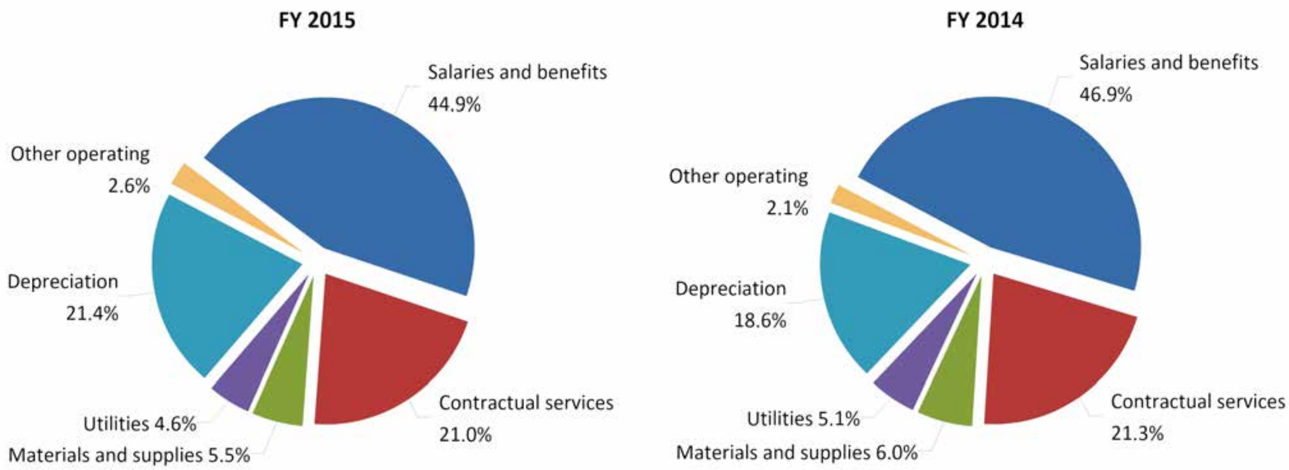
The decrease in utilities from $38.4 million to $36.2 million in fiscal year 2016 was due to the decrease in electricity of $0.8 million, or 2.9%, and decrease in water charges of $1.9 million, or 30.9%, offset by the increase of $0.5 million, or 12.5% in gas and telephone . The decrease in fiscal year 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 remains 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.

Operating Expenses, Fiscal Year 2015

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2015 and 2014. 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, 2015, operating expenses before allocation to other airports were $832.5 million, a $71.3 million or 9.4% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $17.3 million, contractual services, up by $13.0 million, and depreciation, up by $36.2 million, offset by the decrease in utilities of $0.7 million.

Salaries and overtime before capitalized charges had an increase of $12.7 million or 4.7% due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $1.9 million, or 1.9%. The increase in provision for workers' compensation liability was mainly due to the increase in number of cases as well as the increase in some high value cases during fiscal year 2015. The increase in contractual services was mainly due to the surge in legal services expenses of $6.7 million for lawsuit relating to local control of the LA/ONT International Airport. The increase in depreciation charges from $141.8 million in fiscal year 2014 to $178.0 million was due to the completion of major projects including the Bradley West North and South Gates, and the core area improvements at LAX. During fiscal year 2015, $168.9 million was reclassified from construction work in progress to depreciable capital asset categories. The decrease in utilities from $39.1 million to $38.4 million in fiscal year 2015 was due to the decrease in electricity of $1.3 million, or 4.4%, decrease in gas and telephone of $0.8 million, or 17.4%, offset by the increase of $1.3 million, or 26.6% of water charges. The decrease was a result of the replacement of the CUP with an energy efficient facility which saves electrical and natural gas usage in fiscal year 2015.

Materials and supplies, and other operating expenses increased by $0.4 million, or 0.8% and $5.1 million, or 31.8%, respectively. The increase in other operating expenses was mainly caused by a reduction in the reversal of bad debts allowance from $4.4 million in fiscal year 2014 to $0.3 million in fiscal year 2015. In accordance to LAX's policy, the allowance for bad debt is calculated based on 2% of outstanding month-end receivables plus 80% of all bankruptcy accounts and aged accounts over 120 days that are referred to the City Attorney.

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

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 2016, 2015, and 2014.

Summary of Nonoperating Transactions
(amounts in thousands)

	FY 2016	FY 2015	FY 2014	FY 2016 increase (decrease)	FY 2015 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 150,409	$ 137,855	$ 132,809	$ 12,554	$ 5,046
Customer facility charges	31,996	29,347	28,675	2,649	672
Interest income	19,638	20,327	20,413	(689)	(86)
Net change in fair value of investments	13,776	(2,021)	1,799	15,797	(3,820)
Other nonoperating revenue	17,985	8,618	11,122	9,367	(2,504)
	$ 233,804	$ 194,126	$ 194,818	$ 39,678	$ (692)
Nonoperating expenses					
Interest expense	$ 182,386	$ 166,919	$ 133,694	$ 15,467	$ 33,225
Other nonoperating expenses	6,790	9,559	1,928	(2,769)	7,631
	$ 189,176	$ 176,478	$ 135,622	$ 12,698	$ 40,856
Federal capital grants	$ 49,255	$ 30,964	$ 24,674	$ 18,291	$ 6,290
Inter-agency transfers	$ 5,116	$ 5,303	$ 6,329	$ (187)	$ (1,026)

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.

Nonoperating Transactions, Fiscal Year 2015

As a result of the increase in passenger traffic in fiscal year 2015, PFCs increased by $5.0 million, or 3.8%. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, posted an increase of $0.7 million, or 2.3% in fiscal year 2015.

Interest income decreased slightly by due to slightly lower average balance of cash and pooled investments held in City Treasury. The net change in fair value of investments reflects the decrease driven by the downward year-end net adjustment to the fair value of investment securities. A component of other nonoperating revenue related to reimbursements for certain Transportation Security Administration (TSA) programs was $2.1 million less in fiscal year 2015. Interest expenses increased with additional issuances of revenue bonds in the amount of $497.3 million in fiscal year 2015 to finance capital improvement projects. The increase in other nonoperating expenses was mainly due to correction of prior years' expenses of $6.9 million, together with $0.8 million bond issuance expenses.

Long-Term Debt

As of June 30, 2016, 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.

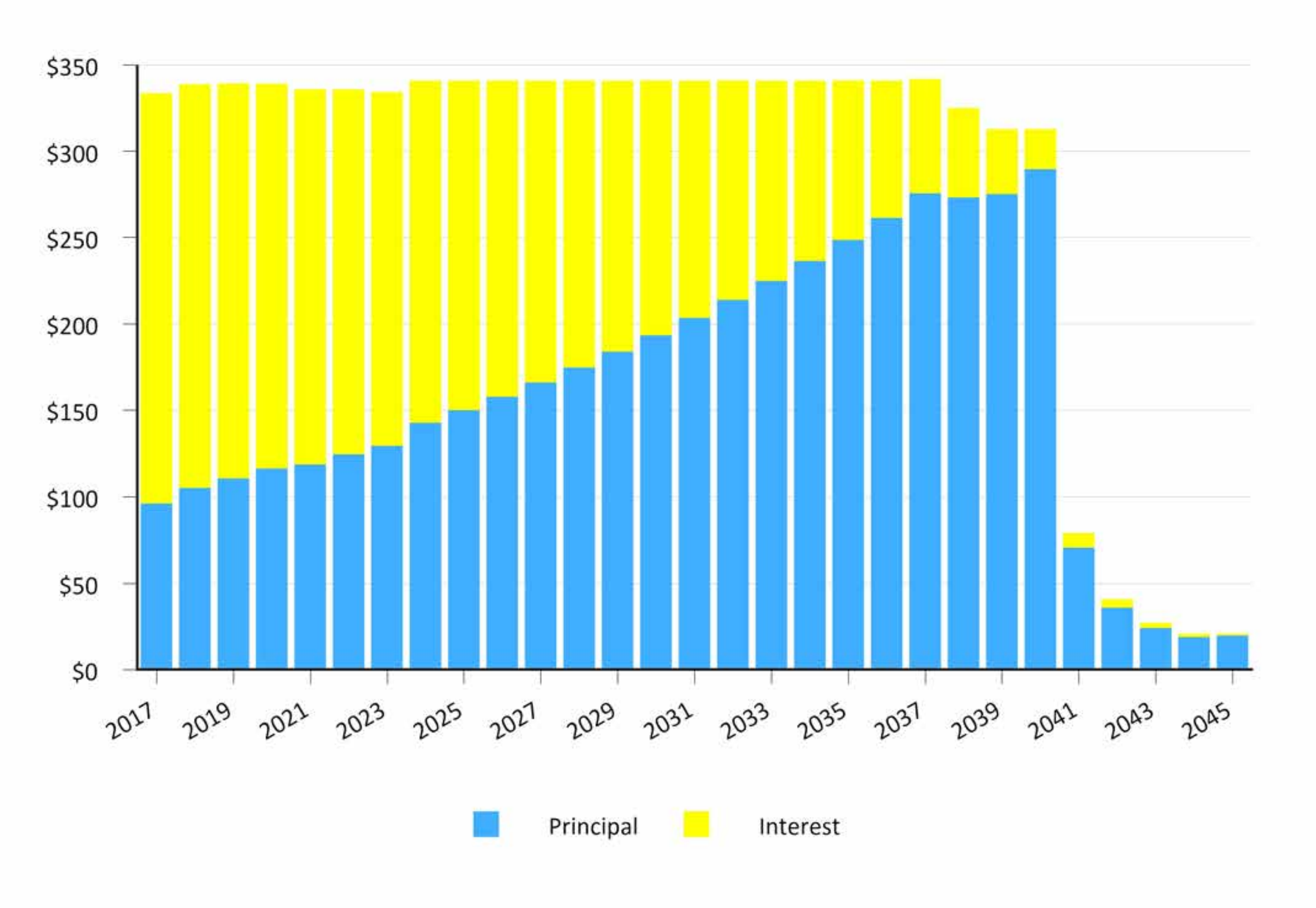
As of June 30, 2015, LAX's outstanding long-term debt before unamortized premium and discount was $4.1 billion. Issuances during the year amounted to $497.3 million, redemption and advanced refunding totaled $190.6 million, and payments for scheduled maturities were $72.4 million. Together with the unamortized premium and discount, bonded debt of LAX increased by $316.5 million to $4.3 billion.

As of June 30, 2016 and 2015, LAX had $418.8 million and $368.1 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

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

Additional information regarding LAX's bonded debt can be found in Note 6 of the notes to the financial statements beginning on page 60.

Outstanding principal, plus scheduled interest as of June 30, 2016, 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, 2016 and 2015 were $7.8 billion and $7.0 billion, respectively. This investment, which accounts for 74.5% and 74.6% of LAX's total assets as of June 30, 2016 and 2015, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAX's policy affecting capital assets can be found in Note 1(f) of the notes to the financial statements on page 43. Additional information can be found in Note 4 on pages 57-58.

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 Midfield Satellite Concourse
- $72.6 million construction of runways and taxiways
- $56.6 million Central Terminal Area (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 LAX's landside program
- $7.0 million construction of consolidated rental car facility

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 2023. Among the projects underway are terminal improvements and upgrades, roadway improvements, runway and taxiway rehabilitation and improvement, utilities and infrastructure components, and an automated people mover system, a consolidated rental car facility and intermodal transportation facilities.

Capital Assets, Fiscal Year 2015

Major capital expenditure activities during fiscal year 2015 included:

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

At June 30, 2015, the amounts committed for capital expenditures included $5.0 million for airfield and runways, $7.1 million for noise mitigation program, $75.4 million for terminals and facilities, and $30.9 million for various other projects.

Landing Fees, Fiscal Year 2017

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

Permitted air carriers	Non-permitted air carriers	
$59.00	$74.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
113.00	141.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.54	4.43	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.50	5.63	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

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.

Financial Section

Financial Statements

2016 Annual Financial Report

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, 2016 and 2015

(amounts in thousands)

	2016	2015
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 775,059	$ 572,908
Investments with fiscal agents	16,465	100,913
Accounts receivable, net of allowance for uncollectible accounts: 2016 - $1,043; 2015 - $756	10,842	189
Unbilled receivables	38,213	28,868
Accrued interest receivable	2,962	2,639
Grants receivable	24,709	13,899
Receivable from City General Fund	2,766	2,684
Due from other agencies	48,588	49,594
Prepaid expenses	4,164	4,266
Inventories	1,383	1,552
Total unrestricted current assets	925,151	777,512
Restricted current assets		
Cash and pooled investments held in City Treasury	886,107	913,788
Investments with fiscal agents, includes cash and cash equivalents: 2016 - $827,836; 2015 - $653,729	833,981	653,729
Accrued interest receivable	1,330	1,463
Passenger facility charges receivable	17,632	19,038
Customer facility charges receivable	2,846	2,584
Total restricted current assets	1,741,896	1,590,602
Total current assets	2,667,047	2,368,114
Noncurrent Assets		
Capital assets		
Not depreciated	2,623,721	3,340,623
Depreciated, net	5,169,281	3,650,877
Total capital assets	7,793,002	6,991,500
Other noncurrent assets		
Receivable from City General Fund, net of current portion	5,785	8,550
Total other noncurrent assets	5,785	8,550
Total noncurrent assets	7,798,787	7,000,050
TOTAL ASSETS	10,465,834	9,368,164
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	24,179	25,307
Changes of assumptions related to pension	65,097	82,071
Contribution after measurement date related to pension	55,972	49,043
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,273	—
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 151,521	$ 156,421

Statements of Net Position (continued)

June 30, 2016 and 2015

(amounts in thousands)

		2016		2015
LIABILITIES				
Current Liabilities				
Current liabilities payable from unrestricted assets				
Contracts and accounts payable	$	228,389	$	208,250
Accrued salaries		15,133		12,766
Accrued employee benefits		5,357		4,598
Estimated claims payable		7,899		8,332
Commercial paper		50,310		50,123
Obligations under securities lending transactions		13,728		3,881
Other current liabilities		18,634		16,072
Total current liabilities payable from unrestricted assets		339,450		304,022
Current liabilities payable from restricted assets				
Contracts and accounts payable		4,255		1,893
Current maturities of bonded debt		96,200		81,700
Accrued interest payable		29,161		26,434
Obligations under securities lending transactions		17,518		6,177
Other current liabilities		19,475		10,525
Total current liabilities payable from restricted assets		166,609		126,729
Total current liabilities		506,059		430,751
Noncurrent Liabilities				
Bonded debt, net of current portion		4,822,900		4,217,562
Accrued employee benefits, net of current portion		37,158		37,208
Estimated claims payable, net of current portion		66,477		67,227
Liability for environmental/hazardous materials cleanup		12,783		12,783
Net pension liability		642,431		566,613
Other long-term liabilities		886		886
Total noncurrent liabilities		5,582,635		4,902,279
TOTAL LIABILITIES		6,088,694		5,333,030
DEFERRED INFLOWS OF RESOURCES				
Differences between expected and actual experience related to pension		27,695		16,914
Differences between projected and actual investment earnings related to pension		18,375		103,501
Changes in proportion and differences between employer contributions and proportionate share of contributions		13,881		17,723
TOTAL DEFERRED INFLOWS OF RESOURCES		59,951		138,138
NET POSITION				
Net investment in capital assets		3,262,634		2,952,716
Restricted for:				
Debt service		389,217		341,697
Passenger facility charges eligible projects		435,285		528,511
Customer facility charges eligible projects		250,795		214,231
Operations and maintenance reserve		179,836		174,228
Federally forfeited property and protested funds		1,137		1,289
Unrestricted		(50,194)		(159,255)
TOTAL NET POSITION	$	4,468,710	$	4,053,417

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, 2016 and 2015

(amounts in thousands)

	2016	2015
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 240,853	$ 227,518
Reliever airport fee	(2,362)	—
Building rentals	462,667	365,296
Land rentals	96,167	90,478
Other aviation revenue	6,599	4,564
Total aviation revenue	803,924	687,856
Concession revenue	398,692	354,082
Other operating revenue	3,996	3,862
Total operating revenue	1,206,612	1,045,800
OPERATING EXPENSES		
Salaries and benefits	387,595	374,018
Contractual services	182,659	174,745
Materials and supplies	46,062	46,102
Utilities	36,181	38,355
Other operating expenses	20,738	21,205
Allocated administrative charges	(9,356)	(9,027)
Total operating expenses before depreciation and amortization	663,879	645,398
Operating income before depreciation and amortization	542,733	400,402
Depreciation and amortization	226,439	178,035
OPERATING INCOME	316,294	222,367
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	150,409	137,855
Customer facility charges	31,996	29,347
Interest income	19,638	20,327
Net change in fair value of investments	13,776	(2,021)
Interest expense	(182,386)	(166,919)
Other nonoperating revenue	17,985	8,618
Other nonoperating expenses	(6,790)	(9,559)
Total nonoperating revenue, net	44,628	17,648
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	360,922	240,015
Federal and other government grants	49,255	30,964
Inter-agency transfers	5,116	5,303
CHANGE IN NET POSITION	415,293	276,282
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	4,053,417	4,345,029
Change in accounting principle	—	(567,894)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	4,053,417	3,777,135
NET POSITION, END OF YEAR	$ 4,468,710	$ 4,053,417

See accompanying notes to the financial statements.

Los Angeles International Airport

Statements of Cash Flows

For the Fiscal Years Ended June 30, 2016 and 2015

(amounts in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,190,138	$ 1,073,907
Payments to suppliers	(215,447)	(188,643)
Payments for employee salaries and benefits	(385,235)	(374,789)
Payments for City services	(91,234)	(86,672)
Inter-agency receipts for services, net	9,356	9,027
Net cash provided by operating activities	507,578	432,830
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	9,990	10,803
Inter-agency transfers in	6,122	21,754
Net cash provided by noncapital financing activities	16,112	32,557
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	711,782	566,347
Principal paid on revenue bonds and commercial paper notes	(81,700)	(274,492)
Interest paid on revenue bonds and commercial paper notes	(219,340)	(203,274)
Revenue bonds issuance costs	(1,561)	(781)
Acquisition and construction of capital assets	(956,593)	(803,020)
Proceeds from passenger facility charges	151,815	139,777
Proceeds from customer facility charges	31,734	29,749
Capital contributed by federal agencies	38,445	31,798
Net cash used for capital and related financing activities	(325,418)	(513,896)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	20,162	20,249
Net change in fair value of investments	13,776	(2,021)
Cash collateral received under securities lending transactions	21,188	7,641
Sales of investments	16,876	2,959
Purchases of investments held by fiscal agents	(6,145)	—
Net cash provided by investing activities	65,857	28,828
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	264,129	(19,681)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,241,338	2,261,019
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,505,467	$ 2,241,338

	2016	2015
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 775,059	$ 572,908
Investments with fiscal agents- unrestricted	16,465	100,913
Cash and pooled investments held in City Treasury- restricted	886,107	913,788
Investments with fiscal agents- restricted	827,836	653,729
Total cash and cash equivalents	$ 2,505,467	$ 2,241,338
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 316,294	$ 222,367
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	226,439	178,035
Change in provision for uncollectible accounts	287	(722)
Other nonoperating revenues (expenses), net	6,076	(6,219)
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	(10,940)	19,770
Unbilled receivables	(9,345)	(1,959)
Prepaid expenses and inventories	262	830
Contracts and accounts payable	(19,023)	8,296
Accrued salaries	2,367	1,328
Accrued employee benefits	709	1,220
Other liabilities	(6,951)	4,141
Net pension liability and related changes in deferred outflows and inflows of resources	1,403	5,743
Total adjustments	191,284	210,463
Net cash provided by operating activities	$ 507,578	$ 432,830
SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 125,284	$ 80,815
Revenue bonds proceeds received in escrow trust fund	—	216,174
Debt defeased and related costs paid through escrow trust fund with revenue bonds	—	(216,174)

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

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), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA owns property consisting of approximately 17,750 acres of land in the City of Palmdale and retains the rights for future development of the Palmdale property.

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

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

b. Basis of Accounting

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

c. Cash, Cash Equivalents, and Investments

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

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

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

d. Accounts Receivable and Unbilled Receivables

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

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

e. Inventories

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

f. Capital Assets

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

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

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds). Net interest capitalized in fiscal years 2016 and 2015 were $28.2 million and $33.8 million, respectively.

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

g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by 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 formulae. Tier One Revenue Sharing had the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing was distributed to signatory airlines in the form of a credit at the end of each calendar year beginning in 2014, subject to certain conditions.

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

k. Concession Revenue

Concession revenues are generated through LAX terminal cconcessionaires, 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, 2016 and 2015 are as follows (amounts in thousands):

Type of benefit	2016	2015
Accrued vacation leave	$ 21,545	$ 21,259
Accrued sick leave	20,970	20,547
Total	$ 42,515	$ 41,806

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 refunding of $24.2 million and $25.3 million for fiscal years 2016 and 2015, respectively, as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

As a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 6*8, LAX reported the following deferred outflows and inflows of resources:

Deferred outflows of resources at June 30:

- Changes of assumptions related to pension of $65.1 million and $82.1 million for fiscal years 2016 and 2015, respectively.
- Contribution after measurement date related to pension of $56.0 million and $49.0 million for fiscal years 2016 and 2015, respectively.
- Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of $6.3 million for fiscal year 2016 and none for fiscal year 2015.

Deferred inflows of resources at June 30:

- Differences between projected and actual investment earnings related to pension of $18.4 million and $103.5 million for fiscal years 2016 and 2015, respectively.
- Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of $13.9 million and $17.7 million for fiscal years 2016 and 2015, respectively.
- Differences between expected and actual experience related to pension of $27.7 million and $16.9 million for fiscal years 2016 and 2015, respectively.

o. Federal Grants

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

p. Bond Premiums and Discounts

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

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

q. Net Position

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

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

- *Restricted Net Position* - This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2016 and 2015, net positions of $686.1 million and $742.7 million, respectively, are restricted by enabling legislation.

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

r. Use of Restricted/Unrestricted Net Position

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

s. Use of Estimates

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

t. Restatement of Net Position

The net position at July 1, 2014 was restated by $567.9 million to adjust for the change in accounting principle as a result of the implementation of GASB Statements No. 68 and 71:

	2015
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	$ 4,345,029
Change in accounting principle as a result of implementation of GASB Statement No. 68	(567,894)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	$ 3,777,135

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

u. Reclassifications

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

2. New Accounting Standards

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

Issued in February 2015, GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Additional information can be found in Note 3(c) of the notes to financial statements beginning on page 54.

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

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

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

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

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

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

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

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

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

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

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

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 the Pool of $1.7 billion and $1.5 billion as of June 30, 2016 and 2015 respectively, represented approximately 19.8% and 17.8%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated shares for fiscal years 2016 and 2015 were $34.0 million and $17.1 million, respectively, and were reported as other current liabilities in the statement of net position. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

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

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

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

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. 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. At June 30, 2015, LAX's portion of the cash collateral and the related obligation in the City's program was $10.1 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2015 was $10.1 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, 2015 was $126.8 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, 2016 and 2015 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

c. Investments with Fiscal Agents

The investment practices of the fiscal agents that relate to 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):

	2016	2015
Unrestricted, current		
Commercial paper and cash at bank	$ 16,465	$ 100,913
Restricted, current and noncurrent		
Bond security funds	418,783	368,130
Construction funds	415,198	285,599
Subtotal	833,981	653,729
Total	$ 850,446	$ 754,642

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

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

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

		Investment maturities	
	Amount	1 to 60 days	61 to 365 days
Money market mutual funds	$ 226,765	$ 226,765	$ —
State of California LAIF	423,614	—	423,614
Subtotal	650,379	$ 226,765	$ 423,614
Bank deposit accounts	104,263		
Total	$ 754,642		

Fair Value Measurements

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

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

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

	Amount	Fair Value Measurements Using Level 1
Money Market Funds	$ 318,439	$ 318,439
U.S. Government 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 investments	$ 850,446	

At June 30, 2015, 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	$ 226,765	$ 226,765
Investments not subject to fair value hierarchy		
State of California LAIF	423,614	
Bank deposit accounts	104,263	
Total investments	$ 754,642	

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, 2016 and 2015, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's.

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. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2016, the investments in the PMIA totaled $75.5 billion, of which 97.2% is invested in non-derivative financial products and 2.8% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 167 days as of June 30, 2016. LAIF is not rated.

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

The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The Pooled Money Investment Board whose members are the State Treasurer, Director of Finance, and State Controller, has oversight responsibility for PMIA. The value of the pool shares in LAIF, which may be withdrawn anytime, is determined on a historical basis, which is different than the fair value of 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 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
Less 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 capital assets	$ 6,991,500	$ 804,594	$ (1,107)	$ (1,985)	$ 7,793,002

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

	Balance at July 1, 2014	Additions	Retirement & disposals	Transfers	Balance at June 30, 2015
Capital assets not depreciated					
Land and land clearance	$ 840,530	$ —	$ —	$ —	$ 840,530
Air easements	44,346	—	—	—	44,346
Emission reduction credits	5,918	—	—	—	5,918
Construction work in progress	1,912,240	706,474	—	(168,885)	2,449,829
Total capital assets not depreciated	2,803,034	706,474	—	(168,885)	3,340,623
Capital assets depreciated					
Buildings	2,112,285	—	(12,413)	155,084	2,254,956
Improvements	3,028,121	5,335	—	10,499	3,043,955
Equipment and vehicles	206,939	7,511	(2,234)	3,302	215,518
Total capital assets depreciated	5,347,345	12,846	(14,647)	168,885	5,514,429
Less accumulated depreciation					
Buildings	(380,974)	(14,396)	9,625	—	(385,745)
Improvements	(1,164,248)	(149,836)	—	—	(1,314,084)
Equipment and vehicles	(151,905)	(13,803)	1,985	—	(163,723)
Total accumulated depreciation	(1,697,127)	(178,035)	11,610	—	(1,863,552)
Capital assets depreciated, net	3,650,218	(165,189)	(3,037)	168,885	3,650,877
Total capital assets	$ 6,453,252	$ 541,285	$ (3,037)	$ —	$ 6,991,500

5. Commercial Paper

As of June 30, 2016 and 2015, LAX had outstanding commercial paper (CP) notes of $50.3 million and $50.1 million, respectively. The respective average interest rates in effect as of June 30, 2016 and 2015 were 0.55% and 0.20%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

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 annual commitment fee ranging from 0.27% and 0.35% on the stated amount of the LOC. LOC fees of $1.5 million and $1.8 million were paid for fiscal years 2016 and 2015, respectively.

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

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

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

6. Bonded Debt

Bonds issued by 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, 2016 and 2015 are as follows (amounts in thousands):

Bond issues	Issue Date	Interest rate	Fiscal year of last scheduled	Original principal	Outstanding principal 2016	Outstanding principal 2015
Issue of 2008, Series A	8/6/08	3.750% - 5.500%	2038	$ 602,075	$ 506,300	$ 518,115
Issue of 2008, Series C	8/6/08	3.000% - 5.250%	2038	243,350	16,925	22,100
Issue of 2009, Series A	12/3/09	2.000% - 5.250%	2039	310,410	277,570	284,770
Issue of 2009, Series C	12/3/09	5.175% - 6.582%	2039	307,350	299,045	307,350
Issue of 2009, Series E	12/3/09	2.000% - 5.000%	2020	39,750	17,015	20,805
Issue of 2010, Series A	4/8/10	3.000% - 5.000%	2040	930,155	888,025	905,090
Issue of 2010, Series B	11/4/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/4/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	846,125	854,555
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	87,235	94,380
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	136,385	139,180
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	21,755	27,460
Issue of 2013, Series A	11/19/13	5.000%	2043	170,685	170,685	170,685
Issue of 2013, Series B	11/19/13	4.625% - 5.000%	2038	71,175	69,455	71,175
Issue of 2015, Series A	2/24/15	3.230% - 5.000%	2045	267,525	265,780	267,525
Issue of 2015, Series B	2/24/15	2.920% - 5.000%	2045	47,925	47,925	47,925
Issue of 2015, Series C	2/24/15	3.000% - 5.000%	2035	181,805	180,995	181,805
Issue of 2015, Series D	11/24/15	5.000%	2041	296,475	296,475	—
Issue of 2015, Series E	11/24/15	2.000% - 5.000%	2041	27,850	27,850	—
Issue of 2016, Series A	6/1/16	3.000% - 5.000%	2042	289,210	289,210	—
Total principal amount				$ 5,134,695	4,638,795	4,106,960
Unamortized premium					285,980	198,252
Unamortized discount					(5,675)	(5,950)
Net revenue bonds					4,919,100	4,299,262
Less - current portion of debt					(96,200)	(81,700)
Net noncurrent debt					$ 4,822,900	$ 4,217,562

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 $124.0 million and $91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.

The total principal and interest remaining to be paid on the bonds is $8.3 billion. Principal and interest paid during fiscal year 2016 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the $124.0 million PFCs funds discussed in the preceding paragraph), were $300.8 million and $698.1 million, respectively. Principal and interest paid during fiscal year 2015 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the $91.0 million PFCs funds discussed in the preceding paragraph), were $275.5 million and $512.0 million, respectively. Based on provisions of the bond indenture in calculating debt service coverage, PFCs reimbursements are excluded from senior lien bonds debt service, and interest expenses from commercial papers are included in the subordinate lien bonds debt service.

c. Bond Issuances

On November 24, 2015, 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.

On February 24, 2015, LAX issued senior lien LAX revenue bonds Series 2015A of $267.5 million, Series 2015B of $47.9 million, and LAX subordinate revenue bonds Series 2015C of $181.8 million. The premium for these issuances totaled $86.9 million. The bonds were issued to pay for certain capital projects at LAX and to advance refund and defease a portion of the Series 2008C subordinate revenue bonds in the amount of $190.6 million. These transactions resulted in a cash flow savings of $25.7 million and economic gain of $16.9 million.

d. Principal Maturities and Interest

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

Fiscal year(s) ending	Principal	Interest	Total
2017	$ 96,200	$ 237,429	$ 333,629
2018	105,145	233,650	338,795
2019	110,740	228,570	339,310
2020	116,005	223,133	339,138
2021	118,405	217,425	335,830
2022 - 2026	703,805	988,953	1,692,758
2027 - 2031	921,065	783,319	1,704,384
2032 - 2036	1,184,825	519,563	1,704,388
2037 - 2041	1,184,245	187,219	1,371,464
2042 - 2045	98,360	10,953	109,313
Total	$ 4,638,795	$ 3,630,214	$ 8,269,009

e. Build America Bonds

LAX Subordinate Revenue Bonds 2009 Series C and 2010 Series C with par amounts of $307.4 million and $59.4 million, respectively, were issued as federally taxable Build America Bonds (BABs) under the American Recovery and Reinvestment Act of 2009. LAX receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as “sequestration”) for the federal fiscal years ending September 30, 2016 and September 30, 2015 reduced the subsidy. The interest subsidy on the BABs was $7.8 million in fiscal year 2016 and $7.7 million in fiscal year 2015. The subsidy is recorded as a non-capital grant, a component of other nonoperating revenue.

7. Changes in Long-Term Liabilities

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 long-term liabilities	$ 4,996,909	$ 801,667	$ (106,485)	$ 5,692,091	$ 109,456

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

	Balance at July 1, 2014	Additions	Reduction	Balance at June 30, 2015	Current Portion
Revenue bonds	$ 3,872,650	$ 497,255	$ (262,945)	$ 4,106,960	$ 81,700
Add unamortized premium	117,890	91,717	(11,355)	198,252	—
Less unamortized discount	(7,729)	—	1,779	(5,950)	—
Net revenue bonds	3,982,811	588,972	(272,521)	4,299,262	81,700
Accrued employee benefits	40,586	5,684	(4,464)	41,806	4,598
Estimated claims payable	68,871	14,158	(7,470)	75,559	8,332
Liability for environmental/ hazardous materials cleanup	12,783	—	—	12,783	—
Net pension obligation	9,062	—	(9,062)	—	—
Net pension liability	—	566,613	—	566,613	—
Other long-term liabilities	886	—	—	886	—
Total long-term liabilities	$ 4,114,999	$ 1,175,427	$ (293,517)	$ 4,996,909	$ 94,630

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, 2016 and 2015, revenues from such agreements were approximately $291.3 million and $257.2 million, respectively. The respective amounts over MAG were $76.6 million and $56.1 million.

Minimum future rents or payments under these agreements over the next five years, assuming no material changes from concessionaires' current levels of gross sales, and that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2017	$ 190,052
2018	156,852
2019	112,484
2020	38,365
2021	24,333
Total	$ 522,086

On March 1, 2012, LAWA and Westfield Concession Management, LLC (Westfield) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT) and Terminal 2 at LAX for a term of 17 years consisting of two-year development period and fifteen-year operational period. Since then, the Terminal 2 portion has been amended with an expiration date the same as the TBIT portion, which is no later than January 31, 2032. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $81.9 million in initial improvements and $16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 3-1-12 Agreement, the MAG will be adjusted each year by the greater of (a) $210 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA beginning January 1, 2014. For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and Westfield entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Under this agreement, the expiration dates of Terminal 1, 3 and 6 are June 30, 2032, June 30, 2029 and September 30, 2030, respectively. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $78.6 million in initial improvements and $15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 6-22-12 Agreement, the MAG will be adjusted each year by the greater of (a) $240 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis beginning January 1, 2014. .

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

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

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, 2016 and 2015, revenues from these leases were $558.8 million and $455.8 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 future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2017	$ 506,182
2018	488,335
2019	466,595
2020	447,865
2021	431,589
Total	$ 2,340,566

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

	2016	2015
Buildings and facilities	$ 4,022,026	$ 3,270,702
Less- Accumulated depreciation	(697,070)	(510,978)
Net	3,324,956	2,759,724
Land	556,951	555,997
Total	$ 3,881,907	$ 3,315,721

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2016 and 2015 were $7.6 million and $6.3 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending		Amount
2017	$	6,838
2018		6,832
2019		6,832
2020		5,453
2021		3,522
2022-2026		17,612
2027-2031		10,155
2032		1,820
Total	$	59,064

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 $3.1 billion at LAX as of June 30, 2016. 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 $124.0 million and $91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.

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

Terminal development	$ 2,148,395
Noise mitigation	863,745
Airfield development and equipment	83,620
Total	$ 3,095,760

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

	2016	2015
Amount collected	$ 2,118,505	$ 1,968,096
Interest earnings	203,570	197,226
Total	$ 2,322,075	$ 2,165,322

As of June 30, 2016 and 2015, cumulative expenditures to date on approved PFCs projects totaled $1.9 billion and $1.6 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, 2016 and 2015 were as follows (amounts in thousands):

	2016	2015
Amount collected	$ 234,124	$ 202,128
Interest earnings	14,404	11,789
Total	$ 248,528	$ 213,917

As of June 30, 2016 and 2015, cumulative expenditures to date on approved CFCs projects totaled $3.0 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $49.3 million and $31.0 million in fiscal years 2016 and 2015, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.

12. Related Party Transactions

The City provides services to 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, 2016 and 2015 were $94.1 million and $89.7 million.

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

LAX shares certain administrative functions with ONT, VNY, and PMD including, but not limited to, legal, human services, and financial services. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent for fiscal years 2016 and 2015 was $1.11 million and $1.10 million, respectively. The details are as follows (amounts in thousands):

	FY 2016	FY 2015
Allocated administrative costs		
ONT	$ 6,866	$ 6,932
VNY	2,120	1,747
PMD	370	348
Total	9,356	9,027
Land rental	(1,112)	(1,103)
Net	$ 8,244	$ 7,924

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, 2016 and 2015, the respective outstanding principal amount of $5.8 million and $8.5 million payable beyond one year were reported under other noncurrent assets while the balance of $2.8 million and $2.7 million payable within one year were reported under unrestricted current assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328. As a City department, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the completion date of LAX's financial statements, LACERS financial statements and the plan's actuarial valuation study for fiscal year 2016 are not yet available.

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

i) Pension Plan

Benefits

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

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

the member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

Tier 1 members

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

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

Tier 3 members

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

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

Tier 3 members are also eligible for early retirement to retire with any age prior to age 60 with 30 or more years of city service (5 years must be continuous service), with retirement benefits determined as 2.0% of the member’s 36-month final average compensation per year of service credit, adjusted for an early retirement adjustment factor. If the member is age 55 or older at the date of retirement, the retirement allowance shall not be subject to reduction on account of age. If the member is younger than age 55 at the date of retirement, a reduction factor will be applied based on age. For Tier 3 members, the maximum monthly retirement allowance is 80% of the final average monthly compensation.

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

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

Membership

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

Member contributions

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

Employer contributions

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

[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 $652.0 million and $588.9 million for the years ended June 30, 2016 and June 30, 2015, respectively, consisted of the following (amounts in thousands):

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

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

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

LAX's Contributions to the Pension Plan

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

	2016	2015
LAX's required contributions to the Pension Plan	$ 55,972	$ 49,043

The LAX contributions made for the Pension Plan under the required contribution category in the amounts of $56.0 million and $49.0 million for fiscal years 2016 and 2015, respectively, were equal to 100% of the actuarially determined contribution of the employer.

ii) Other Postemployment Benefit Healthcare Plan (OPEB)

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

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

Funding Policy for OPEB

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

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

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

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

Funded Status and Funding Progress

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

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

LAX's Contributions to OPEB

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

	2016	2015
LAX's required contributions to OPEB	$ 13,875	$ 13,043

LAX's contributions made for OPEB, in the amounts of $13.9 million and $13.0 million for fiscal years 2016 and 2015, respectively, represent 100% of the Annual Required Contribution (ARC) as defined by GASB Statements No. 43[7] and No. 45[8].

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

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

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

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

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

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
LAX's proportionate share:		
Total Pension Liability	$ 2,177,306	$ 2,065,347
Plan Fiduciary Net Position	(1,534,875)	(1,498,734)
Net Pension Liability	$ 642,431	$ 566,613
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	70.49%	72.57%

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

Change in 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%

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

	NPL	Proportion (%)
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	$ 566,613	12.71 %
Proportion - Reporting date June 30, 2014 (measurement date June 30, 2013)	$ 622,416	13.17 %
Change - Decrease	$ (55,803)	(0.46)%

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

Fiscal year ending	Amount
2017	$ (2,562)
2018	(2,562)
2019	(2,562)
2020	19,872
2021	(767)

For the year ended June 30, 2015, LAX recognized pension expense of $45.7 million. At June 30, 2015, 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	$ 49,043	$ —
Differences between expected and actual experience	—	16,914
Changes of assumptions	82,071	—
Net difference between projected and actual earnings on pension plan investments	—	103,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	17,723
Total	$ 131,114	$ 138,138

$49.0 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

Fiscal year ending	Amount
2016	$ (15,608)
2017	(15,608)
2018	(15,608)
2019	(15,608)
2020	6,365

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

The total pension liabilities as of June 30, 2015 and June 30, 2014 determined by actuarial valuations as of June 30, 2015 and June 30, 2014, respectively, using the following actuarial assumptions[9], 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.

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

d. Discount Rate for Fiscal Year 2016

The discount rate used to measure the total pension liability was 7.50% as of June 30, 2015 and June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the 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, 2015 and June 30, 2014.

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

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, 2015 and June 30, 2014, 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, 2015	June 30, 2014
1% decrease	6.50%	6.50%
Net Pension Liability	$932,617	$845,900
Current discount rate	7.50%	7.50%
Net Pension Liability	$642,431	$566,613
1% increase	8.50%	8.50%
Net Pension Liability	$400,940	$334,512

Pension Plan Fiduciary Net Position

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

e. Payable to the Pension Plan for Fiscal Year 2016

The City annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. LAX paid 100% of its annual contributions of $56.0 million and $49.0 million to the Pension Plan for fiscal years ended June 30, 2016 and June 30, 2015, respectively. At June 30, 2016 and June 30, 2015, 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. Risk Management

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

LAWA maintains insurance coverage of $1.3 billion for general aviation liability and $1.0 billion for war and allied perils. Additional insurance coverage is carried for general all risk property insurance for $2.5 billion, that includes $250.0 million for boiler and machinery, and $25.0 million for earthquake. Deductibles for these policies are $10,000 per claim with a $500,000 annual aggregate for general liability, and $100,000 per occurrence and no aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits.

Additionally, 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. For fiscal years 2016, 2015, and 2014, no claims were in excess of LAX's insurance coverage.

A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities with a probability of occurring from these lawsuits. The probability weighted liability for litigation and other claims at June 30, 2016 and 2015 was $11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liabilities at June 30, 2016 and 2015 were $62.7 million and $63.9 million, respectively.

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

	June 30		
	2016	2015	2014
Balance at beginning of year	$ 75,559	$ 68,871	$ 67,665
Provision for current year's events and changes in provision for prior years' events	7,149	14,158	7,470
Claims payments	(8,332)	(7,470)	(6,264)
Balance at end of year	$ 74,376	$ 75,559	$ 68,871
Current portion	$ 7,899	$ 8,332	$ 7,470

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $124.7 million and $127.7 million as of June 30, 2016 and 2015, respectively. Significant amounts were committed for terminals and facilities, airfield and runways, as well as noise mitigation program.

b. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns. Intensified security precautions have been instituted by government agencies, airlines, and airport operators since the September 11, 2001 terrorist attacks. Intelligence reports have indicated that LAX was a target of a terrorist bombing plot and continues to be a potential terrorist target. 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, 2016 and 2015 was $12.8 million. LAX does not expect any recoveries reducing this obligation.

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

16. Other Matter

City Financial Challenges

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

LAWA, as a proprietary department under the City Charter, is vested with the management and control of its assets. The budgetary challenges of the City's General Fund as well as the mitigating measures implemented by the Mayor and City Council do not directly affect 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.

17. Subsequent Event

Revenue Bonds Issuance

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

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Required Supplementary Information

2016 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

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
Proportion of the Net Pension Liability	12.87%	12.71%
Proportionate share of the Net Pension Liability	$ 642,431	$ 566,613
Covered-employee payroll [10]	$ 235,176	$ 229,535
Proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	273.17%	246.85%
Proportionate share of Pension Plan's Fiduciary Net Position	$ 1,534,875	$ 1,498,734
Proportionate share of Pension Plan's Total Pension Liability	$ 2,177,306	$ 2,065,347
Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability	70.49%	72.57%

Notes to schedule:

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

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

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

[10] *Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.*

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

Schedule of Contributions - Pension

	2016	2015
Contractually required contribution (actuarially determined)	$ 55,972	$ 49,043
Contributions in relation to the actuarially determined contributions	55,972	49,043
Contribution deficiency (excess)	$ —	$ —
LAX's covered-employee payroll [11]	$ 235,176	$ 229,535
LAX's Contributions as a percentage of covered-employee payroll	23.80%	21.37%

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

[11] *Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.*

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

Notes to schedule:

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

Methods and assumptions used to determine contribution rates

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

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

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

Notes to schedule (continued):

	Reporting date 6/30/16 Measurement date 6/30/15	Reporting date 6/30/15 Measurement date 6/30/14
Investment rate of return	7.50%	7.75%
Inflation rate	3.25%	3.50%
Real across-the-board salary increase	0.75%	0.75%
Projected salary increases	Ranges from 10.50% to 4.40% based on years of service	Ranges from 11.25% to 6.50% for members with less than 5 years of service. Ranges from 6.50% to 4.65% for members with 5 or more years of service
Cost of living adjustment (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, set back two years for males and with set back one year for females

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

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

Compliance Section

2016 Annual Financial Report

Compliance Section Contents

Century City
Los Angeles
Newport Beach
Oakland
Sacramento
San Diego
San Francisco
Walnut Creek
Woodland Hills

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, 2016.

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, 2016.

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 26, 2016

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, 2016 and 2015

(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, 2014	$ 1,830,242	$ 189,565	$ 2,019,807	$ 1,311,776	$ 708,031
Fiscal year 2014-15 transactions					
Quarter ended September 30, 2014	31,368	2,123	33,491	25,456	8,035
Quarter ended December 31, 2014	29,618	1,954	31,572	25,025	6,547
Quarter ended March 31, 2015	37,759	1,996	39,755	21,181	18,574
Quarter ended June 30, 2015	39,109	1,588	40,697	254,837	(214,140)
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
Unexpended passenger facility charge revenues and interest earned June 30, 2016	$ 2,118,505	$ 203,570	$ 2,322,075	$ 1,892,387	$ 429,688

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

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

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

1. General

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

The current PFC rate is $4.50 per enplaned passenger. The PFCs collection authority approved by FAA is $3.1 billion as of June 30, 2016. The details are as follows (amounts in thousands):

Application number	Charge effective date	Approval of use date	Amount approved for use
96-02-U-00-LAX, closed 6/2/03	3/26/1993	5/6/1996	$ 116,371
96-03-C-00-LAX, closed 10/1/08	5/10/1996	5/10/1996	50,223
97-04-C-02-LAX	11/28/1997	11/28/1997	610,000
97-04-C-02-LAX	10/31/1998	10/31/1998	90,000
05-05-C-00-LAX	12/1/2005	12/1/2005	229,750
05-05-C-01-LAX	12/1/2005	12/1/2005	468,030
07-06-C-00-LAX	1/1/2008	1/1/2008	85,000
10-07-C-00-LAX	6/1/2012	6/1/2012	855,000
11-08-C-00-LAX	3/1/2019	3/1/2019	27,801
13-09-C-00-LAX	6/1/2019	6/1/2019	44,379
14-10-C-00-LAX	10/1/2019	10/1/2019	516,091
15-11-U-00-LAX	3/1/2019	3/1/2019	3,115
Total			$ 3,095,760

Note:

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

b. In April 2008, FAA approved LAWA's amendment request that increased application number 05-05-C-01-LAX to $468.0 million to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of $124.0 million and $91.0 million were used for debt service in fiscal years 2016 and 2015, respectively.

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

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

Approved projects	Amount approved for collection	Expenditures to date June 30 2016	Expenditures to date June 30 2015
ONT- Terminal Development Program	$ 116,371	$ 116,371	$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	—	—
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	302,351	266,034
Implementation of IT Security Master Plan	56,573	32,816	33,463
Noise Mitigation - Land Acquisitions	485,000	412,814	350,530
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	34,327	33,756
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	51,086	51,086
Bradley West	855,000	243,522	180,000
Lennox Schools Soundproofing Program	30,916	15,294	15,294
Inglewood USD Soundproofing Program	44,379	10,000	—
Terminal 6 Improvements	210,131	24,115	—
Elevators/Escalators/Moving Walkways Replacement	110,000	88,350	30,400
Midfield Satelite Concourse North Project	5,960	5,960	5,960
Central Utility Plant Replacement	190,000	190,000	190,000
Total	$ 3,095,760	$ 1,892,388	$ 1,638,276

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

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

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

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

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *California Civil Code Section 1936, as amended by Senate Bill (SB) 1192 and Assembly Bill (AB) 359*, applicable to its customer facility charge program for the fiscal year ended June 30, 2016.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the fiscal year ended June 30, 2016.

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 the results of that testing based on the *California Civil Code Section 1936, as amended by SB1192 and AB359*. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
October 26, 2016

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, 2016 and 2015

(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, 2014	$ 172,781	$ 9,660	$ 182,441	$ 3,026	$ 179,415
Fiscal year 2014-15 transactions					
Quarter ended September 30, 2014	7,891	535	8,426	—	8,426
Quarter ended December 31, 2014	6,791	542	7,333	—	7,333
Quarter ended March 31, 2015	6,607	560	7,167	—	7,167
Quarter ended June 30, 2015	8,058	492	8,550	—	8,550
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
Unexpended passenger facility charge revenues and interest earned June 30, 2016	$ 234,124	$ 14,404	$ 248,528	$ 3,026	$ 245,502

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

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

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

1. General

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

On March 5, 2007, the Board found that the CRCF proposed by management was sufficiently definitive and authorized the collection of CFCs of $10.00 on each car rental transaction at LAX. The authorization included a two-year collection period of July 1, 2007 through June 30, 2009. On June 22, 2009, the Board resolved to extend the collection period until a determination is made that the project will not proceed.

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

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

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

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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