Los Angeles
International Airport

Annual Financial Report

Fiscal years ended
June 30, 2018 and 2017

Department of Airports
Los Angeles, California


LAX

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, 2018 and 2017

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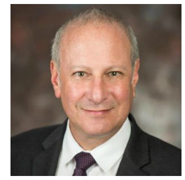

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Message from the Chief Executive Officer

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2018.

Moss Adams LLP, Certified Public Accountants (Moss Adams), audited LAX's financial statements. Based upon its audit, Moss Adams rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2018 and 2017, were fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). Moss Adams' report is on pages 1 and 2.

Moss Adams 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, 2018. Moss Adams' report is on pages 115 and 116.

Moss Adams also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1939, as amended by Assembly Bill 2051*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2018. Moss Adams' report is on pages 121 and 122.

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 35.

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

According to Airport Council International (ACI) statistics, in calendar year 2017, LAX ranked as the fifth busiest airport in the world, second busiest airport in the U.S. in terms of passenger traffic, and ranked 13th in the world and fourth in the U.S. in air cargo tonnage processed. LAX was named in Skytrax's 2017 top 10 world's most improved airports. Based on LAWA's Air Service Report for the 4th quarter (Q4) ended June 30, 2018 prepared by Ricondo & Associates, Inc., LAX was the second largest among U.S. airports in daily seat capacity with 146,368; and the third largest among U.S. airports in daily departures with approximately 905 departures. During Q4 2018, carriers at LAX served 192 destinations, 87 international and 105 domestic. The 192 destinations were five more than the number of destinations served during Q4 2017. During fiscal year 2018, a total of 71 passenger carriers served LAX, an increase of five from the 66 passenger carriers serving LAX during fiscal year 2017.

Passenger traffic at LAX increased by 4.5% to 86.6 million in fiscal year 2018. Of the 86.6 million passengers that moved in and out of LAX, domestic passengers accounted for 70.3%, while international passengers accounted for 29.7%. LAX handled 639,036 passenger flight operations (departures and arrivals) in fiscal year 2018, an increase of 1.0% from fiscal year 2017. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

Deborah Flint
Chief Executive Officer
October 30, 2018

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Financial Section

MOSSADAMS

Report of Independent Auditors

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 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"), which comprise the statement of net position as of June 30, 2018, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 net position of LAX as of June 30, 2018, and the changes in its net position and its cash flows for the year 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 net position, the changes in net 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 net position of LAWA or the City as of June 30, 2018, the changes in their net position, or, where applicable, their cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

As described in Notes 1 and 2, effective July 1, 2017, LAX adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *OMNIBUS 2017.* The implementation of these statements resulted in an adjustment to beginning net position for these changes. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of LAX as of June 30, 2017, were audited by other auditors whose report dated October 23, 2017, expressed an unmodified opinion on those financial statements.

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 35, the schedule of LAX's proportionate share of the net pension liability on page 107, the schedule of contributions - pension on pages 108 to 109, the schedule of LAX's proportionate share of the net other postemployment benefit (OPEB) liability on page 110, and the schedule of contributions - OPEB on pages 111 to 112 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of LAX's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of LAX's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAX's internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
October 30, 2018

Management's Discussion and Analysis (Unaudited)

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Management's Discussion and Analysis (Unaudited)

2018 Annual Financial Report
Los Angeles International Airport

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

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017

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

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2018 and 2017. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 39.

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, 2018 and 2017. 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, 2018 and 2017. 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.

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017
(continued)

Passenger and Other Traffic Activity Highlights

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

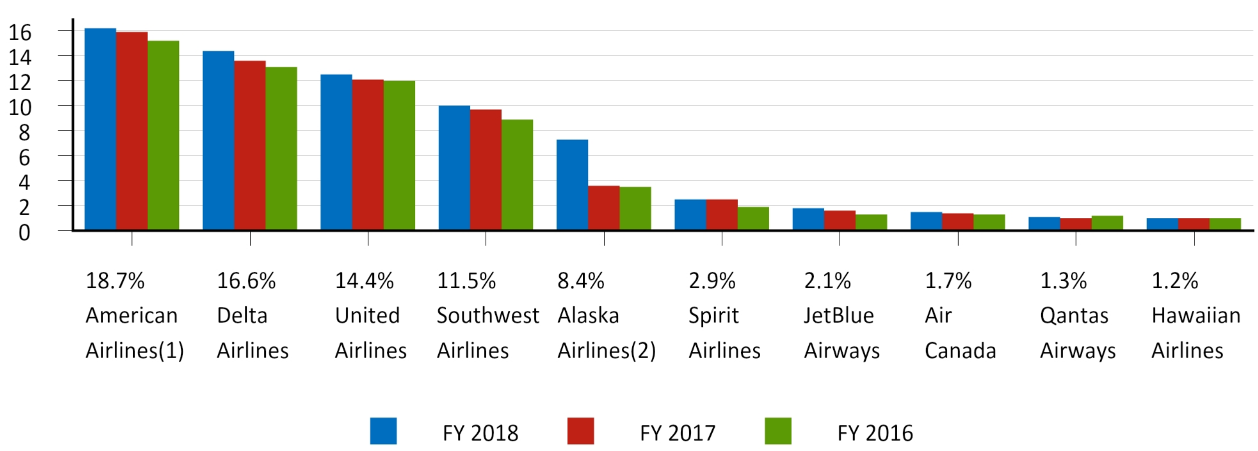
				% Change	
	FY 2018	FY 2017	FY 2016	FY 2018	FY 2017
Total passengers	86,633,058	82,923,839	77,799,530	4.5%	6.6%
Domestic passengers	60,903,699	58,934,016	56,151,106	3.3%	5.0%
International passengers	25,729,359	23,989,823	21,648,424	7.3%	10.8%
Departing passengers	43,553,015	41,602,124	38,952,367	4.7%	6.8%
Arriving passengers	43,080,043	41,321,715	38,847,163	4.3%	6.4%
Passenger flight operations					
Departures	319,677	316,704	300,023	0.9%	5.6%
Arrivals	319,359	316,309	299,652	1.0%	5.6%
Landing weight					
(thousand lbs)	64,226,608	62,635,426	59,166,582	2.5%	5.9%
Air cargo (tons)					
Mail	112,391	107,150	92,675	4.9%	15.6%
Freight	2,303,477	2,209,063	2,024,248	4.3%	9.1%

Note: Prior years' data may change because of updated available information, however, in order to remain comparable and consistent with the published data, the passenger and other traffic numbers for prior fiscal years are not changed. Fiscal Year (FY) 2018 traffic data is based on LAX's 2018 Series D & E Preliminary Bond Official Statement.

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2018 and the comparative passengers for fiscal years 2017 and 2016.

FY 2018 Top Ten Carriers and FY 2018 Percentage of Market Share (passengers in millions)



(1) American Airlines merged with US Airways and combined data was reported starting FY 2016.
(2) Alaska Airlines merged with Virgin America and combined data was reported starting FY 2018.

Passenger Traffic, Fiscal Year 2018

Passenger traffic at LAX increased by 4.5% in fiscal year 2018 as compared to fiscal year 2017. Of the 86.6 million passengers that moved in and out of LAX, domestic passengers accounted for 70.3%, while international passengers accounted for 29.7%. American Airlines ferried the largest number of passengers at 16.2 million with a 1.9% increase in passenger traffic. Delta Airlines, ranked second with 14.4 million passengers posted a 5.9% increase in passenger traffic. United Airlines, ranked third with 12.5 million passengers posted a 3.3% increase in passenger traffic. Southwest Airlines (10.0 million) and Alaska Airlines (7.3 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.5 million passengers and was ranked eighth overall.

Passenger Traffic, Fiscal Year 2017

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

Passenger Flight Operations, Fiscal Year 2018

Departures and arrivals at LAX increased by 6,023 flights or 1.0% during fiscal year 2018 when compared to fiscal year 2017. Revenue landing pounds were up 2.5%. The top three carriers in terms of landing pounds were American Airlines, Delta Airlines, and United Airlines. In total, these three airlines contributed 40.2% of the total revenue pounds at LAX.

Passenger Flight Operations, Fiscal Year 2017

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

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017
(continued)

Air Cargo (tons), Fiscal Year 2018

Freight and mail cargo at LAX increased by 4.3% in fiscal year 2018 as compared to fiscal year 2017. Freight and mail were up by 94,414 tons and 5,241 tons, respectively. Domestic cargo was up by 1,875 tons or 0.2% and international cargo was up by 97,780 tons or 6.9%. Federal Express was the top air freight carrier accounting for 16.2% of total freight cargo, followed by American Airlines with 4.3%. Delta Airlines was the top mail carrier accounting for 22.4% of total mail cargo.

Air Cargo (tons), Fiscal Year 2017

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

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2018

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2018 by $5.3 billion.

- Bonded debt had a net increase of $757.6 million over fiscal year 2017.

- Operating revenue totaled $1.4 billion.

- Operating expenses (including depreciation and amortization of $360.6 million) totaled $1.2 billion.

- Net nonoperating revenue was $73.2 million.

- Federal and other government capital grants totaled $54.3 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 $710.7 million as of measurement date June 30, 2017, and reporting date June 30, 2018. NPL, the difference between the total pension liability (TPL) and the retirement plan's net position, is an important measure required by Governmental Accounting Standards Board (GASB) Statements No. 68[1], No. 71[2] and No. 82[3], to report in the financial statements (see Note 13 of the notes to the financial statements).

- LAX's proportionate share of net OPEB liability (NOL) for the retirement benefits, based on the ratio of LAX's contributions to the City's retirement plan's total contributions, was $76.3 million as of measurement date June 30, 2017, and reporting date June 30, 2018. NOL, the difference between the total OPEB liability (TOL) and the retirement plan's fiduciary net position, is an important measure required by GASB Statements No. 75[4] and No. 85[5], to report in the financial statements (see Note 14 of the notes to the financial statements). The data for prior year, fiscal year 2017, was not restated because all of the information available to restate prior year amounts was not readily available.

- Net position increased by $318.1 million (net of adjustment of net position of $(76.5) million as a result of the implementation of GASB Statements No. 75 and No. 85).

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[1] *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, issued in June 2012*
[2] *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68, issued in November 2013*
[3] *GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, issued in March 2016*
[4] *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, issued in June 2015*
[5] *GASB Statement No. 85, OMNIBUS 2017, issued in March 2017*

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017
(continued)

Financial Highlights, Fiscal Year 2017

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2017 by $5.0 billion.
- Bonded debt had a net increase of $404.4 million over fiscal year 2016.
- Operating revenue totaled $1.3 billion.
- Operating expenses (including depreciation and amortization of $298.2 million) totaled $1.0 billion.
- Net nonoperating revenue was $18.8 million.
- Federal and other government capital grants totaled $87.8 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 $761.2 million as of measurement date June 30, 2016, and reporting date June 30, 2017. NPL, the difference between the TPL and the retirement plan's net position, is an important measure required by GASB Statements No. 68, No. 71 and No. 82 , to report in the financial statements (see Note 13 of the notes to the financial statements).
- As a result of the transfer of ONT assets and liabilities to Ontario International Airport Authority (OIAA) on November 1, 2016 as contemplated by the LA/Ontario International Airport (ONT) Settlement Agreement, LAX recognized a transfer of residual operation from ONT of $104.1 million (see Note 17 of the notes to the financial statements).
- Net position increased by $500.5 million.

Net Position Summary

A condensed net position summary for fiscal years 2018, 2017, and 2016 is presented below:

Condensed Net Position
(amounts in thousands)

	FY 2018	FY 2017	FY 2016	FY 2018 increase (decrease)	FY 2017 increase (decrease)
Assets					
Unrestricted current assets	$ 1,003,517	$ 917,431	$ 925,151	$ 86,086	$ (7,720)
Restricted current assets	1,951,519	1,920,872	1,741,896	30,647	178,976
Capital assets, net	9,650,510	8,588,837	7,793,002	1,061,673	795,835
Other noncurrent assets	35,984	67,630	5,785	(31,646)	61,845
Total assets	12,641,530	11,494,770	10,465,834	1,146,760	1,028,936
Deferred outflows of resources					
Deferred charges on debt refunding	40,308	38,550	24,179	1,758	14,371
Deferred outflows of resources related to pension and OPEB	159,620	203,352	127,342	(43,732)	76,010
Total deferred outflows of resources	199,928	241,902	151,521	(41,974)	90,381
Liabilities					
Current liabilities payable from unrestricted assets	396,871	385,024	339,450	11,847	45,574
Current liabilities payable from restricted assets	188,665	212,628	166,609	(23,963)	46,019
Noncurrent liabilities	6,091,457	5,335,668	4,940,204	755,789	395,464
Net pension liability	710,724	761,187	642,431	(50,463)	118,756
Net OPEB liability	76,310	—	—	76,310	—
Total liabilities	7,464,027	6,694,507	6,088,694	769,520	605,813
Deferred inflows of resources					
Deferred inflows of resources related to pension and OPEB	90,101	72,915	59,951	17,186	12,964
Total deferred inflows of resources	90,101	72,915	59,951	17,186	12,964
Net Position					
Net investment in capital assets	4,551,404	4,165,479	3,651,851	385,925	513,628
Restricted for capital projects	672,951	782,153	686,080	(109,202)	96,073
Restricted for operations and maintenance reserve	210,207	185,897	179,836	24,310	6,061
Restricted for federally forfeited property & protested funds	1,336	1,463	1,137	(127)	326
Unrestricted	(148,568)	(165,742)	(50,194)	17,174	(115,548)
Total net position	$ 5,287,330	$ 4,969,250	$ 4,468,710	$ 318,080	$ 500,540

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017
(continued)

Net Position, Fiscal Year 2018

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2018 and 2017, LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5.3 billion and $5.0 billion, respectively, representing an increase of 6.4% or $318.1 million.

The largest portion of LAX's net position ($4.6 billion or 86.1%) 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 ($884.5 million or 16.7%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position increased by $17.2 million from $(165.7) million in fiscal year 2017 to $(148.6) million in fiscal year 2018. LAX recognized $76.3 million net OPEB liability (NOL) as a result of the implementation of GASB Statements No. 75 and 85 in fiscal year 2018. Net pension liability (NPL) reduced by $50.5 million to $710.7 million in fiscal year 2018.

Unrestricted current assets increased by $86.1 million or 9.4%, from $917.4 million at June 30, 2017 to $1.0 billion at June 30, 2018. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2018) held in the City Treasury. Unrestricted cash inflows were from operating activities, investment activities, noncapital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for operating activities, capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2018) held in the City Treasury for future capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. Restricted current assets increased by $30.6 million or 1.6%, from $1.9 billion at June 30, 2017 to $2.0 billion at June 30, 2018. The increase in year-end investment portfolio held by fiscal agents of $118.0 million, or 12.8% from $924.5 million in fiscal year 2017 to $1.0 billion in fiscal year 2018 was mainly due to unspent proceeds of newly issued 2017 and 2018 series bonds as of June 30, 2018.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, new airport revenue and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by $1.1 billion, or 12.4%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

Other noncurrent assets decreased by $31.6 million or 46.8%. The decrease was primarily due to the transfer of $17.6 million long-term investments with fiscal agent over one-year in fiscal year 2017 to current investments in fiscal year 2018; and the shift of $9.6 million long-term receivable from OIAA and $2.9 million long-term receivable from the City General Fund to current assets in fiscal year 2018.

Total deferred outflows of resources decreased by $42.0 million or 17.4% due to the decrease of $43.7 million or 21.5% in deferred outflows of resources related to pension and OPEB, offset by the increase of $1.7 million or 4.6% in deferred charges on debt refunding.

Current liabilities payable from unrestricted assets increased by $11.8 million or 3.1%. This was mainly due to increase of $47.1 million, or 20.9% in contracts and accounts payable, increase of $2.2 million or 27.2% estimated claims payable, increase of $12.1 million or 24.8% commercial paper, increase of $10.3 million or 181.3% in obligations under securities lending transactions; offset by decrease of $59.3 million or 80.5% in other current liabilities, and decrease of $1.3 million or 23.7% in accrued employee benefits. The increase in contracts and accounts payable was due to the year-end accruals of capital expenditures for the on-going construction projects including the Midfield Satellite Concourse (MSC) and Apron - North Project, Runway Safety Area (RSA) Improvements, and the Landside Access Modernization Program (LAMP) enabling project. The decrease in other current liabilities was primarily a result of a decrease in customers' advance payments and unapplied credits issued to the airlines of $19.7 million, and a decrease in LAX's share of the City Treasury's year-end pending investment trade of $40.0 million in fiscal year 2018.

Current liabilities payable from restricted assets decreased by $24.0 million or 11.3%. This was mainly due to decrease in LAX's share of the City Treasury's year-end pending investment trade of $53.1 million in fiscal year 2018, offset by an increase of $13.0 million in current maturities of bonded debt, an increase of $8.4 million in accrued interest payable, and increase of $8.2 million or 112.3% in obligations under securities lending transactions.

The net increase in noncurrent liabilities was $781.6 million or 12.8%. The increase was primarily a result of bond issuances of $1.0 billion with net change in premium of $128.2 million, offset by refunding of $265.0 million LAX senior revenue bonds Series 2008A, and the shift of $120.8 million to current bonded debt in fiscal year 2018. The net increase was also attributable to the recognition of the proportionate share of NOL for $76.3 million as a result of implementation of GASB Statements No. 75 and 85 in fiscal year 2018, offset by a decrease in the proportionate share of NPL for $50.5 million in accordance with GASB Statements No. 68 and 71.

Total deferred inflows of resources related to pension and OPEB increased by $17.2 million or 23.6% to $90.1 million.

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(continued)

Net Position, Fiscal Year 2017

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

The largest portion of LAX's net position ($4.2 billion or 83.8%) 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 ($969.5 million or 19.5%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position decreased by $115.5 million from $(50.2) million in fiscal year 2016 to $(165.7) million in fiscal year 2017 primarily due to recognition of $118.8 million additional NPL in accordance with GASB Statements No. 68 and 71.

Unrestricted current assets decreased by (0.8)%, from $925.2 million at June 30, 2016 to $917.4 million at June 30, 2017. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2017) held in the City Treasury. Unrestricted cash inflows were from operating activities, investment activities, noncapital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for operating activities, capital acquisitions and transfers to fiscal agents for debt service.

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

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, new airport revenue and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 10.2%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

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

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

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

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

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

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

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(continued)

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2018, 2017, and 2016 is presented below:

Condensed Changes in Net Position
(amounts in thousands)

	FY 2018	FY 2017	FY 2016	FY 2018 increase (decrease)	FY 2017 increase (decrease)
Operating revenue	$ 1,422,404	$ 1,328,689	$ 1,206,612	$ 93,715	$ 122,077
Less- Operating expenses	794,721	742,500	663,879	52,221	78,621
Operating income before depreciation and amortization	627,683	586,189	542,733	41,494	43,456
Less- Depreciation and amortization	360,638	298,176	226,439	62,462	71,737
Operating income	267,045	288,013	316,294	(20,968)	(28,281)
Other nonoperating revenue, net	73,234	18,784	44,628	54,450	(25,844)
Federal and other government grants	54,297	87,762	49,255	(33,465)	38,507
Inter-agency transfers	—	1,856	5,116	(1,856)	(3,260)
Transfer of residual operation from ONT	—	104,125	—	(104,125)	104,125
Changes in net position	394,576	500,540	415,293	(105,964)	85,247
Net position, beginning of year, as previously reported	4,969,250	4,468,710	4,053,417	500,540	415,293
Change in accounting principle	(76,496)	—	—	(76,496)	—
Net position, beginning of year, as adjusted	4,892,754	4,468,710	4,053,417	424,044	415,293
Net position, end of year	$ 5,287,330	$ 4,969,250	$ 4,468,710	$ 318,080	$ 500,540

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 2018, 2017, and 2016:

Summary of Operating Revenue
(amounts in thousands)

	FY 2018	FY 2017	FY 2016	FY 2018 increase (decrease)	FY 2017 increase (decrease)
Aviation revenue					
Landing fees	$ 284,686	$ 261,639	$ 240,853	$ 23,047	$ 20,786
Building rentals	527,476	493,382	462,667	34,094	30,715
Land rentals	107,943	98,563	96,167	9,380	2,396
Other aviation revenue	6,431	7,036	6,599	(605)	437
Total aviation revenue	926,536	860,620	806,286	65,916	54,334
Concession revenue	469,187	441,623	398,692	27,564	42,931
Other operating revenue	27,353	27,114	3,996	239	23,118
Total operating revenue before reliever fee	1,423,076	1,329,357	1,208,974	93,719	120,383
Reliever airport fee (landing fees offset)	(672)	(668)	(2,362)	(4)	1,694
Total operating revenue	$ 1,422,404	$ 1,328,689	$ 1,206,612	$ 93,715	$ 122,077

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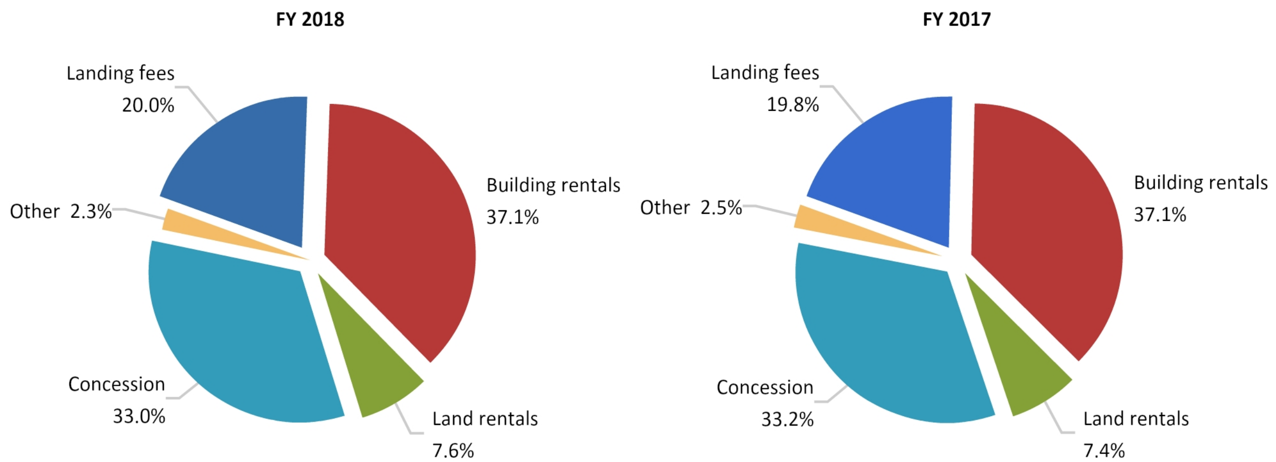
(continued)

Operating Revenue, Fiscal Year 2018

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2018 and 2017. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2018, total operating revenue before reliever airport fees was $1.4 billion, a $93.7 million or 7.0% increase from the prior fiscal year. The growth in aviation related revenue was $65.9 million. Non-aviation revenue had an increase of $27.8 million, with a $27.6 million increase in concessions.

As described in Note 1i of the notes to the financial statements, landing fees assessed to air carriers at LAX are based on cost recovery methodologies. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. 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, 2018 were up by $23.0 million, or 8.8%. The increase in landing fees was primarily due to the increase in actual capital and operating expenses allocable to the landing fee cost centers.

Total building rental revenue posted a growth of $34.1 million, or 6.9%. The increase was primarily attributable to the improvements and refurbishments in the terminals, scheduled rate increases associated with the Terminal Rate Agreement, as well as new and renegotiated leases signed with the airlines and other tenants.

Land rental revenue increased by $9.4 million or 9.5%. The increase in land rental revenue at LAX was mainly due to an overall increase in leased areas.

Total revenue from concessions was $469.2 million in fiscal year 2018, a 6.2% growth from $441.6 million in fiscal year 2017. In-terminal concession revenue includes rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, luggage cart rental, and security screening services. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services, transportation network companies (TNC)[6] and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2018 had a net increase of $20.1 million or 10.1% as compared to fiscal year 2017. Boosted by the increase in passenger level, duty free revenues increased by $7.0 million, or 9.2%, commercial management concession revenue[7] increased by $6.8 million, or 8.8%, other in-terminal revenue increased by $2.7 million, or 15.9%, and advertising revenue increased by $3.6 million, or 12.9%. The increase in other in-terminal revenue was primarily a result of the increase in foreign exchange revenue due to increased minimum annual guarantee (MAG); and the increase in advertising revenue was mainly due to the increased billboard revenue and recognition of amounts over MAG in fiscal year 2018 .

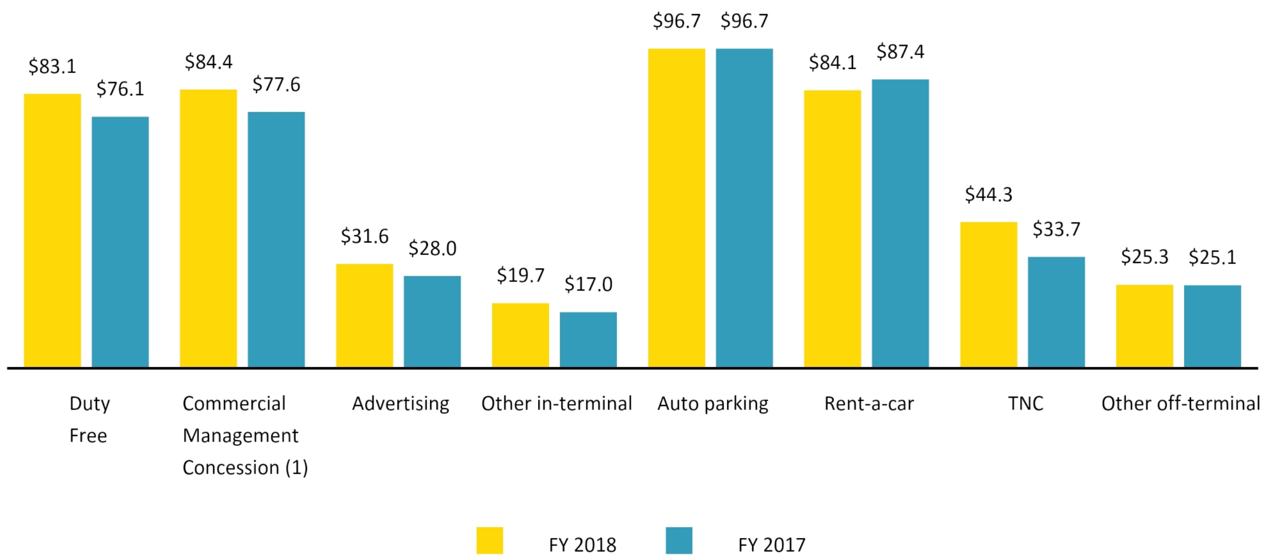
Off-terminal concession revenue at LAX in fiscal year 2018 was $250.4 million as compared to $242.9 million in fiscal year 2017, an increase of $7.5 million, or 3.1%. The increase was mainly driven by the increase of TNC revenue of $10.6 million, or 31.5% from fiscal year 2017, offset by the decrease of rent-a-car revenue of $3.3 million, or 3.8%. The increase in TNC revenue was a result of the increase in ridership driven by the popularity of TNC in addition to the increase in passenger traffic during fiscal year 2018.

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

[7] *Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.*

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017
(continued)

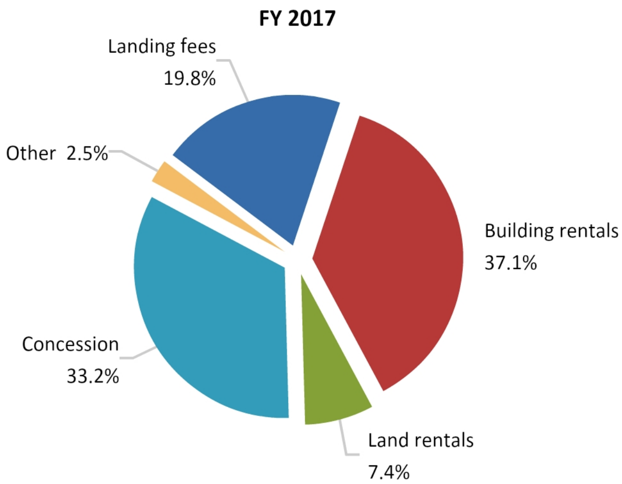
Comparative concession revenue by type for fiscal years 2018 and 2017 are presented in the following chart (amounts in millions).

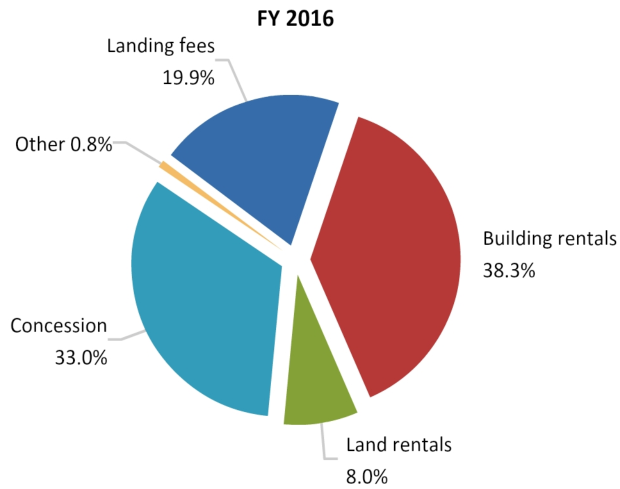


1) Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

Operating Revenue, Fiscal Year 2017

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





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

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

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

Total building rental revenue posted a growth of $30.7 million, or 6.6%. The increase was primarily attributable to the improvements and refurbishments in the terminals, scheduled rate increases associated with the Terminal Rate Agreement, as well as the new and renegotiated leases signed with the airlines and other tenants.

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

Management's Discussion and Analysis (Unaudited)
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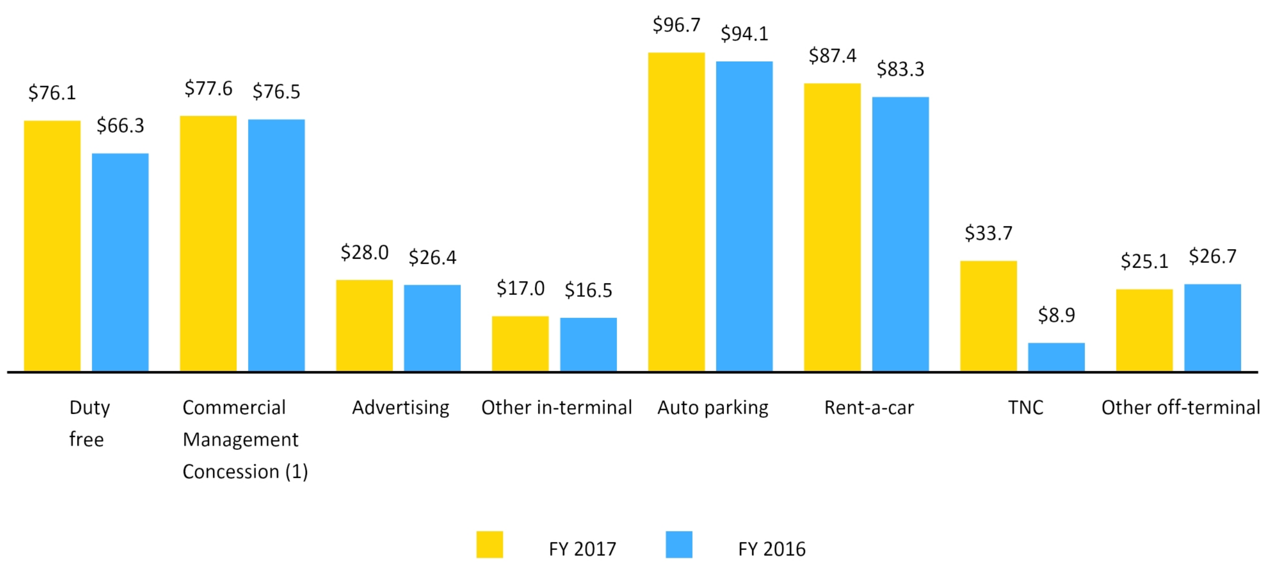
(continued)

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

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

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

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



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

Other operating revenue increased by $23.1 million or 578.5% in fiscal year 2017 as a result of the ONT employee salary reimbursement of $21.0 million from OIAA pursuant to the Staff Augmentation Agreement (SAA) as described in Note 17 of the notes to the financial statements. Pursuant to the SAA, some LAWA staff may remain at ONT for as long as 21 months after the closing of the ONT Settlement Agreement on November 1, 2016. Effective April 2018, LAWA no longer provides these services to OIAA.

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(continued)

Operating Expenses

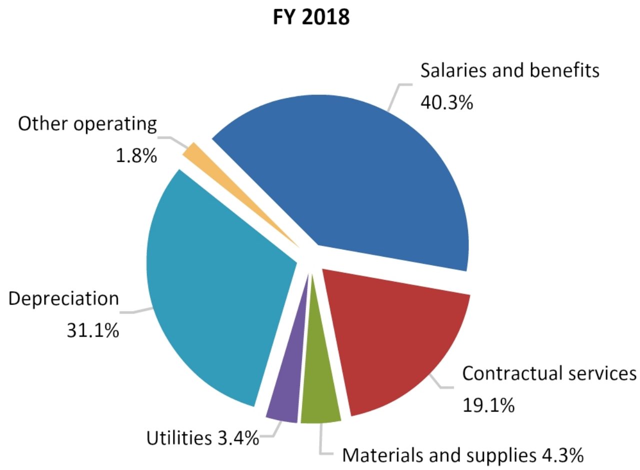
The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2018, 2017, and 2016. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

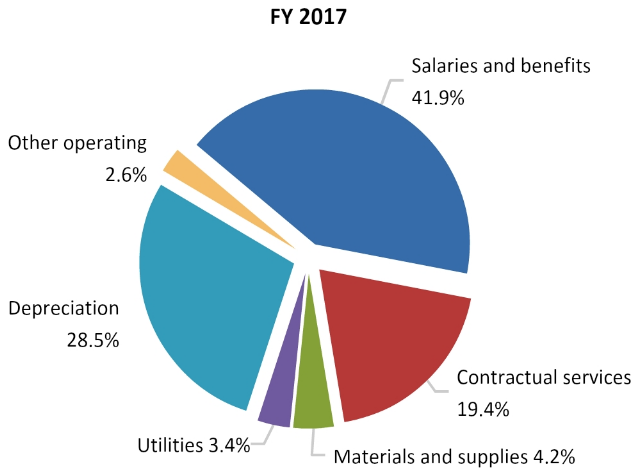
Summary of Operating Expenses
(amounts in thousands)

	FY 2018	FY 2017	FY 2016	FY 2018 increase (decrease)	FY 2017 increase (decrease)
Salaries and benefits	$ 466,263	$ 438,153	$ 387,595	$ 28,110	$ 50,558
Contractual services	221,421	203,277	182,659	18,144	20,618
Materials and supplies	49,703	43,830	46,062	5,873	(2,232)
Utilities	39,433	36,043	36,181	3,390	(138)
Other operating expenses	20,825	25,782	20,738	(4,957)	5,044
Operating expenses before depreciation	797,645	747,085	673,235	50,560	73,850
Depreciation	360,638	298,176	226,439	62,462	71,737
Total operating expenses	1,158,283	1,045,261	899,674	113,022	145,587
Less- allocation to ONT, VNY and PMD	2,924	4,585	9,356	(1,661)	(4,771)
Net operating expenses	$ 1,155,359	$ 1,040,676	$ 890,318	$ 114,683	$ 150,358

Operating Expenses, Fiscal Year 2018

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2018 and 2017.





For the fiscal year ended June 30, 2018, operating expenses before allocation to other airports were $1.2 billion, a $113.0 million or 10.8% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $28.1 million, contractual services, up by $18.1 million, materials and supplies, up by $5.9 million, utilities, up by $3.4 million and depreciation, up by $62.5 million, offset by the decrease in other operating expenses of $5.0 million.

Salaries and benefits expense increased by $28.1 million or 6.4%. Within this category, salaries and overtime before capitalized charges had an increase of $13.9 million or 4.5%. This increase was mainly due to the increase in additional staffing to provide operational support and engagement needed to effectively manage the delivery of multiple large capital projects impacting terminals and passenger access at LAX in addition to the terms of bargaining agreements with employee unions. The combined increase in retirement contributions and healthcare subsidy was $5.2 million or 4.2%. Workers' compensation increased by $16.6 million from $9.7 million to $26.3 million in fiscal year 2018 as a result of the increase in projected year-end liability in accordance with the actuarial report. Non-cash Pension and OPEB expenses decreased by $6.9 million from $17.2 million to $10.3 million in fiscal year 2018.

Contractual services expense was $221.4 million and $203.3 million for LAX in fiscal year 2018 and 2017, respectively. The increase in contractual service expense was mainly due to increased city services charges of $6.7 million, increased escalator and elevator preventive maintenance of $3.5 million, and increased custom and border protection charges of $2.7 million. The higher City services were mainly due to the increase in the City's cost allocation as a result of higher salaries and general overhead costs especially in the costs of Fire Department and Police Department, two of the largest providers of services to LAX.

LAX's materials and supplies expense was $49.7 million and $43.8 million in fiscal year 2018 and 2017, respectively. The increase in materials and supplies was mainly due to increased field paints and computer licenses and support fees. Utilities expense was $39.4 million and $36.0 million in fiscal year 2018 and 2017, respectively. Other operating expenses were $20.8 million and $25.8 million in fiscal year 2018 and 2017, respectively. The $5.0 million decrease was mainly caused by the recognition of $3.7 million property taxes in fiscal year 2017 for the Park One parking lot pursuant to the lease covering fiscal years 2014 to 2017 compared to $0.9 million in fiscal year 2018.

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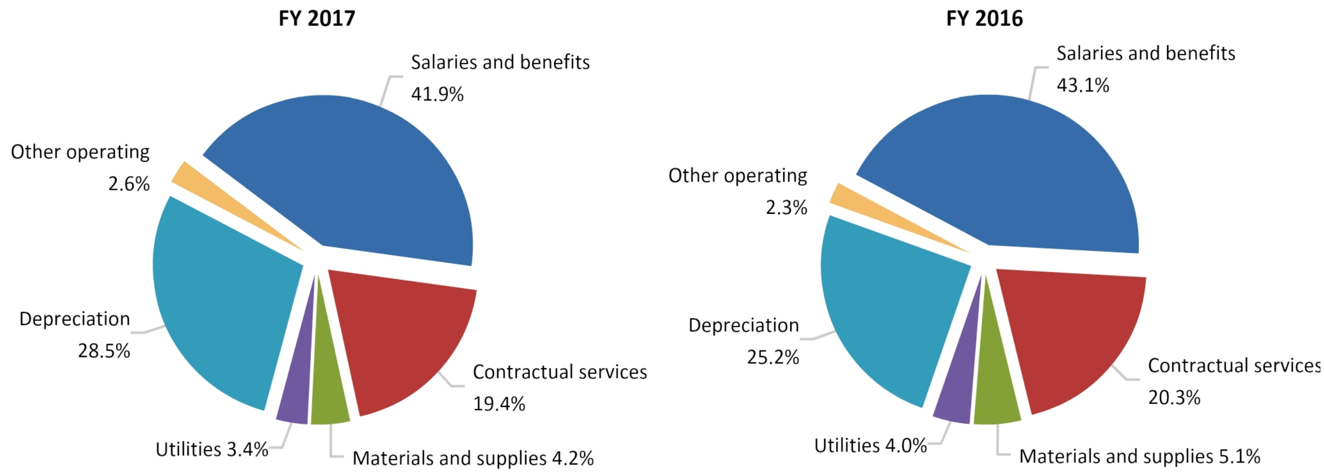
(continued)

The increase in depreciation charges from $298.2 million to $360.6 million in fiscal year 2018 was a result of the completion of the associated projects related to Bradley West core renovation, Terminal 7 renovation, and Terminal 1 renovation.

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 2017

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



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

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

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

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

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(continued)

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

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

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services or producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2018, 2017, and 2016.

Summary of Nonoperating Transactions
(amounts in thousands)

	FY 2018	FY 2017	FY 2016	FY 2018 increase (decrease)	FY 2017 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 171,431	$ 163,869	$ 150,409	$ 7,562	$ 13,460
Customer facility charges	55,759	32,545	31,996	23,214	549
Interest and investment income	9,848	2,589	33,414	7,259	(30,825)
Other nonoperating revenue	43,421	15,743	17,985	27,678	(2,242)
	$ 280,459	$ 214,746	$ 233,804	$ 65,713	$ (19,058)
Nonoperating expenses					
Interest expense	$ 205,308	$ 193,469	$ 182,386	$ 11,839	$ 11,083
Other nonoperating expenses	1,917	2,493	6,790	(576)	(4,297)
	$ 207,225	$ 195,962	$ 189,176	$ 11,263	$ 6,786
Federal and other government grants	$ 54,297	$ 87,762	$ 49,255	$ (33,465)	$ 38,507
Inter-agency transfers	$ —	$ 1,856	$ 5,116	$ (1,856)	$ (3,260)
Transfer of residual operation from ONT	$ —	$ 104,125	$ —	(104,125)	$ 104,125

Nonoperating Transactions, Fiscal Year 2018

PFCs increased by $7.5 million, or 4.6% from $163.9 million to $171.4 million as a result of the increase of 4.5% passenger traffic in fiscal year 2018. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, increased by $23.2 million, or 71.3% from $32.5 million to $55.7 million in fiscal year 2018. The increase was due to the change in CFCs rate from $10.00 per transaction to $7.50 per day for the first five days of each car rental contract beginning January 1, 2018.

Interest and investment income increased by $7.2 million, or 280.4% from $2.6 million to $9.8 million in fiscal year 2018 mainly due to higher average balance of cash and pooled investments held in City Treasury. Interest expenses increased by $11.8 million, or 6.1% from $193.5 million to $205.3 million in fiscal year 2018 mainly due to the net additional issuances of $737.3 million revenue bonds (after refunding) to finance capital improvement projects.

Other nonoperating revenue increased by $27.7 million, or 175.8% from $15.7 million to $43.4 million in fiscal year 2018. The increase was mainly a result of the litigation settlement of $35.1 million pertaining to the Runway 25L Relocation and Center Taxiway Improvement Project at LAX.

Other nonoperating expenses decreased by $0.6 million, or 23.1% from $2.5 million to $1.9 million in fiscal year 2018. The decrease was mainly due to the credit of $2.5 million excessive environmental cleanup expenses as a result of the final settlement of the Palmdale Reclamation Plant contamination issue as described in Note 16c; offset by the increase of $1.9 million in bond issuance expenses in fiscal year 2018.

Federal and other government grants decreased by $33.5 million, or 38.1% from $87.8 million to $54.3 million mainly due to the decrease of $25.6 million TSA in-line baggage reimbursements grants from $38.1 million in fiscal year 2017 to $12.5 million in fiscal year 2018.

As described in Note 17 of the notes to the financial statements, LAWA transferred the assets and liabilities of ONT to OIAA as contemplated by the ONT Settlement Agreement on November 1, 2016. As a result of the transfer, LAX recognized a transfer of residual operation from ONT of $104.1 million in fiscal year 2017 and none in fiscal year 2018.

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017
(continued)

Nonoperating Transactions, Fiscal Year 2017

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

Interest and investment income decreased by $30.8 million, or 92.3% from $33.4 million to $2.6 million in fiscal year 2017 mainly due to higher average balance of cash and pooled investments held in City Treasury. The net change in fair value of investments reflects the decrease driven by the downward year-end net adjustment to the fair value of investment securities. Interest expenses increased by $11.1 million, or 6.1% from $182.4 million to $193.5 million in fiscal year 2017 mainly due to the net additional issuances of $463.5 million revenue bonds (after advance refunding) to finance capital improvement projects.

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

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

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

Long-Term Debt

As of June 30, 2018, LAX's outstanding long-term debt before unamortized premium and discount was $5.6 billion. Issuances during the year amounted to $1.0 billion, refunding totaled $265.0 million, and payments for scheduled maturities were $107.9 million. Together with the unamortized premium and discount, bonded debt of LAX increased by $757.6 million to a total of $6.1 billion.

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

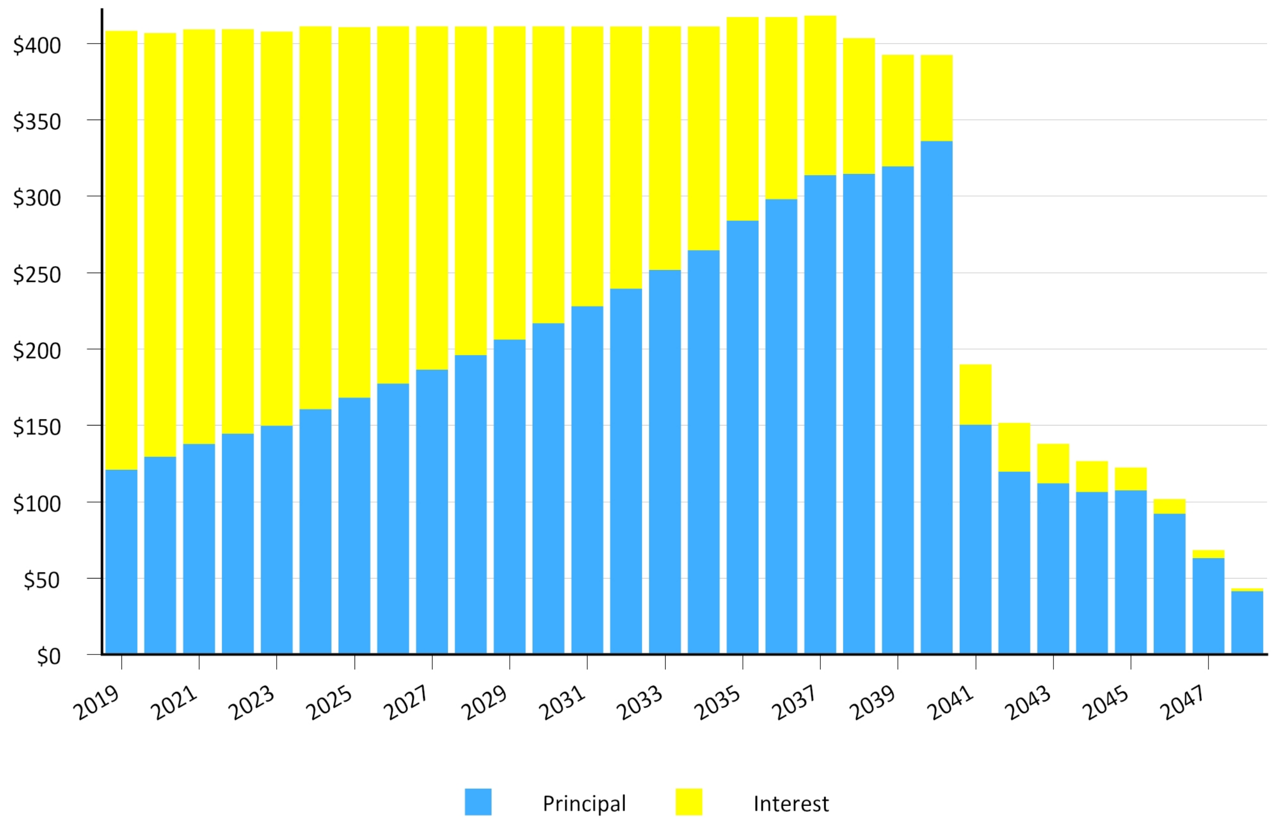
As of June 30, 2018 and 2017, LAX had $521.1 million and $455.1 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

LAX currently has underlying ratings of AA, Aa2 and AA on its senior revenue bonds and underlying ratings of AA-, Aa3 and AA- on its subordinate revenue bonds from Fitch Ratings, Moody's Investor Service and Standard & Poor's Rating Services, respectively.

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

Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017
(continued)

Outstanding principal, plus scheduled interest as of June 30, 2018, 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, 2018 and 2017 were $9.7 billion and $8.6 billion, respectively. This investment, which accounts for 76.3% and 74.7% of LAX's total assets as of June 30, 2018 and 2017, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress. LAX's policy affecting capital assets can be found in Note 1f of the notes to the financial statements. Additional information can be found in Note 4 of the notes to the financial statements.

Capital Assets, Fiscal Year 2018

Major capital expenditure activities during fiscal year 2018 included:

- $478.9 million renovations at Terminals 1 to 8
- $385.8 million construction of Midfield Satellite Concourse (MSC)
- $167.9 million project costs related to Landside Access Modernization Program (LAMP)
- $100.4 million residential acquisition, soundproofing and noise mitigation
- $79.8 million construction of runways and taxiways
- $31.4 million interior improvements and security upgrades at TBIT and Bradley West
- $15.0 million construction of TBIT baggage handling system
- $14.2 million Central Terminal Area (CTA) curbside development project and Second Level Roadway Joint and Deck replacement
- $11.4 million various IT network and system projects
- $9.4 million in costs related to construction of west maintenance facility

At June 30, 2018, the amounts committed for capital expenditures included $61.1 million for terminals and facilities, $7.7 million for noise mitigation program, $3.9 million for airfield and runways, and $29.9 million for various other projects. In addition, LAX expects to pay approximately $1.1 billion in payments to the Automated People Mover (APM) Developer during the design and construction period, in addition to future availability payments for capital, operating and maintenance costs over the life of the APM.

Capital Assets, Fiscal Year 2017

Major capital expenditure activities during fiscal year 2017 included:

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

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

LAX is in the midst of a multi-billion dollar capital improvements program. Among the projects underway are terminal improvements and upgrades, roadway improvements, runway and taxiway rehabilitation and improvement, utilities and infrastructure components, construction of MSC, and LAMP which includes APM, ConRAC and ITF.

Landing Fees, Fiscal Year 2019

The airline landing fees for fiscal year 2019, which became effective as of July 1, 2018 are as follows:

Permitted air carriers	Non-permitted air carriers	
$62.00	$78.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
119.00	149.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.72	4.65	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
4.75	5.94	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

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

Request for Information

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

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Financial Statements

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Los Angeles World Airports

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

Los Angeles International Airport

Statements of Net Position

June 30, 2018 and 2017

(amounts in thousands)

	2018	2017
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 901,543	$ 769,241
Investments with fiscal agents	1,933	22,282
Unbilled receivables	21,831	44,245
Accrued interest receivable	6,129	3,435
Grants receivable	6,465	12,322
Receivable from OIAA	9,569	9,674
Receivable from City General Fund	2,935	2,849
Due from other agencies	47,256	48,020
Prepaid expenses	4,489	4,116
Inventories	1,367	1,247
Total unrestricted current assets	1,003,517	917,431
Restricted current assets		
Cash and pooled investments held in City Treasury	874,262	967,893
Investments with fiscal agents, includes cash and cash equivalents, related to bonded debt: 2018 - $931,074; 2017 - $924,494	1,042,477	924,494
Accrued interest receivable	1,363	1,324
Passenger facility charges receivable	24,900	23,881
Customer facility charges receivable	8,517	3,280
Total restricted current assets	1,951,519	1,920,872
Total current assets	2,955,036	2,838,303
Noncurrent Assets		
Capital assets		
Not depreciated	2,709,296	2,164,208
Depreciated, net	6,941,214	6,424,629
Total capital assets	9,650,510	8,588,837
Other noncurrent assets		
Investments with fiscal agents	—	17,585
Receivable from OIAA, net of current portion	35,984	47,110
Receivable from City General Fund, net of current portion	—	2,935
Total other noncurrent assets	35,984	67,630
Total noncurrent assets	9,686,494	8,656,467
TOTAL ASSETS	12,641,530	11,494,770
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	40,308	38,550
Deferred outflows of resources related to pension and OPEB	159,620	203,352
TOTAL DEFERRED OUTFLOWS OF RESOURCES	199,928	241,902

Statements of Net Position (continued)
June 30, 2018 and 2017
(amounts in thousands)

	2018	2017
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 272,632	$ 225,492
Accrued salaries	18,505	17,790
Accrued employee benefits	4,258	5,580
Estimated claims payable	10,349	8,137
Commercial paper	60,832	48,736
Obligations under securities lending transactions	15,914	5,658
Other current liabilities	14,381	73,631
Total current liabilities payable from unrestricted assets	396,871	385,024
Current liabilities payable from restricted assets		
Contracts and accounts payable	7,564	7,831
Current maturities of bonded debt	120,830	107,850
Accrued interest payable	39,887	31,529
Obligations under securities lending transactions	15,487	7,295
Other current liabilities	4,897	58,123
Total current liabilities payable from restricted assets	188,665	212,628
Total current liabilities	585,536	597,652
Noncurrent Liabilities		
Bonded debt, net of current portion	5,960,266	5,215,626
Accrued employee benefits, net of current portion	43,580	41,309
Estimated claims payable, net of current portion	86,726	70,347
Liability for environmental/hazardous materials cleanup	—	7,500
Net pension liability	710,724	761,187
Net OPEB liability	76,310	—
Other long-term liabilities	885	886
Total noncurrent liabilities	6,878,491	6,096,855
TOTAL LIABILITIES	7,464,027	6,694,507
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB	90,101	72,915
TOTAL DEFERRED INFLOWS OF RESOURCES	90,101	72,915
NET POSITION		
Net investment in capital assets	4,551,404	4,165,479
Restricted for:		
Passenger facility charges eligible projects	332,874	481,751
Customer facility charges eligible projects	340,077	300,402
Operations and maintenance reserve	210,207	185,897
Federally forfeited property and protested funds	1,336	1,463
Unrestricted	(148,568)	(165,742)
TOTAL NET POSITION	$ 5,287,330	$ 4,969,250

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, 2018 and 2017

(amounts in thousands)

	2018	2017
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 284,686	$ 261,639
Reliever airport fee	(672)	(668)
Building rentals	527,476	493,382
Land rentals	107,943	98,563
Other aviation revenue	6,431	7,036
Total aviation revenue	925,864	859,952
Concession revenue	469,187	441,623
Other operating revenue	27,353	27,114
Total operating revenue	1,422,404	1,328,689
OPERATING EXPENSES		
Salaries and benefits	466,263	438,153
Contractual services	221,421	203,277
Materials and supplies	49,703	43,830
Utilities	39,433	36,043
Other operating expenses	20,825	25,782
Allocated administrative charges	(2,924)	(4,585)
Total operating expenses before depreciation and amortization	794,721	742,500
Operating income before depreciation and amortization	627,683	586,189
Depreciation and amortization	360,638	298,176
OPERATING INCOME	267,045	288,013
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	171,431	163,869
Customer facility charges	55,759	32,545
Interest and investment income	9,848	2,589
Interest expense	(205,308)	(193,469)
Other nonoperating revenue	43,421	15,743
Other nonoperating expenses	(1,917)	(2,493)
Total nonoperating revenue, net	73,234	18,784
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	340,279	306,797
Federal and other government grants	54,297	87,762
Inter-agency transfers	—	1,856
Transfer of residual operation from ONT	—	104,125
CHANGE IN NET POSITION	394,576	500,540
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	4,969,250	4,468,710
Change in accounting principle as a result of GASB 75 & 85	(76,496)	—
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	4,892,754	4,468,710
NET POSITION, END OF YEAR	$ 5,287,330	$ 4,969,250

See accompanying notes to the financial statements.

Los Angeles World Airports

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

Los Angeles International Airport

Statements of Cash Flows

For the Fiscal Years Ended June 30, 2018 and 2017

(amounts in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,465,880	$ 1,358,315
Payments to suppliers	(178,244)	(228,509)
Payments for employee salaries and benefits	(436,277)	(418,453)
Payments for City services	(103,093)	(101,008)
Inter-agency receipts for services, net	2,924	4,585
Net cash provided by operating activities	751,190	614,930
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	11,761	11,351
Inter-agency transfers in	764	2,424
Proceeds from ONT transfer	—	125,705
Net cash provided by noncapital financing activities	12,525	139,480
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	896,748	502,985
Principal paid on revenue bonds and commercial paper notes	(112,745)	(101,196)
Interest paid on revenue bonds and commercial paper notes	(265,918)	(243,301)
Revenue bonds issuance costs	(1,679)	(1,156)
Acquisition and construction of capital assets	(1,378,641)	(1,066,730)
Proceeds from passenger facility charges	170,412	157,620
Proceeds from customer facility charges	50,522	32,111
Capital contributed by federal agencies	60,154	100,149
Net cash used for capital and related financing activities	(581,147)	(619,518)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	36,121	25,307
Net change in fair value of investments	(25,232)	(20,738)
Cash collateral received (paid) under securities lending transactions	18,448	(18,293)
(Purchases) sales of investments	(93,185)	68,715
(Purchases) of investments held by fiscal agents	(93,818)	(11,440)
Net cash (used in) provided by investing activities	(157,666)	43,551
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,902	178,443
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,683,910	2,505,467
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,708,812	$ 2,683,910

	2018	2017
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 901,543	$ 769,241
Investments with fiscal agents- unrestricted	1,933	22,282
Cash and pooled investments held in City Treasury- restricted	874,262	967,893
Investments with fiscal agents- restricted	931,074	924,494
Total cash and cash equivalents	$ 2,708,812	$ 2,683,910
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 267,045	$ 288,013
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	360,638	298,176
Change in provision for uncollectible accounts	—	(1,043)
Other nonoperating revenues, net	39,291	3,901
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	—	11,885
Unbilled receivables	22,414	(6,032)
Prepaid expenses and inventories	(399)	196
Notes receivable	11,231	—
Contracts and accounts payable	47,158	(20,759)
Accrued salaries	715	2,657
Accrued employee benefits	949	804
Other liabilities	(8,121)	19,954
Net pension and OPEB liability and related changes in deferred outflows and inflows of resources	10,269	17,178
Total adjustments	484,145	326,917
Net cash provided by operating activities	$ 751,190	$ 614,930
SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 148,912	$ 145,827
Revenue bonds proceeds received in escrow trust fund	262,851	224,967
Debt defeased and related costs paid through escrow trust fund with revenue bonds	(262,851)	(224,967)
Contributions of capital assets	5,857	12,387
Land transferred to ONT	—	(32,326)

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

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

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1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX) and Van Nuys Airport (VNY) general aviation airport. In addition LAWA owns approximately 17,750 acres of land located east of United States Air Force Plant 42 in the City of Palmdale and retains the rights for future development of the Palmdale property. On November 1, 2016, the City transferred, assigned and delivered to Ontario International Airport Authority (OIAA) the City's right, title to and interest in certain assets, properties, rights and interests solely used or held solely for use in connection with LAWA's operation of ONT International Airport (ONT) pursuant to the Settlement Agreement described in Note 17 of the notes to the financial statements.

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

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

b. Basis of Accounting

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

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

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'. 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. 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.

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.

d. Accounts Receivables 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 2018 and 2017 were $45.2 million and $34.7 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.

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

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. Landing fees are 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 end.

j. Terminal Rates and Charges

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

The rates were effective January 1, 2013 to airlines and airline consortia (signatory airlines) agreeing to the methodology and executing a rate agreement with LAWA. Agreements with signatory airlines terminate on December 31, 2022. The rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period; this program expired in fiscal year 2018 for the calendar 2018 rate setting.

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

k. Concession Revenue

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

l. Unearned Revenue

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

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leave. LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave. Accrued employee benefits as of June 30, 2018 and 2017 are as follows (amounts in thousands):

Type of benefit	2018	2017
Accrued vacation leave	$ 24,709	$ 23,986
Accrued sick leave	23,129	22,903
Sub-total	47,838	46,889
Current portion	(4,258)	(5,580)
Noncurrent portion	$ 43,580	$ 41,309

Notes to the Financial Statements
June 30, 2018 and 2017
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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 has deferred charges on debt refunding to account for gains/losses on refunding transactions, and deferred outflows/inflows of resources related to pensions and other postemployment benefit (OPEB).

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

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

q. Net Position

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

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

- *Restricted Net Position* - This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Unspent proceeds held for reserves on capital related debt were offset by their respective liabilities; therefore, the net position restricted for debt service was $0 at June 30, 2018 and 2017, respectively.

- *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. Adjustment of Net Position due to Implementation of GASB Statement No. 75 and No. 85

The net position at July 1, 2017 was adjusted by $76.5 million to account for the change in accounting principle as a result of the implementation of GASB Statements No. 75 and No. 85 (amounts in thousands):

	2018
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	$ 4,969,250
Change in accounting principle as a result of implementation of GASB Statement No. 75 and 85	(76,496)
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	$ 4,892,754

The beginning of the year net position for fiscal year 2017 was not restated because all of the information available to restate prior year amounts was not readily available.

Notes to the Financial Statements
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(continued)

u. Reclassifications

Certain reclassifications have been made to fiscal year 2017 amounts in order to conform to the fiscal year 2018 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 2018.

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.

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

As of July 1, 2017, LAX adopted the provisions of GASB Statements No. 75 and No. 85 and adjusted the beginning net position by $76.5 million to recognize LAX's proportionate share of net OPEB liability as of July 1, 2017. Additional information can be found in Note 1(t).

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

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

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

Issued in March 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Implementation of this statement is effective fiscal year 2019.

Issued in June 2018, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Implementation of this statement is effective fiscal year 2021.

3. Cash and Investments

a. Pooled Investments

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

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

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of $1.8 billion and $1.7 billion in the Pool represented approximately 19.5% and 20.0% as of June 30, 2018 and 2017, 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 2018 and 2017 were $9.5 million and $102.7 million, respectively, and were reported as other current liabilities in the statement of net position. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

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

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

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

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and related obligation for the general investment pool. At June 30, 2018, LAX's portion of the cash collateral and the related obligation in the City's program was $31.4 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2018 was $31.4 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, 2018 was $54.2 million. At June 30, 2017, LAX's portion of the cash collateral and the related obligation in the City's program was $13.0 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2017 was $13.0 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAX's portion of the noncash collateral at June 30, 2017 was $200.3 million.

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, 2018 and 2017 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 as of June 30 (amounts in thousands):

	2018	2017
Unrestricted, current		
Commercial paper and cash at bank	$ 1,933	$ 22,282
Restricted, current and noncurrent		
Bond security funds	521,122	455,125
Construction funds	521,355	486,954
Subtotal	1,042,477	942,079
Total	$ 1,044,410	$ 964,361

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, 2018, 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	$ 428,576	$ 428,576	$ —
State of California LAIF	222,479	—	222,479
U.S. Treasury securities	391,422	280,019	111,403
Subtotal	1,042,477	$ 708,595	$ 333,882
Bank deposit accounts	1,933		
Total	$ 1,044,410		

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

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

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, 2018, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1
Money Market Funds	$ 428,576	$ 428,576
U.S. Treasury securities	391,422	391,422
Total investments by fair value level	819,998	$ 819,998
Investments not subject to fair value hierarchy		
State of California LAIF	222,479	
Bank deposit accounts	1,933	
Total	$ 1,044,410	

At June 30, 2017, the investments by fair value level are as follows (amounts in thousands):

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

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, 2018 and 2017, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's.

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

As of June 30, 2018, LAX's investments in the LAIF held by fiscal agents totaled $222.5 million. The total amount invested by all public agencies in LAIF at that date was $22.5 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2018, the investments in the PMIA totaled $88.9 billion, of which 97.3% is invested in non-derivative financial products and 2.7% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 193 days as of June 30, 2018. LAIF is not rated. As of June 30, 2017, LAX's investments in the LAIF held by fiscal agents totaled $333.4 million. The total amount invested by all public agencies in LAIF at that date was $22.8 billion. The LAIF is part of the State's PMIA. As of June 30, 2017, the investments in the PMIA totaled $77.6 billion, of which 97.1% is invested in non-derivative financial products and 2.9% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 194 days as of June 30, 2017. LAIF is not rated.

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The Local Investment Advisory Board (Advisory Board) has oversight responsibility for LAIF. The Advisory 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 2018 (amounts in thousands):

	Balance at June 30, 2017	Additions	Retirements & disposals	Transfers	Balance at June 30, 2018
Capital assets not depreciated					
Land and land clearance	$ 909,577	$ —	$ —	$ 211,719	$ 1,121,296
Air easements	44,346	—	—	—	44,346
Emission reduction credits	3,070	—	—	(298)	2,772
Construction work in progress	1,207,215	1,415,338	(22)	(1,081,649)	1,540,882
Total capital assets not depreciated	2,164,208	1,415,338	(22)	(870,228)	2,709,296
Capital assets depreciated					
Buildings	3,565,932	—	—	4,822	3,570,754
Improvements	4,800,904	2,465	—	830,406	5,633,775
Equipment and vehicles	253,220	8,797	(57,263)	(3,087)	201,667
Others	—	—	—	38,087	38,087
Total capital assets depreciated	8,620,056	11,262	(57,263)	870,228	9,444,283
Accumulated depreciation					
Buildings	(601,284)	(113,004)	—	—	(714,288)
Improvements	(1,409,186)	(234,457)	—	33,040	(1,610,603)
Equipment and vehicles	(184,957)	(13,177)	52,996	(33,040)	(178,178)
Total accumulated depreciation	(2,195,427)	(360,638)	52,996	—	(2,503,069)
Capital assets depreciated, net	6,424,629	(349,376)	(4,267)	870,228	6,941,214
Total	$ 8,588,837	$ 1,065,962	$ (4,289)	$ —	$ 9,650,510

Notes to the Financial Statements
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(continued)

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

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

5. Commercial Paper

As of June 30, 2018 and 2017, LAX had outstanding commercial paper (CP) notes of $60.8 million and $48.7 million, respectively. The respective average interest rates in effect as of June 30, 2018 and 2017 were 1.96% and 1.07%. 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: Barclays Bank PLC for $109.0 million to expire on September 11, 2020; Sumitomo Mitsui Banking Corporation; acting through its New York Branch for $218.0 million to expire on September 11, 2020; and Wells Fargo Bank for $218.0 million to expire on September 11, 2020 . LAX paid the LOC banks an annual commitment fee ranging from 0.30% and 0.32% on the stated amount of the LOC. LOC fees of $1.8 million and $2.0 million were paid for fiscal years 2018 and 2017, respectively.

LAX had the following CP activity during fiscal year 2018 (amounts in thousands):

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018
Series B	$ 3,081	$ 16,299	$ —	$ 19,380
Series C	45,655	692	(4,895)	41,452
Total	$ 48,736	$ 16,991	$ (4,895)	$ 60,832

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

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

Notes to the Financial Statements
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(continued)

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, 2018 and 2017 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal 2018	Outstanding principal 2017
Issue of 2008, Series A	8/6/08	3.750% - 5.500%	2038	$ 602,075	$ —	$ 279,025
Issue of 2008, Series C	8/6/08	3.000% - 5.250%	2038	243,350	5,905	11,540
Issue of 2009, Series A	12/3/09	2.000% - 5.250%	2039	310,410	263,775	270,800
Issue of 2009, Series C	12/3/09	5.175% - 6.582%	2039	307,350	281,570	290,455
Issue of 2009, Series E	12/3/09	2.000% - 5.000%	2020	39,750	8,915	13,055
Issue of 2010, Series A	4/8/10	3.000% - 5.000%	2040	930,155	851,545	870,185
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	827,665	837,165
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	72,510	79,940
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	130,455	133,480
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	9,660	15,825
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	65,755	67,650
Issue of 2015, Series A	2/24/15	2.000% - 5.000%	2045	267,525	258,120	262,030
Issue of 2015, Series B	2/24/15	3.000% - 5.000%	2045	47,925	46,200	47,075
Issue of 2015, Series C	2/24/15	2.000% - 5.000%	2035	181,805	179,300	180,165
Issue of 2015, Series D	11/24/15	5.000%	2041	296,475	284,815	290,785
Issue of 2015, Series E	11/24/15	2.000% - 5.000%	2041	27,850	26,145	27,010
Issue of 2016, Series A	6/1/16	3.000% - 5.000%	2042	289,210	281,265	287,605
Issue of 2016, Series B	1/19/17	4.000% - 5.000%	2046	451,170	450,990	451,170
Issue of 2016, Series C	12/6/16	1.425% - 3.887%	2038	226,410	223,885	226,410
Issue of 2017, Series A	7/26/17	5.000%	2047	260,610	260,610	—
Issue of 2017, Series B	7/26/17	5.000%	2042	88,730	88,730	—
Issue of 2018, Series A	3/15/18	4.000% - 5.250%	2048	426,475	426,475	—
Issue of 2018, Series B	4/12/18	5.000%	2034	226,500	226,500	—
Total principal amount				$ 6,814,590	5,635,515	5,006,095
Unamortized premium					445,581	320,461
Unamortized discount					—	(3,080)
Net revenue bonds					6,081,096	5,323,476
Current portion of debt					(120,830)	(107,850)
Net noncurrent debt					$ 5,960,266	$ 5,215,626

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. The bonds are secured by a lien on and pledge of pledged revenues as defined in the master senior and subordinate indentures, which lien and pledge remains in place until the bonds are no longer outstanding. Under the bond indentures, pledged revenues include substantially the total operating revenue with the Build America Bonds (BABs) subsidy, nonoperating Transportation Security Administration (TSA) revenue, interest income net of PFC, CFC and construction funds, but do not include PFC revenues, CFC revenues, and certain other nonoperating revenues.

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 $136.0 million and $118.0 million were used for debt service in fiscal years 2018 and 2017, respectively.

The total principal and interest remaining to be paid on the bonds is $9.9 billion. Principal and interest paid during fiscal year 2018 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, after application of the $136.0 million PFCs funds discussed in the preceding paragraph), were $372.9 million and $793.9 million, respectively. Principal and interest paid during fiscal year 2017 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, after application of the $118.0 million PFCs funds discussed in the preceding paragraph), were $339.1 million and $735.5 million, respectively.

c. Bond Issuances

On July 26, 2017, LAX issued $260.6 million of subordinate revenue bonds Series 2017A with a premium of $38.8 million, and $88.7 million subordinate revenue bonds Series 2017B with a premium of $15.9 million. On March 15, 2018, LAX issued $426.5 million subordinate revenue bonds Series 2018A with a premium of $54.1 million. On April 12, 2018, LAX issued $226.5 million senior refunding revenue bonds Series 2018B with a premium of $37.3 million. The Series 2017A, 2017B, and 2018A bonds were issued to fund certain capital projects at LAX. The Series 2018B bonds were issued to refund and defease a portion of the Series 2008A senior revenue bonds in an amount of $265.0 million. This transaction resulted in a cash flow savings of $72.7 million and an economic gain of $52.7 million.

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

Notes to the Financial Statements
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d. Principal Maturities and Interest

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

Fiscal year(s) ending	Principal	Interest	Total
2019	$ 120,830	$ 287,356	$ 408,186
2020	129,490	277,200	406,690
2021	137,820	271,440	409,260
2022	144,415	264,856	409,271
2023	149,760	257,927	407,687
2024 - 2028	888,205	1,166,937	2,055,142
2029 - 2033	1,142,155	913,579	2,055,734
2034 - 2038	1,474,695	592,490	2,067,185
2039 - 2043	1,037,570	226,616	1,264,186
2044 - 2048	410,575	51,965	462,540
Total	$ 5,635,515	$ 4,310,366	$ 9,945,881

e. Build America Bonds (BABs)

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 BABs under the American Recovery and Reinvestment Act of 2009. LAWA receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as “sequestration”) for the federal fiscal years ending September 30, 2018 and September 30, 2017 reduced the subsidy. The interest subsidy on the BABs was $7.5 million in fiscal year 2018 and $7.6 million in fiscal year 2017. 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, 2018 (amounts in thousands):

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Current Portion
Revenue bonds	$ 5,006,095	$ 1,002,315	$ (372,895)	$ 5,635,515	$ 120,830
Unamortized premium	320,461	146,064	(20,944)	445,581	—
Unamortized discount	(3,080)	—	3,080	—	—
Net revenue bonds	5,323,476	1,148,379	(390,759)	6,081,096	120,830
Accrued employee benefits	46,889	6,529	(5,580)	47,838	4,258
Estimated claims payable	78,484	26,728	(8,137)	97,075	10,349
Liability for environmental/ hazardous materials cleanup	7,500	—	(7,500)	—	—
Net pension liability	761,187	—	(50,463)	710,724	—
Net OPEB liability	—	89,614	(13,304)	76,310	—
Other long-term liabilities	886	—	(1)	885	—
Total	$ 6,218,422	$ 1,271,250	$ (475,744)	$ 7,013,928	$ 135,437

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

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

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

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, 2018 and 2017, revenues from such agreements were approximately $356.9 million and $329.8 million, respectively. The respective amounts over MAG were $96.9 million and $110.3 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
2019	$	185,802
2020		141,974
2021		125,740
2022		97,728
2023		91,730
Total	$	642,974

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

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

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

Under the 6-22-12 Agreement, the MAG will be adjusted each year by the greater of (a) $240 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis beginning January 1, 2014. Please refer to note 19 of the notes to the financial statements relating to a subsequent amendment of the Westfield Agreements.

On November 13, 2017, LAWA and Westfield entered into an amendment related to TBIT and Terminal 2 for additional concession space of up to 30,000 square feet in the Midfield Satellite Concourse (MSC). The construction of the new concourse started in February 2017 and is expected to be completed by 2021.

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
2019	$	38,028
2020		38,979
2021		39,953
2022		40,952
2023		42,494
Total	$	200,406

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, 2018 and 2017, revenues from these leases were $635 million and $592 million, respectively.

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

Fiscal year ending	Amount
2019	$ 626,960
2020	608,416
2021	593,358
2022	522,578
2023	473,354
Total	$ 2,824,666

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2018 and 2017 are as follows (amounts in thousands):

	2018	2017
Buildings and facilities	$ 5,582,528	$ 4,939,989
Accumulated depreciation	(1,038,013)	(838,408)
Net	4,544,515	4,101,581
Land	522,328	525,616
Total	$ 5,066,843	$ 4,627,197

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b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2018 and 2017 were both $7.1 million. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending		Amount
2019	$	7,228
2020		5,730
2021		3,643
2022		3,643
2023		3,643
2024-2028		17,298
2029-2033		7,584
Total	$	48,769

9. Passenger Facility Charges

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. The current PFCs is $4.50 per enplaned passenger. PFCs collection authorities approved by FAA are $4.2 billion and $4.1 billion as of June 30, 2018 and 2017, respectively. LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of $136.0 million and $118.0 million were used for debt service in fiscal years 2018 and 2017, respectively.

The following is a summary of projects approved by FAA as of June 30, 2018 and 2017 (amounts in thousands):

	2018	2017
Terminal development	$ 3,141,679	$ 3,141,679
Noise mitigation	953,745	863,745
Airfield development and equipment	83,620	83,620
Total	$ 4,179,044	$ 4,089,044

PFCs collected and the related interest earnings through June 30, 2018 and 2017 were as follows (amounts in thousands):

	2018	2017
Amount collected	$ 2,453,805	$ 2,282,374
Interest earnings	214,429	209,050
Total	$ 2,668,234	$ 2,491,424

Cumulative expenditures on approved PFCs projects totaled $2.3 billion and $2.0 billion for fiscal years 2018 and 2017, respectively.

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

10. Customer Facility Charges

In November 2001, in anticipation of constructing a consolidated rental car facility (ConRAC) identified in LAX's master plan, the Board approved collection of CFCs of $10.00 per rental contract and began collections in August 2007.

California CFC Legislation permits LAWA to require the collection by rental car companies of CFCs at a rate charged on a per-day basis up to $9.00 per day (for up to 5 days), and CFCs collected by the rental car companies on behalf of LAWA are permitted under the California CFC Legislation to finance, design and construct the ConRAC; to finance, design, construct and operate the APM System, as well as acquiring vehicles for use in that system; and to finance, design and construct terminal modifications to accommodate the common-use transportation system.

On October 5, 2017, the Board authorized collection of an updated CFC pursuant to the California CFC Legislation to fund costs of a ConRAC and its share of a common-use transportation system (CTS) at LAX. The Board authorized collection of CFCs of $7.50 per day for the first five days of each car rental contract, starting January 1, 2018, by rental car companies serving LAX.

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, 2018 and 2017 were as follows (amounts in thousands):

	2018	2017
Amount collected	$ 322,428	$ 266,669
Interest earnings	21,348	17,377
Total	$ 343,776	$ 284,046

Cumulative expenditures on approved CFCs projects totaled $3.0 million for fiscal years 2018 and 2017.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $54.3 million and $87.8 million in fiscal years 2018 and 2017, 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, 2018 and 2017 were $116.1 million and $106.1 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during both fiscal years 2018 and 2017 was $10.8 million.

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

Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent was $1.1 million for fiscal years 2018 and 2017 . The details are as follows (amounts in thousands):

	2018	2017
Allocated administrative costs		
ONT	$ —	$ 2,048
VNY	2,405	2,241
PMD	446	296
Total	2,851	4,585
Land rental	(1,157)	(1,132)
Net	$ 1,694	$ 3,453

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. The balance of $2.9 million was reported as receivable within one year under unrestricted current assets for both June 30, 2018 and 2017. The outstanding principal amount of $2.9 million was reported as receivable beyond one year under other noncurrent assets at June 30, 2017. There was no receivable beyond one year reported under other noncurrent assets at June 30, 2018.

13. Pension Plan

I. *Los Angeles City Employees' Retirement System*

a. General Information

Plan Description

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

All employees who became members of LACERS before July 1, 2013 are designated as Tier 1 members. On or after July 1, 2013, new employees became members of LACERS Tier 2. However, on July 9, 2015, Tier 2 was rescinded and a new tier of benefits was created. As a result, Ordinance No. 184134 was adopted on January 12, 2016, where all active Tier 2 members were transferred to Tier 1 as of February 21, 2016. Thereafter, new members became Tier 3 members of LACERS.

LACERS' publicly issued financial report, which covers both pension benefits and other postemployment benefits, may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328 or LACERS' website *http://lacers.org/aboutlacers/reports/index.html*. As a City department, LAWA shares in the risks and costs with the City. LAX presents the related defined benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the report date of LAX's financial statements, LACERS' financial statements and the Pension Plan's actuarial valuation study for fiscal year 2018 are not yet available.

Benefits Provided

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

LACERS Tier 1 members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the member's average monthly pensionable salary during the member's last 12 months of service, or during any other 12 consecutive months of service designated by the member, multiplied by the member's years of service credit. Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater.

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

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

Tier 3 members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater. Upon an active member's death, a refund of the member's contributions and, depending on the member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired member's death, a $2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

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Retirement allowances are indexed annually for inflation. The LACERS Board of Administration has authority to determine the average annual percentage change in the Consumer Price Index (CPI) for the purpose of providing a cost-of-living adjustment (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

The components of LACERS membership in both tiers (Tier 1 and Tier 3) for the measurement dates as of June 30, 2017 and June 30, 2016, respectively, were as follows: (Note: information for fiscal year 2018 is not yet available as of this report issue date.)

		2017	2016
Active			
	Vested	19,188	20,078
	Non-vested	6,269	4,368
		25,457	24,446
Inactive			
	Non-vested	5,078	4,677
	Terminated entitled to benefits, not yet receiving benefits	2,350	2,218
	Retired	18,805	18,357
Total		51,690	49,698

Member Contributions

The current contribution rate for most of the Tier 1 members is 11% of their pensionable salary including a 1% increase in the member contribution rate pursuant to the 2009 Early Retirement Incentive Program (ERIP) ordinance for all employees for a period of 15 years (or until the ERIP cost obligation is fully recovered, whichever comes first); and 4% additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy pursuant to a 2011 City Council ordinance. As of June 30, 2018 and June 30, 2017, all active Tier 1 members are now paying additional contributions, and are not subject to the retiree medical subsidy cap. The contribution rate for Tier 3 members is 11% of their pensionable salary including 4% of additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy. Unlike Tier 1, Tier 3 members do not pay the ERIP contribution, therefore, Tier 3 members' contribution rate will not drop down when Tier 1 members cease to pay the 1% ERIP contribution.

Employer Contributions

The City contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Administration. Employer contribution rates are adopted annually based upon recommendations received from LACERS actuary after the completion of the annual actuarial valuation. The average employer contribution rates were 22.88% and 23.02% of compensation[8] as of June 30, 2017 (based on the June 30, 2015 valuation) and June 30, 2016 (based on the June 30, 2014 valuation), respectively. (Note: information for fiscal year 2018 is not yet available as of this report issue date).

The total City contributions to LACERS of $686.6 million and $681.0 million for the years ended June 30, 2018 and June 30, 2017, respectively, consisted of the following (amounts in thousands):

	2018	2017
Required contributions - Retirement Plan	$ 450,195	$ 453,356
Family death benefit Plan	143	148
Total City contributions	450,338	453,504
Member contributions - Retirement Plan	236,222	227,532
Total	$ 686,560	$ 681,036

The required City contribution of $450.2 million was equal to 100% of the actuarially determined employer contribution. Member contributions of $236.2 million were made toward the retirement and voluntary family death benefits for fiscal year 2018.

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

LAX's Contributions to the Pension Plan

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

	2018	2017
LAX's required contributions to the Pension Plan	$ 60,918	$ 61,197

The LAX contributions made to the Pension Plan under the required contribution category in the amounts of $60.9 million and $61.2 million for fiscal years 2018 and 2017, respectively, were equal to 100% of the actuarially determined contribution of the employer.

[8] *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.*

Notes to the Financial Statements
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(continued)

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

LACERS' Net Pension Liability (NPL) for fiscal year 2018 was measured as of June 30, 2017 and determined based upon the Plan Fiduciary Net Position (FNP) and Total Pension Liability (TPL) from actuarial valuation as of June 30, 2017. LACERS' NPL for fiscal year 2017 was measured as of June 30, 2016 and determined based upon the FNP and TPL from actuarial valuation as of June 30, 2016.

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.

As of the reporting date June 30, 2018 (measurement date of June 30, 2017), LAX reported its proportionate shares of TPL, FNP and NPL[9] as follows (amounts in thousands):

	Reporting date 6/30/18 Measurement date 6/30/17
LAX's proportionate share:	
Total Pension Liability	$ 2,485,693
Plan Fiduciary Net Position	(1,774,969)
Net Pension Liability	$ 710,724
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	71.41%

LAX's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAX during fiscal year 2017. The NPL was measured as of June 30, 2017 and determined based upon the Pension Plan's FNP (plan assets) and TPL from actuarial valuations as of June 30, 2017.

[9] On March 28, 2017, the City Council adopted Ordinance No. 184853 to amend the Los Angeles Administrative Code authorizing certain sworn Airport Peace Officers (APO) at LACERS to elect to transfer to Tier 6 of LAFPP Plan or to remain in LACERS Plan. All new APO hired after January 7, 2018 would be enrolled in LAFPP Tier 6. The Governmental Accounting Standards(GAS) 68 Actuarial Valuation Report based on June 30, 2017 Measurement Date for Employer Reporting as of June 30, 2018 did not include any additional liabilities associated with the enhanced benefits for the APO who would elect to remain in LACERS since the elections had not yet been completed at the time the actuary prepared the GAS 68 Actuarial Valuation Report. Similarly, the actuary did not include any decrease in liabilities associated with APO members transferring to LAFPP in the GAS 67 Actuarial Valuation Report, for the same reason. Based on discussions with LACERS, the actuary have been directed to continue excluding any increases or decreases in liabilities associated with any APO benefit enhancements at LACERS and APO transfers to LAFPP for the June 30, 2017 (measurement date) GAS 68 Valuation Report. For more information on the transfer to LAFPP, please refer to Note 13, Part II, City of Los Angeles Fire and Police Pensions, of the notes to the financial statements.

Change in LAX's proportionate share of the NPL as of June 30, 2018 (measurement date June 30, 2017) and 2017 (measurement date June 30, 2016) was as follows (amounts in thousands):

	NPL	Proportion
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	$ 710,724	13.47%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	$ 761,187	13.55%
Change - (Decrease)	$ (50,463)	(0.08)%

For the year ended June 30, 2018, LAX recognized pension expense of $72.0 million. At June 30, 2018, 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	$ 60,948	$ —
Differences between expected and actual experience	—	55,451
Changes of assumptions	67,422	—
Net difference between projected and actual earnings on pension plan investments	7,960	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,667	15,743
Total	$ 139,997	$ 71,194

$60.9 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 ending June 30, 2019. 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
2019	$ (1,165)
2020	22,584
2021	799
2022	(15,092)
2023	729

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by actuarial valuation as of June 30, 2017, using the following actuarial assumptions[10], applied to all periods included in the measurement:

Inflation	3.00%
Discount rate	7.25%
Salary increases	Ranges from 3.90% to 10.00% based on years of service, including inflation
Investment rate of return	7.25%, net of pension plan investment expenses, 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, 3.90% 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 3.00% 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 3.00% is used to approximate that crediting rate in this valuation
Actuarial Cost Method	Entry Age Cost Method

[10] *The actuarial assumptions used in the June 30, 2017 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, 2017 funding actuarial valuation for LACERS.*

Discount Rate

The discount rates used to measure the total pension liability was 7.25% as of June 30, 2018. 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 June 30, 2018.

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	19.00%	5.61%
U.S. Small Cap Equity	5.00%	6.48%
Developed International Equity	19.00%	7.08%
Developed International Small Cap Equity	3.00%	7.32%
Emerging Market Equity	7.00%	9.35%
Core Bonds	19.00%	1.08%
Private Real Estate	5.00%	4.44%
Cash	1.00%	-0.06%
Credit Opportunities	5.00%	3.75%
Public Real Assets	5.00%	3.35%
Private Equity	12.00%	8.97%
Total	100.00%	

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

Sensitivity of LAX's 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, 2018, calculated using the discount rate of 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate (amounts in thousands):

	June 30, 2018
1% decrease	6.25%
Net Pension Liability	$1,039,941
Current discount rate	7.25%
Net Pension Liability	$710,724
1% increase	8.25%
Net Pension Liability	$436,761

II. *City of Los Angeles Fire and Police Pensions*

General Information

In November 2016, voters approved a ballot measure that allowed for approximately 500 sworn Airport Peace Officers (APO) to opt-out of the LACERS Plan and transfer to the City of Los Angeles Fire and Police Pensions (LAFPP) as Tier 6 members. On March 28, 2017, the City Council adopted Ordinance No. 184853 to amend the Los Angeles Administrative Code authorizing certain sworn APO at LACERS an option to transfer to Tier 6 of LAFPP Plan or to remain in the LACERS Plan. All new APO hired after January 7, 2018 would be enrolled in LAFPP Tier 6. Under the ordinance, APO members who elect to remain in LACERS would be Tier 1 members, and be eligible for enhanced benefits including more favorable disability benefits, death benefits, and a higher retirement factor of 2.3% (versus 2.16% for all other Tier 1 members), contingent upon a mandatory additional contribution payment of $5,700 per remaining member to LACERS. The enhanced benefits was effective from January 7, 2018.

LACERS transferred $3.0 million of allocated discounted APO assets to LAFPP in January 2018 for fiscal year 2018. Out of the $3.0 million allocated discounted APO assets, $2.5 million relates to LACERS pension assets, and $0.5 million relates to LACERS health assets.

Plan Description

LAFPP operates under the City of Los Angeles Charter and Administrative Code provisions as a single-employer defined benefit pension plan covering all full-time active sworn firefighters, police officers, certain LAWA APO and Harbor Port Police officers of the City of Los Angeles. LAFPP is composed of six tiers.

Tier 6 is the current tier for all LAWA APO hired on or after January 7, 2018. Under provisions of the City Charter, the City Administrative Code and the State Constitution, the LAFPP Board has the responsibility to administer the plan. Changes to the benefit terms require approval by the City Council.

LAFPP issues a publicly available financial report that may be obtained by writing or calling: Los Angeles Fire and Police Pension System, 360 E. Second Street, Suite 400, Los Angeles, CA 90012, (213) 978-4545 or LAFPP's website https://www.lafpp.com/about/financial-reports. As of the completion date of LAWA's financial statements, the LAFPP's financial statements and the plan's actuarial valuation study for fiscal year 2018 are not yet available.

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

Benefits Provided

Information about benefits for Tiers 1 through 5 members is available in the separately issued LAFPP financial report. Tier 6 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for postemployment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus LAFPP Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Member Contributions

The Board of Administration/Commissioners of LAFPP establishes and may amend the contribution requirements of members and the City. The City's annual contribution for the LAFPP plan is actuarially determined and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions.

All members are required to make contributions to LAFPP regardless of tier in which they are included. However, members are exempt from making contributions when their continuous service exceeds 30 years for Tier 1 through 4, and 33 years for Tier 5 and Tier 6. The average member contribution rates for fiscal year 2017 (based on the June 30, 2015 valuation) was 9.23% of compensation paid biweekly. The average member contribution rates for fiscal year 2016 (based on the June 30, 2014 valuation) was 9.60% of compensation paid biweekly.

LAX's Contributions to the LAFPP Plan

In fiscal year 2018, LAX's contribution rate for the APO that are members of the LAFPP Tier 6 plan, as determined by the actuary is 23.54% of covered payroll. Based on LAX's reported covered payroll of $1.9 million for Tier 6, LAX's pro rata share of the combined actuarially determined contribution for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was $0.4 million (100% of actuarially determined contribution) for the period between January and June 2018. LAX made no contributions to the LAFPP Plan for fiscal year 2017 since the LAFPP Plan was effective for LAX's APO starting from fiscal year 2018.

14. Other Postemployment Benefit Plan (OPEB)

a. General Information

Plan Description

Los Angeles City Employees' Retirement System (LACERS) provides other postemployment health care benefits under a Postemployment Health Care Plan to eligible retirees and their eligible spouses/domestic partners who participate in the Pension Plan. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for a health insurance premium subsidy. This subsidy is to be funded entirely by the City. These benefits may also extend to the coverage of other eligible dependent(s). To be eligible for health care benefits, member must: 1) be at least age 55; 2) had at least 10 whole years of service with LACERS; and 3) enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). Retirees and surviving spouses/domestic partners can choose from the health plans that are available, which include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. Retirees and surviving spouses/domestic partners receive medical subsidies based on service years and service credit. The dental subsidies are provided to the retirees only, based on service years and service credit.

LACERS' publicly issued financial report, which covers both pension benefits and other postemployment benefits, may be obtained by writing or calling: Los Angeles City Employees’ Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328 or LACERS’ website *http://lacers.org/aboutlacers/reports/index.html*. As a City department, LAWA shares in the risks and costs with the City. LAX presents the related OPEB benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the report date of LAX's financial statements, LACERS' financial statements and the OPEB's actuarial valuation study for fiscal year 2018 are not yet available.

Benefits Provided

The maximum subsidies are set annually by the LACERS Board of Administration. Both Tier 1 and Tier 3 members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and the eligible members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service. Eligible spouses/domestic partners of Pension Plan members are entitled to LACERS’ postemployment health care benefits after the retired member’s death. During the 2011 fiscal year, the City adopted an ordinance (Subsidy Cap Ordinance) to limit the maximum medical subsidy at $1,190 for those members who retire on or after July 1, 2011; however, members who at any time prior to retirement made additional contributions are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2017, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

Membership

As of the measurement date June 30, 2017, the components of membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows: (Note: information for fiscal year 2018 is not yet available as of this report issue date.)

	2017
Retirement members/Surviving spouses (1)	14,652
Vested terminated members entitled to, but not yet receiving benefits (2)	1,280
Active members	25,457
Total	41,389

(1) Total participants including married dependents and dependent children currently receiving benefits are 19,539.
(2) Includes terminated members due a refund of employee contributions.

Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 require 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 the Postemployment Health Care Plan for the fiscal year ended June 30, 2017, was 4.74% of covered payroll, determined by the June 30, 2015 actuarial valuation. (Note: information for fiscal year 2018 is not yet available as of this report issue date.)

LACERS uses the Entry Age cost method to determine the required annual contribution amount for the Postemployment Health Plan. The required annual contribution amount is composed of two components: normal cost which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the unfunded actuarial accrued liability (UAAL) which is the difference between LACERS actuarial liabilities and actuarial assets. The components of the UAAL are amortized as a level percent of pay. Based on LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 years, except that health cost trend and premium assumption changes are amortized over 15 years. Plan changes and experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period of 30 years for all layers combined. The amortization periods are closed as each layer of the UAAL is systematically amortized over a fixed period.

The total contributions to LACERS for the year ended June 30, 2017 was $97.5 million, representing 100% of the Actuarially Determined Contribution (ADC) of the employer as defined by GASB Statement No. 74[11]. (Note: information for fiscal year 2018 is not yet available as of this report issue date.)

LAX's Contributions to the Postemployment Health Care Plan

LAX's contributions to the Postemployment Health Care Plan for the years ended June 30 (amounts in thousands):

	2018	2017
LAX's required contributions to the Postemployment Health Care Plan	$ 13,586	$ 13,225

LAX's contributions made for the Postemployment Health Care Plan, in the amounts of $13.6 million and $13.2 million for fiscal years 2018 and 2017, respectively, represent 100% of the ADC as defined by GASB Statement No. 74. The Postemployment Health Care Plan is administered through a trust that meets the criteria of GASB Statement No. 75[12].

[11] *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued in June 2015*

[12] *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, issued in June 2015*

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

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

LACERS' Net OPEB Liability (NOL) for fiscal year 2018 was measured as of June 30, 2017 and determined based upon the Plan Fiduciary Net Position (FNP) and Total OPEB Liability (TOL) from actuarial valuation as of June 30, 2017.

As of the reporting date June 30, 2018 (measurement date of June 30, 2017), LAX reported its proportionate shares of TOL, FNP and NOL[13] as follows (amounts in thousands): (Note: information for fiscal year 2018 is not yet available as of this report issue date.)

	Reporting date 6/30/18 Measurement date 6/30/17
Total OPEB Liability	$ 404,579
Plan Fiduciary Net Position	(328,269)
Plan's Net OPEB Liability	$ 76,310
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	81.14%

LAX's NOL was measured as the proportionate share of the NOL based on the employer contributions made by LAWA during fiscal year 2017. The NOL was measured as of June 30, 2017 and determined based upon the Pension Plan's FNP (plan assets) and TOL from actuarial valuations as of June 30, 2017.

Change in LAX's proportionate share of the NOL as of June 30, 2018 (measurement date June 30, 2017) and 2017 (measurement date June 30, 2016) was as follows (amounts in thousands):

	NOL	Proportion
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	$ 76,310	13.46%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	$ 89,614	13.60%
Change - (Decrease)	$ (13,304)	(0.14)%

[13] On March 28, 2017, the City Council adopted Ordinance No. 184853 to amend the Los Angeles Administrative Code authorizing certain sworn Airport Peace Officers (APO) at LACERS to elect to transfer to Tier 6 of LAFPP Plan or to remain in LACERS Plan. All new APO hired after January 7, 2018 would be enrolled in LAFPP Tier 6. The Governmental Accounting Standards (GAS) 68 Actuarial Valuation Report based on June 30, 2017 Measurement Date for Employer Reporting as of June 30, 2018 did not include any additional liabilities associated with the enhanced benefits for the APO who would elect to remain in LACERS since the elections had not yet been completed at the time the actuary prepared the GAS 75 Actuarial Valuation Report. Similarly, the actuary did not include any decrease in liabilities associated with APO members transferring to LAFPP in the GAS 74 Actuarial Valuation Report, for the same reason. Based on discussions with LACERS, the actuary have been directed to continue excluding any increases or decreases in liabilities associated with any APO benefit enhancements at LACERS and APO transfers to LAFPP for the June 30, 2017 (measurement date) GAS 75 Valuation Report. For more information on the transfer to LAFPP, please refer to Note 13, Part II, City of Los Angeles Fire and Police Pensions, of the notes to the financial statements.

For the year ended June 30, 2018, LAX recognized the Postemployment Health Care Plan's OPEB expense of $12.7 million. At June 30, 2018, LAX reported deferred outflows of resources and deferred inflows of resources related to the Postemployment Health Care Plan from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
OPEB contributions subsequent to measurement date	$ 13,586	$ —
Differences between expected and actual experience	2,232	—
Changes of assumptions	3,805	—
Net difference between projected and actual earnings on OPEB plan investments	—	18,116
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	791
Total	$ 19,623	$ 18,907

$13.6 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to net OPEB liability will be recognized as OPEB expense as follows (amounts in thousands):

Fiscal year ending	Amount
2019	$ (3,556)
2020	(3,556)
2021	(3,556)
2022	(3,556)
2023	973
2024	381

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June 30, 2018 and 2017
(continued)

Actuarial Assumptions

The total OPEB liability as of June 30, 2018 was determined by actuarial valuation as of June 30, 2017. The attribution method and significant assumptions used to measure the total OPEB liability, including assumptions about inflation, and healthcare cost trend rates in the valuation year of June 30, 2017, are summarized below:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Cost Method – level percent of salary
Amortization Method	Level Percent of Payroll – assuming a 3.50% increase in total covered payroll
Actuarial Assumptions	
Date of Experience Study	June 30, 2014 (July 1, 2011 through June 30, 2014)
Long-term Expected Rate of Return	7.25%, net of OPEB plan investment expenses, including inflation assumption at 3.00%
Salary Increase	Range from 10.00% to 3.90% based on years of service, including inflation assumption at 3.00%
Spouse Age Difference	Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses
Mortality Table for Retirees and Beneficiaries	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and no set back for females
Mortality Table for Disabled Retirees	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward seven years for males and set forward eight years for females
Marital Status	60% of male and 30% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage
Surviving Spouse Coverage	With regard to members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the member's death
Participation	50% of inactive members are assumed to receive a subsidy for a City approved health carrier. 100% of retirees becoming eligible for Medicare are assumed to be covered by both Parts A and B
Health Care Cost Trend Rates	Medical Premium Trend Rates to be applied in the following fiscal years, to all health plans. Trend Rate is to be applied to the premium for shown fiscal year to calculate next fiscal year's projected premium Medical Premium Trend Rates to be applied to fiscal year 2018 are:

First fiscal year (July 1, 2017 through June 30, 2018)

Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	5.16%	5.72%
Anthem Blue Cross HMO	7.18%	N/A
Anthem Blue Cross PPO	7.23%	6.85%
UHC Medicare HMO	N/A	5.74%

Dental Premium Trend to be applied is 4.50% for all years

Medicare Part B Premium Trend for fiscal year 2018 is calculated based on the actual increase in premium from 2017 to 2018. 4.50% for years following the 2018 calendar year

Discount Rate

The discount rates used to measure the total OPEB liability, 7.25% as of June 30, 2018, was the long-term expected rate of return on the LACER Plan's investments.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rate 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 as follows:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	19.00%	5.61%
U.S. Small Cap Equity	5.00%	6.48%
Developed Int'l Equity	19.00%	7.08%
Developed Int'l Small Cap Equity	3.00%	7.32%
Emerging Market Equity	7.00%	9.35%
Core Bonds	19.00%	1.08%
Private Real Estate	5.00%	4.44%
Public Real Assets	5.00%	3.35%
Private Equity	12.00%	8.97%
Credit Opportunities	5.00%	3.75%
Cash	1.00%	-0.06%
Total	100.00%	

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, employer contributions are intended only to fund the benefits of current plan members and their beneficiaries.

Based on those assumptions, LACERS fiduciary net position was projected to be available to make all projected future benefit payments for current plan Members and their beneficiaries. Therefore, in accordance with the GASB Statement No. 74, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

Sensitivity of LAX's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents LAX's proportionate share of the net OPEB liability as of June 30, 2018, calculated using the discount rate of 7.25%, as well as what LAX's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (dollar in thousands):

	June 30, 2018
1% decrease	6.25%
Net OPEB Liability	$131,026
Current discount rate	7.25%
Net OPEB Liability	$76,310
1% increase	8.25%
Net OPEB Liability	$30,880

Sensitivity of LAX's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents LAX's proportionate share of the net OPEB liability as of June 30, 2018, as well as what LAX's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current trend rate[14] (dollar in thousands):

	June 30, 2018
1% decrease	
Net OPEB Liability	$23,777
Current Healthcare Cost Trend Rates	
Net OPEB Liability	$76,310
1% increase	
Net OPEB Liability	$144,365

[14] *Current trend rates: 6.87% graded down to 4.50% over 10 years for Non-Medicare medical plan costs; 6.37% graded down to 4.50% over 8 years for Medicare medical plan costs; and 4.50% for all years for Dental and Medicare Part B cost.*

15. Risk Management

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

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

Additionally, LAX maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits or where insurance is not available or viable. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. LAWA also monitors contractual transfer of risk by and through insurance review and requirements of contractors, tenants, airlines. For fiscal years 2018, 2017, and 2016, no claims were in excess of LAX's insurance coverage or approached a substantial portion of the overall coverage capacities.

A number of claims/lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities with a probability of occurring from these lawsuits. The probability weighted liability for litigation and other claims for the fiscal years ended June 30, 2018 and 2017 was $10.1 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, 2018 and 2017 were $87.0 million and $68.4 million, respectively.

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

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

	June 30		
	2018	2017	2016
Balance at beginning of year	$ 78,484	$ 74,376	$ 75,559
Provision for current year's events and changes in provision for prior years' events	26,728	12,503	7,149
Claims payments	(8,137)	(8,395)	(8,332)
Balance at end of year	$ 97,075	$ 78,484	$ 74,376
Current portion	(10,349)	(8,137)	(7,899)
Noncurrent portion	$ 86,726	$ 70,347	$ 66,477

16. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $114.2 million and $83.1 million as of June 30, 2018 and 2017, respectively. Significant amounts were committed for terminals and facilities, noise mitigation program, as well as airfield and runways. In addition, LAX expects to pay approximately $1.1 billion in payments to the Automated People Mover (APM) Developer during the design and construction period, in addition to future availability payments for capital, operating and maintenance costs over the life of the APM.

b. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns, including epidemics and pandemics. As a result of terrorist activities, certain international hostilities and risk of violent crime, LAWA has implemented enhanced security measures mandated by the FAA, the Transportation Security Administration (TSA), the Department of Homeland Security and Airport management. Current and future security measures may create significantly increased inconvenience, costs and delays at LAX which may give rise to the avoidance of air travel generally and the switching from air to ground travel modes and may adversely affect LAWA's operations, expenses and revenues. LAX has been the target of a foiled terrorist bombing plot and has been recognized as a potential terrorist target. Recent incidents at United States and international airports underscore this risk. LAX is a high profile public facility in a major metropolitan area. LAWA cannot predict whether LAX or any of LAWA's other airports will be actual targets of terrorists or other violent acts in the future.

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

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 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 LAWA Board and City Council approved a settlement in April and May 2018 which is documented in an Amended & Restated Lease with the following key terms: (i) LAWA to make a $5.0 million lump sum payment to the District, (ii) LAWA to provide a 10-year lease extension with two 5-year options, (iii) District to release the City, including LAWA's past and current tenants, (iv) District to indemnify LAWA, in perpetuity, covering all past and future cleanup orders and regulatory requirements relating to Site Contamination (as defined in the Amended & Restated Lease), with two limited and reasonable exceptions, (v) LAWA to provide reasonable access over its Palmdale Landholdings for Compliance Requirements, subject to its Tenant Improvement Approval Process and obligations under tenant leases, and (vi) Groundwater pumped as part of the extraction well network shall be charged to the District's allocation under the Antelope Valley Groundwater Adjudication Final Judgment, and not to LAWA's allocation. The $5.0 million lump sum payment was made in June 2018 in full settlement of the liability which was accrued as of June 30, 2017.

17. Transfer of ONT International Airport

The City, LAWA (the Department), the Board, City of Ontario, and Ontario International Airport Authority (OIAA), a joint powers authority of the County of San Bernardino and the City of Ontario, entered into a settlement agreement (ONT Settlement Agreement) relating to litigation filed by the City of Ontario in June 2013 (Ontario Litigation) against the City, the Department, and the Board. As a result of the transfer of the ONT assets and liabilities to OIAA on November 1, 2016 as contemplated by the ONT Settlement Agreement, LAWA recognized a loss of $225.3 million on the disposal of ONT as a special item, and LAX recognized a transfer of residual operations from ONT of $104.1 million.

On June 20, 2016, the parties agreed to a Staff Augmentation Agreement (SAA). The SAA contemplated some LAWA staff may remain at ONT for as long as 21 months after the closing. However, it provided the OIAA with the right to declare certain categories of employees redundant and return them to available employment with a City Department. OIAA has exercised that right on several occasions. Effective April 2018, LAWA no longer provides these services to OIAA.

The transfer of residual operation from ONT to LAX is presented below for the year ended June 30, 2017 (amounts in thousands):

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

Notes to the Financial Statements
June 30, 2018 and 2017
(continued)

18. Subsequent Events

On July 11, 2018, the Board approved a contract for a not-to-exceed amount of $209.0 million to Swinerton Builders to design and construct the Intermodal Transportation Facility - West (ITF-West), an integral component of the Landside Access Modernization Program (LAMP). The ITF-West, located between Westchester Parkway and 96th Street, is a five-level parking structure containing approximately 4,700 parking spaces, a dedicated concessions area, and the LAX Security and Badging Office. The ITF-West will also include a pick-up and drop-off curb for both commercial and private vehicles and will be served by new roadways providing direct access to the facility. The ITF-West station, located adjacent to the parking structure, will eventually provide a direct connection with the terminals via the Automated People Mover (APM) System, vastly improving the guest experience. The ITF-West is projected to be operational in 2021, which will provide much needed parking capacity to serve LAX travelers. A shuttle will temporarily transport guests to and from the ITF-West until the APM is operational in 2023.

On July 11, 2018, the Board approved a Terminal Facilities Lease and License Agreement with American Airlines, Inc. (AA) for space in Terminals 4 and 5 at LAX (Lease); and approved appropriation of (1) $191.0 million for redemption of bonds held by AA, (2) $38.5 million for purchase of Terminal 4 additional assets, (3) $214.0 million for purchase of airline renovations, and (4) $107.0 million for issuance of rent credits in equal installments for terminal renovations including interest during construction and over the term of the Lease. The Lease will generate approximately $81.0 million in revenue the first year and an estimated $2.25 billion over the term. The purpose of the Lease is to enable AA to renovate its existing premises and adjacent areas at Terminals 4 and 5 at LAX to incorporate construction of a Terminal Vertical Core (VTC) to connect the terminals to the APM and to provide the potential for future improvements. The Lease will commence on the first day of the month following the Board and Los Angeles City Council (City Council) approval and terminate on April 30, 2039, subject to certain early termination provisions. The Lease was approved by the City Council on August 15, 2018.

On August 8, 2018, LAWA issued LAX subordinate revenue bonds 2018 Series C in the amount of $425.0 million. The premium for this issuances totaled $62.9 million. The bonds were issued to pay and/or reimburse for capital expenditures at LAX.

On August 16, 2018, the Board approved lease agreements of up to 25 years with seven major car rental companies operating near LAX to move into a consolidated car rental facility (ConRAC) east of the airport when it is slated to open in 2023. The ConRAC will be located two miles east of LAX, next to the 405 Freeway; a planned APM will connect the facility to the airport terminals.

On October 18, 2018, the Board approved award of a 28-year design-build-finance-operate-maintain (DBFOM) agreement and related ancillary agreements to L.A. Gateway Partners (LAGP) to deliver the ConRAC project at LAX for a not-to-exceed amount of $2.0 billion. The ConRAC, an approximately 5.3 million square foot facility, will serve the tenant rental car companies 24 hours per day. It will mitigate vehicle congestion in the Central Terminal Area (CTA) and surrounding communities by eliminating car rental shuttle buses and improving pedestrian safety. The ConRAC will enhance the customer experience by facilitating a choice of rental car providers, create a welcoming location to drop off and pick up cars with easy access from major highways, allow ease of transfer to the CTA via the APM, and create job opportunities for the local community. The agreement is subject to City Council approval.

On October 18, 2018, the Board approved issuance of LAX subordinate revenue bonds Series 2018 D and E in an aggregate principal amount not to exceed $750.0 million to fund certain capital projects at LAX and to fund an escrow for the purpose of defeasing the outstanding Regional Airports Improvement Corporation Facilities Sublease Revenue Bonds (AA Terminal 4 Project), Series 2002C, issued on behalf of AA.

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Required Supplementary Information

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Required Supplementary Information

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

Pension Plan

The schedules included in the Required Supplementary Information for the Pension Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, LAX presented information only for those years for which information is available. Additional years will be displayed in the future as they become available.

Schedule of LAX's Proportionate Share of the Net Pension Liability (1) (2)

Fiscal Year	Proportion of the Net Pension Liability	Proportionate share of the Net Pension Liability	Covered Employee Payroll (3)	Proportionate share of the Net Pension Liability as a percentage of its Covered Employee Payroll	Proportionate share of Pension Plan's Fiduciary Net Position	Proportionate share of Pension Plan's Total Pension Liability	Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability
2015	12.71%	$ 566,613	$ 229,535	246.85%	$ 1,498,734	$ 2,065,347	72.57%
2016	12.87%	$ 642,431	$ 235,176	273.17%	$ 1,534,875	$ 2,177,306	70.49%
2017	13.55%	$ 761,187	$ 256,833	296.37%	$ 1,599,900	$ 2,361,087	67.77%
2018	13.47%	$ 710,724	$ 266,780	266.41%	$ 1,774,969	$ 2,485,693	71.41%

Notes to schedule:

1. Changes of assumptions

   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, while the June 30, 2017 increase is primarily due to the lowered assumed investment rate of return from 7.50% in fiscal year 2016 to 7.25% in fiscal year 2017.

2. In calculating the Pension Plan's Net Pension Liability, the Total Pension Liability and the Plan Fiduciary Net Position exclude amounts associated with Family Death, and Larger Annuity Benefits.

3. Covered employee payroll represents the collective total of the pensionable wages of all LACERS membership tiers and is reported based on measurement period.

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

Schedule of Contributions - Pension

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 60,948	$ 61,197	$ 55,972	$ 49,043
Contributions in relation to the actuarially determined	60,948	61,197	55,972	49,043
Contribution deficiency (excess)	$ —	$ —	$ —	$ —
LAX's covered employee payroll	$ 274,167	$ 266,780	$ 256,833	$ 235,176
LAX's contributions as a percentage of covered employee payroll	22.23%	22.94%	21.79%	20.85%

Notes to schedule - Pension

Valuation date	As of June 30, two years prior to the end of the fiscal year in which the contributions are reported
Actuarial cost method	Entry age, level percent of salary
Amortization method	Level percent of payroll
Amortization period	15 years for actuarial gains/losses, 20 years for assumption changes, and 15 years for plan changes, 30 years actuarial surplus
Asset valuation method	Market value less unrecognized returns
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Inflation	3.00%
Project salary increases	Ranges from 3.90% to 10.00% based on years of service, including inflation
Mortality	RP-2000 Combined Health Mortality Table

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

Other Postemployment Benefit Plan (OPEB)

The schedules included in the Required Supplementary Information for the Postemployment Health Care Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, LAX presented information only for those years for which information is available. Additional years will be displayed in the future as they become available.

Schedule of LAX's Proportionate Share of the Net OPEB Liability (1)

Fiscal Year	Proportion of the Net Postemployment Health Care (OPEB) Liability	Proportionate share of the Net OPEB Liability	Covered Employee Payroll (2)	Proportionate share of the Net OPEB Liability as a percentage of its Covered Employee Payroll	Proportionate share of Postemployment Health Care Plan's Fiduciary Net Position	Proportionate share of Postemployment Health Care Plan's Total OPEB Liability	Postemployment Health Care Plan's Fiduciary Net Position as a percentage of the Total OPEB Liability
2018	13.46%	$ 76,310	$ 266,780	28.60%	$ 328,269	$ 404,579	81.14%

Notes to schedule:

1. Changes of assumptions:

   The June 30, 2017 measurement date OPEB liability from the changes of assumptions is primarily due to the lowered assumed investment rate of return from 7.50% in fiscal year 2016 to 7.25% in fiscal year 2017.

2. Covered employee payroll represents the collective total of the pensionable wages of all LACERS membership tiers and is reported based on measurement period.

Schedule of Contributions - OPEB

	2018
Contractually required contribution (actuarially determined)	$ 13,586
Contributions in relation to the actuarially determined contributions	13,586
Contribution deficiency (excess)	$ —
LAX's covered employee payroll	$ 274,167
LAX's contributions as a percentage of covered employee payroll	4.96%

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

Notes to schedule - OPEB

Valuation date	As of June 30, two years prior to the end of the fiscal year in which the contributions are reported
Actuarial cost method	Entry age, level percent of salary
Amortization method	Level percent of payroll
Amortization period	15 years for actuarial gains/losses, 20 years for assumption changes, and 15 years for plan changes, 30 years actuarial surplus
Asset valuation method	Market value less unrecognized returns
Investment rate of return	7.25%, net of OPEB plan investment expenses, including inflation
Inflation	3.00%
Project salary increases	Ranges from 3.90% to 10.00% based on years of service, including inflation
Mortality	RP-2000 Combined Health Mortality Table
Health Care Cost Trend Rates	Medical Premium Trend Rates to be applied in the following fiscal years, to all health plans. Trend Rate is to be applied to the premium for shown fiscal year to calculate next fiscal year's projected premium

Medical Premium Trend Rates to be applied to fiscal year 2018 are:

First fiscal year (July 1, 2017 through June 30, 2018)

Carrier	Under Age 65	Age 65 & Over
Kaiser HMO	5.16%	5.72%
Anthem Blue Cross HMO	7.18%	N/A
Anthem Blue Cross PPO	7.23%	6.85%
UHC Medicare HMO	N/A	5.74%

Dental Premium Trend to be applied is 4.50% for all years

Medicare Part B Premium Trend for fiscal year 2018 is calculated based on the actual increase in premium from 2017 to 2018. 4.50% for years following the 2018 calendar year

Compliance Section

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MOSSADAMS

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on the Passenger Facility Charge Program, Report on Internal Control over Compliance in Accordance with the *Passenger Facility Charge Program Audit Guide for Public Agencies*, and Report on the Schedule of Passenger Facility Charge Revenues and Expenditures

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

Report on Compliance for the Passenger Facility Charge Program

We have audited Los Angeles International Airport's (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, compliance with the types of compliance requirements described in the *Passenger Facility Charge Program Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the "Guide"), that could have a direct and material effect on its Passenger Facility Charge ("PFC") program for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions applicable to the PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the PFC program based on our audit of the types of compliance requirements referred to above. 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 types of compliance requirements referred to above that could have a direct and material effect on the PFC 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 on compliance for the PFC program. However, our audit does not provide a legal determination of LAX's compliance.

Opinion on PFC Program

In our opinion, LAX complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its PFC program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of LAWA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LAX's internal control over compliance with the types of requirements that could have a direct and material effect on the PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Passenger Facility Charge Revenues and Expenditures

We have audited the financial statements of LAX, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise LAX's basic financial statements. We have issued our report thereon dated October 30, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of passenger facility charge revenues and expenditures is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 schedule of passenger facility charge revenues and expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Moss Adams LLP

Los Angeles, California
October 30, 2018

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, 2018 and 2017

(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, 2016	$ 2,118,505	$ 203,570	$ 2,322,075	$ 1,892,387	$ 429,688
Fiscal year 2016-17 transactions					
Quarter ended September 30, 2016	37,539	1,366	38,905	29,199	9,706
Quarter ended December 31, 2016	36,475	1,216	37,691	35,160	2,531
Quarter ended March 31, 2017	45,567	1,384	46,951	29,735	17,216
Quarter ended June 30, 2017	44,288	1,514	45,802	51,651	(5,849)
Program to date as of June 30, 2017	2,282,374	209,050	2,491,424	2,038,132	453,292
Fiscal year 2017-18 transactions					
Quarter ended September 30, 2017	40,884	1,683	42,567	166,741	(124,174)
Quarter ended December 31, 2017	38,238	1,026	39,264	(26,614)	65,878
Quarter ended March 31, 2018	49,057	1,240	50,297	118,908	(68,611)
Quarter ended June 30, 2018	43,252	1,430	44,682	34,659	10,023
Unexpended passenger facility charge revenues and interest earned June 30, 2018	$ 2,453,805	$ 214,429	$ 2,668,234	$ 2,331,826	$ 336,408

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

Los Angeles World Airports

(Department of Airports of the City of Los Angeles)

Los Angeles International Airport

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2018 and 2017

1. General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects. The current PFC rate is $4.50 per enplaned passenger. PFCs collection authorities approved by FAA are $4.2 billion and $4.1 billion as of June 30, 2018 and 2017, respectively.

The details are as follows (amounts in thousands):

Application number	Charge effective date*	2018 Amount approved for use	2017 Amount approved for use
96-02-U-00-LAX, closed 6/2/03	6/1/1993	$ 116,371	$ 116,371
96-03-C-00-LAX, closed 10/1/08	7/1/1993	50,223	50,223
97-04-C-03-LAX	2/1/1998	700,000	610,000
97-04-C-02-LAX	2/1/1998	90,000	90,000
05-05-C-00-LAX	12/1/2005	229,750	229,750
05-05-C-01-LAX	12/1/2005	468,030	468,030
07-06-C-00-LAX	10/1/2009	85,000	85,000
10-07-C-01-LAX	6/1/2012	1,848,284	1,848,284
11-08-C-00-LAX	3/1/2019	27,801	27,801
13-09-C-00-LAX	6/1/2019	44,379	44,379
14-10-C-00-LAX	10/1/2019	516,091	516,091
15-11-U-00-LAX	3/1/2019	3,115	3,115
Total		$ 4,179,044	$ 4,089,044

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

Note:

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

b. In April 2008, FAA approved LAWA’s amendment application number 05-05-C-01-LAX for $468.0 million to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of $136.0 million and $118.0 million were used for debt service in fiscal years 2018 and 2017, respectively.

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

d. In February 2018, FAA approved LAWA's amendment request that increased application number 97-04-C-03-LAX by $90.0 million for the land acquisition component of the Noise Mitigation Project.

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 2018	Expenditures to date June 30 2017
ONT Terminal Development Program	$ 116,371	$ 116,371	$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT Airport Drive West End	3,462	3,462	3,462
ONT Access Control Monitoring System	808	808	808
ONT Taxiway North Westerly Extension	7,349	7,349	7,349
Noise Mitigation - Land Acquisitions	575,000	570,908	413,199
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Apron Lighting Upgrade	1,873	1,412	1,412
South Airfield Improvement Program (SAIP) and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	—	—
Aircraft Noise Monitoring and Management System	3,450	3,652	3,652
SAIP - Airfield Intersection Improvement	28,000	8,987	8,987
SAIP - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	371,214	336,775
Implementation of IT Security Master Plan	56,573	32,807	32,807
Residential Soundproofing Phase II	35,000	34,141	34,141
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	51,086	51,086
Bradley West	1,848,284	398,983	307,820
Lennox Schools Soundproofing Program	27,801	21,214	21,214
Inglewood USD Soundproofing Program	44,379	10,000	10,000
Terminal 6 Improvements	210,131	53,760	43,377
Elevators/Escalators/Moving Walkways Replacement	110,000	110,000	110,000
Midfield Satellite Concourse North Project	5,960	5,960	5,960
Central Utility Plant Replacement	190,000	190,000	190,000
Lennox Schools Soundproofing Program - Future Sites	3,115	—	—
Total	$ 4,179,044	$ 2,331,826	$ 2,038,132

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2018 and 2017
(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 the Aircraft Noise Monitoring and Management System and the Noise Mitigation - Other Local Jurisdictions Phase II were in excess of authorized amounts. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFCs application in which the authority was approved, the public agency may elect to increase the total approved PFCs revenue in that application by 15% or less.

MOSSADAMS

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on the Customer Facility Charge Program, Report on Internal Control Over Compliance in Accordance with the *California Civil Code Section 1939, as amended by Assembly Bill (AB) 2051,* and Report On the Schedule of Customer Facility Charge Revenues and Expenditures

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

Report on Compliance for the Customer Facility Charge Program

We have audited Los Angeles International Airport's (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, compliance with the types of compliance requirements described in the *California Civil Code Section 1939, as amended by Assembly Bill (AB) 2051* (the "Code"), that could have a direct and material effect on its Customer Facility Charge ("CFC") program for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with statutes, regulations, and the terms and conditions applicable to the CFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the CFC program based on our audit of the types of compliance requirements referred to above. 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 Code. Those standards and the Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the CFC 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 on compliance for the CFC program. However, our audit does not provide a legal determination of LAX's compliance.

Opinion on CFC Program

In our opinion, LAX complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its CFC program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LAX's internal control over compliance with the types of requirements that could have a direct and material effect on the CFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Code, 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 over compliance 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 requirements of the Code. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Customer Facility Charge Revenues and Expenditures

We have audited the financial statements of LAX, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise LAX’s basic financial statements. We have issued our report thereon dated October 30, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of customer facility charge revenues and expenditures is presented for purposes of additional analysis as required by the Code and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 schedule of customer facility charge revenues and expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Moss Adams LLP

Los Angeles, California
October 30, 2018

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, 2018 and 2017

(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, 2016	$ 234,124	$ 14,404	$ 248,528	$ 3,026	$ 245,502
Fiscal year 2016-17 transactions					
Quarter ended September 30, 2016	8,803	963	9,766	—	9,766
Quarter ended December 31, 2016	7,714	945	8,659	—	8,659
Quarter ended March 31, 2017	7,001	633	7,634	—	7,634
Quarter ended June 30, 2017	9,027	432	9,459	—	9,459
Program to date as of June 30, 2017	266,669	17,377	284,046	3,026	281,020
Fiscal year 2017-18 transactions					
Quarter ended September 30, 2017	8,756	848	9,604	—	9,604
Quarter ended December 31, 2017	7,758	921	8,679	—	8,679
Quarter ended March 31, 2018	16,096	1,027	17,123	—	17,123
Quarter ended June 30, 2018	23,149	1,175	24,324	—	24,324
Unexpended customer facility charge revenues and interest earned June 30, 2018	$ 322,428	$ 21,348	$ 343,776	$ 3,026	$ 340,750

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

Los Angeles World Airports

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

Los Angeles International Airport

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures

For the Fiscal Years Ended June 30, 2018 and 2017

1. General

California law (California Government Code Sections 50474.3, 50474.21 and 50474.22, collectively, CFC Legislation), which authority was previously contained in California Civil Code Section 1936 et seq., allows airport operators to require rental car companies to collect a fee from rental car customers on behalf of the airport operator to pay for certain costs incurred by an airport operator for a consolidated rental car facility (ConRAC) and a common-use transportation system (CTS) that moves passengers between airport terminals and the ConRAC. The fee is referred to as Customer Facility Charges (CFCs). Revenue from the CFCs may not exceed the reasonable costs to finance, design, construct, operate, maintain or otherwise improve, as applicable, those facilities, systems and modifications.

In November 2001, in anticipation of constructing a ConRAC identified in LAX's master plan, the Board approved collection of CFCs of $10.00 per rental contract and began collections in August 2007. LAX has collected $343.8 million and $284.0 million in CFC revenues (with related interest earnings) through the years ended 2018 and 2017, respectively.

LAWA is modernizing LAX to improve passenger quality-of-service and provide world class facilities for its customers. To further transform LAX and to address increasing levels of traffic congestion at and around LAX, LAWA is working on the Landside Access Modernization Program (LAMP) to implement a ground access system to LAX, which would include a seamless connection to the regional rail and transit system.

The proposed LAMP program includes the following major project components:

- An Automated People Mover System (APM), including the acquisition of vehicles for the use in such System, with six APM stations connecting the Central Terminal Area (CTA) via an above-grade fixed guideway to new proposed ground transportation facilities (serving as the CTS for the ConRAC)
- A ConRAC designed to meet the needs of rental car companies serving LAX with access to the CTA via the APM
- Two Intermodal Transportation Facilities (ITFs) providing airport parking and pick-up and drop-off areas outside the CTA for private vehicles and commercial shuttles
- Roadway improvements designed to improve access to the proposed ConRAC, ITFs, the CTA, and other facilities and reduce traffic congestion in neighboring communities

California CFC Legislation permits LAWA to require the collection by rental car companies of a CFC at a rate charged on a per-day basis up to $9.00 per day (for up to 5 days), and, as stated above, CFCs collected by the rental car companies on behalf of LAWA are permitted under the California CFC Legislation to finance, design and construct the ConRAC; to finance, design, construct and operate the APM System, as well as acquiring vehicles for use in that system; and to finance, design and construct terminal modifications to accommodate the common-use transportation system.

On October 5, 2017, the Board authorized collection of an updated CFC pursuant to the California CFC Legislation to fund costs of a ConRAC and its share of a CTS at LAX (Projects). The Board authorized collection of CFCs of $7.50 per day for the first five days of each car rental contract, starting January 1, 2018, by rental car companies serving LAX. The Board authorized an increase in the CFC daily rate to $9.00 per day for the first five days of each car rental contract, effective the first day of the month following the commencement of rental car services to the public in the ConRAC, or such other earlier day if the Board determines that it is the best interest of the Projects to collect the increased CFC daily rate of $9.00 earlier.

CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	2018	2017
Amount collected	$ 322,428	$ 266,669
Interest earnings	21,348	17,377
Subtotal	343,776	284,046
Expenditures		
ConRAC planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	$ 340,750	$ 281,020

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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